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The United States Customs Service's Regulation of Grey Market Imports: Does It Preserve the Broad Protections Afforded by Section 526 of the Tariff Act of 1930?

I. Introduction

A trademark serves the interest of the consuming public by allowing consumers to distinguish one company's goods from those of another. A trademark also protects the private interests of the trademark owner by allowing him to benefit from the public's association of the mark with a particular standard of quality. A trademark identifies the origin of ownership of the goods or services to which it is affixed. Identification of the original producer or an exclusive distributor as the source of the goods on which the mark appears entitles the trademark owner to protection against infringement.

In international trade, trademarked goods create difficulties not encountered in the domestic marketplace. When trademarked goods cross national borders, they must continue to identify the source in the international marketplace. The problem of parallel importation and trademark infringement arises when a third party or someone other than the designated exclusive importer imports genuine goods without the trademark owner's authorization. Given the disparities between the domestic price of the good and the price paid abroad, an unauthorized importer will purchase large quantities of the product abroad from the manufacturer at a thirty to forty percent discount.

1. A trademark is a name, symbol, or other device which identifies a product and which is legally restricted to the use of the owner or manufacturer of that product. 15 U.S.C. § 1127 (1982). See infra note 12.


3. The property right that is vested in a trademark is of immense value to the trademark owner, who is entitled to the protection which the highest powers of the courts can afford. Krumholtz, The United States Customs Service's Approach to the Gray Market: Does It Infringe on the Purposes of Trademark Protection, 8 J. Comp. Bus. & Cap. Market L. 101, 103 (1986).

4. "Parallel importation" — also referred to as "grey market importation" — occurs where goods that bear genuine trademarks are manufactured or distributed abroad and then are imported into the United States without the consent of the registered United States trademark owner. Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 433 (1981-82).

5. An "exclusive importer" is one who is specially authorized under a contract with the manufacturer to import marked goods solely for the manufacturer.
Subsequently, the importer will import the goods, sell them at a discount to retailers and consumers, and eventually drive domestic producers who comply with the United States law out of business.

Recent litigation and renewed government regulation have heightened the debate between trademark owners and parallel importers over the degree of protection to be afforded the American mark. The legislative and judicial guidelines have been unclear. Section 526(a) of the Tariff Act and section 42 of the Lanham Act mandate the exclusion of grey market imports. However, the United States Customs Service (Customs) has attempted to narrow this protective legislation. Recent legislation would have codified the Customs regulations in the interest of promoting price competition and insulating consumers from overpriced products. Major opposition to this proposal arose, however, in favor of protecting the interests of United States trademark owners’ investments.

This Comment will evaluate whether the current import regulation of grey market goods is necessary in light of modern trademark theory. Section II gives an overview of the functions of a trademark, discusses registration procedures, and considers the effect of parallel imports in the international marketplace. Section III examines the relevant statutory provisions governing the importation of genuine goods, while Section IV analyzes the recent legislative attempt to codify Customs regulations and the impact this bill would have on the rights of the United States trademark owner as opposed to the consumer’s interests. The Comment concludes by evaluating proposed solutions for relief from parallel imports available to the domestic trademark holder.

II. Acquiring and Protecting Trademark Rights

A. Rights of the Trademark Owner

Selective preference of a particular good or service over a competing one is an integral part of free competition. Manufacturers

9. S. 2614, 99th Cong., 2d Sess., 132 CONG. REC. 89 (1986). The Price Competitive Products Act, as the bill was known, would have codified Customs regulations that deny protection to trademark owners under common ownership. The bill would have recognized independent United States trademark owners having an established reputation and international goodwill, but would have narrowed the broad scope of protection offered by the Tariff Act and The Lanham Act. Id.
10. “Competition” is defined as the act or proceeding of striving for something that is sought by another at the same time; a contention of two or more for the same object or for superiority; rivalry, as between aspirants for honors or for advantage in business. NEW STANDARD DICTIONARY 542 (16th ed. 1946).
must compete to win the consumer's confidence and satisfaction in their product. The quality and presentation of an item placed on the market represents the company's good name. The consumer comes to rely on the manufacturer's reputation as a guarantee of superior quality.\(^1\) In order to safeguard the manufacturer's marketability of his goods or services, he must establish a trademark\(^2\) by which the consumer and competitors can identify his ownership of the particular product.

Through this marketing process, the consumer identifies the trademark with the company's product: A trademark serves the public's interest by providing a means of distinguishing one company's goods from those of another. Simultaneously, a trademark insures the trademark owner's private interests by guaranteeing the owner the benefit of the public's association of the mark with a particular standard of quality.\(^3\)

The "primary and proper function" of a trademark is to identify the origin of ownership of the article to which the mark is affixed.\(^4\) A trademark must distinguish goods from those products of competitors producing a mark. A trademark guarantees consistent quality and, consequently, helps to successfully market commodities.\(^5\) As an indicator of the source and quality of goods, a trademark has traditionally been protected where the trademark owner owns the goodwill.\(^6\) The courts examine both the public's association of a specific trademark to a product and which business maintains control over the trademarked goods.\(^7\)

Protection of a manufacturer's trademark rights may vary in effectiveness, depending on whether the domestic and foreign entities producing the same named product are related or whether they are

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1. Through advertising, quality assurance, and promotional warranties, the manufacturer develops a reputation that the consumer comes to recognize and rely on. This is characterized as "goodwill." Note, The Greying of American Trademarks — The Genuine Goods Exclusion Act and the Incongruity of Customs Regulations, 19 C.F.R. § 133.21, 54 FORD. L. REV. 83, 84 n.5 (1985) [hereinafter Greying American Trademarks]. Goodwill is the favorable consideration shown by the purchasing public to goods known to emanate from a particular source. Id. at 84. It is both a purchasing tool for the consuming public and a business asset for the trademark owner. Goodwill is the benefit acquired by an establishment, beyond the mere value of capital, stock, funds, or property employed therein, in consequence of the general public patronage and encouragement received from constant or habitual customers. See Preventing Importation, supra note 2, at 320 n.35.

2. The Trademark Act provides that "the term 'trademark' includes any word, name, symbol or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others." Lanham Trademark Act of 1946, Pub. L. No. 79-489, § 45, 60 Stat. 427, amended by 15 U.S.C. § 1127.

3. Preventing Importation, supra note 2, at 332.

4. Id. at 315.

5. Id. at 312.

6. Greying American Trademarks, supra note 11, at 84.

7. Preventing Importation, supra note 2, at 333.
operating as independent companies. When a close relationship\(^8\) between the domestic and foreign mark holder exists, the importation of genuine goods\(^9\) does not infringe on the United States registrant's trademark rights,\(^20\) thereby necessitating less trademark infringement protection,\(^21\) whereas an independent United States registrant is able to vary the product quality which demands protection from the importation of inferior goods bearing the same trademark.\(^22\) The consumer relies on the trademark as a guarantee of a particular standard of quality. The grey market items most likely to deceive or confuse consumers as to the source of the merchandise will be prohibited from sale.\(^23\)

Trademarks enable the purchaser to distinguish between the goods of competing producers and to choose between these goods based upon the differences in manufacturer quality.\(^24\) Consumer awareness consequently forces competing producers to produce superior products in order to retain their marketability in a highly competitive economy.\(^25\) Trademark protection of these superior products is necessary for producers to maintain consumer confidence and retain their profits and position in the marketplace.

