Parallel Importation--Legitimate Goods or Trademark Infringement?

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NOTES

PARALLEL IMPORTATION — LEGITIMATE GOODS OR TRADEMARK INFRINGEMENT?

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I. INTRODUCTION

Parallel importation of goods, also known as grey marketing of goods, is the importation of genuine goods into a country by an enterprise other than the trademark owner or exclusive importer for that country.1 Parallel importation has been disputed for almost a century.2 It continues to be a source of controversy because of increased competition from foreign importation resulting from a strong United States dollar in the world market.3 Parallel

1. 2 J. McCarthy, Trademarks and Unfair Competition § 30.35 (2d ed. 1984).
importers purchase goods overseas, import them to the United States and sell them at prices lower than goods imported through normal channels. Some estimates indicate that retail sales from parallel imports in the United States exceed six billion dollars a year.

United States trademark owners and the exclusive distributors of foreign goods claim that parallel importation is eroding their markets. They further argue that: (1) parallel imports deprive a manufacturer of product distribution control; (2) parallel importers benefit unfairly from a distributor's investment in product promotion; and (3) parallel imports mislead consumers to believe that the purchased products are covered by a manufacturer's warranty. Supporters of parallel importation contend, however, that restraints on the importation of genuine goods should not exist in a free trade society. They also assert that protecting exclusive distributors allows those distributors to set minimum retail prices, contributing to higher prices for United States consumers.

This Note analyzes the various approaches and statutory interpretations used by courts, Congress, and administrative agencies to resolve this complex issue. This Note also examines approaches used to resolve recent controversies involving parallel importation. Finally, the possible options for the permanent resolution of the controversy will be discussed.

II. LEGAL HISTORY

A. The Functions of Trademarks

Section 45 of the Lanham Act defines trademark as “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.” Trademarks are used to (1) indicate the origin or source

4. See id.
6. Driscoll, supra note 3, at 155.
7. Boyer, supra note 4, at 89.
8. Id.
9. Id.
of the article, (2) guarantee the quality of the article, and (3) advertise the article. Early users considered indication of origin to be the trademark's most important function. The origin indicated by a trademark, however, may not always be the manufacturer. A trademark may name a retailer, importer, jobber, or commission merchant as the supplier of the goods. Alternatively, the source may not be ascertainable by reference to the trademark. The trademark may signify only that any good bearing that mark is associated with or sponsored by the same source. Likewise, guarantee of quality does not assure the buyer that all articles exhibit a certain level of quality. Quality guarantees only assure the buyer that all goods sold under the mark are of equal and consistent quality. A trademark may advertise a product in two ways. First, a consumer familiar with a trademark product perceives the mark as a symbol of the producer's efficiency and reliability. Second, the trademark serves as an advertisement for the consumer by fixing the identity of the article and the name of the producer in the consumer's mind. The consumer later recalls the mark when seeking that product.

Analysis of parallel importation involves discussion of three competing legal theories: universality or trade identity, territoriality, and exhaustion. Under the theory of universality or trade identity, a trademark is viewed only as an indication of the product's origin. This theory does not recognize the trademark functions of guarantee of quality or advertising. The theory of territoriality is based on the premise that a trademark is effective only in the country in which it is registered. Territoriality renders the genuineness of the goods immaterial in determining whether those goods infringe a registered trademark.

13. 3 R. Callmann, supra note 12, § 17.02.
14. 1 J. McCarthy, supra note 1, § 3:3.
15. 3 R. Callmann, supra note 12, § 17.03.
16. Id. § 17.04. For thorough discussions of the functions of trademarks, see 3 R. Callmann, supra note 12, §§ 17.01-17.04; 1 J. McCarthy, supra note 1, §§ 3:3-3:5.
17. 3A R. Callmann, supra note 12, § 21.17.
18. Id. Apollinaris and other early parallel import cases used this theory. See infra text accompanying notes 25-28, 30-34.
trademark.\textsuperscript{20}

The theory of exhaustion states that after a trademarked article has been sold for the first time the "right to future control over the goods on the basis of the trademark is 'exhausted' and the trademark owner has no further rights."\textsuperscript{21} Under this theory, once the product has left the possession of the trademark owner he may no longer put any conditions on its future sale or importation on the basis of the trademark.

In a trademark dispute between importers and trademark owners, the importer should prevail under the universality theory because the ultimate source of the product is the same. The product merely reaches the consumer through different channels.\textsuperscript{22} Under the territoriality theory, the domestic owner of the trademark would always prevail because he is the owner of the mark, whether the goods are genuine or not.\textsuperscript{23} Under the exhaustion theory, the importer of parallel goods should prevail because the seller would have no control over the goods after they have been sold.\textsuperscript{24}

B. Early Decisions and Statutory Law

In \textit{Apollinaris Co. v. Scherer},\textsuperscript{25} the first significant United States parallel importation case, the court concluded that no trademark infringement occurred. In \textit{Apollinaris}, the plaintiff contracted with a bottler of mineral water for the exclusive right to import the water into the United States. This contract included the right to use the trademark HUNYADI JANOS. A third party, the defendant, purchased the bottled water in Germany and then imported the water into the United States. Only the labels of the goods differed; the plaintiff's bottle labels stated that the plaintiff was the sole importer while the defendant's labels contained a caution against purchasing the water in the

\textsuperscript{20}. \textit{Id.} The Supreme Court first applied the theory of territoriality in \textit{A. Bourjois & Co. v. Katzel}, 260 U.S. 689 (1923). \textit{See infra} text accompanying notes 39-41. This theory was subsequently applied in almost every other case involving parallel imports. \textit{See infra} notes 42-47 and accompanying text.

\textsuperscript{21}. \textit{Id.}

\textsuperscript{22}. \textit{Id.}

\textsuperscript{23}. \textit{Id.}

\textsuperscript{24}. \textit{Id.}

\textsuperscript{25}. 27 F. 18 (C.C.S.D.N.Y. 1886).
United States.\textsuperscript{26} The court recognized that the defendant’s acts deprived the plaintiff of “substantial advantages which it expected to obtain from the privilege transferred to it . . . .”\textsuperscript{27} Yet, the court found no trademark infringement because the goods were genuine and the public was not being deceived about the source of the imported water.\textsuperscript{28}

Congressional enactment of Section 27 of the Trademark Act of 1905 altered statutory law governing parallel importation. This section provides:

That no article of imported merchandise which shall \textit{copy or simulate} the name of any domestic manufacture . . . [or manufacturer or trader in a foreign country that provides similar privileges for United States citizens], or which shall \textit{copy or simulate} a trademark registered in accordance with the provisions of this Act, or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States . . . [or in a location other than where it is actually manufactured] . . . shall be admitted to entry at any custom-house of the United States . . . .\textsuperscript{29}

Early cases held that the importation of parallel goods by third parties did not violate section 27.\textsuperscript{30} In \textit{A. Bourjois & Co. v. Katzel},\textsuperscript{31} the plaintiff owned the United States trademark registrations for use on a face powder manufactured by a French company. The defendant purchased the powder in Europe and imported it for sale in the United States.\textsuperscript{32} The court of appeals found the defendant’s importation did not constitute trademark

\begin{itemize}
\item \textsuperscript{26} \textit{Id.} at 19.
\item \textsuperscript{27} \textit{Id.} at 20.
\item \textsuperscript{28} \textit{Id.} at 20. The court further determined that the plaintiff’s right to exclusive sale was not violated because the bottler was not importing the goods and the evidence failed to show that the bottler was trying to defeat the plaintiff’s exclusive right. \textit{Id.} at 20-22.
\item \textsuperscript{29} \textit{Act of Feb. 20, 1905, ch. 592, § 27, 33 Stat. 724, 730} (emphasis added) (reenacted in 1946 in substantially the same form by the Lanham Act, § 42 (codified at 15 U.S.C. § 1124)).
\item \textsuperscript{30} \textit{See, e.g., Fred Gretsch Mfg. v. Schoening, 238 F. 780, 782} (2d Cir. 1916). The Second Circuit found that the purpose of section 27 was to protect the public from goods that were not genuine. \textit{Id.} Because the goods were genuine, the court held that they did not “copy or simulate” the trademark and did not defeat the purposes underlying the statute. \textit{Id.}
\item \textsuperscript{31} \textit{275 F. 539} (2d Cir. 1921), \textit{rev’d}, 260 U.S. 689 (1923). For a discussion of the Supreme Court’s reversal, see \textit{infra} notes 39-41 and accompanying text.
\item \textsuperscript{32} \textit{275 F.} at 539-40.
\end{itemize}
infringement because the goods were genuine and did not confuse the public about their origin.\textsuperscript{33} The court stated that trademarks are intended to show the ultimate origin of the goods without any time limitation; therefore, if the goods sold are genuine and are manufactured under the trademark, parallel importation is not an infringement.\textsuperscript{34}

