Spring 1986

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Judicial Construction of Section 526 and the Importation of Grey Market Goods: From Total Exclusion to Unimpeded Entry

Steven P. Kersner * and Donald S. Stein **

I. Introduction

The question of permitting the sale of grey market goods in the United States has been the subject of considerable controversy and debate over the past few years. Imports of grey market goods have increased dramatically and become the subject of substantial litigation. The size of the grey market speaks for itself. Sales of such merchandise over the past few years are estimated at $5.5-10 billion annually.  

The grey market consists of both trademarked and copyrighted merchandise. Importation of grey market copyrighted goods is regulated by section 602 of the Copyright Act of 1976. Copyrighted grey market goods present little controversy. Although the Copyright Act of 1976 specifically allows the importation of grey market goods, it explicitly states that such importation constitutes a copyright infringement. Importation of grey market trademarked goods is regulated by section 526(a) of the Tariff Act of 1930 and, arguably, by section 42 of the Lanham Trademark Act of 1946. Most of the grey market controversy centers on the administrative construction given these statutes by the U.S. Customs Service, the agency charged

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1 Grey market goods are goods authorized by the U.S. trademark (or copyright) owner to be manufactured and marketed overseas, but rather than sold abroad, these goods are imported into the United States and sold by third parties without the authorization of the trademark (or copyright) holder.


4 Id. § 602(b).
5 Id. § 602(a).
with their enforcement. This article focuses solely on grey market trademarked goods and the judicial construction given to section 526(a) of the Tariff Act of 1930—the statute enacted to prohibit their importation.8

II. Section 526(a) of the Tariff Act of 1930

A. The Current Controversy: The Statute and the Regulations

The importation and sale of grey market trademarked goods is regulated principally by section 526(a) of the Tariff Act of 1930.9 This provision prohibits importation into the United States of (1) "any merchandise of foreign manufacture" which (2) "bears a trademark owned by a citizen of, or by a corporation . . . organized within the United States" unless (3) the "written consent" of the U.S. trademark owner to such importation is obtained, (4) when said trademark has been properly registered with the U.S. Patent and Trademark Office and recorded with the U.S. Customs Service.10

The administration and enforcement of this provision has been delegated to the U.S. Customs Service (a part of the Treasury Department), which has promulgated regulations for the administration and enforcement of the statute. These provisions, set forth in section

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8 At this point, the authors would like to note that they are counsel to numerous U.S. trademark and copyright owners, including Vivitar Corporation in its recent grey market litigation (Vivitar Corp. v. United States, 593 F. Supp. 420 (Ct. Int'l Trade 1984), aff'd, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, 106 S. Ct. 791 (1986)), and Original Appalachian Artworks, Inc. and Coleco Industries, Inc. in their pending grey market-based litigation before the U.S. International Trade Commission under section 337 of the Tariff Act of 1930, as amended ("Certain Soft Sculpture Dolls, Popularly Known as 'CABBAGE PATCH KIDS', Related Literature and Packaging Therefor" (Investigation No. 337-TA-231)). As counsel to U.S. trademark owners, the authors have a distinct view concerning the propriety of grey market imports. Although opposing views are presented by the authors, the reader should be cognizant of the fact that the authors clearly identify with the position of U.S. intellectual property owners concerning this matter.

9 19 U.S.C. § 1526(a) (1982). Arguably, § 42 of the Lanham Trademark Act of 1946 (15 U.S.C. § 1124 (1982)) also regulates the importation and sale of such goods, but the reference in this provision to merchandise which shall "copy or simulate" a properly registered copyright has caused this provision to be read as prohibiting only the importation of counterfeit (i.e., owner) goods. See, e.g., Coalition to Preserve the Integrity of Amer. Trademarks v. United States, 598 F. Supp. 844, 848 (D.D.C. 1984), rev'd, 790 F.2d 908 (D.C. Cir. 1986); Memorandum and Order at 20-26, Olympus Corp. v. United States, 627 F. Supp. 911 (E.D.N.Y. 1985), aff'd, 792 F.2d 315 (2d Cir. 1986).

10 19 U.S.C. § 1526(a) (1982). Section 526 of the Tariff Act of 1930 was originally enacted as part of the Tariff Act of 1922, ch. 356, § 526, 42 Stat. 858, 975 (1922), and was reenacted without change in 1930. Section 526 further provides that merchandise imported into the United States in violation of § 526(a) "shall be subject to seizure and forfeiture" by the U.S. Customs Service, 19 U.S.C. § 1526(b) (1982). Furthermore, persons dealing in merchandise prescribed by the statute may be enjoined from dealing in such goods, and may also be required to export or destroy such merchandise or to remove or obliterate the trademark. Id. § 1526(c). Section 526(c) also provides that a trademark owner may seek damages and profits, as provided for in the Lanham Act. Id. The statute also contains a personal use exception to its prohibitions, id. § 1526(d), as well as provisions relating to the importation of merchandise bearing counterfeit trademarks. Id. § 1526(e).
133.21(c) of the Customs Service regulations, have been the major source of the grey market controversy.

Since the enactment of section 526(a) of the Tariff Act of 1922, the Treasury Department has established customs regulations designed for its administration and enforcement. Although the first regulations neither placed limitations upon, nor contained exceptions to, the protection afforded by that statute, since 1936, the Treasury Department and Customs Service have read certain exceptions into the scope of protection afforded by it. These exceptions, set forth in sections 133.21(c)(1), (2), and (3) of the current Customs Service regulations, deny protection to foreign imports bearing a U.S. owned trademark when both the foreign and U.S. trademark are owned by the same person or business entity, when those owners are parent and subsidiary companies or otherwise subject to common ownership or control, and when the articles of foreign manufacture bear a recorded trademark applied under authorization of the U.S. trademark owner.

Pursuant to these regulations, the Customs Service permits the entry of certain grey market merchandise into the United States. Nothing in the plain language of section 526, however, indicates a congressional intent to except any grey market imports from that provision’s protection. Exceptions to the protection afforded to U.S. trademark owners, however, may be consistent with the language of section 42 of the Lanham Act which speaks of goods which "copy or simulate" a registered trademark. Arguably, the phrase "copy or simulate" refers only to counterfeit goods, not grey market

11 19 C.F.R. § 133.21(c)(1) (1986).
13 T.D. 48,537, 70 Treas. Dec. 336 (1936). These regulations were promulgated pursuant to, and to enforce, both § 526 of the Tariff Act of 1930 and § 27 of the Trademark Act of 1905 (predecessor provision of § 42 of the Lanham Act). Id. at 336-37.
14 19 C.F.R. § 133.21(c)(1)-(3) (1986).
15 Id. § 133.21(c)(1).
16 Id. § 133.21(c)(2).
17 Id. § 133.21(c)(3).
18 See COPIAT, 790 F.2d at 907-08, where the court of appeals stated that § 526 "does not on its face, admit any exceptions based upon the relationship of the American and foreign trademark owners or upon whether the American owner has authorized the use of the trademark abroad." See also Vivitar Corp. v. United States, 593 F. Supp. 420 (Ct. Int'l Trade 1984), aff’d, 761 F.2d 1552 (Fed. Cir. 1985), cert. denied, 106 S. Ct. 791 (1986). At the trial level, the Court of International Trade in Vivitar found that both "[d]efendant and intervenor concede that the literal language of § 526 supports plaintiff’s construction of the statute," i.e., that there is no limitation on the scope of protection afforded by the language of the section. 593 F. Supp. at 425. The court of appeals also noted that the language of § 526(a) "appear[s] to create a sweeping bar to importations of any goods bearing the same trademark as that owned by the U.S. company without the latter’s consent." 761 F.2d at 1560-61. See also Memorandum and Order at 29, Olympus, 627 F. Supp. at 911 ("Section 526, read literally, would indeed give plaintiff the right to exclude all goods bearing the Olympus trademark.").
This position was adopted by the district court in *Coalition to Preserve the Integrity of American Trademarks v. United States* (COPIAT).20

The Customs Service sets forth three principal arguments to justify limiting the protection afforded U.S. trademark owners.21 First, the Customs Service contends that the legislative history of section 526 demonstrates that Congress intended to limit the protection afforded U.S. trademark owners, despite the statute’s plain language.22 Second, the Customs Service contends that its regulations reflect a longstanding administrative practice of almost 50 years deserving great deference. Finally, the Customs Service contends that Congress ratified its construction of section 526(a) in 1978 when it amended the section by adding new subsections (d) and (e).23

Customs’ construction and administration of section 526(a) has come under frequent attack. Some U.S. trademark owners view exceptions to the apparent blanket protection of section 526(a) as contrary to the intent of Congress. Regarding the language of section 526(a) as clear and unambiguous, U.S. trademark owners argue that nothing indicates that Congress intended any exceptions to the statutory protection. Further, in response to Customs Service justifications for its regulations, U.S. trademark owners argue that the legislative history of section 526 does not evidence an intent contrary to the plain language used in the statute and that the Customs Service’s administration and enforcement of the section has been neither consistent nor longstanding. Furthermore, they point out that Congress has never ratified the present Customs Service administration and enforcement of the section.

The most important of these arguments concerns whether Con-
gress intended to limit the protection of section 526 to the facts of the case that led to its enactment, *A. Bourjois & Co. v. Katzel*, or rather meant to provide the broader protection seemingly dictated by the plain language of the statute. Since the intent of Congress in its enactment of the section has been the focus of much of the grey market controversy, a brief review of both *Katzel* and the congressional reaction is necessary to understand fully subsequent judicial decisions construing the statute. The evolution of Customs Service regulations promulgated pursuant to section 526 is also traced to provide a frame of reference against which current regulations may be judged. With this background, the judicial decisions delineating the scope of protection afforded U.S. trademark owners under section 526(a) can be better analyzed.

B. Katzel and the Enactment of Section 526

Most agree that section 526 was at least in part Congress’ response to the perceived unfairness of the decision of the United States Court of Appeals for the Second Circuit in *A. Bourjois & Co. v. Katzel*. Had the Supreme Court’s reversal of that decision come prior to the enactment of the Tariff Act of 1922, section 526 might never have been enacted.

In *Katzel* a U.S. distributor purchased the domestic distribution rights, including the U.S. trademark, to a face powder manufactured in France. The transaction permitted the French manufacturer to continue production of the powder, to supply it to the U.S. distributor, and to sell the powder in France under a mark identical to that used by a domestic firm. A third party discovered, however, that it could purchase the face powder in France, import it into the United States in the original wrapper with the French firm’s trademark, and undersell the U.S. distributor. Thus, the importer diverted to itself the value of the U.S. distributor’s trademark. The Second Circuit held that U.S. trademark law provided no remedy to the U.S. distributor because the genuine French mark accurately indicated the origin of the powder and could not be said to “copy or simulate” the identical U.S. trademark.

The *Katzel* decision was premised on the prevailing but now discredited “universal” principle of trademarks which underlies a series of Second Circuit decisions. Under the principle, U.S. trademark owners holding contracts for the exclusive right to import foreign trademarked goods were powerless to prevent third parties from importing and selling goods with genuine foreign trademarks.

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24 275 F. at 539.
25 Id.
26 See Vivitar, 593 F. Supp. at 426.
in the United States.\textsuperscript{27} \textit{Katzel} merely reflected past applications of the "universality" principle.

