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Lever Brothers Corp. v. United States: An Expansion of Trademark Protection beyond the Limits of K Mart Corp. v. Cartier, Inc.

C. Dustin Tillman

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**Lever Brothers Corp. v. United States:** An Expansion of Trademark Protection Beyond the Limits of *K Mart Corp. v. Cartier, Inc.*

I. Introduction

In 1989, the Court of Appeals for the District of Columbia (D.C.) Circuit tentatively held in *Lever Brothers Corp. v. United States*¹ that section 133.21(c)(2) of the United States Customs Service regulations² was invalid with respect to section 42 of the Lanham Act.³ Because the plaintiff, Lever Brothers Corporation (Lever), sought an injunction against the United States Customs Service (Customs), and because there was no evidence in the record of the legislative history

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¹ 877 F.2d 101 (D.C. Cir. 1989) [hereinafter *Lever II*].
² Relevant parts of section 133.21, 19 C.F.R., provide:

(a) Copying or simulating marks or names. Articles of foreign manufacture bearing a mark or name *copying or simulating* a recorded trademark or trade name shall be denied entry and are subject to forfeiture as prohibited importations. A "copying or simulating" mark or name is an actual counterfeit of the recorded mark or name or is one which so resembles it as to be likely to cause the public to associate the *copying or simulating* mark with the recorded mark or name.

(b) Identical trademark. Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.

(c) Restrictions not applicable. The restrictions of (a) and (b) of this section do not apply to imported articles when:

1. Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
2. The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 122.12(d));
3. The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner. (emphasis added).

On its face, subsection (a) appears to implement section 42 of the Lanham Act, infra note 3, subsection (b) appears to implement section 526(a) of the Tariff Act of 1930, infra note 16, and subsection (c) contains exceptions to the prohibitions found in subsections (a) and (b).


[N]o article of imported merchandise which shall *copy or simulate* the name of the any [sic] domestic manufacture, or manufacturer . . . or of any manufacturer . . . located in any foreign country . . . or which shall *copy or simulate* a trademark registered in accordance with the provisions of the chapter or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States . . . shall be admitted to entry at any customshouse of the United States. (emphasis added)
behind section 42 or of the administrative practice in implementing section 42, the court limited its holding and remanded the case to the district court for consideration on those grounds.\(^4\) The appellate court required, however, that on remand Customs unveil convincing proof from the legislative history or administrative record that the appellate court's tentative decision was erroneous.\(^5\) Unable to meet this burden, Customs lost in the lower court and appealed.\(^6\) On January 15, 1993, the appellate court finalized its 1989 holding and affirmed the district court.\(^7\) Consequently, the Court of Appeals for the D.C. Circuit became the first circuit court to invalidate Customs regulations based on a section 42 challenge.\(^8\)

The Customs regulations challenged allowed unauthorized third parties to import into the United States “Shield” soap and “Sunlight” dishwashing liquid manufactured in the United Kingdom by Lever Brothers Limited (Lever UK), an affiliate of Lever.\(^9\) The imported products, known as “gray market” goods,\(^10\) directly competed against Shield soap and Sunlight dishwashing liquid sold by Lever.\(^11\) The affiliated relationship between Lever and Lever UK, according to Customs, prevented the gray market goods from “copying” or “simulating” Lever’s trademarked goods, as required for seizure by section 42 of the Lanham Act.\(^12\) Lever brought suit challenging Customs’ interpretation of “copy or simulate” in section 42 because the gray market goods were undermining sales of its products in the United States, and because the gray market goods materially differed from their American counterparts, thereby causing consumer confusion and dissatisfaction resulting in damage to

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\(^4\) Lever II, 877 F.2d at 111.

\(^5\) Id.

\(^6\) The district court on remand found that the legislative history behind section 42 was inconclusive concerning the “affiliate exception” of section 133.21(c)(2), and that Customs' administrative practice was inconsistent. Lever Bros. Corp. v. United States, 796 F.Supp. 1 (D.D.C. 1992) [hereinafter Lever III]; see infra notes 77-87 and accompanying text.

\(^7\) Lever Bros. Corp. v. United States, 981 F.2d 1330 (D.C. Cir. 1993) [hereinafter Lever IV].

\(^8\) One commentator has found that the D.C. Circuit is the sole court to invalidate Customs regulations under Lanham Act analysis. Rian Miller-McIrvine, Note, TRADE-MARK LAW-Gray Market Goods in Domestic Markets-Lever Bros. v. United States, 63 TEMP. L. REV. 189 (1990).

\(^9\) Lever and Lever UK are affiliated through Unilever N.V., a Netherlands corporation. Lever II, 877 F.2d at 102.

\(^10\) Gray market goods are trademarked goods imported by parties unrelated to and without consent of the domestic trademark owner. The imported goods are “gray” rather than “black” because the trademark has been lawfully applied by either the domestic trademark owner, an affiliate or a licensee of the domestic trademark owner, or a licensor to the domestic trademark owner. Gray market goods are also commonly referred to as parallel imports. See generally Hugh C. Hansen, Gray Market Goods: A Lighter Shade of Black 13 BROOK. J. INT’L L. 249 (1987).

\(^11\) Lever II, 877 F.2d at 103.

\(^12\) Id. at 104.
In finding that section 42 prohibited the importation of materially differing gray market goods, the court of appeals found the affiliated relationship irrelevant in determining the plain meaning of "copy or simulate" in section 42.\textsuperscript{14} Interestingly, by disregarding the affiliated relationship, the court has allowed a domestic registered trademark owner to obtain an injunction under section 42, even though the Supreme Court in \textit{K Mart Corp. v. Cartier, Inc.}\textsuperscript{15} determined in 1988 that similar relief was unavailable under section 526(a) of the Tariff Act of 1930,\textsuperscript{16} a closely related statute.\textsuperscript{17}

This Note examines the D.C. Circuit Court of Appeals' reliance in \textit{Lever} on the "territoriality" theory of trademarks in relation to "universalism,"\textsuperscript{18} and compares \textit{Lever} with other recent decisions

\begin{itemize}
\item \textsuperscript{13} Id. at 103.
\item \textsuperscript{14} Id. at 109.
\item \textsuperscript{15} 486 U.S. 281 (1988).
\item \textsuperscript{16} Section 526(a) of the Tariff Act of 1930, 19 U.S.C. § 1526(a) (1988), provides in relevant part:
\begin{quote}(a) Importation prohibited
Except as provided . . . it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Offices . . . unless written consent of the owner of such trademark is produced at the time of making entry.
\end{quote}
\item \textsuperscript{17} Section 526(a) was spawned by the Second Circuit's decision in A. Bourjois & Co. v. Katzel, 275 F. 539 (1923), and was intended to overrule the Second Circuit's holding. \textit{K Mart Corp. v. Cartier, Inc.}, 484 U.S. 281, 303 (1988) (Brennan, J., concurring in part and dissenting in part). It is debatable if Congress intended any other effect of section 526(a). Id. Subsequent to the enactment of section 526(a), the Supreme Court overruled the Second Circuit's decision. A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923). Later that year in another case, A. Bourjois & Co. v. Aldridge, 263 U.S. 675 (1923), the Court overruled another Second Circuit opinion on the basis of \textit{Katzel} and section 27 of the Trade-Mark Law of 1905, infra note 55, the precursor to section 42 of the Lanham Act, see infra note 157. Hence, section 526(a) is related to section 42 by the Court's incorporation of \textit{Katzel} into section 27. Provided that Congress intended section 526(a) only to overrule the Second Circuit's decision in \textit{Katzel}, and provided that the Supreme Court's decision in \textit{Katzel} is applicable only to the specific facts of the case, then section 42 would provide no greater protection than section 526(a).
\item \textsuperscript{18} Under territoriality, a trademark represents the goodwill of the domestic trademark owner, regardless of the identity of the manufacturer. \textit{See}, e.g., \textit{Dial Corp. v. Encina Corp.}, 643 F. Supp. 951, 954 n.3 (S.D. Fla. 1986). The theory evolved from the Supreme Court's decision in \textit{Katzel}, and rests upon the premise that a genuine trademark, or trademarked good, is one which the domestic trademark owner stands behind and sponsors in the domestic marketplace. \textit{Id.} In \textit{Lever}, imported Shield and Sunlight products would infringe \textit{Lever's} trademark rights because the public would generally believe \textit{Lever} manufactured and distributed the products. \textit{Id.}
\item Under universalism, a trademark represents the source of origin of its product, where the source of origin is defined strictly as the manufacturer. \textit{Id.} Such a trademark, or trademarked good, is defined to be genuine if it makes such a representation. \textit{See e.g., Original Appalachian Artworks, Inc. v. Granada Elecs.}, 816 F.2d 68, 74-76 (2d Cir.), \textit{cert. denied}, 484 U.S. 847 (1987). In \textit{Lever}, imported Shield and Sunlight products would not infringe \textit{Lever's} trademark rights because the imported trademarked goods would accurately indicate, albeit indirectly, their manufacturer, \textit{Lever UK}, because of \textit{Lever's} affiliation. \textit{See}
concerning the issue of gray market goods giving rise to infringement actions. Part II of this Note elaborates on the facts and holdings of Lever. Part III explores the relevant background law and competing trademark theories. Part IV examines the present case in relation to similar cases, evaluating the relevant trademark theory supporting each case. This Note concludes by demonstrating that Lever's extension of trademark protection is in conflict with the implications of the Supreme Court's decision in K Mart, and that Lever should be overruled as a matter of positive law.19

II. Statement of the Case

A. Facts

Lever manufactures Shield soap and Sunlight dishwashing liquid in the United States and is the registered trademark owner of each product.20 Lever UK, an affiliated company,21 manufactures Shield soap and Sunlight dishwashing liquid in the United Kingdom and owns the trademarks there.22 Even though the companies are affiliated and their trademarks are identical, their products differ markedly.23

Shield soap manufactured in the United States lathers rather quickly compared to its counterpart in the United Kingdom.24 Furthermore, the United States version contains an anti-bacterial agent lacking in the other,25 and each contains different perfume ingredi-

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1 Lever IV, 981 F.2d at 1335. After all, Unilever N.V. controls both Lever's and Lever UK's production of Shield and Sunlight as well as use of the trademarks, and benefits from sales by both companies. Id.

19 For a discussion of these competing theories, see generally, Kaoru Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 WASH. L. REV. 433 (1982).


21 Lever II, 877 F.2d 101, 102 n.1 (D.C. Cir. 1989). Lever is a wholly-owned subsidiary of Unilever U.S., Inc., which in turn is a wholly-owned subsidiary of Unilever N.V. Similarly, Lever UK is a wholly-owned subsidiary of Unilever P.L.C., a wholly-owned subsidiary of Unilever N.V. Thus, Lever and Lever UK are affiliated through a corporate grandparent. Id.

22 Lever IV, 981 F.2d 1330, 1335 (D.C. Cir. 1993).

23 Lever II, 877 F.2d at 103. The differences apparently arise from the different commercial regulations, climates, and consumer tastes of the two countries. Id.

24 Id. (referring to Hockey Aff., Joint Appendix 214).

25 Id. (referring to Hockey Aff., Joint Appendix 213).
The U.S. version of Sunlight has been designed for use in soft water typically found in America's taps, while the United Kingdom version of Sunlight has been designed for use in hard water generally found in the United Kingdom. Consequently, the British Sunlight does not perform well in America.

Apart from performance, the products' packaging also differs. The American Shield logo is written in block form with a grid background and small print identifies its ingredients and its country of origin as the United States. The British Shield logo is written in script form and employs a wave in its background. The soap is wrapped in foil and small print identifies the United Kingdom as its country of origin. As for the dishwashing products, the United States version comes in the shape of a flattened hourglass, is yellow, and lists "Sunlight Dishwashing Liquid" on its label. The United Kingdom version comes in a cylindrical drum, employs "Sunlight Washing Up Liquid" on its label, and displays a royal emblem located below the spout bearing the legend, "By Appointment to Her Majesty the Queen."

Third parties have imported the United Kingdom versions of Shield and Sunlight into the United States. Selling at a lower price in the United States than their counterparts, the United Kingdom versions have been confused with discounted American products by consumers. Due to the imported products' failure to meet American expectations, Lever has received many letters of complaint from angry and dissatisfied consumers. In order to protect its reputation for quality, Lever sought to curve consumer confusion by petitioning Customs to bar further importations of the United Kingdom versions of Shield and Sunlight. Lever claimed that the importations were in violation of section 526(a) of the Tariff Act of 1930 and section 42 of the Lanham Act. Customs declined to bar importation because the imported goods fell under an "affiliated exception."

