Spring 1986

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The Case for Parallel Importation

Jamie S. Gorelick* and Rory K. Little**

I. Introduction

Parallel importers\(^1\) provide domestic consumers with foreign-made trademarked goods at prices below those set by the multinational owners of the trademark. Their goods are by definition the genuine trademarked article—not counterfeit or adulterated goods. The practice of buying such genuine goods overseas, importing them into the United States, and selling them at bargain prices—parallel importation—has existed for years. As President Reagan stated when he rejected an International Trade Commission vote to impose an exclusion on parallel imports, such a policy would be “at odds with the longstanding regulatory interpretation of the Department of the Treasury.”\(^2\)

Despite Customs regulations that sanction parallel imports,\(^3\) private legal actions against parallel importers persist. Unable to persuade Congress or the Executive Branch to change the law, domestic affiliates of multinational corporations intent upon maintaining artificially high prices in the United States have sought relief in federal

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\(^1\) The term “parallel importers” is a shorthand term used to encompass all parties involved in the chain of commerce ultimately resulting in the domestic sale of genuine imported trademarked goods by independent companies. The term includes buyers, importers, wholesalers and retailers of such goods, when the goods have not been obtained directly from “authorized” United States dealers. The purchase, importation and sale of such goods is said to be “parallel” to the channels “authorized” by the international trademark owners. \textit{See infra} text at note 5.


\(^3\) The Customs Service has enforced regulations that permit parallel importation since 1936. \textit{See infra} notes 45-54 and accompanying text. The regulations are currently codified at 19 C.F.R. \$ 133.21(c) (1985).
courts. In response, defenders of parallel importation seek to preserve this low-cost option for the U.S. consumer.

Despite the innumerable factual distinctions that underlie any class of litigation, there are common legal and factual defenses to parallel importation. First, the factual context that gives rise to the problem reveals the strong policy reasons for the longstanding regulations that permit parallel importation. Second, the historical context of legislation that addresses parallel importation demonstrates congressional and judicial interest in protecting only independent domestic purchasers of foreign trademarks, not multinational conglomerates. Third, administrative practice over the past half-century shows that importation of genuine trademarked goods has never been prohibited unless the U.S. trademark owner is independent of foreign control. Fourth, legislative actions over the past forty years indicate that Congress has examined and ratified the legal interpretation that permits parallel importation. Finally, other countries—our trading partners—allow and encourage parallel importation, and the practice serves competitive goals. After examination of these factors, the case for parallel importation is strong, and the counterarguments unpersuasive.

II. The Factual Context

To secure higher U.S. prices, foreign manufacturers often establish or utilize U.S. corporations, closely affiliated with or controlled by the foreign company, as the exclusive, "authorized" domestic distributor of the trademarked goods. These subsidiaries or affiliates use the same trade name already popularized by the foreign parent in markets worldwide. By assigning the U.S. trademark rights to their domestic affiliates, the multinational companies create a "domiciliary" corporation to act as the technical "owner" of the U.S. trademark rights. Still heavily influenced by the foreign manufacturers, these companies then attempt to restrict competitive imports by asserting rights they claim belong only to the "authorized" U.S. distributors of the foreign product.

Independent domestic companies have recognized the opportunity provided by international price differentials in trademarked goods. Such companies purchase the genuine trademarked goods in foreign markets—at whatever the going price set by the manufacturer may be—and openly bring them into the United States, paying all legitimate duties and costs. These authentic trademarked goods are then sold to the public at low prices—as much as forty percent less than the "authorized" distributor's price—that accurately reflect

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4 Again, this is a shorthand description. A domestic retailer of parallel imports may not be the same entity that buys the products overseas or that imports them into the United States. See supra note 1.
their value in international markets. This "parallel" importation and distribution—parallel to the multinational companies' "authorized" U.S. channels—provides an alternate source of trademarked goods for the U.S. consumer.5

The plaintiff in a parallel importation action is invariably the "authorized" domestic distributor of trademarked goods that are made and sold overseas.6 The variety of corporate relationships between these domestic companies and their foreign affiliates are myriad. The foreign parent/domestic subsidiary relationship seems to be most common, but the permutations are limited only by a corporate lawyer's imagination. One common fact that cannot be hidden by any corporate veil, however, is the domestic plaintiff's power to control the foreign price and distribution of the product.

This last point is central and should be the focus of discovery and stressed to any court unfamiliar (as most naturally are) with parallel importation. Parallel importers only buy goods at prices that foreign manufacturers are willing to sell the goods. Original trademark owners are not forced to sell in foreign markets at prices that encourage parallel importation. Similarly, no one compels foreign distributors to sell to parallel importers at all, or to sell at exceedingly low prices and in exceedingly large quantities in markets, such as Hong Kong, that are well understood to be sources of parallel import goods.

Finally, nothing but the manufacturer's free choice places identically trademarked goods in different geographic markets. If multinational trademark holders truly want to maintain geographically distinct markets, they can use distinct labels for goods distributed in different countries, so that consumer recognition would be internationally nontransferable.7 In short, any "problem" of parallel importation is entirely self-inflicted. Not unlike civil contemnors, multinational trademark holders hold the key to their own release.8

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5 Opponents like to refer to this system as the "grey market," with its innuendo of impropriety or borderline legality. There is, however, nothing underhanded about the business practice at issue. The goods are the authentic trademarked item, purchased openly on the open market. The goods are declared, customs duties are paid, and the products are sold in the United States by reputable, well-established domestic retailers.

6 See, e.g., Vivitar Corp. v. United States, 598 F. Supp. 420 (Ct. Int'l Trade 1984), aff'd, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, 106 S. Ct. 791 (1986) (stating that "Vivitar has little or no manufacturing facilities of its own, but rather has its products manufactured to specification by various foreign manufacturers, principally in Japan"). In rare cases, the plaintiff is a U.S. company which, in addition to manufacturing some of its goods in this country, also licenses the manufacture and distribution of its goods overseas at varying prices.

7 In the United States, we are dimly aware of existing examples of such strategy. For example, the Volkswagen "Rabbit" model was for years known in Europe as the "Golf." More recently, Minolta has begun to market a U.S. camera called the "Maxxum." Unfamiliarity with other examples merely demonstrates the effectiveness of the strategy.

