The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R. Section 133.21

Maureen Beyers
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INTRODUCTION

Under section 526(a) of the Tariff Act of 1930,1 if a registered United States trademark owned by an American citizen, corporation or association is recorded with the U.S. Customs Service (Customs), importing foreign produced goods bearing that trademark without the U.S. trademark owner's written consent is unlawful.2 Despite the statute's clarity and precise wording, the Customs regulations issued to implement the statute deny protection to companies incorporated in the U.S. related to the foreign manufacturer of the trademarked goods. Protection is also denied if the goods are trademarked abroad with the consent of the U.S. owner.3

This administrative interpretation of section 526 has resulted in a flood

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1. 42 Stat. 975 (1922) (current version at 19 U.S.C. § 1526(a) (1982)).
2. [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, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trademark is produced at the time of making entry.
3. 19 C.F.R. §§ 133.21(a), (b), (c)(1)-(3) (1985):
   Restrictions on importation of articles bearing recorded trademarks and trade names.
   (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 counterfeit 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 the domestic trademark or trade name owners are patent and subsidiary companies or otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d));
      (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.

Id.
in the American market of unauthorized imports, commonly known as "grey market goods." These grey market goods threaten the goodwill developed by the domestic trademark owner by causing consumer confusion and loss of trade outside authorized distribution channels.


Grey market goods have been defined as merchandise produced and sold legitimately abroad under a particular trademark imported into the U.S. market without the consent of the U.S. trademark owner and sold in competition with the U.S. trademark owner's goods. See Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411). "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." W. Goebel Porzellanfabrik v. Action Indus., Inc., 589 F. Supp. 765, 764 n.1 (S.D.N.Y. 1984). These goods are "genuine" in that they bear a genuine as opposed to a counterfeit trademark. Where the U.S. trademark owner is an importer of the goods as well, the grey market goods are also known as parallel imports. Vivitar Corp., 761 F.2d at 1555.

5. "Good will may be defined as the favorable consideration shown by the purchasing public to goods known to emanate from a particular source." White Tower Sys. v. White Castle Sys. of Eating Houses Corp., 90 F.2d 67, 69 (6th Cir.), cert. denied, 302 U.S. 720 (1937).

"Good will" . . . is "that which makes tomorrow's business more than an accident." Another definition holds that the basis of [trademark] protection consists of an effort to safeguard a person trading under a certain mark or name against any attempted "interference with his reasonable expectation of future patronage."

W. Derenberg, Trade-mark Protection and Unfair Trading 49-50 (1936) (footnotes omitted). Judge Cardozo defined goodwill as "a reasonable expectancy of preference in the race of competition. . . . Such expectancy may come from succession in place or name or otherwise to a business that has won the favor of its customers." In re Brown, 242 N.Y. 1, 6, 150 N.E. 581, 582 (1926). The House of Lords refers to goodwill as "the word to include whatever adds value to a business by reason of situation, name and reputation, connection, introduction to old customers, and an agreed absence from competition. . . . [G]oodwill is inseparable from the business to which it [sic] adds value." Commissioners of Inland Revenue v. Muller & Co.'s Margarine, Ltd., [1901] A.C. 217, 235; see Note, Preventing the Importation and Sale of Genuine Goods Bearing American-Owned Trademarks: Protecting An American Goodwill, 35 Me. L. Rev. 315, 320 n.35 (1983) (goodwill is both a purchasing tool for the consuming public and a business asset for the trademark owner) [hereinafter cited as Preventing Importation].

Regardless of the perspective from which it is viewed, "[g]oodwill is property," 1 H. Nims, The Law of Unfair Competition and Trademarks § 13, at 78 (4th ed. 1947), "in a very real sense," Old Dearborn Co. v. Seagram Corp., 299 U.S. 183, 194 (1936). Moreover, "[t]he good-will represented by a name or trade-mark may be more important and more valuable than any other part or property of the business." 1 H. Nims, supra, § 15, at 81. "This basic premise that unfair competition laws should protect the benefits of goodwill is embedded in the trademark laws." In re Certain Alkaline Batteries, No. 337-TA-165, U.S.I.T.C. pub. 1616, at 17 (Int'l Trade Comm. 1984). Indeed, the goodwill associated with a trademark must be included when a trademark owner assigns its registered trademark to another party. 15 U.S.C. § 1060 (1982).

6. Purchasers of grey market products who are unaware of the products' unauthorized status become confused when seeking either warranty protection or a promotional
The U.S. trademark owner also loses sales to retailers of grey market goods. Often consumers are affirmatively deceived by retailers that a grey market product is warranted by the U.S. trademark owner. Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984); see Seiko Time Corp. v. Alexander’s, Inc., 218 U.S.P.Q. (BNA) 560, 564-66 (S.D.N.Y. 1982). Grey market products, because they are imported and sold without the U.S. trademark owner’s authorization, are not warranted by the U.S. trademark owner. This forces U.S. trademark owners to a dilemma: they must either increase their costs by warranting both authorized imports and grey market products or turn these purchasers away, thereby injuring the goodwill of the trademark.

Collado Associates, The Economic Impact of Diversion 26-27 (Sept. 1984) (unpublished manuscript) (available in the files of Fordham Law Review) [hereinafter cited as Collado Associates]. Thus, diverters, in addition to operating at lower cost because they do not warrant their products, significantly increase the cost of the U.S. trademark owner’s operation. Osawa & Co., 589 F. Supp. at 1167-68. Further, because the manufacturer intended these products to be sold in countries other than the United States, they are packaged with instruction manuals written in foreign languages. American purchasers of grey market goods become confused and dissatisfied because they are unable to operate the product without an English language instruction manual. Id. at 1169.

Consumer confusion also results when grey market goods are discontinued products, do not meet U.S. health and safety standards, or when they are accompanied by inadequate or deceptive warranties and inferior service. Collado Associates, supra, at 50. A problem peculiar to precision instruments such as watches exists because of the effect of 19 C.F.R. § 11.9 (1985). Pursuant to the regulation, no watch can be imported into the United States unless it is marked with the requisite information concerning its source on the back of its case and on its movement. Watches made for U.S. consumption are marked by the manufacturer in sterile environments. Grey market watches must therefore be opened and marked by the diverter before they can be imported. Negligent handling by the diverter may impair the performance of the watch resulting in both consumer confusion and derogation of goodwill. See Seiko Time Corp., 218 U.S.P.Q. (BNA) at 565-66.

7. Generally, U.S. trademark owners selling foreign-produced goods have a network of authorized dealers to whom they sell for resale to the public. See, e.g., Vivitar Corp. v. United States, 761 F.2d 1552, 1556 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411); Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 418 (S.D. Fla. 1983). These authorized dealers are responsible for the promotion, support and service of the product necessary to maintain the trademark’s goodwill. See Coalition to Preserve the Integrity of Am. Trademarks v. United States, 598 F. Supp. 844, 850 (D.D.C. 1984), appeal docketed, No. 84-5890 (D.C. Cir. Dec. 28, 1984) [hereinafter cited as COPLAT]. Authorized dealers are frequently trained at the expense of the U.S. trademark owner to educate potential customers about the benefits of their products, see Collado Associates, supra note 6, at 17-20, and are often required to have adequate inventory to meet the continued needs of their customers, see id. at 21-27.

Unauthorized dealers are often uneducated about the product line, id. at 16-20, and compete with the U.S. trademark owner’s authorized distributors by selling through discount outlets that do not carry the manufacturer’s full line of products. Id. at 21-27; see Vivitar Corp., 761 F.2d at 1556. U.S. trademark owners complain that sales outside the authorized distribution chain result in lost prestige, which impairs the trademark’s goodwill and diffuses the U.S. trademark owner’s promotional efforts. See COPLAT, 598 F. Supp. at 850. Moreover, they assert that the grey market goods are of a different quality. See id. See generally Collado Associates, supra note 6 (reviewing the problems of products marketed with different quality). Indeed, some courts have found this to be the case. See, e.g., Model Rectifier Corp. v. Takachiho Int’l Inc., 221 U.S.P.Q. (BNA) 502, 503 (9th Cir. 1983); Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1167-68 (S.D.N.Y. 1984).

8. Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1168 (S.D.N.Y. 1984); Collado Associates, supra note 6, at 34-52. While some commentators dismiss lost sales to
goods who are able to “free ride” on the goodwill and market developed by the U.S. trademark owner. In response, U.S. trademark owners have challenged the Customs regulations, urging that the plain meaning of diverters as a necessary and positive function of a competitive market, see, e.g., Note, Trade-Mark Infringement: The Power of an American Trade-Mark Owner to Prevent the Importation of the Authentic Product Manufactured by a Foreign Company, 64 Yale L.J. 557, 563-64 & n.39 (1955) [hereinafter cited as Power of Trade-Mark Owner]; see also Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 421 (S.D. Fla. 1983) (“the public has the benefit of lower prices in that those products offered by [the diverters] are usually less expensive than those sold by [the U.S. trademark owner] through its authorized distributors”), there can be no doubt that one of the interests sought to be protected by the registration of a trademark is the U.S. trademark owner’s investment of energy, time and money in developing the goodwill and public recognition of its trademark. See S. Rep. No. 1333, 79th Cong., 2d Sess. 3 (1946) (Providing for the Registration and Protection of Trade-Marks used in Commerce to Carry Out the Provisions of Certain International Conventions); Preventing Importation, supra note 5, at 316 n.9. The U.S. trademark owner has a vested right in the expectation of future trade. See Industrial Rayon Corp. v. Dutchess Underwear Corp., 92 F.2d 33, 35 (2d Cir. 1937) (“The owner of the mark acquires the right to prevent the goods to which the mark is applied from being confused with those of others and to prevent his own trade from being diverted to competitors. . . .”) , cert. denied, 303 U.S. 640 (1938); cf. Callmann, Unfair Competition without Competition? The Importance of the Property Concept in the Law of Trademarks, 95 U. Pa. L. Rev. 443, 459 (1947) (trademark rights include the right to “exclude others from any use or from disturbing the owner’s use thereof”); Schechter, The Rational Basis of Trademark Protection, 40 Harv. L. Rev. 813, 823 (1927) (trademark owners should be allowed to use their mark for the “natural expansion” of trade). This right to a return on a substantial investment is no less protectable merely because the U.S. trademark owner is related to its foreign manufacturer. Cf. Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063, 1076 n.6 (E.D.N.Y. 1982), vacated on other grounds, 719 F.2d 42 (2d Cir. 1983). The size of the investment is self-evident from the immediate recognition of many trademarks: VIVITAR, DURACELL, MERCEDES-BENZ, SEIKO, OSCAR de la RENTA, OLYMPUS. See Industrial Rayon Corp. v. Dutchess Underwear Corp., 92 F.2d 33, 34 (2d Cir. 1937), cert. denied, 303 U.S. 640 (1938).

