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# A Little Color In A World Of Gray: The Survival Of Customs' Common Control Exception In The Gray Market

# A LITTLE COLOR IN A WORLD OF GRAY: THE SURVIVAL OF CUSTOMS' COMMON CONTROL EXCEPTION IN THE GRAY MARKET

Section 526 of the Tariff Act of 1930[1] and section 42 of the Lanham Trade-Mark Act[2] generally prohibit importation of gray market goods. Gray market goods are goods that are produced abroad under a certain trademark, imported into the United States, and sold in competition with goods bearing an identical or similar United States registered trademark.[3] While the Tariff Act and the Lanham Act generally prohibit importation of gray market goods, the United States Customs Service (Customs) has implemented regulations that lift this prohibition whenever the foreign and domestic trademark owners are parent and subsidiary companies or are otherwise subject to common ownership or control.[4] These regulations are known as the common control exception.[5]

Courts have debated the validity of the common control exception with mixed results.[6] The United States Supreme Court recently has upheld the common control exception under section 526 of the Tariff Act.[7] The Second, Third, and District of Columbia Circuit Courts of Appeals, however, have disagreed on the validity of the common control exception under section 42 of the Lanham Act.[8] As currently written and enforced, the common control

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1. Tariff Act of 1930, 46 Stat. 590, 19 U.S.C. § 1526 (1988) (originally enacted as Act of Sept. 21, 1922, ch. 356, 42 Stat. 858, repealed and reenacted as Tariff Act of 1930, ch. 497, § 526, 46 Stat. 590 (1930)).

2. 15 U.S.C. § 1124 (1988) (originally enacted as Trademark Act of 1905, ch. 592, § 27, 33 Stat. 724 (1905), reenacted as Trademark Act of 1946, ch. 540, 60 Stat. 427 (1946), codified as Amended at 15 U.S.C. §§ 1051-72, 1091-06, 1111-21, 1123-27).

3. Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985) (describing gray market goods as products legitimately sold abroad under certain trademark, imported into United States, and sold in competition with goods bearing identical United States registered trademark); Olympus Corp. v. United States, 627 F. Supp. 911, 913 (E.D.N.Y. 1985) (defining gray market goods as those goods produced abroad, bearing a foreign trademark, and imported by person other than authorized dealer); *see generally*, Note, *Trademark Law: The Wacky World of Grey Market Goods: Untangling the Knot the Customs Regulations Tie Around Section 526 of the Tariff Act*, 40 U. FLA. L. REV. 433, 444-48 (1988) (explaining background and holdings of *Vivitar* and *Olympus*); *The Gray Market Controversy and the Court: An Analysis of Conflicting Court of Appeals Decisions on the Validity of Customs Regulations Permitting Unauthorized Third Party Importation of Trademarked Goods*, 18 SETON HALL L. REV. 55, 76-85 (1988) (discussing analyses and holdings of *Vivitar* and *Olympus*).

4. 19 C.F.R. § 133.21 (1989) (mirroring § 526 of Tariff Act and § 42 of Lanham Act by prohibiting importation of goods that bear marks which copy or simulate United States registered marks).

5. *Id.*

6. *See infra* notes 28-32, 45-49 and accompanying text (discussing courts' position on validity of common control exception).

7. KMart Corp. v. Cartier, Inc., 486 U.S. 281 (1988).

8. *Compare* Weil Ceramics and Glass, Inc. v. Dash, 878 F.2d 659 (3d Cir. 1989)

exception only serves a legitimate purpose in certain situations.[9] If the gray market good is identical and if the domestic affiliate actually has control over the foreign company's production, distribution, and servicing of the gray market goods, the current common control exception correctly allows importation of the gray market goods.[10] The common control exception does not further the goals of trademark law by allowing importation of gray market goods if the affiliated foreign and domestic companies actually cannot control the manufacturing, marketing, and distribution of these products.[11]

The common control exception is the most expansive exception to the general prohibition against importation of gray market goods.[12] Customs currently allows importation of goods under the "same owner" exception if the same person or business entity owns the foreign and domestic trademarks.[13] The common control exception encompasses this same owner exception and expands the same owner exception by permitting importation of goods if the foreign and domestic trademark owners are parent and subsidiary companies or are otherwise subject to common ownership or control.[14] The regulations define "common ownership" as "individual or aggregate ownership of more than 50 percent of the business entity."[15] Customs then defines "common control" to be "effective control in policy and operations and . . . not necessarily synonymous with common ownership."[16] The regulations consequently give an objective standard to Customs officials for determining whether an exception applies to common ownership of a business,[17] and customs officials and courts have had little difficulty

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(holding that § 42 is no bar to importation of genuine gray market goods) *and* Olympus Corp. v. United States, 792 F.2d 315 (2d Cir. 1986) (upholding common control exception under § 42) *with* Lever Bros. v. United States, 877 F.2d 101 (D.C. Cir. 1989) (invalidating common control exception under § 42).

9. *See infra* notes 124-45 and accompanying text (discussing limitations of current common control exception).

10. *See infra* notes 87-93 and accompanying text (discussing situations in which current common control exception allows importation of gray market goods).

11. *See infra* notes 138-40 and accompanying text (describing common control exception's relationship to goals of trademark law).

12. *See infra* notes 13-19 and accompanying text (discussing definition and scope of Customs' common control exception).

13. 19 C.F.R. § 133.21(c)(1) (1989).

14. *Id.* § 133.21(c)(2).

15. *Id.* § 133.2(d)(1).

16. *Id.* § 133.2(d)(2).