**B. Acquiring Ownership of a Trademark**

In the United States, trademark rights are acquired solely through use of the mark on goods in the marketplace. Priority is afforded to the first user of the mark on the product.\(^26\) To establish ownership rights, arrangements for an early sale of the trademarked product should be made. The trademark must first be used in com-

18. Under Customs regulations a "close relationship" is categorized as either a parent/subsidiary or foreign and domestic companies with common ownership. Importations Bearing Recorded Trademarks or Trade Names, 19 C.F.R. § 133.21 (1985) [hereinafter Importations].

19. A product that bears a "genuine" trademark, also referred to as a "genuine good," is one that is not an unauthorized simulation or counterfeit, but rather is an original product. Krumholtz, supra note 3, at 101.


21. Contra Krumholtz, supra note 3, at 111. However, by denying protection to trademark owners who are related to their foreign counterparts or who have consented to the use of their mark in the foreign marketplace, the regulations fail to recognize that a separate and independent goodwill may have been established by the domestic mark owner, regardless of its affiliation with the foreign registrant. Id.


23. See, e.g., Yale Electric Corp. v. Robertson, 26 F.2d 972 (2d Cir. 1928) (enjoining use of Yale trademark by maker of flashlight and batteries not holding trademark).  


25. Id.

26. J.T. McCarthy, TRADEMARKS AND UNFAIR COMPETITION 571-72 (1973). To acquire trademark ownership, one must actually use the mark in the sale of goods and services. No rights accrue to one who merely selects a trademark without use of it in the advertising or sale of goods. Id. at 572.
merce in the United States.\textsuperscript{27} Despite the absence of a registration requirement prior to the product's sale, it is advisable to register the marks with the Patent and Trademark Office to guarantee sale ownership rights and discourage infringement.\textsuperscript{28}

In registering the trademark, the applicant must first establish convincing evidence of actual lawful use of the trademark in conjunction with the goods or services.\textsuperscript{29} Registration in the Patent and Trademark Office offers numerous benefits. It gives notice to other competitors of trademark use, creates a presumption of ownership, offers exclusive use rights, and may be used as the basis for obtaining registration in foreign countries.\textsuperscript{30} United States registration serves as a declaration of one's ownership rights.

Trademarks may be rejected by the Patent and Trademark Office for various reasons. Marks may be rejected as being contrary to public policy,\textsuperscript{31} an invasion of another's right of privacy,\textsuperscript{32} or likely to cause confusion with other marks or trade names.\textsuperscript{33} Descriptive words, deceptively misdescribed words, geographical names, and surnames also are prohibited marks.\textsuperscript{34} Applications for registration of a

\begin{itemize}
  \item \textsuperscript{27} The Lanham Act requires that an application for trademark registration include "a statement to the effect . . . that the mark is in use in commerce." Lanham Trademark Act of 1946, Pub. L. No. 79-489, § 45, 60 Stat. 427, amended by 15 U.S.C. § 1127 (1982). "Commerce" can mean either interstate or foreign commerce. I J.T. McCarthy, supra note 26, at 720.
  \item \textsuperscript{28} 1 J.T. McCarthy, supra note 26, at 574. A trademark registration on the federal Principal Register is at least prima facie evidence of the registrant's ownership and exclusive right to use of the mark. Id. For a discussion of the Principal Register, see infra note 35.
  \item \textsuperscript{29} Id. Registration on the federal Principal Register is also prima facie evidence of a continual use of the mark, dating back to the filing date of the application. Id. If a registrant later claims that usage of the mark began prior to the filing date, such usage must be supported by "clear and convincing evidence" (i.e. not characterized by contradictions, vagueness, or inconsistencies). Id. at 800.
  \item \textsuperscript{30} Id. at 600-01.
  \item \textsuperscript{31} Registration of a mark is absolutely prohibited if it consists of or comprises: a) immoral matter, b) deceptive matter, c) scandalous matter, d) matter which may disparage or bring into contempt or disrepute or falsely suggest a connection with persons (living or dead), institutions, beliefs, or national symbols, or e) the flag, or coat of arms or other insignia of the United States, any state, any municipality or any foreign nation or any simulation thereof. See Lanham Trademark Act of 1946, Pub. L. No. 79-489, § 2(a), 60 Stat. 427, amended by 15 U.S.C. § 1052 (1982).
  \item \textsuperscript{32} The right of privacy is the fundamental right to be left alone. This is the basis of the statute's inclusion of a prohibition against registration of a mark which consists of or comprises a name, a portrait, or a signature identifying a particular "living" individual except by his or her written consent. Lanham Trademark Act of 1946, Pub. L. No. 79-489, § 2(b), 60 Stat. 427, amended by 15 U.S.C. § 1052 (1982).
  \item \textsuperscript{33} The statute prohibits registration if a mark consists of or comprises matter or features which so resemble a mark previously used in the United States by another trademark owner (and not abandoned) as to be likely to cause confusion or mistake or to deceive purchasers. In determining whether there are confusing similarities between two marks, the courts must consider a) whether the newly adopted mark looks like, sounds like, or conveys a meaning similar to a mark already registered or used in the United States, and b) whether the products of the parties are so alike that a consumer might expect that they come from the same business. Lanham Trademark Act of 1946, Pub. L. No. 79-489, § 2(d), 60 Stat. 427, amended by 15 U.S.C. § 1052 (1982).
  \item \textsuperscript{34} The common descriptive name of the product (also known as the generic term) can
trademark can be made on the Principal and Supplemental Registers. Registration rights on both the Principal and Supplemental Registers are granted for twenty years, subject to a sworn declaration by the trademark owner that the trademark is still in use after its sixth year. Registration may be renewed indefinitely for an additional twenty year period, provided that the mark is still in use at the time of renewal.

The trademark registration procedure in United States differs from the establishment of trademark rights in foreign countries. In many countries, trademark rights arise at common law through use, but enforceable rights in court are derived from registration of the trademark prior to its use. An individual or company located outside the United States may obtain a registration, provided the mark is being used within the commerce of the respective country. The mark sought to be registered must meet the standard rule of registrability of the particular country. Furthermore, the individual or corporation seeking the registration must be a resident of that country. A foreign producer must file an application in most foreign countries prior to actual use to register a trademark. The registration procedures in foreign nations afford initial protection to the regist-

never function as a trademark and, thus, cannot be registered. A term that misdescribes the product in connection with which it is used may be registrable upon proof of a secondary meaning. Geographical names may be used without restriction at least by all whose business is located within that particular locality. A geographical name that primarily indicates a place of production may not be registered by any one person. Names which are primarily surnames may not be registered because others having the same surname are entitled to use it. As with descriptive terms and geographical names, however, surnames may be used exclusively by one person so long as it is to acquire a secondary meaning in connection with a specific product. Lanham Trademark Act of 1946, Pub. L. No. 79-489, § 2(e), 60 Stat. 427, amended by 15 U.S.C. § 1052 (1982).

35. E.C. VANDENBURGH III, TRADEMARK LAW AND PROCEDURE 310 (1942). The Principal Register provides constructive notice of the registrant's claim of ownership of the mark shown in registration. When a mark is registered on the Principal Register, no one may commence using an identical or confusingly similar mark and assert lack of awareness of the mark's unavailability. Registration on the Principal Register also provides evidence of the validity of registration, the registrant's ownership, and his exclusive right to use the mark. This registration may be used as the basis of obtaining registration in any foreign country which by treaty or law affords reciprocal privileges. Id. at 312.