9. Free riding is most prevalent in markets where the consumer makes a purchase “only after extensive demonstration and advice from the dealer,” P. Areeda, Antitrust Analysis ¶ 503, at 647 (3d ed. 1981), and can be best explained by way of an example. A consumer seeking to purchase a product “may seek advice in a full-service [authorized dealer] and buy in a ‘discount’ house that provides no such services. The discount house is said to take a ‘free ride’ on the services provided by others. . . . This problem may arise wherever advertising, other pre-sale effort, or post-sale maintenance . . . is important to the sale of a product.” Id.; 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).

Because of the strength and recognition of the American trademark, diverters free ride on the brand advertising and promotion of the U.S. trademark owner. Retailers of grey market goods therefore need only spend money to advertise price. “[Grey marketers] have no incentive to support the goodwill of any mark they sell; their sales are based solely on price advantage.” Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1167 (S.D.N.Y. 1984); see Collado Associates, supra note 6, at 12-16. Diverters also free ride on the U.S. trademark owner’s inventories and service networks. Id. at 21-27. “It cannot be denied that a third party who purchases merchandise abroad, then imports it and sells in competition with the American trademark registrant, gets the benefit of free advertising in the American market.” Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 Trade-Mark Rep. 301, 308 (1969).
section 526 be given effect.10

The Customs Service argues that the regulations thwart price discrimination11 against American consumers and prevent antitrust violations.12 Customs maintains that the legislative history of section 52613 supports its position and that courts should defer14 to its "longstanding and consistent"15 interpretation of the Act. Courts confronted with the grey market controversy have reached inconsistent results.16

Part I of this Note examines section 526 by exploring its legislative history and administrative and judicial interpretations, and argues that the plain meaning of section 526 should be given effect. Part II examines the antitrust and trademark implications of the statute as written and the


11. Vivitar Corp. v. United States, 593 F. Supp. 420, 435 (Ct. Int'l Trade 1984), aff'd, 761 F.2d 1552 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411). It is argued that price discrimination against U.S. consumers is evidenced by the maintenance of two separate price structures—one abroad and a higher one in the U.S. market. See Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1166 (S.D.N.Y. 1984); Vivitar Corp., 593 F. Supp. at 435; see also Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 421 (S.D. Fla. 1983) ("the Court would be doing the public a disservice by preventing the dissemination of... less expensive... products"); United States v. Guerlain, Inc., 155 F. Supp. 77, 82 (S.D.N.Y. 1957) (defendants found to have "exploit[ed] world markets"), vacated, 358 U.S. 915 (1958); Atwood, supra note 9, at 308 ("Different arms of the same company should not be able to maintain two separate price structures for the same product, one price being above that which the market would seek if importers could compete freely."); Power of TradeMark Owner, supra note 8, at 564 ("The employment of [§ 526] by related firms protects neither the reputation of the trade-mark owner nor the authenticity of its products. It merely results in higher prices to consumers.").

The price differential, however, is more likely caused by factors: (1) the currency fluctuations and strength of the U.S. dollar abroad, see Osawa & Co., 589 F. Supp. at 1166; Collado Associates, supra note 6, at 66-69; Riley, 'Gray Market' Fight Isn't Black and White, Nat'l Law J., Oct. 28, 1985, at 1, (2) overhead costs of advertising, promotion and warranty service borne by the U.S. trademark owner, see Vivitar Corp., 593 F. Supp. at 435; Osawa & Co., 589 F. Supp. at 1166 n.3; Collado Associates, supra note 6, at 16-21, and (3) relative lower costs of this overhead abroad, see Vivitar Corp., 593 F. Supp. at 435.

12. See infra Part II.A.
13. See infra Part I.B.
15. See infra Part I.D.1 for a discussion of the history of Customs' interpretations.
private remedy provided by section 526(c).\textsuperscript{17} This Part concludes that the Customs regulations advance discredited antitrust and trademark principles and that the private remedy provided in section 526(c) inadequately protects the U.S. trademark owner. Part III analyzes recently proposed solutions to the grey market problem.\textsuperscript{18} This Note concludes that the current administrative interpretation of section 526 is an impermissible and unfair barrier to the exercise of a statutory right and that an unqualified exclusion of grey market imports provides the only adequate protection for the U.S. trademark owner.

I. THE GENUINE GOODS EXCLUSION ACT

The history and language of section 526 mandate exclusion of grey market goods. Moreover, ordinary justifications for ignoring the plain meaning of a statute, such as the controlling authority of the regulations or a consistent administrative interpretation, are absent.

A. Principles of Statutory Construction

Customs' use of the legislative history of section 526 to defeat its plain meaning is not based on sound principles of statutory analysis.\textsuperscript{19} Without a clearly expressed legislative intent to the contrary,\textsuperscript{20} the plain

\textsuperscript{17} See 19 U.S.C. § 1526(c) (1982):
Any person dealing in any such merchandise may be enjoined from dealing therein within the United States or may be required to export or destroy such merchandise or to remove or obliterate such trademark and shall be liable for the same damages and profits provided for wrongful use of a trademark, under the provisions of sections 81 to 109 of Title 15.

\textit{Id.}

\textsuperscript{18} The Working Group on Intellectual Property, comprised of officials from the Office of Management and Budget, the Council of Economic Advisors, the Treasury Department, the Commerce Department, the State Department, the Justice Department and the U.S. Trade Representative is considering options from which it will choose one as a recommended solution to the Cabinet Council on Commerce and Trade. Inside U.S. Trade 17, April 26, 1985, at 1. See infra notes 172-208 and accompanying text for a detailed discussion of these options.

\textsuperscript{19} The Justice Department has conceded that exempting related companies from protection is not supported by a literal reading of the statute. \textit{See} Appellee's Motion to Vacate at 7, Guerlain, Inc. v. United States, 358 U.S. 915 (1958). Other authorities agree. \textit{See} Olympus Corp. v. United States, No. CV-84-0920, slip op. at 29 (E.D.N.Y. Aug. 22, 1985) ("Section 526 read literally would indeed give [the U.S. trademark owner] the right to exclude all goods bearing [the registered U.S. trademark]."), appeal docketed, No. 85-6282 (2d Cir. Sept. 27, 1985); Kuhn, \textit{Remedies Available at Customs for Infringement of a Registered Trade-Mark}, 70 Trade-Mark Rep. 387, 394 (1980) ("There is no legislative basis for this interpretation, since Section 526(a) specifies no exceptions.").

Customs, however, now uses the statute's legislative history to support its position that its regulations correctly implement the statute's plain meaning. \textit{See}, e.g., Brief for Appellee at 20-29, Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985); Brief for Appellee at 23-30, \textit{COPIAT}, 598 F. Supp. 844 (D.D.C. 1984), appeal docketed, No. 84-5890 (D.C. Cir. Dec. 28, 1984).

\textsuperscript{20} While Congressional intent can often be found in legislative history, \textit{see} British Steel Corp. v. United States, 573 F. Supp. 1145, 1148 (Ct. Intl TRADE 1983), courts confronted with determining legislative intent must "construe what Congress has written.
meaning of a statute must be conclusive.\textsuperscript{21}

The statute provides:

it 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, and registered in the Patent and Trademark Office . . . unless written consent of the owner of such trademark is produced at the time of making entry.\textsuperscript{22}

A literal interpretation of section 526 is more reasonable than a non-literal interpretation. The literal interpretation protects trademark owners for whom the statute was enacted,\textsuperscript{23} rather than anonymous diverters.\textsuperscript{24}

Proponents of the Customs' regulations "snatch fragments"\textsuperscript{25} of the Senate floor debates to conclude that Congress intended to protect trade-
mark owners only in one specific fact pattern. Isolated remarks from Senate floor debates, however, are unreliable indicia of legislative intent. Moreover, even if the courts were to study legislative history to form a non-literal interpretation, they would find that the history compels use of the statute's plain meaning.

B. The Legislative History

Prior to the enactment of section 526 in 1922, goods that bore a genuine trademark—genuine goods—were not excluded by Customs because their importation and sale was not trademark infringement under section 27 of the Trade-Mark Act of 1905.

In accord with this result, United States Court of Appeals for the Sec-

26. The fact pattern is that of A. Bourjois v. Katzel, 260 U.S. 689, 690-92 (1923) where the U.S. trademark owner was completely independent from the foreign manufacturer.

27. Consumer Product Safety Comm'n v. GTE Sylvania, Inc., 447 U.S. 102, 118 (1980); Chrysler Corp. v. Brown, 441 U.S. 281, 311 (1979); McCaughn v. Hershey Chocolate Co., 283 U.S. 488, 493-94 (1931); Duplex Printing Press Co. v. Deering, 254 U.S. 443, 474 (1921). Indeed, courts addressing § 526 have discussed the improper use of its legislative history. See Vivitar Corp. v. United States, 761 F.2d 1552, 1563 (Fed. Cir. 1985) ("[T]he remarks of one or more Senators are an unreliable indication of the sense of the chamber as a whole or of Congress.")., petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411); Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063, 1075 (E.D.N.Y. 1982) ("[T]he possibility that individual senators may not have understood precisely how the Bourjois Company’s American trademark rights were being encroached upon cannot weigh heavily in construing the statute when the breadth of the language used in the legislation is properly considered.")., vacated on other grounds, 719 F.2d 42 (2d Cir. 1983).


30. These goods are not counterfeit, rather they are unauthorized by the U.S. trademark owner for sale in the U.S. market. See Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411). See supra note 4 for a discussion of grey market goods.

31. See Trade-Mark Act of 1905, ch. 592, 33 Stat. 724 (current version at § 42 of the Lanham Trade-Mark Act, 15 U.S.C. § 1124 (1982)). This section provided in part: “No article of imported merchandise which shall copy or simulate . . . a trade-mark registered in accordance with the provisions of this Act . . . shall be admitted to entry at any custom-house of the United States . . . .” Id. at 730.