The inherent unfairness of this decision was quickly recognized, and both Congress and the Supreme Court sought to remedy the injustice. Congress' response was to enact section 526 of the Tariff Act of 1922. The Supreme Court, following passage of this Act, reversed the Second Circuit's decision in \textit{Katzel}. In an opinion written by Justice Holmes,\textsuperscript{28} the Court explained that the true significance of a trademark was not its indication of the origin or manufacture of the merchandise, but its signification of the local business goodwill of the domestic trademark owner.\textsuperscript{29} Thus, the Supreme Court held that the imported French powder infringed the U.S. trademark owner's exclusive right to that mark.\textsuperscript{30}

Holmes' opinion in \textit{Katzel} replaced the Second Circuit's universality doctrine with the "territoriality" principle. This approach recognizes that a trademark has a separate legal existence under each country's laws. The proper lawful function of a trademark is not primarily specification of the origin of a good, but rather a symbolization of the domestic goodwill of the trademark owner. Under the territoriality principle, the consuming public may rely on the domestic reputation of a trademarked good. Correspondingly, the trademark owner is assured that the goodwill and reputation of the marked good will not be diminished by unauthorized use of the trademark in domestic commerce.\textsuperscript{31}

Prior to the Supreme Court decision in \textit{Katzel}, Congress undertook to remedy the situation created by the court of appeals decision through additions to the then pending Tariff Act of 1922. Although the legislative history of section 526 is "sparse,"\textsuperscript{32} consisting of only a short floor debate\textsuperscript{33} and a brief paragraph in a Conference Re-

\textsuperscript{28} 260 U.S. at 689.
\textsuperscript{29} Id. at 692.
\textsuperscript{30} Id. at 691. During the same term, an almost identical factual situation was presented to the Supreme Court for resolution, with the question of whether § 27 of the Trademark Act of 1905 (predecessor provision to § 42 of the Lanham Trademark Act), which excluded from entry into the United States merchandise bearing trademarks which "copy or simulate" registered U.S. trademarks, prohibited such importations. The Supreme Court, in A. Bourjois v. Aldridge, 263 U.S. 675 (1923) (per curiam), relying on its prior decision in \textit{Katzel}, held that the merchandise at issue, although genuine, constituted an infringement and was to be excluded from entry into the United States under § 27 of the Trademark Act of 1905. \textit{Id.} at 676. It should be noted that the present Customs Service regulations provide for the exclusion of grey market trademarked goods when the U.S. trademark owner has purchased the U.S. rights to the trademark from an unrelated foreign company, i.e., the \textit{Katzel} fact situation.
\textsuperscript{31} See \textit{Osawa}, 589 F. Supp. at 1171-72, and cases cited therein.
\textsuperscript{32} \textit{Vivitar}, 593 F. Supp. at 427.
\textsuperscript{33} 62 CONG. REC. 11,602-05 (1922).
port. It was not a hastily drawn up provision. The origin of the language of section 526 is part of a paragraph in an American Bar Association report which had given "careful consideration" to all its possible ramifications. The proposed provision, however, was introduced as a floor amendment to the Tariff Act of 1922 under a rule which limited debate to ten minutes. The Conference Report states:

A recent decision of the circuit court of appeals holds that existing law does not prevent the importation of merchandise bearing the same trade-mark as merchandise of the United States, if the imported merchandise is genuine and there is no fraud upon the public. The Senate amendment makes such importation unlawful without the consent of the owner of the American trade-mark.

There is no language in the Conference Report indicating that Congress enacted section 526 solely to remedy the court of appeals decision in Katzel or that its protection of U.S. trademark owners was to be limited to trademark owners who purchased rights in trademarks from unrelated foreign companies. Indeed, the Conference Report actually describes the provision in very broad terms seemingly excluding the importation of genuine trademarked merchandise into the United States without consent of the U.S. trademark owner. There was not the slightest suggestion that the narrow facts of Katzel were critical to the bill's content. In fact, Katzel was neither specifically identified nor factually discussed in the Report. The more reasonable inference from the Report is that its authors intended the language of the bill to speak for itself and not be limited to either the Katzel facts or any other situation.

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35 62 CONG. REC. 11,603 (1922).
36 62 CONG. REC. 11,602-05 (1922). The history of this amendment was described by Senator Moses in the following manner:

Mr. President, the history of this amendment is interesting. It was written by a lawyer well known in the precincts of the Capitol; it was inserted in the bill originally, without hearing, upon the votes of four Senators; it was removed from the bill by a disagreeing vote on the 6th of June, upon an understanding, as I believed, that if it were to be taken up again it should be taken up as a separate measure on its own merits and before the Committee on Patents, which properly has jurisdiction of the subject matter. It was put back in the bill among the myriad amendments brought in by the committee the other morning after their midnight session, and it may be fairly classified now as one of the midnight amendments, like the "midnight judges" of the John Adams administration.

Id. at 11,602.
37 H.R. REP. No. 1223, supra note 34, at 158. This provision was discussed only in the Conference Report as a result of it being introduced at such a late stage in the legislative process.
38 In fact, this point was conceded by the Customs Service in a 1983 amicus curiae brief it filed jointly with the Department of Justice in Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983). Discussing the scope to be afforded to § 526, this brief stated:

Legislation is often enacted to meet numerous concerns, not all of which are articulated, and some of which may even be contradictory. Courts accord-
The only contemporaneous legislative history of section 526 other than the Conference Report is the record of the ten minute Senate floor debate which was hasty, confused, and ill-informed. It provides a classic illustration of why the Supreme Court has held that congressional debates cannot be used to impair plain statutory language.\textsuperscript{39} In various hypothetical situations discussed during the debate, senators indicated that the purpose of section 526 was to protect a U.S. trademark owner who purchases U.S. trademark rights from an independent foreign company—the Katzel situation.\textsuperscript{40} Other senators’ comments, however, clearly refute the notion that section 526 was intended to apply solely to the specific Katzel facts. Senator Pomerene, for example, expressly disavowed any intent to legislate for a particular case, emphasizing that he viewed section 526 as a “declaration of . . . national policy.”\textsuperscript{41} Indeed, the one proponent of the bill who made the effort to describe Katzel got the facts wrong, and no one felt it necessary to correct him.\textsuperscript{42}

Perhaps the clearest evidence of the intended broad meaning of the bill is provided by the “Wonder Flour Amendment.” That amendment was adopted in response to comments by Senator Lenroot who contended that the bill’s language was overbroad and susceptible to manipulation. As one illustration of what he deemed overbreadth, Senator Lenroot pointed out that U.S. citizens living in rural areas along the northern border often shopped in nearby Cana-
dian towns and purchased many goods, such as Wonder Flour, that were originated and trademarked by U.S. companies. By interfering with their ability to return home with such goods, he said, the proposed bill would impose serious inconveniences.\textsuperscript{43}

Senator Sutherland, a primary proponent of section 526, agreed that the broad statutory language would exclude Wonder Flour and similar goods marked and exported by the U.S. trademark owner. To avoid the hardship Senator Lenroot identified, the Senate agreed to limit the section to trademarked goods of foreign manufacture.\textsuperscript{44} Clearly, the Senate's adoption of the Wonder Flour Amendment demonstrates its collective understanding that section 526 would not operate to exclude goods trademarked by, or with the consent of, the U.S. trademark owner. Otherwise, no amendment would have been required, because section 526 would not have impeded the reimportation of Wonder Flour and similar goods made and marked by U.S. companies.

Overall, the legislative history of section 526 can best be described as confusing. While some fragmentary evidence may exist to support the Customs Services' construction of the statute, there is no evidence of any congressional intent to circumscribe the protection afforded by its plain language. The confusion surrounding the enactment of the statute certainly fails to rise to the level of "clearly expressed legislative intention" contrary to the express language of the statute, as required by the Supreme Court before such language may be disregarded.\textsuperscript{45}

Section 526 was reenacted without change as part of the Tariff Act of 1930.\textsuperscript{46} This occurred notwithstanding efforts by the Senate to amend the provision by absolutely prohibiting the importation of any merchandise having a U.S. trademark. The Senate attempted to delete the final clause of section 526(a) of the Tariff Act of 1922 which gave U.S. trademark owners the right to consent to the importation of goods having their trademark. The reason behind the effort was set forth in the Senate Report:

Section 526 of the House Bill contained substantially the same provisions as the corresponding section in the 1922 act. The section prohibited the importation of merchandise bearing an American trademark unless written consent of the owner of the trademark was produced at the time of entry. Your committee believes that where the laws of the United States protect the interest of a trademark holder by allowing him a monopoly in the use of the mark, it is reasonable to require as far as practicable, that in return, the holder of

\textsuperscript{43} 62 CONG. REC. 11,603 (1922).
\textsuperscript{44} Id. at 11,605.
\textsuperscript{45} Consumer Prod. Safety Comm'n, 447 U.S. at 108.
\textsuperscript{46} Although § 526 was amended by the Customs Procedural Reform and Simplification Act of 1978 by adding subsections (d) and (e) thereto, the provision itself was \textit{reenacted} into law only once—in 1930. Tariff Act of 1930, § 526, 19 U.S.C. § 1526 (1982).
the mark shall manufacture his goods in the United States.\textsuperscript{47}

The sponsors of this amendment intended to prohibit importation into the United States of all merchandise bearing U.S. trademarks, regardless of whether the U.S. trademark owner consented to its importation and regardless of whether the trademark was purchased by an independent U.S. company from the foreign trademark holder. Otherwise, the proposed amendment would not have had any effect on the targeted practice of shifting U.S. production overseas, rendering it meaningless.\textsuperscript{48} Ultimately, the Senate backed away from the amendment.\textsuperscript{49}

The language of the Conference Report relating to the Tariff Act of 1930 contains no indication that either the House or Senate viewed section 526 of the Tariff Act of 1922 as applying only to foreign trademarks purchased by U.S. companies unrelated to the foreign trademark owner, or as being limited in any other manner.\textsuperscript{50} Supporters of a limited reading of section 526 often refer to remarks by Senator Reed during the Tariff Act of 1930 debates:

\begin{quote}
At the present time the tariff laws forbid the importation of an article bearing a trade-mark registered in America unless the owner of that trade-mark consents in writing to the importation. Obviously, the purpose of that provision is to protect the American owner of the trade-mark against importations of articles which have been stamped with his mark without his consent.\textsuperscript{51}
\end{quote}

Apparently the Government and those supporting its construction read Senator Reed’s final phrase, “without his consent,” to modify “stamped” rather than “importations.” Given the statutory language and the broad descriptions of section 526(a) in the committee reports and on the floor, it is more reasonable to assume that the statement suffers from a poorly placed modifier.\textsuperscript{52}

\section*{C. The Changing Views of the Customs Service}

The first regulation published by the Treasury Department pu-
suant to section 526 of the Tariff Act of 1922 provided for the exclusion of all foreign goods bearing registered U.S. trademarks, absent the U.S. trademark owner’s written consent. It contained none of the exceptions which appear in the current Customs Service regulations. Indeed, article 476 of these regulations contained no language limiting the scope of section 526. These regulations, promulgated almost contemporaneously with the enactment of the section, are more persuasive guides to the meaning of the statute and the congressional intent than later inconsistent reinterpretations by the Treasury Department. Congress, by enacting section 526 as part of the Tariff Act of 1930, implicitly ratified its administrative construction.

The contemporaneous administrative construction of section 526 in 1930 is reflected in articles 517-522 of the Customs regulations of 1931. Consistent with the statute’s plain language, the regulations required exclusion of all “imported merchandise bearing a genuine trademark” owned by a U.S. company and registered according to that provision unless the necessary written consent was obtained. These regulations remained unchanged until 1936 when Customs made significant changes in section 518.

The 1936 amendments to the earlier regulations were promulgated pursuant to both section 526 of the Tariff Act of 1930 and section 27 of the Trademark Act of 1905. This action was the first

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53 T.D. 40,380, 46 Treas. Dec. 165 (1923). Article 476 provided in pertinent part:

Trademarks owned by an American citizen or by a corporation or association created or organized within the United States are entitled to the protection of section 526 of the Tariff Act of 1922 if the mark has been registered in the United States Patent Office by a person (corporation or association) domiciled in the United States, or where trademark rights have been acquired by assignment, subsequent to original registration, by a person (corporation or association) domiciled in the United States, if the assignment has been recorded in the Patent Office.

