NEED FOR CONSISTENCY IN DOMESTIC AND INTERNATIONAL POLICIES WITH RESPECT TO ISSUES CONCERNING GRAY MARKET SALES AND PROTECTION FOR TRADEMARK OWNERS

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I. INTRODUCTION

A number of changes to U.S. intellectual property law has been implemented to ensure proper protection for trademark owners, to bring the law into line with that of other industrialized nations, and to reflect the needs of harmonization and uniformity of international trademark laws. Section 526 of the Tariff Act of 1930, however, does not appear to adhere to that of principle.

The section 526 provides protection to U.S. trademark owned by domestic corporations and citizens of the U.S. in favor of foreign entities. The plain language of Section 526 awards the U.S. trademark owner (not necessarily the U.S. *domestic* trademark owner) absolute right to prohibit all imports bearing its trademark[1]. Customs regulations enacted under section 526 of the Tariff Act of 1930 provide protection against gray market goods importation to independent U.S. trademark owners. The regulations deny such protection to U.S. trademark holder if the trademark holder is owned or controlled by the same corporation that owns the foreign trademark.[2]

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[1]. see K-Mart Corp. v. Cartier Inc., 486 U.S. 281, 295 (1988)(Section 526 of the Tariff Act of 1930... provides extraordinary protection to certain holders of trademarks registered in the United States. A U.S. trademark holder covered by Section 526 can prohibit or condition all importation of merchandise bearing its trademark thereby gaining a virtual monopoly, free from intra-brand competition, on domestic distribution of any merchandise bearing the trademark.)

[2]. See generally 19 CFR sections 132.21(a)(b)(c)(1991)

"Gray market" of genuine goods refers to fact pattern in which someone other than the designated exclusive United States importer buys genuine trademarked goods outside the U.S. and imports them for sale in the U.S. in competition with the exclusive U.S. trademark owner[3]

Legislative intent remains unclear to the present day[4] and the controversy over section 526 on the administrative and judicial interpretation continues. Inconsistent administrative interpretation of section 526 has resulted in a flood in the American market of unauthorized imports threatening the goodwill[5]

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[3]. McCarthy, 3 McCarthy On Trademarks and Unfair Competition, Section 29.18 (1992); see also K Mart Corp. v. Cartier Inc. 486 U.S. 281, 286-287 (1988)(Gray market goods are genuine products possessing a brand name protected by a trademark or copyright. They are typically manufactured abroad, and purchased and imported into the U.S. by third parties, thereby passing the unauthorized U.S. distribution channels); Yamaha Corp. of America v. United States, 961 F.2d 245 n 2 (DC Cir. 1992) ("Genuine goods are goods that are in fact manufactured by the same manufacture that supplies the U.S. trademark holder... They are the genuine article); see also Restatement (Third) of Unfair Competition Section 24, comment e (1993) ("gray market goods are "goods produced abroad under a trademark that properly identifies the source of the goods in the country of origin, but which are subsequently marketed in this country without the consent of the owner of the trademark in the U.S.")

[4]. Comment, Attention Gray Market Shopper: K Mart Corp v. Cartier, Inc. Failure to Clarify the Clouded Area of Gray Market Goods, 38 Catholic University Law Review 933, 942 (Summer 1989)

[5]. In re of Browne, 242 NY 1, 6 (1926) Judge Cardozo defined goodwill as "a reasonable expectancy of preference in the race of competition... Such expectancy may come from succession in place of name or otherwise to a business that has won the favor of its customers".; See 1 H. Nims The Law of Unfair Competition and Trademarks section 13 at 78" Regardless of the perspective from which it is viewed, "goodwill is property; "This basic premise that unfair competition laws should protect the benefits of goodwill is embedded in the trademark laws" In re Certain Alkaline Batteries, No.1 337- TA-165, U.S.I.T.C. pub. 1616, at 17 (I.T.C. 1984)

meaning of a statute must be conclusive.[23] Thus, it would be safe to conclude that the language of the statute does not reasonably admit of any special limitation based upon foreign ownership of an American company.