Before the Supreme Court reversed \textit{Katzel}, Congress reacted to the decision by attempting to solve the problem of parallel importation through legislation.\textsuperscript{35} Less than a year after \textit{Katzel}, Congress enacted section 526 of the Tariff Act of 1922, which provides:

\begin{quote}
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 trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States . . . unless written consent of the owner of such trade-mark is produced at the time of making entry.\textsuperscript{36}
\end{quote}

Although Congress' purpose was to ensure that the result reached in \textit{Katzel} would be overturned,\textsuperscript{37} the applicability of section 526

\begin{flushleft}
33. \textit{Id.} at 543.
34. \textit{Id.}
36. Ch. 356, § 526, 42 Stat. 858, 975 (1922). This section was reenacted as section 526(a) of the Tariff Act of 1930 (codified at 19 U.S.C. § 1526 (1982)). In 1978, Congress excepted from § 1526(a) items brought into the country for personal use. 19 U.S.C. § 1526(d) (1982).
37. A conference report on section 526 stated:

A recent decision of the circuit court of appeals 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. [Section 526] makes such importation unlawful without the consent of the owner of the American trade-mark. . . .

\textit{H.R. Rep. No. 1223, 67th Cong., 2d Sess.} 158 (1922). In Senate debate, Senator Moses objected to the section because "its main purpose will be to interfere with litigation now going on; and I protest that the Congress of the United States should not be used for the purpose of advancing the cause of litigants or attorneys." \textit{62 Cong. Rec.} 11,585, 11,604 (1922). In a 1923 decision, Judge Learned
to other circumstances is less certain.38

Hand noted that section 526 "was intended only to supply the casus omissus, supposed to exist in section 27 [of the Trade-Mark Act of 1905], because of the decision of the Circuit Court of Appeals in [Katzel]. Had the Supreme Court reversed that decision last spring, [section 526] would not have been enacted at all." Coty, Inc. v. Le Blume Import Co., 292 F. 264, 269 (2d Cir. 1923).

38. The Senate debate, which was limited to 10 minutes, involved discussion of many situations that might be affected by section 526. 62 CONG. REC. 11,585 (1922). Senator McCumber, a supporter of the section, illustrated situations he felt the section would cover:

I will take Bayer's aspirin. Suppose not only the patent but the trade-mark, which is "Bayer's Aspirin" with a red cross, is sold to an American concern outright. The patent will defend against any importations so long as the patent lasts; but suppose, now, the patent expires. Then the German firm, notwithstanding that they have sold all rights, including the trade-mark, begin to ship in Bayer's Aspirin with the same kind of a trade-mark that they had before, although the right is owned in the United States. According to the decision that was read by the Senator from West Virginia the American purchasers of these rights are entirely unprotected, and this is to give the opportunity to protect the American purchaser.

Id. at 11,604. Senator Sutherland argued that the section protected United States citizens, to whom foreigners sold trademarks, from parallel importation by the trademark seller. See id. at 11,603.

The opposing side countered with an illustration of a foreign manufacturer using a United States agent:

We will assume that Pears' soap . . . is not registered in the United States. It is sold in the general markets throughout the world, but the makers of Pears' soap desire a monopoly in the United States. They have American agents who register a trade-mark of Pears' soap here in the United States.

I want to inquire whether any American could purchase Pears' soap abroad and import it without the written consent of their agent here in the United States, and if not, why not? There is no fraud, no deceit. It is the same identical article, with the trade-mark registered here protecting the maker of the article.

Id. at 11,605 (statement of Sen. Lenroot). Senator McCumber responded that if no transfer of the mark occurred, no real problem existed. He said, "the mere fact of a foreigner having a trade-mark and registering that trade-mark in the United States, and selling the goods in the United States through an agency, of course, would not be affected by this provision." Id.

Whether Congress really intended the legislation to cover the fact situation in Katzels is uncertain. The importer in Katzels was a third party, not the manufacturer of the goods. Katzels, 275 F. at 539-40. During debate Senator Sutherland stated, "I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those
Shortly after enactment of section 526, the Supreme Court reversed the *Katzel* decision.\(^{39}\) In reaching its decision, the Court made no mention of the newly enacted section 526. The Court, however, found that trademark infringement existed. In writing for the Court, Justice Holmes reasoned that an infringement should be found because the statute authorizing assignments of trademarks would not allow the manufacturer to import the merchandise; therefore, any importation, even by a third party, constitutes an infringement.\(^{40}\) Justice Holmes also stated that the public connected the product with the United States trademark owner even though the goods were manufactured in France. Applying the territoriality theory of trademarks, Holmes wrote:

> [I]t is said that the trade-mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade-mark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff brought.\(^{41}\)

Several months after the *Katzel* reversal, the Supreme Court decided another parallel importation case. This case held that section 27 of the Trade-Mark Act of 1905 requires the same result that was reached in *Katzel*.\(^{42}\) Under a factual situation similar to *Katzel*, the Court found that genuine imported goods copied or

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identical trade-marks.” 62 CONG. REC. at 11,603. Senator McCumber mischaracterized the facts in *Katzel* when he stated that the court “held that a trade-mark did not protect a party at all against importations of the article from the very firm which sold it. . . .” Id. at 11,605. Some commentators assert that Congress intended section 526 to protect only independent United States trademark owners. See, e.g., *Trade-Mark Infringement*, supra note 35, at 566.

40. Id. at 691-92.
41. Id. at 692. Holmes supplemented his comments in *Katzel* in a later decision:

> A trade-mark only gives the right to prohibit use of it so far as to protect the owner's good will against the sale of another's product as his. . . . When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo.

Prestonettes, Inc. v. Coty, 264 U.S. 359, 368 (1924) (citations omitted). The concept that a trademark creates independent goodwill separate from that of the manufacturer continued to play an important role in future decisions.

42. A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923) (per curiam).
simulated the plaintiff's trademark within the meaning of section
27, thus giving a statutory basis for the prohibition of parallel
imports.43

Subsequent courts have interpreted the provisions of section
526 of the Tariff Act more broadly than those of section 27 of the
Trade-Mark Act, thus giving greater protection to trademark
owners.44 In 1931, the Second Circuit Court of Appeals held that
the importation from Europe of a used automobile that was in-
tended for personal use would violate the provisions of the Tariff
Act because the automobile might ultimately be resold in the
United States.45 The court found that, in enacting the Tariff Act,
Congress had adopted a protectionist policy for the United States
owners of foreign trademarks.46 The court then followed its deter-
mination of congressional intent and held that the automobile
bearing the plaintiff's trademark could not be allowed into the
United States.47

C. Customs' Interpretation of Section 526

Section 526 of the Tariff Act is subject to interpretation not
only by courts, but also by the United States Customs Service.48
The major issue is whether a United States business can invoke
provisions of section 526 to prevent the importation of goods
manufactured by a related company.49 Although section 526 pro-
vides no exceptions for related companies,50 the Customs Service
has provided some exceptions. Customs views Congress' intent in
enacting section 526 as providing protection to United States

43. Import Restrictions, supra note 35, at 305. In this case, the plaintiff in
Katzel sued a Collector of Customs. Id.
44. Vandenburgh, The Problem of Importation of Genuinely Marked Goods
is Not a Trademark Problem, 49 TRADE-MARK REP. 707, 711 (1959).
46. Id. at 1038.
47. Id. In 1978, Congress added subsection (d) to section 526 to except goods
imported for personal use and not resold within one year. 19 U.S.C. § 1526(d)
(1982).
48. The Customs regulations are codified at 19 C.F.R. §§ 1330.0-1330.24
(1985).
49. Kuhn, Remedies Available at Customs for Infringement of a Registered
Trademark, 70 TRADE-MARK REP. 387, 394 (1980) [hereinafter cited as Remedies
Available]. For a further discussion of "related" company, see infra note 58 and
accompanying text.
50. See supra note 36 and accompanying text.
firms against fraud from foreign assignors of trademarks. Under this interpretation, Customs then attempts to determine the true controlling force over the trademark rather than using the literal words of section 526. In 1936, Customs amended its regulations to provide that merchandise manufactured or sold in a foreign country under a trademark registered in the United States would not be deemed to copy or simulate the United States trademark if the same person or business entity owns both trademarks.