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26 Id. (referring to Hockey Aff., Joint Appendix 216).
27 Id. (referring to Hockey Aff., Joint Appendix 217). Hard water contains a higher mineral concentration compared to soft water.
28 Id.
29 Id.
30 Lever IV, 981 F.2d 1330, 1331 (D.C. Cir. 1993).
31 Lever II, 877 F.2d at 103. Apparently the United Kingdom Shield does not list its ingredients on its packaging, constituting a FDA violation when sold in the United States.
32 Id. at 1331.
33 Id.
34 Id.
35 Id. A judicially noticed assumption is that these third party imports of the British products are without the consent of Lever or any one of its affiliates. Id. at 103 n.3.
36 Id. at 103.
37 Id.
38 Id.
rule as found in section 133.21(c)(2) of Customs regulations.\(^4\) In Customs' view, both section 526(a) and section 42 admitted an affiliate exception.

**B. First Round of Litigation**

Because of Customs' refusal to bar importation, in 1987 Lever sued for injunctive relief against Customs alleging that section 133.21(c)(2) was inconsistent with section 526(a) of the Tariff Act of 1930 and section 42 of the Lanham Act.\(^4\) The District Court for the District of Columbia denied relief. The court found, with respect to the section 526(a) claim, that Customs did not intend to modify the scope of the Tariff Act of 1930 by section 133.21(c)(2) of its regulations,\(^4\) and that Customs' regulations were a reasonable guideline for initiating administrative enforcement.\(^4\) With respect to Lever's section 42 claim, the district court found the section inapplicable to the facts of the case. The court noted that section 42 was designed to bar goods whose trademarks copied or simulated domestic trademarks.\(^4\) Relying on previous case law, the district court interpreted section 42 only to prohibit goods bearing counterfeit or spurious trademarks.\(^4\) The court accepted the argument by Customs that Lever UK's trademarks were genuine in the United States because of the affiliate relationship, regardless of any material differences between the goods or of any possible objection by Lever to the importation.

Lever appealed both rulings to the Court of Appeals for the D.C. Circuit.\(^4\) In 1989, the appellate court found that the section 526(a) claim was precluded by the Supreme Court's decision the pre-
Previous year in *K Mart Corp. v. Cartier, Inc.* Nevertheless, Lever's section 42 claim was presented and proved successful. In finding for Lever, the court of appeals invalidated section 133.21(c)(2) as contrary to the purpose of the Lanham Act.

The court specifically employed *Chevron* analysis in judging Customs' interpretation of the act. Finding that Congress did not explicitly express its intent on the affiliate exception, the court noted that Customs' interpretation was to be deferred to unless unreasonable. Because the underlying substance of the affiliate exception was promulgated before the enactment of the Administrative Procedure Act, a statement explaining Customs' reasoning and purpose of the promulgation was not included, nor was an administrative record compiled. Without such insight into an agency's thinking, the court undertook to judge the reasonableness of the exception based upon its own interpretation of section 42.

In determining the scope of the statute, the court looked to *A. Bourjois & Co. v. Katzel* and *A. Bourjois & Co. v. Aldridge*, two Supreme Court cases from 1923 that implicate section 27 of the Trade-Mark Law of 1905 (the predecessor of section 42), as well as to *Prestonettes, Inc. v. Coty*, a 1924 Supreme Court decision exploring an underlying purpose of trademarks. From these cases, the court

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47 See *id.* at 104 n.6 (citing *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988)).
48 *Id.* at 105.
49 The *Chevron* analysis is a two step procedure employed by courts when reviewing the validity of an agency's interpretation of statutory language. See *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984). The first step is to look to see if Congress addressed the specific question in issue. *Id.* at 842. If the issue was addressed, then Congress' determination is controlling. However, if the issue was never addressed, then step two is to judge the reasonableness of the statutory construction, and not its correctness. *Id.* at 866. An in depth discussion of the Lever court's application of *Chevron* analysis is beyond the scope of this Note.
50 *Lever II*, 877 F.2d at 105.
51 *Id.* at 105. Section 553(c) of the Administrative Procedure Act, 5 U.S.C. §§ 551-59 (1988), requires that a statement of purposes and basis accompany the promulgation of any rulemaking.
52 *Lever II*, 877 F.2d at 105. The court found the general sweep of the Lanham Act to "undeniably bespeak an intention to protect domestic trademark holders from foreign competitors who seek to free ride on the goodwill of domestic trademarks." *Id.* See also infra notes 53-74 and accompanying text.
54 263 U.S. 675 (1923) (per curiam). See infra notes 140-44 and accompanying text.
55 See infra note 157. Section 27 of the Trade-Mark Law of 1905, 33 Stat. 724, 730 (1905) provides, in relevant part:

[N]o article of imported merchandise which shall *copy* or *simulate* the name of any domestic manufacture, or manufacturer or trader, or of any manufacturer or trader located in any foreign country... or which shall *copy* or *simulate* a trade-mark registered in accordance with the provisions of this Act, or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any custom-house of the United States. (emphasis added).
56 264 U.S. 359, 368 (1924).
of appeals arrived at two principles of trademark law: first, that trademarks are designed to protect an owner's goodwill from third persons' exploitation of consumer confusion between the owner's trademarked goods and other trademarked goods; and second, that trademarks can encompass a specific territorial scope.\(^{57}\) The court concluded that these two principles supported its ruling.\(^{58}\) First, because the United Kingdom Shield and Sunlight trademarks represent materially different products than those found in the United States, the court felt that use of the United Kingdom trademarks in the United States simply would not be truthful.\(^{59}\) This would lead to consumer confusion resulting in impairment of Lever's goodwill in the United States. Thus importation of the gray market goods would violate the first principle. Second, the court felt that the United Kingdom trademarks were capable of infringing the United States trademarks, even though the two trademarks were owned within a corporate family, since the United States trademarks could be attributed to Lever's goodwill alone under the second principle.\(^{60}\)

The court refused to accept any post-hoc justification for the affiliate exception offered by Customs.\(^{61}\) First, the court rejected the argument that because of the affiliated relationship, the domestic and foreign trademark owners should resolve any problems in the 'boardroom,' e.g., contractually limit distributors' right to import the product to the United States, or make distinctive modifications between the identical trademarks.\(^{62}\) The court thought that such boardroom action would be ineffective, and further remarked that in finding the 'right' trademark, "the resources of English are finite and the quest for an apt word costly."\(^{63}\) Second, the court rejected the argument that American consumers should have access to the lower-priced, United Kingdom goods.\(^{64}\) The court found that mo-

\(^{57}\) Lever II, 877 F.2d 101, 106 (D.C. Cir. 1989).
\(^{58}\) Id. at 108.
\(^{59}\) Id.
\(^{60}\) Id. at 109-10. The court rejected Customs' central argument that without section 133.21(c)(2), Lever would be protected from infringement by its own mark, a legal impossibility. Id. Whereas Customs found a trademark could be genuine based solely upon the affiliated relationship between the domestic and foreign trademark owners, and thereby determined that no foreign trademark could infringe its affiliated domestic trademark, the court of appeals found that the affiliated relationship was a relevant consideration only if the affiliate were the party importing the goods. The court viewed the affiliate exception under a theory of implied consent. The court found that consent to importation by an affiliate could be inferred from the affiliation. As to imports by third parties, the court found it implausible that consent to importation could arise from the domestic trademark owner's affiliation with the foreign manufacturer. Id.
\(^{61}\) Id. at 110-11.
\(^{62}\) Id. at 110.
\(^{63}\) Id. But see K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 302 (1988) (Brennan, J., concurring in part and dissenting in part) (finding that such remedies are adequate substitutes to prohibiting gray market imports all together).
\(^{64}\) Lever II, 877 F.2d 101, 110 (D.C. Cir. 1989).
nopolies were inherent in the law of trademarks, and furthermore, that there was no showing that consumer gain through access to cheaper goods would outweigh consumer cost resulting from confusion over trademark representation. Finally, the court rejected Customs' argument that the interpretation embodied in section 133.21(c)(2) is an administrative necessity. While Customs argued that invalidating section 133.21(c)(2) would lead to large administrative costs associated with determining which imported goods in cases of affiliation were so materially different so as to impair the goodwill of the domestic trademark, the court found that argument to be greatly overstated. The court felt that Customs would only be required to distinguish between identical and non-identical goods and that such a task would entail minimal administrative costs.

In reaching its decision, the court also discounted Customs' reliance upon the parallel import and gray market lines of cases which culminated in 1988 with *K Mart Corp. v. Cartier, Inc.* In rejecting this reliance, the court noted that these cases usually involved imported goods identical to those sold by the domestic trademark owner, but also noted that in the two cases where the gray goods were not identical, infringement was found. The court thought it irrelevant that these two cases involved not an affiliated relationship

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65 A discussion of the tensions between trademark law and antitrust law are beyond the scope of this Note. For a thorough discussion of how these tensions have grappled over time, see Daniel M. McClure, *Trademark and Unfair Competition: A Critical History of Legal Thought*, 69 *Trademark Rep.* 305 (1979). For a discussion of antitrust concerns in granting injunctions under section 526(a) and the Lanham Act, see *Legality of Gray Market Imports*, supra note 19, at 1418-21. For discussions by courts about whether Customs regulations should be upheld because of antitrust concerns, see *Olympus Corp. v. United States*, 792 F.2d 315, 319-20 (2d Cir. 1986)(finding such support tenuous), *cert. denied* 486 U.S. 1042 (1988); *Osawa & Co. v. B. & H. Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984) (finding wisdom in allowing Customs to consider antitrust concerns questionable).

66 *Lever II*, 877 F.2d at 110.

67 Id. at 110-11.

68 Id. at 110.

69 Id.


72 *Lever II*, 877 F.2d at 106.

but rather a licensor-licensee relationship, since the inference of consent to importation was absent in both.\textsuperscript{74} 

In finding for Lever, however, the court qualified its holding.\textsuperscript{75} Because of the lack of evidence of the legislative history of section 42 of the Lanham Act and lack of history concerning Customs' administrative practice, the court remanded the case for further argument within this limited scope, placing the burden on Customs to deduce "persuasive evidence running against" its tentative holding.\textsuperscript{76}

C. Lever on Remand

Faced with such an onerous burden, Customs lost on remand. In searching the legislative history, the district court found that the issue of the affiliate exception was never addressed by Congress, although a closely related "common-ownership" exception was acknowledged but neither endorsed nor condemned by Congress.\textsuperscript{77} Furthermore, the noted exception occurred where the goods imported were identical to the domestic goods.\textsuperscript{78} As for the administrative practice, the court found Customs' enforcement of section 133.21(c)(2) inconsistent at best.\textsuperscript{79} The court noted that Customs' adopted a "related companies" exception in 1953,\textsuperscript{80} abandoned it in 1959,\textsuperscript{81} and then promulgated the current affiliate exception in 1972,\textsuperscript{82} only to reverse its position in an \textit{amicus curiae} brief in 1983.\textsuperscript{83} The court also noted that Customs recently proposed a rule to delete the exception of allowing importation of gray market goods manufactured by foreign licensees of the domestic registered trademark owner,\textsuperscript{84} the exception struck down in \textit{K Mart Corp. v. Cartier, Inc.} as inconsistent with section 526(a) of the Tariff Act of 1930.\textsuperscript{85} Customs' proposed deletion of this licensee exception weakened its position supporting the affiliate exception, according to the court, because "there is little substantive difference between the unauthorized importation of a licensee's goods and the unauthorized importa-

\textsuperscript{74} \textit{Lever II}, 877 F.2d at 109-10. Concerning the implied consent theory of the D.C. Circuit Court of Appeals, see \textit{supra} note 60.

\textsuperscript{75} \textit{Lever II}, 877 F.2d at 111.

\textsuperscript{76} Id.

\textsuperscript{77} \textit{Lever III}, 796 F. Supp. 1, 4 (D.D.C. 1992). See also \textit{infra} notes 158-60 and accompanying text, and notes 274-78 and accompanying text.

\textsuperscript{78} \textit{Lever III}, 796 F. Supp. at 4.

\textsuperscript{79} Id.

\textsuperscript{80} Id. (citing 18 Fed. Reg. 8685, 8688 (1953)). Note that Customs is a department of the Treasury.

\textsuperscript{81} Id. at 4-5 (citing 24 Fed. Reg. 7522 (1959)).

\textsuperscript{82} \textit{Lever IV}, 981 F.2d 1330, 1336 (D.C. Cir. 1993) (citing 37 Fed. Reg. 20677 (1972)).

\textsuperscript{83} Id. at 1337. (citing Brief of the United States as Amicus Curiae at 8, Bell & Howell: \textit{Mamiya Co. v. Masel Supply Co.}, 719 F.2d 42 (2d Cir. 1983)). Customs argued, however, that its position in the brief attacking the affiliate exception does not reflect agency policy because the Treasury Department did not authorize it. \textit{Id.}

\textsuperscript{84} \textit{Lever III}, 796 F. Supp. at 5.

tion of a foreign affiliate's goods." The court concluded its review of the administrative practice by noting that, like the legislative history, Customs never actually addressed the specific case where the imported goods materially differed from the domestic goods.