The legislative history indicates that Congress merely intended to stop fraud or breach of contract by the foreign trademark owner against the U.S. assignee. Having reviewed that, Congress never defined who would qualify as a U.S. company[24]. In the absence of such a definition, a U.S. company should not be treated as foreign merely because it is foreign-owned or -controlled[25]. Accordingly, in terms of the statutory language, which speaks generally of America owners of trademark, it seems inappropriate to conclude that the America subsidiary of a foreign company is less an American company when the goods it seeks to exclude are those of its parent, brought in by a competitor from aboard, than when the excluded goods are those of an unrelated company [26].

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23. The plain meaning of the words Congress has selected is ordinarily conclusive of the scope of a statute. U.S. v. Clark _ U.S.-, 102 S.Ct. 805, 809 (1982); see Consumer Product Safety Comm'n v. G.T.E. Sylvania, Inc. 447 U.S. 102, 108(1980)

24. See 62 CONG REC. 11,602, 11,602-05 (1922)

25. Bell & Howell, 548 F. Supp. 1063, 1076 (EDNY 1982); But also see Yamaha Corp. of America v. U.S. 961 F.2d 245 (DC Cir. 1992) (the court held that Yamaha-America is not treated differently under the regulation solely because is a wholly owned subsidiary of a foreign corporation)

26. See Coty Inc. v. Le Blume Import Co. 292 F. 264 (S.D.N.Y), affirming 293 F. 344 (2d Cir. 1923) (Judge Hand denied the motion of Coty In.c to dismiss a suit by Le Blume Import seeking to compel Coty Inc. to withdraw the Section 526 notice to

2. ADMINISTRATIVE INTERPRETATION

In order to resolve the ambiguity inherent in Section 526, Customs issued a series of regulations in an attempt to interpret the meaning and scope of Section 526[27]. The first regulations promulgated by Customs following the enactment of section 526 in 1923 did not contain any indication of the agency's interpretation, *per se* [28]. In 1931, however, Customs issued regulations in conjunction with the 1930 reenactment of section 526 prohibiting the importation of all imported merchandise bearing a trademark which has been properly registered by the holder of a domestic mark.[29]

In 1936, Customs changed the regulation by deleting reference

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the Collector of the port of New York to deny entry to two parcels of Le Blume's allegedly infringing scents. He explained the denial on the ground that section 526 "was not meant to prevent a person aggrieved by a trademark owner...)

27. Congress authorized the Customs Service, as an agency of the Department of Treasury, to interpret and enforce any Federal Act governing tariff and trademark law. 19 U.S.C. Section 1624

28. Customs Regulations of 1923, Art. 475-80 (superseded 1930). " Trademarks owned by an American citizen... are entitled to the protection of section 526... if the mark has been registered Id. 476; see Vivitar Corp. v. United States, 593 F. Supp. 420, 428-29(C.I.T. 1984), affirmed, 761 F.2d 1552, 1556 (Fed. Cir. 1985), cert. denied 74 US 1055 (1986)

29. Customs Regulations of 1931, Article 518(a)(superseded 1936) provides:

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

Guerlain[33]. Customs changed its regulations, redefining the related company exception first expressed in 1953.[34]

Finally, based upon the finding of the court in the *K Mart* that section 133.21(c)(3) of the Customs regulations was not a proper interpretation of the Tariff Act, the Customs Service deleted this section of the regulation[35], which created an exception for an "authorized use" relationship.[36] Although the

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33. United States v. Guerlain Inc. 155 F. Supp 77, (SDNY 1957), prob juris noted sub nom Lanvin Perfumes, Inc. v. United Sates, 355 US 937 (1958), cert denied 357 US 915(1958), vacated sub nom Guerlain Inc. v. United Sates, 358 US 915 (1958), dismissed 172 F. Supp 107 (SDNY 1959)

34. See 19 C.F.R. Section 133.21(a),(b),(c)(1)-(3)(1985)

35. 55 Fed. Reg. 52040 (Dec. 18, 1990), reprinted in 41 BNA PTCJ 215

36. 19 CFR Section 133.21 (1991):
Restriction on importation of articles bearing recorded trademarks and trade names.
(a) Copying or simulating marks or names. Articles of foreign or domestic manufacture bearing a mark or name copying or simulating a recorded trademark or trade name shall e denied entry and are subject to forfeiture a 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 importation.