In 1946, Congress enacted the Lanham Act which replaced the Trade-Mark Act of 1905. Section 27 of the 1905 act was reenacted with only minor changes as section 42 of the Lanham Act. From 1938 until its passage in 1946 it appeared as if the Lanham Act would combine all laws relating to trademarks and clarify the discrepancy with section 526 of the Tariff Act. In the bill’s final report, however, the section that would have repealed section 526 of the Tariff Act was deleted.

In 1953, the Customs Service again amended its regulations relating to imports under section 526 of the Tariff Act. The amendment added the words “or by a related company as defined in section 45 of the [Lanham Act]” to the exception which applies when a trademark registered in two countries is owned by the same company. A few years later, United States v. Guerlain, Inc., significantly affected Custom’s interpretation of section

51. See Import Restrictions, supra note 35, at 305-06.
52. See id.
53. T.D. 48,537, 70 Treas. Dec. 336, 337 (1936). The amended regulation provided that such merchandise:

shall not be deemed for the purpose of these regulations to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation.

Id. (emphasis added).
55. Import Restrictions, supra note 35, at 306.
56. Id.
57. T.D. 53,399, 88 Treas. Dec. 376, 384 (1953). See supra note 53 for the section as amended in 1936. In section 45 of the Lanham Act, related company is defined as “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.” 15 U.S.C. § 1127 (1982).
526 as that section relates to excluding articles from importation.\textsuperscript{59} In Guerlain, the government contended that United States companies owning trademarks for certain perfumes, manufactured in France by foreign closely-related companies, were violating section 2 of the Sherman Act by using the provisions of section 526 to prevent importation of genuine goods from other countries.\textsuperscript{60} Defining the relevant market as the toilet goods of each defendant rather than toilet goods generally, the Guerlain court found that the defendants' use of section 526 of the Tariff Act had prevented the importation of toilet goods bearing the Guerlain trademarks that were manufactured, sold, and distributed abroad by French Guerlain.\textsuperscript{61} The court found that the defendants had invoked the protection of section 526 to exclude competition and control price levels in violation of section 2 of the Sherman Act.\textsuperscript{62} The court determined that the provisions of section 526 did not protect a United States company which is part of a single international enterprise from competition with a foreign subsidiary of the enterprise whose goods bear the same trademark as goods manufactured, sold, and distributed by the United States company in the United States.\textsuperscript{63}

In 1959, Customs amended its regulations again, this time deleting the provision concerning related companies as defined by section 45 of the Lanham Act.\textsuperscript{64} Where the foreign trademark and

\begin{itemize}
\item \textsuperscript{59} Remedies Available, supra note 49, at 394.
\item \textsuperscript{60} Guerlain, 155 F. Supp. at 79-80. Section 2 of the Sherman Act provides:
\begin{quote}
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. . . .
\end{quote}
\item \textsuperscript{61} Guerlain, 155 F. Supp. at 90.
\item \textsuperscript{62} Id. at 90-91.
\item \textsuperscript{63} Id. at 91. The Justice Department had the case dismissed when it reached the Supreme Court even though the trial court had ruled in the government's favor. The Justice Department believed that the problem could be solved more effectively by legislative action. Import Restrictions, supra note 35, at 306-07. The legislation clearly would have stated that the importation of genuine goods produced by an affiliate of the United States owner was not prohibited under trademark law. Id. at 307. The Celler Bill, introduced in 1959, would have removed the protection from imports for related companies. Id. For a discussion of the Celler Bill, which was never passed, see Remedies Available, supra note 49, at 395.
\item \textsuperscript{64} T.D. 54,932, 94 Treas. Dec. 433 (1959). Deletion of the provision was a result of the government's withdrawal from the Guerlain case. Import Restrict-
United States trademark were owned by the same person or corporation, however, the exclusionary protection was still denied.65

Present Customs regulations, unchanged since 1972, restrict importation of an article bearing a trademark that copies or simulates a trademark, or is identical to a trademark, owned by a United States citizen or corporation.66 A subsection of the regulations provides, however, that certain restrictions do not apply when the foreign and domestic trademarks are owned by the same business entity, when the owners of the trademarks are subject to common ownership or control, when the trademark is authorized by the United States trademark owner, or when the mark is destroyed before importation.67 Additionally, the Cus-

65. Import Restrictions, supra note 35, at 310; see supra text accompanying note 53.
66. 19 C.F.R. § 133.21(a)-(b) (1984). These sections provide:
   (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.

67. 19 C.F.R. § 133.21(c) (1984). Subsection (c) provides:
   (c) Restrictions not applicable. The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:
   (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
   (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are 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;
   (4) The objectionable mark is removed or obliterated prior to importation....

Id. In determining whether import restrictions would not apply under section 133.21(c)(2), common ownership means “individual or aggregate ownership of more than 50 percent of the business entity,” and common control means “effective control in policy and operations and is not necessarily synonymous with common ownership.” Id. § 133.2(d). The United States Trademark Association (USTA) expressed its dissatisfaction with §§ 133.21(c) and 133.2(d) when Cus-
toms Service will not allow exclusion of genuine goods if the United States trademark owner has licensed foreign use of the mark. 68

III. RECENT DECISIONS

A. Parfums Stern

In Parfums Stern, Inc. v. United States Customs Service, 69 the owner of the United States trademark for Oscar de la Renta moved for an injunction to halt the importation of perfumes bearing its trademark. 70 The court found that the plaintiff was a "cog or entity" in an international conglomerate that controlled the manufacture and sale of Oscar de la Renta fragrance products


70. Id. at 418.
throughout the world.\textsuperscript{71} Eighteen consignments of goods that had been imported into the United States through the parallel market were in the custody of the Customs Service.\textsuperscript{72} After noting the prerequisites for issuing a preliminary injunction,\textsuperscript{73} the court found that the plaintiff had not shown a substantial likelihood of prevailing on the merits because the Lanham Act protections were not designed to apply to that situation.\textsuperscript{74} The court stated that it recognized the validity of the decision in \textit{Katzel}\textsuperscript{75} but distinguished that decision from the present one because \textit{Katzel} involved a domestic company purchasing the trademark from a foreign manufacturer and then staking its reputation on the character of the goods.\textsuperscript{76} The court also distinguished \textit{Bell & Howell: Mamiya Co. v. Masel Supply Co.},\textsuperscript{77} by finding that \textit{Parfums Stern} involved a single international enterprise, whereas no evidence of common ownership or control was shown in \textit{Bell & Howell: Mamiya}.\textsuperscript{78} The \textit{Parfums Stern} court further found little chance that the plaintiff would suffer irreparable harm because, while the plaintiff had been aware of the problem of parallel imports for several years, the plaintiff had never before sought to protect its rights.\textsuperscript{79} Balancing the potential injury to the parties, the court found that defendants would suffer greater harm than the plaintiff would because defendants had imported the merchandise on the basis of the plaintiff's apparent acquiescence to the practice, and the issuance of a preliminary injunction might

\textsuperscript{71} Id.
\textsuperscript{72} Id.
\textsuperscript{73} Id. at 419. The prerequisites the court noted are:
\begin{itemize}
\item[(1)] a substantial likelihood that plaintiff will prevail on the merits;
\item[(2)] a substantial threat that plaintiff will suffer irreparable injury if the injunction is not granted;
\item[(3)] that the threatened injury to plaintiff outweighs the threatened harm the injunction may do to the defendant; and
\item[(4)] granting the preliminary injunction will not disservice the public interest.
\end{itemize}
\textsuperscript{74} Id.
\textsuperscript{75} 260 U.S. 689 (1923).
\textsuperscript{76} \textit{Parfums}, 575 F. Supp. at 419. For a discussion of the \textit{Katzel} decision, see supra notes 31-34, 39-41 and accompanying text.
\textsuperscript{78} \textit{Parfums}, 575 F. Supp. at 419-20.
\textsuperscript{79} Id. at 420.
cause defendants to default on delivery orders. Finally, the court found that issuance of a preliminary injunction would not benefit the public because the plaintiff would probably guarantee the imported goods, and "there is adequate evidence that the public has the benefit of lower prices in that those products offered by the [defendants] are usually less expensive than those sold by Plaintiff through its authorized distributors." For these reasons, the court denied the issuance of a preliminary injunction.

B. The Vivitar Cases

In Vivitar Corp. v. United States, a United States trademark owner sought a declaratory judgment requiring the Customs Ser-

80. Id. at 420-21.
81. Id. at 421.
82. Id.

In an earlier decision, the Court of International Trade (CIT) determined that it had exclusive jurisdiction in this case. Vivitar Corp. v. United States, 585 F. Supp. 1419 (Ct. Int'l Trade 1984), aff'd, 761 F.2d 1552 (Fed. Cir. 1985). In that dispute, the defendant contested the court's jurisdiction and contended that the CIT did not have jurisdiction. Id. at 1422. 22 U.S.C. § 1581 defines the jurisdiction of the CIT. The CIT first stated that its jurisdiction is intended to reach international trade disputes. Id. at 1422. The defendants argued that the case primarily involved trademark law, and that the district courts have original jurisdiction over trademark cases under 28 U.S.C. § 1338. Id.