17. *See* Note, *Trademark Law: The Wacky World of Gray Market Goods*, 40 UNIV. OF FLA. L. REV. 442-44 (1988) (detailing history of Customs regulations); Coalition to Preserve the Integrity of American Trademarks (COPIAT) v. United States, 790 F.2d 903, 913-16 (D.C. Cir. 1986) (reviewing history of common control exception). Customs' common control exception has existed in its present form since 1972. Vivitar Corp. v. United States, 761 F.2d 1552, 1566-68 (Fed. Cir. 1985). Before the current regulations, Customs officials could allow importation of gray market goods only if the same person, partnership, association, or corporation owned the domestic and foreign trademarks. 19 C.F.R. § 11.14 (1959), T.D.

determining if two companies are subject to common ownership in deciding whether to permit importation of the company's gray market goods.[18] A more subjective determination of whether two companies are subject to common control leads to inconsistencies in the application of the common control exception.[19]

In formulating the current common control exception, Customs relied on the theory that the domestic arm of an international business could control the quality and marking of foreign gray market goods, even if the foreign firm owned or controlled the domestic subsidiary.[20] According to Customs, the domestic trademark holder does not need protection against identical or similar United States registered trademarks that a parent or subsidiary company within its common control imports because the same individuals receive the profits and decide the policy of the related companies.[21] Courts often have followed this reasoning.[22]

In *KMart v. Cartier*[23] several courts dealt with a direct challenge to the validity of the common control exception.[24] In *KMart* an association of American trademark owners[25] sought a declaratory judgment invalidating the common control exception and argued that the exception conflicted with section 526 of the Tariff Act and section 42 of the Lanham Act.[26] The association contended that the Tariff and Lanham Acts gave domestic trademark owners an exclusive right to prohibit the importation of goods that their subsidiaries manufactured and that third parties imported into the United States without their consent.[27] The association argued that even

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54,932, 94 Treas. Dec. Int. Rev. 433, 433-34 (1959). The pre-1972 regulations reflected the legislative and judicial directives of promoting competition while also protecting American companies. *See* 62 CONG. REC. 11,602-05 (1922) (debating and passing predecessor of § 526 of Tariff Act of 1930).

18. *See infra* notes 29-33, 46-50 and accompanying text (dealing exclusively with common control question).

19. *See infra* notes 81-93 and accompanying text (discussing inconsistencies in applying common control exception to multinational corporations and nonidentical goods).

20. Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 TRADEMARK REP. 301, 308 (1969).

21. *Id.*

22. *See supra* notes 19-41 and accompanying text (explaining Supreme Court's validation of common control exception under § 526 of Tariff Act). *See generally* Weicher, *KMart Corp. v. Cartier, Inc.: A Black Decision for the Gray Market*, 38 AM. U.L. REV. 463, 477-89 (1989) (discussing history and decision of *KMart* and concluding that Supreme Court's decision harms consumers and domestic trademark owners by allowing gray market imports).

23. 486 U.S. 281 (1988).

24. KMart Corp. v. Cartier, Inc., 486 U.S. 281, 285 (1988).

25. *See* COPIAT v. United States, 598 F. Supp. 844, 846 (D.D.C. 1984), *rev'd in part*, 790 F.2d 903 (D.C. Cir. 1986), *aff'd in part and rev'd in part sub nom.*, KMart v. Cartier, 486 U.S. 281 (1988) (explaining membership in Coalition to Preserve Integrity of American Trademarks (COPIAT) consisted of manufacturers or distributors with registered United States trademarks). COPIAT, the association of trademark owners that brought suit against KMart in KMart v. Cartier, is now inactive. 1 ENCYCLOPEDIA OF ASSOCIATIONS 2489, No. 3 (1989).

26. *KMart*, 486 U.S. at 291-92.

27. *COPIAT*, 598 F. Supp. at 846.

if the gray market goods bore authentic trademarks, Customs should exclude the goods unless the domestic trademark owners consented.[28]

Finding the association's arguments unpersuasive, the United States District Court for the District of Columbia upheld the common control exception.[29] The United States Court of Appeals for the District of Columbia reversed the district court's decision, holding that the language of section 526 contains no exceptions to the ban on importation based upon a trademark owner's corporate relationship.[30] The Court of Appeals' decision caused a split among the circuit courts regarding the validity of the common control exception under section 526 of the Tariff Act. The Federal[31] and Second Circuits[32] recently had affirmed the validity of the common control exception under section 526 of the Tariff Act, deferring to Customs' long-standing interpretation and enforcement of the Tariff Act. To remedy this split in the circuits, the United States Supreme Court granted certiorari.[33]

In determining whether the common control exception is valid under section 526, the Supreme Court in *KMart* examined the language of section 526.[34] The Court found two ambiguous phrases in the language of section

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28. *Id.*

29. *Id.*

30. COPIAT v. United States, 790 F.2d 903, 918 (D.C. Cir. 1986).

31. Vivitar v. United States, 761 F.2d 1552, 1570 (Fed. Cir. 1985). The Federal Circuit in *Vivitar* considered whether § 526 of the Tariff Act requires Customs to exclude all imports bearing a domestic owner's trademark that enter Customs without the written consent of the owner. *Id.* at 1555. In *Vivitar* the Vivitar Corporation argued that § 526 gives domestic trademark owners the exclusive right to require Customs to prevent importation of gray market goods and that the common control exception is invalid. *Id.* at 1555. The Federal Circuit affirmed the Court of International Trade's decision that upheld the common control exception as valid under § 526, and the Federal Circuit found that the common control exception is a reasonable exercise of Customs' power under § 526 of the Tariff Act as a matter of agency enforcement. *Id.* at 1555-56. The Federal Circuit recognized the wide variety of gray market situations and decided that Customs is not required to provide for automatic exclusion beyond the exclusion expressed in its regulations. *Id.* at 1570. According to the Federal Circuit, Customs can allow importation of the gray market good and leave the initial determination of infringement under the common control exception to the court. *Id.*

32. Olympus v. United States, 792 F.2d 315, 321-22 (2d Cir. 1986) (*aff'g* 627 F. Supp. 911 (E.D.N.Y. 1985)). The Second Circuit in *Olympus* considered whether Customs' common control exception violated § 526 of the Tariff Act and § 42 of the Lanham Act. *Id.* at 316-17. In *Olympus* the Olympus Corporation attempted to prohibit Customs from allowing importation of goods bearing the Olympus trademark into the United States because third parties were importing these goods. *Olympus*, 627 F. Supp. at 913. The District Court for the Eastern District of New York found that the common control exception does not violate § 526 of the Tariff Act or § 42 of the Lanham Act because neither statute expressly prohibits importation by third parties of goods bearing an authorized trademark. *Id.* at 920-21. The Second Circuit affirmed, finding that the consistent policy of Customs in enforcing the common control exception warranted deference. *Olympus*, 792 F.2d at 319-20. According to the Second Circuit, Customs would face difficulties in making at-the-border determinations of whether a domestic company has developed independent goodwill without the common control exception. *Id.* at 320. Thus, the Second Circuit upheld the common control exception under § 526 of the Tariff Act and § 42 of the Lanham Act. *Id.* at 319-21.