Id.

54 Id.

55 Regulations promulgated contemporaneously with the enactment of a statute are to be accorded greater weight with respect to the construction of the statute. See Great Am. R.R. v. United States, 315 U.S. 262, 275-76 (1942); United States v. American Trucking Ass’n, Inc., 310 U.S. 534, 539 (1940).


58 Article 518(a) of the 1931 Customs Regulations provides:

Prohibition of entry.—Entry is prohibited of imported merchandise bearing a genuine trademark when such trademark is recorded with the Treasury Department and registered under the trademark law of February 20, 1905, if compliance is had with all provisions of section 526 of the tariff act of 1930, provided the period of protection for such trademark has not expired.

Id. art. 518(a).


60 Id. at 336-37. Section 27 of the Trademark Act of 1905 was the predecessor provision of § 42 of the Lanham Act.
to merge the two statutory provisions for purposes of Customs administration and enforcement. These regulations, unlike those previously, created a "related parties" exception. Merchandise manufactured or sold in a foreign country under a properly registered and recorded foreign trademark would not be deemed to "copy or simulate" U.S. trademarked products if both the foreign and domestic trademarks were owned by the same person, partnership, association, or corporation. The consequence of promulgating one set of regulations to administer and enforce both section 526(a) of the Tariff Act of 1930 and section 27 of the Trademark Act of 1905 was significant. Indeed, it may have been the most complicating factor in the controversy over grey market trademarked goods.

The United States Tariff Commission, predecessor agency to the United States Trade Commission, submitted a memorandum during hearings on legislation which was to become the Lanham Trademark Act. The memorandum explained that while section 27 prohibited the entry of all articles bearing trademarks which infringe a U.S. registered trademark, it did not apply to merchandise bearing the trademark owner's own mark. By contrast, until amended in 1936, section 526 was understood to apply to a trademark owner's own merchandise, and to prohibit the importation of such merchandise without the trademark owner's consent.

In 1953, the Treasury Department again amended the Customs Regulations, denying U.S. trademark owners the right to prohibit importations of trademarked goods if domestic and foreign trademarks were owned by "related" companies, as that term was defined in section 45 of the Lanham Act. At the same time, the Justice

61 Id. at 337.
62 Hearings on H.R. 82 Before a Subcommittee on the Committee on Patents, 78th Cong., 2d Sess. 86-87 (1944).
63 Discussing the effect of the 1936 amendments, the Tariff Commission memorandum explained:
They [the 1936 amendments] also provided that merchandise manufactured in a foreign country under a trade-mark is not deemed for the purposes of these regulations to "copy or simulate" such United States trademark if such foreign trademark and such United States trademark are owned by the same person. . . . The foregoing definition is obviously addressed to Section 27 of the Trade-Mark Act of 1905 in view of the reference to "copy or simulate," which expression is used in Section 27 but does not appear in Section 526 of the tariff act. It is clear that Section 27 of the act of 1905 applies to all merchandise bearing infringing trademarks. It does not apply to the merchandise of the trademark owner since the registrant's goods cannot "copy or simulate" his own mark. Section 526 of the tariff act does not apply to the merchandise of the trade-mark owner which bears his trademark if the merchandise was produced abroad and if the trademark owner is a citizen of the United States.

The Department, apparently without consulting the Customs Service, filed an antitrust complaint against four U.S. companies alleging a violation of section 2 of the Sherman Act. It alleged that these companies had, pursuant to section 526, excluded the importation into the United States of toilet goods manufactured by their associated French companies. The Justice Department's initiation of this action clearly resulted from the Customs Service practice at that time of excluding grey market goods from entry into the United States pursuant to the literal terms of section 526. The Guerlain case ultimately was dismissed at the government's request, and soon thereafter the Customs Service regulations were again amended by deleting the related party exception added in 1953. The Treasury Department, after narrowing the scope of protection offered by section 526, broadened it by denying its protection only when both the foreign and U.S. trademarks were owned by the same person.

In the late 1960s the Treasury Department began to limit the scope of protection offered by section 526. The first public notice of this came with the publication of Treasury Decision 69-12(2), which stated:

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.

In December 1970, the Treasury Department published a Notice of Proposed Rulemaking which proposed incorporating the administratively created restrictions to section 526, set forth in T.D. 69-12(2), into the Customs Service regulations. In October 1972, final regulations accomplishing this incorporation were published. In neither of the Federal Register notices was an explanation given for this narrowing of the protection offered by section 526. These regu-

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68 172 F. Supp. at 107. Immediately after the dismissal of Guerlain, the government introduced legislation which would have repealed § 526 and revised § 42 of the Lanham Trademark Act. This legislation (H.R. 7234, 86th Cong., 1st Sess. (1959), the Cellar Bill) was never enacted into law.
71 Id.
72 35 Fed. Reg. 19,270 (1970) (to be codified at 19 C.F.R. § 133.0-.53 (1972)).
73 19 C.F.R. § 133.0-.53 (1972).
III. Judicial Construction of Section 526

Although it has been the focus of substantial litigation since the early 1980s, section 526(a) of the Tariff Act of 1930 (and its predecessor provision in the Tariff Act of 1922) escaped extensive judicial scrutiny during the first 60 years of its existence. Interestingly, section 526(a) was the subject of litigation within a year of its 1922 enactment but was not again considered by a court until shortly after its reenactment as part of the Tariff Act of 1930. The 1956 decision in United States v. Guerlain, Inc. involved an antitrust action brought by the Justice Department against companies which were using section 526(a) to prevent the unauthorized importation of trademarked goods, a use of the statute which the Antitrust Division felt violated antitrust laws. Eventually, the Supreme Court dismissed the suit with prejudice after hearing the government’s request that the case be vacated and remanded to the district court. A few decisions in the 1960s and 1970s mentioned section 526 but only tangentially. However, with the growing controversy over the grey market, section 526 has recently come under intense judicial scrutiny.

A. The First Sixty Years: 1922-1982

During the first sixty years of its existence, section 526(a) was the subject of considered judicial study and analysis on only three occasions: in 1923 in Coty, Inc. v. Le Blume Import Co., in 1931 in Sturges v. Clark D. Pease, Inc., and in 1957-1959 in United States v. Guerlain, Inc. In the first two cases, the courts concluded that Congress intended no exceptions to the scope of protection afforded by the plain language of the statute. The district court in Guerlain took the opposite view, but the case was ultimately dismissed with prejudice, detracting from the significance of the court’s opinion.

74 Id.
75 See Coty, Inc. v. Le Blume Import Co., Inc., 292 F. 264 (S.D.N.Y.), aff’d, 293 F. 344 (2d Cir. 1923).
77 155 F. Supp. at 77.
78 172 F. Supp. at 107.
79 358 U.S. at 915.
81 292 F. 264 (S.D.N.Y.), aff’d, 293 F. 344 (2d Cir. 1923).
82 48 F.2d 1035 (2d Cir. 1931).
83 155 F. Supp. at 77.

_Coty, Inc._ actually involved two separate lawsuits. The first dealt with plaintiff Coty, a French perfumer who formed a Delaware corporation to conduct his U.S. business. Part of that business consisted of the sale of a perfume under the registered trademarked name "L'Origan." Defendant Le Blume, a New York corporation, proposed marketing a perfume in the United States similar in scent to plaintiff's "L'Origan." Defendant's perfume, produced by a French manufacturer, was to be sold under the name "Origan." Coty moved for a temporary injunction prohibiting the use of the word "Origan" in connection with the sale of Le Blume's product.

In the second case, Le Blume brought an action to compel Coty to withdraw his notice to the Collector of Customs at the Port of New York under which the Collector was withholding entry of two parcels of Le Blume's perfume. Le Blume also sought to compel the Collector of Customs to release the merchandise. Coty prevented the entry under section 27 of the Trademark Act of 1905 claiming that it had the sole right to sell merchandise designated as "Origan" perfume in the United States.

The district court ruled on three separate motions: Coty's motion for a temporary injunction, Le Blume's motion to compel Coty to withdraw his notice to the Collector of Customs and to compel the Collector to release its goods, and Coty's motion to dismiss Le Blume's suit. Judge Learned Hand granted Coty's motion for an injunction in the first case, denied Le Blume's motion for injunction in the second and denied Coty's motion to dismiss Le Blume's suit. The court noted that section 526(a) was "intended only to supply the casus omissus supposed to exist in Section 27 of the Act of 1905" resulting from the Second Circuit Court of Appeals decision in _A. Bourjois & Co. v. Katzal._ Judge Hand went on to state that "[h]ad the Supreme Court reversed that decision [Katzel] last spring, it [section 526] would not have been enacted at all." Judge Hand stated that section 526 was not meant to prevent a person from testing the validity of a trademark in the courts, and therefore would not grant Coty's motion to dismiss. These rulings were all affirmed on appeal.

Perhaps the most significant aspect of _Coty_ is what was not said in the opinion. The court does not address whether Coty, a subsidiary...
ary of a French corporation, would be eligible to rely on section 526. Had the scope of protection offered by the statute been limited solely to companies in a position similar to A. Bourjois & Co., a position which Coty was not in, resort to section 526 would have been inappropriate. It is reasonable to assume that the court, clearly aware of the events leading to the enactment of section 526, would have made reference to this fact.

2. Sturges v. Clark D. Pease, Inc.

Shortly after Congress reenacted section 526 as part of the Tariff Act of 1930, the Second Circuit scrutinized the statute in a case involving the attempted importation of a Hispano-Suiza automobile that the plaintiff purchased in France. Because the car bore the trademark “H-S,” which the defendant had properly registered and recorded, the Collector of Customs denied it entry. Sturges argued that section 526(a), upon which the Collector relied, did not apply to articles intended for personal use. Plaintiff further argued that if the statute covered such articles, the statute was unconstitutional. The district court dismissed both arguments, and the plaintiff appealed.

The thrust of Sturges’ appeal concerned section 526(a)’s definition of “merchandise.” Plaintiff contended that the term covered only goods that were imported for domestic sale, not goods that were imported for personal use. Sturges argued that Congress adopted section 526(a) solely to avoid the result in A. Bourjois & Co. v. Katzel, with the scope of the import provision limited to the facts of that case. The appellate court acknowledged, as had the court in Coty, that Katzel inspired the enactment of section 526. It further acknowledged that had the Supreme Court reversed Katzel prior to the enactment of the Tariff Act of 1922, section 526 would never have been enacted. The court stated, however, that “this fact does not settle the scope of the act.”