On January 15, 1993, the D.C. Circuit Court of Appeals affirmed the district court and held that neither the legislative history of section 42 of the Lanham Act, nor federal statutory trademark law in general, addressed the issue of an affiliate exception, and that the administrative practice of Customs in implementing section 42 was inconsistent at best. In the opinion, Judge Sentelle stated that the court was restrained by its previous decision from considering anything other than the legislative history and administrative practice, and therefore he refused to examine the court's previous interpretation of section 42. He noted that "to warrant divergence from the law of the case, a court must not only be convinced that its earlier decision was erroneous; it must also be satisfied that adherence to the law of the case will work a grave injustice." The court was forced to conclude that section 133.21(2)(c) was inconsistent with section 42, and therefore void.

III. Background

A. Development of Federal Trademark Law Affecting Imports

1. Early Federal Trademark Law: Universalism

Federal statutes regulating the importation of trademarked goods date back to 1871 when Congress decided to prohibit foreign watch parts which copied or simulated the name or trademark of any domestic manufacturer. An exception was allowed if the importer was also the domestic manufacturer. The Treasury Department interpreted the Tariff Act of 1871 to give domestic watch manufactur-

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86 Lever III, 796 F. Supp. at 5.
87 Id.
88 Lever IV, 981 F.2d 1330, 1337 (D.C. Cir. 1993).
89 Id. at 1332.
90 Id. Assuming that the court of appeal's previous holding was erroneous, grave injustice would not result from this case, since the present court vacated the lower court's order prohibiting Customs from applying the affiliate exception in cases of materially differing gray market goods. Perhaps because of doubts about the previous holding, the court of appeals rejected Lever's boilerplate language requesting "such other and further relief as the Court may deem just and proper," and narrowly limited relief to an injunction prohibiting Customs from applying the affiliate exception to imports of only the United Kingdom Shield and Sunlight products. Id. at 1338.
91 Id. at 1333 (citing Act of March 3, 1871, ch. 125, § 1, 16 Stat. 580). The relevant part of the statute prohibits the importation of "watches, watch cases, watch movements, or parts of watch movements, of foreign manufacture, which shall copy or simulate the name or trade-mark of any domestic manufacturer." Id. (emphasis added). This statute is the origin of the "copy or simulate" language found in section 42 of the Lanham Act and section 133.21 of Customs regulations at issue in Lever. See supra notes 2 and 3.
92 Id. at 1333.
ers control over imports bearing their trademarks. Congress extended this trademark protection in 1883 to all domestic manufacturers regardless of what goods they produced. However, control of imports by the domestic manufacturers was removed by the Tariff Act of 1890; section 7 of the Act precluded imports even by domestic manufacturers. The legislative history is unclear as to why this exception was eliminated. The Act was reenacted in 1894 with no substantive change, but in 1897 the prohibition on imports was extended to include goods bearing any mark designed to induce the public to believe that the goods were of domestic manufacture.

Five years later, Congress enacted the Trade-Mark Law of 1905 intending section 27 to regulate the importation of trademarked goods. Section 27 closely resembled the tariff statutes governing importation of trademarked goods discussed above. However, section 27 extended statutory protection to all owners of trademarks registered with the Patent Office, including distributors and foreign entities. Hence, after 1905, no goods could be imported into the United States which carried a trademark registered with the Patent Office, unless the importer was the trademark registrant and the trademark was applied only to goods of foreign manufacture.

Although the legislative history behind these acts is unclear, the underlying theory of trademark law at the turn of the century centered upon the proposition that trademarks were designed to represent, at a glance, the source of the goods, i.e., the manufacturer. Known as the source theory, or universalism, this proposition may explain why the exception in which the domestic trademark registrant could utilize in importing similarly trademarked goods; the necessary exception was deleted in 1890. See supra notes 92-97 and accompanying text.

93 Id. (citing T.D. 899 (1871) (implementing the legislation); T.D. 912 (1871) (registering trademarks of national and American watch companies); and T.D. 1428 (1873) (reproving customs collectors for lack of enforcement)).
94 Id. at 1333 (citing 22 Stat. 488, 490 (1883)). The Treasury Department interpreted the statutory language to prohibit "the importation of articles copying or simulating the name or trade-mark of any domestic manufacture, unless the domestic manufacturer be the importer." Id. (citing T.D. 6270 (1884)).
95 Id. at 1334 (citing Tariff Act of 1890, § 7, 26 Stat. 567, 613 (1890)).
96 Id. at 1334.
97 Id.
98 Id. (citing Tariff Act of 1894, § 6, 28 Stat. 547).
99 Id. (citing Tariff Act of 1897, § 4, 30 Stat. 207).
100 Id. (citing Trade-Mark Act of 1907, § 27, 33 Stat. 724, 730 (1905)).
101 Id.
102 Id.
103 The goods necessarily would have to be of foreign manufacture. If the registered trademark were applied to an item of domestic manufacture, there would be no exception which a domestic trademark registrant could utilize in importing similarly trademarked goods; the necessary exception was deleted in 1890. See supra notes 92-97 and accompanying text.
104 Lever IV, 981 F.2d at 1334.
106 See supra note 18.
manufacturer imported the goods was left out of the Tariff Act of 1890. Deletion of the exception precluded domestic manufacturers from selling goods which carried their trademarks, but which were actually of foreign manufacture. The theory also supports the 1897 amendment prohibiting goods with marks "calculated to induce the public to believe that the article is manufactured in the United States."\textsuperscript{107}

Universalism underlies one of the first cases dealing with gray market goods,\textsuperscript{108} Apollinaris Co. v. Scherer.\textsuperscript{109} In that case, Apollinaris Company, Ltd., based in London, acquired the exclusive right to export and sell in London and the United States Hungarian mineral water bottled by Andreas Saxlehner, the owner and operator of a mineral spring.\textsuperscript{110} Apollinaris registered its trademark in the United States, and Apollinaris and Saxlehner agreed to protect Apollinaris' exclusive rights by labeling all bottles sold elsewhere with the cautionary statement that the bottles were not intended to be sold in London or the United States.\textsuperscript{111} Nevertheless, a third party, the defendant Scherer, legally purchased the mineral water from retailers in Germany, imported it into the United States, and resold it at a lower price than Apollinaris' sales price.\textsuperscript{112} Accordingly, Apollinaris sought to enjoin Scherer from importing the trademarked goods. The Circuit Court for the Southern District of New York found in 1886 that trademarks were designed only to indicate the origin of the products and denied the injunction.\textsuperscript{113} The court found that Apollinaris would only have equitable redress if there was a breach of covenant on the part of Saxlehner, remarking "[i]t was not possible

\begin{itemize}
  \item \textsuperscript{107} Tariff Act of 1897, § 11, 30 Stat. 207.
  \item \textsuperscript{108} See Lars H. Liebeler, Trademark Law, Economics and Grey Market Policy, 62 Ind L.J. 753, 758 (1987) (finding that Apollinaris was the first case to address the parallel import question); see also Legality of Gray Market Imports, supra note 19, at 1402-03 n.37, and accompanying text.
  \item \textsuperscript{109} 27 F. 18 (C.C.S.D.N.Y. 1886).
  \item \textsuperscript{110} Id. at 19.
  \item \textsuperscript{111} Id. The label stated, "CAUTION. This bottle is not intended for export, and if exported for sale in Great Britain, her colonies, America, or other transmarine places, the public is cautioned against purchasing it. ANDREAS SAXLEHNER." Id. Labels on the domestic trademark product stated, "Sole exporters. The Apollinaris Company, Limited, London." Id.
  \item \textsuperscript{112} Id. Apparently the defendant purchased the trademarked goods from German retailers only after approaching Saxlehner, who refused to sell defendant the mineral water and informed defendant of Apollinaris' exclusive rights. Id.
  \item \textsuperscript{113} Id. at 20. The court stated:

[T]he defendant [was] selling the genuine water, and therefore the trademark is not infringed. There is no exclusive right to the use of a name or symbol or emblematic device except to denote the authenticity of the article with which it has become identified by association. The name has no office except to vouch for the genuineness of the thing which it distinguishes from all counterfeits; and until it is sought to be used as a false token to denote that the product or commodity to which it is applied is the product or commodity which it properly authenticates, the law of trade-mark cannot be invoked. Id.
\end{itemize}
by any contract or grant between Saxlehner and the complainant to create a territorial title to the products of the spring . . . . The right of the complainant rest [sic] purely in covenant.”

In 1916, the Circuit Court of Appeals for the Second Circuit interpreted section 27 of the Trade-Mark Law of 1905 under universalism in Fred Gretsch Manufacturing Co. v. Schoening. The plaintiff, Fred Gretsch Manufacturing Company, sought to recover a single shipment of “Eternelle” violin strings manufactured by C.A. Mueller of Germany, seized under section 27 by the collector of the Port of New York. The registered trademark owner in the United States was Schoening, who contracted with Mueller to be the exclusive American distributor. Fred Gretsch was considered a third party importer, so the collector seized the goods because their trademark copied Schoening’s trademark. In affirming the district court’s order to return the violin strings to the plaintiff, the court specifically relied upon Apollinaris. The court noted that Apollinaris was decided prior to enactment of section 27, but the court found the case unaffected by the statute:

The act prohibits the entry of imported merchandise which shall ‘copy or simulate’ a trade-mark registered under it. The obvious purpose is to protect the public and to prevent any one from importing goods identified by their registered trade-mark which are not genuine. In this case, however, the imported goods were the genuine articles identified by the trade-mark.

Employing a literal interpretation of section 27, the court found that there was no confusion as to the source of the goods, i.e., the German manufacturer, and thus no violation of section 27 existed. According to the court, Section 27 would only be violated where the trademark of the imported goods was applied fraudulently. Consequently, the Treasury Department interpreted the case as allowing third parties to import goods with an identical trademark to one registered with the Patent Office only if the registration was intended to protect a foreign manufacturer’s goods and the gray market goods actually originated from that manufacturer.

114 Id. at 21.
115 Legality of Gray Market Imports, supra note 19, at 1403 n.38.
116 238 F. 780 (2d Cir. 1916).
117 Id. at 780.
118 Id. at 780-81.
119 Id. at 781.
120 Id. at 782.
121 Id.
122 Id.
123 Lever IV, 981 F.2d 1330, 1334 (D.C. Cir. 1993) (citing T.D. 37021, 32 Treas. Dec. 203, 204 (1917)).
2. The Bourjois Rulings: A Shift Towards Territoriality

a. Judicial Expansion of Trademark Protection

In 1922, the Circuit Court of Appeals for the Second Circuit reached a similar result in *A. Bourjois & Co. v. Katzel*. The plaintiff, A. Bourjois & Company, purchased for a large sum, at arm’s length from the French manufacturer of “Java” face-powder, the right to be the exclusive distributor of Java in the United States. As in *Apollinaris* and *Fred Gretsch*, a third party found it profitable to purchase the trademarked goods abroad and import them into the United States for resale in competition with the exclusive distributor. As in *Apollinaris* and *Fred Gretsch*, the third party imports were not prohibited by the appellate courts. However, unlike *Apollinaris* and *Fred Gretsch*, the Supreme Court heard the case and reversed the Second Circuit. The Court, per Justice Holmes, found that the American public associated Java with Bourjois, the exclusive distributor, because of large expenditures in advertising: “It is the trademark of the plaintiff [Bourjois] only in the United States and, it is found, by public understanding, that the goods come from the plaintiff although not made by it.” Hence, sales of the gray market face-powder would directly affect Bourjois’ goodwill, who had no control over the imports or the quality of the goods. Even though the third party importation accurately represented the origin of manufacture, i.e., the goods were genuine, the Court still found that the importation was an infringement of plaintiff’s trademark rights.