33. KMart Corp. v. Cartier, Inc., 486 U.S. 281, 290-91.

34. *Id.* at 287-88.

526 of the Tariff Act and decided that, in applying the common control exception, Customs could interpret this language to allow importation of gray market goods under section 526 of the Tariff Act.[35] The Court found that the common control exception applies to gray market situations described in the language of section 526 of the Tariff Act in which domestic firms own a United States trademark for foreign-made goods and also are a subsidiary of, a parent of, or the same as the foreign firm.[36] The Supreme Court found two ambiguities in this language of section 526.[37] First, the Supreme Court reasoned that the language of section 526 dealing with the ownership of a trademark does not discern whether the domestic subsidiary or the foreign parent owned the United States trademark.[38] Second, the Court found the wording of section 526 concerning the merchandise of foreign manufacture to be ambiguous.[39] The Court explained that foreign manufactured goods could mean goods manufactured in a foreign country, goods manufactured by a foreign company, or goods manufactured in a foreign country by a foreign company.[40] Deferring to Customs' interpretation of this ambiguous language, the Supreme Court upheld the common control exception under section 526 of the Tariff Act.[41] Although the Supreme Court upheld the common control exception under the language of section 526, the Court, without explanation, refused to decide the validity of the

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35. *Id.* at 291.

36. *Id.* at 289-90. The Supreme Court in *KMart* first separated gray market cases into three categories. *Id.* at 286-87. The first category involves a domestic company purchasing a United States trademark from an independent foreign firm. *Id.* at 286. This category includes situations in which the foreign firm already has registered the trademark in the United States or in which the good has earned a reputation for quality. *Id.* The second category includes domestic firms that own a United States trademark for foreign made goods and that are a subsidiary of, a parent of, or the same as the foreign firm. *Id.* at 286-87. The common control exception applies to this second category. *Id.* at 287. The third category consists of a domestic firm authorizing the use of its trademark by an independent foreign company. *Id.* This "authorized use" exception involves situations in which the domestic trademark owner sells the exclusive right to use of the trademark to a foreign manufacturer and conditions this use on the foreign company's promise not to import these trademarked goods into the United States. *Id.* The Court sustained the regulations' application to the first and second categories and invalidated the third category. *Id.* at 294.

37. *See infra* notes 38-42 and accompanying text (describing ambiguities in language of § 526 of Tariff Act). The relevant language of § 526(a) states:

> [I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 1526(a) (1988).

38. 19 U.S.C. § 1526(a) (1988) (speaking of trademark being "owned by" citizen of or corporation organized within United States).

39. *See KMart*, 486 U.S. at 292-93 (interpreting phrase "merchandise of foreign manufacture" as applying to goods bearing United States trademark and prohibiting such goods from importation under section 526 of Tariff Act).

40. *Id.*

41. *Id.*

common control exception under section 42 of the Lanham Act.[42]

While the Supreme Court in *KMart* did not deal with section 42 of the Lanham Act, the Second Circuit and the Third Circuit Courts have held the common control exception valid under section 42 of the Lanham Act.[43] Focusing on the difficulties that Customs officials face in at-the-border determinations of trademark infringement,[44] these courts have given great deference to Customs' interpretation of section 42 of the Lanham Act and have upheld the common control exception as a valid interpretation of section 42 of the Lanham Act.[45] Not all courts agree with the Second Circuit and the Third Circuit however.[46] To hold the common control exception valid in certain situations the United States Supreme Court and the United States Court of International Trade have prohibited importation of gray

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42. *Id.* at 290 n.3.

43. *See* Weil Ceramics and Glass, Inc. v. Dash, 878 F.2d at 666-73 (3d Cir. 1989) (holding that § 42 is no bar to importation of genuine gray market goods). *Weil Ceramics* involved a domestic trademark holder that was wholly owned by a foreign manufacturer. *Id.* at 662. A third party was purchasing the trademarked goods in Europe and importing them into the United States. *Id.* The domestic trademark holder sued the importer to stop the importation of those gray market goods. *Id.* The Federal District Court for the District of New Jersey held that the importation infringed the domestic trademark owner's trademark pursuant to § 42 of the Lanham Act. *Id.* at 663. The foreign importer appealed, arguing that neither § 526 of the Tariff Act nor § 42 of the Lanham Act bars importation in this situation because of Customs' common control exception. *Id.* On appeal, the Third Circuit, relying on the United States Supreme Court's decision in *KMart* rejected the domestic trademark owner's argument that § 526 of the Tariff Act did not allow importation. *Id.* at 664-66. The Third Circuit then turned to the § 42 issue. *Id.* at 666-73. According to the Third Circuit, a domestic trademark owner that is not independent of its foreign manufacturer and benefits from the corporate relationship cannot prevent Customs from allowing importation under the common control exception. *Id.* at 668. The Third Circuit found that because the foreign goods were of equal quality, consumers purchasing the gray market goods were not injured. *Id.* at 672. Thus, in *Weil Ceramics* the Third Circuit held that the common control exception does not violate § 42 of the Lanham Act if the domestic trademark owner and the foreign manufacturer are the same company and the imported product is identical. *Id.* at 672-73. *See also* Olympus Corp. v. United States, 792 F.2d 315, 319-21 (2d Cir. 1986) (limiting protection of § 42 to nongenuine goods because Customs officials would be placed in precarious position of determining when trademarks infringe domestic markholders' independent goodwill); *supra*, note 32 (discussing facts and holding of *Olympus*); *generally*, Palladino, *Gray Market Goods: The United States Trademark Owners' View*, 79 TRADEMARK REP. 159, 172 (1989) (discussing facts and reasoning of Third Circuit in *Weil Ceramics*).