36. The Supplemental Register is comprised of words, phrases, surnames, geographical names, slogans, labels, numerals and those that did not meet the Act's requirements for registration on the Principal Register. Although registration on the Supplemental Register does not provide constructive notice of a claim of ownership, it may still be used as a basis for obtaining registration in foreign countries. Id. at 313.


39. See supra note 27.

40. "If the applicant is not domiciled in the United States he shall designate by a written document filed in the Patent and Trademark Office the name and address of some person resident in the (country) on whom may be served notices or process in proceedings affecting the mark . . ." Lanham Trademark Act of 1946, Pub. L. No. 79-489, § 1(d), 60 Stat. 427, amended by 15 U.S.C. § 1051 (1982).
trant by preventing others from simultaneously using a similar mark. This sharply contrasts with United States procedures, which afford no protection until use is established.

C. Grey Market Importation

Regardless of a country’s registration procedures, the problem of parallel, or “grey market,” importation exists to varying degrees in many countries. Grey market importation occurs where identical or similar trademarked products are distributed through exclusive national distributors in different countries, and where one or more of those countries do not enforce the domestic distributors’ exclusive trademark rights against products coming in from other countries. “Grey market importers” are unauthorized distributors who purchase trademarked products from distributors, wholesalers, or retailers in one country and ship these products to wholesalers or retailers in another country. These unauthorized, imported goods bear the trademark owner’s name and reputation but they are not distributed through licensed channels. The grey market importer sells the product for a tremendous profit, of which the trademark owner and the authorized distributor see none. Thus, the authentic trademark owner is deprived of the goodwill established through the public’s association with the trademark.

Manufacturers distribute trademarked goods through one or two national distributors, rather than through numerous competing distributors, in each country. This gives distributors adequate incentive to promote their brands in competition with other manufacturers’ products. Exclusive distribution of a trademarked item guarantees to each distributor the profits from marketing investments. Where the distributor is an exclusive licensee and not the trademark owner, the foreign and domestic operations are characterized as a single entity under “common ownership.” Customs does not protect an entity under common ownership from any unauthorized importation of the entity’s own genuine goods. Grey market goods are to be excluded, however, when: (1) an American distributor owns the

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42. Importations, supra note 18, at § 133.21(c). “Common ownership and control” are defined in the Customs regulations as follows:
   (a) “Common ownership” means individual or aggregate ownership of more than fifty percent of the business entity; and (b) “Common control” means effective control in policy and operations and is not necessarily synonymous with common ownership. One justification for Customs’ approach is that when a close relationship between the domestic and foreign markholders exists, the importation of genuine goods does not infringe upon the U.S. registrant’s trademark rights.

Trade-mark Infringement, supra note 20, at 567.
trademark right in the distributor's own name, (2) an independent goodwill has been established, or (3) the American entity is independent from the foreign trademark owner. The problem of parallel importation is handled differently in some foreign countries.

In Japan, the owner of either a trademark or an exclusive use right may demand that the Customs Bureau there exclude imported goods which infringe the owner's trademark right. The Customs Duties Act of Japan prohibits the importation of goods that would infringe a domestic patent, utility model, industrial design, trademark, or copyright. Neither Japan's Trademark Law nor its Customs Duties Act, however, expressly prohibits parallel importation of genuine goods. As in the United States, Japanese law permits parallel importation by third parties if the domestic trademark owner also holds the foreign trademark and supplies goods to the parallel importer or if the domestic and foreign trademark owners are considered to be the same entity.

In the European Economic Community (EEC), member nations are signatories to a charter document known as the Treaty of Rome. This document generally prohibits any agreements between enterprises that are likely to restrict competition within the EEC's Common Market. The unification of trademark law within the Common Market started in the 1960s. Although trademark law never has developed into effective law in the Common Market, the EEC's Commission has worked for trademark law regulations to promote competition and free movement within European countries. The Commission has created provisions providing that a trademark owner may not prohibit the use of the trademark for goods put into the market by himself or with his consent. Most of the Commission's proposals generally recognize the lawfulness of parallel importation.

43. Importations, supra note 18, at § 133.21(c).
44. Takamatsu, supra note 4, at 440.
45. Kanzei Teiritsu ho, Law No. 54 of 1901.
46. Takamatsu, supra note 4, at 440.
47. Shohyo ho, Law No. 127 of 1959.
48. Takamatsu, supra note 4, at 440.
49. Treaty of Rome, Mar. 25, 1957, 298 U.N.T.S. 3. The EEC, also known as the European Common Market, is an economic union comprising Belgium, France, Italy, Luxembourg, The Netherlands, and West Germany. It is organized in a federal system similar to that of the United States. The four main institutions in the EEC are: (1) the Commission (executive branch); (2) the Council of Ministers; (3) the European Parliament; and (4) the Court of Justice. The nine members of the Commission are unanimously appointed by the governments of the six nations and cannot accept instructions from governments or any national interests. The Commission makes administrative proposals to the Council, which then takes a majority vote on each proposal. The Commission and Council have headquarters in Brussels, Belgium. 6 WORLD BOOK ENCYCLOPEDIA 322 (1967).
50. See Takamatsu, supra note 4, at 447.
51. Id. at 451 n.105.
52. Id. at 451.
53. Id.
importation. 54

The parallel importation industry is a narrowly regulated industry in both Japan and the EEC, whereas, in the United States, it is a major concern to trademark owners. To some extent, the legality of parallel importation depends on the facts. Generally, the exercise of one's domestic trademark rights in an attempt to block parallel importation will be denied if the rights are held by one person or if the domestic and foreign trademark owners are related.55 On the other hand, a domestic trademark owner will be more likely to succeed in a block of parallel importation if the domestic and foreign trademark owners are unrelated and both trademarks have been acquired independently.56 Furthermore, whereas a foreign registrant receives only protection against the counterfeits of his mark, an independent domestic firm is afforded more extensive protection against the genuine mark under the Lanham Act.57 A United States trademark assignee can sue a foreign assignor for either a breach of contract or unfair competition. It appears, however, that a United States registrant is powerless to stop a third party not subject to any contractual agreement from importing the genuine product.58 Nevertheless, legislative treatment of parallel importation does provide a skeletal form of relief for the United States registrant.59

54. Id. at 452.
58. It is often difficult for a trademark owner to police illegal importation of his products into the United States. Some courts have indicated that even an American distributor, although not the owner of the trademark in the United States, may also be protected from parallel importation on the basis of prohibitions against unfair competition or unlawful interference with contractual relations. Parallel importation itself, however, does not constitute unfair competition unless such importation of genuine goods confuses or deceives the public. Takamatsu, supra note 4, at 438.
59. The Tariff Act of 1930, the primary statute which addresses the problem of parallel imports, provides:

It shall be unlawful to import into the United States any merchandise of foreign manufacture which bears a trademark owned by a citizen of, or a corporation or association created or organized within, the United States, and registered in a specific manner unless written consent of the owner of such trademark is produced at the time of making entry.