By reversing the Second Circuit, the Supreme Court implicitly broadened trademark theory. The extent to which trademark theory was expanded is of considerable debate. One rationale cited for the Court’s decision is that the imported gray market goods were misleading because the public thought the exclusive distributor was responsible for all the imports. Thus, most commentators view this case as establishing the “territorial” theory of trademarks, i.e., the proposition that a trademark can, within a specific area, be attributed to the distributor’s goodwill apart from that of the

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124 275 F. 539 (1923).
126 *Id.* at 691.
127 *Id.* at 692.
128 *Id.* at 691.
129 *Id.* at 691.
130 *Id.* at 691.
manufacturer.\footnote{133}{See, e.g., supra note 132.}

However, some commentators have suggested the case be viewed solely as turning upon the specific equities of the case.\footnote{134}{See, for example, the district court's treatment of \textit{Katzel} in \textit{Lever I}, 652 F. Supp. 403, 406-07 (D.D.C. 1987). The court felt the \textit{Katzel} decision was motivated by the fact that allowing importation was unjust because it would impair the domestic trademark registrant's goodwill, something that had recently been purchased at arms length negotiations from the foreign manufacturer. \textit{Id.} (citing Coalition to Preserve the Integrity of American Trademarks v. United States, 598 F. Supp. 844, 848 (D.D.C. 1984), rev'd in part sub nom. \textit{K Mart Corp.} v. Cartier, Inc., 486 U.S. 281 (1988)). \textit{See also Weil,} 878 F.2d at 667 and 669 (3d Cir.) (finding that "most significantly, Bourjois was completely independent from the foreign manufacturer," and reading the Bourjois decisions "as creating an exception to the general application of trademark law in order to protect adequately the interests of domestic trademark holders such as Bourjois"), \textit{cert. denied,} 493 U.S. 853 (1989); \textit{Parfums Stern, Inc.} v. United States Customs Service, 575 F. Supp. 416, 419-20 (S.D. Fla. 1983) (finding \textit{Katzel} applicable only where the domestic trademark registrant and foreign trademark owner are independent and not affiliated).
}

Evidence supporting this view includes the Court's failure to acknowledge section 27 of the Trade-Mark Law of 1905 in its opinion,\footnote{135}{See, e.g., \textit{Lever II}, 877 F.2d 101, 107 (D.C. Cir. 1989) (finding "Holmes' failure to mention section 27 of the 1905 Act at all . . . leave[s] the case's bearing on section 27 uncertain," but nevertheless, relying on this connection).
}
as well as Justice Holmes' remarks that Bourjois spent a large amount of money to be the exclusive distributor and spent large amounts of money in advertising and promoting its trademark.\footnote{136}{See, e.g., \textit{Weil,} 878 F.2d at 667 (finding compelling circumstances in \textit{Katzel} to be the complete independence of the foreign and domestic trademark owners and the significant expense incurred by the domestic trademark owner in securing the exclusive right to import and sell the trademarked goods).
}

Since the exclusive distributor could not control the manufacturing process, nor the quality of the gray market goods produced by the foreign manufacturer and imported without consent, according to these commentators, it was unfair to place the exclusive distributor's reputation at stake.\footnote{137}{See, e.g., \textit{Parfums Stern, Inc.} v. United States, 575 F. Supp. 416, 419 (S.D. Fla. 1983) (finding that the \textit{Katzel} Court's "underlying reasoning was that the use by the domestic corporation of the trademark bought from the foreign manufacturer . . . staked the reputation of the domestic buyer [of the trademark] on the character of the goods"). \textit{See also Weil,} 878 F.2d at 667 (noting that in \textit{Katzel}, plaintiff "had no control over the goods that the foreign manufacturer sold abroad which were imported into the United States and sold with the same mark").
}
The public would hold the exclusive distributor responsible for products over which it had no control. These commentators conclude that the Supreme Court's decision was intended only to protect a domestic corporation's arm's length purchase from an unrelated foreign corporation of an exclusive right to import and sell the foreign corporation's trademarked product in the United States.\footnote{138}{\textit{Weil,} 878 F.2d at 669.
}

Under this construction, \textit{Katzel} is only an exception to the general rule of universalism.\footnote{139}{See, e.g., \textit{id.} ("We read [\textit{Katzel}] as creating an exception to the general application of trademark law in order to protect adequately the interests of domestic trademark holders such as Bourjois").
}
While *Katzel* may be viewed as representing a shift in the underlying theory of trademark law, the Court did not cite section 27 of the Trade-Mark Law of 1905 in its holding. It was later that year in *A. Bourjois & Co. v. Aldridge*, a case with facts similar to *Katzel*, that a weak connection was drawn between the holding in *Katzel* and section 27. In *Aldridge*, Bourjois, the same plaintiff as in *Katzel*, sought injunctive relief against Customs to enjoin it from allowing third parties to import face-powder associated with the trademark "Manon Lescaut." The Second Circuit certified two questions to the Supreme Court: first, whether the exclusive rights purchased by the American corporation to manufacture and sell the foreign manufacturer's goods in the United States would support an infringement action against third parties importing the foreign goods; and second, whether section 27 required Customs to bar the imports. Specifically noting that Customs did not present any opposing arguments, the Supreme Court relied upon *Katzel* in answering both questions affirmatively. Thus, it is *Aldridge* which proponents of territoriality cite as explicitly incorporating territoriality into section 27 of the Trade-Mark Law of 1905, and consequently, section 42 of the Lanham Act.

b. Congressional Expansion of Trademark Protection

Prior to the Supreme Court's reversal of the Second Circuit's decision in *Katzel*, Congress felt compelled to override the Second Circuit's decision by enacting section 526 of the 1922 Tariff Act, later to become section 526 of the 1930 Tariff Act. The legislation was quickly composed and passed with little debate upon the floor, and commentators believe it represented a hasty response to a misunderstanding of the facts of *Katzel*. However, other commentators have found that section 526 should not be construed so

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140 263 U.S. 675 (1923)(per curiam).
141 See, e.g., Olympus Corp. v. United States, 792 F.2d 315, 321-22 (2d Cir. 1986) (finding that a connection between the *Bourjois* rulings and section 27 "puts a great deal of strain on a one-sentence per curiam opinion [*Aldridge*] announcing a decision, to which the opposing party did not object, based on the reasoning of the three-page opinion in [*Katzel*]").
142 *A. Bourjois & Co. v. Aldridge*, 292 F. 1013, 1013 (2d Cir. 1922).
143 *Aldridge*, 263 U.S. at 675 ("The two questions certified . . . are answered in the affirmative upon the authority of [*Katzel*], the defendant not objecting").
144 *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 300-302 (1988) (Brennan, J., concurring in part and dissenting in part). *See also In re Certain Alkaline Batteries, 225 U.S.P.Q. 823, 832 (ITC) (finding that section 526 was "intended to apply only in a situation where a foreign owner of trademark rights has sold those rights to an American company), disapproved by 225 U.S.P.Q. 862 (Pres U.S.), appeal dismissed, Duracell, Inc. v. ITC, 778 F.2d 1578 (Fed. Cir. 1985). For text of section 526(a) see supra note 16.
145 *K Mart*, 486 U.S. at 303, 304.
146 *Id.* at 304.
narrowly. As in the debate over interpreting the Supreme Court's decision in *Katzel* and *Aldridge*, these commentators find recognition of territoriality in section 526. In any event, it is important to note that Congress implicitly resurrected in section 526(a) the exception of allowing imports bearing registered trademarks by a domestic registrant upon the registrant's consent, the exception which was implicitly deleted by section 7 of the 1890 Tariff Act.

**B. Implementation of the Federal Statutory Trademark Law in Light of the Bourjois Rulings**

**1. Evolution of Customs Regulations Section 133.21**

In 1936, in an attempt to implement section 27 of the Trademark Law of 1905 in light of the *Bourjois* rulings, as well as section 526(a) of the 1930 Tariff Act, the Treasury Department promulgated regulations explicitly allowing, for the first time since 1890, an exception to the proscription on imports covered by section 27. Section 518(b) of the 1936 regulations lifted the prohibition on imports of goods bearing a trademark valid in a foreign country if the trademark was identical to one protected in the United States and the foreign and domestic trademark owners were "the same person, partnership, association, or corporation." No explanation of the

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148 See, e.g., Coalition to Preserve the Integrity of American Trademarks v. United States, 790 F.2d 905 (1986), rev'd in part sub nom. K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988). For a contemporaneous view on the notion that section 526(a) would not have been enacted but for the Second Circuit's decision in *Katzel*, see Sturges v. Clark D. Pease, Inc., 48 F.2d 1035, 1036 (2d Cir. 1931) (finding *Katzel*, although the stimulus to enacting section 526(a), is not determinative of the scope of section 526(a)). For the view that section 526(a) should not be limited to the facts of *Katzel*, and furthermore, should not be limited to cases of trademark infringement, like section 42 of the Lanham Act, see Vivitar Corp. v. United States, 761 F.2d 1552, 1563 (Fed. Cir. 1985), cert. denied, 474 U.S. 1055 (1986).

149 See, e.g., Coalition, 790 F.2d at 910 (finding section 526(a) "enshrined the . . . 'territoriality' approach into law"); *In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823 (ITC) (views of Vice Chairman Liebeler) (finding that to view section 526(a) as strictly overruling the Second Circuit's decision in *Katzel* "mandates a narrow interpretation of section 526(a) rest[ing] far too much on the fact of who owns the trademark"), disapproved by 225 U.S.P.Q. 862 (Pres U.S.), appeal dismissed, Duracell, Inc. v. ITC, 778 F.2d 1378 (Fed. Cir. 1985); Osawa Co. v. B. & H. Photo, 589 F. Supp. 463, 1175 (S.D.N.Y. 1984) (finding no reason not to enforce section 526(a) to the fullest extent of its plain meaning, which reaches beyond *Katzel* situations).

150 See supra notes 92-97 and accompanying text.

151 Lever IV, 981 F.2d 1330, 1335 (D.C. Cir. 1993).

152 Id. (citing T.D. 48537, 70 Treas. Dec. 336 (1936)).

153 Id. This exception is the precursor of the affiliate exception. Id. Section 518(b) provides, in relevant part:

> [M]erchandise manufactured or sold in a foreign country under a trade-mark or trade name, which trade-mark is registered and recorded, or which trade name is recorded under the trade-mark laws of the United States, shall not be deemed for the purposes of these regulations to copy or simulate such United States trade-mark or trade name if such foreign trade-mark or trade name and such United States trade-mark or trade name are owned by the same person, partnership, association, or corporation.
exception was offered. However, the exception does appear to emphasize the universality theory of trademarks and deemphasize the territoriality theory, for it precludes the expansion of the Aldridge decision to cases where the domestic and foreign trademark owners are not completely independent of each other.

In the early 1940's, Congress considered wholesale revisions of the federal statutory trademark laws and eventually enacted the Lanham Trade-Mark Act of 1946. Section 42 of the Act substantially mirrors section 27 of the Trade-Mark Law of 1905, and commentators have found it provides substantially the same protection to trademark holders. In fact, the Treasury Department implemented section 42 in the same manner as section 27, until 1953, when it explicitly broadened the "same person" exception to include "related companies" and companies subject to "common control." Several attempts were made in Congress to enact this exception into law, but all attempts failed, and in 1959, the exception was abandoned by the Treasury Department as inconsistent with section 42. Nevertheless, there is evidence that Customs continued to apply the exception after repeal, and in 1972, Cus-

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T.D. 48537 (1936).

154 Lever IV, 981 F.2d at 1335.

155 The same person, partnership, association, or corporation exception, later expanded to include companies subject to common control, essentially allows gray market imports in all situations except where the domestic and foreign trademark owners are independent. Thus, while the Bourjois decisions conceivably could have been expanded by creative lawyering, thereby causing a complete shift in trademark law to territoriality, the exceptions promulgated actually confine any such expansion, making the Bourjois decisions the exception.

156 Lever IV, 981 F.2d at 1335.

157 See, e.g., Lever II, 877 F.2d 101, 105 (D.C. Cir. 1989) (finding section 42 of the Lanham Act substantially the same as section 27 of the 1905 Act); Vivitar Corp. v. United States, 761 F.2d 1552, 1565 n.18 (Fed. Cir. 1985) (finding section 27 of the Trade-Mark Law of 1905 was intended to be carried forward in section 42 of the Lanham Act), cert. denied, 474 U.S. 1055 (1986); In re Certain Alkaline Batteries, 225 U.S.P.Q. 825, 835 (ITC) (finding that by reenacting the same words in section 27 into section 42, Congress intended administrative implementation of section 27 and judicial interpretation of section 27 to be incorporated into section 42), disapproved by 225 U.S.P.Q. 862 (Pres U.S. 1985), appeal dismissed, Duracell, Inc. v. ITC, 778 F.2d 1578 (Fed. Cir. 1985).

158 Lever IV, 981 F.2d at 1356 (citing T.D. 53399, 18 Fed. Reg. 8685, 8688 (Dec. 24, 1953)).


160 Id. (citing T.D. 54932, 94 Treas. Dec. 433 (1959)). But see K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 311 (1988) (Brennan, J., concurring in part and dissenting in part) (finding that the Treasury repealed the common control and related companies exception for reasons not relevant in considering the validity of the exceptions against a section 526(a) attack).

161 See, e.g., K Mart, 486 U.S. at 311-12 (Brennan, J., concurring in part and dissenting in part). Justice Brennan, joined by Justices Marshall and Stevens, found that the Treasury Department and Customs continuously applied the repealed exceptions as if they had
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toms promulgated the current affiliate exception found in section 133.21(c)(2). Once again, no explanation was offered for the exception in either the notice of proposal of the rule or the notice of the final rule’s adoption.

2. Recent Decisions Interpreting the Effect of Section 133.21

When gray market goods became an increasing problem for trademark owners beginning in the early 1980’s, the affiliate exception came under attack as an invalid exercise of administrative power. Trademark owners claimed that Customs was required to exclude gray market goods imported by third parties, but purchased abroad from an affiliated corporation, unless the domestic trademark owners consented to the importation. Challenges to the regulations were based most often upon section 526(a) of the Tariff Act of 1930, and occasionally on sections 32 and 42 of the Lanham Act.