8 Rather than bear the cost of such measures, opponents of parallel importation have suggested that parallel importers should have to "demark" the goods they sell, by
Why, then, do U.S. owners of international trademarks retreat to the courts for relief? The answer would seem to be at least fourfold. First, and most significantly, the executive and legislative branches have refused to provide price supports. Both the House and Senate committees have noted the legality of parallel importation and rejected efforts to alter the laws that permit parallel importation.\footnote{See S. REP. No. 526, 98th Cong., 2d Sess. 11 (1984); H.R. REP. No. 621, 95th Cong., 1st Sess. 27 (1977); \textit{infra} notes 64, 66 and accompanying text (discussion of legislative ratification).} Similarly, the President has refused to block parallel importation as contrary to long-standing executive policy.\footnote{Duracell, 778 F.2d at 1578. The International Trade Commission had voted three to two to find parallel importers of Duracell batteries in violation of the law. The President reversed this determination pursuant to 19 U.S.C. § 1337 (g)(2) (1982), which permits him to disapprove ITC determinations "for policy reasons." The Court of Appeals for the Federal Circuit subsequently rejected, on jurisdictional grounds as well as on the merits, Duracell's attempt to obtain judicial review of the President's action. \textit{Duracell}, 778 F.2d at 1578.}

Second, trademark owners seem to prefer litigation to self-help solutions that would require them to restructure their current marketing strategies. Using different marks or labels in different markets, for example, requires the domestic affiliates to forego the international identity of their product.\footnote{This reluctance is particularly telling in light of the "authorized" distributors' arguments that they have established a separate U.S. identity for their foreign trademarks, deserving of separate trademark protection. \textit{See infra} notes 96-97 and accompanying text.} By contrast, litigation, if successful, would allow international corporations to control the flow and price of their products in the United States without giving up their international control or high profits.

Third, economic explanation has been offered by Calvin J. Collier, former Chairman of the Federal Trade Commission.\footnote{C. Collier, Remarks at the Second Annual Judicial Conference of the United States Court of International Trade (Oct. 23, 1985) (copy on file at the offices of the \textit{North Carolina Journal of International Law and Commercial Regulation}). Collier notes that, as good businessmen, foreign manufacturers presumably profit on each sale of their product, no matter where the sale is made. A multinational corporation may well be indifferent as between sales in Hong Kong and sales in the United States. Meanwhile, some consumers will pay only so much for a particular product while others are willing to pay a higher premium. By providing a lower domestic price for genuine "prestige" trademarked items, parallel importation permits foreign manufacturers to maintain a two-tiered pricing system, satisfying the "snob appeal" of one group of removing or obscuring the bona fide trademarks. This proposed "solution" has been soundly debunked, however, as inequitatable, confusing, and dangerous to consumers, and contrary to principles of free trade that normally operate in our legal system. \textit{See} Lewin, \textit{The Ten Commandments of Parallel Importation}, 18 \textit{LAW \& POLICY IN INT'L Bus.} ___ (1986). (The page numbers for this citation were unavailable at the time this article was published. The article cited will be published in volume 18, Issue 1 of \textit{LAW \& POLICY IN INT'L Bus.}.)}
consumers while simultaneously reaching bargain hunters who otherwise would not buy at all.

Although U.S. trademark owners have consistently opposed discovery regarding their international corporate connections, international trademark holders possibly find parallel importation perversely profitable; thus, there is little incentive to act independently to end the practice. The only improvement from this point of view might be a change in the law to permit exclusive price discrimination in the United States.

Finally, the statutory base for a lawsuit to prevent parallel importation is not frivolous at first glance. Two statutes are invoked by plaintiffs in recent parallel importation lawsuits. The first, section 526 of the Tariff Act of 1922, is broadly written and seems to be directly on point. Section 526 provides:

[It shall be unlawful to import into the United States any merchandise of foreign manufacture if merchandise, on the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent & Trademark Office by a person domiciled in the United States, . . . and if a copy of the certificate is filed with the Secretary of the Treasury, . . . unless written consent of the owner of such trademark is produced at the time of making entry.]

Without examining the historical and interpretive context of this provision, a U.S. company holding domestic rights to an international trademark might understandably consider litigation an easy solution. Section 526 appears to require only two conditions precedent: corporate organization "within the United States" and registration by a person "domiciled in the United States." Congress, however, was merely describing independent domestic corporations in a simpler age. Congress did not intend to protect foreign agencies, no matter what their corporate form.

The second statute relied upon, section 42 of the Lanham Act, seems equally far off point at first reading. Section 42 forbids the use of trademarks that "copy or simulate" registered marks owned by others. Because parallel imports bear the genuine marks applied by the manufacturer, this language would not seem relevant to parallel importation suits. Although congressional intent appears to support this conclusion, a few courts have held otherwise. The vast major-

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13 The legal attack on parallel importation has been based entirely on statutory grounds. It is otherwise conceded that the honest sale of accurately-marked goods violates no common law or basic human rights.
14 19 U.S.C. § 1526(a) (1982) (citations omitted). Section 526 has not been amended in relevant part since it was enacted in 1922.
15 Id.
16 See infra notes 36-43 and accompanying text.
18 See infra notes 93-100.
ity, however, have been largely unsuccessful.19

III. Section 526: History, Enforcement and Ratification

"The decisions of [the Supreme] Court have repeatedly warned against the dangers of an approach to statutory construction which confines itself to the bare words of a statute, for 'literality may strangle meaning.' "20 Section 526 of the Tariff Act of 1922 was enacted in a unique legislative and legal context. From the beginning, Congress intended to limit the scope of this provision to a specific inequity which was the subject of notorious litigation. Over a half century of administrative, judicial, and legislative activity in this area has affirmed this original intent.

A. The Historical Context

Section 526 was enacted in reaction to an ongoing lawsuit against a parallel importer. Analysis of that case and of the congressional debate on the provision reveals the equitable, fact-specific moorings of the law.

1. The Katzel Litigation

There is no quarrel as to what prompted Congress to enact section 526. The statute was principally a response to the judicial decision in A. Bourjois & Co. v. Katzel.21 While Katzel was on appeal to the Supreme Court of the United States, the Senate quickly introduced and approved section 526. The Supreme Court ultimately decided the case in a three-paragraph opinion by Justice Holmes. As Judge Learned Hand later remarked, "had the Supreme Court reversed that decision [Katzel] last spring, it [section 526] would not have been enacted at all."22

*Katzel* concerned the right to market in the United States face

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powder bearing a trademark "JAVA," which initially had been registered in the United States by the French manufacturer. The French manufacturer then sold the plaintiff their U.S. business, including the manufacturer's trademarks that were registered in the U.S. Patent Office. The U.S. purchaser re-registered the trademarks and continued to sell the imported powder as its own to domestic consumers.

By the time the U.S. purchaser filed suit against a parallel importer seven years later, the purchaser had developed its own identity with domestic consumers, an identity distinct from the foreign manufacturer. The U.S. purchaser had expended its own funds, without subsidies, rebates, or discounts from a foreign parent, to develop the product it had purchased. The judicial opinions suggest that Bourjois purchased the powder in bulk and repackaged it, "selecting colors suitable for the American market," before applying the labels bearing the trademark and selling the powder to the U.S. public. The plaintiff emphasized that U.S. consumers associated it alone with the product.