D. The Advantages and Disadvantages of Parallel Importation

The fundamental issue surrounding parallel imports is whether a United States trademark owner and manufacturer can exclude imported goods which bear its trademark but are imported by unauthorized sources. American companies argue that the confusion and deception caused by the unauthorized importation of these genuine goods seriously injures business in ways which demonstrate trademark infringement. Trademark owners claim that grey market goods take a "free ride" on the American trademark owner's advertising and warranty operations. The infringer further benefits from the resulting reputation and goodwill associated with the trademark in the United States.⁶⁰

On the other hand, grey market importers emphasize their ability to offer to the consumer the same item at a decreased cost.⁶¹ This promotes price competition, while the exclusion of grey market goods represents the enforcement of anticompetitive policies by the American private sector. This situation creates an American monopoly within particular industries.

True price discrimination is possible only when three market conditions are present. First, a seller-manufacturer must enjoy a monopoly, or a substantial degree, of market power. Price discrimination implies that the trademark owner charges a price greater than the market costs. Second, there must be two or more distinct groups of consumers, foreign and domestic, whose demands for the product differ in relation to price. Third, trade between purchasers of the higher-priced and lower-priced goods must be restricted in some way.⁶² Otherwise, trade between two consumer groups will erode the higher price in the same manner as competition from sellers of rival products.⁶³

⁶⁰ United States trademark owners complain that sales outside the authorized distribution chain result in lost prestige, which impairs the trademark's goodwill and diffuses their promotional efforts. Victor, supra note 59, at 790. See also Atwood, supra note 57, at 301.

⁶¹ Victor, supra note 59, at 791.


⁶³ Coalition to Preserve the Integrity of American Trademarks, Comments to the United States Customs Service, Department of the Treasury 9 (October 20, 1986) (available from the law firm of Covington and Burling, Washington, D.C.) [hereinafter COPIAT Comments]. The Comments were in response to a proposed Treasury Department regulation on the grey market issue. See Importations Bearing Recorded U.S. Trademarks; Solicitation of Public Comment on Gray Market Policy Options, 51 Fed. Reg. 22,005 (proposed June 17, 1986).
A second argument maintained by trademark owners is the "free riding" by grey market importers of the domestic marketing investments of national distributors and their wholesalers and retailers. The total costs of brand named products processed through exclusive distributors tend to be the marketing costs incurred by intermediaries between the manufacturer and the ultimate consumer. The purpose of exclusive distribution is to give distributors incentives to make adequate marketing investments. Increased consumer demand will result where national distributors make large investments in marketing trademarked products. Unfortunately, this will create more opportunities for grey market importers as well.

An unauthorized distributor of a trademarked product typically makes two types of investments in promoting it. One type of investment consists of brand advertising. Brand advertising informs retailers of the brand's features through trade publications. These investments do not directly affect the quality of the product, but they do provide consumer information. A second type of trademarked product investment is quality promotion, whereby expenditures are made to improve the product's market reputation by enhancing its quality. Through careful inspection, handling, inventory control, careful selection of retailers and a provision of warranty, the manufacturer-trademark owner exercises a degree of quality control upon which the consumer relies.

Grey market importers benefit from both types of marketing investments because their products bear the same trademarks as the products of authorized distributors, thereby profiting from the brand's current market reputation by thriving on the public's association with the product. They have neither the facilities nor the

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64. "Free riding" occurs when a United States trademark owner, having established an independent goodwill for its mark, is injured by the grey market importer. If the grey marketer imports goods of an inferior quality or of a style that fails to meet the consumer's demand, it will cause confusion and, inevitably, injury to the national goodwill for the product. Krumholtz, supra note 3, at 107. See also supra note 11 and accompanying text. This "free rider" phenomenon deprives the United States trademark owner of goodwill benefits to which it is legally entitled. Krumholtz, supra note 3, at 107.

65. COPIAT Comments, supra note 63, at 10. Marketing costs include expenditures on brand advertising and promotion, quality control, product inspection, handling, inventory management, retail displays and retailer training, and warranty and service programs. Id.

66. An increased consumer demand for a trademarked product, due to substantial expenditures in marketing, will result in a larger degree of grey market imports. The incentive of high profits and the low overhead in importation gives grey market importers a free ride on the distributors' marketing investments. Id.

67. See E.C. Vandeburgh III, supra note 35, at 310. See also COPIAT Comments, supra note 63, at 17.

68. COPIAT Comments, supra note 63, at 17.
69. Id. at 18.
70. Id.
incentive to uphold the "goodwill" of a trademark owner. Consequently, the exercise of quality control is not important to grey market importers. Therefore, their unauthorized importation of trademarked, inferior goods deceives the public into assuming that the purchased product derives from the trademarked source, which represents past assurances of reliability and good quality.

The sale of inferior quality grey market imports is harmful to the United States economic welfare. Discount retailers, grey market importers, and, often, consumers argue that these imports prevent monopolization of the industry and encourage price competition. Grey market importers maintain less incentive, however, to invest the time and effort into market advertising and quality control. Consumers are harmed when they purchase products whose quality is less than they reasonably anticipated and for what they paid. The United States authorized distributor is also harmed by lost sales due to an injured market reputation caused by the flood of inferior products incorrectly associated with the legitimately trademarked products. This can lead the authorized distributors to reduce their future expenditures on promoting and improving the product, to the further detriment of the consumers. 71

III. Legal History of Parallel Imports in the United States

The present legal status of grey market goods is unclear. The statutes protecting the trademark owner's rights appear to offer broad protection against grey market imports and trademark infringement. However, Customs regulations which implement those statutes include exceptions which expressly deny such protection to the trademark owner. 72 Section 526(a) of the Tariff Act of 1930 states that if a registered United States trademark that is owned by an American citizen, corporation, or association is recorded with Customs, the importation of foreign produced goods bearing that trademark is unlawful without the United States trademark owner's written consent. 73 Similarly, section 42 of the Lanham Act of 1946 provides that "no article of imported merchandise . . . which shall copy or simulate a registered trademark shall be admitted to entry at any custom house of the United States." 74 Despite the statutes' clear intent to protect the trademark owner, the Customs regulations deny protection to American companies under common ownership or con-

71. Id. at 19.
72. Victor, supra note 59, at 791.
trol with the foreign manufacturer of trademarked goods. Protection is also denied if the goods are trademarked abroad with the consent of the owner. In response, United States trademark owners have challenged the Customs regulations by urging implementation of the plain meaning of section 526. On the other hand, the Customs Service argues that the regulations prevent price discrimination against American consumers. The legislative history of section 526 supports Customs' position. Courts confronted with the grey market problem, however, oscillate between these two points.

Prior to the enactment of section 526, goods that bore a genuine trademark—genuine goods—were not excluded by Customs because importation and sale of such goods did not constitute trademark infringement under section 27 of the Trade-Mark Act of 1905. Congress enacted section 526 to prohibit the unauthorized importation of goods bearing a registered mark. Section 42 of the Lanham Act operates in conjunction with section 526 to limit trademark infringement of imported goods.

Congress' enactment of section 526 was prompted by the Second Circuit Court of Appeals decision in A. Bourjois & Co. v. Katz. In this case, the plaintiff had purchased the American business and trademark rights to "Java," a French face powder, from the French manufacturer. The defendant then purchased some Java in France, transported it to the United States, and re-sold it under the "Java" trademark. The federal trial court issued a preliminary injunction barring the defendant's actions. On appeal, the Second Circuit reversed the issuance of the injunction, reasoning that importation of genuine goods could not constitute infringement of a United States trademark.