(c) Restriction not applicable: The restrictions set forth in paragraphs(a) and (b) of this section do not apply to imported articles when:
(1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
(2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject of common ownership or control (see 19 CFR Sections 133.2(d)

Supreme Court in *K-Mart* held that the Customs Service regulation is consistent with section 526 insofar as it exempts from the importation ban goods that are manufactured abroad by the same person who holds the U.S. trademark or by a person who is subject to common control with the U.S. trademark holder[37], this regulation continues to be the subject of much attention[38].

In other words, Customs allowed the importation of genuine goods from 1923 to 1936 and from 1959 to 1972, despite a relationship between the U.S. trademark owner and the foreign manufacturer, but prohibited importation during the years 1936 to

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[defining "common ownership and common control"] and 133.12(d) [providing that an application to record trademark must report identity of any affiliate that uses same trade name abroad](1991) (3) deleted Ibid;

37. K mark Corp. v. Cartier. Inc. 486 US at 300

38. In Yamaha Corp. of America v. United States, 961 F 2d 245, (DC Cir. 1992), the court followed the Supreme Court's lead in K Mart v. Cartier and upheld the section 133.21(c)(2) "affiliate exception" as a valid interpretation of section 526 of the Tariff Act of 1930. However, in June 1992, the Customs Service issued a notice in which it suspended section 133.21(c)(2)for all foreign-made goods deemed materially different from domestic goods bearing the same trademark. See 57 Fed Reg 28,605(1992)(to be codified at 19 CFR pt 133 (proposed June 26, 1992))

Customs issued the notice in response to an amended order in Lever Brothers Co. v. United States, 652 F Supp 403 (DCDC 1987), reversed 877 F.2d 101 (DC Cir. 1989), cert denied 481 US 1069(1987_ in which the United States District Court for the District of Colombia enjoined Customs from enforcing the exception in cases involving gray goods materially different from their authorized counterpart. Lever Brothers Co v. United States, 796 F Supp 1 (DCDC 1992)(order granting injunction)

DC Court of Appeals recently affirmed the District Court's ruling, while at the same time, remanding the order to limit the scope of the injunction granted Lever Brothers Co v. United States, 981 F.2d 1330 (DC Cir. 1993)

1953 and from 1972 to the present. As the interpretation by the Customs Service has been consistently inconsistent, it should not be given any deference by the courts.[39]

3. JUDICIAL INTERPRETATION

After the *Katzel*, the *Guerlain* court recognized that the language in section 526 did not require a reading restricting trademark protection to independent U.S. trademark owners.[40] Guerlain involved a suit brought by the government against three United States distributors of French perfume. The three distributors had filed certificates of registration with Customs and the Treasury to prevent competitive importation of products bearing the French trademarks without their consent pursuant to Section 526. The government claimed that the distributors had violated Section 2 and 4 of the Sherman Act[41] The court held that

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39. Cf. see K Mart (Customs service is entitled to "substantial deference"); But also see post-K Mart case Lever Brothers v. U.S. 796 F. Supp 1 (DCDC 1992), affirmed in this respect 981 F. 2d 1330 (DC Cir. 1993) (The variation in Custom's position over time is the sort of erratic administrative practice that deprives the agency interpretation of substantive weight... the administrative practice of the Customs Service is at best inconsistent and cannot be regarded as persuasive authority for the purpose of construing a statue that is otherwise unambiguous)

40. Guerlain, supra note 33, at 80.

41. 15 U.S.C. Sections 2 and 4 (1982). Section 2 prohibits the monopolization or the attempt to monopolized trade. Section 4 grants federal jurisdiction over Section 2 cases. Ibid.; but see K Mart Corp. v. Cartier, supra, at Justice Brennan declared, " A U.S. trademark holder covered by Section 526 can prohibit or condition all importation of merchandise bearing its trademark, thereby gaining a virtual monopoly, free from intra-brand competition, on domestic distribution of any merchandise bearing

itself.[44] The plurality drew the line between lawful and unlawful gray market imports finding that the regulations are valid insofar as they permitted the importation of gray goods where the U.S. trademark owner had authorized an unaffiliated company to use the mark overseas[45]. Apparently the Supreme Court failed to provide an adequate guideline on the scope of the statute because after the K-Mart, different circuits still wrestle with plain meaning of section 526 of the Tariff Act of 1930[46]. The Fifth Circuit, for instance, attempted to give a broad definition of one of the exception "common control" a new meaning.[47]