The court stated that it would have jurisdiction if the "thrust of the grievance alleged and the relief sought by the plaintiff relates to the regulations promulgated by customs and their administration and enforcement." Id. at 1422-23 (quoting Schaper Mfg. v. Regan, 566 F. Supp. 894, 896 (Ct. Int'l Trade 1983)). The CIT found that the central issue was "the regulation of international trade in goods bearing genuine trademarks," not trademark law. Vivitar, 585 F. Supp. at 1423. The court then stated that the CIT's purpose is to avoid differing interpretations of international trade law that might lead to uncertainty or forum shopping among the district courts. Id. at 1423. Therefore, the court concluded that it had jurisdiction. Id. at 1427. In affirming the decision, the appellate court stated that if the plaintiff had sought a determination of its rights as against an importer, the matter should be settled in district court. Vivitar Corp. v. United States, 761 F.2d at 1560. Where the subject matter is the validity of the regulations or procedures under the regulations, however, the CIT has exclusive jurisdiction. Id.

The plaintiff had also based part of its claim on section 42 of the Lanham Act. The court dismissed this claim and did not transfer the dismissed claim to the appropriate district court. 585 F. Supp. at 1427 n.16. The court noted that the
vice to exclude all imports bearing the owner's mark. The plaintiff, a California corporation, granted licenses to foreign manufacturers for use of the VIVITAR trademark on photographic equipment. The equipment manufactured in the foreign countries was marketed outside the United States by the plaintiff's wholly owned subsidiaries. Although the plaintiff's subsidiaries were not licensed to market the goods in the United States, equipment manufactured by the foreign licensees was imported on the parallel market.

The Court of International Trade (CIT) primarily discussed the proper construction of section 526(a) of the Tariff Act of 1930 and the Customs Service's interpretation of that statute. If Customs' interpretation is reasonable, the CIT would uphold it because courts will defer to a statutory interpretation by the proper administrative agency. The CIT stated that Customs' interpretation would be given greater deference because Customs has consistently maintained its interpretation, and Congress appeared to have accepted that interpretation while amending section 526. The CIT declared that the sole intent of Congress in enacting section 526 was to resolve the problem created by the lower court decision in Katzel. According to the court, the legislative purpose underlying the Tariff Act was protection of United States industry from the competitive advantage of foreign industry.

plaintiff's claim was not substantially based on section 42 of the Lanham Act and that transfer would not be in the interest of justice. Id.

On the same day, the CIT allowed 47th Street Photo to participate in this action as defendant-intervenor. Vivitar Corp. v. United States, 585 F. Supp. 1415 (Ct. Int'l Trade 1984). The court also allowed K Mart Corporation to participate as amicus curiae. Id.

84. Id. at 422. Although the plaintiff's complaint sought relief in the nature of mandamus, the plaintiff later conceded that declaratory relief would be adequate. Id. at 422 n.1.

85. Id. at 422.

86. Id.

87. Id. at 423.

88. Id. at 425. For the text of section 526 of the Tariff Act of 1930, see supra text accompanying note 36.

89. 593 F. Supp. at 433. The court also stated that Customs' interpretation does not have to be the only reasonable interpretation or even reach the same result as if the question of interpretation had first arisen in the court. Id.

90. Id. at 434.

91. Id. For a discussion of the court of appeal's decision in Katzel, see supra notes 31-34 and accompanying text.

92. Vivitar, 593 F. Supp. at 434-35. The CIT hypothesized a situation in
The court found that Customs' interpretation was reasonable and that this interpretation would avoid results Congress clearly did not intend.93

The CIT next addressed the plaintiff's contention that Customs' interpretation was unreasonable because it allows the parallel importer to exploit the trademark owner's goodwill.94 The plaintiff argued that parallel importers are allowed a "free ride" on the plaintiff's reputation and advertising.95 The court responded to the plaintiff's argument by stating that section 526 was not intended to deal with that problem and that the court would not interpret the section so broadly.96 The court also stated that if a plaintiff was suffering from unfair competition, relief might be available under the Lanham Act or other laws.97

Finally, the CIT would not invalidate Customs' interpretation of section 526 because it found the interpretation to be reasonable and that substantial commercial reliance had been placed on the interpretation.98 The court again noted that Congress had acquiesced to the Customs' interpretation, even though it was controversial.99 The court stated that determination of "whether the current balance in trademark rights in international commerce is inappropriate" is a decision best made by Congress.100

which the application of section 526 could result in an unfair competitive advantage for a foreign manufacturer, a situation Congress could not have intended:
Since [section 526(a)] only applies to goods manufactured abroad, the American manufacturer would not be able to employ [section 526(a)] to restrict unauthorized imports of its goods sold by its overseas distributors. . . . But the foreign manufacturer could form an American subsidiary corporation, transfer the American trademark rights to that corporation, and then have the subsidiary use [section 526(a)] to restrict any unauthorized imports of the foreign manufacturer's goods. The only way an American trademark owner could overcome this marketing advantage is by moving its manufacturing operations abroad so it too could restrict access to the United States market.

Id. at 434.
93. Id. at 434.
94. Id. at 435.
95. Id.
96. Id.
97. Id. at 436. The court expressly declined to rule on whether it has jurisdiction to grant relief on a claim of unfair competition. Id. at 436 n.24.
98. Id. at 436. The court noted that business had been conducted in reliance on the Customs Service's interpretation. Id.
99. Id.
100. Id.
On appeal, the Court of Appeals for the Federal Circuit affirmed the lower court's decision but narrowed the holding.\(^{101}\) In reviewing the legislative history of section 526, the appellate court found that reversal of \textit{Katzel} was not the sole purpose of the section.\(^{102}\) The court concluded that no limitations can be read into the statute based on Congressional intent at the time of enactment.\(^{103}\) The court of appeals also found that Customs' regulations have not been consistent, and, therefore, the "long standing administrative interpretation" argument does not provide a suitable basis for statutory interpretation.\(^{104}\) The appellate court also refuted the argument that Congress had ratified Customs' actions, stating that legislation by silent ratification is a tenuous theory that does not merit extended discussion.\(^{105}\) The court of appeals concluded that the regulations merely define Customs' role in enforcement of the Tariff Act.\(^{106}\) The court determined that the regulations, viewed in such a manner, are not contrary to the statute, and that Customs is not required to exclude all grey market goods.\(^{107}\) Finally, the court found that the plaintiff was free to pursue a determination of its rights against parallel importers in a federal district court.\(^{108}\) If the plaintiff is successful, he could then have the goods excluded by Customs.\(^{109}\)

C. 
\textit{Osawa}

\textit{Osawa & Co. v. B & H Photo}\(^{110}\) is the most recent case in a series of decisions involving the plaintiff,\(^{111}\) owner of the United
States trademark registration for the Mamiya mark for photographic equipment manufactured by the Mamiya Camera Company.\textsuperscript{112} Defendants were discount camera dealers who allegedly advertise, sell and import Mamiya products in violation of an exclusion order.\textsuperscript{113} Osawa-Japan, the exclusive worldwide distributor of Mamiya products, had granted exclusive United States distribution rights to the plaintiff.\textsuperscript{114} The Customs Service granted the plaintiff an order of exclusion barring all unauthorized imports of goods bearing the Mamiya trademarks.\textsuperscript{115} The plaintiff moved for a preliminary injunction to bar the defendants from advertising and dealing in Mamiya products.\textsuperscript{116} The court found grounds. \textit{Id.} at 1067. The defendant asserted that, because the plaintiff is closely linked to the owners and users of the foreign trademarks, the court should have distinguished \textit{Katzel} and denied the preliminary injunction. \textit{Id.} at 1068. The defendant argued that the plaintiff was part of a unified international enterprise so there was neither likelihood of confusion, false designation of origin, dilution nor unfair competition for which relief existed. \textit{Id.} The defendant also argued that, because of the international control of the trademark, the plaintiff achieved a worldwide restraint on the flow of medium format camera equipment. \textit{Id.} at 1067-68. The court determined that the case should be decided on the basis of trademark law. \textit{Id.} at 1079. The court then found that, since there was a substantial likelihood of confusion, an injunction should be granted. \textit{Id.}

The court of appeals in \textit{Masel} vacated the preliminary injunction and remanded the case. \textit{Masel}, 719 F.2d at 43. To obtain a preliminary injunction, the Second Circuit required a showing of "(a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief." \textit{Id.} at 45. The appellate court disagreed with the district court's finding that a substantial likelihood of confusion existed in this case. \textit{Id.} at 45-46. Finding insufficient factual support for irreparable injury, the appellate court vacated the preliminary injunction and remanded the case. \textit{Id.} The court of appeals indicated that because there was little chance for confusion concerning the origin of the goods there would be no irreparable injury. \textit{Id.} For a discussion of the \textit{Masel} decisions, see Supnik, \textit{The Bell and Howell: Mamiya Case — Where Now Parallel Imports?}, 74 \textit{Trade-Mark Rep.} 1 (1984).