The court noted that the plaintiff had the right to import the automobile in question if the trademark were removed, stating that section 526 did not prevent the importation of the automobile itself but only an automobile bearing the “H-S” trademark. According to the court, “[t]he object of this drastic statute is to protect the owner

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92 The court acknowledged that § 526 was enacted as a result of the Second Circuit’s decision in the Katzel case. 292 F. at 269.
93 Sturges, 48 F.2d at 1035.
94 Id. at 1036.
95 Id. at 1036-37.
96 Id. at 1037.
97 292 F. at 269.
98 48 F.2d at 1037.
99 Id.
of a foreign trademark from competition in respect to goods bearing
the mark."\textsuperscript{100} The court held that if importations for personal use
were excepted from the coverage of section 526, an opportunity
would be afforded for "evasive importations" whose real objective
was sale. The court, therefore, reiterated its view that unauthorized
sales in the United States of automobiles bearing the "H-S" trade-
mark interfered with the U.S. trademark owner's "right to control
the use of the mark in this country which was the apparent purpose
of the Congressional legislation."\textsuperscript{101} The court concluded that the
domestic owner of a trademark "is entitled" to the benefit of all sales
in the United States of merchandise bearing that trademark and that
to ensure this benefit, the owner of a U.S. trademark "is given con-
trol of the importation of all . . . [goods] bearing it."\textsuperscript{102}

\textit{Sturges} is important for both what it says and what it does not
say. The court of appeals acknowledged that section 526 is a "dra-
matic" statute, thereby lending credence to its view that the statute
allows no exception. The court's opinion contains no discussion of
whether Clark D. Pease, Inc. was in any way related to the foreign
trademark owner. It contains no acknowledgment of an exception to
the import prohibition contained in section 526 when the U.S. trade-
mark owner is related to the foreign owner. Indeed, this court,
which rejected even a relatively minor exception to the statute for
personal use,\textsuperscript{103} would have been unlikely to have allowed the much
larger exception carved out by the Customs Service in its present
regulations. These exceptions allow importation of foreign goods
bearing a trademark owned by a U.S. citizen if the trademarked
goods were manufactured overseas by a company related to the U.S.
trademark owner, or if the trademark was applied to the goods on
authority of that owner.\textsuperscript{104}


Guerlain,\textsuperscript{105} the next significant case construing section 526
arose not in the customs context, but in an antitrust context. In
1956, the Antitrust Division of the Department of Justice filed sepa-
rate lawsuits against three individual U.S. importers of French per-

\textsuperscript{100} \textit{Id.} (Emphasis added). It should be noted that the court of appeals not once, but
twice, during the course of its opinion referred to § 526 as a "drastic" statute.
\textsuperscript{101} \textit{Id.}
\textsuperscript{102} \textit{Id.}
\textsuperscript{103} It was not until 1978, with the enactment of the Customs Procedural Reform and
Simplification Act, that § 526 was amended by adding a personal use exemption (subsec-
95-410, 92 Stat. 888, 903 (1978).}
\textsuperscript{104} \textit{See} 19 C.F.R. § 133.21(c)(1)-(3) (1985).
\textsuperscript{105} 155 F. Supp. 77 (S.D.N.Y. 1957), \textit{prob. jurisid. noted sub nom. Lanvin, Parfums, Inc. v.

contending that their use of section 526 to prevent third party importation of French perfume bearing their respective trademarks violated section 2 of the Sherman Act. The suits alleged that such use of the statute constituted an attempt to monopolize, and a monopolization of, the importation into and sale within the United States of these trademarked products. These lawsuits were initiated without consultation with the Customs Service which at that time was prohibiting such goods from entry pursuant to the terms of Section 526(a). The underlying basis of the Government’s action was a theory that the U.S. trademark owners were part of a “single international enterprise” with their French suppliers. As part of such an enterprise, U.S. trademark owners were not entitled to use section 526 to prevent the importation of goods sold abroad by the French counterpart. According to the Department of Justice, such use of section 526 violated the prohibition contained in section 2 of the Sherman Act against monopolization.

The court, after finding that each of the three defendants was part of a single international enterprise with its French counterpart, went on to examine the statute. The court accepted the Government’s construction of section 526(a) and held that the protections of the statute may be applied only to the advantage of an independent U.S. trademark owner and not to a U.S. participant in a single international enterprise. The court did acknowledge that this reading of section 526(a) “is not to be derived from a literal reading of the words of the statute,” and that it had arrived at its conclusion “[d]espite the absence of specific language to that effect in the legislation.” The court, after examining the legislative history of section 526, determined that its purpose was to protect the rights of U.S. citizens who bought foreign trademarks and that it was “aimed at the Katzel decision . . . involving a U.S. trademark owner independent of the foreign manufacturer.”

The court also rejected defendants’ arguments that by not permitting them to take

106 These three companies were Guerlain, Inc., Parfums Corday, Inc., and Lanvin Parfums, Inc. Each had the exclusive right to distribute French manufactured perfume products in the United States and had been assigned rights in the trademarks under which these perfumes were sold. This enabled each of them to claim ownership of the trademarks in the United States and to register and record their respective trademarks. The three suits against the individual importers were consolidated into one case. 155 F. Supp. at 79.


108 155 F. Supp. at 79.

109 172 F. Supp. at 107-08.


111 Id. at 80.

112 Id.

113 Id.

114 Id.

115 Id. at 81 (footnote omitted). The court cited both Coty and Sturges to support this conclusion. With respect to the latter case, the court apparently failed to note the state-
advantage of section 526, others would be able to “free ride” on their trademarks by usurping the benefits of the goodwill associated with the mark and built at the expense of the individual trademark owners.\footnote{116} The court concluded that the protection sought by the defendants would constitute an implied exception to the antitrust laws (which are not favored) that it did not believe Congress meant to grant to an international enterprise.\footnote{117} The court then held that defendants did not have the right to rely on section 526 to prevent the unauthorized importation of genuine trademarked goods and that defendants’ use of the provision violated section 2 of the Sherman Act.\footnote{118}

This decision was appealed directly to the Supreme Court, which undertook to review the case.\footnote{119} Before the case could be heard by the Court, however, the Government filed a motion to vacate the judgment and to remand the case to the district court for consideration of a motion to dismiss, which the Government said it would file with the district court.\footnote{120} The Solicitor General’s explanation for the Government’s action\footnote{121} was based on the intragovernmental conflict between the Customs and antitrust authorities with

\footnote{116} 155 F. Supp. at 82.
\footnote{117} Id. at 83.
\footnote{118} Id. at 87.
\footnote{119} 355 U.S. at 951.
\footnote{120} See Motion to Vacate Judgment and to Remand to the District Court for Consideration of Motion to Dismiss to be Filed by the United States, Guerlain.
\footnote{121} The Government is of the view that [the district court’s] interpretation of § 526 is permissible in light of the relevant legislative history noted in the District Court’s opinion. At the same time, we are bound to recognize that this interpretation is not supported by the literal terms of the statute. Moreover, the physical exclusion of goods which has been taking place has occurred with the continuing aid of the Customs authorities of the United States who have deemed themselves legally constrained to grant the claim of statutory protection invoked by the appellants. To be sure, an antitrust complaint is not barred merely because actions taken by certain officials of the United States may be involved in the effectuation of the alleged Sherman Act violation. Nonetheless, it appears desirable, in the circumstances here present, that the intragovernmental conflict as to the meaning of the tariff or trademark laws of the United States be resolved, if such resolution can be practically achieved, through means other than antitrust litigation.

To this end, general agreement has now been reached within the Executive Branch that the matter should be promptly submitted to Congress for its consideration.

\textit{Id. at 7.}

Immediately after the dismissal of the Guerlain case, the Government introduced legislation which would have repealed § 526 and revised § 42 of the Lanham Act. These measures were aimed at barring the importation of counterfeit goods while explicitly providing that the Lanham Act remedies were not available against an importer or seller of foreign-made goods bearing a U.S.-owned trademark where the U.S. trademark owner and foreign manufacturer are related, or the foreign manufacturer was authorized to use the trademark. The Cellar Bill was never enacted into law. Had § 526 been construed and administered then as it is now, the introduction of such legislation would have been unnecessary. H.R. 7234, 86th Cong., 1st Sess. (1959).
regard to section 526. The Supreme Court granted the Government’s motion,122 and on remand to the district court, the case was dismissed with prejudice.123 The current Customs regulations124 are based on the construction given to section 526 by the district court.125 Although the case was ultimately dismissed with prejudice,126 the Customs Service continued to adhere to the district court’s holding in Guerlain on the grounds that the rationale enunciated by that court had never been repudiated and remained the only judicial statement relating to that section.127

In Guerlain the district court accepted the view of the Antitrust Division of the Department of Justice that the U.S. subsidiary of a multinational “single enterprise” could not use section 526 to prevent domestic intrabrand competition in genuine merchandise manufactured by related foreign companies. Adoption of this related party exception was in harmony with the view, prevalent in the 1960s and 1970s, that the imposition of restrictions on the distribution of products by manufacturers after their release into commerce was a per se violation of the Sherman Act.128 Therefore, although the propriety of the Customs Service’s acceptance of the related party exception to section 526 was questionable given the legislative history and broad language of the statute, the policy behind its action was at least consistent with prevailing principles of antitrust law.

In 1977, however, the Supreme Court reversed United States v. Arnold Schwinn & Co.,129 holding that intrabrand restraints on distribution may actually enhance interbrand competition.130 Subsequent cases in the circuit courts of appeals have expanded upon this analysis, holding that intrabrand restrictions by manufacturers lacking significant market power cannot be anticompetitive because other brands provide an effective competitive check.131 There has thus been a complete reversal of the underlying economic theory and antitrust principles regarding intrabrand competition since the Government decided to vacate its Guerlain appeal in the Supreme Court and

122 358 U.S. at 915.
123 172 F. Supp. at 107. The court noted that the Government’s attempt to limit the scope of protection afforded by § 526 utilizing the antitrust laws was “clumsy, particularly in view of the fact that the Government was, through the Collector of Customs, allowing the exclusion that it claimed, through the Antitrust Division, to be illegal.” Id. at 107-08.
124 19 C.F.R. § 133.21(c)(1)-(3) (1986).
125 155 F. Supp. at 80.
129 Id.
131 See Valley Liquors, Inc. v. Renfield Importers, Ltd., 678 F.2d 742 (7th Cir. 1982); Center, Inc. v. Roddell, Inc., 673 F.2d 786 (5th Cir. 1982); Oreck Corp. v. Whirlpool Corp., 639 F.2d 75 (2d Cir. 1980); Borger v. Yamaha Int’l Corp., 622 F.2d 390 (2d Cir. 1980).
introduce legislation (the Cellar Bill) proposing the repeal of section 526.132 This complete reversal of the law relating to vertical restraints has been recognized by the Antitrust Division of the Department of Justice,133 and explains why, in the amicus curiae brief it filed in Bell & Howell: Mamiya Co. v. Masel Supply Co.,134 it reversed its position on section 526, urging the court to “affirm the . . . customs laws in accord with the normal meaning of the statutory language.”135

B. The 1980s: Growing Controversy, Increasing Litigation

After the dismissal of Guerlain, the scope of protection afforded by section 526 was not again the subject of judicial analysis until the 1980s.136 The section has increasingly become an issue in litigation as the size of the grey market has increased137 and the controversy over the legitimacy of grey market trademarked goods has grown. Judicial examination of the scope of protection afforded by section 526 first resurfaced in litigation under section 32 of the Lanham Trademark Act,138 with plaintiffs seeking injunctive relief from trademark infringement by grey market trademarked goods.139 These suits indirectly raised questions of the proper scope of protection afforded by section 526(a) and whether the Customs Service regulations correctly reflected this scope. These actions, however, were directed against identified importers of goods bearing a specific

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135 Brief for the United States of America Amicus Curiae at 9. See generally id. at 7-9. It should be emphasized that this brief was submitted jointly by the Antitrust Division of the Department of Justice and the U.S. Customs Service. In Vivitar the Government attempted to distance itself from the position set forth in the Masel amicus curiae brief by arguing that the Masel brief was prepared by the Antitrust Division of the Justice Department, not the Civil Division, which was litigating Vivitar. It was argued that the Civil Division was not bound by the views of the Antitrust Division. Defendants' Memorandum In Support Of Defendants' Motion For Summary Judgment at 2, Vivitar. Whatever merit this distinction might have, it nevertheless overlooks the fact that the Customs Service was a joint author of the brief. In Vivitar the Court of International Trade found that the amicus brief filed in the Masel litigation did not demonstrate any inconsistency on the part of the Government. 593 F. Supp. at 431 n.17. The court held that the brief focused on issues of trademark infringement and antitrust law, and mentioned § 526(a) “only in passing,” although 3 of 12 pages were devoted to substantive arguments related to the construction of the section. Id.
136 Section 526 was tangentially mentioned in a few court decisions during the 1960s and 1970s, but these cases did not examine the scope of protection afforded by the statute. See Rogers, 277 F.2d at 94; Mendez, 345 F. Supp. at 527; R.C.W. Supervisor, 229 F. Supp. at 453.
137 See supra note 1 and accompanying text.
139 See Osaka, 589 F. Supp. at 1163; Mamiya, 548 F. Supp. at 1061.
The question of the scope of protection provided to U.S. trademark owners under section 526 was not directly raised nor was the legitimacy of the Customs Service regulations excepting certain U.S. trademark owners from the protection offered by the statute challenged.