In summation, judicial interpretation on the scope of protection accorded to trademark owners under the statute lacks

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44. McCarthy, McCarthy on Trademark and Unfair Competition section 29.19 (1992)

45. Ibid.

46. Ferrero U.S. A. Inc. v. Ozak Trading Inc. 753 F. Supp 1240 (DCNJ 1991) affirmed without opinion 935 F.2d 1281 (3rd Cir. 1991); U.S. v. Eighty Three Rolex Watches 992 F.2d 508 (5th Cir. 1993), cert. denied sub nom Sam's Wholesale Club v. United States 62 Law Week 3372 (1993). (the mere fact that the trademark owner is a corporation owned by foreign interests does not disqualify it from protection under section 526 if the foreign owner of the corporation is not the owner of a corresponding trademark within the terms of these regulation. "Nothing in this case law, legislative or regulatory history suggests that an American company under foreign ownership may not avail itself of section 526 protection" Id.

47. See U.S. v. Eighty three Rolex Watches 992 F.2d 508 (5th Cir. 1993) cert. denied sub nom Sam's Wholesale Club v. United States, 62 Law Week 3372 (1993) (the court held that close and profitable business relations between domestic trademark owner and foreign trademark owner did not establish that owners were subject to "common control" and these gray market watches imported without domestic trademark owner's permission were subject to forfeiture; common control had to be determine based on ownership structure, regardless of practical realities of business enterprise.

National treatment is the predominant theme in both the Paris and Pan-American Union.[51] In each member country, the nationals of all others, as well as all persons domiciled or having industrial or commercial establishment in any of the member national are entitled to the same protection, advantages, rights and remedies that are available to the nationals of that country.[52]

1. Paris Convention

The Paris Convention is series of conventions and revisions, each of which the U.S. has ratified[53]. The fundamental purpose of the convention is to provide a fair means of protection of industrial property in nations where the owner of such property is not a national. Under the article 1(2) of the Paris Convention, the industrial property includes patents, utility models, industrial design, trademarks, service marks, trade names, indication of source or appellation of origin and the repression of unfair competition. Pursuant to Article 27(3), the Convention

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51. See Callmann, 4A Callmann on Unfair Competition, Trademarks and Monoploid Section 26.09 (1990)

52. Vanity Fair Mills Inc. v. T. Eaton Co., Ltd., 234 F.2d 633 (2d. Cir. 1956), cert. denied. 352 U.S. 871 (1956)

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Year	Place	U.S. Ratification	Source
1883	Paris	Mar. 29, 1887	25 Stat. 1372 (1887)
1900	Brussels	April 16, 1901	32 Stat. 1936 (1901)
1921	D.C.	June 2, 1921	38 Stat. 1945 (1921)
1925	The Hague	Dec. 27, 1930	47 Stat. 1789 (1931)
1934	London	June 27, 1935	53 Stat. 1748 (1939)
1958	Lisbon	Aug. 29, 1960	13 U.S.T.1 (1958)
1967	Stockholm	May 8, 1973	24 U.S.T.2140 (1973)

Four revision conferences were held in the 1980s: three in Geneva 1980, 1982, 1984 and one in Nairobi in 1981. These more recent conferences did not result in agreement on revisions.

creates a unions among the contracting parties, with each party agreeing to adhere to the convention in its treatment of nationals of the Union members.

The principle of national treatment is embodied in Article 2 of the Convention as such:

> Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all other countries of the Union the advantages that their respective law now grant, or may, hereafter grant to, nations... Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights provided that the condition and formalities imposed upon nationals are complied with.[54]

The advantages that the nationals of one member country are to be accorded are merely the application of the host country's industrial property laws including trademark laws free from discrimination based on nationality.[55] By virtue of Article 3, the national protection extends to persons domiciled or having a real and effective industrial establishment in the member country.[56]

2. Pan-American Convention

Pan-American Convention is a multilateral regional treaty with several Latin-American nations. [57] The Pan-American Convention

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54. Paris Convention Article 2(1)

55. See G. BODENHAUSEN, at 29. Corporate bodies may be considered nationals of the county in which they are incorporated, but will be labeled of one nationality or anther according to the domestic laws of the county applying the Convention. Id at 27-28.