\textsuperscript{112} The Mamiya mark includes MAMIYA, MAMIYA RB 67, MAMIYA-C, and MAMIYA-SEKOR. \textit{Osawa}, 589 F. Supp. at 1164.

\textsuperscript{113} \textit{Id.} at 1165.

\textsuperscript{114} \textit{Id.} at 1164-65. Osawa-Japan owns 93\% of the plaintiff's stock and Mamiya owns 7\% of the plaintiff's stock. Osawa-Japan owns 30\% of Mamiya's stock. \textit{Id.}

\textsuperscript{115} \textit{Id.}

\textsuperscript{116} \textit{Id.} The Second Circuit delineated the test for obtaining a preliminary injunction in \textit{Masel}, 719 F.2d at 43. \textit{See supra} note 124.
that the plaintiff was entitled to the preliminary injunction.\textsuperscript{117}

The court analyzed possible reasons for the price differences between the products sold by the two parties.\textsuperscript{118} Defendants argued that the plaintiff’s prices were higher because Osawa-Japan discriminates against United States consumers by charging higher prices to its United States distributor.\textsuperscript{119} The plaintiff argued that possible reasons for the price differences were sixfold: (1) strength of the United States dollar against other currencies;\textsuperscript{120} (2) cost factors in producing goods for the United States;\textsuperscript{121} (3) plaintiff incurs substantial costs not incurred by the defendants to protect and enhance the goodwill of the Mamiya trademark;\textsuperscript{122} (4) the plaintiff has an extensive inspection system, thus increasing the plaintiff’s handling expenses;\textsuperscript{123} (5) differences in maintenance of a large inventory of accessories for the Mamiya products;\textsuperscript{124} and, (6) warranty service for its goods.\textsuperscript{125}

In determining whether to grant a preliminary injunction, the court first concluded that the plaintiff would suffer irreparable harm if the injunction were not granted.\textsuperscript{126} The court found that (1) plaintiff’s sales had been declining, (2) plaintiff’s advertising was supporting the sale of parallel imports, (3) plaintiff was having to perform warranty work on defendants’ goods to avoid consumer confusion, disaffection and resentment, and (4) because plaintiff’s prices are higher than defendants’ prices, the consumer will be confused and charge the plaintiff with price gouging.\textsuperscript{127} The court then stated that the remedy of accounting would not provide sufficient relief to the plaintiff because an accounting will not protect against consumer confusion, injury to reputation, and

\textsuperscript{117} Osawa, 589 F. Supp. at 1165.
\textsuperscript{118} Id. at 1165-68.
\textsuperscript{119} Id. at 1166.
\textsuperscript{120} Id.
\textsuperscript{121} Id. at 1166-67.
\textsuperscript{122} Id. at 1167. The plaintiff paid for national advertising campaigns and set up service centers. Id.
\textsuperscript{123} Id.
\textsuperscript{124} Id. To maintain its reputation in the photography business, the plaintiff had to maintain a large inventory of products, some of which were never ordered. The defendants, however, stocked only those items in high demand. Id.
\textsuperscript{125} Id. at 1167-68. The court noted that the plaintiff had also been performing free warranty work on defendants’ goods to maintain the goodwill of the MAMIYA mark. Id.
\textsuperscript{126} Id. at 1168.
\textsuperscript{127} Id. at 1168-69.
loss of goodwill. Finding greater hardships to the plaintiff and likelihood of success on the merits, the court granted the preliminary injunction.

The court then discussed the theories of universality, territoriality, and exhaustion in the context of parallel imports in general and this case in particular. The court rejected the principle of universality as simplistic and unrealistic, emphasizing that the principle had been discarded by Congress in enacting section 27 of the Trade-Mark Act of 1905 and by the Supreme Court in Katzel. The court embraced the principle of territoriality because it is consistent with the idea that a trademark has a separate legal existence under each country's laws. The territoriality theory also acknowledges that a trademark may represent a factually separate goodwill in separate territories. Noting that the principle of exhaustion superficially supports the theory of universality, the court nonetheless stated that when a separate goodwill is present, the exhaustion of rights is an exhaustion of the rights associated with a separate mark, but not all of the marks. Addressing defendants' arguments in the case, the court first rejected the contention that the theory of exhaustion should apply. The court stated that the plaintiff had established a separate local goodwill other than the original trademark and, therefore, exhaustion does not apply. In response to the charge that the court's interpretation of section 526 "fosters anticompetitive practices, discriminatory pricing and violations of antitrust law and policy," the court asserted:

[A] trademark is, like a patent, a monopoly conferred by law. Unquestionably they are susceptible to abuse and to employment in illegal fashion. When this occurs, the proper remedy is either to deny enforcement in appropriate instances or to impose liability by reason of the finding of unfair competition, violation of the antitrust laws or whatever, and not by distortion of the trademark laws

128. Id. at 1169-70.
129. Id. at 1170-71.
130. See supra text accompanying notes 17-24.
132. Id.
133. Id.
134. Id.
135. Id.
136. Id. at 1174-76.
137. Id. at 1176.
in a fashion that will defeat legitimate trademark expectations.\textsuperscript{138}

The court determined that defendants failed to prove that Customs violated its own regulations by granting the exclusion order to the plaintiff because the plaintiff and the foreign manufacturer of the parallel imports are subject to common control.\textsuperscript{139} Defendants contended that the plaintiff's position in the case would give an unjustifiable monopoly of United States sales of Mamiya cameras.\textsuperscript{140} Last, the court noted that defendants are not barred from importing Mamiya cameras, but only from infringing on the plaintiff's trademark.\textsuperscript{141}

D. COPIAT

In \textit{Coalition to Preserve the Integrity of American Trademarks v. United States},\textsuperscript{142} the plaintiff (COPIAT) brought an action seeking both a declaration that certain Customs Service regulations are inconsistent with the Tariff Act of 1930 and the Lanham Act, and an order directing that the statutes be enforced according to their express terms.\textsuperscript{143} The plaintiff, a coalition of manufacturers and distributors of trademarked products such as cosmetics, watches, tires, cameras, and electronic goods, claimed damage from importation and sale of parallel imports in the

\textsuperscript{138} Id.
\textsuperscript{139} Id. at 1177; see 19 C.F.R. 133.21(c)(2); see also supra note 67 and accompanying text. The court also found that the defendants had failed to exhaust their administrative remedies. \textit{Osawa}, 589 F. Supp. at 1177.

The court noted that it was not necessary to decide at this point whether Customs exceeded its authority in promulgating the regulations; however, the court then critically examined the regulations. \textit{Id.} The court wrote:

\begin{quote}
The Customs regulations presume antitrust violation without reference to market considerations, from the sole fact of common control of foreign and domestic trademark owners. I consider this unsound both as antitrust policy and as trademark law. More significantly, these crude regulations denying rights granted by statute seem unnecessary to protect the interests they seek to guard.
\end{quote}

\textit{Id.} at 1178.

\textsuperscript{140} Id.
\textsuperscript{141} Id. The court rejected defendants' contention that the plaintiff did not own the trademark rights and lacked standing. It found that the retention of a reversionary interest by a trademark transferor did not deny the plaintiff standing in these proceedings. \textit{Id.} at 1178-79.