Not until *Vivitar Corp. v. United States* were the Customs regulations directly challenged and the question of the scope of protection afforded by section 526 brought directly before a court with jurisdiction to address the controversy. Soon thereafter, similar suits were filed by both COPIAT and Olympus Corporation in the district court.

1. Mamiya and Osawa

In *Mamiya* plaintiff brought an action under section 32 of the Lanham Trademark Act of 1946 to enjoin the defendants from importing genuine “Mamiya” cameras, bearing the “Mamiya” trademark. Plaintiff held the exclusive right to U.S. distribution of these cameras, manufactured in Japan by Mamiya Camera Co. and distributed worldwide by J. Osawa & Co. The district court, in granting the preliminary injunction, thoroughly analyzed section 526 from the enactment of section 27 of the Trademark Act of 1905 to the interpretation of *Guerlain*. The *Mamiya* court expressly rejected the *Guerlain* related party exception.

Although the *Mamiya* court conceded that the legislative history of section 526 indicated “that the plight of trademark assignees in

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140 See infra p. 272.
142 The U.S. Court of International Trade stated that it had exclusive jurisdiction to decide this issue. *Vivitar*, 585 F. Supp. at 1419. The exclusive jurisdiction of the Court of International Trade was affirmed by the Court of Appeals for the Federal Circuit. 761 F.2d at 1557-60.
143 COPIAT, 585 F. Supp. at 844.
144 Olympus, 627 F. Supp. at 911.
145 It should be noted that the U.S. district courts in both COPIAT and Olympus declined to follow the *Vivitar* court's holding that exclusive jurisdiction over claims arising out of § 526 was vested in the U.S. Court of International Trade, and found that they possessed jurisdiction to review such claims. The question of whether the Court of International Trade has exclusive jurisdiction to hear such claims, or whether such claims can also be heard by the district courts, remains unresolved.
146 Mamiya, 548 F. Supp. at 1063.
148 548 F. Supp. at 1065. During the pendency of this litigation, plaintiff changed its name to Osawa & Co. but remained a Delaware corporation and the owner of the U.S. "Mamiya" trademarks. *Id.*
149 *Id.* at 1079. The Second Circuit Court of Appeals vacated and remanded this decision solely on the grounds that it did not believe plaintiffs had demonstrated sufficient irreparable injury to warrant the district court's issuance of a preliminary injunction, 719 F.2d at 45-46, without discussing the substance of the lower court's analysis. 719 F.2d at 42.
the Bourjois Company's situation was a special concern to Congress, it also noted that the factual situation of that case was "partially misrepresented" by the bill's proponents. The court stated, however, that the possibility that individual senators did not have a completely accurate understanding of the Katzel case could not "weigh heavily in construing the statute when the breadth of the legislation is properly considered."

After citing the basic rule of statutory construction that the plain meaning of words selected by Congress is ordinarily conclusive evidence of the scope of the statute, the court stated:

Section 526 conferred upon citizens of the United States, including corporations created here, the right to bar importation generally. The language does not reasonably admit of a special limitation based upon foreign ownership of an American company. An American subsidiary of a foreign company is no less American for being a foreign company's subsidiary. . . .

Again, without limiting language, Congress stated that "any merchandise of foreign manufacture" bearing a trademark owned by an American could be denied entry, on the unstated, but obvious ground that sale of the article by someone not the trademark owner would infringe the trademark owner's rights.

The Mamiya court concluded that the district court's analysis of section 526 in Guerlain "does not provide persuasive reasoning for narrowing either the scope of Bourjois v. Katzel or of section 526 to instances where the American trademark owner is unrelated to the foreign producer."

The district court's grant of a preliminary injunction was appealed, and the Antitrust Division of the Department of Justice and the Customs Service filed a joint amicus curiae brief with the Second Circuit Court of Appeals. The Justice Department and Customs Service claimed that section 526 should be construed in accordance with its plain language and that the legislative history of section 526 did not support a construction giving U.S. trademark owners less protection than that seemingly granted by the plain language of the statute. The court of appeals vacated and remanded the trial court's judgment because the plaintiff failed to prove a sufficiently irreparable injury necessary for the issuance of a preliminary injunction. The case initially proceeded toward trial but ultimately was dismissed pursuant to the terms of a consent decree.

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150 548 F. Supp. at 1075.
151 Id.
152 Id.
153 Id.
154 Id. at 1075-76.
155 Id. at 1077.
156 Brief for the United States of America Amicus Curiae at 7-9.
157 719 F.2d at 42.
Osawa & Co. brought another suit against defendants who were importing and selling genuine cameras bearing the "Mamiya" trademark in the United States without authorization. Although the Customs Service had ordered the exclusion of this merchandise, plaintiff sought preliminarily to enjoin defendants from advertising and dealing in the goods. Defendants claimed that the Customs Service recordation of the trademarks at issue was erroneous and contrary to its own regulations given the relationship between the U.S. trademark owner and the Japanese manufacturer. The court rejected this claim and defendants' contention that section 526 should be limited to situations in which the domestic trademark holder had purchased the U.S. trademark and goodwill outright and had no relation to the foreign trademark owner. Finding "no basis for this contention in fact or logic," the court further stated:

And as to the Exclusion Act, § 526, defendants' attempt to contradict its plain meaning by snatching at fragments from its legislative history is unconvincing. The fact that it was passed to overturn the Court of Appeals decision in Katzel does not mean that, in spite of its broad language, it should govern only the narrowest version of the Katzel facts. Defendants have suggested no compelling reason to doubt that the statute means what it says.

Additionally, the Osawa court rejected defendants' contention that the denial of Coty's motion to dismiss Le Blume's suit in Coty, Inc. v. Le Blume Import Co., Inc. supported a narrow construction of section 526(a). Instead, the court explained that Coty supported a broad construction of the statute. The Osawa court focused on Judge Hand's statement in Coty that section 526(a) was intended only to supply the "casus omissus" which supposedly existed in section 27 of the Trademark Act of 1905. It noted that prior to Coty and Katzel, section 27 had been construed by the Second Circuit Court of Appeals as denying a U.S. trademark owner the right to exclude merchandise bearing the genuine trademark of a foreign manufacturer, and that the court of appeals in Katzel had merely reconfirmed this. In reversing Katzel, the Supreme Court had found an in-

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159 Osawa, 589 F. Supp. at 1163.
160 Id.
161 Id. at 1177.
162 Id. at 1175.
163 Id.
164 292 F. at 268.
165 589 F. Supp. at 1175.
166 Id.
167 292 F. at 268-69.
169 589 F. Supp. at 1175. This holding was based on the fact that § 27 spoke in terms of excluding imported goods which "copy or simulate" a U.S. registered trademark, and genuine goods do neither. See Gretsch, 288 F. at 780.
fringement despite the "genuineness" of the imported goods.\textsuperscript{170} Thus, the Osawa court stated that the "casus omissus" which section 526 was drafted to address was the importation of genuine goods with foreign trademarks without the consent of U.S. trademark owners.\textsuperscript{171} The court noted that this omission had been addressed by both the enactment of section 526 and the Supreme Court's decision in \textit{Katzel}.\textsuperscript{172} It further concluded:

There is absolutely no basis in Hand's language for the suggestion argued by defendants that it refers only to the arm's length relationship between the domestic and foreign markholder in \textit{Katzel}. In fact, it must mean the opposite. For it is clear (and beyond dispute) that exclusion lay under § 27 against goods that "copy or simulate" regardless of the relationship between the domestic and the foreign mark holder. Such a relationship could have no conceivable relevance to the unlawfulness of a counterfeit mark. If, as Judge Hand states, § 526 simply fills the omission supposed to exist in § 27, then the relationship between foreign and domestic markholder would be equally irrelevant under § 526.\textsuperscript{173}

The Osawa court then proceeded to examine the Customs Service regulations\textsuperscript{174} under which an order had been issued excluding imports of genuine goods not authorized by plaintiff.\textsuperscript{175} In what is concededly dicta, the Osawa court stated:

The language of the statute broadly and unqualifiedly proclaims the unlawfulness of importing "any merchandise of foreign manufacture . . . [that] bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States . . . ." It contains no suggestion that the right of the U.S. markholder to receive its benefits depends on subtle variations in its relationship with the foreign markholder.\textsuperscript{176}

Noting that the Customs regulations represented an effort by the Customs Service to implement its perception of antitrust policy,\textsuperscript{177} the court observed that "nothing in the statute suggests that Congress conferred authority on the Bureau of Customs to condition its benefits on Customs' analysis of antitrust policy,"\textsuperscript{178} and questioned the "wisdom and necessity" of "these crude regulations."\textsuperscript{179} The court remonstrated that antitrust questions are far too complex to be decided through a short questionnaire on corporate ownership and questioned the propriety of regulations which presumed anti-
trust violations solely on the basis of common ownership and control with no reference to market considerations. Finally, the court concluded that these regulations were "unsound both as antitrust policy and trademark law."

2. Vivitar, COPIAT and Olympus

The Vivitar, COPIAT and Olympus cases are the only cases which directly challenged the Customs Service regulations and their limits on U.S. trademark protection under section 526. These cases were filed only after the U.S. trademark owners repeatedly failed to convince the Customs Service to provide protection from grey market imports. The Customs Service refused to bar the importation by third parties of goods bearing U.S.-registered trademarks because the goods were manufactured overseas by entities related to or authorized by the U.S. trademark owners. The Vivitar case, the first filed, is the only one of these cases now concluded. More importantly, the analysis of section 526 made by the trial court in Vivitar is far more comprehensive than that in either COPIAT or Olympus.

a. Vivitar Corporation v. United States

Vivitar Corporation filed suit to have declared ultra vires Customs Service regulations which deny statutory protection to U.S. trademark owners who are related to foreign manufacturers of trademarked goods or who have authorized such manufacturers to place their trademark on such goods. Vivitar had three arguments. First, it argued that the Customs Service regulations were ultra vires to the extent they were contrary to the unambiguous language contained in section 526, and that the legislative history of section 526 did not clearly evidence a congressional intent contrary

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180 Id. at 1178.
181 Id.
182 COPIAT is a coalition of U.S. trademark owners, all plagued by grey market imports.
183 See 19 C.F.R. § 133.21(c)(1)-(3) (1986).
184 The appellate court decisions in both Vivitar and COPIAT contained comprehensive analyses of § 526. The COPIAT and Olympus district court decisions, however, were not as comprehensive as that of the Vivitar court, and in fact relied heavily on the Vivitar opinions and incorporated by reference much of the analysis contained therein.
186 593 F. Supp. at 423.
187 19 C.F.R. § 133.21(c)(1)-(2) (1986).
188 Id. § 133.21(c)(3). Vivitar initially sought an order of mandamus from the Court of International Trade directing the Customs Service to exclude from entry into the United States goods bearing the "Vivitar" trademark without its authorization, but later amended its complaint to seek declaratory relief as well. 593 F. Supp. at 422 n.1.
189 593 F. Supp. at 425. These three arguments also constitute the thrust of COPIAT and Olympus' arguments.
to the statutory language.\footnote{Id. As previously noted, the Customs Service took the position that the legislative history evidenced an intent by Congress to limit the scope of § 526 to the\emph{Katzel} fact situation, despite the broad language utilized by Congress in enacting the statute. \emph{Id.}} Second, it argued that the Customs Service regulations at issue were neither longstanding nor consistent and therefore were entitled to little deference by the court.\footnote{\emph{Id.} at 431 n.17. The Customs Service also argued that its construction of § 526 has been longstanding and consistent, dating back to the 1936 amendments to the Customs Regulations of 1931. \emph{Id.} at 425.} Finally, it believed Congress did not intend to approve the Customs Service regulations when it amended section 526 in 1978.\footnote{\emph{Id.} at 433 n.19. The Customs Service argued that Congress, when enacting the Customs Procedural Reform and Simplification Act of 1978, by which § 526 was amended by adding new subsections (d) and (e), implicitly ratified Customs’ administrative construction of the statute. \emph{Id.} at 425.}