Based on these representations, Justice Holmes concluded as a matter of fact that Bourjois' trademark "labels [had] come to be understood by the public here [in America] as meaning goods coming from the plaintiff," not the foreign manufacturer. Nevertheless, the court of appeals held in Katzel that the domestic trademark owner could not enjoin a retailer who sold the powder in the United States under the same mark after purchasing it in France from the authentic

23 Katzel, 260 U.S. at 690.
24 Id. at 691.
25 In its brief to the Supreme Court, Bourjois & Co. stressed that:
   The plaintiff's goods, due to the expenditure of a great deal of money for advertising during the last eight years—(the Court will take judicial notice that these particular years are probably the equivalent of a half century of ordinary untroubled years)—are widely and universally recognized throughout the whole of the United States as the output of this plaintiff and this recognition extends to the remotest quarters and sections of the country. Wherever and whenever a box of face powder appears upon the market in the United States like or similar to the plaintiff's standard package, it is, in the language of plaintiff's affiant O'Connell, "the indication and proof that the contents emanates from the New York Company and represents the selection, special treatments, packing and get-up of the New York Company."
   Brief for Petitioner at 7-8, Katzel. The domestic company summed up its argument as follows:
   The plaintiff having, as explained, acquired its rights by purchase in 1913 at a very high figure and having then fortified and established those rights and having identified them with the plaintiff in the public mind by the expenditure of vast sums for advertising, etc., and the payment of enormous taxes, all representing the investment of U.S. dollars in a U.S. business, has undoubtedly become and now is entitled to protection against any invasion of the trade which it has built up and established, no matter what form that invasion may take or how plausible or specious the tendered justification for any such invasion may be.
   Id. at 13.
26 Katzel, 260 U.S. at 691.
manufacturer. Because the defendant's French labels accurately identified the manufacturer of the face powder, the Second Circuit held that no trademark right had been violated.

Before the Supreme Court could decide Katz, Congress enacted section 526 of the 1922 Tariff Act to overrule the Court of Appeals' judgment. Without reference to Congress' action, the Supreme Court arrived at the same result less than three months later. The Court did not refer to precedent or to the language of any statutes; it emphasized the equities. On the particular facts of Katz—facts generally not present in current parallel import litigation—the Court held that existing law gave the independent domestic owner of a registered trademark the right to enjoin anyone, including the French producer of the goods who had transferred completely its U.S. rights, from selling the same powder under that mark in the United States. It would be unfair, noted Justice Holmes, to permit the French seller to market its goods in the United States by someone other than the domestic trademark buyer "for the purpose of evading the effect of the transfer." Such a "contrivance," he declared, "must fail." For the same equitable reason, Justice Holmes said, buyers from the French producer, even if not engaged in any conspiracy, were prohibited from violating the trademark rights that had been purchased by a domestic concern and that had been developed independently in this country with the investment of $400,000.

Although its implications may have been broad, Justice Holmes quickly gave the Katz holding a narrow interpretation. In the next term, the Court again addressed a claim against a parallel importer, this time by the owners of trademarked "toilet powders and per-

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27 Katz, 275 F. at 543.
28 Id.
29 Katz, 260 U.S. at 691.
30 Id.
31 Katz, 274 F. at 857. Shortly after Katz was decided, the Supreme Court ruled in a one-sentence per curiam opinion that the same plaintiff could prevent, under section 27 of the Trade-Mark Act of 1905, the importation by a third party of face powders made in France by the same company from which the plaintiff obtained its powder. A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923). The petitioner's brief in the Aldridge case makes clear that the facts were virtually identical to those in Katz. Brief for Petitioner at 1, 3-6, A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923). The defendant, Aldridge, was the Customs Collector for the Port of New York. Responding to the petition in Aldridge, the Solicitor General asserted no opposition to the relief requested by the U.S. Bourjois Company—the Court's per curiam opinion ruled that the plaintiff should have the relief it requested, the defendant not objecting. Aldridge, 263 U.S. at 676. It was surely relevant to this decision that, in the interim, Congress had enacted section 526, which the Solicitor General quoted in his memorandum. Thus, the Aldridge decision, which was tied completely to the facts and analysis of Katz, held only that an independent U.S. trademark owner that had developed its own public identity and good will with the trademarked product could have foreign-made trademarked goods excluded. Aldridge, 263 U.S. at 675. It thus adds nothing to the holding of Katz itself.
The importer concededly did not “adulterate or otherwise deteriorate the plaintiff’s product,” and “handled the . . . product without in any way injuring its qualities.” The Court reversed an “absolute injunction” against the defendant. Justice Holmes wrote:

A trademark only gives the right to prohibit the use of it so far as to protect the owner’s good will against the sale of another’s product as his. There is nothing to the contrary in [Katzel]. There the trademark protected indicated that the goods come from the plaintiff in the United States, although not made by it, and therefore could not be put upon other goods of the same make coming from abroad. 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.

To date, no domestic trademark-holding company has proven that marks such as Cartier, Minolta or Oscar de la Renta “indicate that the goods come from” the U.S. mark holder. Indeed, such marks’ foreign images enable their owners to sell at a premium in the United States.

There can be no doubt that the Katzel litigation concerned equities very different from those present in modern-day parallel importation litigation. The Katzel courts addressed the rights of an independent domestic trademark owner that had invested substantial amounts of its own money in purchasing a trademark from a foreign manufacturer and then in developing a domestic identity distinct from that of the foreign trademark owner. The central question was whether the foreign manufacturer’s goods, not subject to any control or influence by the domestic trademark owner, could freely compete in the United States against the same now-independent mark, merely because they were “authentic” products.

An entirely different situation is presented when the owners of the U.S. and foreign trademark are corporate affiliates or parent and subsidiary—essentially the same corporate being. Only in these situations do the Customs Service regulations permit parallel importation to occur, which ensures that most modern-day litigation involves facts distinct from Katzel. In such circumstances, the domestic and foreign trademark owners, acting jointly, seek protection against price competition from their own merchandise, which they have chosen to send into the stream of international commerce at varying prices.

Such multinational corporations, including their domestic trademark holders, have alternative means readily available to prevent

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33 Id. at 367.
34 Id. at 368 (citations omitted).
35 See 19 C.F.R. § 133.21(c) (1985). The pertinent text of the regulation is quoted infra note 54.
their foreign-distributed goods from competing with the goods they send to the United States. They could (1) sell their products at the same prices here and abroad, or (2) distinguish the domestic products from the foreign ones—as Bourjois & Co. did—by producing or packaging them differently, by giving the products different model names or numbers, or by applying a different mark. However, enlisting the aid of the U.S. government to exclude totally foreign-manufactured products, based solely on domestic registration of the trademark without any showing of independent investment or good will, goes far beyond any legitimate economic interest the domestic trademark holder may assert, as well as beyond any limits the Congress or the Supreme Court originally intended.

2. The Legislative History

The 1922 discussion of section 526 on the Senate floor corroborates the primary lesson of the *Katzel* litigation. Congress was addressing the same inequity subsequently addressed by the Supreme Court: fraud on independent domestic businessmen who had purchased and developed trademark rights independently from a foreign manufacturer. The emphasis on the rights of independent domestic companies threatened by inequitable foreign competition permeated the short congressional debate. Congress was concerned lest foreign enterprises take unfair advantage of independent domestic firms to which the foreign entrepreneurs had sold exclusive trademark rights in this country for substantial sums, particularly if the domestic purchasers had thereafter developed independent local good will. The legislative history of section 526 demonstrates beyond cavil, however, that Congress did not intend to provide a means for market manipulation whereby a foreign conglomerate could suppress international price competition.