56. Paris Convention Article 3

57. There are three versions dated 1910 39 Stat. 1675; 1923 44 Stat. 2492; and 1929 46 Stat. 2907

relied heavily upon and was modeled after the Paris Convention. Article 1 contains the national treatment clause:

> The contracting States bind themselves to grant to the nationals of the other contracting states and to domiciled foreigner who own a manufacturing or commercial establishments... the same rights and remedies which their laws extend to their own nationals or domiciled persons with respect to trademarks, trade names and the repression of unfair competition as false indication of geographical origin or source

This article defines the scope of protection including the persons protected and the areas of law over which protection extends national treatment protection.

United States has also entered into bilateral treaties providing for the reciprocal treatment of persons with rights in trademarks[58].

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[58]. Such treaties are in force with the following nations:

China	1948	63 Stat. 1299
Ethiopia	1953	4 UST 2134
Germany	1956	TIAS 3593
Greece	1954	5 UST 1829
Ireland	1950	1 UST 785
Israel	1954	5 UST 550
Italy	1949	63 Stat. 2255
Japan	1953	4 UST 2063

The Treaty of Friendship provides favored nation treatment with respect to obtaining and maintaining patents of invention and rights in trademarks, trade names, trade labels and industrial properties of every kind. Evidently, Article 12(3) states inter alia, as follows:

> Companies constituted under the applicable laws and regulations within the territories of either Party shall be deemed companies thereof and shall have their judicial status recognized within the territories of the other Party.

See a judicial interpretation of the convention in Toho Co. v.

C. SELF-EXECUTING TREATIES

In the U.S. the provisions of a treaty are not binding as domestic law unless the treaty is either self-executing or implemented by Congress.[59] Self execution is "equivalent to an act of the legislature whenever it operates of itself, without the aid of any legislative provision."[60] In that event, they require no special legislative implementation to give them effect.

Following the ratification of each of the trademark conventions by the United States, there was some controversy over whether the conventions were self-executing thus binding in domestic law. The question was particularly an issue with regard to the Paris Convention. In 1889, the Attorney General of the United States expressed the opinion that the Convention is not self-executing[61]. The courts have accorded the Attorney General's

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Sears, Roebuck & Co. 645 F.2d 788 (9th Cir. 1981) (the court held that the US-Japan bilateral Treaty of Friendship requires only that Japanese companies be treated as favorable as domestic companies, thus, giving a Japanese company a forum in the federal courts of the U.S. to pursue state law claim of infringement

59. Foster v. Neilson, 27 U.S. 164 (1829). Chief Justice Marshall wrote:

> Our Constitution declares a treaty to be the law of the land. It is, consequently, to be regarded in courts of justice as equivalent to an act of the legislature, whenever it operates of itself, without the aid of any legislative provision. But when the terms of the stipulation imports a contract- when either of the parties engages to perform a particular act, the treaty addresses itself to the political, not the judicial department; and the legislature must execute the contract, before it can become a rule for the court. Id. at 202

60. Foster 27 US (2 Pet) at 253

61. Caveats for Patent for Inventors, Opinion of Attorney General Miller, 19 Op. Attorney Gen. 273 (1889)(Article 2 of the Paris Convention is a contract operative in the future infra

Assuming arguendo they are not self-executing, this issue became moot when Congress enacted section 44 of the Lanham Act[65] seeking to implement the commitments of our country under the international conventions for the protection of industrial property[66]. It expressly grants nationals of member nations equal protection against unfair competition and violation of trademark rights. It so improved the position of foreign applicants for trademark registration that Section 44 (i) expressly provides that citizens or residents of the United States shall have the same benefits as are granted to foreigners.

The legislative history denotes Congress' intent in enactment

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Well Fargo Bank, 1 USPQ 1813 (Fed. Cir. 1987)(the court held that substantial authority exists for the proposition that the Paris Convention is self-executing.)

65. Lanham Act Section 44, 15 U.S.C Section 1126 (1982)

66. 15 U.S.C. Section 1126 (b) (1982). The section provides:

> Any person whose country of origin is a party to any convention or treaty relating to trade-marks, trade or commercial names, or the repression of unfair competition, to which the United States is also a party, or extends reciprocal rights to nationals of the United States by law, shall be entitled to the benefits of this section under the conditions expressed herein to the extend necessary to give effect to any provision of such conventions, treaty or reciprocal law, in addition to the rights to which any owner of a mark is otherwise entitled by this chapter.