The Court of International Trade rejected Vivitar’s claims, finding that the legislative history of section 526 demonstrated congressional intent that the statute only remedy the result of the court of appeals decision in\emph{Katzel}, at that time still not reversed by the Supreme Court.\footnote{\emph{Id.} at 432.} Further, the Court of International Trade found that the Customs Service’s construction of section 526 had been consistently applied since at least 1962 and probably reflected a general practice since 1936 and was therefore entitled substantial weight.\footnote{\emph{Id.} at 433.} Finally, the court determined that Congress had been aware of the Customs Service’s administrative practice under section 526, and had acquiesced in the practice\footnote{19 U.S.C. § 1526(d)-(e) (1982).} by enacting the Customs Procedural Reform and Simplification Act of 1978.\footnote{593 F. Supp. at 434.} Based on this analysis, the Court of International Trade held that the Customs Service regulations represented “a reasonable construction [of section 526(a)], reflecting Congress’ intent, and in fact is a necessary construction of the statute to avoid results Congress clearly did not intend.”\footnote{761 F.2d at 1571.}

The Court of Appeals for the Federal Circuit affirmed the conclusion that the Customs Service regulations were a reasonable exercise of administrative discretion\footnote{761 F.2d at 1561.} but found that the reasons adopted by the Court of International Trade in supporting the Customs Service’s construction of section 526 were without merit. The court of appeals stated that the sole purpose of section 526 was not to remedy the dilemma created by\emph{Katzel}.\footnote{\emph{Id.} at 425.} The Vivitar court cited \emph{Sturges v. Clark D. Pease, Inc.},\footnote{48 F.2d 1035 (2d Cir. 1931).} decided contemporaneously with the reenactment of section 526, in support of the proposition that Con-
gress did not intend the statute to be limited solely to the factual situation present in that case.\textsuperscript{201} According to the \textit{Vivitar} court, "no limitations based on indications of Congressional intent at the time of enactment can be read into the statute itself."\textsuperscript{202}

The Federal Circuit Court of Appeals also rejected the holding of the Court of International Trade that current Customs Service regulations reflect a long-standing administrative interpretation of section 526. The court, after reviewing the regulations promulgated under section 526 since 1923, and Customs Service administrative practice over the past fifty years, concluded that "Customs has had and continues to have a changing view of the role of Customs in enforcing § 526(a) ..."\textsuperscript{203} The court illustrated this changing view by citing the various instances in which the Customs Service expanded and then contracted the scope of protection given by the statute. In particular reference to the Customs Service enforcement of the section, the court stated:

With respect to actual administration practice, during some years Customs acted to exclude goods which, under its regulations, should not have been excluded because it lacked information to implement its regulations. Thus, trademark recordants prior to 1953 were treated differently from recordants from between 1953-1959 and those after 1959 differently from those before that date. Whether earlier recordants are not treated the same today as those after 1972, we do not know.\textsuperscript{204}

The court of appeals also cited the study by the Customs Service and Treasury Department which has as its ultimate goal the formulation of a coherent administration policy on grey market imports, a reflection, in the court's view, of the continued uncertainty within the Executive Branch as to the meaning of section 526. Finally, the court noted that the Customs Service had, in its 1983 amicus curiae brief in the \textit{Mamiya} case, urged the court of appeals to construe section 526(a) in accordance with its plain meaning.\textsuperscript{205}

The court of appeals rejected the finding by the Court of International Trade that Congress, by its 1978 amendment of section 526 to include a "personal use" exception, had implicitly ratified the Customs Service practice under section 526. The court noted that nothing in the legislative materials indicated that Congress had focused on the Customs regulations then in effect, stating that "legislation by total silence is too tenuous a theory to merit extended discussion."\textsuperscript{206}

Finally, the court of appeals addressed Vivitar's contention that

\textsuperscript{201} 761 F.2d at 1565.
\textsuperscript{202} Id.
\textsuperscript{203} Id.
\textsuperscript{204} Id. at 1567.
\textsuperscript{205} Id. at 1568.
\textsuperscript{206} Id.
the current U.S. Customs Service regulations are contrary to the clear and unambiguous language contained in section 526(a). The court stated that Vivitar's claim was based on an erroneous understanding of the structure of section 526 and of the nature of Customs Service regulations. It explained that Vivitar incorrectly assumed that the regulations in question set limits on the right to exclude merchandise under section 526 when actually they do no more than define the Customs Service's role in initiating administrative enforcement of the statute. Viewed from this perspective, "it is apparent that the regulations are not contrary to the statute in the sense that the goods are being routinely excluded which should be admitted, or vice versa . . . . Vivitar's complaint is simply that the regulations do not go far enough in automatically excluding all types of gray market importations."

The court held that the Customs Service is not required to exclude all grey market goods sua sponte. It noted that Congress could not have foreseen all possibilities in international trade relationships when it enacted section 526. Thus, although the court rejected the argument of the Government that section 526 must be interpreted as limited by the Customs Service regulations, it concluded that it must also reject the view set forth by Vivitar that section 526 may not have any implied limitation. The court stated that if it is unclear whether protection under section 526 is warranted, or if entitlement to protection depends on resolution of complex factual situations, the Customs Service may decline to impose, sua sponte, the extreme sanction of exclusion. It may leave such cases for initial determination by the federal district court under the private remedies provided to the trademark owner in section 526(c). The court observed that because the trademark owner is provided with injunctive relief and damage remedies against private parties who infringe U.S. trademarks, agency-initiated action is not to be expected in all cases. The court also noted that the absence of a provision for expeditious relief and monetary compensation for

207 Id. at 1568-70.
208 Id. at 1569.
209 Id.
210 Id.
211 Id. at 1570.
212 Id.
213 Id. The court of appeals suggested that the availability of private remedies under 19 U.S.C. § 1526(c) implied an intent that some goods seemingly covered by § 526 will be permitted to enter the United States. Id. Section 526(c) gives a private party the right to an injunction and damages against parties dealing "in any such merchandise." (emphasis added). 15 U.S.C. § 1526(c) (1982). The term "such" refers to merchandise whose importation is made unlawful by subsection (a) of § 526 and subject to mandatory seizure and forfeiture by subsection (b) of § 526. Subsection (c) merely provides trademark owners with a private remedy (injunctive relief and/or damages) against grey market importers should "such merchandise" evade Customs Service detection and enter the United States.
an importer whose goods may have been improperly excluded by the Customs Service strongly supports no automatic administrative exclusion in such cases. It compared this to the Customs Service regulations for copyrighted goods which require the U.S. copyright owner to post a bond subject to forfeiture for improper Customs detention.\textsuperscript{214}

In concluding, the court of appeals held that the current Customs Service regulations promulgated pursuant to section 526 are valid, but not controlling, with respect to the scope of protection afforded by section 526(a).\textsuperscript{215} The court stated that to obtain any additional protection Vivitar must first seek a federal district court determination of its alleged rights against parties engaged in the parallel importation of Vivitar grey market merchandise. If successful, Vivitar would be entitled to have such merchandise excluded by the U.S. Customs Service.\textsuperscript{216}

The court of appeals' validation of the Customs Service regulations on grounds never before articulated by the Customs Service ran contrary to one of the fundamental tenets of administrative law, \textit{i.e.}, that a reviewing court is to judge the propriety of administrative action solely on the grounds invoked by the agency.\textsuperscript{217} This issue, as well as the substance of the court of appeals' decision upholding the Customs Service regulations, formed the basis of Vivitar's petition for a writ of certiorari, which was ultimately denied.\textsuperscript{218}

\textbf{b. COPIAT and Olympus}

\textit{COPIAT}\textsuperscript{219} and \textit{Olympus}\textsuperscript{220} were filed soon after \textit{Vivitar} and sought identical relief.\textsuperscript{221} Both, however, filed in federal district court rather than in the Court of International Trade.\textsuperscript{222} In addi-

\begin{footnotes}
\footnotetext[214]{761 F.2d at 1570 n.27.}
\footnotetext[215]{Id. at 1570.}
\footnotetext[216]{Id. The court left unanswered the question of whether Vivitar, if successful in a district court action, would be entitled to have all unauthorized importations excluded by the Customs Service or only goods imported by the defendants named therein. Vivitar filed a petition for rehearing and clarification (June 5, 1985), but the petition was denied by an order dated June 12, 1985.}
\footnotetext[218]{106 S. Ct. 791.}
\footnotetext[219]{COPIAT, 598 F. Supp. at 844.}
\footnotetext[220]{Olympus, 627 F. Supp. at 911.}
\footnotetext[221]{Vivitar initiated its action by seeking an order of mandamus directing the Customs Service to prohibit the unauthorized importation of genuine goods bearing the "Vivitar" trademark, but later amended this request to seek declaratory relief. 593 F. Supp. at 422 n.1. COPIAT sought declaratory relief in the nature of a declaration from the court that the Customs Service regulations were inconsistent with both § 526 of the Tariff Act of 1930 and § 42 in accordance with their express terms. 598 F. Supp. at 846. Olympus also sought both declaratory and injunctive relief against the enforcement of § 133.21(c) of the Customs Service regulations. 627 F. Supp. at 911.}
\footnotetext[222]{Vivitar had sued in the Court of International Trade.}
\end{footnotes}
tion, while Vivitar ultimately chose to pursue its claim solely under section 526 of the Tariff Act of 1930. COPIAT and Olympus proceeded with alternative claims under section 42 of the Lanham Act.

In COPIAT the district court found that Customs regulations promulgated under section 526 were consistent with both the Service's prior interpretations of that section and congressional intent. The court said that this finding "is amply demonstrated" by the statute's legislative history and judicial interpretation. In addition, the court found "a pattern of legislative acquiescence" demonstrated by Congress' failure to change subsection (a) when it amended section 526. The court concluded that the Customs Service's construction of section 526 was "sufficiently reasonable, clearly implement[ing] the limited purpose for which section 526 was enacted and [is] consistent with and effectuate[s] the intent of Congress to permit entry of trademarked goods not involving the Katzel situation."

The Olympus district court, relying on a similar interpretation of section 526, concluded that Congress enacted the section for the limited purpose of responding to the court of appeals decision in Katzel. Moreover, the court found that Olympus' argument for a broad interpretation "of section 526 contradicted administrative practice, legislative history, judicial interpretation, and legislative acquiescence." The court cited the thorough analyses in Vivitar and COPIAT and saw no need to reiterate them.