Discussion of the provision was brief, covering less than three full pages of the *Congressional Record*. There were no legislative hearings or reports. Moreover, one Senator described the provision as “one of the midnight amendments” to the tariff bill. This relative brevity did not prevent a full airing of the various positions. The Senators who opposed the legislation urged that it be referred to the Committee on Foreign Relations or the Committee on Patents. Proponents such as Senator Sutherland of West Virginia, however, fully explained that the statute’s simplicity permitted quick consideration—it’s “only aim is to prevent a palpable fraud.” He continued:

I believe that the Senate is in favor of protecting the property rights

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36 62 Cong. Rec. 11602 (1922). Senator Moses also noted that the section was inserted in the bill originally, without hearing, and, after removal by committee, “was put back in the bill among the myriad amendments brought in by the committee the other morning after their midnight session.” *Id.*

37 62 Cong. Rec. 11603 (1922) (emphasis added).
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 identical trade-marks.\textsuperscript{38}

Senator McCumber, a co-sponsor of the comprehensive tariff bill, then explained that he supported the new provision because, in light of the decision of the court of appeals in \textit{Katzel}, "the American purchasers of these [trademark] rights are entirely unprotected."\textsuperscript{39} The amendment, he said, was "to give the opportunity to protect the American purchaser."\textsuperscript{40} In answer to further questions, he described section 526 as "a prohibition against the violation of . . . contract," and he added, "[i]n a thousand ways we have guarded against fraud, and this [is] one among the thousand."\textsuperscript{41}

The focus was on fraud against domestic companies. No one suggested that a foreign-owned holder of a domestic trademark should be permitted to monopolize the flow and price of its goods in the United States. In fact, a final question directed to Senator McCumber by Senator Lenroot, an opponent of the legislation, questioned whether a foreign manufacturer would be able, under section 526, to have a domestic agent register its trademark in the United States and then bar others from importing the trademarked item. Senator McCumber flatly rejected that possibility: "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 the provision."\textsuperscript{42}

Careful examination of the 1922 legislative history reveals a hastily drafted legislative provision designed to prevent an inequity sanctioned by a recent court decision.\textsuperscript{43} The statute should not be

\textsuperscript{38} Id.
\textsuperscript{39} 62 CONG. REC. 11604 (1922).
\textsuperscript{40} Id.
\textsuperscript{41} Id.
\textsuperscript{42} 62 CONG. REC. 11605 (1922).
\textsuperscript{43} Rather than contest the accuracy of this legislative image, opponents of parallel importation often merely discount the significance of floor debate. But as Chief Justice Marshall long ago acknowledged, "[w]here the mind labours to discover the design of the legislature, it seizes everything from which aid can be derived." United States v. Fisher, 2 Cranch 358, 386 (1805). "Generalities about statutory construction help us little. They are not rules of law but merely axioms of experience. They do not solve the special difficulties in construing a particular statute. The variables render every problem of statutory construction unique." United States v. Universal C.I.T. Credit Corp., 344 U.S. 218, 221 (1952) (citations omitted). Thus, while the Supreme Court has sensibly acknowledged that "the statements of one legislator made during debate may not be controlling," it has gone on to note that "remarks . . . of the sponsor of the language ultimately enacted, are an
given range far afield from this precise context. A broader reading of section 526, based on its most sweeping literal application, raises the unanswerable question: why, in 1922, would Congress want to prevent importation of goods manufactured abroad whose trademark ownership—even if nominally held by an American company—is truly controlled by a foreign corporation? Courts have a duty to make an intelligent determination regarding congressional intent, rather than blindly applying the broadest possible meaning of a statute. An intelligent litigator must fully present the context of section 526 to the court.

B. The Regulatory Context

The Customs Service (formerly known as the “Bureau of Customs”) is the executive agency charged with the administration of section 526. After many cases involving discovery from the agency’s files, it seems clear that Customs has never knowingly invoked section 526 to bar products that bear a foreign corporation’s trademarks when the foreign corporation owns or controls the domestic mark holder. Instead, Customs has consistently applied the law to prevent foreign control of domestic trademark rights.

Customs initially found, as had Congress, that the dual statutory requirements of (1) domestic organization and (2) domiciliary sufficiently ensured that section 526’s protections would not be abused. Thus, the first set of Customs regulations, issued in 1923 as Articles 475-480, merely echoed the statutory language and granted protection for “trade-marks owned by an American citizen.” In 1936, a few years after Congress re-enacted section 526 in the Tariff Act of 1930, the Bureau of Customs issued the first set of regulations, which delineated exactly how far the statute reached:

[M]erchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purposes 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. 45

The Customs authorities have never wavered from the policy expressed in the 1936 regulation: foreign-manufactured goods bearing a trademark owned in the foreign country “by the same person

44 Ch. 497, Title IV, § 526, 46 Stat. 741 (current version at 19 U.S.C. § 1526 (1982)).
45 T.D. 48537 (1936) (emphasis added). As its language and cited authority makes clear, this decision also implemented the “copy or simulate” language of section 27 of the Trade-Mark Act of 1905. See infra note 98.
or corporation" that owns the domestic trademark should not be excluded. The Customs regulations of 1943 and 1947 carried forward this language. The regulations made it clear that a domestic trademark owner cannot exclude its own foreign affiliate's genuine goods bearing the same trademark from the United States. That is precisely what most parallel import plaintiffs seek in litigation.

Increased transnational commerce has fostered complex international corporate relationships. Accordingly, the Customs regulations have been adjusted to meet changing conditions while carrying out basic congressional intent. A 1953 revision of Customs regulations, designed "[t]o eliminate obsolete material, [and] correct discrepancies," added to the "same person or corporation" exception the phrase "or by a related company as defined in section 45 of the Trade-mark Act of 1946." In 1951 Commissioner of Customs, Frank Dow, in a letter to Senator Paul Douglas explained Customs policy:

As interpreted by the Bureau, section 526 prohibits the importation of genuine articles of foreign origin bearing a genuine trade-mark valid in the foreign country, which articles were not produced by or with the authority of the United States owner of such mark. . . . The reason for such prohibition is that the assignment of a trade-mark is ineffective without the good will of the business and the foreign trade-mark owner by the assignment has divested himself of all right to use the mark so far as the United States is concerned. However, if the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. A decade later, on June 27, 1962, the Deputy Commissioner of Customs wrote to an attorney and summarized the Customs Service's policy:

The Bureau does not agree with your contention as to wholly owned foreign subsidiaries of a United States trademark owner. It is the Bureau's opinion that a foreign wholly owned subsidiary and its United States parent corporation are the same corporation within the meaning of section 11.14(b) of the Customs Regulations. This interpretation has