\textsuperscript{142} 598 F. Supp. 844 (D.D.C. 1984).
\textsuperscript{143} \textit{Id.} at 846.
United States.\textsuperscript{144} The court allowed K Mart Corporation and 47th Street Photo to enter the case as intervenor-defendants because both are engaged in the sale of parallel imports.\textsuperscript{146}

The court first considered the motion to dismiss the action for lack of subject matter jurisdiction raised by 47th Street Photo.\textsuperscript{146} 47th Street Photo contended that the Court of International Trade had exclusive jurisdiction over the plaintiff's claims relating to section 526 of the Tariff Act, and that the plaintiff's claims based on section 42 of the Lanham Act failed to state a claim on which relief can be granted.\textsuperscript{147} Rejecting these arguments, the court not only held that the Court of International Trade did not have exclusive jurisdiction,\textsuperscript{148} but that it had jurisdiction in this case based on general federal question jurisdiction,\textsuperscript{149} specific jurisdiction of actions arising under statutes relating to trademarks,\textsuperscript{150} and specific jurisdiction for all actions arising under the Lanham Act.\textsuperscript{151} The court, therefore, denied the motion to dismiss for lack of subject matter jurisdiction.\textsuperscript{152} The court dismissed the claims based on section 42 of the Lanham Act for failure to state a claim on which relief can be granted.\textsuperscript{153} The court explained that "section 42 of the Lanham Act clearly applies only to merchandise bearing counterfeit or spurious trademarks that 'copy or simulate' genuine trademarks.\textsuperscript{154}

The court's discussion of the case's main issue, whether the challenged Customs regulations are inconsistent with section 526 of the Tariff Act of 1930,\textsuperscript{155} began with the history of section 526 and the Customs regulations.\textsuperscript{156} The plaintiff contended examination of the legislative history was unnecessary because the plain language of the statute controls and is clear on its face.\textsuperscript{157} The

\begin{itemize}
  \item \textsuperscript{144} \textit{Id.}
  \item \textsuperscript{145} \textit{Id. at 846-47.}
  \item \textsuperscript{146} \textit{Id. at 847.}
  \item \textsuperscript{147} \textit{Id. at 847-48. In Vivitar, the Court of International Trade decided that it had exclusive jurisdiction over a similar claim. See supra note 83.}
  \item \textsuperscript{148} \textit{COPIAT, 598 F. Supp. at 847.}
  \item \textsuperscript{149} \textit{Id. (citing 28 U.S.C. § 1331 (1982)).}
  \item \textsuperscript{150} \textit{598 F. Supp. at 847 (citing 28 U.S.C. § 1338(a) (1982)).}
  \item \textsuperscript{151} \textit{598 F. Supp. at 847 (citing 15 U.S.C. § 1121 (1982)).}
  \item \textsuperscript{152} \textit{COPIAT, 598 F. Supp. at 847.}
  \item \textsuperscript{153} \textit{Id. at 848.}
  \item \textsuperscript{154} \textit{Id.}
  \item \textsuperscript{155} \textit{Id. at 848-49.}
  \item \textsuperscript{156} \textit{Id. at 849-50.}
  \item \textsuperscript{157} \textit{Id. at 850.}
\end{itemize}
plaintiff claimed that quality of imported goods often differs because fewer controls apply to such goods, and the goods do not travel through the authorized distribution channels. The plaintiff further claimed that imported goods damaged their profits due to the loss of sales. Other injuries claimed by the plaintiff were “a loss of prestige associated with the selection of distributors, diffusion of promotional efforts, impairment of good will, and the threat of an untimely end to the fashionable aura of the brand name.” Defendants countered by offering legislative history as proof that Congress did not intend to prohibit parallel imports of goods and that the regulations represent the correct interpretation of the statute. Defendants also contended that parallel imports provide consumers with a legitimate alternative to goods that come through normal channels.

The court granted summary judgment for the defendants based on its finding that the challenged regulations reflect the longstanding practice of Customs, and that the regulations are fully consistent with Congressional intent. Furthermore, because Congress was aware of Customs’ interpretation but took no steps to amend the regulations, Congress apparently approved of the practice.

E. Duracell

The United States International Trade Commission (ITC) recently confronted the issue of parallel imports in a dispute involving the grey marketing of batteries from Europe. In August

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158. Id.
159. Id.
160. Id.
161. Id. at 850-51.
162. Id. at 852.
163. Id.
164. In re Certain Alkaline Batteries, Invest. No. 337-TA-165, USITC Pub. 1616, Nov. 5, 1984) (views of Vice Chairman Liebeler, Commissioner Eckes, and Commissioner Lodwick) (disapproved by President Reagan, Jan. 4, 1985) [hereinafter cited as Duracell majority]. The ITC has the duty “to investigate the operation of customs laws, . . . their effect upon the industries and labor of the country, and to submit reports of its investigations. . . .” 19 U.S.C. § 1332(a) (1982). 19 U.S.C. § 1337 contains the ITC’s investigation procedure. If the ITC finds a violation of section 337 of the Tariff Act of 1930, it must transmit that determination to the President. 19 U.S.C. § 1337(g)(2) (1982). The President has 60 days from the receipt of the ITC’s determination to disapprove it for policy reasons. If the President rejects the determination, the agency’s action has no
1983, Duracell, Incorporated (Duracell) filed a complaint with the ITC alleging that the respondents had violated section 337 of the Tariff Act of 1930.\textsuperscript{165} N4 Batteries manufactured by Duracell-Belgium were being imported by several supply houses into the United States after the batteries had entered the European wholesale distribution system.\textsuperscript{166} The ITC found that the importation: (1) infringed on Duracell's trademark under the common law of trademarks; (2) violated section 42 of the Lanham Act; (3) violated section 32(1) of the Lanham Act; (4) constituted a misappropriation of trade dress; (5) falsely designated the origin of the goods; and (6) violated the Fair Packaging and Labeling Act.\textsuperscript{167}

Discussing the infringement of a registered trademark, the ITC framed the issue as whether the parallel importation of goods without the consent or license of the United States trademark owner is an unfair act or unfair method of competition under section 337.\textsuperscript{168} After considering the theories of universality and territoriality, the ITC majority noted that the theory of territoriality incorporates the concepts that the primary function of a trademark is to symbolize the goodwill that the domestic trademark effect. If the President takes no action or approves the determination, the agency's determination becomes final. 19 U.S.C. § 1337(g) (1982).

165. \textit{Duracell majority, supra} note 164, at 2. Section 337 of the Tariff Act 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, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.


166. \textit{Duracell Majority, supra} note 164, at 5. Duracell-Belgium is a wholly owned subsidiary of Duracell International, a Delaware corporation, which in turn is a wholly owned subsidiary of Duracell. \textit{Id.} at 4.

167. \textit{Id.} at 6.

168. \textit{Id.} The ITC also asserted that article 6(3) of the Paris Convention deals with parallel imports. \textit{See id.} at 11. Article 6(3) provides that "[a] mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin." Paris Convention for the Protection of Industrial Property, \textit{done} July 14, 1987, T.I.A.S. No. 6923, 21 U.S.T. 1583 (revising Convention signed on Mar. 20, 1883).
owner has developed, and that a trademark has a separate legal existence in each country. The Duracell majority then stated that courts following the universality principle are in error because a trademark performs a function other than the prevention of public confusion. According to the majority, sales of imported batteries deprived Duracell of profits as a return on its goodwill. The ITC then held that the common law affords a remedy for infringement of a trademark-holder’s territorial right, and that this remedy is independent of the Customs law or the Lanham Act. Thus, no challenge to the Customs’ interpretation of section 526 was necessary. The Duracell majority also found no violation of section 526 of the Tariff Act because Congress intended section 526 to apply only where a foreign company sells trademark rights to a United States company; therefore, the majority deferred to the interpretation of section 526 in the lower court’s decision in Vivitar.

Reviewing the Supreme Court’s interpretation of trademark laws, the ITC then found a violation of section 42 of the Lanham Act. The ITC also found a likelihood of confusion “as to the sponsorship of the batteries at the point of sale” and, therefore that a violation of section 32(1) of the Lanham Act existed.

170. *Id.* at 13.
171. *Id.* at 17-18.
172. *Id.* at 19.
174. *Duracell majority, supra* note 164, at 23. The ITC noted that it was not barred from interpreting trademark law by Customs’ interpretation of trademark law. *Id.* at 22. It rejected the argument that Congress intended to adopt Customs’ interpretation when it enacted the wording of section 27 of the Trademark Act of 1905 into section 42 of the Lanham Act. *Id.* at 23. The ITC held that they were bound by the Supreme Court’s interpretation of trademark law. *Id.*
175. *Id.* at 23-33. Section 32(1) provides:

> [a]ny person who shall, without the consent of the registrant — (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive; . . . shall be liable in a civil action by the registrant. . . .