Before the enactment of § 526, courts denied use of a U.S. trademark to exclude genuine imports. See, e.g., Hunyadi Janos Corp. v. Stoeger, 285 F. 861 (2d Cir. 1922) (permitting the importation of genuine goods); Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780, 782 (2d Cir. 1916) (same); Apollinaris Co. v. Scherer, 27 F. 18 (C.C.S.D.N.Y. 1886) (same); see also Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 434 (1982) (if the importer legitimately acquired the genuine goods abroad, the U.S. trademark owner could not exclude the goods).

ond Circuit, in A. Bourjois & Co. v. Katzel, vacated a preliminary injunction barring importation of genuine JAVA facepowder by a third party. Partly in response to that decision, while the case was on appeal to the Supreme Court, Congress enacted section 526 as part of the Tariff Act of 1922. Congress did not consider changing the existing trademark laws, choosing instead to amend the Tariff Act to give U.S. trademark owners the right to exclude genuine goods. Although the initial impetus for section 526 was the Second Circuit's Katzel decision, the Senate debates indicate clearly that Congress did not intend to limit

32. 275 F. 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923).

33. A. Bourjois & Co. purchased the U.S. business and U.S. trademark rights for JAVA, a French facepowder, from the French manufacturer. See id. at 539. Katzel purchased genuine JAVA facepowder in France, imported it into the U.S., and sold it under the JAVA trademark. See id. at 540. Relying on the theory that genuine goods could not infringe a U.S. trademark, the Second Circuit vacated the district court's injunction against importing the powder. See id. at 543.

For the purposes of this Note a third party or a diverter is a person or entity unrelated to either the U.S. trademark owner or the foreign manufacturer who lawfully purchases abroad merchandise bearing U.S. registered trademarks and imports them for sale in the U.S. without the authorization of the U.S. trademark owners.


The Supreme Court, in a short opinion by Justice Holmes, reversed and reinstated the district court's injunction finding that the trademark signifies the local goodwill of the domestic trademark owner rather than the manufacturer of the goods. See id. at 692. Thus, the genuine JAVA imports were deemed to infringe on the rights of the U.S. trademark owner. See infra Part II.B and accompanying text for a discussion of the territorial nature of trademarks.


36. See H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922); 62 Cong. Rec. 11,602-05 (1922); see also Vivitar Corp. v. United States, 761 F.2d 1552, 1563 (Fed. Cir. 1985) ("Congress did not debate or intend to change trademark law to make uniform what the various courts might hold to be infringements. Rather, it ignored trademark law and, by amendment to customs law, gave a U.S. owner of a trademark a right to exclude foreign goods bearing the same trademark as the U.S. company had registered in the U.S. and recorded with Customs."), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411).

37. The legislative history of this amendment is short, consisting only of a ten-minute Senate debate, see 62 Cong. Rec. 11,585 (1922), and a brief Conference Report which read:

A recent decision of the circuit court of appeals [Katzel] holds that existing law does not prevent the importation of merchandise bearing the same trademark 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 trademark, in order to protect the American manufacturer or producer; and the House recedes with an amendment requiring that the trade-mark be owned, at the time of the importation, by a citizen of the United States or by a corporation or association created or organized within the United States.

the section to fact patterns identical to *Katzel*. Indeed, the only requirement for applicability was registration and recordation of a U.S. trademark. Evidence of trademark infringement was irrelevant.

38. The Senate floor debate shows that Congress intended § 526 to apply to fact patterns other than those found in *Katzel*. Initially, § 526 was to apply to all goods, including those manufactured in the United States, exported and subsequently imported back to the United States. See *62 Cong. Rec. 11,602 (1922)* (statement of Sen. Kellogg). Senator McCumber proposed an amendment limiting § 526 to trademarked goods of foreign manufacture to avoid the problem of U.S. citizens returning from abroad with goods produced domestically, but purchased abroad. See *id.* at 11,603 (1922) (statement of Sen. McCumber). Senator Simmons supported the legislation because he wished to protect the American company which acquired the BAYER trademark from the Allen Property Custodian. See *id.* at 11,604 (statement of Sen. Simmons). Finally, Senator Lenroot envisaged monopolization by multinational concerns, such as the makers of PEARS soap, by assigning their U.S. trademark to an American agent. See *id.* at 11,605 (1922) (statement of Sen. Lenroot). This amendment and remarks made during the debates provide evidence that limitations cannot be read into the statute based on Congressional intent at the time of enactment. Vivitar Corp. v. United States, 761 F.2d 1552, 1562-65 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985). But see Olympus Corp. v. United States, No. CV-84-0920, slip op. at 30-31 (E.D.N.Y. Aug. 22, 1985) (*§ 526 is limited to *Katzel*-type fact patterns*), appeal docketed, No. 85-6282 (2d Cir. Sept. 27, 1985); *COPIAT*, 598 F. Supp. 844, 852 (D.D.C. 1984) (same), appeal docketed, No. 84-5890 (D.C. Cir. Dec. 28, 1984); Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 419 (S.D. Fla. 1983) (same).

Reliance upon this short legislative history to conclude that only fact patterns identical to *Katzel* permit U.S. trademark owners to exercise § 526 is further undercut by the misinformation on which the Senators were relying. Senator Sutherland was under the impression that in *Katzel*, the French manufacturer, not a third party, was importing the goods into the United States in violation of the agreement it made with the plaintiff. See *62 Cong. Rec. 11,603 (1922)* (statement of Sen. Sutherland). Either no one chose to correct Senator Sutherland or the entire Senate was misinformed about the facts. Under these circumstances, it is difficult to read limitations into the amendment without knowing to which fact pattern § 526 should be limited. Thus, the legislative history of § 526 at the time of its enactment offers little insight into congressionally intended limitations. See *Vivitar Corp. v. United States*, 761 F.2d 1552, 1563, 1565 (Fed. Cir. 1985), *petition for cert. filed*, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411). But see *Power of Trademark Owner*, supra note 8, at 566 (legislative history of § 526 suggests it was enacted solely for "independent" U.S. trademark owners).

39. See *supra* note 2 and accompanying text.

40. Evidence of infringement as a prerequisite to protection under § 526 was never discussed in Congress. See *62 Cong. Rec. 11,602-05 (1922).*

Bearing in mind that the Second Circuit's decisions, particularly the *Gretsch* and *Appollonaris* cases, had declared that a manufacturer's goods did not infringe American trademark rights because they were "genuine," it becomes plain that Congress wanted it absolutely clear that sharing a common foreign manufacturing origin with the American trademark owner's goods did not make other similarly or identically trademarked goods purchased abroad any less infringing. Again without limiting language, Congress stated that "any merchandise of foreign manufacture" bearing a trademark owned by an American could be denied entry, on the unstated, but obvious ground that sale of the article by someone not the trademark owner would infringe the trademark owner's rights. Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063, 1076 (E.D.N.Y. 1982), vacated on other grounds, 719 F.2d 42 (2d Cir. 1983); see also *Vivitar Corp. v. United States*, 761 F.2d 1552, 1563 (Fed. Cir. 1985) ("Ownership of a U.S. trademark registration was a condition to an exercise of that right [to invoke § 526], but trademark
Section 526 was reenacted in the Tariff Act of 1930.41 Prior to reenactment, in an effort to encourage domestic production of goods, the Senate considered deleting the privilege of the domestic trademark owner to give written consent to importation.42 The premise of the amendment was that section 526 prohibited foreign-made goods bearing registered and recorded trademarks regardless of whether the importer was a related company.43 The amendment was rejected by Congress and section 526 was reenacted with the written consent privilege.44

Since the 1930 reenactment,45 there have been several unsuccessful congressional attempts to limit the scope of section 526. In 1954, legislation was proposed which would have limited the protection of section 526 to American trademark owners who were unrelated to foreign infringement by the importer was not.

The court in COPIAT, 598 F. Supp. 844, 851 (D.D.C. 1984), appeal docketed, No. 84-5890 (D.C. Cir. Dec. 28, 1984), however, finding that the statutory language of § 526 did not bar genuine goods, relied on Apollinaris Co. v. Scherer, 27 F. 18 (C.C.S.D.N.Y. 1886) and Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780 (2d Cir. 1916) for the proposition that § 526 only prohibited importing merchandise which copied or simulated registered trademarks. The flaw in this reasoning is apparent. Apollinaris and Gretsch were decided prior to the 1922 enactment of § 526. Section 526 was enacted to provide an exclusion of genuine goods for U.S. trademark owners, regardless of evidence of infringement. See Vivitar Corp., 761 F.2d at 1563.

Further support that evidence of infringement is irrelevant is found in § 526(c), which provides the same remedy for damages due to importation of genuine goods as § 27 of the Trade-Mark Act of 1905 does for importation of infringing goods. If § 526 was to be limited to infringements, § 526(c) would have been unnecessary: “that remedy was already available in the Act of 1905.” Vivitar Corp., 761 F.2d at 1564.


42. See H.R. 2667, 71st Cong., 1st Sess. 172 (1929) (attempting to delete the portion of § 526(a) which reads “unless written consent of the owner of such trade-mark is produced at the time of making entry”); 71 Cong. Rec. 3873 (1929) (discussing the attempted deletion).


At the present time the tariff laws forbid the importation of an article bearing a trade-mark registered in America unless the owner of that trade-mark consents in writing to the importation. Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of articles which have been stamped with his mark without his consent.


The poor placement of the modifier “without his consent” changes the meaning of the Senator’s statement depending on whether it modifies “stamped” or “importations.” This ambiguous remark, however, cannot override the broad reading given to § 526 by Congress at the time of reenactment. See Vivitar Corp., 761 F.2d at 1566 n.19.


45. Id.
In 1959, a congressional attempt to repeal section 526 failed. This is particularly noteworthy because in 1958 in *United States v. Guerlain, Inc.*, the District Court for the Southern District of New York found that use of section 526 by an "international enterprise" to exclude genuine goods of foreign manufacturers violated section 2 of the Sherman Act. The Supreme Court, at the request of the Justice Department, vacated the judgment. The unusual request was based in part on a desire to propose legislation to remedy a perceived misuse of section 526 to monopolize the U.S. market by international enterprises. The Executive's subsequent inability to persuade Congress to limit the scope of section 526 implies that Congress did not want the section to be restricted.

A bill to amend the Lanham Trade-Mark Act of 1946 was introduced in Congress in 1969. This bill also proposed repeal of section 526. Again, Congress declined to limit the protection afforded a U.S. trademark owner.

An amendment in 1978 created a statutory exemption for imports for

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49. *Id.* at 82. All the defendants in this consolidated action were "associated" with their foreign manufacturers. *Id.* at 80.

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony . . .

*Id.*
51. *See Appellee's Motion to Vacate, Guerlain, Inc. v. United States, 358 U.S. 915 (1958).*
52. *See Guerlain, Inc. v. United States, 358 U.S. 915, 915 (1958).*
53. The Justice Department's motion to vacate was also based on a conflict with the Customs Service regarding the application of § 526. The Customs Service took the position that related defendants should be protected by the statute. The Justice Department conceded that Customs' position was supported by a literal reading of the statute. *See Appellee's Motion to Vacate at 7, Guerlain, Inc. v. United States, 358 U.S. 915 (1958).*
54. Appellee's Motion to Vacate at 7-8, Guerlain, Inc. v. United States, 358 U.S. 915 (1958) (The Departments of Justice, Treasury, State and Commerce joined to propose legislation which would prohibit the use of § 526 by related companies. The executive branch conceded that the legislature "is best equipped to deal" with the prohibition.) Despite this concerted effort, Congress rejected the amendment. *See supra* note 47 and accompanying text.
56. *See id.; Atwood, supra* note 9, at 320.
personal use and a procedure to be followed by Customs when it discovers a counterfeit mark. Again, neither the general scope nor any specific limitations of section 526 were discussed.

Some courts have accepted Customs' position that congressional silence in the face of Customs' implementation of section 526 must be equated with congressional approval of the regulations. However, congressional silence does not imply ratification of the current practices of the Customs Service.


Customs, relying on two identical reports submitted to the House, maintains that Congress accepted Customs' interpretation of § 526. One report was prepared as background for the proposed Customs Modernization Act of 1975, which was never enacted. See H.R. 9220, 94th Cong., 2d Sess. (1975). The other was prepared by the House Ways and Means Committee in connection with the Customs Procedural Reform and Simplification Act of 1978, Pub. L. No. 95-410, 92 Stat. 888, 903 (current version at 19 U.S.C. § 1526(d), (e) (1982)).

[Section 526] has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-produced merchandise bearing a genuine trade-mark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trade-mark owner to produce and sell abroad goods bearing the recorded trade-mark.


However, Customs had not consistently interpreted § 526 during the 20 years prior to these statements. See infra Part I.D.1. See also Vivitar Corp., 761 F.2d at 1568 (disagreeing with the lower court's finding of an implied ratification of Customs' practices).

62. Reenactment of a statute does not constitute Congressional approval of administrative construction and interpretation of a statute. See Plasterer's Local Union No. 79 v. NLRB, 440 F.2d 174, 185 (D.C. Cir. 1970), rev'd on other grounds, 404 U.S. 116 (1971). But see McCaughen v. Hershey Chocolate Co., 283 U.S. 488, 493 (1931) (statute's reenactment is "at least persuasive of a legislative recognition and approval of the statute as construed"). To find approval of an administrative practice, "Congress must not only have been made aware of the administrative interpretation, but must also have given some 'affirmative indication' of such intent." Association of Am. R.Rs. v. ICC, 564 F.2d 486, 493 (D.C. Cir. 1977); see Vivitar Corp. v. United States, 761 F.2d 1552, 1568 (Fed. Cir. 1985) ("Legislation by total silence is too tenuous a theory to merit extended discussion."). petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411); C. Sands, 2A Sutherland Statutory Construction § 49.09 (Chadbourn rev ed. 1984) (reenactment of a statute is considered to continue a contemporaneous and practical interpretation unless the legislature never focused its attention on the interpretation).

Moreover, were a court to find the House reports correct, it would have to find these House reports are insufficient indicia of legislative intent to accept Customs' interpretation. See Vivitar Corp., 761 F.2d at 1568. "[L]anguage in a Committee Report, without
To the contrary, the complete legislative history of section 526 is more reasonably interpreted as showing Congress’ steadfast refusal, despite extensive lobbying, to limit the protection afforded to all U.S. trademark owners by the plain meaning of section 526.

C. Contemporary Judicial Interpretations

The holdings of several courts made contemporaneously with either the 1922 enactment or the 1930 reenactment of section 526 contradict Customs’ assertion that the statute is limited to Katzel fact patterns. Moreover, these opinions support giving the plain meaning of section 526 its full effect.

The Supreme Court in A. Bourjois & Co. v. Aldridge found that the sale of genuine goods in the American market by a third party diverter was an infringement of the U.S. trademark owner’s registered trademark, and thus excluded the goods. A violation of section 27 of the Trademark Act of 1905 was found despite the defendant’s attempt to import...
genuine goods legally purchased abroad. Aldridge recognizes that exclusion of genuine goods should not be limited to technical and individual infringement determinations made by some courts today. Thus, after Aldridge, unauthorized genuine goods could be excluded by the use of either section 27 or section 526.

Similarly, in Coty, Inc. v. Le Blume Import Co., neither the district nor the circuit court considered the significance of Coty's foreign corporate ownership, a circumstance that would have prohibited Coty from invoking section 526 in the first instance. This example shows the insignificance of related company status.

After the 1930 reenactment of section 526, the Second Circuit in Sturges v. Clark D. Pease, Inc. rejected the argument that section 526 was limited to the facts in Katzel. Judge Augustus Hand characterized

69. See A. Bourjois & Co. v. Aldridge, 263 U.S. 675, 676 (1923) (per curiam).
70. The Supreme Court overruled previous constructions of § 27 of the Trade-Mark Act of 1905 and its predecessor, finding that genuine goods did not infringe, e.g., Huynadi Janos Corp. v. Stoeger, 285 F. 861, 864 (2d Cir. 1922); Fred Gretsch Mfg. Co. v. Schoening, 238 F. 780, 781-82 (2d Cir. 1916); Apollinaris Co. v. Scherer, 27 F. 18, 20 (C.C.S.D.N.Y. 1886), on the authority of its decision in A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923). The Court answered both questions certified by the Second Circuit, see supra note 67, in the affirmative, finding that sale of the genuine goods infringed plaintiff's trademark, and that Customs was required to bar their importation. A. Bourjois & Co. v. Aldridge, 263 U.S. 675, 676 (1923) (per curiam); see Vivitar Corp. v. United States, 761 F.2d 1552, 1564-65 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411); Power of Trade-Mark Owner, supra note 8, at 558 & n.9.
73. 292 F. 264 (S.D.N.Y.), aff'd, 293 F. 344 (2d Cir. 1923).
74. Coty was a French citizen importing perfumes into the United States through its United States commercial representative, Coty, Inc. Id. at 265. Le Blume brought a suit to compel Coty and Coty, Inc. to withdraw their § 526 exclusion. Id. at 265, 265-69. In denying Coty's motion to dismiss, neither the district court nor the Second Circuit considered the significance of Coty's foreign ownership. See id.
75. Both courts merely interpreted the plain meaning of the statute: foreign affiliation was not considered as a possible bar to Coty's ability to invoke § 526. See Osaka & Co. v. B & H Photo, 589 F. Supp. 1163, 1175 (S.D.N.Y. 1984); Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063, 1076 n.6 (E.D.N.Y. 1982), vacated on other grounds, 719 F.2d 42 (2d Cir. 1983). See supra notes 1, 37-40 and accompanying text.
76. For it is clear (and beyond dispute) that exclusion lay under § 27 against goods that "copy or simulate" regardless of [the] relationship between the domestic and the foreign mark holder. Such a relationship would have no conceivable relevance to the unlawfulness of a counterfeit mark. If, as Judge [Learned] Hand states in Coty, Inc. v. Le Blume Import Co., 292 F. 264, 268-69 (S.D.N.Y.), aff'd, 293 F. 344 (2d Cir. 1923]), § 526 simply fills the omission supposed to exist in § 27, then the relationship between foreign and domestic markholder would be equally irrelevant under § 526.
77. 48 F.2d 1035 (2d Cir. 1931) (A. Hand, J).
the statute as "drastic,"\textsuperscript{78} giving the U.S. trademark owner the right to bar all merchandise bearing its trademark.\textsuperscript{79} Although the court recognized that section 526 was enacted to provide a remedy to U.S. trademark owners in \textit{Katzel}-type situations, that purpose did "not settle the scope of the act."\textsuperscript{80}

Thus, courts that interpreted section 526 soon after its passage concluded that Congress intended a literal reading of the statute based on its plain meaning.

D. Administrative Interpretations

1. Customs Service's Lack of Consistency.

The degree of judicial deference given to an administrative agency's interpretation of a statute depends on several factors.\textsuperscript{81} One important factor is whether the administrative agency's interpretation of the statute has been consistent.\textsuperscript{82} A review of Customs' interpretations since the statute's enactment demonstrates the agency's inconsistency.\textsuperscript{83}

The first regulations promulgated by Customs following the enactment of section 526 in 1923\textsuperscript{84} contained neither administrative exceptions nor any indication of the agency's interpretation.\textsuperscript{85}

Regulations issued in conjunction with the 1930 reenactment of sec-

\textsuperscript{78}. See id. at 1037.
\textsuperscript{79}. See id. at 1036-38. The plaintiff had purchased an automobile abroad and sought to import it for his personal use. \textit{Id.} at 1036. The automobile was affixed with a trademark, the exclusive U.S. rights to which were owned by the defendant. \textit{Id.} Since the defendant had not authorized the importation, and there was no personal use exception to § 526 at that time, see supra note 58 and accompanying text, the plaintiff was unable to import the automobile. \textit{See id.} at 1036-38; see also Takamatsu, supra note 31, at 436.

\textsuperscript{80}. Sturges v. Clark D. Pease, Inc., 48 F.2d 1035, 1037 (2d Cir. 1931). However, "[t]he fact that [§ 526] was passed to overturn the Court of Appeals decision in \textit{Katzel} does not mean that, in spite of its broad language, it should govern only the narrowest version of the \textit{Katzel} facts." Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1175 (S.D.N.Y. 1984); see Sturges v. Clark D. Pease, Inc., 48 F.2d 1035, 1037 (2d Cir. 1931).


\textsuperscript{82}. Federal Election Comm'n v. Democratic Senatorial Campaign Comm., 454 U.S. 27, 37 (1981); 1 K. Davis, supra note 81, § 5.06, at 324; B. Schwartz, supra note 81, § 10.19, at 621.

\textsuperscript{83}. Vivitar Corp. v. United States, 761 F.2d 1552, 1565-68 (Fed. Cir. 1985), \textit{petition for cert. filed}, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411); see generally Atwood, supra note 9, at 301 ("review of Customs administration of trademark laws over the past 50 years shows that the Government's practice, or policy, has not remained constant"). See \textit{infra} notes 84-107 and accompanying text.