44. *See Olympus*, 792 F.2d at 320 (stating that one reason for Customs interpretation of statutes allowing Customs to refuse to exclude goods is administrative difficulties inherent in requiring Customs to make infringement determinations); *supra* note 32 (analyzing facts and holding in *Olympus*).

45. *See* Lever Bros. Co. v. United States, 877 F.2d 101, 104 (D.C. Cir. 1989) (finding that unless Congress clearly expresses intent in statute, court must accept Customs interpretation if reasonable); *Olympus*, 792 F.2d at 320 (stating "we believe that congressional acquiescence in the long standing interpretation of the statute [§ 526] legitimates that interpretation as an exercise of Customs enforcement discretion").

46. A. Bourjois & Co., Inc. v. Aldridge, 263 U.S. 675, 676 (1922) (per curiam); *In re* Certain Alkaline Batteries, 225 U.S.P.Q. 823, 832-33 (Ct. Int'l Trade 1984); *see also infra* notes 47-51 and accompanying text (discussing *Aldridge* and *Alkaline Batteries*).

market goods under section 42 of the Lanham Act by focusing on certain factors:[47] the promotion of competition,[48] the contractual relationships between the foreign and domestic companies,[49] and the confusion that importation of gray market goods can create among consumers.[50]

Public policy also supports the validity of the common control exception, but only, as the Supreme Court and Court of International Trade have recognized, in certain situations.[51] Customs neither should permit nor prohibit the importation of every gray market good. Although some public policy reasons do exist for keeping the common control exception in its current format, stronger public policy arguments suggest that Customs should modify the exception.[52]

Valid policy reasons for upholding the current common control exception include administrative deference and the feasibility of enforcing more complex regulations.[53] Customs has provided for and dealt with an exception similar to the current common control exception for over fifty years.[54] In general, an administrative agency receives great deference from courts in the agency's interpretation of statutory material.[55] In addition, the legislative history of section 42 of the Lanham Act speaks of the significance of an administrative officer's determination on infringement.[56] The drafters equated

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47. *See Aldridge*, 263 U.S. at 676 (1923) (per curiam), *aff'g*, 292 F.2d 1013 (2d Cir. 1922) (prohibiting importation of identical face powder that infringed United States trademark and requiring Customs to exclude these goods from entry under predecessor to § 42 of Lanham Act); In re *Certain Alkaline Batteries*, 225 U.S.P.Q. at 833 (following *Aldridge* by prohibiting importation under § 42 of Lanham Act of genuine Belgian Duracell batteries that wholly owned subsidiary of Duracell International, Inc. manufactured); *generally*, Palladino, *Gray Market Goods*, *supra* note 43 at 170-74 (explaining history and analysis in *Aldridge* and *Duracell*).

48. *In re Certain Alkaline Batteries*, 225 U.S.P.Q. at 832.

49. *Aldridge*, 292 F. at 1014.

50. *In re Certain Alkaline Batteries*, 225 U.S.P.Q. at 836.

51. *See infra* notes 80-141 and accompanying text (discussing situations in which Customs should apply common control exception).

52. *See infra* notes 53-62 and accompanying text (describing arguments for not altering common control exception).

53. *See infra* notes 55-64 and accompanying text (discussing policy reasons for upholding the current common control exception).

54. T.D. 48,537, 70 Treas. Dec. Int. Rev. 336, 336-38 (1936). Customs' first exception to § 526 of the Tariff Act and to the predecessor of § 42 of the Lanham Act allowed importation of goods if the United States trademark and foreign trademark were "owned by the same person, partnership, association or corporation." *Id.* Customs expanded this exception in 1953 to include trademark owners that were "related companies." 19 C.F.R. § 11.14 (1953), T.D. 53,399, 88 Treas. Dec. Int. Rev. 376, 383-84 (1953). In 1959 Customs returned the regulations to the language of the 1936 exception, allowing importation of trademarked goods "owned by the same person, partnership, association or corporation." 19 C.F.R. § 11.14 (1959), T.D. 54,932, 94 Treas. Dec. Int. Rev. 433-34 (1959). *See generally*, Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 TRADEMARK REP. 301, 304-12 (1969) (discussing Bureau of Customs' interpretation of past regulations and Customs' application of common control exception to affiliated companies).

55. *See supra* note 45 (discussing courts' respect for agency determinations).

56. Hearings Before a Subcomm. of the Comm. on Patents, S.R. 82, U.S. Senate, 78th Cong., 2d Sess. 84, 89 (1944) [hereinafter Senate Hearings].

this determination to the issuance of a preliminary injunction by a competent court[57] and to the establishment of a prima facie case.[58] Customs, as an agency, and Customs officials, as individuals, have a working knowledge of the gray market, and the Agency's interpretation merits respect. As a result, both courts and legislators have given great deference to Customs' interpretation of section 526 of the Tariff Act and section 42 of the Lanham Act and, consequently, have upheld the common control exception.[59]

Similarly, the feasibility of enforcing regulations concerning the gray market favors deferring to Customs' interpretation of section 526 of the Tariff Act and section 42 of the Lanham Act in formulating the common control exception.[60] As currently structured, the common control exception does not give specific instructions about which corporate relationships fall within the exception.[61] This vague directive means that Customs officials do not have to monitor changing and complex multinational business relationships, a task that a Customs law specialist recognized as completely futile.[62] The drafters of section 42 of the Lanham Act also were concerned with the difficulty that Customs officials face in determining infringing trademarks.[63] The drafters suggested that courts, instead of Customs officials, should make the initial determination of infringement under section 42 of the Lanham Act.[64] Section 42 of the Lanham Act and the common control exception currently operate in this manner.[65] Changing the current common control exception might require Customs officials to make a complex determination of whether a good falls within the common control exception. This added time and effort would compound the current difficulties that Customs officials face because of the sheer volume of determinations these officials must make each day.[66] Customs officials have enforced the current

57. *Id.*

58. *Id.*

59. *See supra* note 54-58 and accompanying text (discussing respect for agency determinations).