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46 See 8 Fed. Reg. 8296, 8300 (1943) (codifying the regulations at 19 C.F.R. § 11.14 (1944)).
48 See supra note 45 and accompanying text.
49 T.D. 53399, 88 Treas. Dec. 376, 384 (1953). Although the "related company" language was deleted in 1959, 24 Fed. Reg. 3513 (1959), the change had little substantive effect on enforcement policy. After 1959, just as prior to 1953, Customs viewed the U.S. and foreign owners of a trademark as the "same person"—and did not exclude their foreign-made goods—if they were parent and subsidiary or under common control. See Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 TRADE-MARK REP. 301, 310 (1969).
50 On file at the offices of North Carolina Journal of International Law and Commercial Regulation (emphasis added).
been consistently applied for some years before insertion of the "related companies" provision in the customs regulations and since the "related companies" provision was deleted from the regulations in 1959.51

In 1963, the Deputy Customs Commissioner continued to express the same view:

It has been the Bureau's position for many years that in permitting anyone to import merchandise manufactured or sold by the foreign parent or subsidiary corporation of an American trademark owner is [sic] the correct interpretation of section 526 of the tariff act and section 42 of the trademark law.52

In 1968, the Treasury issued a decision making it explicit that any type of controlling affiliate relationship was the key to Customs' enforcement of section 526:

The trademark or trade name on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible.53

Finally, following its consistent course, Customs promulgated, after due notice and receipt of comments, the 1972 regulations that remain in force today.54 There can be no doubt of the accuracy of the Court of International Trade's conclusion that "Customs' long standing [sic] construction has been consistently applied since at least 1962, and . . . probably reflects Customs general practice under its regulations since 1936."55

51 Letter from B.H. Flinn, Deputy Customs Commissioner, to Walter A. Slowinsk; (June 27, 1962) (emphasis added).


54 19 C.F.R. § 133.21(c) (1985). This regulation permits parallel importation in three situations—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 . . . ;

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner. Id.

55 Vivitar, 593 F. Supp. at 432, aff'd, 761 F. 2d at 1568 ("same entity" limitation has been consistently applied since 1936). Accord COPIAT, 598 F. Supp. at 852. This conclusion has been reached by the Executive Branch as well. As mentioned above, in 1985 the President overrode a three to two determination of the International Trade Commission
A noted Customs authority has explained that even though some details of Customs' regulatory language has varied over the years, the agency "always denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark."  

[T]he [Customs Service] is enforcing what it considers to be the Congressional intent to protect American firms against the fraud of foreign assignors of trademarks. Clearly if the American registered mark is owned or controlled by a foreign firm or an American firm under foreign ownership or control, that intent is not being carried out. That is why the [Customs Service] does not interpret Section 526 literally whenever a firm "organized" in the United States is involved, but looks to the true controlling force over the trademark.

The published regulations and the explanatory letters written by Customs officials, as well as authoritative secondary sources, confirm the Customs Service's consistent and rational view since at least 1936. In implementing its position over the last half century, the Customs Service has been carrying out Congress' original purpose, to protect independent domestic firms—and only such independent firms—from foreign producers' unfair or fraudulent competitive tactics.

C. Legislative Ratification

Congress effectively approved Customs' interpretation of section 526 in congressional treatment of the subject of parallel importation on several occasions when related legislation has been considered. In 1954, 1959, 1978, and 1984, Congress considered the importation of trademarked goods without suggesting that Customs should change its policy permitting parallel importation under some circumstances.

The Supreme Court has applied this principle of legislative ratification in a number of recent cases. In Bob Jones University v. United States, 461 U.S. 574 (1983), the Court upheld Internal Revenue Service rulings denying tax-exempt status to racially discriminatory educational institutions. Congress knew of the rulings for more than a decade:

Failure of Congress to modify the IRS rulings of 1970 and 1971, of which Congress was, by its own studies and by public discourse, constantly reminded, and Congress' awareness of the denial of tax-exempt status for racially discriminatory schools when enacting other and related legislation make out an unusually strong case of legislative acquiescence in and ratification by implication of the 1970 and 1981 rulings.

that parallel importation of trademarked alkaline batteries was unlawful, noting that "the Commission's interpretation . . . is at odds with the longstanding regulatory interpretation by the Department of the Treasury." 50 Fed. Reg. at 1655.

Atwood, supra note 49, at 307.

Id. at 305-06.

Even when an agency's original determination of statutory authority is murky, congressional acquiescence in the agency's regulatory practice has been held to constitute congressional approval. In *Haig v. Agee* the Court sustained the revocation of a passport by the Secretary of State, although "[t]he [1926] Passport Act does not in so many words confer" upon the Secretary "[the] power to revoke a passport." The Secretary had officially asserted such a power by regulation since at least 1956. In 1978, Congress had enacted legislation relating to passports without modifying the State Department regulations relating to passport revocation. Three years later the Supreme Court upheld a revocation and noted:

The 1978 amendments are weighty evidence of congressional approval of the Secretary's interpretation. . . . Despite the longstanding and officially promulgated view that the Executive had the power to withhold passports for reasons of national security and foreign policy, Congress in 1978, "though it once again enacted legislation relating to passports, left completely untouched the [administrative practice]."

Customs' parallel importation regulations satisfy the ratification standard applied in *Bob Jones, Haig v. Agee* and various other Supreme Court cases. Congress' most recent consideration of questions related to foreign trademarks occurred during enactment of the Trademark Counterfeiting Act of 1984. The Senate Judiciary Committee announced to all members that the new anti-counterfeit measures should not be used to hinder parallel imports:

[The bill] does not include within its coverage so-called "grey market" goods—i.e., authentic trademarked goods that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control.

Six years earlier, in 1978, Congress also examined section 526, but did not change the administrative practice regarding parallel imports. Again, Congress knew of Customs' parallel importation policy when it acted. The House Report noted that section 526:

has been consistently interpreted by the United States Customs Service for the past 20 years as excluding from protection foreign-pro-

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59 *Id.* at 599.
61 *Id.* at 290.
62 *Id.* at 301 (quoting *Zemel v. Rusk*, 381 U.S. 1, 12 (1965)).
duced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.\[66\]

The 1978 Act added subsection (d) to section 526, which established an exemption to section 526 for trademarked goods brought into this country for personal use.\[67\] Thus, Congress explicitly focused on the scope of section 526. However, the comprehensive 1978 bill, which contained twenty-seven separate sections affecting customs law, “left completely untouched”\[68\] the Customs Service’s interpretation of, and practice under, section 526 regarding foreign-controlled domestic distributors of foreign-made genuine trademarked goods.

In 1954 and 1959, Congress also refused to modify section 526, even though it had before it legislative proposals concerning that specific section.\[69\] Indeed, in December 1953 the Treasury Department had issued Treasury Decision 53399, a public announcement of Customs’ policy.\[70\] The proposed legislation would have enacted those policies into positive law.\[71\] Because the Customs Bureau consistently administered the statute to effect those policies, Congress apparently saw no need for positive legislation. Rather than change Customs’ practice or express dissatisfaction with it, Congress simply left the law, and the practice, exactly as it had been.