In 1985, the Court of Appeals for the Federal Circuit addressed this issue in Vivitar Corp. v. United States. The court found that Customs’ administrative practice was inconsistent and that the legislative intent behind section 526(a) precluded a narrowing of the statute by section 133.21. However, the court upheld the regulations as a permissive exercise of administrative enforcement discretion. If the domestic trademark owner could successfully bring an infringement action against the third party importer, the court inti-

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never been repealed. Id. For support, he cited 3 Cust. B. & Dec. 17 (1969), for the proposition that importation of gray market goods was permitted in practice where “the foreign producer is the parent or subsidiary of the American [trademark] owner or the firms are under a common control.” Id. He also cited Letter from Deputy Customs Commissioner Flinn to Felix Levitan (Mar. 15, 1963) (articulating that Customs’ “position for many years” was to allow gray market imports where the “merchandise [is] manufactured or sold by the foreign parent or subsidiary corporation of an American trademark owner”). Id. See also Vivitar Corp. v. United States, 593 F. Supp. 420, 432 (1984) (conducting an extensive review of Customs’ practice and concluding it has remained consistent since 1936), aff’d 761 F.2d 1552 (Fed. Cir. 1985) (disagreeing with the finding of consistent practice), cert. denied, 474 U.S. 1055 (1986). But see John F. Atwood, Import Restriction on Trademarked Merchandise-The Role of the United States Customs Service, 59 TRADEMARK REP. 301 (1969) (finding Customs’ practice inconsistent during the 1950’s and 1960’s).


165 Id. at 1565.

166 Id. at 1569.
mated that the domestic trademark owner then could enjoin Customs from allowing the infringing goods passage into the United States.\textsuperscript{168} One year later the Second Circuit addressed the issue against both a section 526(a) claim and a section 42 claim in \textit{Olympus Corp. v. United States}.\textsuperscript{169} The court expressly adopted the findings of the \textit{Vivitar} court concerning the legislative intent of section 526(a)\textsuperscript{170} and agreed with the \textit{Vivitar} court that section 133.21(c)(2) did not define the scope of section 526(a).\textsuperscript{171} However, the court felt that Customs' practice was consistent and upheld section 133.21(c)(2) based upon Congressional acquiescence in the administrative practice.\textsuperscript{172} The court noted that Congress knew of the affiliate exception but had not affirmatively acted to prohibit its application.

In 1985, the Court of Appeals for the District of Columbia also considered the validity of the affiliate exception against a section 526(a) claim in \textit{Coalition to Preserve the Integrity of American Trademarks v. United States}.\textsuperscript{173} According to the court, the legislative intent clearly precluded application of the affiliate exception.\textsuperscript{174} Furthermore, the court noted that Customs itself viewed section 133.21 as interpreting the scope of section 526(a) of the Tariff Act of 1930 and section 42 of the Lanham Act, and thus the court rejected the contention that section 133.21(c)(2) was merely a guideline for administrative enforcement.\textsuperscript{175}

The D.C. Circuit's decision resulted in the famous 1988 Supreme Court case of \textit{K Mart Corp. v. Cartier, Inc.}.\textsuperscript{176} In \textit{K Mart}, the Court reversed the D.C. Circuit Court of Appeal's finding that the affiliate exception was inconsistent with section 526(a). The Court divided gray market cases into three situations, the second of which involves application of the affiliate exception.\textsuperscript{177} The second situa-

\textsuperscript{168} Id. at 1569-70.

\textsuperscript{169} 792 F.2d 315 (2d Cir. 1986), cert. denied, 486 U.S. 1042 (1988).

\textsuperscript{170} Id. at 319. The court actually added one more finding of fact to the \textit{Vivitar} court's findings, that Customs has issued several letters reflecting its consistent policy of practic-

\textsuperscript{171} Id. at 320 (finding 'Customs' interpretation of the statute does not limit the reach of protection of section 526).

\textsuperscript{172} Id. (finding that the affiliate exception is of questionable wisdom, but nevertheless, that "Congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation as an exercise of Customs' enforcement discretion ").


\textsuperscript{174} Id. at 908 (finding "Congress' intent in Section 526 is clear, and thus 'that is the end of the matter' "); id. at 913 (finding "Congress' intent on the issue at hand is apparent").

\textsuperscript{175} Id. at 918 (finding that Customs regarded section 133.21(c)(2) as "what the law requires rather than as a decision not to prosecute to the letter of the law").

\textsuperscript{176} 486 U.S. 281 (1988).

\textsuperscript{177} Id. at 286-87. Case 1 involves situations where the registered trademark owner has purchased from a foreign trademark owner the rights to be the exclusive distributor or
tion, termed by the Court "Case 2," is subdivided into three parts: Case 2a, where the domestic trademark registrant is a domestic subsidiary of the foreign trademark owner; Case 2b, where the domestic trademark registrant is the parent of the foreign trademark owner; and Case 2c, where the domestic trademark registrant is the owner of a foreign division manufacturing and applying the trademark. A divided Court upheld the affiliate exception in Cases 2b and 2c; a unanimous Court upheld the exception in Case 2a. In upholding the exception in Case 2a, a majority of the Court found the language "owns by" in the statute to entail sufficient ambiguity to permit Customs' interpretation that a foreign parent corporation could be deemed to own the trademark of a subsidiary located in the United States. The majority's holding was based upon a technical interpretation of the statute and addressed neither policy concerns nor the underlying legislative intent of section 526(a). While Justice Brennan, in a concurring and dissenting opinion joined by Justices Marshall and Stevens, agreed with the others to unanimously uphold the affiliate exception in Case 2a situations, in a separate opinion he attempted to resolve the policy concerns and underlying legislative intent behind section 526(a). Furthermore, the Court limited its decision by specifically declining to address the validity of the exception against a section 42 claim. However, the Court did not qualify its decision as a judgment of the reasonableness of Customs' regulations in the context of administrative enforcement discretion, and the likely implication was that the regulations actually define the scope of both section 526(a) of the Tariff Act of 1930 and section 42 of the Lanham Act.

manufacturer, and the foreign trademarked goods are imported in direct competition against the domestic trademark owner by either the foreign trademark owner or unrelated third parties. Id. Case 1 is the prototypical gray market scenario demanding the most trademark protection, and is representative of cases like A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923), and A. Bourjois & Co. v. Aldridge, 263 U.S. 265 (1923). Id. at 300-01 (Brennan, J., concurring in part and dissenting in part). Case 3 situations arise where the domestic trademark registrant licenses use of its trademark to a foreign corporation and the foreign trademarked goods are imported in direct competition with the domestic trademark registrant by the foreign corporation or by unrelated third parties. Id. at 287. 178 Id. at 286-87.

179 Justices Kennedy, White, Brennan, Stevens, and Marshall upheld section 133.21(c)(2) in Case 2b and Case 2c situations, Justices Scalia, Rehnquist, O'Connor, and Blackmun dissenting. Id. at 286-287.

180 Id. at 292 (Justice Kennedy, joined by Justice White); id. at 318 (Justice Scalia, joined by Justices Rehnquist, O'Connor, and Blackmun, concurring as to the validity of section 133.21(c)(2) only in Case 2a situations).

181 K Mart, 486 U.S. at 295. See infra notes 305-12 and accompanying text.

182 K Mart, 486 U.S. at 290 n.3.

C. Recent Decisions Interpreting the Scope of Section 42 of the Lanham Act

When the affiliate exception is viewed as defining the relative reach of section 42, the issue becomes whether the goods in question can "copy or simulate" the registered trademark in the United States when there is an affiliate relationship between the foreign and domestic trademark owners. In defining "copy or simulate," the courts have looked to the common understanding of the words,\(^{184}\) to the underlying intent of the statute,\(^ {185}\) and to principles of trademark law in general.\(^ {186}\) However, the results have been mixed.

1. Reliance Upon Territoriality: A Broad Reading of the Bourjois Rulings

a. Infringement Resulting from Material Differences Between the Domestic and Gray Market Goods

In a line of cases considering genuine gray market goods that materially differ from corresponding domestic goods, the courts have concluded that section 32 of the Lanham Act bars the gray market imports.\(^ {187}\) These cases are noteworthy because courts have found a great similarity between section 32 and section 42 of the Lanham Act.\(^ {188}\)

One such case is *Selchow & Righter Co. v. Goldex Co.*, in which the


\(^{185}\) See, e.g., *Societe Des Produits Nestle v. Casa Helvetia*, Inc., 982 F.2d 633, 638-639 (1st Cir. 1992); *Weil*, 878 F.2d at 672-73.


\(^{187}\) These cases include *Selchow & Righter Co. v. Goldex Co.*, see infra notes 189-195 and accompanying text; *Dial Corp. v. Encina Corp.*, see infra notes 196-200 and accompanying text; *Original Appalachians Art Works Inc. v. Granada Electronics, Inc.*, see infra notes 201-211 and accompanying text.

\(^{188}\) See e.g., *In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823, 850 (ITC) (Views of Chairwoman Stern and Commissioner Rohr) ("While the language of section 32 is broader, it clearly contains within it section 42's concept of 'copy or simulate'")), disapproved by 225 U.S.P.Q. 862 (Pres U.S.), appeal dismissed, Duracell, Inc. v. ITC, 778 F.2d 1578 (Fed. Cir. 1985). Section 32 of the Lanham Act of 1945, 15 U.S.C. § 1114, provides, in relevant part:

(1) Any person who shall, without the consent of the registrant . . . use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered trademark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable . . . for the remedies hereinafter provided. (emphasis added).

Section 42 is less encompassing than section 32, as it only prohibits trademarks which "copy or simulate", but it is less burdensome to prove a violation of section 42, as section 42 does not require proof of a likelihood of confusion. In any event, section 42 appears to
District Court for the Southern District of Florida granted an injunction under section 32 to prohibit defendant from selling Trivial Pursuit games imported from Canada. The plaintiff acquired the exclusive right to manufacture and sell Trivial Pursuit games in the United States from the Canadian manufacturer. The defendant was purchasing the Canadian games from Canadian retailers and importing them into the United States. Differences between the Canadian and the American games included: the absence of plaintiff’s logo on the outside of the imported games; the absence of its brochure inside; and the deletion of several “unsuitable” questions found in the Canadian games. Relying on the principle of territoriality, the court found that the differences in the Trivial Pursuit games would lead to irreparable harm to the domestic trademark owner because the trademark was associated in the United States with its goodwill.

The court thus found statutory trademark infringement under section 32 of the Lanham Act, since the trademark of the gray market goods would likely be confused with the trademark of the domestic owner. The court discounted defendant’s argument that a domestic trademark owner cannot prevent the importation of gray market goods, for the court found that the facts of the case fell “squarely within the principles of Bourjois and its progeny,” regardless of whether Katzel is an exception or the norm.

The court reached a similar conclusion a year later in Dial Corp. v. Encina Corp. The plaintiff, Dial Corporation, was the registered trademark owner which manufactured and sold Dial soap in the United States. The defendant purchased Dial from a foreign licensee of the plaintiff and imported the soap into the United States in competition with the domestic product. Because the imported Dial contained different ingredients, different fragrances, and differences

be applicable to a special subset of claims under section 32, i.e., those involving imported goods bearing trademarks that copy domestic trademarks.

190 Id. at 21.
191 Id. at 22-23.
192 Id. at 21-22.
193 Id. at 28 (finding that the “principle of territoriality plays an important part in the case,” and that “[g]ames imported from Canada can irreparably damage S & R’s image and reputation, since United States consumers associate the ‘Trivial Pursuit’ trademark with S & R”). Id.
194 Id. at 23-24.
195 Id. at 29. Essentialy, since the facts so closely resembled those in Katzel and Aldridge, the court was not forced to decide whether the Bourjois rulings represented a broad principle of territoriality or an exception to universalism. The court discounted one of its previous decisions supporting the affiliate exception, Parfums Stern, Inc. v. United States, see infra notes 250-56 and accompanying text, because of Selchow & Righter’s independence from the foreign manufacturer. Selchow & Righter Co., 612 F.Supp. at 29.
197 Id. at 952.
198 Id.
ent labeling not conforming to FDA regulations, the District Court for the Southern District of Florida found the sale of such goods could lead to consumer confusion resulting in an impairment of plaintiff's goodwill.\textsuperscript{199} Stressing that under the territorial principle, the plaintiff could prohibit importation of gray market goods under section 32 if goodwill established in the trademark was sufficiently impaired through consumer confusion resulting from material differences in the goods, the court denied defendant's motion to dismiss plaintiff's section 32 claim.\textsuperscript{200}

A similar case is *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, decided in 1987.\textsuperscript{201} The plaintiff, Original Appalachian Artworks, was the registered trademark owner of Cabbage Patch Kids dolls in the United States.\textsuperscript{202} Jesmar, S.A., was a licensed manufacturer of the dolls in Spain.\textsuperscript{203} Under the terms of the license, the “Spanish Kids” were not to be imported for sale in the United States, nor to be sold to distributors importing the dolls into the United States.\textsuperscript{204} Nevertheless, the defendant still managed to purchase and import the Spanish Kids.\textsuperscript{205} The material difference in the products concerned the simulated adoption procedures in which the buyers of the United States dolls could participate, a difference the court found to be "a very real difference in the product itself."\textsuperscript{206} Upon purchase of the domestic dolls, the buyer received adoption papers, a birth certificate, and a postcard which could be filled out and mailed to a United States service center.\textsuperscript{207} One year later, the buyer's doll would receive a birthday card.\textsuperscript{208} Similar documents also accompanied the Spanish Kids, but because they were written in Spanish, the United States service center was either unable or unwilling to process the Spanish Kids' papers.\textsuperscript{209} The Court of Appeals for the Second Circuit devoted little discussion to defendant's con-

\textsuperscript{199} Id.
\textsuperscript{200} Id. at 954. In this case, although not explicitly so stating, the court appears to discount the universalism principle found in Parfums Stern, Inc. v. United States, see infra notes 250-56 and accompanying text, by limiting its holding in *Parfums Stern, Inc.* to where there is an affiliated relationship and where there is "no showing that the public would be harmed . . . by the importation of [the] . . . 'grey market' goods." *Dial Corp.*, 643 F. Supp. at 954-55 (quoting *Parfums Stern, Inc. v. United States*, 575 F. Supp. 416, 421 (S.D. Fla. 1983)).