In an opinion delivered by Justice Holmes, the United States Supreme Court reversed the Second Circuit and ordered the reinstatement of the district court's injunction in favor of the plaintiff, Bourjois. Justice Holmes noted that three reasons supported a conclusion that the plaintiff had proven trademark ownership. First,

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75. See Importations, supra note 18, at § 133.21(c).
76. See Trade-Mark Act of 1905, Pub. L. No. 58-84, § 42, 33 Stat. 724 (1905) (current version at 15 U.S.C. § 1124 (1982)). This section provided in part: "No article of imported merchandise shall copy or simulate . . . a trademark registered in accordance with the provisions of this Act [and] shall be admitted to entry at any custom-house of the United States . . . " Id. at 730. Before the enactment of section 526, courts denied use of a United States trademark to exclude imports if the importer legitimately acquired the genuine goods abroad. Takamatsu, supra note 4, at 434.
77. 274 F. 856 (S.D.N.Y. 1920), rev'd, 275 F. 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923).
78. Katz, 274 F. at 857.
79. Id. at 858.
80. Id. at 860.
81. Katz, 275 F. 539, 543 (2d Cir. 1921).
Bourjois had purchased the French film’s trademarks and had developed a goodwill, thus making his company the new source of the face powder.\(^8\) Second, consumers perceived that the goods originated from Bourjois.\(^4\) Finally, Bourjois had staked his company’s reputation on the quality of the face powder, leading consumers to rely on the “Java” trademark as an assurance of quality.\(^8\) Employing a “territoriality” concept of trademark rights,\(^6\) the Court determined that the use of a mark which correctly identifies the origin of the goods may infringe nonetheless upon the American owner’s trademark rights.\(^7\)

Even before the Supreme Court’s reversal of the 1921 Court of Appeals decision in Katzel, Congress took action to clarify its position by passing the Tariff Act of 1922,\(^8\) which contained the controversial section 526. The support for this section was premised on the belief that those who purchase both the American trademark and the goodwill of foreign manufacturers deserve protection. Without such protection, it was thought that a foreign manufacturer would be unable to compete in the United States market.\(^8\) The statutory language expanded the facts of Katzel by prohibiting all imports of foreign-made goods bearing trademarks owned by American citizens, corporations, and associations without regard to (a) the relationship or past dealings between the United States trademark owner, the foreign manufacturer, and a possible parallel importer, or (b) actual infringement of the trademark. The legislative history of section 526, however, “plainly indicates an intent only to protect the property rights of American citizens who have purchased trademarks from foreigners[,]” as in Katzel.\(^9\)

The controversy surrounding section 526 has oscillated between two positions: the plain and broad application excluding all grey market goods and the narrow application to factual situations similar to Katzel. The Government seriously began attempting to limit the trademark protection afforded under section 526 during the 1950s. In 1953, Customs adopted a regulation which denies United States

\(^{83}\) Id. at 692.  
\(^{84}\) Id.  
\(^{85}\) Id.  
\(^{86}\) “Territoriality” recognizes the separate legal existence of a trademark under each country’s laws, symbolizing the domestic goodwill of the domestic trademark owner. The territoriality of trademark rights is grounded in the “sovereignty of nations” doctrine as well as in the view that trademark rights arise out of use of the mark in a particular geographic market. Greying American Trademarks, supra note 11, at 106-108. See also Victor, supra note 59, at 793. See generally E.C. Vandenburgh III, supra note 35.  
\(^{87}\) Katzel, 260 U.S. at 690.  
\(^{88}\) Tariff Act of 1922, ch. 356, 42 Stat. 858 (current version at 19 U.S.C. § 1526(a) (1982)).  
\(^{89}\) Greying American Trademarks, supra note 11, at 83.  
\(^{90}\) Preventing Importation, supra note 2, at 323-24.
REGULATION OF GREY MARKET IMPORTS

trademark owners the right to prevent trademarked importations if the United States and foreign trademarks are owned by related companies.91

In conjunction with the Customs Bureau's administrative attempt to narrow the broad protections of section 526, the Department of Justice, in United States v. Guerlain, Inc.,92 brought actions against three American cosmetic companies that relied upon section 526 to exclude unauthorized importations of toiletries manufactured and sold by their associated foreign companies.93 The Department of Justice found the cosmetic companies' procedure to be anticompetitive since all channels of trade were controlled by an international enterprise. In the district court, the Department of Justice successfully proved that the defendants' actions violated the Sherman Act94 by monopolizing or attempting to monopolize the goods sold under the trademark.95 The defendants appealed to the Supreme Court, where the judgment was vacated at the request of the Justice Department.96 This unusual request was based in part on a desire to propose legislation to remedy a perceived misuse of section 526 by international enterprises to monopolize the United States market.97 However, the Solicitor General conceded that Customs' practice was originally designed to permit the exclusion of goods bearing trademarks affixed by companies related to United States trademark owners. He proposed that the conflict between the protection of trademarks provided for under section 526 and the antitrust

91. Importations, supra note 18, at § 133.21(c).
93. The defendants were Guerlain, Inc., Parfums Corday, Inc., and Lanvin Parfums, Inc. They marketed trademarked toiletry goods which were known for their quality and relatively high price. Each of the American companies was closely associated with a French company that originated the products' trade names. The goods that were sold in the United States by the defendants were obtained from the French companies in packaged form ready for sale, or in bulk and bottled in the United States, or compounded in the United States. These products then would be sold in the United States under trademarks identical with those used by the French companies, thereby advertising the prestige factor of origin with Parisian perfumers. Guerlain, 155 F. Supp. at 79.
94. Sherman Act, 15 U.S.C.A. § 2 (West Supp. 1987). This section currently provides that "[e]very person who shall monopolize, or attempt 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.
95. Guerlain, 155 F. Supp. at 87-88. The district court emphasized that the trademarks registered by the defendants in the United States indicated that the goods came from France rather than from the defendants — the true source. Consequently, the court concluded that parallel importation would not deceive the public about either the authenticity or origin of the goods. Id. at 81-82.
97. The Justice Department's motion to vacate was also based on a conflict with the Customs Service regarding the application of section 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 id.
considerations of Guerlain was best resolved by Congress.\footnote{Victor, supra note 59, at 795.}

As a result of the Guerlain case, Customs expressly went to the more limited exception of allowing importation without consent only if the “same entity”\footnote{See supra note 18 and accompanying text; see also Atwood, supra note 57, at 307.} owned the trademark right here and abroad. In 1972, Customs regulations were revised in order to limit the perceived anticompetitive effects of section 526. The current regulations not only contain the “same entity” limitation but also exclude from statutory protection all United States trademark owners who have either foreign common ownership, parent/subsidiary relationships with foreign companies,\footnote{Importations, supra note 18, at § 133.21(c)(2). An application to record a trade name must include “the identity of any parent or subsidiary company, or other foreign company under common ownership or control which uses the trade name abroad.” Id. at § 133.21(c)(3).} or licensed foreign manufacturers.\footnote{Id. at § 133.21(c)(3).}

Over the years, Customs’ inconsistent interpretation of section 526 has carried varying degrees of authority in the courts.\footnote{See Vivitar Corp. v. United States, 593 F. Supp. 420 (Ct. Int’l Trade 1984), aff’d, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, 106 S. Ct. 791 (1986) (Customs’ regulations are given little deference). But see Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (Customs Service is entitled to “substantial deference”).} Customs allowed the importation of genuine goods from 1923 to 1936 and from 1959 to 1972, regardless of any relationship between the United States trademark owner and the foreign manufacturer, but prohibited importation during the years 1936 to 1959 and from 1972 to the present.\footnote{Greying American Trademarks, supra note 11, at 101.}

By the early 1980s, the grey market continued to grow due to the increased value of the American dollar and the decrease in prices abroad. United States trademark owners began to feel the effects of an increased rate of unauthorized importations of genuine goods and sought to prevent further expansion. Varied forms of prevention have led to inconsistent applications of section 526 of the Tariff Act and section 42 of the Lanham Act.