Id. When originally enacted, the section referred specifically to the Paris Convention and the Pan-American convention, but Congress amended it in 1962 in order to make it more comprehensive. Pub. L. No. 87-772, 76 Stat. 774 (codified as amended at 15 U.S.C. Section 1126 (1982)). See S. REP. NO. 2107, 87th Cong., 2d Sess. 2, reprinted in 1962 U.S. CODE CONG. & AD. NEWS 2844, 2851 of Section 44 of the Lanham Act. Congress envisioned at least three purposes when it enacted section 44 of the Lanham: 1)it wanted to end all doubt as to the status of the treaties; 2)it expressed its support for executing completely the provisions of the treaties, including the national treatment provisions: 3) Congress encouraged foreign cosignatories of the treaties to enforce their own national treatment obligations in order to protect U.S. industrial property owners from discrimination by other governments.[67]

It would appear that it could urge other countries to enforce the provisions only if the United States openly supported them itself. Congress, by implementing the Convention, undeniably, made them part of "the law of the land"[68]

D. ANALYSIS

Section 526 of the Tariff Act is an instrument that provides "extraordinary" protection to <u>certain</u> holders of trademark registered in the United States. The Custom regulations sections 133.21(a), in attempt to interpret of the statute, give a discriminatory treatment to U.S. trademark owners of foreign entities. There can be no doubt that one of the interests sought to be protected by the registration of a trademark is the U.S.

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[67]. S. Rep. No. 1333, 79th Cong., 2d Sess. 4-5, reprinted in 1946 U.S. CODE CONG. & AD. News 1274, 1276

[68]. See U. S. constitution Article III Clause 2; see also Vanity Fair Mills, Inc. v. T. Eaton Co. Ltd., 234 F.2d 633 (2d Cir. 1956); John LeCroy & Son, Inc. v. Langis Foods, Ltd., 376 F. Supp. 962 (DCDC 1974)

trademark owner's investment of energy, time and money in developing the goodwill and public recognition of its trademark. Pursuant to Lanham Act Section 44, an "equal treatment" is provided in comport with the international treaties with respect to act of unfair competition.

On the other hand, in enforcement of infringement activities with respect to parallel importation of gray market goods, the foreign manufacturer-trademark owner could not invoke the protection provided under section 526 of the Tariff and Custom regulations because Tariff Act requires that the trademark be "owned by a citizen of, or by a corporation or association created or organized within, the United States"[69] .

Having established that, it is unquestionably unfair to consider United States companies and their foreign affiliates as indivisible single entities for purposes of trademark law, thus, discriminatory treatment under the law of antitrust(??). This view not only ignores the fact that each company is separately subject to the jurisdiction of differing foreign laws but also glosses over the investments incurred by the individual domestic companies in developing their market shares.

This approach adheres more closely to the universality theory[70] of trademark principles which is inappropriate for today's

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69. 19 U.S.C. Section 1526(a)

70. See "In International Trade, a Trademark symbolizes the geographically distinct goodwill of the domestic owner of the mark" The Gray Market Case: Trademark Rights v. Consumer Intent, 61 Notre Dame Law Review 838 (1986)

infringement was irrelevant to invoke this extraordinary protectionist measure. Evidence of infringement as a prerequisite to protection under Section 526 was never discussed in Congress during the debate[77].

> Bearing in mind that the Second Circuit's decisions, particularly the Gretsch and Apollonaris cases, had declared that a manufactures' goos did not infringe American trademark rights if they were "genuine", if became plain that Congress wanted it absolutely clear that sharing a common foreign manufacturing origin with the American trademark owner's goods does not make other similarly or identically trademarked goods purchased abroad any less infringing. Again without liming languages, Congress states that "any merchandise of foreign manufacture" bearing a trademark owned by an American could be denied, on the unstated, but obvious ground that sale of the article by some other the trademark owner would infringe the trademark owner's rights.[78]

The only requirement for applicability of Section 526 was registration and recordation of a U.S. trademark, provided that said trademark is owned by "a citizen of, or by a corporation or association created or organized within, the Untied States".[79]

These limitations violate the principle of national treatment under the Paris Convention and Pan-American Convention as well as the bilateral treaties. Accordingly, the Section 526 and