15 U.S.C. § 1114 (1982). The ITC found that the trademark was copied, that the copy was used in connection with the sale of goods, and that the copying caused confusion. *Duracell majority, supra* note 164, at 22-23. Although the Belgian
Furthermore, the Duracell majority found a misappropriation of the plaintiff's trade dress and false designation of origin.\textsuperscript{176} The ITC stated that the term "origin" is not limited to the manufacturer but also encompasses the distribution chain.\textsuperscript{177} The ITC found an injury as required by section 337 because Duracell was deprived of goodwill benefits, and the loss of sales was a loss of sales to the United States industry.\textsuperscript{178} The ITC then determined that the proper remedy would be a general exclusion order,\textsuperscript{179} and that the public interest did not preclude the issuance of such an order.\textsuperscript{180}

Vice Chairman Liebeler additionally expressed her views that parallel imports violate section 526 of the Tariff Act.\textsuperscript{181} She believed that the plain meaning of the statute should be controlling and that Customs' interpretation of section 526 was incorrect.\textsuperscript{182} Vice Chairman Liebeler stated that any interpretation of section 526, which is only applicable to transactions between related com-

\begin{itemize}
  \item[\textsuperscript{176}] Duracell majority, supra note 164, at 33-34.
  \item[\textsuperscript{177}] Id. at 34. The ITC found that all but one of the respondents failed to comply with the fair packaging and labelling provisions. Id. at 35.
  \item[\textsuperscript{178}] Id. at 35-37. The question is whether a United States industry, not a United States company, is injured. Id. at 35. In addition to causing lost sales, parallel imports had injured Duracell's United States distribution system and caused lower production. Id. at 37.
  \item[\textsuperscript{179}] Id. at 37-41. The ITC found that Duracell had shown a "widespread pattern of unauthorized importation and sale of the infringing batteries." Id. at 38. It further found that altering the labelling would not prevent public confusion. Id. at 40.
  \item[\textsuperscript{180}] Id. at 41-44. The arguments against issuing a general exclusion order were that: (1) it would impair the competitive conditions in the United States; and (2) it would allow Duracell to discriminate in pricing between the two markets. Id. at 41-43. The arguments in favor of issuing a general exclusion order were: (1) trademarks act as a guarantee of quality, and, because of this assurance of quality, consumers are willing to pay a premium price that serves as an incentive to produce high quality goods; (2) an exclusion order would protect the integrity of Duracell's trademark and in turn protect the entire trademark system; and (3) important warnings on the packages of imported goods were not in English. Id. at 43-44. Section 337(d) requires that the public interest be considered when a general exclusion order is granted. Id.
  \item[\textsuperscript{181}] In re Certain Alkaline Batteries, Invest. No. 337-TA-165, USITC Pub. 1616 at 1 (Nov. 5, 1984) (Additional Views of Vice Chairman Liebeler) [hereinafter cited as Liebeler].
  \item[\textsuperscript{182}] Id.
panies, is improperly premised on the theory of universality which ignores the independent goodwill that a trademark can represent.\textsuperscript{183} Liebeler wrote that, although violating a trademark might lower prices in the short-run, the long-run effect is reduction of investments in trademarks.\textsuperscript{184}

Chairman Stern and Commissioner Rohr filed a “dissenting” opinion.\textsuperscript{185} Although agreeing that section 337 had been violated,\textsuperscript{186} they did not view section 526 of the Tariff Act and section 42 of the Lanham Act as appropriate subject matter for an action under section 337 of the Tariff Act.\textsuperscript{187} They asserted that the Customs Service had not only established separate procedures for dealing with conflicts under these statutory sections,\textsuperscript{188} but also that even if section 526 were available it would not apply in this case.\textsuperscript{189} The Duracell dissent agreed that the principle of territoriality is part of United States law, but stated that the territoriality theory should only be used to define an identical mark as a separate mark that copies or simulates a United States trademark.\textsuperscript{190} The dissent also determined that there had been violations of section 337.\textsuperscript{191} The dissent, however, disagreed with the general exclusion order, advocating that a solution to the problem of parallel imports requires a balancing of interests; therefore, Congress, not the ITC, is the more appropriate forum for the

\begin{itemize}
\item \textsuperscript{183} Id. at 3.
\item \textsuperscript{184} Id. at 4. Liebeler agreed that a general exclusion order is in the public interest because it provides: “1) a clear and unambiguous rule; 2) an incentive to develop foreign markets; 3) the benefits of economies of scale in the investment in trademarks and advertising; 4) an incentive to invest in trademarks; 5) an incentive to develop high quality goods; and 6) an incentive to maintain the quality of goods.” Id.
\item \textsuperscript{185} In re Certain Alkaline Batteries, Invest. No. 337-TA-165, USITC Pub. 1616 (Nov. 5, 1984) (View of Chairman Stern and Commissioner Rohr) [hereinafter cited as \textit{Duracell dissent}].
\item \textsuperscript{186} Id. at 1.
\item \textsuperscript{187} Id. at 3-7.
\item \textsuperscript{188} Id.
\item \textsuperscript{189} Id. at 8-11. The \textit{Duracell} dissent stated that “section 526 is applicable only to the circumstances of the sale of U.S. trademark rights by a foreign company to an independent U.S. firm. Because no such sale is involved in this case . . . section 526 [would be] inapplicable.” Id. at 8 (citation omitted). The dissent also stated that section 42 of the Lanham Act would not apply in this case because it only applies in situations involving unrelated companies. \textit{See id.} at 11-17.
\item \textsuperscript{190} Id. at 14.
\item \textsuperscript{191} Id. at 1.
\end{itemize}
solution.  

On January 4, 1985, President Reagan disapproved the ITC’s determination in In re Certain Alkaline Batteries, stating that failure to disapprove could be construed as a change in policy. In his disapproval, the President stated:

The Commission’s interpretation of section 42 of the Lanham Act (15 U.S.C. 1124), one of several grounds for the Commission’s determination, is at odds with the longstanding regulatory interpretation by the Department of the Treasury. . . . The Administration has advanced the Treasury Department’s interpretation in a number of pending court cases. Recent decisions [in COPIAT and Vivitar] explicitly uphold the Treasury Department’s interpretation. Allowing the Commission’s determination in this case to stand could be viewed as an alteration of that interpretation. I, therefore, have decided to disapprove the Commission’s determination.

F. El Greco

The plaintiff, El Greco, the owner of the United States trademark CANDIE’S for shoes, sought a permanent injunction to restrain defendant, Shoe World, from using this mark. The defendant was selling shoes with the CANDIE’S mark through its discount shoe stores for $13.88. The plaintiff alleged unfair competition, violation of the Lanham Act, violation of section 526 of the Tariff Act of 1930, and violations of several New York state statutory provisions.

192. Id. at 17-45.
193. Letter from President Ronald Reagan to Paula Stern, Chairman, United States International Trade Commission (Jan. 4, 1985). The President commented:

The Departments of Treasury and Commerce, on behalf of the Cabinet Council on Commerce and Trade, have solicited data from the public concerning the issue of parallel market importation and are reviewing responses with a view toward formulating a cohesive policy in this area. Failure to disapprove the Commission’s determination could be viewed as a change in the current policy prior to the completion of this process.

194. Id.
196. Id. at 1384.
197. Id. at 1383. The court found none of the New York state laws applicable. Id. at 1394-96. The New York anti-dilution statute did not apply because
Plaintiff, through an exclusive agent, engaged several Brazilian shoe manufacturers to produce certain styles of women's shoes bearing the CANDIE'S trademark.\textsuperscript{198} When the plaintiff rejected some of the shipments of shoes from these Brazilian manufacturers, the manufacturers would then sell the goods to the defendant.\textsuperscript{199} El Greco contended that it had rejected the shipments because the shoes were defective and thus were not genuine goods.\textsuperscript{200} The court noted that the plaintiff never told the defendant how to dispose of the rejected goods, and that the contract between the parties contained no provision addressing the situation.\textsuperscript{201}

The plaintiff based its trademark claims on violations of sections 32, 43(a), and 44(g) of the Lanham Act.\textsuperscript{202} The court found that section 44(g) of the Lanham Act was inapplicable because its purpose is to extend trade protection to foreign trademark owners whose home countries are members of trade protection treaties with the United States.\textsuperscript{203} The court stated that section 32(1) of the Lanham Act "prohibits the use of a trademark (1) without consent, (2) in connection with the sale of goods, [and] (3) in a manner that is likely to cause confusion or to deceive the purchaser as to the source or origin of the goods."\textsuperscript{204} The court noted that section 43(a) prohibits the use in connection with any goods or services of a false designation of origin or any false description or representation, and, under either section 32(1) or 43(a), a showing of likelihood of confusion is required.\textsuperscript{205} Agreeing with