60. *See infra* notes 61-67 (discussing administrative feasibility of Customs' regulations).

61. *See supra* notes 12-19 and accompanying text (describing language and application of current common control exception).

62. Atwood, *supra* note 54, at 310-11. This author, a customs law specialist with the United States Bureau of Customs, recognized the difficulty of discovering and understanding continuous intentional and unintentional restructuring of corporations. *Id.*

63. Senate Hearings, *supra* note 56, at 82-83.

64. *Id.*

65. 15 U.S.C. § 1124 (1988).

66. H.R. 621, 95th Cong., 1st Sess. 1 (1977). In 1976 entries of goods requiring infringement determinations by Customs officials numbered over three million. *Id.* This represented a workload of 2,599 entries per import specialist per year, an increase of 74% per specialist over 30 years. *Id.*

The United States Customs Service solicited requests concerning economic data on gray market goods in 1984. 49 Fed. Reg. 21,453 (1984). However, Customs never performed a compilation or analysis of the solicited data. Telephone Interview with Sam Orandle, Entry Procedures and Penalties Division, Office of Regulations and Rulings, U.S. Customs Service, Washington, D.C., Nov. 21, 1989. Instead Customs decided to resolve any gray market controversies through litigation. *Id.*

common control exception since 1978, and changes to the common control exception would create significant problems in enforcement by Customs.[67]

While the feasibility of enforcing Customs' regulations and the deference due Customs' interpretation of section 526 of the Tariff Act and section 42 of the Lanham Act tend to validate the current common control exception, stronger policy arguments point out the need for a modification of the exception.[68] As presently structured and enforced, the common control exception does not protect consumers or domestic trademark owners from the harms that gray market goods can cause.[69] The Court of Appeals for the District of Columbia in *Lever Brothers v. United States*[70] recently dealt with one gray market situation that illustrates the inability of the current common control exception to satisfy the important public policies of protecting consumers and domestic trademark owners.[71]

Lever Brothers (Lever U.S.) manufactures Shield soap and Sunlight dishwashing liquid in the United States.[72] Lever Brothers, Ltd. (Lever U.K.) also manufactures Shield and Sunlight but does so in the United Kingdom.[73] The Lever U.K. products differ from the United States products in ingredients and performance, with each tailored to the specific tastes of its country.[74] Third parties imported United Kingdom Shield and United Kingdom Sunlight into the United States without authorization from Lever U.S., and the Customs Service, citing the common control exception, refused to block these importations.[75] Lever U.S. is a wholly owned subsidiary of Unilever U.S., Inc., which is wholly owned by Unilever N.V., a Netherlands corporation.[76] Lever U.K. is a wholly owned subsidiary of Unilever, PLC which also is owned by Unilever N.V.[77] This affiliation means that Lever U.S. and Lever U.K. are subject to common control.[78] In 1987 Lever U.S., to stop importation of the Lever U.K. products, sought a preliminary injunction against Customs' use of the common control exception on the grounds that the exception violated both section 526 of the Tariff Act and section 42 of the Lanham Act.[79] The District of Columbia Circuit Court

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67. *See supra* notes 60-66 and accompanying text (discussing potential enforcement problems of changing common control exception).

68. *See infra* notes 124-45 and accompanying text (arguing for modification of Customs' common control exception).

69. *See infra* notes 94-123 and accompanying text (discussing protection needed for consumers and domestic trademark owners).

70. 877 F.2d 101 (D.C. Cir. 1989).

71. Lever Bros. Co. v. United States, 877 F.2d 101, 111 (D.C. Cir. 1989); *see infra* notes 72-85 and accompanying text (discussing *Lever Bros*).

72. *Lever Bros. Co.*, 877 F.2d at 102-03.

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.* at 102 n.1.

77. *Id.*

78. *Id.*

79. *Id.* at 104. The D.C. Circuit's holding in *Lever Bros.* overturned the district court's

interpreted section 42's protection against gray market goods to apply to domestic manufacturers and invalidated the common control exception.[80]

Many factors involved in the *Lever Brothers* case highlight problems that the current common control exception does not address.[81] The theory behind the common control exception is rooted in the treatment of the domestic and foreign affiliates as a single trademark owner.[82] Therefore, under the common control exception, the foreign importer cannot infringe upon the trademark of its domestic affiliate because Customs treats both companies as owning the same trademark.[83] Consequently, while subject to the common control exception, neither domestic nor foreign companies effectively can control third party importation of gray market goods.[84] Physical differences in these gray market goods, such as the color and lather of the Lever U.K. soap, cause consumer confusion and damage the goodwill of the domestic manufacturer.[85] If Customs permits importation of gray market goods, the only remedy that firms such as Lever Bros. have is to abandon the use of the trademark, a very costly alternative.[86]

As *Lever Brothers* illustrates, the common control exception contradicts the underlying goals of trademark law in certain situations.[87] The United States trademark laws have served two purposes since their inception.[88] The

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decision. *Id.* at 111. The United States District Court for the District of Columbia had decided *Lever Bros.* before the *KMart* decision and denied Lever U.S. relief under both § 526 of the Tariff Act and § 42 of the Lanham Act. Lever Bros. Co. v. United States, 652 F. Supp. 403, 406-07 (D.D.C. 1987). The district court in *Lever Bros.* found the earlier decision by the United States Court of Appeals for the District of Columbia in COPIAT v. United States, 790 F.2d 903 (D.C. Cir. 1986), that invalidated the common control exception under § 526 of the Tariff Act, not to be binding because *COPIAT*'s invalidation of Customs' common control exception had been stayed, pending determination of the petition for certiorari. *Lever Bros. Co.*, 652 F. Supp. at 405. The district court relied on the decisions in *Vivitar* and *Olympus* and deferred to Customs' interpretation of § 526 of the Tariff Act and § 42 of the Lanham Act. *Id.* at 406-07. Lever Bros. based their claim on § 42 of the Lanham Act after the United States Supreme Court's decision in *KMart*, which upheld the validity of the common control exception under § 526 of the Tariff Act. *Lever Bros. Co*, 877 F.2d at 104 n.6; *see supra* notes 23-42 and accompanying text (summarizing Supreme Court's decision in *KMart*).