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77. 62 Cong. Rec. 11,602-05 (1922)

78. Bell & Howell: Mamiya Co v. Massel Supply Co. 548 F. Supp. 1063, 1076 (EDNY 1982), vacated on other grounds, 719 F.42 (2d Cir. 1983); see also Vivitar corp. v. United States, 761 F. 2d 1552, 1563 (Fed. Cir. 1985)("Ownership of a U.S. trademark registration was a condition to an exercise of that right [to invoke Section 526], but trademark infringement by the importer was not"]

79. 42 Stat. 975 (current version at 19 U.S.C. section 1526(a)(1982)

administrative interpretation thereof should be repealed[80].

IV. CONCLUSION

The crux of the domestic trademark law is two folds. One is to protect the public so it may be confident that in purchasing a product bearing a particular trademark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trademark has spent energy, time and money in presenting to the public its products, it is protected in its investment from misappropriation by pirates and cheats[81]. A trademark is protected not only because it signifies a source of manufacturing origin but also a level of quality. The rights should rest on whether the public identifies a particular level of quality when it sees a trademark on product.

Having said that, operating section 526 as a tool to enjoin gray market sales without proof that the gray market goods are substantially different from the authorized goods, trademark will

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[80]. After the K Mart decision, the Circuit courts have made a way to stay away from the holding in attempt to give a new interpretation of section 526 and the custom regulations; See U.S. v. Eight-Three Rolex Watches (5th Cir. 1993) 992 F.2d 508 (the court held that the statute protecting trademark owner from unauthorized importation of goods bearing the mark applies to foreign owners as well as domestic owners; Lever Brothers v. U.S. 796 F. Supp. 21, (DDC 1992), affirmed in this respect 981 F. 2d 1330 (DC Cir. 1993) (section 42 of the Laham Act bars the importation of physically different foreign goods bearing a trademark identical to a valid U.S. trademark, regardless of the trademark's genuine character abroad or affiliation between the producing firm) id at 1338-1339.

[81]. S. Rep N. 1333. 19th Congress 2 Sess. , reprinted in 1946 U.S. Code Cong. Serv. 1274

have the effect of suppressing competition rather than protecting trademark rights and goodwill.[82]

The U.S. has ratified multinational and bilateral treaties to ensure proper protection for trademark owner with several countries. Yet, the U.S. has maintained protectionist attitude in its domestic policy in dealing with international foreign entities with respect to issue of trademark protection. This incongruity is, indeed, puzzling.

In 1988, Justice Brennan explicitly stated in the K Mart that "(the structure of the Statute) bespeaks an intent, characteristic of the times to protect only *domestic*(emphasis added) interest"[83]. The section 526 was implemented in 1930 to provide protection to domestic companies over foreign companies in order to prevent fraud and to preserve equity.[84] Needless to say, the intent and design behind trade policy of 1923 did not and could have not accurately reflect the same "characteristic of the times" of 1995. Extension of this policy would not only sensitize the trade partners[85] and

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82. See Gemco LatinoAmerica Inc. v. Seiko Time Corp. 671 F. Supp 972, 981 (SDNY 1987)

83. K Mart 468 US at 297

84. "The barriers that Congress erected seem calculated to serve no purpose other than to reserve exclusively to domestic, not foreign interests, the extraordinary protection that section 526 provides... (it is the)... protectionist sentiment that inspired the provision." Justice Brennan concurring, K Mart 486 at 298. In this age, it is difficult to image that protectionist attitude is still prevailing in the highest court in the U.S.

85. See Justice Scalia dissenting opinion in K Mart " I doubt that our trade partners will look favorably upon a regulation which, as now interpreted, treats goods manufactured by American

restrain the free trade but also has aggravated confusion and inconsistency so pervasive as demonstrated in the history of the administrative and judicial interpretation of the statue.

Legislation by its nature provides a blanket rule to be applied to certain specified circumstances. Congress with its power bestowed under the U.S. Constitution may wish to consider passing a new statute that are flexible and pragmatic, in order to settle the gray area of the law on the issue of gray market sales. The new statute should reflect appropriate "characteristics" of the present time and, in turn, could bring the law into line with that of other industrialized nations.

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companies on their soil more favorably than goods manufactured there by their own nationals"

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