\textsuperscript{201} 816 F.2d 68 (2d Cir.), cert. denied, 484 U.S. 847 (1987).
\textsuperscript{202} Id. at 70.
\textsuperscript{203} Id.
\textsuperscript{204} Id.
\textsuperscript{205} Id.

\textsuperscript{206} Id. at 73. Judge Cardamone, in concurrence, found the importation of the physically identical gray market goods, due to the material difference in service performed by the United States processing center, constituted, in an abstract sense, a materially physical alteration in the gray market goods. *Id.* at 76 (Judge Cardamone, concurring).
\textsuperscript{207} Id. at 70.
\textsuperscript{208} Id.
\textsuperscript{209} Id. at 73.
tention that plaintiff could not be damaged by his own goods, and found the fact that a single entity owned the worldwide trademark not dispositive.\footnote{Id. at 73.} The court felt compelled to prevent any possible consumer confusion arising from the sale of the two materially different goods, and therefore found that the Spanish trademark infringed the United States trademark under section 32.\footnote{Id. at 74.}

Finally, on December 29, 1992, the Court of Appeals for the First Circuit in Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc. granted an injunction against the importation of gray market goods bought from a licensee abroad.\footnote{982 F.2d 633, 644 (1st Cir. 1992).} While finding a violation of section 32, the court also found a violation of section 42, relying heavily upon the D.C. District Court's decision on remand in Lever.\footnote{Id. Furthermore, the court found a violation of section 43, designed to prevent false designations of origin by trademarks, i.e., the origin not only of source, but also sponsorship and affiliation. Id. As the court remarked concerning sections 32, 42, and 43 of the Lanham Act, "all roads lead to Rome." Id.} In Nestle, trademarked Italian chocolates, Perugina, were owned worldwide by Societe Des Produits Nestle, S.A. (Nestle).\footnote{Id.} In 1988, Nestle granted to an affiliated corporation, Nestle Puerto Rico, Inc., the right to be the exclusive distributor in Puerto Rico, replacing Casa Helvetia, Inc.\footnote{Id. However, Casa Helvetia continued to sell Perugina chocolates in Puerto Rico by purchasing them from a licensed manufacturer of Perugina chocolates in Venezuela and importing them into Puerto Rico.\footnote{Id.} The Court found that the Venezuela chocolates materially differed from Nestle Puerto Rico's chocolates in ingredients and product packaging.\footnote{Id. The court also found that the two products materially differed in quality.\footnote{Id.} Because of these distinctions, the First Circuit found that "an unauthorized importation may well turn an otherwise 'genuine' product into a 'counterfeit' one."\footnote{Id. Hence, the importation of the chocolates from Venezuela constituted a violation of section 42.\footnote{Id. The issue of the affiliate exception's validity did not arise in the case.\footnote{Id.}}}

\footnote{Nestle, 982 F.2d at 635.}
b. Infringement Resulting from Consumer Confusion over Sponsorship of the Gray Market Goods

Some courts have relied upon the territorial principle of trademarks in finding that a genuine gray market good’s trademark can infringe the corresponding domestic good’s trademark if there is confusion over the sponsorship of the gray market goods in the domestic market.222 The underlying proposition of these decisions is that trademarks may embody the goodwill of not only the manufacturer, but also the distributor who promotes and enhances the trademarked goods in a particular area.223 Technically, the definition of the “source of origin” of the goods is expanded to include members in the distribution chain, i.e., the manufacturer, distributor and retailer.224 These decisions cite the Bourjois rulings as representative of the general protection that should be afforded a domestic trademark owner’s goodwill.225

In 1984, the District Court for the Southern District of New York relied upon this interpretation of the territorial principle in Osawa & Co. v. B. & H. Photo, where it found that trademarks of non-differing gray market goods may copy the trademarks of corresponding domestic goods.226 In Osawa, the court was asked to restrain the defendants from selling high-quality photographic equipment manufactured by Mamiya in Japan and sold to them by gray market importers.227 The plaintiff, Osawa, contracted with its parent corporation, J. Osawa & Co., Ltd., to be the exclusive distributor in the United States; J. Osawa & Co., Ltd., in turn, contracted with Mamiya to be the exclusive worldwide distributor of its products.228 When third parties began purchasing Mamiya’s products abroad and importing them for resell at substantially cheaper prices in the United States, Osawa successfully brought suit against the gray market retailers for injunctive relief; the court found a violation of section 526(a) of the 1930 Tariff Act,229 as well as infringement under

222 These cases include Osawa & Co. v. B. & H. Photo, see infra notes 226-32 and accompanying text; In re Certain Alkaline Batteries, see infra notes 233-42 and accompanying text; and Premier Dental Products Co. v. Darby Dental Supply Co., see infra notes 243-47 and accompanying text.
223 See supra note 222.
224 In re Certain Alkaline Batteries, 225 U.S.P.Q. 823, 835 (ITC) ("'source of origin' does not mean only manufacturer, but also the distribution chain"), disapproved by 225 U.S.P.Q. 862 (Pres U.S.), appeal dismissed, Duracell, Inc. v. FTC, 778 F.2d 1578 (Fed. Cir. 1985); Bell & Howell: Mamiya Co. v. Masel Supply Co. Corp., 548 F. Supp. 1063, 1069-70 (E.D.N.Y. 1982) (finding that “origin” denotes not only the manufacturer, but any “party responsible for exercising judgment respecting the quality of goods it distributes to the public”).
225 See, e.g., supra note 132.
227 Id. at 1165.
228 Id. at 1164-65.
229 Id. at 1179.
section 32 of the Lanham Act. The Second Circuit affirmed the injunction based upon the irreparable injury sustained by Osawa in lost sales, slashed advertising budgets, extension of its warranty for free service of the domestic products to the gray goods, retailer dissatisfaction, and appearance of price gouging. Since Customs admitted the gray market goods without exception, and because the defendants did not properly raise the affiliate exception as a defense, the Osawa court did not contemplate the affiliate exception in reaching its decision.

In 1985, the International Trade Commission (ITC) also subscribed to this interpretation of "copy" in In re Certain Alkaline Batteries. Even though the foreign and domestic trademark owners were affiliated through a corporate parent, the ITC found under section 42 that a foreign trademark copied its affiliated United States trademark upon entry into the United States. The gray market imports at issue in the case were AA, AAA, C, D, and nine volt Duracell batteries manufactured by N.V. Duracell S.A. (Duracell Belgium) in Belgium for sale in Europe. An unrelated third party was importing the European Duracell batteries into the United States in direct competition with the domestic Duracell batteries. Duracell U.S.A., an unincorporated division of Duracell Inc., manufactured the domestic batteries; furthermore, Duracell, Inc., wholly owned Duracell International, Inc., which, in turn, wholly owned Duracell Belgium. The Commission found that the Belgian batteries, though genuine in Europe, copied the American version upon entry into the United States. The ITC thought that it was irrelevant the batteries were physically identical and that the foreign manufacturer was a wholly-owned subsidiary of the United States corporation which wholly-owned the manufacturer of the domestic batteries. Acknowledging that a thing cannot copy itself, the ITC rejected its common understanding of "copy." Instead, the ITC adhered to the view that the principle of territoriality can establish two distinct trademarks, although the goods are physically identical. Reasoning that the American consumer who purchased the batteries would

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230 Id. at 1173.
231 Id. at 1168-69.
232 Id. at 1177.
234 Id. at 825 (finding "when the batteries are imported and sold in the United States, the Belgian trademark becomes a copy of the U.S. trademark").
235 Id. at 825.
236 Id.
237 Id.
238 Id. at 833.
239 Id.
240 See id. at 851-52 (views of Chairwoman Stern and Commissioner Rohr).
241 Id.
believe they were manufactured and marketed by Duracell U.S.A., the ITC based infringement upon confusion over the sponsorship of the goods.242

Protection of the domestic trademark owner's goodwill was recognized by the Third Circuit in Premier Dental Products Co. v. Darby Dental Supply Co., although relief was based upon section 526(a) of the 1930 Tariff Act.243 The plaintiff was the exclusive distributor of "Impregum" trademarked goods manufactured in West Germany.244 The defendant was purchasing and importing for sale European "Impregum" trademarked goods identical to the domestic goods.245 The court relied upon the fact that plaintiff was the exclusive distributor for over ten years, expended large investments in advertising and promoting its trademarked goods, and guaranteed consumer satisfaction.246 It found that the Impregum trademark was associated with plaintiff's goodwill and enjoined the defendant from importing and reselling the identical gray market goods.247 Even though the court did not explicitly embrace the territorial principle, it recognized that trademarks can carry distinct goodwill in one country as opposed to another country when the domestic trademark holder is the exclusive distributor and has promoted and has enhanced the trademark.

2. Reliance Upon Universalism: A Narrow Reading of the Bourjois Rulings

The above cases relied upon the territorial principle in finding that a gray market good's trademark can copy a registered trademark and thus be a violation of sections 32 and 42 of the Lanham Act. Other cases have rejected the territorial principle and its implications.248 These courts have interpreted the Bourjois rulings to represent an exception to universalism; consequently, they have found that genuine gray market goods generally cannot infringe upon corresponding domestic goods.249

An often cited case for this proposition is Parfums Stern, Inc. v. United States,250 decided by the District Court for the Southern District of Florida in 1983. The plaintiff was a member of an international family which owned the trademark and manufactured and

242 Id. at 836.
244 Id. at 851.
245 Id.
246 Id. at 855.
247 Id. at 858.
248 Parfums Stern, Inc. v. United States, see infra notes 250-56 and accompanying text, Olympus Corp. v. United States, see infra notes 257-61 and accompanying text, and Weil Ceramics & Glass, Inc. v. Dash, see infra notes 267-73 and accompanying text.
249 See supra note 248.
distributed Oscar De La Renta products throughout the world. Consequently, the plaintiff contributed substantial time and money in promoting its trademark. Third parties were importing Oscar De La Renta products into the United States, and plaintiff sought an injunction under section 32 and 42 of the Lanham Act. The court denied relief and distinguished Katzel and Aldridge as limited to their specific facts. The court remarked that a plaintiff under the facts of the case could not seek “protection of trademark laws to insulate itself from what it placed in motion itself through its own foreign manufacturing and distribution sources.” While noting that the public would not be harmed by confusion over the domestic and gray goods, the court based its ruling on the foreign and domestic trademark owners’ affiliated relationship.

In Olympus Corp. v. United States, the Court of Appeals for the Second Circuit in 1985 considered the meaning of “copy or simulate” with respect to section 42 of the Lanham Act. The plaintiff, a wholly-owned subsidiary of the foreign manufacturer and the registered trademark owner in the United States, sued for injunctive relief restraining 47th Street Photo and K Mart from purchasing and selling gray market Olympus products. The court denied relief, finding that section 42 was generally restricted to trademarks that were counterfeit or spurious. The court recognized that the Bourjois rulings represented an exception in which genuine gray market goods could copy or simulate the domestic goods, but the court limited the two cases to their specific facts. The court relied upon a Supreme Court suggestion to so limit the Bourjois rulings:

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

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251 Id. at 418.
252 Id. at 419.
253 See id. at 419-20.
254 Id. at 419.
255 Id.
256 Id. at 421.
258 Id. at 317.
259 Id. at 321.
260 Id. at 321-22.
261 Prestonettes v. Coty, 264 U.S. 359, 368 (1924) (emphasis added). The debate over whether the Bourjois rulings should be narrowly interpreted can be reduced to defining “plaintiff in the United States” from this excerpt of the Court’s opinion. If this phrase is merely descriptive, then an affiliated foreign corporation could be viewed as standing in the domestic trademark holder’s shoes, and vice-versa, because of the affiliated relationship. This would lead to a narrowing of the two cases and validation of the affiliate exception. However, if this phrase is interpreted literally, a foreign affiliate would not physically be in the United States. Hence, the Bourjois rulings would be broadly interpreted to fore-
Since the domestic trademark owner in Katzel was independent from the foreign trademark owner, the gray market goods could not be viewed as originating with the domestic trademark owner; however, if affiliated, the foreign trademark owner could be viewed as one with the domestic trademark owner in interpreting "plaintiff in the United States."