This long record of congressional awareness and repeated acceptance of Customs’ policy more than amply justifies the conclusion of various district courts that Congress has ratified the Customs Service’s interpretation.\[72\] Such a conclusion merely reaffirms the “venerable principle” acknowledged in Red Lion Broadcasting Co. v. FCC\[73\] that “the construction of a statute by those charged with its execution should be followed unless there are compelling indications that it is wrong, especially where Congress has refused to alter the administrative construction.”\[74\] Most parallel importation opponents ignore the substantial deference required for agency interpretation of law under the Administrative Procedure Act (APA).\[75\] The Customs regulations went through all the procedural steps required

\[68\] Zemel, 381 U.S. at 12.
\[71\] See H. R. Rep. No. 9476, 83d Cong., 2d Sess. (1954); H.R. 7234, 86th Cong., 1st Sess. 2, 3. These bills likely were a response to the Guerlain litigation, discussed infra note 117.
\[72\] See Vivitar, 593 F. Supp. at 432-33; COPIAT, 598 F. Supp. at 851-52.
\[74\] Id. at 381.
for agency rule-making. Such agency action properly taken may be set aside only upon a finding that it is "arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law" or "in excess of statutory jurisdiction, authority, or limitations." The rigorous standards of the APA must be satisfied for litigation to overturn the regulations embodying Customs' interpretation. Thus, lawyers defending parallel importation actions should not allow these statutory standards to go unmentioned, let alone unmet.

D. Statutory Construction

Opponents of parallel importation would prefer to ignore all the evidence demonstrating section 526's narrow scope, as well as the responsible executive agency's administrative interpretation to that effect. They argue, instead, that the language of the statute is "plain" and admits to no limitation, and then invoke the overused bromide that when "the language . . . is a clear expression of Congressional intent, we need not resort to the legislative history." The Supreme Court has long noted, however, that the "plain meaning rule" should not be overextended, especially in complex cases. As the Court noted almost a century ago, when any doubt regarding precise meaning is present, a review court may properly examine "the circumstances surrounding the enactment" of a statute, including "the evil which it is designed to remedy, . . . contemporaneous events, [and] the situation . . . as it was pressed upon the attention of the legislative body." A recent example proves the point. In United States v. Riverside Bayview Homes, Inc. the Supreme

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78 United States v. Rojas-Contreras, 106 S. Ct. 555, 557 (1985). Despite this statement, the Court in Rojas-Contreras went on to analyze the legislative history of the statute at issue. Id. at 557-58. This supports the insight of Judge Patricia M. Wald of the U.S. Court of Appeals for the District of Columbia that despite ritual invocation of the "plain meaning rule, [n]o occasion for statutory construction now exists when the court will not look at the legislative history." Wald, Some Observations on the Use of Legislative History in the 1981 Supreme Court Term, 68 Iowa L. Rev. 195, 321 (1983).

79 Church of the Holy Trinity v. United States, 143 U.S. 457, 459, 463 (1892). See also National Wildlife Fed'n v. Gorsuch, 693 F.2d 156, 170 (D.C. Cir. 1982) ("Statutory analysis begins, of course, with the language of the statute. In virtually every case, however, it does not end there but continues with a review of the legislative history."). Such analysis can often lead to counter-intuitive conclusions. See, e.g., Washington Metropolitan Area Transit Auth. v. Johnson, 104 S. Ct. 2827, 2832-34 (1984) (accepting "a slightly strained reading of the word 'employer'" as one "more consistent with the [congressional purpose]"); Secretary of the Interior v. California, 464 U.S. 312, 321 (1984) (interpreting statutory term "directly affecting" in a nonliteral manner, after a "detailed review" of its legislative context).

80 106 S. Ct. 45 (1985). This decision was issued for a unanimous Court only a week before Rojas-Contreras, 106 S. Ct. at 557, in which the "plain meaning rule" was recited.
Court affirmed the Army Corps of Engineers' assertion of authority to regulate "wetlands" under a statute granting it authority to regulate "navigable waters." The Court noted that "[o]n a purely linguistic level, it may appear unreasonable to classify 'lands,' wet or otherwise, as 'waters.'"\(^81\) The Court, however, unanimously concluded that when faced with the "problem of defining the bounds of its regulatory authority, an agency may appropriately look to the legislative history and underlying policies of its statutory grants of authority."\(^82\) Even though those sources did not "provide unambiguous guidance for the Corps ... , they do support the reasonableness of the Corps' approach."\(^83\)

Such reasoning is dispositive in the parallel importation debate. The central question under section 526 is whether a foreign-affiliated domestic trademark owner is "a corporation . . . created or organized within the United States" and "domiciled in the United States," within the meaning of section 526 as Congress intended it. The Customs Service has had to determine "the bounds of its regulatory authority" in light of these terms: do they admit to any limitation, or does section 526 boundlessly protect foreign agencies against the interests of domestic entrepreneurs? It is surely a reasonable interpretation of the statutory language to read the statute's careful limitation of protection to U.S.-based corporations as intending to describe only independent domestic concerns.\(^84\)

Fifty years of consistent enforcement, unaltered by Congress, confirm this interpretation. Such a meaning would exclude goods produced by subsidiaries, parents, or affiliated licensees of foreign corporations, while still protecting domestic companies such as the Bourjois Co., who stimulated the legislation. However, because the "plain language" of section 526 does not address this important question, the language alone cannot be dispositive.

Ultimately, opponents of parallel importation must argue that because Congress did not explicitly distinguish domestic corporations that are independent entities from those technically domiciled in the United States, but still controlled or heavily influenced by foreign parents, the Customs Service is absolutely barred from drawing that distinction today. The Customs Service must treat domestic

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\(^81\) 106 S. Ct. at 462.
\(^82\) Id.
\(^83\) Id. The Court noted that "[a]n agency's construction of a statute it is charged with enforcing is entitled to deference if it is reasonable and not in conflict with the expressed intent of Congress." 106 S. Ct. at 461. See also cases cited supra note 76.
\(^84\) Indeed, the legislative history suggests that the "domiciled in the United States" requirement of section 526, included in addition to the condition that the trademark be "owned by a citizen of . . . the United States," was designed precisely to serve the purpose of eliminating foreign agencies. See 62 CONG. REc. 11605 (1922) (foreign "agency" not protected by section 526). See also supra notes 14, 15 and accompanying text.
agents of multinational manufacturers no differently than independent domestic companies.

The Supreme Court has already rejected a similar argument, albeit in a different context. The Court ruled in *Copperweld Corp. v. Independence Tube Corp.*, \(^85\) that a corporate parent and subsidiary cannot be deemed to have conspired with each other within the language of section 1 of the Sherman Act. The Court based its decision on the basic identity between a corporate parent and its subsidiary:

A parent and its wholly owned subsidiary have a complete unity of interest. Their objectives are common, not disparate; their general corporate actions are guided or determined not by two separate corporate consciousnesses, but one. They are not unlike a multiple team of horses drawing a vehicle under the control of a single driver. With or without a formal “agreement,” the subsidiary acts for the benefit of the parent, its sole shareholder.\(^86\)

The *Copperweld* Court observed that the legal issue presented was not “whether the term ‘conspiracy’ will bear a literal construction that includes parent corporations and their wholly owned subsidiaries.”\(^87\) Rather, “the appropriate inquiry requires us to explain the logic underlying Congress’ decision to exempt unilateral conduct from section 1 scrutiny, and to assess whether that logic similarly excludes the conduct of a parent and its wholly owned subsidiary.”\(^88\)

Likewise, the “appropriate inquiry” in parallel import cases is not the literal application of section 526 to all corporations “created or organized within” the United States and technically “domiciled” in this country. The critical question is why did Congress exclude foreign owners of U.S. trademarks and their agents from section 526, if Congress wanted to protect only independent domestic entities. The “logic underlying Congress’ decision” is dispositive; thus, congressional intent must be discerned.\(^89\) To permit captive affiliates or subsidiaries of foreign corporations to invoke section 526 would conflict with express congressional intent.