\textsuperscript{84}. Customs Regulations of 1923, Art. 475-80, (superseded 1930). "Trade-marks owned by an American citizen... are entitled to the protection of section 526... if the mark has been registered... ." \textit{Id.} Art. 476.

tion 526 barred genuine goods unless the U.S. trademark owner provided written consent to importation.87

In 1936, Customs deleted reference to section 526 from the regulations.88 Goods prohibited by section 526 were deemed for purposes of the regulations to be those bearing trademarks which copy or simulate a registered trademark. The 1936 regulations excluded, for the first time, trademarks owned by related companies.90

Customs regulations promulgated in 1953 again excluded related companies from protection.91 Despite these regulations, in practice Customs


87. Prohibition of entry.—Entry is prohibited of imported merchandise bearing a genuine trade-mark when such trade-mark is recorded with the Treasury Department and registered under the trade-mark law of February 20, 1905, if compliance is had with all provisions of section 526 of the tariff act of 1930, provided the period of protection for such trade-mark has not expired. Customs Regulations of 1931, Art. 518(a) (superseded 1936). Customs’ interpretation that genuine goods were to be excluded was “absolute.” Vivitar Corp. v. United States, 761 F.2d 1552, 1566 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411).

88. See T.D. 48,537, 70 Treas. Dec. 336 (1936) (superseded 1953). Customs completely revised the regulations in 1936 and provided that merchandise that copied or simulated a trademark was protected under Section 27 of the Trade-Mark Act of 1905 unless the U.S. and foreign trademark owners were “owned by the same person, partnership, association, or corporation.” Id. at 337. The regulations regarding prohibition of entry made no reference to § 526. See id.

89. See id.

90. See id. However, it is clear from a report by the U.S. Tariff Commission (now the International Trade Commission) to the House Subcommittee on Patents, that the reference to related companies in the 1936 regulations was not intended to apply to § 526:

Section 526 ... applies to the registrant’s own merchandise and prohibits importation of ... trade-marked merchandise unless the registrant agrees thereto. If the registrant withholds his consent to the importation, the merchandise is excluded from entry. In other words, the Federal authority to exclude from entry the particular goods is in effect exercised or not exercised at the option of the owner of the trade-mark. ... Section 526 of the tariff act does apply to the merchandise of the trade-mark owner which bears his trademark if the merchandise was produced abroad and if the trade-mark owner is a citizen of the United States.


The term “related company” means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used.

excluded genuine goods regardless of whether the U.S. trademark owner was related to the foreign manufacturer.\textsuperscript{92} Evidence of Customs' practice of exclusion is found in the Justice Department's motion to vacate the lower court's finding of Sherman Act violations in \textit{Guerlain}.\textsuperscript{93} In that case, the Justice Department stated that the Customs Service was "legally constrained to grant the claim of statutory protection"\textsuperscript{94} to an international enterprise.

After \textit{Guerlain}, Customs reverted to its pre-1936 position by deleting the related company exception.\textsuperscript{95} The 1959 regulations removed protection only from those U.S. trademark owners whose foreign affiliate was the same entity.\textsuperscript{96} This exception, however, was limited to principal/agent relationships.\textsuperscript{97}

In 1972, the Customs regulations were revised to their present form.\textsuperscript{98} The new regulations not only contain the same entity limitation\textsuperscript{99} found in the 1953 and 1959 regulations,\textsuperscript{100} but also exclude from statutory protection all U.S. trademark owners who have either foreign common ownership, parent/subsidiary relationships with foreign companies,\textsuperscript{101} or


93. \textit{Appellee's Motion to Vacate} at 7, \textit{Guerlain, Inc. v. United States}, 358 U.S. 915 (1958). \textit{Guerlain}'s ability to invoke § 526, despite its foreign affiliation, demonstrates that Customs was applying the plain meaning § 526.


95. \textit{See supra} note 9, at 307. This change in the regulations coincided with Congress' refusal to enact legislation which would have denied § 526 protection to related companies. See supra note 47 and accompanying text.

96. \textit{See supra} note 3 and accompanying text.

97. \textit{See supra} notes 91, 95 and accompanying text.

98. \textit{See supra} note 3 and accompanying text.

99. \textit{See supra} note 3 and accompanying text.

100. \textit{See supra} notes 91, 95 and accompanying text.

101. \textit{See supra} notes 91, 95 and accompanying text.
licensd foreign manufacturers.\textsuperscript{102}

Customs' inconsistent interpretation is further demonstrated by a recent amicus brief filed jointly by the Customs Service and the Antitrust Division of the Justice Department,\textsuperscript{103} which urged the court to give section 526 a literal reading\textsuperscript{104} affording statutory protection when the U.S. trademark owner is controlled by a foreign manufacturer, despite current regulations.\textsuperscript{105}

In sum, Customs allowed the importation of genuine goods from 1923 to 1936 and from 1959 to 1972, despite a relationship between the U.S. trademark owner and the foreign manufacturer, but prohibited importation during the years 1936 to 1953 and from 1972 to the present.

Because the Customs Service has not interpreted section 526 consistently,\textsuperscript{106} its present interpretation carries little authority, and should be given little deference by the courts.\textsuperscript{107}

2. Other Factors Militating Against Deferring to the Customs Service's Interpretation.

Aside from the consistency of an administrative interpretation, other factors help determine the degree of deference accorded an agency's in-

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(1) "Common ownership" means individual or aggregate ownership of more than 50 percent of the business entity; and

(2) "Common control" means effective control in policy and operations and is not necessarily synonymous with common ownership.

19 C.F.R. § 133.2(d) (1985).

An application to record a trade name must include "[t]he identity of any parent or subsidiary company, or other foreign company under common ownership or control which uses the trade name abroad. . . ." 19 C.F.R. § 133.2(d) (1985).


103. See Brief for the United States as Amicus Curiae, Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983).

104. See id. at 8-9. The Justice Department and Customs Service argued that § 526 should be construed "in accord with the normal meaning of the statutory language," id. at 9, and further that "neither the legislative reports nor the congressional debate contain any clear evidence of a legislative intent to deny trademark protection where the owner of the U.S. mark is owned or controlled by the foreign manufacturer of the trademarked goods." Id. at 8.

105. Id. at 8-9. The continued uncertainty regarding the regulation's exclusions is further exemplified by the solicitation of data on the grey market problem published in the Federal Register. Solicitation of Economic Data Notice, 49 Fed. Reg. 21,453 (1984). For a discussion of the recommendations which are being considered by the WGIP, see infra Part III.


terpretation of a statute.108 One factor is the thoroughness of the agency's consideration of the matter.109 No rationale or official justification has ever been published by the Customs Service to explain its departure from the plain meaning of section 526.110 Under these circumstances, the thoroughness of Customs' consideration of section 526 should not be presumed.

Another factor is the validity of the reasoning of the interpreting agency.111 Customs relies on its interpretation of the legislative history of the statute112 and its perception of antitrust113 and trademark law.114 Neither current antitrust nor current trademark principles support Customs' position. Moreover, the Customs Service itself has conceded that the plain language of section 526 should control its interpretation.115

Further, because Congress has already declined to limit the scope of protection,116 courts should reject Customs' construction of the statute since it is not sanctioned by Congress.117

Finally, Congress delegated no legislative authority to Customs118 that would require giving great deference to Customs' interpretation. Only when Congress has left a "gap"119 to be filled by an administrative inter-

108. See 1 K. Davis, supra note 81, § 5.03, at 298.
112. Customs currently maintains that the legislative history of § 526 suggests that protection should only be afforded to Katzel-type trademark owners. See supra Part I.B.
113. See infra Part II.A and accompanying text.
114. See infra Part II.B and accompanying text.
115. See Brief for the United States as Amicus Curiae at 8-9, Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983). See supra note 104.
116. See supra notes 46-57 and accompanying text.
119. "The power of an administrative agency to administer a congressionally created . . . program necessarily requires the formulation of policy and the making of rules to fill
preparation may regulations be given controlling weight. 120 The Customs regulations implementing section 526 were promulgated pursuant only to general authority, not specific legislative authority. 121 Indeed, Congress left no gap for Customs to fill. 122

A thorough analysis of the statute's legislative history, its contemporary judicial assessments and the history of administrative inconsistencies, in light of Customs' lack of authority to implement the exceptions, mandates using the plain language of the statute to govern its interpretation.


120. Although Congress may delegate to an administrative agency the power to interpret the extent of protection afforded under a statute, Batterton v. Francis, 432 U.S. 416, 425 & n.9 (1977), administrative regulations are only given controlling weight (assuming they are not "arbitrary, capricious, or manifestly contrary to the statute," Chevron, U.S.A. v. Natural Resources Defense Council, 104 S. Ct. 2778, 2782 (1984)) when Congress has expressly left a gap to be filled by administrative interpretation. Id. at 2783; see also Office of Consumers' Council v. FERC, 655 F.2d 1132, 1151-52 (D.C. Cir. 1980) (agency may not preempt legislature or regulate areas it believes are in need of some federal action); Talley v. Matthews, 550 F.2d 911, 919 (4th Cir. 1977) (agencies should not rewrite acts of Congress for "we must assume that the framers of these statutory provisions intended to convey the ordinary meaning which is attached to the language they used.") (quoting Jones v. Liberty Glass Co., 332 U.S. 524, 531 (1947)); Kettell v. Johnson & Johnson, 337 F. Supp. 892, 895 (E.D. Ark. 1972) (administrative agencies may not substitute their own standards for standards imposed by statute).

When Congress has implicitly delegated interpretation of a statute to an agency the agency's interpretation need only be "reasonable" to avoid a judicial determination different from the agency's regulations. Chevron, U.S.A. v. Natural Resources Defense Council, 104 S. Ct. 2778, 2782 (1984). The Vivitar court upheld the Customs regulations as a "reasonable exercise of administratively initiated enforcement," Vivitar Corp. v. United States, 761 F.2d 1552, 1571 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411) despite the fact that they take away a Congressionally granted right. However, "it is beyond cavil that a statutory right cannot be taken away by Administrative fiat." Armendariz v. Hershey, 295 F. Supp. 1351, 1354 (W.D. Tex.), appeal dismissed, 413 F.2d 1006 (5th Cir. 1969).