In \textit{Bell & Howell: Mamiya Co. v. Masel Supply Co.},\footnote{548 F. Supp. 1063 (E.D.N.Y. 1982), vacated, 719 F.2d 42 (2d Cir. 1983).} the Eastern District Court of New York preliminarily enjoined the importation and sale of unauthorized Mamiya trademarked cameras. The court ruled that United States trademarks operate under the “territoriality” concept.\footnote{Id. at 1073. See also supra note 86 and accompanying text.} The public associated Mamiya cameras with the American distributor rather than with the Japanese manu-
manufacturer. The district court held that those grey market products could cause confusion and damaged the reputation and goodwill developed by the American distributor. The judge did not apply the Customs regulations allowing grey market imports under section 526 because the American distributor was not a related party to the producer of the grey market cameras. The injunction was vacated by the Second Circuit for two reasons. First, the district court judge had found a likelihood of irreparable injury merely from the likelihood of consumer confusion between authorized and grey market goods. Second, the United States trademark owner had failed to present sufficient evidence that it would suffer actual economic injury if the grey market imports continued.

The plaintiff in Mamiya, under the new name "Osawa & Co.,” then filed for an injunction in the Southern District Court of New York against the discount camera dealers who were violating the Customs regulations by importing Mamiya cameras without Osawa’s authorization. The Court granted the plaintiff a preliminary injunction, concluding that the Customs Service may have exceeded its authority in promulgating regulations pertaining to the importation of trademarked goods. Referring specifically to the provisions denying exclusion orders where the domestic and foreign trademark owners are under common control or ownership, the court stated that section 526(a) “contains no suggestion that the right of the U.S. markholder to receive the statute’s benefits depends on the subtle variations in its relationship with the foreign markholder.” The court added that, while Customs’ regulations appeared to represent an effort to implement its perception of antitrust policy, nothing in section 526(a) suggests that Congress conferred authority on the Customs Service to condition the statutory benefits on Customs’ own analysis of antitrust policy.

Customs’ narrow interpretation of section 526 was rejected in both the Mamiya and the Osawa cases. By limiting protection under

107. See Importations, supra note 18, at § 133.21(c).
108. 719 F.2d 42, 42 (2d Cir. 1983).
110. Osawa satisfied the prerequisites for a preliminary injunction by proving that customer confusion, damage to reputation, and a deteriorating effect on business had caused irreparable harm, thus tipping the balance of hardships in its favor. Id. at 1165, 1168, 1170.
111. The court felt that this question need not be decided in view of Customs’ grant of an exclusion order to Osawa. Id. at 1177.
112. Id.
113. Id. at 1177. The court questioned the wisdom of the regulations by stating that antitrust questions are far too complex to be reasonably decided on the basis of the short Customs questionnaire on corporate ownership. Id. The court also observed that there are other remedies to antitrust violations. Id. at 1178. One author agrees that the regulations appear to be oriented toward antitrust, but that Customs really is following the statutory language and not ruling on antitrust principles. See Atwood, supra note 57, at 309.
section 526 and section 42 to independent United States trademark registrants, Customs' regulations fail to protect the investment made by a mark owner who maintains a business relationship with its foreign counterpart. The regulations' failure to incorporate this principle of territoriality could be of substantial consequence to American consumers.114

Although consumers pay less for grey market products, such activity serves public interest for only a short time.116 Continued parallel importation eventually creates reduced marketing investments; therefore, businesses will lose the incentive to invest time and money in establishing or maintaining their own goodwill.116 As a result, consumers will be confused and misled as to the source of the trademarked product.117 Consumer loyalty will decrease as the manufacturer loses incentive to maintain a high level of quality.

The antithesis of this view is found in Vivitar Corp. v. United States.118 The Court of International Trade (CIT) rejected Vivitar's claim that section 526 provides a trademark owner with the right to exclude grey market imports. It concluded that section 526 contains a special remedy to protect only American businesses that purchase foreign trademarks from imports that violate their trademark rights.119 The CIT held that Customs' denial of protection to Vivitar was justified because Vivitar had authorized the foreign application of the mark.120

The United States Court of Appeals affirmed the CIT although on a narrower basis. The Federal Circuit reasoned that Customs' regulations have no effect on a trademark owner's right to obtain a judicial remedy for trademark infringement and so were not invalid for reducing the scope of a United States trademark owner's protec-

115. Batteries, supra note 114, at 3-4.
116. Although certain post-importation remedies are available, the trademark owner may not always be able to take advantage of the relief they provide. See supra note 33. Moreover, this relief usually is obtained only after a lengthy judicial or administrative proceeding. Batteries, supra note 114, at 9.
118. 593 F. Supp. 420 (Ct. Int'l Trade 1984), aff'd, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, 106 S. Ct. 791 (1986). Vivitar Corp., owner of the Vivitar trademark in the United States, licensed foreign manufacturers to apply its trademark to photographic equipment. Vivitar's wholly-owned subsidiaries held licenses to market this equipment, but only outside of the United States. Vivitar, 761 F.2d at 1556. Parties unrelated to Vivitar were importing into the United States goods manufactured by Vivitar's foreign licensees and bearing the Vivitar trademark without the written consent of Vivitar. Vivitar sought a declaratory judgment from the Court of International Trade (CIT) that the United States Customs Service must exclude these unauthorized imports. Vivitar, 761 F.2d at 1556.
120. Id. at 431.
The court of appeals expressed a reluctance to change the complete inclusion of grey market goods in the United States market to total exclusion, asserting that, though Customs was probably wrong, trademark owners should bring private court actions to enforce their rights instead of attempting to compel Customs to enforce them at the border. The appellate court concluded by stating that the determination of grey market violations of section 526 should be decided on a case-by-case basis.

Both the Osawa and the Vivitar cases involved the rights of United States trademark owners and their ability to police these rights in the foreign importation of their trademarked goods. The Vivitar case concentrated solely upon the interpretation of section 526, whereas Osawa was based primarily upon the court's perception of trademark law. However, the basic issue in both cases was the scope and meaning of the trademark right in international trade.

A trademark is intended to assure the public that the goods it purchases are the goods associated with the affixed trademark, thereby protecting the business goodwill of the United States trademark owner. When Customs Service regulations permit the unauthorized importation of goods manufactured by authentic trademark owners' foreign subsidiaries, section 526 of the Tariff Act, governing importation of merchandise bearing American trademarks, has been violated.

In Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, the plaintiff, a trade association of companies owning American trademarks, challenged the validity of the Customs regulations permitting grey market imports. The district court held that the regulations were valid, stating that an administrative agency's interpretation and application of a particular statute is "presumed to be correct and consistent with Congressional intent" when Congress, having knowledge of the agency's position, "either amends the statute without affecting the administrative practice or refuses to act at all[]." The court of appeals reversed the judgment of the district court and remanded the case with instructions to issue a declaratory judgment that the Customs regulations are unlawfully contrary to Section 526 of the Tariff Act.