### IV. Trademark Law

Section 42 of the Lanham Act is open to far less debate. That statute provides that “no article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any custom house of the United States.”\(^90\) Parallel imports, however, are by definition genuine. Their marks cannot “copy or simulate” the trademarks at issue because they are the *bona fide* marks applied by

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\(^86\) Id. at 2742.
\(^87\) Id. at 2745.
\(^88\) Id.
\(^89\) Id.
the bona fide owners, who have full right to do so. Because section 42 only applies to merchandise bearing counterfeit or unauthorized trademarks that "copy or simulate" genuine marks, not the genuine marks themselves, district courts have correctly dismissed parallel import causes of action based on section 42.91

The argument for a nonliteral application of section 42 begins with the Katzel and A. Bourjois & Co. v. Aldridge litigation.92 When the Supreme Court ruled in favor of the American Bourjois Co., the Court did so without the benefit of section 526. The plaintiff's claim was based in part on section 27 of the Trade-Mark Act of 1905, which used the same "copy or simulate" language later enacted as section 42 of the Lanham Act in 1946. Because the plaintiff won in Katzel and Aldridge, opponents of parallel importation have argued that the "copy or simulate" language must be applied to genuine marks today.93

This argument, however, lacks force beyond the fact that Aldridge cited section 27 and the decision remains on the books.94 The Supreme Court, however, did not examine the legislative language or intent of the trademark statute in either Katzel or Aldridge. The decisions were exclusively equitable discourses95 based on the precise facts at issue.

Moreover, a district court, which accepted this trademark theory as a matter of law, noted that the theory is factually restricted to Katzel-like cases where "the United States markholder has developed a 'separate, factually distinct, goodwill' in its product," and not "when the United States markholder is related to the foreign markholder and/or manufacturer."96 Under this view, goods bearing authentic

91 Olympus, 627 F. Supp. at 917; COPIAT, 598 F. Supp. at 848.
92 See supra note 31 and accompanying text (discussing Aldridge, 263 U.S. at 675).
93 Two district courts have adopted some form of this argument. See Weil Ceramics, 618 F. Supp. at 704-06; Osawa, 589 F. Supp. at 170-71.
94 See Weil Ceramics, 618 F. Supp. at 706 (approving the argument because "Katzel has never been overruled and thus remains good law").
95 O. HOLMES, THE COMMON LAW (1881).

We would respectfully argue that in finding this standard fulfilled by Weil Ceramics, the Weil Ceramics court may have misapplied its own criteria. In brief, the court erred when, rather than determine as a factual, litigated matter whether Weil Ceramics had established a separate . . . goodwill, "factually distinct from the foreign manufacturer and trademark owner, the court merely presumed separate goodwill on the ground that it is the U.S. company that stands behind the product and insures its quality in the United States."96 Id. at 710.

The opinion reveals no evidence that U.S. consumers identified the source of the ceramics as the United States, or that Weil was anything more than the "importer" and distributor of the foreign goods. See id. at 713. Weil concededly was owned by a foreign parent that also owned the foreign manufacturer, id. at 711, a fact that at least suggests that Weil's policies and consequent goodwill were by no means "factually distinct" from its affiliate's. The authors are informed that an appeal will be taken in Weil Ceramics if that decision becomes a final judgment.
trademarks can “copy or simulate” the registered marks of independent domestic companies only if they are not connected with the domestic concern. By marking imported merchandise with a trademark, a domestic registrant’s foreign parent or affiliate authenticates the merchandise as that of the domestic concern. Once marked, the merchandise is original and can no longer “copy or simulate.”

This nonliteral theory based on a single case where the Court made none of the usual inquiries into legislative meaning or intent is erroneous. Nevertheless, if applied only in cases where Katzel independence is proven, the nonliteral trademark theory should cause no independent harm; the Customs regulations discussed above already bar parallel importation in such cases.97

The nonliteral trademark theory based on Katzel and Aldridge is, however, anachronistic. Whatever Congress intended the words “copy or simulate” to mean in 1905 or 1923, Congress plainly used “copy or simulate” in 1946 with a specific, literal intent. Unlike when the Supreme Court decided Katzel, Congress had before it section 526 and the Customs regulations when it enacted section 42 of the Lanham Act. The Customs regulations were expressly promulgated to enforce the “copy or simulate” language of section 27 as well as section 526.98 Thus, when Congress incorporated the ‘copy or simulate’ language into the 1946 law, they knew the long-standing regulatory interpretation and the practice of the Customs Service, which excluded enforcement against genuine marks. During hearings held in 1944, the United States Tariff Commission specifically pointed out this policy: “It is clear that Section 27 of the act of 1905 applies to all merchandise bearing infringing trade-marks. It does not apply to the merchandise of the trade-mark owner since the registrant’s goods cannot ‘copy or simulate’ his own mark.”99

When Congress enacted section 42 using “copy or simulate,” it affirmed the administrative definition of those terms. Thus, the choice was deliberate and literal: section 42 refers to counterfeit marks and only section 526 applies to genuine goods.100

97 See supra text accompanying notes 35, 54.
98 The 1936 Treasury Decision 48,537, quoted supra text accompanying note 45, stated that foreign-manufactured merchandise bearing genuine trademarks “shall not be deemed . . . to copy or simulate” the identical American-owned marks “if [the marks] are owned by the same person . . . or corporation” (emphasis added). The cited authorities for this decision were section 526 and Aldridge, a section 27 case. See also 8 Fed. Reg. 8296, 8300 (1943) (citing Sections 526 and 27 as joint authority for 19 C.F.R. § 11.14, the successor regulation to the 1936 Treasury Decision and the predecessor to the current 19 C.F.R. § 13.21(c)).
99 Trade-Marks: Hearings Before a Subcommittee of the Senate Committee on Patents on H.R. 82, 78th Cong., 2d Sess. 87 (1944) (emphasis added).
100 See Vandenburgh, The Problem of Importation of Genuinely Marked Goods Is Not a Trade-mark Problem, 49 TRADE-MARK REP. 707, 712 (1950). Thus, the Second Circuit has noted, for example, that it would “appear anomalous . . . that trademark infringement action
V. International Standards and Antitrust Considerations

Reviewing courts should understand that the foreign commercial community refuses to restrict parallel imports. Additionally, a blanket ban on parallel importation allows anticompetitive international price discrimination. The recent shift in domestic antitrust policy, which favors vertical, territorial, and intrabrand price restraints, is, as a matter of economic theory, irrelevant to the regulation of multinational manufacturers.