Both the COPIAT and Olympus district court decisions were appealed, and while the Second Circuit has to date not issued an opinion in Olympus, the District of Columbia Court has spoken in the COPIAT case. The Court of Appeals for the District of Columbia

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223 585 F. Supp. at 1421 n.1.
224 Both the COPIAT and Olympus trial courts dismissed the § 42 claims for failing to state a claim upon which relief should be granted, given that the "copy or simulate" language in that provision limited its application to counterfeit goods, absent the Katzel fact situation. COPIAT, 598 F. Supp. at 848; Olympus, 627 F. Supp. at 911. The appellate court in COPIAT did not address the issue inasmuch as it found the Customs Service regulation contrary to § 526. COPIAT, 790 F.2d at 903.
225 598 F. Supp. at 851.
226 Id.
228 598 F. Supp. at 852.
229 See 627 F. Supp. at 918.
230 Id.
231 Id. The court also noted that while the Federal Circuit's opinion in Vivitar was "thorough and thoughtful," it found the court of appeals conclusions as to the scope of § 526 to be "less persuasive" than those reached by the Court of International Trade in Vivitar and the district court in COPIAT. Id.
232 COPIAT, 790 F.2d at 903.
Circuit reversed the district court in a ruling which conflicted directly with the Court of Appeals for the Federal Circuit’s decision in Vivitar, and held that the Customs Service regulations “simply cannot be squared with [the language of] section 526” and were thus invalid. Alternatively, the court held that the Customs Service regulations were invalid “because they do not constitute a reasonable interpretation of section 526.”

The court of appeals in COPIAT addressed an issue which the court of appeals in Vivitar, and many other courts construing section 526, chose to ignore, i.e., that the regulations themselves cannot be reconciled with the plain language of the statute. In holding the Customs Service regulations to be contrary to the plain language of the statute, the COPIAT court rejected the contention of the grey marketeers, and the finding of the district court, that the regulations were a reasonable interpretation of the statute by the agency charged with its enforcement, noting that this doctrine comes into play only when Congress has not addressed the precise question or issue. In the case of section 526, the court held that Congress’ intent was “clear,” and that “that is the end of the matter.”

Alternatively, the COPIAT court found, as did the court of appeals in Vivitar, that the legislative history of Section 526 neither indicated a congressional intent contrary to the statutory language enacted by Congress, nor reflected a consistent administrative practice over a period of time. Further, the court said it could not find a pattern of legislative acquiescence to the administrative construction of the statute.

With respect to the legislative intent behind the enactment of section 526, the court of appeals found that although the floor debate over the proposed legislation did not unequivocally resolve all questions concerning its scope, it believed that the fear expressed by Senator Lenroot during the debate, i.e., that the statute meant exactly what it said, was correct. The court noted that Senator Lenroot raised the issue of the treatment of a U.S. subsidiary of a

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233 761 F.2d at 1552.
234 COPIAT, 790 F.2d at 905-06.
235 Id. at 908. The court of appeals in COPIAT also rejected the appeals court finding in Vivitar that exclusive jurisdiction under § 526(a) lay with the Court of International Trade, and found the U.S. district courts to have jurisdiction to hear such cases. Id. at 905-07.
236 Id. at 907-08.
237 Id. at 908. The court of appeals also rejected the notion that the “plain meaning” rule of statutory construction had been totally discredited.
238 Id. at 910-13.
239 Id. at 913-16.
240 Id. at 917-18.
241 62 CONG. REC. 11,605 (1922).
242 COPIAT, 790 F.2d at 912.
foreign country, and noted that the bill was never modified to reflect these concerns. The court of appeals concluded that the reasonable inference from this was that the lawmakers “did not adopt distinctions among categories of American companies.” The court of appeals also cited the legislative history surrounding the reenactment of section 526 as confirming this construction of the statute. The court also cited the Second Circuit’s decision in Sturges v. Clark D. Pease, Inc. to support its conclusion that section 526 implied no exceptions, particularly noting Judge Hand’s comment that although section 526 was enacted in response to the Katzel case, “this fact does not settle the scope of the act.” Further, the court observed that the contemporaneous administrative constructions of section 526 by the Customs Service in 1923 and 1931 are “no hint . . . that it discerned implied limitations on the scope of Section 526.”

The court of appeals concluded that the language of section 526, its legislative history and purpose, and the contemporaneous construction placed on it precluded the limited construction of the statute contained in the Customs Service regulations. According to the court of appeals, “[w]hat the statute meant in 1922 and in 1930 is what it means today.” With respect to the subsequent administrative construction and enforcement of section 526 and the legislative efforts to amend the statute, the court of appeals, after a decade-by-decade analysis, concluded that the Customs Service’s construction of section 526 “does not display the necessary ‘thoroughness, validity and consistency’ to meet judicial acceptance.” Finally, the COPIAT court, like the Vivitar court, rejected allegations that any pattern of legislative acquiescence existed with respect to the administrative construction of section 526.

Thus, with respect to the three justifications set forth by the Customs Service to support its construction of section 526, the courts of appeal in both COPIAT and Vivitar were in total agreement that such justifications were insufficient to support the current Cus-
toms Service regulations in light of the statutory language. However, while the Court of Appeals for the Federal Circuit was willing to provide its own justification for these regulations, i.e., that they represented "a reasonable exercise of administratively initiated enforcement," the COPIAT appellate court refused to take such a step on the grounds that the Customs Service had never purported to justify its regulations on this basis.

Therefore, the court of appeals ordered the decision of the district court in COPIAT reversed, and remanded the case to the district court with instructions to issue a declaratory judgment that the Customs Service regulations at issue were "contrary to Section 526 . . . and hence unlawful." 258

3. Weil Ceramics and Premier Dental Products

Weil Ceramics & Glass, Inc. v. Dash and Premier Dental Products v. Darby Dental Supply Co. were the two major cases decided between Vivitar and COPIAT involving U.S. trademark owners seeking injunctive relief against individual grey market importers. Although the courts approached each case differently, both found that plaintiffs were entitled to the relief they sought under section 526.

a. Weil Ceramics

Plaintiff, a New York corporation, imports and distributes Lladro porcelain. In 1966, Lladro, S.A., a Spanish corporation, designated plaintiff Weil as the exclusive U.S. distributor of Lladro porcelain and granted Weil the right to obtain the U.S. trademark for "Lladro." Weil registered the "Lladro" trademark for porcelain and ceramic ware with the U.S. Patent and Trademark Office. Beginning in 1982, defendants Jalyn and Dash Corporation (of which Dash is

255 Vivitar, 761 F.2d at 1571.
256 COPIAT, 790 F.2d at 917-18.
257 Id. at 918. The court of appeals cited SEC v. Chenery Corp. which stands for the proposition that an administrative order cannot be upheld except on grounds put forth by the agency. See SEC v. Chenery Corp., 332 U.S. 194, 196 (1947).
258 COPIAT, 790 F.2d at 918.
261 In a third case, El Greco Leather Prods. Co., Inc. v. Shoe World Inc., 599 F. Supp. 1380 (E.D.N.Y. 1984), decided subsequent to the Court of International Trade's Vivitar decision, but prior to the Court of Appeals for the Federal Circuit's affirmation thereof, the court held that the plaintiff was not entitled to relief under § 526. Plaintiff, a U.S. trademark owner, complained of grey market imports of shoes bearing the "CANDIE'S" trademark. The court rejected the broad construction of § 526 adopted in the Mamiya and Osawa decisions, and chose, instead, to follow the Court of International Trade's thorough analysis of § 526 and its legislative history in Vivitar. Id. at 1398-1401. Finding the plaintiff therein had not obtained its trademark rights from a foreign trademark owner and was, in fact, the sole source of the trademarked goods in question, i.e., was not in the position of A. Bourjois & Co., the court stated that Vivitar made it "clear that the statute [§ 526] is inapplicable in this case." Id. at 1401.
the president) began importing, distributing, and selling porcelain products bearing the "Lladro" trademark in the United States without Weil's authorization. Defendants imported genuine Lladro merchandise apparently acquired from authorized foreign retailers and distributors of its products.

Weil filed a three-count complaint on June 1, 1984, alleging that defendants violated Weil's exclusive right to the Lladro mark under section 33(b) of the Lanham Act,\textsuperscript{262} that defendants' conduct infringed on Weil's trademark rights in violation of section 32(1)(a) of the Lanham Act,\textsuperscript{263} and that defendants violated Weil's exclusive right to import products bearing the Lladro trademark under section 42 of the Lanham Act\textsuperscript{264} and section 526 of the Tariff Act of 1930.\textsuperscript{265} Both parties filed motions for summary judgment. The court granted defendants' motion for summary judgment on the first count,\textsuperscript{266} granted plaintiff's motion for summary judgment with respect to liability on plaintiff's second count, and said it would grant plaintiff's motion for summary judgment on the third count if plaintiff could demonstrate that it had recorded its trademark with the U.S. Customs Service. Determination of the appropriate relief to be granted under the Lanham Act and the Customs laws would be decided in subsequent proceedings.\textsuperscript{267}

The court determined that unauthorized Lladro imports violated sections 32(1)(a) and 42 of the Lanham Act. Thus, pursuant to section 526, Weil was entitled to exclude unauthorized Lladro imports.\textsuperscript{268} A discussion of the court's decision with respect to the Lanham Act counts is essential to an understanding of the current status of section 526.

Section 32(1)(a) of the Lanham Act provides that "any person who shall, without consent of the registrant ‘trademark owner,’ use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale . . . or distribution . . . of any goods or services . . . which is likely to cause confusion . . . or to deceive will be liable for trademark infringement in a civil action."\textsuperscript{269} The Weil court acknowledged that plaintiff owned the U.S. trademark for "Lladro," and that defendant used the mark in domestic commerce without its consent.\textsuperscript{270} The question that remained was whether defendant's importation of the Lladro

\textsuperscript{263} Id. § 1114(a).
\textsuperscript{264} Id. § 1124.
\textsuperscript{266} 618 F. Supp. at 704. The court held that § 33(b) of the Lanham Act did not establish a private cause of action. Id.
\textsuperscript{267} Id. at 714, 718.
\textsuperscript{268} Id. at 718.
\textsuperscript{269} 15 U.S.C. § 1114(a) (1982).
\textsuperscript{270} 618 F. Supp. at 704.
porcelain was likely to cause "confusion." The court held that under the territoriality principle an importer may be an assignee of U.S. trademark rights in foreign manufactured products bearing the mark so long as a valid assignment has been made. The court noted that following such an assignment, the importation and sale of genuine goods by anyone other than the domestic mark holder would cause confusion about the goods' source and thus would infringe on the domestic holder's trademark.

Next, the court examined the language and legislative history of section 32 of the Lanham Act. According to the court, Congress intended the provision to stem the flow of unauthorized products thereby ensuring the authorized goods' quality and alleviating confusion about who was ultimately responsible for them. The court then examined the "exhaustion doctrine" of trademark law in relation to plaintiff's claim. When applied within a sovereign country, this doctrine prevents a mark holder from controlling trademarked goods once the goods are released into the stream of commerce. After the first sale, the trademark holder's control is deemed exhausted, and retailers may display and advertise the trademarked goods. The court noted, however, that in the context of international trade, the doctrine suggested that once the original mark owner lost control of the trademarked goods, his assignee in a foreign country could not own rights superior to those of the assigned warrant. The right of control, therefore, seems exhausted. Defendants argued that because Lladro, S.A. exhausted the mark rights by releasing the goods into the stream of commerce, its assignee, Weil, could not have rights superior to Lladro, S.A. Thus, Lladro's rights also would be exhausted.