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121. Vivitar, 761 F.2d at 1569.
122. Id. at 1558.
123. Id. at 1570.
124. It has been urged that parallel importation is not a trademark problem at all. See Vandenburgh, The Problem of Importation of Genuinely Marked Goods Is Not a Trademark Problem, 49 TRADE-MARK REP. 707, 714 (1959).
126. COPIAT, 598 F. Supp. at 845, 852.
127. COPIAT, 790 F.2d at 918.
appellate court determined that the regulations were inconsistent with the plain meaning of section 526. 128 In contrast to Vivitar, the COPIAT decision maintained that grey matter goods are excludable both under section 526 of the Tariff Act without regard to trademark infringement and under section 42 of the Lanham Act as infringing merchandise. 129 On December 8, 1986, the United States Supreme Court granted the Government's petition for a writ of certiorari to resolve these conflicting appellate decisions and consolidated the case with two others. 130 The issue to be decided will be whether the standard for exclusion ought to be the objective one of separate United States trademark ownership or the subjective one of probable consumer deception and the consequent attenuation of the United States-based goodwill as represented in the trademark. 131

The interpretations of section 526 of the Tariff Act and section 42 of the Lanham Act have proven to be inconsistent and contradictory, as shown by the case law. The plain language provides protection to United States trademark owners from unauthorized importation of goods bearing their mark. 128 Since the 1950s, Customs' interpretation has been driven in part by a perceived need to obviate the antitrust problems raised by a multinational corporation's use of an American subsidiary to preclude competition in the distribution of the corporation's trademarked product. 128 The regulations have limited trademark protection to independent United States trademark registrants. However, by denying protection to trademark owners either related to their foreign counterparts or who have consented to the foreign use of their mark, the regulations fail to recognize that a separate and independent goodwill may have been established by the domestic mark owner, rather than the foreign registrant. 134 The statutory import restrictions on grey market goods are essential for the preservation and recognition of trademark rights, regardless of the relationship between the various owners of an international mark.

128. Id. at 908.
129. Id. at 906.
132. Krumholtz, supra note 3, at 111.
133. See COPIAT, 790 F.2d at 917.
134. Krumholtz, supra note 3, at 111.
IV. Recent Legislation to Protect Parallel Importation

The "Price Competitive Products Act of 1986" was the most recent legislative attempt to provide trademark protection to United States registrants. This Senate bill advocated the unencumbered continuation of parallel importation. The sponsors asserted that the new law would protect the importation of "grey goods" by codifying Customs' existing regulations. The case-by-case approach taken by the courts prompted Congress to attempt clarification of the existing statutes and regulations.

On June 26, 1986 Senator John Chafee introduced the Price Competitive Products Act of 1986 to add a new subsection to section 526 of the Tariff Act regarding codification of the Customs regulations. Under the new Act, grey market goods could not be barred from importation where related parties own the domestic and foreign trademark rights. Supporting the grey market trade, Senator Chafee proposed the bill to "maintain consumer access to grey market merchandise." Senator Chafee explained that two routes exist by which genuine trademarked goods are brought to American consumers: (1) through an authorized American distributor owned or controlled by a foreign manufacturer, or (2) through independent American importers who purchase the goods from authorized distributors.

Treasury Department regulations have permitted independent American importers to compete with foreign-owned importers. These American independents are often small businesses that can buy the genuine goods overseas on the open market at a lower price, import these goods, and sell them to retailers for thirty to forty percent less than the manufacturer's price. This process had led to

136. Senate Finance Committee Holds Hearing on "Gray Goods" Bill, 32 PAT., TRADEMARK & COPYRIGHT J. 296, 296 (1986) [hereinafter Senate Hearing on "Gray Goods"].
137. Section 526 of the Tariff Act of 1930 would have been amended by adding at the end thereof the following:

(f)(1) Nothing in this section shall restrict the importation or sale of foreign-made articles bearing a trademark or trade name identical with one owned and registered by a citizen of the United States or a corporation or association created or organized within the United States when —

(A) both the foreign and the United States trademark or trade name are owned by the same person or business entity;

(B) the foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control; or

(C) the articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the United States owner.

139. Id.
140. Krumholtz, supra note 3, at 111.
141. Id.
enormous growth in discount stores and the smaller "mom and pop" stores.\textsuperscript{142} Supporters of this bill argued that the elimination of the parallel market will force American consumers to pay up to forty percent more for products.\textsuperscript{143}

Senator Rudman, co-sponsor of S. 2614, explained that the existing Customs Service regulations permit parallel importation under limited circumstances. These regulations are based on the sound policy of discouraging discriminatory pricing practices by foreign manufacturers.\textsuperscript{144} Senator Rudman conceded that grey market importers "free ride" on the trademark owners' marketing investments, but added that parallel importation represents price competition for the authorized dealer, which, in turn, narrows the price differential between the domestic and foreign markets so as to protect consumers from high prices.\textsuperscript{145}

The Price Competitive Products Act's addition of subsection (f) to section 526 would have codified the current customs regulations and the fifty year old policy allowing parallel importation of genuine, trademarked articles in cases where related parties own the trademarks here and abroad. In effect, the legislation attempted to protect parallel importation and consumer savings. In opposition, COPIAT emphasized that the central question in this controversy was not consumer pricing but rather the preservation of trademark rights. The Lanham Act protects trademark owners from misappropriation of the energy, time, and money spent in presenting their products to the public and ensures consumers that they are purchasing the genuine trademarked good.\textsuperscript{146} Thus, the proposed bill promised to substantially undermine the fundamental purposes of trademark protection, according to COPIAT.

American trademark owners and prospective trademark registrants support COPIAT's position. Preservation of the trademark right is their primary concern. COPIAT contends that products made abroad under trademark licenses are made to conform to the standards of the foreign country. However, these standards may be substantially different from the United States standards.\textsuperscript{147} When these products enter the American market and meet with the dissatisfaction of its consumers, the reputation of the legitimate trademark owner is damaged.

\textsuperscript{142} Id.
\textsuperscript{143} Id.
\textsuperscript{144} According to Sen. Rudman, the bill would not authorize any importation not already permitted under the Customs regulations. See Senate Hearing on "Gray Goods", supra note 136, at 296.
\textsuperscript{145} Id.
\textsuperscript{146} Id.
\textsuperscript{147} Id.
Senator Chafee represents the consumer viewpoint and contends that parallel importation does not involve infringement of trademark rights because the source of the goods is a legitimate licensee of the trademark owner. It is his contention that the trademark rights do not protect the advertising investment and that trademark owners are seeking to enlist Customs to preserve their exclusive channels of distribution. As to the damaged reputation of the trademark owner's reputation, Senator Chafee replies that this argument infers that inferior products are licensed for foreign consumption and superior products are licensed for domestic consumption. Senator Chafee concludes that, if trademark owners want to protect their reputation, they should label their products to disclose these differences.148

There has been strong opposition to the codification of the Customs regulations struck down in COPIAT as an inconsistent interpretation of section 526. On the other hand, consumer-conscious Americans most likely would support legislation that promotes price competition between manufacturers and trademark owners. The opposition eventually prevailed in defeating the bill, which never made it out of the Senate's International Trade Subcommittee.149