\textsuperscript{198} Id. at 1384.
\textsuperscript{199} Id. at 1384-85.
\textsuperscript{200} Id. at 1385. The court found that the plaintiff failed to prove these facts. The evidence indicated that the plaintiff refused many of the shipments for late delivery and reasons other than defective quality. Id. at 1386.
\textsuperscript{201} Id. at 1392.
\textsuperscript{202} Id. at 1390. These provisions are codified at 15 U.S.C. §§ 1114, 1125(a), and 1126(g) (1982).
\textsuperscript{203} El Greco, 599 F. Supp. at 1391.
\textsuperscript{204} Id. at 1390.
\textsuperscript{205} Id. The court defined likelihood of confusion as whether "an appreciable number of purchasers [are] likely to be misled as to the source or sponsor-
the defendant’s contentions, the court ruled that genuine goods could not be considered infringing goods.\textsuperscript{206} The court then determined that the “unauthorized sale of genuine goods cannot give rise to the likelihood of confusion necessary to maintain a federal trademark infringement action.”\textsuperscript{207}

Plaintiff’s final claim was that the defendant’s actions constituted a violation of section 526 of the Tariff Act of 1930.\textsuperscript{208} The defendant first contended that section 526 would not apply in this case because it was intended to protect United States trademark owners who obtained a trademark right from the owner of the foreign trademark.\textsuperscript{209} The court found that section 526 did not apply because El Greco had control over the CANDIE’S trademark and had not obtained the mark from the Brazilian manufacturers. For these reasons, the court found that this case did not fall under the intended protection of section 526.\textsuperscript{210}

IV. ANALYSIS

A court’s choice of a trademark theory often determines the outcome of a parallel importation case. The universality theory presents a rather simplistic view of trademarks. This theory views the manufacturer as the origin of all products, regardless of the

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\textsuperscript{206} Id. at 1394. In reaching this conclusion, the court relied on DEP Corp. v. Interstate Cigar Co., 622 F.2d 621, 622 n.1 (2d Cir. 1980) (dictum that trademark infringement would not be found in cases involving genuine goods). The court also relied on Monte Carlo Shirt, Inc. v. Daewoo Int’l (American) Corp., 707 F.2d 1054 (9th Cir. 1983) (applying California law). Monte Carlo arose when a United States purchaser of genuine shirts refused delivery of the goods. The defendant then sold the shirts to a discount retailer with the trademarks still intact. Monte Carlo, 707 F.2d at 1054-58. The court held that no trademark infringement occurred because the goods were manufactured and imported under the plaintiff’s authority; therefore, the court found the goods to be genuine. Id.

\textsuperscript{207} El Greco, 599 F. Supp. at 1394. The plaintiff also asserted a state common law claim of unfair competition. The court held that the cause of action requires a likelihood of confusion to exist, and the court found no confusion in this case because the goods were genuine. Id. at 1394-95.

\textsuperscript{208} Id. at 1396. The court traced the history of section 526 from Katzel to the Vivitar decision. This court agreed with the lower court’s interpretation of section 526 in Vivitar. Id. at 1400-01. For a discussion of Vivitar, see supra notes 83-109 and accompanying text.

\textsuperscript{209} El Greco, 599 F. Supp. at 1396-97.

\textsuperscript{210} Id. at 1397-98.
distribution chain and any established local goodwill. Under the territoriality theory, the manufacturer is not necessarily the origin of all goods; thus, distributors and licensees of the trademark are protected. This theory recognizes that a separate goodwill can be established by each link in the marketing chain of a product. Each entity along the chain, therefore, is equally deserving of trademark protection.

Under the theory of universality, the country in which the goods are manufactured, or the country into which the goods are imported, is irrelevant because the trademark is given worldwide protection. The court in El Greco held that, because the goods were manufactured under the plaintiff’s control, there was no infringement or unfair competition. This reasoning and application of the universality theory echoes decisions reached in the late nineteenth century before adoption of extensive trademark protection laws.

The theory of territoriality considers all three functions of a trademark and is concerned with the separate goodwill established by distributors, wholesalers, and retailers. The Osawa decision discussed ways in which a separate local goodwill could be established and how separate goodwill can cause differences in product prices. Different standards for inspecting goods for some markets, warranty service, and advertising can all establish a separate goodwill. This goodwill is not the product of manufacture but is established in the distribution chain. Local goodwill can be harmed if products which do not offer these same benefits are marketed under the same trademark. This harm to goodwill is irreparable, and protection should be provided for the trademark owner.

Regardless of the theory applied, however, the Lanham Act test for trademark infringement must be applied. This test is not whether the goods are genuine, but whether the consumer is

211. See supra notes 17-18 and accompanying text.
212. See supra notes 19-20 and accompanying text.
213. See supra notes 17-18 and accompanying text.
214. See supra notes 195-210 and accompanying text.
215. See supra notes 25-28, 30 and accompanying text (discussing Apollinaris and Gretsch).
216. See supra notes 19-20 and accompanying text.
217. See supra notes 110-26 and accompanying text; see also Osawa, 589 F. Supp. at 1172-73.
218. See supra text accompanying note 129.
likely to be confused about the origin or nature of the goods. In the lower court's decision in Vivitar,\textsuperscript{219} the court concluded that the consumer would not be confused about the sale of cameras imported on the parallel market because the court assumed that the consumer would not know where the cameras were manufactured. The Vivitar court, however, failed to address the issue of whether the consumer would know the differences in services and warranties between the goods. The ITC in the Duracell investigation,\textsuperscript{220} contrastingly, assumed that consumers would not be able to differentiate between parallel import goods and goods reaching them through authorized channels. The ITC also determined that price and quality differences in the products will lead to consumer confusion and harm the goodwill that has been established by the trademark owner.\textsuperscript{221} The Lanham Act was enacted to protect the public from product confusion by providing greater protection for trademarks. The purposes of the Act are more closely followed by strict application of the test for infringement.

Another means of challenging parallel importation of goods is by use of section 526 of the Tariff Act of 1930.\textsuperscript{222} The plain language of section 526, enacted in reaction to the appellate court decision in Katz, does not allow parallel imports.\textsuperscript{223} Nonetheless, those who attempt to apply the statute disagree about the relevance of the legislative history of section 526 and its interpretation by Customs. Both the court in COPIAT and the lower court in Vivitar concluded that the primary factor in determining Congressional intent was the legislative history.\textsuperscript{224} In both cases, the courts also emphasized the interpretation of section 526 by Customs.\textsuperscript{225} The legislative history and agency interpretation should only be examined if some ambiguity on the face of the statute exists. The legislative history of section 526 is very brief because of limited debate, and there was confusion about the section's scope.\textsuperscript{226} The court of appeals in Vivitar recognized the problems with the legislative history and concluded that too

\textsuperscript{219} See supra notes 83-100 and accompanying text.
\textsuperscript{220} See supra text accompanying notes 164-94.
\textsuperscript{221} Duracell majority, supra note 164, at 12.
\textsuperscript{222} See supra text accompanying note 36.
\textsuperscript{223} See supra notes 35-38 and accompanying text.
\textsuperscript{224} See supra notes 155-63 and accompanying text; Vivitar, 593 F. Supp. at 434-35.
\textsuperscript{225} See supra text accompanying notes 88-93 and 155-63.
\textsuperscript{226} See supra notes 37-38 and accompanying text.
much weight should not be placed on the legislative history in interpreting section 526. The interpretation of section 526 by the Customs Service is equally inconclusive. Although some courts would argue that longstanding agency practice constitutes Congressional approval of the interpretation, others would argue that Congress' failure to pass the Celler Bill, which would have allowed parallel imports, demonstrates that Congress disapproves of Customs' interpretation. Until Congress clearly manifests its intent, the plain language of section 526 should be applied to all cases involving parallel imports.

V. Conclusion

Conflicts in interpretations of section 42 of the Lanham Act and section 526 of the Tariff Act of 1930 have led to divergent results in several federal courts. Although advocates on each side of the controversy present valid arguments supporting their positions, the dispute should be resolved by analyzing the purpose of the Lanham Act and the Tariff Act. The goal of these acts is protection of consumers and United States industry. Strict application of these statutes would achieve this result. Parallel imports provide goods at lower prices but confuse the consumer as to the origin of the goods and the warranties and services that accompany the goods. This confusion clearly fails the Lanham Act test for trademark infringement. Parallel importation also undermines the value of the trademark investment, thereby harming the owner of the United States trademark. Until some clear congressional action is taken to clarify the present situation involving parallel imports, courts should interpret section 42 of the Lanham Act and section 526 of the Tariff Act to protect both the consumer and the owner of the United States trademark. Such an interpretation would follow most closely the original purpose of both acts.

W. Weldon Wilson

227. See supra text accompanying notes 101-05.
228. See supra note 63.