80. *Lever Bros. Co.*, 877 F.2d at 111. In *Lever Bros.* the Court of Appeals' announced a tentative holding, reversing and remanding the case to the district court for further findings on the legislative history. *Id.*

81. *See infra* notes 82-85 and accompanying text (showing factors that Customs' common control exception does not address).

82. *Lever Bros. Co.*, 877 F.2d at 109.

83. *Id.*

84. *Id.* at 111.

85. *Id.* at 110.

86. *Id.*

87. *See supra* notes 64-77 and accompanying text (discussing *Lever Bros.* as one situation that common control exception ignores).

88. *See* Trade Mark Act, ch. 138, 21 Stat. 502 (1881) (dealing with trademark infringement and providing for bar on importation of watches and watch parts that copy or simulate the trademark of domestic manufacturer). The language of § 42 dealing with trademark infringe-

Lanham Act and its predecessors first have sought to protect consumers from infringing trademarks.[89] To determine if a trademark is infringing, Customs officials judge whether the mark is likely to cause the public to associate the copying mark with the recorded mark.[90] Second, Congress, by drafting section 42 of the Lanham Act to prohibit importation of marks that copy or simulate a registered trademark and marks that induce the public to believe that the article is manufactured in the United States, attempted to protect trademark owners' investments of time, energy, and money in establishing their trademarks.[91] However, the common control exception's basic assumption of treating foreign and domestic companies as a single trademark holder furthers the goals of trademark law only if the imported goods are identical to the domestic goods and only if the affiliated company imports the goods.[92] Such a situation rarely arises.[93]

Importation of nonidentical gray market goods harms consumers in a variety of ways.[94] Nonidentical gray market goods often are inferior in quality to their domestic counterparts.[95] Gray market goods may not meet

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ment states:

> [N]o article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacture . . . or which shall copy or simulate a trademark registered in accordance with the provisions of this 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 customhouse of the United States . . .

15 U.S.C. § 1124 (1988). Congress originally used this same language in the Trade Mark Act of 1905. *See* Trade Mark Act of Feb. 20, 1905, ch. 592, § 27, 33 Stat. 724 (1905); *infra* notes 83-85 and accompanying text (listing two underlying purposes of Lanham Act).

89. Arguments before Comm. on Patents, H.R. 5349 and H.R. 10091, House of Rep., 58th Cong. 7 (1906). The drafters of the Tariff Act of 1905 recognized a concern for trademark owners and consumers because, with trademark infringement, consumers receive goods that they did not order and that most often were of inferior quality. *Id.* The drafters further noted that the inferior quality of foreign goods coupled with reduced prices perpetuated the desire for and the profitability of trademark infringement. *Id.*; S. REP. No. 1333, 79th Cong., 2d Sess. (1946) (stating first purpose of trademark statute is to protect public so it may be confident that it will get product that it asks for and wants to get), *reprinted in* 1946 U.S. CODE CONG. SERV. 1274 [hereinafter Senate Report].

90. R. STURM, 7 CUSTOMS LAW & ADMINISTRATION § 12.6, at 49 (3d ed. 1989).

91. 15 U.S.C. § 1124 (1988); *see also* SENATE REPORT, *supra* note 89, at 1274 (stating second purpose of trademark statute is to protect goodwill of domestic trademark owners). The investment that a trademark owner spends to make the public aware of the product, through the association of a trademark, constitutes goodwill. J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION, §§ 2.7-2.8 (2d ed. 1984).

92. *See supra* notes 65-84 and accompanying text (discussing *Lever Bros.* as illustration of need for modification of common control exception and exploring relationship between underlying goals of trademark law and common control exception).

93. *See supra* notes 43-52 and accompanying text (discussing cases in which third parties imported nonidentical gray market goods).

94. *See infra* notes 95-107 and accompanying text (illustrating ways in which gray market goods harm consumers).

95. *See infra* notes 98-104 and accompanying text (explaining lower quality of gray market goods).

United States safety standards, and these goods may not have warranties.[96] Finally, consumers may not be buying what they think they are buying.[97]

The Customs regulations contain no standards for the quality of goods imported under the common control exception.[98] Goods may be of lower quality because of poor storage,[99] poor handling,[100] or poor production.[101] Goods also may differ if the goods are manufactured in a foreign country and explicitly designed for that country's tastes.[102] Additionally, gray market goods may not meet domestic safety requirements because neither the domestic manufacturer nor the distributor inspects these goods.[103] For example, the Shield soap imported by the foreign owner in *Lever Bros.* contained ingredients that the Food and Drug Administration has not approved.[104]

Even if the quality and safety of gray market goods matches that of the domestic goods, a lack of servicing or warranty on these goods can harm consumers. Consumers who purchase gray market goods that need repair or replacement may not receive proper service if the gray market seller does not warrant the goods.[105] Consumers then are stuck with broken or below-average products.

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96. *See infra* note 105 and accompanying text (discussing warranty issues of gray market goods).

97. *See infra* notes 106-07 and accompanying text (exploring how gray market goods confuse consumers).

98. 19 C.F.R. § 133.21 (1989).