V. Proposed Solutions to the Grey Market Problem

The interpretation of section 526 of the Tariff Act and section 42 of the Lanham Act has been limited by the application of Customs' regulations. Congress took an affirmative step to remedy the confusion in the trademark laws with the introduction of the proposal to codify the Customs regulations so as to permanently deny protection to trademark owners, licensees, or distributors under common ownership. One remedy, set forth in section 526(c) of the Tariff Act and favored by the Federal Circuit Court of Appeals in Vivitar as a compromise solution, restricts the trademark owner to a private action against the importer.150 This remedy is inadequate for two reasons. First, the identities of importers are often difficult to ascertain.151 Second, even if the importers are identified, the remedy requires United States trademark owners to bring an endless series

148. Id.
149. 99th Cong.-Senate, 1 Cong. Index (CCH) 21,052 (Dec. 10, 1986).
150. See Vivitar, 761 F.2d at 1570. 19 U.S.C. § 1526(c) (1982) provides:
   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.  
151. See Greying American Trademarks, supra note 11, at 110. The closely guarded secrecy of the identities of grey market importers was exemplified in Osawa & Co. v. B&H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984), where the defendants chose sanctions under Federal Rule of Civil Procedure 37 (concerning failure to cooperate in discovery) rather than identify the sources of their grey market products. Id. at 1166 n.2, 1170.
of lawsuits. Once a judicial determination is made, only the goods of a particular named defendant are prevented from being imported. This importer can merely divert the goods until the United States trademark owner identifies the new source and obtains an exclusion order in a second lawsuit. This process fails to adequately protect the rights afforded in section 526.

The rights of the United States trademark owner must be determined in order to quell the controversy surrounding grey market imports. The existence of the independent United States goodwill of a trademark is evidence of ownership by an exclusive United States distributor. If the party asserting a legal trademark right is not, in fact, the owner of the United States trademark, the case will often be dismissed. However, where the registered owner owns the trademark rights, he has a right to trademark protection of his investments.

The proposal of requiring the related distributor of foreign-made goods to distinguish the goods sold in the United States from the goods sold abroad would place a financial burden on the distributor. However, since it was the exclusive United States distributor of the goods who created the distinct American goodwill for those goods, the distributor should be charged with distinguishing the trademarks to prevent damage to its goodwill. The labeling of goods would allow one to differentiate between the qualities of goods sold in the United States from those goods sold abroad. This policy balances the basic trademark functions in the international market with the need for the United States to define and enforce its own concept of trademark law and its desire to discourage anticompeti-

152. See Greying American Trademarks, supra note 11, at 110.
153. Id. at 111.
154. Id.
155. Id.
156. The American distributor's enforcement of trademark rights continues to be justified only when the distributor maintains independent control over the use of transferred trademarks. Preventing Importation, supra note 2, at 337.
158. 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 and forward the recommendation to the Cabinet Council on Commerce and Trade. Inside U.S. Trade, April 26, 1985, at 817, col. 1. See infra notes 159-68 and accompanying text.
159. Greying American Trademarks, supra note 11, at 112-13. One option would be to 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." Id. Although this requirement may alert consumers to the grey market problem and thus decrease consumer confusion, it nevertheless may cause degradation of the trademark's goodwill in the American markets if the product proves to be defective. It also would not solve the problem of free riding on United States marketing investments. Id.
tive practices in the United States marketplace.

Another proposal would allow related companies to exclude imports after a Customs determination that the imports were not identical to the authorized goods. This option would place a tremendous enforcement burden on Customs and the judiciary. However, this “identity” proposal forces the United States trademark owner to prove the import’s “nonidentity” and also encourages free-riding.

A third option would allow importation only if the mark was removed or obliterated. The United States trademark owner’s goodwill and reputation would be protected under this option, but this process would destroy the grey market. Once the trademark identification is removed from the unauthorized import, the consumer of expensive, higher quality goods would be less likely to purchase generic goods sufficient to keep the grey market importer in competition.

A final option is the creation of a new administrative policy prohibiting grey market goods bearing registered United States trademarks unless written consent is provided by the United States trademark owner. This is the position most commonly advocated by United States trademark owners. This proposal reflects the plain meaning of section 526 by protecting all United States trademark owners, regardless of their foreign affiliation. The exclusivity of grey market goods is consistent with antitrust law because American companies with foreign affiliation are given the power to exercise the same control over their products that domestic manufacturers enjoy. This proposal acknowledges the United States trademark owner’s effort to meet consumer demands. Through increased marketing investments, the trademark owner eliminates consumer confusion. Furthermore, this option provides incentive to preserve the trademark owner’s goodwill and recognizes his right to protection of

160. Id. at 114. Under this option, “identity” would be determined based on shape, taste, color, freshness, composition, trade dress, function, durability, similarity of warranty, and availability of repair services. Id.

161. As section 526 is presently interpreted, it is completely futile, if not an impossible task, for Customs to make determinations of international business relationships. Atwood, supra note 57, at 311.

162. See Greying American Trademarks, supra note 11, at 114. Cf. Osawa & Co. v. B&H Photo, 589 F. Supp. 1163, 1168 (S.D.N.Y. 1984) (equity indicates that the burdens of informing the consumer that a product has not been authorized for sale and is not warranted by the United States trademark owner should be on the grey market importer).

163. See Greying American Trademarks, supra note 11, at 114.

164. Id.

165. Id.

166. Id. at 115.

167. See supra notes 146-47 and accompanying text.

168. See Greying American Trademarks, supra note 11, at 115.

169. Id.
his time, money, and energy spent.

VI. Conclusion

The importation of foreign-made trademarked goods creates the need for a system to preserve both the meaning and integrity of United States trademark law. The plain language of both section 526 of the Tariff Act and section 42 of the Lanham Act provides protection to United States trademark owners from the unauthorized importation of goods bearing their mark. The Customs Service has narrowed the protection afforded to United States registrants independent from the foreign owner of the mark. By qualifying the scope of protection afforded by section 526 and section 42, Customs has made it easier for grey market importers to infringe on United States trademark owners’ rights. Furthermore, Customs should not be permitted to apply a blanket rule in implementing its own notion of antitrust policy since it is the duty of Congress to afford greater protections to trademark owners by preventing infringements.

By denying protection to trademark owners that are related to their foreign counterparts, the Customs regulations fail to recognize an independent goodwill that may have been established by the domestic trademark owner in the United States, regardless of any affiliation with the foreign registrant. In rejecting this possibility, the existing Customs regulations represent an outdated concept of trademark recognition, protection, and trade. However, these were the regulations that the Senate proposed to codify in the Price Competitive Products Act of 1986.

The plain language of section 526 and section 42 provides for import restrictions on grey market goods. Import restrictions are a necessary and proper mechanism of trademark protection regardless of the relationship between the various owners of an international mark. Customs’ emphasis on this relationship narrows the broad protections offered to trademark owners. Codification of these regulations would substantially undermine these protections offered against the misappropriation of the trademark owner’s time, money, and energy spent in presenting their products to the public. Inevitably, businesses will no longer have the incentive to invest in the establishment of a mark for their goods, and consumers will be left without a principal means of distinguishing between products and rewarding quality with continued purchases.

Pierrette Alyssa Newman