The court rejected this argument. After reviewing the few cases which have addressed the applicability of the exhaustion doctrine to domestic holders related to the foreign holder, the Weil court refused to apply it when the domestic mark holder had developed a "separate, factually distinct goodwill" for the product. The court found no anomaly in marks on identical products which represented separate and independent goodwill in different countries. The court did not mean to imply that a mark's goodwill was better or worse in any one country but only that the goodwill was different. Whether separate and distinct goodwill exists depends upon who stands behind the product to ensure its quality. If it is a foreign manufacturer,
then distinct goodwill does not exist. If it is a domestic mark holder, then distinct goodwill does exist. Thus, the court held that a plaintiff must show a product's "separate, factually distinct goodwill" before an action for infringement may be maintained.\textsuperscript{278}

Next the court stated that the existence of separate and factually distinct goodwill was a question of fact.\textsuperscript{279} \textit{Weil} rejected the notion that mere common ownership or the relation between two companies precludes such a finding. The court reasoned that the question was whether the U.S. mark holder separately promoted and developed a product's domestic goodwill, or whether the trademark merely represented a foreign outpost of the original foreign owner's goodwill.\textsuperscript{280}

The court found that plaintiff sufficiently showed separate and distinct goodwill for the Lladro porcelain.\textsuperscript{281} Plaintiff demonstrated that it guaranteed and ensured the quality of the trademarked goods sold in the United States by offering to replace all defective pieces. Retailers who purchased Lladro porcelain from plaintiff knew that plaintiff backed the goods. Further, plaintiff advertised in national magazines as the exclusive importer of the Lladro porcelain.\textsuperscript{282}

The court concluded that Weil owned the U.S. trademark for Lladro porcelain, that defendants had used the mark in domestic commerce without Weil's consent, and that such use was likely to cause confusion.\textsuperscript{283} Therefore, the court granted Weil's motion for summary judgment with respect to its claim under section 32(1)(a) of the Lanham Act.\textsuperscript{284}

Section 42 of the Lanham Act and section 526 of the Tariff Act of 1930 address the unauthorized importation of trademarked merchandise into the United States. The \textit{Weil} court stated that if section 32(1)(a) prohibited using products that bore the "Lladro" trademark, then the importation of such merchandise should also be prohibited. The history and purpose of both of these statutes confirm this interpretation.\textsuperscript{285}

\textit{Weil} noted that "Vivitar" changed Customs law, not trademark law.\textsuperscript{286} The court concurred with the district court in \textit{COPIAT} to the extent that it permitted a truly independent domestic trademark holder to maintain an infringement action under section 42. The court stated, however, that if the district court in \textit{COPIAT} intended

\begin{itemize}
  \item \textsuperscript{278} \textit{Id.} at 711.
  \item \textsuperscript{279} \textit{Id.}
  \item \textsuperscript{280} \textit{Id.}
  \item \textsuperscript{281} \textit{Id.} at 713.
  \item \textsuperscript{282} \textit{Id.}
  \item \textsuperscript{283} \textit{Id.} at 714.
  \item \textsuperscript{284} \textit{Id.}
  \item \textsuperscript{285} \textit{Id.}
  \item \textsuperscript{286} \textit{Id.} at 715.
\end{itemize}
“independent” to mean “unrelated,” Weil did not agree. The court emphasized that a domestic mark holder’s status (independent or affiliate) does not depend on its relation to a foreign entity, but on the existence of a distinct domestic goodwill for the product. The court observed that current Customs Service regulations relating to section 42 and section 526 address ownership and control of related companies. Although Weil and Lladro, S.A. were not in a parent-subsidiary relationship, they were under common control. Thus, under Customs regulations, genuine Lladro goods would not be excluded under either section 42 or section 526.

The court then addressed whether the Customs Service regulations precluded relief under either section 42 or section 526. Citing the court of appeals’ decision in Vivitar, the court stated that the regulations do not define the statutory limits of protection. These regulations only define Customs’ role in initiating administrative enforcement of the statute.

Again relying on Vivitar, the court stated that the district court had discretion to prohibit the importation of a particular grey market good. In Weil, although the Customs Service did not automatically exclude the defendant’s imported goods, such goods caused confusion within the meaning of section 42. Therefore, the goods could be excluded pursuant to section 526. By ensuring the quality of the product, Weil developed an independent goodwill in the product. Based on this goodwill, the court concluded that the defendant’s importation of genuine goods would also cause confusion.

The court refused to grant summary judgment for plaintiff’s claims under section 42 and section 526 because the court was not certain that Weil had recorded its trademark with the U.S. Customs Service. Section 526 requires that the trademark be recorded before its protections may be invoked. The court stated that if plaintiff later demonstrated compliance with these prerequisites of section 526, summary judgment would be granted for both plaintiff’s claims.

b. Premier Dental Products

The plaintiff in Premier Dental Products is one of the oldest established manufacturers and distributors of dental instruments, materials, and devices in the United States. “IMPREGUM,” manufactured by a West German concern, is a patented denture impres-

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287 Id. at 716.
288 Id. at 717.
289 Id.
290 Id. at 718.
291 Id.
292 Id.
sion material. In 1968, the West German manufacturer registered the IMPREGUM trademark with the U.S. Patent and Trademark Office. In 1974, the West German manufacturer granted plaintiff the exclusive right to develop, market, and distribute IMPREGUM in the United States.

Since at least 1984, Premier's name has appeared on all cartons in which IMPREGUM was sold in the United States. Also in 1984, the West German manufacturer executed an assignment of all U.S. rights in the IMPREGUM trademark and U.S. registration of the trademark to Premier. Plaintiff subsequently recorded the IMPREGUM trademark with the U.S. Customs Service.\[294\]

Beginning in 1980, defendants purchased IMPREGUM from Premier and distributed it to dentists and other ultimate consumers.\[295\] In 1983, defendants began purchasing IMPREGUM in Europe to import and distribute in the United States. Except for its packaging, the IMPREGUM purchased in Europe by defendants was identical to that sold in the United States by Premier.\[296\] Premier brought this action to enjoin defendants from further importing IMPREGUM into the United States.

In preliminarily enjoining defendants from such activity,\[297\] the district court flatly rejected defendant's contention that the "exhaustion" doctrine rendered section 526 inapplicable.\[298\] Defendants argued that because the West German manufacturer could not prevent Premier from using the IMPREGUM trademark, the right could not be assigned to Premier. The court held that the exhaustion doctrine was inapplicable to international trade when the foreign assignee developed a separate and independent goodwill.\[299\] The court found that plaintiff had developed a goodwill separate from that of the West German manufacturer and trademark originator.\[300\] Thus, if the assignment of the mark to plaintiff was valid, Premier could "prevent the importation of goods bearing that mark by other parties."\[301\] Finding the assignment valid in this instance, the court

\[294\] Id., slip op. at 4-9.
\[295\] Id., slip op. at 10. Premier did not sell directly to dentists and other consumers, but to other distributors.
\[296\] Id., slip op. at 11.
\[297\] Id., slip op. at 2.
\[298\] Id., slip op. at 14. Under the exhaustion doctrine, a seller of trademarked goods cannot, in the absence of contractual restrictions, prevent or prohibit a buyer from displaying, advertising or marketing the trademarked goods in a nondeceptive manner. Id.
\[300\] Premier Dental, slip op. at 15. Plaintiff had provided seminars and instructions to those wishing to learn about the product, and provided a toll-free telephone number for users with questions. The court also found that plaintiff was identified in the trade as the source through which IMPREGUM is obtained. Id.
\[301\] Id. The court did not specifically state that this right lay under § 526, but this inference can be made from the fact that in the previous paragraph (par. 5), the court was
concluded that plaintiffs made a sufficient showing of likelihood of success on the merits.\textsuperscript{302} The court enjoined the named defendants, for the pendency of the action, from importing IMPREGUM into the United States because such importations infringed plaintiff's federal trademark rights under section 526 of the Tariff Act of 1930 and sections 32, 42, and 43 of the Lanham Act.\textsuperscript{303}

IV. Conclusion

The scope of protection afforded by section 526 to U.S. trademark holders has varied considerably since the provision's enactment. The statute was once considered drastic because it allowed U.S. mark holders to exclude all unauthorized trademarked goods, even when imported in small quantities for concededly personal use.\textsuperscript{304} Later, to exclude unauthorized importation of marked goods, courts construed section 526 to protect only a very small group of U.S. trademark owners, those who purchased the mark rights from an unrelated overseas manufacturer of the goods.\textsuperscript{305} Up until the time of the decision of the U.S. Court of Appeals for the District of Columbia in \textit{COPIAT},\textsuperscript{306} the trend clearly favored a restrictive reading of section 526. With the \textit{COPIAT} appellate decision in direct conflict with the \textit{Vivitar} appellate decision,\textsuperscript{307} the stance to be taken by other circuits is unpredictable.

In \textit{Vivitar} the appellate court held that while Customs' relaxed enforcement of the statute was not improper, section 526 nevertheless provided relief to U.S. mark holders.\textsuperscript{308} The mark holder, however, was first required to obtain a district court finding of infringement before the Customs Service would exclude grey market merchandise. The court of appeals in \textit{Vivitar} left unanswered more questions than it answered. It remains unclear what procedures Customs would use to translate a finding into action.\textsuperscript{309} More fundamentally, it left unclear whether a district court's finding of infringement could serve as a basis for Customs to exclude trade-

\textsuperscript{302} \textit{Id.} at 18. The court also found plaintiff had made a sufficient showing of irreparable harm, the relief would not substantially harm the other parties, and the public interest did not prevent issuance of an injunction. \textit{Id.}

\textsuperscript{303} \textit{Id.} at 2-3. The court also ordered plaintiff to post an injunction bond in the amount of $50,000 for payment of costs and damages should it be found that defendants were wrongfully enjoined. \textit{Id.} at 3.

\textsuperscript{304} See \textit{Sturges}, 48 F.2d at 1035.

\textsuperscript{305} See \textit{Vivitar}, 761 F.2d at 1552; \textit{Guerlain}, 155 F. Supp. at 77.

\textsuperscript{306} \textit{COPIAT}, 790 F.2d at 903.

\textsuperscript{307} 761 F.2d 152 (Fed. Cir. 1986).

\textsuperscript{308} \textit{Id.}

\textsuperscript{309} There is no procedure currently in the Customs Service regulations which would be available to U.S. trademark owners who obtained a district court finding of infringement to have the Customs Service exclude merchandise bearing their trademark.
marked merchandise by all importers or merely those named as defendants in the district court action. There is little basis for concluding that a district court infringement proceeding, which is in personam would be applied in rem by the Customs Service. If the Customs Service will exclude only the goods imported by defendants named in court action, the mark owner has no reason to go to the Customs Service at all since injunctive relief would provide the same protection.

Although the decision of the Court of Appeals for the District of Columbia Circuit in COPIAT directly conflicts with the Court of Appeals for the Federal Circuit's conclusion in Vivitar with respect to the validity of the Customs Service regulations, the two decisions themselves are remarkably similar. Both courts agreed that the rationales set forth by the Customs Service to justify its regulations were inadequate for the same reasons. The only difference between the two cases was that in Vivitar the Court of Appeals for the Federal Circuit elected to uphold the regulations on grounds never before espoused by the Customs Service, while the Court of Appeals for the District of Columbia in COPIAT refused to do any more than to review the grounds put forth by the agency itself to support its regulations. Of these two approaches, the one taken by the COPIAT court is clearly the more legally sound.\footnote{See Motor Vehicles Mfrs. Ass'n of the United States, Inc. v. State Farm Mut. Auto. Ins. Co., 463 U.S. 29, 51 (1983); Industrial Union Dep't, AFL-CIO v. American Petroleum Inst., 448 U.S. 607, 631 n.31 (1980); See SEC, 318 U.S. at 95. See also American Fed'n of Gov't Employees Local 1968 v. Federal Labor Relations Auth., 691 F.2d 565, 574 (D.C. Cir. 1982), cert. denied, 461 U.S. 926 (1983); Public Media Center v. FCC, 587 F.2d 1322, 1332 (D.C. Cir. 1978).}

Only the Supreme Court or Congress can now define the correct construction of section 526. Congress has declined to address such a highly charged issue. The Supreme Court, although once declining to review this issue,\footnote{Vivitar, 106 S. Ct. at 791.} may now do so given the conflict between the circuits. A definite construction of section 526 by the Court would be in the best interests of U.S. trademark owners, grey marketeers, the Customs Service, and the federal judiciary.