Further evidence that Congress did not intend to give Customs legislative authority is found in the private remedy provision, § 526(c). Congress expressly gave the judiciary the controlling power to determine rights under § 526. Vivitar Corp., 761 F.2d at 1570. This right to private enforcement, however, is inadequate without less restrictive Customs regulations. See infra Part II.C.

121. "The regulations were issued pursuant to general authority under 19 U.S.C. § 1624. In contrast, § 1526(d)(2) contains a specific delegation of legislative type authority to the Secretary with respect to importations for personal use and specific authority to issue regulations in § 1526(d)(4)." Vivitar Corp. v. United States, 761 F.2d 1552, 1569 n.22 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411).

122. Id.; cf. Helvering v. Credit Alliance Corp., 316 U.S. 107, 113 (1942) (The Supreme Court, rejecting interpretative rulings promulgated by the Bureau of Internal Revenue, stated that the regulations "attempted to add a supplementary legislative provision, which could only have been enacted by Congress.").
II. Antitrust and Trademark Considerations and the Section 526(c) Private Remedy

The Customs regulations advance long-discarded antitrust and trademark law. Principles of modern antitrust and trademark law support following the plain meaning of section 526. The regulations also limit the U.S. trademark owner to the private remedy provided by section 526(c). Section 526(c) is inadequate as a sole remedy because it is ancillary to the broad remedy of exclusion available in section 526(a).

A. Antitrust Considerations

Customs promulgated the current regulations to prevent U.S. trademark owners from violating the antitrust laws by invoking section 526 to protect their "international enterprises." Even if it were the role of Customs to implement antitrust policies, a doubtful proposition, those policies should reflect modern, rather than obsolete concerns. In Guerlain, the trial court found that each trademarked product constituted its own relevant market for purposes of monopolization, and hence found the defendants in violation of section 2 of the Sherman Act. The Guerlain decision represents a misinterpretation of United States v. E.I. du Pont de Nemours & Co. where the Supreme Court not only found that the relevant market in any antitrust claim is based on the reasonable interchangeability of products, but also rejected the proposition that

123. United States v. Guerlain, Inc., 155 F. Supp. 77, 80 (S.D.N.Y. 1957), vacated, 358 U.S. 915 (1958). Customs requires a Katzel fact pattern before protection is afforded under § 526. Atwood, supra note 9, at 315-16. The current Customs regulations are "really an attempt to ascertain the degree of common ownership or control of what is really a single international enterprise," id. at 314, in order to avoid the curtailment of interbrand competition among U.S. trademark owners in the U.S. market. Id. at 314-17.


"An interpretive rule may or may not have force of law, depending upon such factors as the extent to which the subject matter is within special administrative competence and beyond general judicial competence. . . ." 1 K. Davis, supra note 81, § 5.03, at 300. A court confronted with an interpretive rather than a legislative rule may "substitute its judgment for the administrative judgment embodied in an interpretative rule." Id. § 5.05, at 315. See supra notes 120-22.


126. Id. at 87.


128. Id. at 404; see Brown Shoe Co. v. United States, 370 U.S. 294, 343 (1962); RSR Corp. v. FTC, 602 F.2d 1317, 1320 (9th Cir. 1979), cert. denied, 445 U.S. 927 (1980); SmithKline Corp. v. Eli Lilly & Co., 575 F.2d 1056, 1063 (3rd Cir.), cert. denied, 439
one trademark could convert a single product into the relevant market.\textsuperscript{129} The argument that use of section 526 by related companies to divide international markets violates section 1 of the Sherman Act\textsuperscript{130} should also be rejected. In Continental T.V., Inc. v. G.T.E. Sylvania Inc.,\textsuperscript{131} the Supreme Court concluded that use of vertical restraints such as territory or customer restrictions could be procompetitive.\textsuperscript{132} It is now settled that these types of vertical restrictions are anticompetitive only when those imposing the restrictions have market power.\textsuperscript{133} The Customs regulations effectively presume market power even though grey marketing typically exists in the most competitive markets, in which no individual manufacturer has market power.\textsuperscript{134} Both the Justice Department and

\begin{footnotesize}
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\item U.S. 838 (1978); Telex Corp. v. IBM, 510 F.2d 894, 917 (10th Cir.), \textit{cert. dismissed}, 423 U.S. 802 (1975).
\item \textsuperscript{129} "[T]his power that... automobile or soft drink manufacturers have over their trademarked products is not the power that makes an illegal monopoly. Illegal power must be appraised in terms of the competitive market for the product." United States v. E.I. du Pont & de Nemours & Co., 351 U.S. 377, 393 (1956) (footnote omitted).
\item \textsuperscript{130} 15 U.S.C. § 1 (1982).
\item \textsuperscript{131} 433 U.S. 36 (1977).
\item \textsuperscript{133} \textit{See} Valley Liquors, Inc. v. Renfield Importers Ltd., 678 F.2d 742 (7th Cir. 1982). The court found that vertical restraints were not unreasonable restraints of trade because the defendant had no market power and because the restrictions had a procompetitive effect. Market power is defined as the "power to raise prices significantly above the competitive level without losing all of one's business." \textit{Id.} at 745; \textit{see} U.S. Dep't of Justice Vertical Restraints Guidelines, 50 Fed. Reg. 6264, 6268 (1985) (firms with small market shares employing vertical restraints are not subject to scrutiny by the Antitrust Division); \textit{see also} General Leaseways, Inc. v. National Truck Leasing Assoc., 744 F.2d 588, 596 (7th Cir. 1984) (under the rule-of-reason standard absent market power restraint on competition is lawful); Jack Walters & Sons Corp. v. Morton Bldg., Inc., 737 F.2d 698, 702 (7th Cir.) (market power is a prerequisite to an unreasonable restraint of trade), \textit{cert. denied}, 105 S. Ct. 432 (1984).
\item Concern about unlawful resale price maintenance is also not addressed adequately at Customs because there must first be proof of an agreement to set prices and evidence of a common purpose between the trademark owner and its distributors to constitute such a finding. \textit{See} Monsanto Co. v. Spray-Rite Serv. Corp., 104 S. Ct. 1464, 1471 (1984).
\item But absent evidence of communication between the trademark owner and its distributors specifically to maintain resale prices at agreed upon levels, the mere fact that trademark owners are concerned about price-cutting, particularly by "free riders," and act unilaterally to prevent such activity, does not constitute a per se unlawful resale price maintenance scheme.
\item \textsuperscript{134} No investigation is made to determine market power. \textit{See} Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1178 (S.D.N.Y. 1984). Grey marketing ordinarily exists in markets where there is vigorous interbrand competition, such as perfumes, watches,
\end{itemize}
\end{footnotesize}
Customs have recently conceded that related companies' use of section 526 to control distribution does not violate the antitrust laws.\textsuperscript{135} Thus, the antitrust concerns reflected in the current Customs regulations are outdated and should be discarded.

\textbf{B. The Territoriality of Trademarks}

The existence of foreign rights under the same trademark, or the corporate affiliation shared between the owner of those rights and the owner of the U.S. rights, forms no basis for denying protection to the U.S. trademark owner\textsuperscript{136} when the U.S. trademark owner has developed the goodwill symbolized by the trademark in the U.S. market.\textsuperscript{137} Foreign affiliation renders the corporation no less American.\textsuperscript{138}

\textsuperscript{135} Brief for the United States as Amicus Curiae at 12-17, Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (1983). The Justice Department and the Customs Service recognized that their position at the time of Guerlain was no longer valid and a literal interpretation of § 526 follows current trademark and antitrust policies. The brief even listed various procompetitive aspects of vertical restraints. See id. at 12-17.

\textsuperscript{136} While it is possible that certain U.S. trademark owners who are part of an international enterprise could use their trademarks in violation of U.S. antitrust laws, see, e.g., Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951); Carl Zeiss Stiftung v. V.E.B. Carl Zeiss, Jena, 298 F. Supp. 1309 (S.D.N.Y. 1969), aff'd, 433 F.2d 686 (2d Cir. 1970), cert. denied, 403 U.S. 905 (1971), antitrust laws address these problems. See Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1178 (S.D.N.Y. 1984). Indeed, it is easier for the importer to challenge the U.S. trademark owner than for the U.S. trademark owner to block imports on a case-by-case basis. See infra notes 167-68 and accompanying text.


\textsuperscript{138} See 1A W. Fletcher, Cyclopedia on the Law of Private Corporations § 69 (1983)
GREY MARKET GOODS

It has been held that once a trademark owner has authorized application of the trademark, it has introduced the goods into commerce and can no longer restrict the sale of those goods. This view, however, assumes that trademarks are universal, rather than territorial. Under the universality principle, once a trademark is lawfully applied to goods, the trademark and the goods may be traded anywhere and cannot be deemed an infringement even if the goods enter another country where another person owns the exclusive right to the trademark. Although many early grey market cases, and a few modern cases, reflect this "faded principle," it is a doctrine that fails to recognize the sovereignty of nations and the independent rights which arise thereunder. For these reasons, territoriality now forms the basis for modern protection of trademark rights.

Territoriality recognizes the separate legal existence of a trademark

("[a] corporation is deemed to be of the state or country which creates it, and with respect to that state or country is a 'domestic corporation'"; cf. 26 U.S.C. § 7701(a)(2), (4) (1982) (defining "domestic" and "corporation" for the purposes of the Internal Revenue Code); cf. Well Ceramics & Glass, Inc. v. Dash, No. 84-2157, slip op. at 24, 36 (D.N.J. Sept. 12, 1985) (percentage of ownership should not determine trademark rights when separate goodwill is established). See supra note 136 and accompanying text.


Under the universality principle, a U.S. trademark assignee was relegated to suing the foreign assignor for breach of contract or unfair competition. Third parties not subject to territorial agreements could lawfully import, provided the trademark on the imported goods was lawfully applied. Atwood, supra note 9, at 303. See supra note 31 and accompanying text.


142. See COPPAT; 598 F. Supp. 844, 850 (D.D.C. 1984), appeal docketed, No. 84-5890 (D.C. Cir. Dec. 28, 1984); see also Vivitar Corp. v. United States, 593 F. Supp. 420, 435 (Ct. Int'l Trade 1984) (the court, by claiming invocation of § 526 conferred an unfair competitive advantage on U.S. subsidiaries of foreign manufacturers, ignored the principle of territoriality, thereby failing to recognize the separate legal existence of the U.S. subsidiary's trademark rights), aff'd, 761 F.2d 1552 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411). At least one commentator makes this error. Power of Trade-Mark Owner, supra note 8, at 567 ("Consumers are not deceived as to the ultimate source of the commodity whether the American trade-mark owner is an independent distributor of the foreign producer or a related concern. They receive the authentic article made by the original manufacturer in both cases.") (footnote omitted).