99. *See* Note, Vivitar v. United States: *Protection Against Gray Market Goods Under 19 U.S.C. Section 1526*, 60 S. CAL. L. REV. 179, 191 (1986) (discussing ways in which gray market goods harm consumers). If products, such as batteries, are fragile or have a tendency to deteriorate, Customs should compare the distribution network of the domestic producer to the network of the foreign gray market importer. *Id.* If the foreign importer's distribution network causes a greater likelihood of damaged goods, courts should be reluctant to allow importation. *Id.*

100. *Id.* An example of goods that require special handling can be found in Adolph Coors Co. v. A. Genderson & Sons, Inc., 486 F. Supp. 131 (D.Colo. 1980), in which distributors' mishandling of beer caused beer to decrease in quality. *Id.*

101. *See* Note, *supra* note 99, at 191. A discount gray market seller of low quality goods may not have an incentive to improve the quality of goods because consumers expect and pay for this lower quality. *Id.* at 192.

102. *See Lever Bros.*, 877 F.2d at 102 (involving soap and dishwashing liquid made in England for English tastes and subsequently imported into the United States); *supra* notes 70-86 and accompanying text (discussing facts and holdings in *Lever Bros.*).

103. *See* Note, *supra* note 99, at 193 (describing potential harms of gray market goods that lack proper safety inspections). If goods pose health or safety risks, a lack of instructions or warnings could result in injuries to domestic consumers. *Id.* If a product is complex, consumers need an instruction manual to properly use the product. *Id.* The nonexistence or incomprehensibility of safety warnings or instructions would give courts reason to enjoin importation of these goods. *Id.*

104. APPENDIX at 63, *Lever Bros. Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989) (stating FDA had not certified colorants in foreign Shield soap).

105. *See* Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68 (2d Cir. 1987) (finding domestic trademark owner could prevent sale of imported Cabbage Patch dolls accompanied by instructions and adoption papers written in Spanish); Osawa & Co. v.

Perhaps the most common detriment gray market goods cause consumers is confusion. When buying Shield soap, consumers expect the product to be the same soap they have purchased in the past.[106] Products that turn out to be different or not under warranty frequently baffle consumers. The consumers often believe that the domestic trademark owner is responsible even though the product contains the foreign trademark and indicates the foreign place of origin.[107] Importation of nonidentical gray market goods based on the common control exception harms consumers by ignoring quality and safety standards that contribute to consumer confusion.

In addition to harming consumers, importation of nonidentical gray market goods harms domestic trademark owners' advertising, sales, and business reputations.[108] One major vehicle of establishing a trademark is through advertising. Domestic trademark owners spend large amounts of money in the United States to develop a product's reputation.[109] For example, over a period of seven years the domestic manufacturer in *Lever Brothers* spent approximately $423 million to advertise and promote its soap and detergent products.[110] Gray market goods bearing a similar trademark receive a free ride on the domestic trademark owner's advertising. This free ride on advertisement and promotion can lead to a decline in a domestic company's sales.[111] Lever U.S. has claimed lost sales of over $5 billion on its Shield and Sunlight products due to the importation of an affiliate's gray market goods.[112] Customers of these products purchase the foreign

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B & H Photo, 589 F. Supp. 1163, 1169 (S.D.N.Y. 1984) (enjoining discount camera dealers from importing photographic equipment bearing identical trademarks of plaintiff's domestic equipment). *See generally* Palladino, *supra* note 43, at 161-66 (discussing genuine goods issues in *Osawa* and *Original Appalachian Artworks*).

106. Appendix, *supra* note 104, at 204-05, (setting forth letter from consumer). The consumer purchased Shield soap at a discount drug store. *Id.* at 204. The consumer used the soap, which turned her washcloth green. *Id.* After noticing that the address on the package was from England, the consumer wrote to Lever U.S. questioning quality of the U.K. Shield. *Id.* at 205. Products that turn out to be different or not under warranty frequently baffle consumers. The consumers often believe that the domestic trademark owner is responsible even though the product contains the foreign trademark and indicates the foreign place of origin.

107. APPENDIX, *supra* note 104, at 197 (reprinting consumer letter). A customer, thinking U.S. Shield had new packaging, bought U.K. Shield. *Id.* After using the U.K. Shield, the consumer noticed an unpleasant smell and wrote to Lever U.S. to express her dissatisfaction. *Id.* The consumer did notice the English address on the package but thought that Lever U.S. might "formulate differently for the British market." *Id.*

108. *See infra* notes 109-23 and accompanying text (describing gray market harms to domestic trademark owners).

109. *See* Baldo, *Score One for the Gray Market*, Forbes, Feb. 25, 1985, at 74 (stating that Duracell spent $150 million over three years promoting its batteries in the United States). Gray market goods are a hot topic in the political sphere. *Id.* Politicians calling for exclusion of gray market goods that are now allowed under the common control exception are labeled protectionists, and their opponents call for a position promoting free trade. *Id.*

110. APPENDIX, *supra* note 104, at 59-60.

111. *See supra* notes 107-09 and accompanying text (discussing ways in which gray market imports decrease domestic sales).

112. APPENDIX, *supra* note 104, at 244.

gray market goods believing that these goods are the domestic soap and detergent and, if disappointed by the quality or performance of the gray market goods, switch to a competing brand.[113] Because gray market goods often are less expensive than the domestic products, distributors sell more of the foreign manufactured goods, and thereby decrease purchases of the domestic trademark owner's good. The distributors also cancel participation in the domestic trademark owner's promotional campaigns.[114]

Perhaps the most subjective, yet the most severe harm to domestic trademark owners is the damage to business reputation.[115] If a gray market good is of inferior quality, the consumer likely will blame the domestic trademark owner simply because of the name on the package.[116] Even if the consumer knows that the product comes from the foreign gray market producer, the consumer may refuse to purchase the domestic trademark owner's product again because of the risk that the product will be inferior.[117] The domestic trademark owner loses not only its immediate market share, but also future sales as a result of its diminished business reputation.

In addition to the problems of consumer confusion and of domestic trademark owners' losses of money and goodwill, multinational corporations can avoid Customs' application of the current common control exception through corporate restructuring.[118] For Customs to exclude gray market goods under section 526 of the Tariff Act and section 42 of the Lanham Act, domestic affiliates of international companies must be separately owned.[119] Otherwise, the common control exception allows importation.[120] Multinational enterprises are beginning to restructure corporate relationships between domestic and foreign affiliates exclusively for the purpose of requiring Customs to exclude gray market goods from the United States.[121]

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113. *Id.*

114. *Id.* at 243-44.