A. Our Trading Partners Permit Parallel Imports

Virtually every economically significant foreign jurisdiction permits parallel importation. These jurisdictions recognize that consumer prices are reduced by vigorous international price competition. A ban on parallel imports would conflict with the policies of most of the free world, and would grant foreign companies a degree of protection in the United States not enjoyed by domestic manufacturers abroad.101

Most of the photographic equipment manufacturers who challenge the Customs Service's parallel importation regulations are headquartered in Japan. In Japan, however, a trademark owner cannot prevent the importation or sale of authentic trademarked products manufactured by a foreign affiliate. In a 1970 decision involving "Parker" pens, the Osaka District Court ruled that the Japanese trademark owner of "Parker" products could not bar others from importing genuine "Parker" pens into Japan because parallel importation encourages free competition and improves prices and services.102 Hence, Japanese-affiliated plaintiffs are attempting to obtain in the United States what Japan is unwilling to give U.S. manufacturers there.

In 1972 the Japanese government issued a regulation under the Customs Duties Act authorizing importation of genuine trademarked goods if the domestic owner either holds the foreign trademark or should be considered the same entity as the foreign trademark owner.103 Moreover, the Fair Trade Commission of Japan issued

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guidelines declaring the hindrance of parallel importation to be an unfair business practice.\textsuperscript{104}

Our European trading partners also permit parallel imports: Switzerland,\textsuperscript{105} Austria,\textsuperscript{106} the United Kingdom,\textsuperscript{107} West Germany,\textsuperscript{108} the Netherlands,\textsuperscript{109} and Sweden.\textsuperscript{110} A recent Canadian case reaffirmed Canada’s policy permitting parallel importation.\textsuperscript{111} In addition, the European Court of Justice, which enforces the European Economic Community’s Rome Treaty, has repeatedly held that parallel importation is permissible unless the domestic and foreign trademark owners are completely independent.\textsuperscript{112}

Finally, language in Principle D(4) of The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, adopted by the United Nations Conference on Trade and Development, indicates an international consensus that supports parallel importation:

Enterprises should refrain from the following acts or behavior in a relevant market when, through an abuse or acquisition and abuse of a dominant position or market power, they limit access to markets or otherwise unduly restrain competition . . .

(e) Restrictions on the importation of goods which have been legitimately marked abroad with a trademark identical with or similar to the trademark protected as to identical or similar goods in the importing country where the trademarks in question are of the same origin, i.e. belong to the same owner or are used by enterprises between which there is economic, organizational, managerial or legal interdependence and where the purpose of such restrictions is to maintain artificially high prices.\textsuperscript{113}

\textbf{B. Antitrust Considerations}

Attacks on parallel importation attempt to enforce a blatantly anticompetitive international system. Multinational enterprises should not be permitted to engage in vertical territorial allocations or price discrimination among different countries. While the practices are not \textit{per se} unlawful, under domestic antitrust laws a manufacturer or distributor may not establish exclusive selling territories for authorized retail dealers unless the distributor shows some con-

\textsuperscript{104} Id. at 43.
\textsuperscript{105} See Takamatsu, supra note 103 at 444.
\textsuperscript{106} See id. at 446.
\textsuperscript{107} See id. at 447.
\textsuperscript{108} See id. at 445.
\textsuperscript{109} See id. at 446-47.
\textsuperscript{110} See id. at 446-47.
\textsuperscript{111} See id. at 406.
\textsuperscript{112} See id. at 447.
sumer benefit which justifies such a restraint. Moreover, a domestic manufacturer of trademarked goods who seeks to establish a higher price in a specific part of the country may not institute trademark infringement actions to prevent arbitrage among the different domestic markets. Lawsuits against parallel importers are just such a tactic.

Where multinational corporations are involved, improving interbrand competition cannot be reasonably presumed. First, the discrepancy between the prices charged by parallel import retailers and those of “authorized” distributers indicates that artificially high prices currently exist and would continue to exist. Moreover, foreign corporations can escape U.S. antitrust enforcement simply by concluding their anticompetitive arrangements beyond U.S. territorial limits. Accordingly, reduced intrabrand competition will not necessarily produce increased interbrand competition. Collusion is just as likely. Simply because United States v. Arnold Schwinn & Co. is no longer good law does not mean that international vertical territorial restraints are lawful—let alone laudable—in every instance.

In a 1971 letter to the Commissioner of Customs, which was part of the administrative record of the 1972 promulgation of 19 C.F.R. § 133.21, the Antitrust Division of the Department of Justice explained that a broad construction of section 526 should be rejected on antitrust grounds:

[A]n American component of a multinational enterprise could insulate itself from competition from third parties who had purchased the identical article from the foreign affiliate of the American firm. Such a rule would not protect the consumer from deception, since the goods would be of identical quality. Its only effect would be to raise prices by eliminating competition.

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117 Letter from Walker B. Comegys to the Honorable Myles J. Ambrose (April 19, 1971) (discussing possible construction of Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526). There is only one antitrust decision directly on point. In Guerlain, 155 F. Supp. at 77, the court found that efforts to exclude competing parallel imports constituted an antitrust violation under section 2 of the Sherman Act, 15 U.S.C. § 2 (1982). That judgment was later vacated at the suggestion of the Solicitor General. Guerlain, 358 U.S. at 915. The district court’s discussion of the issues of statutory construction and antitrust law was not repudiated, however. The Solicitor General’s pleading stated only that Customs officials had “deemed themselves legally constrained to grant the claim of statutory protection invoked by the appellants.” Motion to Vacate Judgments, O.T. 1958, Nos. 24, 30, 31, 15, p. 7a. As John Atwood later explained, because the Customs Bureau’s “[r]egulations were not set up to specifically elicit [the] kind of information” necessary to identify controlling foreign affiliations, Guerlain “left the Bureau of Customs in an awkward position.” Atwood, supra note 49, at 307. It was not thought fair to proceed with the Guerlain antitrust action when there had been governmental participation, knowing or otherwise, in the
That reasoning was correct in 1971 and is correct today, regardless of current domestic enforcement policies.\(^{118}\)

**VI. Conclusion**

Opponents of parallel importation act out of commercial self-interest and have been rebuffed by the White House and Congress. The legal attack on parallel importation is based on a simplistic "plain meaning" statutory argument that fails upon careful exegesis. So long as this country remains committed to principles of free trade, parallel importation will continue to provide a low-cost option for the domestic consumer.

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\(^{118}\) If anything further need be said regarding the position of the Department of Justice, it is only that most recently the Solicitor General has filed a Brief in Opposition to certiorari in the U.S. Supreme Court in *Vivitar*, 106 S. Ct. 791, affirming the Department's endorsement of "Customs' reading of 19 U.S.C. § 1526 and . . . the agency's longstanding interpretation of that statute." Brief for the Federal Respondent in Opposition, *Vivitar*, Corp. v. United States, No. 85-411 (1985).