144. "The old universality cases and the theory upon which they rest represent an incorrect analysis that has been repudiated in both statutory and decisional law, at least where the domestic markholder has developed an independent goodwill." Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1175 (S.D.N.Y. 1984); see Derenberg, supra note 140, at 734 (a trademark and the associated goodwill "may have a separate legal existence in different parts of the world"). See generally Osawa & Co., 589 F. Supp. at 1171-74
under each country's laws, symbolizing the domestic goodwill of the domestic trademark owner.\textsuperscript{145} This separate legal entity, not the foreign manufacturer, becomes the "source of origin"\textsuperscript{146} of the trademarked goods.\textsuperscript{147} By definition, grey market goods come from a source other than the U.S. trademark owner.\textsuperscript{148} This causes consumers to confuse the identity of the company standing behind the goods and assuring their quality.\textsuperscript{149}

The concepts of universality and territoriality are inextricably intertwined with the doctrine of exhaustion, which allows the trademark holder to control only the first sale of its trademarked good in its territory.\textsuperscript{150} As the first sale is made, the goods enter the stream of commerce

(discussing the principles of universality and territoriality). See infra notes 145-49 and accompanying text for a discussion of territoriality.


Katzel and A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923) (per curiam) effectively overruled cases decided on the universality principle. Vivitar Corp. v. United States, 761 F.2d 1552, 1564 (Fed. Cir. 1985), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411); Atwood, supra note 9, at 305.


147. See Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1171-72 (S.D.N.Y. 1984). Criticizing the Guerlain court's failure to recognize the territorial nature of trademark rights, the Mamiya court stated:

Implicit in this assertion [that § 526 did not apply to international enterprises] is the assumption that the "source of origin" of a product inevitably must be its manufacturer. That view is wholly inconsistent with the numerous American trademark decisions recognizing the exclusive American distributor as the owner of trademark rights.


148. See supra note 4.

149. See supra note 6.

and the trademark owner's rights are "exhausted." It is also argued that once the goods are sold abroad, the right to control subsequent sales, even in the United States, has been exhausted. This doctrine, however, is inapplicable to grey market imports where the domestic trademark owner has developed its own goodwill independent of the goodwill established by its foreign affiliates. When local goodwill is established, only the foreign trademark owner's rights are exhausted by sale to the U.S. trademark owner. Thus, the U.S. trademark owner's rights over its trademark exist until it sells the trademarked good in the domestic market. Local goodwill is established by the activities engaged in by the trademark owner, such as promoting, advertising, warranting, or generally standing behind its product. That the trademark on merchandise marketed internationally was affixed in a foreign country by a foreign trademark owner is of no consequence. Supporters of grey market imports use the fact of foreign manufacture and trademark affixation to argue that because consumers identify these products by their foreign manufacturers, rather than their domestic owners, no independent domestic goodwill has been established. This argument, however, fails to recognize that the domestic trademark owner has established the domestic goodwill and, indeed, created the U.S. market for the product. Moreover, trademark rights are not conditioned on the public's ability to identify the trademark owner.

153. See Weil Ceramics & Glass, Inc. v. Dash, No. 84-2157, slip op. at 22 (D.N.J. Sept. 12, 1985); Premier Dental Prods. Co. v. Darby Dental Supply Co., No. 85-1780, slip op. at 10 (E.D. Pa. July 16, 1985); Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1174 (S.D.N.Y. 1984); cf. Derenberg, supra note 140, at 749 (offering example of two "entirely different concerns" which were affiliated at some point in the past "but which long since have become separate entities").
155. See supra notes 5-7 and accompanying text.
156. See supra notes 5-7 and accompanying text.
158. See Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 419 (S.D. Fla. 1983); cf. United States v. Guerlain, Inc., 155 F. Supp. 77, 81 (S.D.N.Y. 1957) ("It can hardly be claimed by the defendants in the cases at bar that the trade-marks indicate an origin with them in the United States, inasmuch as the whole burden of their advertising is to emphasize French origin."); vacated, 358 U.S. 915 (1958).
159. "[I]t will suffice if the article be known as coming from a single, though anonymous source." Coty, Inc. v. Le Blume Import Co., 292 F. 264, 267-68 (S.D.N.Y.) (citation omitted), aff'd, 293 F. 344 (2d Cir. 1923); accord Weil Ceramics & Glass, Inc. v. Dash, No. 84-2157, slip op. at 27-28 (D.N.J. Sept. 12, 1985); Selchow & Righter Co. v. Decipher, Inc., 598 F. Supp. 1489, 1496 (E.D. Va. 1984); see Union Carbide Corp. v.
C. The Inadequacy of the Private Remedy

The Federal Circuit's opinion in *Vivitar Corp. v. United States*\(^{160}\) reflects judicial reluctance to change the current total inclusion of grey market goods in the U.S. market to total exclusion.\(^{161}\) *Vivitar* seems to invite a legislative or administrative change. It acknowledged that although the present Customs regulations were not controlling,\(^{162}\) they were nevertheless a "reasonable exercise of Customs' power."\(^{163}\)

The *Vivitar* court found a compromise position in the private remedy provided by section 526(c).\(^{164}\) The court concluded that individual adjudications of U.S. trademark owners' rights under section 526 adequately protected the trademark owner.\(^{165}\) The court believed that section 526(c) would be superfluous if Customs was required to exclude unauthorized imports *sua sponte*.\(^{166}\)

Restricting the trademark owner to a private action against the importer is inadequate for two reasons. First, the identities of importers are often difficult, if not impossible, to ascertain.\(^{167}\) Second, even if the importers are identified, the remedy requires U.S. trademark owners to bring an endless series of lawsuits.\(^{168}\) Once a judicial determination is

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161. *See* Riley, *supra* note 11, at 22 ("[the *Vivitar* Court] ruled that Customs was probably wrong, but held that trademark owners should bring private court actions to enforce their rights rather than compelling Customs to enforce them at the borders.").


163. *Id.* at 1555.

164. *See* *id.* at 1570. *See* *supra* note 17 for the text of § 526(c).

165. *See* Vivitar Corp. v. United States, 761 F.2d 1552, 1569-71 (2d Cir. 1985), *petition for cert. filed*, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411). The court concluded that the regulations were no more than a definition of Customs' role in its administration of the statute. *See* *id.* at 1569.

166. *Id.*

167. The closely guarded secrecy of the identities of grey market importers is exemplified in Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984), where the defendants chose such actions under Federal Rule of Civil Procedure 37 rather than identify the sources of their grey market products. *See* *id.* at 1166 n.2, 1170.

In another case, certain importers whose goods were detained by Customs pursuant to a temporary restraining order requested anonymity because of alleged trade secrets. This request was denied for insufficient showing of a trade secret. *See* Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416, 418 (S.D. Fla. 1983); *cf.* Model Rectifier Corp. v. Takachiho Int'l Inc., 221 U.S.P.Q. (BNA) 502, 503 (9th Cir. 1983) ("the appellants . . . unsuccessfully attempted to locate and cut off [the diverter's] foreign source").

168. The *Vivitar* court failed to spell out whether one court order in favor of the U.S. trademark owner would require Customs to exclude all grey market products from all sources or only exclude those from the named defendants. *See* Appellant's *Petition for Rehearing and for Clarification* at 9, Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985). Customs interpretation of the *Vivitar* opinion remains to be seen. Regardless of the way this opinion is implemented, the burden of identifying the importer will remain inequitably on the U.S. trademark owner.
made in the district court that the goods of a particular importer must be
barred, only the named defendants are prevented from importing the
goods. These named defendants can merely divert their goods to another
anonymous entity, who could import the goods until the U.S. trademark
owner identifies the new source and obtains an exclusion order in a sec-
ond lawsuit. This burdensome and inadequate procedure fails to protect
the section 526 right.

Because individual judicial determinations are not adequate as the
sole remedy, a better interpretation of section 526(c) allows the U.S.
trademark owner to collect damages from the diverter when Customs
mistakenly allows importation of the goods or when the unauthorized
goods find their way into the U.S. market despite the efforts of Customs.

III. PROPOSED SOLUTIONS TO THE GREY MARKET PROBLEM

The Cabinet Council on Commerce and Trade's Working Group on
Intellectual Property (WGIP) devised six proposals from which it will
recommend one in order to end the controversy within the Administra-
tion over grey market goods. These options cover the complete range
of possible responses to the grey market problem and are therefore wor-
thy of study. An analysis of these options reveals that only one can ade-
quately protect the U.S. trademark owner.

The first option is to maintain the status quo. This option is not
justified by the plain meaning of the statute, is based on discredited
antitrust and trademark principles, benefits anonymous grey market
importers at the expense of U.S. trademark owners, and leaves the
trademark owner with an inadequate private remedy under section
526(c).

The second option would require labeling the grey market goods to
inform consumers that the goods they purchase are "neither authorized
nor warranted by the U.S. trademark holder." Although this require-

169. See supra notes 167-68.
170. Appellant's Petition for Rehearing and for Clarification at 6, Vivitar Corp. v.
United States, 761 F.2d 1552 (Fed. Cir. 1985).
171. Id.
172. See Inside U.S. Trade, supra note 18, at 10. Thus far the group has been unable to
overcome inter-agency conflicts to reach a solution to recommend to the White House.
See Inside the Administration 35, August 29, 1985, at 1, 5.
173. See infra Conclusion for the proposed option.
175. See supra Parts I.A & I.B.
176. See supra Part II.A.
177. See supra Part II.B.
178. See supra note 167 and accompanying text.
179. See supra Part II.C.
180. Inside U.S. Trade, supra note 18, at 10. Similar legislation has been passed by the
State of New York, whose law requires that the product be labeled or that a sign be
placed at the point of sale stating that the product is not warranted by the U.S. trademark
ment may alert consumers to the grey market problem and thus decrease consumer confusion,\textsuperscript{181} it nevertheless may cause degradation of the trademark's goodwill in the U.S. market if the product proves defective.\textsuperscript{182}

Further, the labeling requirement does not prevent free riding on the U.S. trademark owner's goodwill.\textsuperscript{183} Free riding may be complicated when a U.S. trademark owner offers promotional incentives such as rebates.\textsuperscript{184} Although purchasers of a grey market product may be alerted to its lack of warranty, if they are motivated to purchase the product because of the U.S. trademark owner's promotional campaign,\textsuperscript{185} they may be unaware that they are not entitled to a rebate. Consequently, the owner. Failure to so label is punishable by a fine and allows the purchaser to receive a credit or refund provided the product was not used or damaged. Act of July 24, 1985, ch. 496 (to be codified at N.Y. Gen. Bus. Law § 218-aa). This law is limited to those products normally accompanied by a warranty. \textit{See id.} It also provides for an affirmative defense if the consumer is provided with a written warranty offering the same or greater protection than the manufacturer's warranty. \textit{See id.} The flaw in this affirmative defense is that it is often the U.S. trademark owner, not the manufacturer, who warrants the products. When the manufacturer provides no warranty protection, any protection given by the grey market retailer will provide an affirmative defense under the law.