Following Olympus, the Court of Appeals for the Ninth Circuit found, in NEC Electronics v. CAL Circuit Abco, that genuine gray market goods cannot give rise to infringement claims under section 32 of the Lanham Act.262 The plaintiff, a domestic corporation and a wholly-owned subsidiary of NEC Electronics of Japan, was the registered trademark owner of "NEC" computer chips in the United States, and while the plaintiff manufactured ten percent of the computer chips it sold under the NEC trademark, it imported ninety percent of the chips from its foreign parent.263 The defendants purchased NEC’s computer chips abroad and imported them for sale in the United States.264 In overturning the district court’s injunction, the appellate court distinguished Katzel, as did the Olympus court, by finding that the registered trademark owner was not independent of the foreign trademark manufacturer.265 The court recognized the inequity in Katzel arising from the fact that the registered trademark owner did not have control over the quality and manufacturing of the gray market goods and felt that the holding should be limited to the specific facts found in Katzel when considering sections 32 and 42 claims.266

One of the most recent cases subscribing to this interpretation, and handed down one year after the Supreme Court’s decision in K Mart, is Weil Ceramics and Glass, Inc. v. Dash.267 In Weil, the plaintiff was the registered trademark owner in the United States of Lladro porcelain; the plaintiff also was the wholly-owned subsidiary of Lladro Exportadora, S.A., a sister corporation to Lladro, S.A., the manufacturer of Lladro porcelain.268 Because of third party importations of Lladro porcelain purchased abroad, the plaintiff claimed to sustain impairment of its goodwill as well as lost sales, and sought injunctive relief under section 42, among other claims.269 The Court

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262 810 F.2d 1506 (9th Cir. 1986), cert. denied, 484 U.S. 851 (1987).
263 Id. at 1507.
264 Id. at 1507-08.
265 Id. at 1510.
266 Id. at 1510.
268 Id.
269 Id. Other claims were based upon sections 32 and 33 of the Lanham Act, and section 526(a) of the 1930 Tariff Act. Id.
of Appeals for the Third Circuit denied relief. Limiting *Katzel* and *Aldridge* to their specific facts, and rejecting the territorial principle, the court held that section 42 was not intended to apply to genuine goods.270 The court adopted the common understanding of "copy or simulate" as referring to items which "resemble, but are not themselves, the original or genuine artifacts."271 Hence, the court found that section 42 was generally only available to protect the domestic trademark owner from importation of like goods with similar trademarks.272 Absent facts similar to those found in the *Bourjois* cases, the court found the section inapplicable to genuine goods.273

IV. Analysis

A. The Decision of the D.C. Circuit Court of Appeals

The Court of Appeals for the D.C. Circuit's recent holding that nothing in the legislative history nor administrative practice supports the affiliate exception in Customs regulations section 133.21(c)(2) finds support in previous case law.

Decisions of previous courts reveal the legislative history is not dispositive of the affiliate exception.274 Generally, there is ample evidence that Congress has taken notice of the affiliate exception employed by Customs. In considering enactment of the Lanham Act, the Senate Subcommittee on Patents in 1944 was informed of the "same person" exception promulgated by the Treasury Department in 1936.275 In the 1950's, Congress actually considered enacting the affiliate exception into law in order to codify the current administrative policy.276 In 1984, Congress again took notice of the affiliate exception when enacting the Trademark Counterfeiting Act, but it

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270 *Id.* at 671.
271 *Id.*
272 *Id.*
273 *Id.* at 670 n.13 ("any extension of the protective authority of section 42 that *Katzel* established is limited to that scenario and, accordingly, is not applicable to the present case").
274 The conflicting decisions of courts reveal that the legislative history is not dispositive of the affiliate exception issue, regardless of whether a court has found the legislative history dispositive in its view. For example, while the D.C. Circuit in Coalition to Preserve the Integrity of American Trademarks v. United States, 790 F.2d 903 (1986), found that the legislative history clearly precluded an affiliate exception, on appeal the Supreme Court implicitly found that it did not. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). The *Weil* court has likewise found an absolute affiliate exception permissible in light of the legislative history of section 526(a) of the 1930 Tariff Act and section 42 of the Lanham Act. *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659 (3d Cir.), cert. denied, 493 U.S. 853 (1989). However, the *Vivitar* and *Olympus* courts found that the legislative history precluded an absolute affiliate exception, finding it permissible only as a codification of enforcement discretion. *See supra* notes 165-72 and accompanying text.
275 *Lever IV*, 981 F.2d 1330, 1335 (D.C. Cir. 1993) (citing *Hearing on H.R. 82 Before the Subcomm. of the Senate Comm. on Patents*, 78th Cong., 2d Sess. 86, 89 (1944)).
276 *See supra* notes 158-59 and accompanying text.
neither approved, nor condemned, the exception.\textsuperscript{277} Finally, over the past few years, Congress considered bills which would abolish the affiliate exception; however, Congress failed to enact any of them.\textsuperscript{278} Hence, whether or not Congress favors the affiliate exception is inconclusive, but it is evident that it has been unable to take a position on the issue.

Concerning the administrative practice, some courts have found a consistent application of the affiliate exception. In \textit{Olympus Corp. v. United States}, the Court of Appeals for the Second Circuit found that Customs has applied continuously the affiliate exception, or some form of it, since first promulgating an exception in 1956.\textsuperscript{279} In \textit{K Mart Corp. v. Cartier, Inc.}, Justice Brennan, joined by Justices Marshall and Stevens, also found consistent application of the exception.\textsuperscript{280} Irrespective of the printed changes in the regulations over the years, they found that Customs routinely excepted from section 42 coverage imports where the domestic and foreign trademark owners were affiliated or subject to common control.\textsuperscript{281}

Other courts, however, have found the administrative practice inconsistent at best.\textsuperscript{282} The discrepancy in determining the consistency of the administrative practice is illustrated by \textit{Olympus}. The \textit{Olympus} court expressly adopted the findings of fact in \textit{Vivitar Corp. v. United States} concerning Customs' administrative practice, yet reached a contrary conclusion.\textsuperscript{283} The \textit{Vivitar} court rejected the


[The Trademark Counterfeiting Act of 1984] does not include within its coverage so-called 'gray market' goods—i.e., authentic trademarked goods that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the treasury department has long interpreted section 526 of the Tariff Act of 1930, 19 U.S.C. 1526, to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control. See \textit{19 C.F.R. 133.21(C)}.\textsuperscript{278} See, e.g., 134 CONG. REC. S16095-02 (daily ed. Oct. 14, 1988) (comments by Senator Hatch on proposed Trademark Protection Act of 1988 to clarify trademark law in the wake of \textit{K Mart Corp. v. Cartier, Inc.}, 486 U.S. 281 (1988), and invalidate the affiliate exception); and 133 CONG. REC. S11892-01 (daily ed. Sept. 9, 1987) (comments by Senator Hatch on his proposed amendment to section 42 of the Lanham Act to overrule \textit{Olympus Corp. v. United States}, 792 F.2d 315 (2d Cir. 1986); \textit{Vivitar Corp. v. United States}, 761 F.2d 315 (Fed. Cir. 1985); \textit{Lever 1}, 652 F.Supp. 403 (D.D.C. 1987)). However, congressional action which was taken, i.e., the Trademark Law Revision Act of 1988, was specifically intended not to address the issue of gray market imports. See \textit{134 CONG. REC. S5864-02} (daily ed. May 13, 1988) (comments by Senator Deconcini).


\textsuperscript{280} \textit{K Mart Corp. v. Cartier, Inc.}, 486 U.S. 281, 309 (1988). \textit{See also supra} note 161.

\textsuperscript{281} \textit{Id.} at 311-12.


\textsuperscript{283} \textit{See supra} notes 169-72 and accompanying text.
lower court’s view that Customs had a “long standing administrative interpretation” of section 526(a), and consequently, section 42.\textsuperscript{284} The Court of Appeals for the D.C. Circuit also discredited Customs’ administrative practice even prior to its decision in Lever.\textsuperscript{285}

Since arguments on the issue of the affiliate exception’s validity were limited in Lever to the legislative history and administrative practice,\textsuperscript{286} the court of appeal’s present and limited ruling appears to be correct. However, the court’s present ruling directly affirms its previous tentative holding in this case in 1989 that section 133.21(c)(2) is inconsistent with section 42 of the Lanham Act.\textsuperscript{287} It is the court’s acceptance of its tentative holding that elicits criticism. The present ruling has now finalized what the court tentatively held in 1989: that section 133.21(c)(2) is invalid because of section 42 of the Lanham Act.

At first appearance, the court’s decision appears to follow the line of cases interpreting “copy and simulate” in light of the expansive territorial reading of the Bourjois cases. The court recognized that Lever possessed distinct goodwill in the United States which would be impaired by allowing the importation of goods from the United Kingdom. Hence the court found that use of the United Kingdom trademark in the United States would “copy” the United States trademark.\textsuperscript{288} One rationale for this holding is that consumers would be unable to tell, by recognizing the products’ trademarks, that the United Kingdom products were not marketed and backed by Lever, the accustomed distributor. This rationale, i.e., protection of a domestic trademark owner’s goodwill from confusion of sponsorship, is representative of cases like Osawa & Co. v. B. & H. Photo,\textsuperscript{289} In re Certain Alkaline Batteries,\textsuperscript{290} and Premier Dental Products Co. v. Darby Dental Supply Co.\textsuperscript{291} All of these cases attempt to protect the domestic trademark owner’s investment in promoting and developing its trademark from free riding by gray market importers.

A second rationale for the court’s decision in Lever is that consumers would be unable to tell, by recognizing the products’ trademarks, that the United Kingdom products materially differed from the United States products which consumers were accustomed to purchasing. This rationale, i.e., protection of a domestic trademark owner’s goodwill from confusion over the goods’ quality and nature, is representative of those section 32 gray market cases dealing with

\begin{footnotes}
\textsuperscript{284} Vivitar, 761 F.2d at 1568.
\textsuperscript{285} Coalition, 790 F.2d at 916.
\textsuperscript{286} Lever IV, 981 F.2d 1330, 1333-38 (D.C. Cir. 1993).
\textsuperscript{287} Lever II, 877 F.2d 101, 105 (D.C. Cir. 1989).
\textsuperscript{288} Id. at 111.
\textsuperscript{289} See supra notes 226-32 and accompanying text.
\textsuperscript{290} See supra notes 233-42 and accompanying text.
\textsuperscript{291} See supra notes 243-47 and accompanying text.
\end{footnotes}
gray market goods that differ materially: *Selchow & Righter Co. v. Goldex Co.*292 *Dial Corp. v. Encina Corp.*,293 *Original Appalachian Artworks, Inc. v. Granada Electronics*,294 and *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*295 All of these cases concern protection of the domestic trademark owner’s reputation for a certain standard of quality.

However, the support these cases provide for *Lever* may be illusory. Both the approach taken by the courts in these cases and their reliance upon a territoriality construction of *Katzel* and *Aldridge* raises doubt as to whether they were decided correctly as a matter of positive law,296 especially in light of the Supreme Court’s opinion in *K Mart Corp. v. Cartier, Inc.* First, these courts reached their decision based upon considerations other than a strictly literal interpretation of the plain meaning of “copy,” and hence, these cases may be procedurally deficient. In defining “copy,” these courts did not consider the specific relationship between the foreign and domestic trademark owners particularly relevant. Juxtaposed to these cases is the approach taken in *K Mart*, where the Court employed a very technical analysis in interpreting the plain meaning of section 526(a) of the Tariff Act of 1930. Rather than evaluate policy implications and discern legislative intent, six Justices interpreted the statutory language at issue by their own “common understanding.”297 They determined the reasonableness of section 133.21 (c)(2) as applied to three different relationships between the foreign and domestic trademark owners, solely on their understanding of the language of section 526(a).298 For *Lever* to stand on appeal, the Court would have to interpret section 42's “copy or simulate” to include more than just similar goods bearing counterfeit or spurious trademarks, but also genuine, albeit materially differing, gray market goods. This inclusion of genuine goods most likely contradicts the common understanding of gray market goods which “copy or simulate,”299 and such an interpretation is especially strained in view of the differences

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292 See * supra* notes 189-95 and accompanying text.
293 See * supra* notes 196-200 and accompanying text.
294 See * supra* notes 201-11 and accompanying text.
295 See * supra* notes 212-21 and accompanying text.
296 Recall that this Note does not attempt to explore the merits of policy arguments concerning gray market imports. See * supra* note 19.
297 The six Justices simply judged whether the words “owned by” were in their opinion sufficiently ambiguous so as to admit an affiliate exception. See * supra* note 180 and accompanying text.
298 See * supra* notes 176-81 and accompanying text.
299 The common understanding of “copy or simulate” encompasses the proposition that a thing cannot copy itself. *In re Certain Alkaline Batteries, 225 U.S.P.Q. 823, 244 (ITC), disapproved by 225 U.S.P.Q. 862 (Pres U.S.) appeal dismissed, Duracell v. ITC, 778 F.2d 1578 (Fed. Cir. 1985); Hearings Before a SubComm. of the Comm. on Patents on H.R. 82, 78th Cong., 2d Sess. 87 (1944) (interpreting Customs regulations implementing section 27’s “copy or simulate” language to be inapplicable to section 526(a), dealing with identical trademarks, since a trademark cannot copy itself).*
of opinion as to the validity of territoriality. If the Court were to employ a technical analysis of section 42 without regard for policy considerations, as it did in *K Mart*, the likely result would be reversal.