Moreover, enforcement of this type of legislation is too subjective. The warranty provided by the grey market retailer may be equal or better protection on its face, but warranty protection is only as good as the quality of service provided under it. The goodwill of the trademark is impaired when purchasers are dissatisfied with poor warranty service. There is also difficulty in assessing what is equal or better warranty protection when many trademark owners exclude certain features from the warranty. Grey market retailers may include some features in their own warranty but exclude an item which the U.S. trademark owner honors when warranting an authorized import. "Disparities between plaintiff's and defendants' performance of warranty work would further confuse the market place as to the standing and meaning of [plaintiff's] mark." Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1169 (S.D.N.Y. 1984).

Most importantly, the U.S. trademark owner has no assurance that the grey market retailer "has the incentive to uphold the reputation of the mark" by "graciously" and "properly" performing warranty service. \textit{Id.; see} Weil Ceramics & Glass, Inc. v. Dash, No. 84-2157, slip op. at 32 (D.N.J. Sept. 12, 1985).

\textsuperscript{181} See \textit{supra} note 6. Assuming the label is conspicuous, unambiguous and is written to educate the consumer to the ramifications of his or her purchase, consumers will be alerted to the existence of authorized and unauthorized identically trademarked goods. However, the Supreme Court has rejected the argument that labeling products to indicate different sources would prevent consumer confusion. \textit{See A. Bourjois & Co. v. Katzel, 260 U.S. 689, 691 (1923) (Court rejected defendant's argument that display of its name, Wertheimer, instead of Bourjois, prevented confusion); Vivitar Corp. v. United States, 761 F.2d 1552, 1564 n.17 (Fed. Cir. 1985) (same), petition for cert. filed, 54 U.S.L.W. 3178 (U.S. Sept. 10, 1985) (No. 85-411). \textsuperscript{182} Some courts addressing this issue have found that the grey market products were of different quality, justifying exclusion. \textit{See}, e.g., Model Rectifier Corp. v. Takachiho Int'l, Inc., 221 U.S.P.Q. (BNA) 502, 503 (9th Cir. 1983); Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1167 (S.D.N.Y. 1984). \textsuperscript{183} See \textit{supra} note 9.

\textsuperscript{184} Some U.S. trademark owners have resorted to offering promotional rebates to purchasers as an attempt to differentiate authorized from unauthorized imports. \textit{See} Jervey, \textit{Grey market' hits camera, watch sales, Advertising Age}, Aug. 15, 1983, at 62.

\textsuperscript{185} The purchaser may be deceived by the retailer that a rebate or U.S. warranty card is in the box with the product, when it is actually a grey market import containing neither
goodwill of the U.S. trademark owner is impaired. Moreover, under this option the present Customs regulations remain intact. Those regulations are inappropriate.\textsuperscript{186}

The third option is to amend section 337 of the Tariff Act of 1930\textsuperscript{187} to provide that after a showing of trademark infringement, the U.S. trademark owner would have to prove only substantial injury to itself rather than substantial injury to the industry in which it participates in order to obtain an exclusion order under section 337.\textsuperscript{188}

Since courts are divided on whether the sale of genuine grey market goods constitutes trademark infringement,\textsuperscript{189} this proposal begs the question. Again, the proposal would leave the present regulations intact. In essence, this remedy leaves the U.S. trademark owner in the position of relying on the inadequate private remedy of section 526(c).\textsuperscript{190}

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{186} See supra Parts I & II.
\item\textsuperscript{187} 19 U.S.C. § 1337 (1982).
\item\textsuperscript{188} See Inside U.S. Trade, supra note 18, at 10. Section 337 provides:
Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful.


As an example of the operation of the statute, the Duracell Corporation, finding itself in competition with batteries manufactured by its foreign subsidiaries and trademarked under foreign law, invoked protection under § 337 on behalf of the alkaline battery industry. The Administrative Law Judge found that although “no violation of Section 337 could be predicated on the ban on trademarked imports contained in Section 526, . . . [because] Section 526 was not intended to apply against imports bearing trademarks legitimately affixed by foreign companies related to the United States trademark owner,” Victor, supra note 133, at 798; see In re Certain Alkaline Batteries, No. 337-TA-165, USITC Pub. No. 1616, at 21 (Intl Trade Comm. 1984) (affirming the Administrative Law Judge’s finding), § 337 could be invoked when the imports fall within those prescribed by § 42 of the Lanham Act. See In re Certain Alkaline Batteries, Inv. No. 337-TA-165 (USITC Aug. 10, 1984), reported at [July-Dec.] Intl Trade Rep. (BNA) No. 9, at 239 (Aug. 29, 1984). This decision was affirmed by the International Trade Commission. See In re Certain Alkaline Batteries, No. 337-TA-165, USITC Pub. No. 1616 (Intl Trade Comm. 1984). However, pursuant to § 337(g), the ITC submitted its determination to President Reagan who rejected the ITC’s position. In re Certain Alkaline Batteries, Inv. No. 337-TA-165 (Jan. 28, 1985), reported at [Jan.-June] Intl Trade Rep. (BNA) No. 5, at 171 (Jan. 30, 1985). Reasons for the rejection included the President’s support of § 133.21 of the Customs regulations, thereby preventing related companies from invoking § 337 as well. See id.


190. See supra note 17 for text of statute and supra Part IIC for discussion.
\end{enumerate}
\end{footnotesize}
The fourth option would allow related companies to exclude the imports after a Customs determination that the imports were not identical to the authorized goods. 191 This option's failure is obvious. It would create a tremendous enforcement burden on Customs and the judiciary. 192 Moreover, the burden of proof would rest with the U.S. trademark owner to show the import's non-identity. 193 Further, this proposal encourages free riding. 194 The proposal invites litigation in which determinations of trademark infringement or unfair competition are made on the basis of minute differences in the product. Finally, the proposal preserves the unjustified distinction between related and non-related companies.

The fifth option would allow importation only if the trademark is removed or obliterated. 195 Although this option provides some protection to the U.S. trademark owner and to goodwill, 196 other problems still exist. First, the goal of this option is to destroy the grey market. This market destruction occurs because many grey market goods are expensive items and consumers would hesitate to purchase a generic brand— they should be entitled to know who manufactured the product. It is therefore likely that many grey market retailers will not find enough purchasers to support their grey market practices. 197 Moreover, some trademarks cannot be removed without destroying or seriously impairing

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191. See Inside U.S. Trade, supra note 18, at 10. Under this option, “identity” would be determined based, inter alia, on shape, taste, color, freshness, composition, trade dress, function, durability, similarity of warranty and availability of repair services. Id.

192. Determinations of product identity based on a myriad of factors, see id., create an administrative monster. As § 526 is presently interpreted, it is “a completely futile, if not impossible task” for Customs to make determinations of international business relationships. Atwood, supra note 9, at 311. A change from determinations of business relationships to also include determinations of identity would make Customs’ job even more burdensome.


194. By allowing the diverter to import and sell what Customs has determined to be an identical product, the proposal implicitly acknowledges and accepts that sale of these imports is facilitated by the free ride the diverters have on the U.S. trademark owners’ promotion, advertisement and service of the manufacturer’s product. See supra note 9.


product. Ultimately, the plain meaning of the statute would govern. If the Administration wishes to enforce the statute, it should do so by direct, rather than indirect methods.\textsuperscript{198}

Assuming the grey market retailers could find a market, avenues for free riding are still available.\textsuperscript{199} Further, obliterating the trademark itself does not change the brand recognition of products that consumers make based on shape, size or construction.\textsuperscript{200} The result would be to convert section 526 actions into actions for unfair competition\textsuperscript{201} and trademark infringement based on trade dress\textsuperscript{202} or increase counterfeiting.

**Conclusion**

The last option is to create a new administrative policy prohibiting grey market goods bearing registered U.S. trademarks unless written consent is provided by the U.S. trademark owner.\textsuperscript{203} This is the position advocated by this Note.

This proposal reflects the literal meaning of the plain language of section 526 by protecting all U.S. trademark owners regardless of their foreign affiliation.\textsuperscript{204} Excluding grey market goods is consistent with current antitrust law because it gives American companies with foreign affiliation the power to exercise the same control over the vertical distribution of their products that their counterparts with domestic manufacturers enjoy.\textsuperscript{205}

The proposal is consistent with modern trademark law because it recognizes the existence of territorial rights and the rights established by the U.S. trademark owner's investment in goodwill.\textsuperscript{206} It alleviates consumer confusion and the resulting denigration of goodwill established by the U.S. trademark owner.\textsuperscript{207} Finally, the proposal respects goodwill by eliminating parasitic free riding.\textsuperscript{208}

Maureen Beyers

[As this issue was going to press, the Supreme Court denied certiorari in *Vivitar Corp. v. United States.* *]

\textsuperscript{198} See infra Conclusion for a discussion of a direct method to enforce the statute.

\textsuperscript{199} See supra note 9. The retailers of grey market products could sell their "generic" products by advertising that their product is made by the same people as the U.S. trademark owner's product: a small variation of the free riding theme. See S. Liebeler, supra note 4; E. Ludwig, supra note 196, at 6.

\textsuperscript{200} E. Ludwig, supra note 196, at 6.


\textsuperscript{203} See Inside U.S. Trade, supra note 18, at 10.

\textsuperscript{204} See supra Part I.B.

\textsuperscript{205} See supra Part II.A.

\textsuperscript{206} See supra note 5 and Part II.B.

\textsuperscript{207} See supra notes 5-7 and accompanying text.

\textsuperscript{208} See supra note 9 and accompanying text.

\textsuperscript{*} 54 U.S.L.W. 3460 (U.S. Jan, 14, 1986), denying cert. to 761 F.2d 1552 (Fed. Cir. 1985).