Furthermore, not only does the Court's failure in *K Mart* to address legislative intent and trademark theories suggest that *Lever* and its supporting cases have taken the wrong approach, but the Court's explicit categorization of different gray market cases based upon the relationship between the foreign and domestic trademark owners suggests that this relationship and its ramifications are the more pertinent inquiry. Analyzing these cases supporting *Lever* under the categorical approach exemplified in *K Mart* significantly undermines their support. *Lever*'s reliance upon *Dial, Appalachian Artworks*, and *Nestle* dissipates, for all are Case 3 scenarios. Support for *Lever* from *Goldex* and *Darby Dental* also fails, for both are Case 1 prototypical gray market situations. In fact, there are only two cases which support *Lever: Osawa* (Case 2a) and *In re Certain Alkaline Batteries* (Case 2b). Conversely, the cases supporting the universal theory discussed in this Note are all Case 2a situations and support the overruling of *Lever*, also a Case 2a situation. These cases include *Parfums Stern, Inc. v. United States, Olympus Corp. v. United States, NEC Electronics v. CAL Circuit Abco*, and *Weil Ceramics and Glass, Inc. v. Dash*.304

Second, the courts in all of the above cases supporting *Lever* viewed *Katzel* and *Aldridge* as establishing broad principles of territoriality, an interpretation refuted by the Justices in *K Mart* who actually considered the *Bourjois* rulings; hence, these cases may be substantively erroneous as well as procedurally flawed. While a majority of the *K Mart* Court did not address the *Bourjois* cases, Justice Brennan, joined by Justices Marshall and Stevens, found that these two cases should be limited to where the foreign and domestic trademark owners are independent, i.e., Case 1 instances. In attempting to discern the underlying intent behind section 526(a), Justice  

300 In each of these cases, the gray market good was manufactured by a licensee of the registered trademark owner, or one of its affiliates.
301 In both *Goldex* and *Darby Dental*, the plaintiff purchased, at arm’s length, the right to be the exclusive trademark registrant in the United States from an unaffiliated foreign trademark owner, as did *Bourjois* in *Katzel* and *Aldridge*.
302 *Osawa* represents a Case 2a situation because the domestic trademark owner is a subsidiary of the foreign trademark owner. *In re Certain Alkaline Batteries* is a Case 2b situation because the Belgian corporation which manufactures Duracell batteries is owned by Duracell, Inc.
303 *Lever* presents a Case 2a situation because *Lever* is a subsidiary of a subsidiary of Unilever N.V., the corporate grandparent of the foreign manufacturer, *Lever* UK.
304 In all of these cases, the plaintiff could be deemed a subsidiary of the foreign trademark owner manufacturing the gray market imports.
305 See supra notes 187-247 and accompanying text.
Brennan examined the equities in *Katzel*, the case that spawned section 526(a), because there was little legislative history behind the enactment of the section. He concluded that Congress' sole goal was to overrule the Second Circuit's decision in *Katzel*. Specifically, Justice Brennan concluded that Congress sought to protect American investments in the goodwill of trademarks, purchased by American companies from independent foreign firms, by protecting the trademarks from gray market imports. He found that such a goal was consistent with the Congressional intent, "characteristic of the times, to protect only domestic interests." But Justice Brennan found the equities in a Case 2 situation (such as *Lever*) did not warrant such extreme protective measures. He noted that the "firm and its foreign affiliate . . . can respond with a panoply of options that are unavailable to the independent purchaser of a foreign trademark," like the plaintiffs in *Katzel* and *Aldridge*.

If Justice Brennan is correct that *Katzel* represents an exception to universalism, then section 42 of the Lanham Act should not afford greater trademark protection than section 526(a) of the Tariff Act. Under the prevailing view of trademark law prior to *Katzel*, as found in *Fred Gretsch Manufacturing Co. v. Schoening*, section 27 of the Trademark Law of 1905 did not prohibit gray market imports. If the Court's decision in *Katzel* and *Aldridge* did not replace universalism with territoriality, then the incorporation of *Katzel* into section 27 by *Aldridge* would not prohibit gray market imports except in *Katzel* situations. Consequently, section 42, the predecessor of section 27, would also not prohibit gray market imports except in *Katzel* situ-

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307 Not only did Congress pass section 526(a) as a "midnight amendment," giving it only ten minutes of debate upon the floor, but it was enacted as part of a tariff statute and not as part of a trademark statute. *K Mart*, 484 U.S. at 303. Justice Brennan pointed out that if Congress had not intended solely to overrule the Second Circuit's decision in *Katzel*, then surely it would have devoted more attention to such a sweeping change in trademark law. *Id.*

308 *Id.* at 304.

309 *Id.*

310 *Id.* at 297.

311 *Id.* at 301-02.

312 *Id.* at 302.

313 See supra notes 115-23 and accompanying text.

314 *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 670 n.13 (3d Cir.), cert. denied, 493 U.S. 853 (1989). While the court acknowledged the strength of this argument, it declined to take a position. Finding *Katzel* limited to facts not found in *Weil*, the court decided not to explore the effects of *Katzel* upon section 42 and section 526(a). *Id.* See also *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1510 n.4 (9th Cir.) (finding its holding, that there is no violation of section 42 by gray market imports, consistent with the Supreme Court's holding in *K Mart*, that there is no violation of section 526(a) by gray market goods in Case 2a situations; and expressing its view that "foreign producers will not be able to accomplish under trademark law what they cannot do under the Tariff Act"), cert. denied, 484 U.S. 851 (1987). Cf. *Vivitar Corp. v. United States*, 761 F.2d 1552, 1563 (Fed. Cir. 1985) (finding section 42, but not section 526(a), limited to infringement
tions, and trademark registrants would fare no better in obtaining an injunction under section 42 than under section 526(a).

B. Implications

After Lever, the next logical step for trademark owners will be to relitigate trademark protection against importation of gray market goods whose material differences are of a de minimis nature. Because of the difficulty in determining material differences, the degree of evidence required to show material differences is extremely low. Accordingly, almost every domestic trademark owner will be able to distinguish his goods from the gray market goods with little or no difficulty, bringing the goods under the trademark protection afforded by Lever. Even without this “slippery slope” phenomenon, there is ammunition in Lever for domestic trademark registrants to attack the current position of allowing importation of indistinguishable gray market goods. The ban on indistinguishable gray market goods is supported by the second objective found in Lever: the protection of the trademark owners’ goodwill, as defined under the territoriality theory of trademarks. Under such a theory, goodwill can be impaired not only by confusion as to the nature and quality of the goods, but also as to sponsorship of the goods. The fact that the affiliate exception is inapplicable to cases of confusion as to the nature and quality of the goods supports the proposition that the exception would be inapplicable to cases of confusion over sponsorship.

V. Conclusion

The Court of Appeals for the District of Columbia Circuit invalidated Customs’ regulation section 133.21(c)(2), the “affiliate exception,” under section 42 of the Lanham Act when applied to cases of materially differing but genuine gray market goods. The ruling represents a huge victory for registered trademark owners in the United states, and thus, section 526(a) encompassing the protection afforded by section 42), cert. denied, 474 U.S. 1055 (1986).

315 Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633, 644 (1st Cir. 1992) (finding a low threshold of materiality, i.e., any differences a consumer would deem relevant when making a purchase).


317 See Nestle, 982 F.2d at 639 n.7 (“We think the appropriate test should not be strictly limited to physical differences. Other sorts of differences—differences in, say, warranty protection or service commitments—may well render products non-identical in the relevant Lanham Trade-Mark Act sense”); see also Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68, 73 (2d Cir. 1986), cert. denied, 484 U.S. 847 (1987), and Osawa & Co. v. B. & H. Photo, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984).
for it eventually will force Customs to prohibit, at the 
trademark registrants' request, the importation of all goods bearing 
their trademarks, regardless of who manufactured the goods, if the 
goods differ materially. \textsuperscript{319}

Currently, the D.C. Circuit Court of Appeals is the only circuit 
to have addressed the issue of the affiliate exception for materially 
different gray market goods under section 42 and found the exception 
invalid. Many courts have determined gray market goods can 
 infringe the registered trademark owner's rights, but the majority of 
the cases fall into either the Case 1 or Case 3 scenarios, \textsuperscript{320} as established in \textit{K Mart Corp. v. Cartier, Inc.}, \textsuperscript{321} while a minority fall into the 
Case 2 scenarios. \textsuperscript{322} Many courts, notably the Third and Ninth Circuits, have found that genuine gray market goods cannot violate section 42 in Case 2a situations. \textsuperscript{323} \textit{Lever Brothers Corp. v. United States} presents a Case 2a situation. Hence, there is an emerging conflict between the circuits as to whether and when genuine gray market goods can "copy or simulate" the corresponding domestic goods under section 42 of the Lanham Act.

Based upon the Supreme Court's decision in \textit{K Mart}, Lever 
should be overruled. First, whereas the D.C. Circuit Court of Appeals analyzed the policy justifications for disallowing the affiliate exception, the Supreme Court favored a technical analysis of the statutory language to determine whether there was sufficient ambiguity to allow an affiliate exception. \textsuperscript{324} Furthermore, even if policy matters should be considered, the D.C. Circuit Court failed to acknowledge recent unsuccessful attempts in Congress to overrule Customs' regulations, \textsuperscript{325} possibly representing congressional approval of Customs' regulations. \textsuperscript{326} Second, whereas the Court of Appeals for the D.C. Circuit determined the meaning of "copy or simulate" without regard to the affiliate relation, the Supreme Court's categorical approach emphasized a reliance on such a relationship. Application of the \textit{K Mart} Court's analysis to the cases


\textsuperscript{319} Customs informed trademark owners on June 26, 1992, 57 Fed. Reg. 28605 (1992), that they must advise it if they believe they have trademarks which would now prohib imports because of the invalidation of section 133.21(c)(2) in \textit{Lever IV}. Even though the Court of Appeals for the D.C. Circuit limited the injunction to cases involving the British Shield and Sunlight products, see supra note 90, national relief is only a summary judgment away.

\textsuperscript{320} See supra notes 300-01 and accompanying text.

\textsuperscript{321} See supra notes 176-78 and accompanying text.

\textsuperscript{322} See supra note 302 and accompanying text.

\textsuperscript{323} See supra notes 262-273 and accompanying text.

\textsuperscript{324} See supra notes 177-81 and accompanying text.

\textsuperscript{325} See supra notes 277-78 and accompanying text.

\textsuperscript{326} See, \textit{e.g.}, Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (finding Congressional acquiescence in notice and failure to act), \textit{cert. denied}, 486 U.S. 1042 (1988).
seemingly supporting Lever reveals that only two cases actually provided support, *Osawa* and *In re Certain Alkaline Batteries*, as they fall in the same category as *Lever*; on the other hand, a majority of cases falling in *Lever*'s category support an opposite result. Finally, if *Katzel* is viewed as an exception to universalism rather than an adoption of territoriality, then domestic trademark owners should not be able to obtain injunctions against importing gray market goods under section 42 of the Lanham Act if they cannot obtain them under 526(a) of the Tariff Law of 1930. Support for universalism, subject to Case 1 exceptions, is found in Justice Brennan's opinion in *K Mart*, which was joined by Justices Stevens and Marshall.

In essence, because the *K Mart* Court failed to address the validity of the affiliate exception against a section 42 challenge, and because a majority of the *K Mart* Court failed to address the underlying principles of trademark law bearing upon the interpretations of section 526(a) and the affiliate exception, federal statutory trademark law remains uncertain. In the wake of such uncertainty, the D.C. Circuit Court of Appeal's decision in *Lever* represents an expansion of trademark law with uncertain limits.

C. Dustin Tillman

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327 Both *Osawa* and *In re Certain Alkaline Batteries* are Case 2a situations. See supra note 228 and accompanying text, and notes 235-37 and accompanying text, respectively.

328 See supra note 305-04 and accompanying text.

329 See supra notes 313-14 and accompanying text.

330 *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 295 (1988); see also supra notes 306-12 and accompanying text.

331 William H. Allen, the attorney who argued *K Mart* for the respondents in the Supreme Court, believes the Court should have addressed the affiliate exception since, by its own terms, section 133.21 implemented not only section 526(a) of the Tariff Act, but also section 42 of the Lanham Act. William H. Allen, *The Supreme Court's Gray-Market Decision*, 70 J. PAT. & TRADEMARK OFF. SOC'Y 688, 690 (1988).