115. *See* Note, *supra* note 99, at 192-94 (discussing economic harm to business reputation and analogizing to advertising theory).

116. APPENDIX, *supra* note 104, at 209-10 (reprinting consumer letter to Lever U.S.). In *Lever Bros.* a consumer wrote Lever U.S. to express dissatisfaction with U.K. Shield soap. *Id.* The consumer noticed the soap was from a Lever U.S. affiliate in England but nonetheless blamed Lever U.S. for the lower quality. *Id.* The consumer wrote, "I think if the product is so different, it is up to you, the manufacturer, to prevent sales or label clearly that the product is different." *Id.*

117. *See* APPENDIX, *supra* note 104, at 197 (discussing letter from consumer noticing fine print displaying British origin but suggesting that consumer would not buy even Lever U.S. Shield again).

118. *See infra* notes 119-23 and accompanying text (discussing costs corporations incur when restructuring to avoid application of common control exception).

119. *See supra* notes 12-22 and accompanying text (explaining relationship between trademark statutes and common control exception).

120. *See supra* notes 12-15 and accompanying text (defining application of common control exception).

121. *See* Steiner & Sabath, *Intellectual Property and Trade Law Approaches to Gray Market Importation and the Restructuring of Transnational Entities to Permit Blockage of Gray Goods in the United States*, 15 WM. MITCHELL L. REV. 433, 440-42 (1989) (describing

This "end run" around the trademark laws demonstrates how tenuous the relationship between corporate affiliation and trademark infringement is with respect to the current common control exception. Corporate restructuring can result in the exclusion of some gray market imports that do not harm consumers or domestic trademark owners.[122] For example, in a situation in which the gray market good is of equal quality, warranted by the foreign company, sold at a lower price, and identified with the foreign manufacturer, a domestic trademark owner still could block importation solely by restructuring the international corporation to avoid the common control exception.[123]

The current common control exception, which allows importation of gray market goods based solely on corporate affiliation, causes consumer confusion and harms domestic trademark owners.[124] Customs should modify the common control exception to eliminate these harms. One proposal that would reduce the problems associated with the current common control exception would be the modification of the common control exception to allow firms under the actual control of the affiliated company to import identical, warranted gray market goods. Importation of these gray market goods would provide consumers with a reliable and cheaper alternative[125] and, consequently, would prevent domestic companies from setting artificially high prices in the United States market.[126]

Supporters of the current common control exception will question the feasibility of such modifications because of the difficulty that Customs officials would face in making infringement determinations.[127] Limiting the common control exception to identical gray market goods would require Customs officials to make a comparison of the domestic product and the

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situations in which international corporations have and could have restructured to avoid importation of gray market goods under Customs common control exception). An example of corporate restructuring to avoid the application of the current common control exception includes an international corporation assigning ownership rights of United States trademark to an independent United States distributor that already had established goodwill in connection with the gray market goods. *Id.* at 441. Another example involved the creation of a foreign umbrella entity which owned the United States marketing operation and the United States trademark and that sold the gray market goods in the United States. *Id.* In both these examples, Customs blocked importation of the gray market goods. *Id.*

122. *Id.*

123. *Id.*

124. *See supra* notes 94-123 and accompanying text (discussing harms that gray market goods cause to consumers and domestic trademark owners).

125. *See* Appendix, *supra* note 104, at 243-44 (stating that gray market Shield soap and Sunlight detergent are sold at lower prices than domestic counterpart); Baldo, *Score One for the Gray Market*, Forbes, Feb. 25, 1985, at 74 (estimating consumers save 20-30% when purchasing gray market goods). *But see In re* Certain Alkaline Batteries, *supra* note 46, at 826 (finding retailers sold gray market batteries at same price as domestic batteries).

126. *See supra* notes 108-14 and accompanying text (discussing gray market goods' economic impact on domestic corporations).

127. *See infra* notes 128-29 and accompanying text (discussing feasibility of modification of common control exception).

gray market good at the time of importation.[128] While this comparison may increase the time spent on infringement determinations, Customs officials' exclusion of nonidentical gray market goods, even if imported by an affiliated foreign company, would decrease the harm and confusion that nonidentical gray market goods cause to consumers.[129]

Even if Customs can determine the quality of gray market goods by an objective comparison with domestic counterparts, Customs officials also must decide when a domestic and foreign company are subject to common control.[130] As currently enforced, the Customs regulations do not elicit enough information about companies' corporate structures to make a meaningful decision about whether to apply the common control exception.[131] However, if Customs revises the regulations to require domestic trademark owners to provide more information about corporate structure, production control, and marketing strategy, the common control exception would become a more effective tool for determining trademark infringement. A domestic trademark owner that shares only a tenuous relationship with an affiliated foreign importer could provide Customs with enough information to exempt the gray market goods from the common control exception and effectively ban importation.[132] Domestic companies should be willing to supply Customs with this information rather than face the vacillating determination under the current common control exception. These revisions of Customs regulations would allow importation of gray market goods when importation best serves the interests of consumers and domestic trademark owners.[133]

A second proposal, short of excluding all gray market goods, is informative labeling or demarking.[134] This process would include either a disclaimer on the gray market package or provide for the eradication of the gray

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128. *See* BRIEF FOR APPELLEE at 14, Lever Bros. Co. v. United States, 877 F.2d 101 (D.C. Cir. 1989) (arguing that Customs officials cannot make infringement decisions at border that require factual determination of quality and goodwill).

129. *Id.* at 29 (stating that Customs does not have to make determination of goodwill if both gray market importer and domestic trademark owner manufacture goods because gray market good has no independent goodwill).

130. *See supra* notes 12-15 and accompanying text (detailing process of applying Customs' common control exception).

131. 19 C.F.R. § 133.21 (1985).

132. *See supra* notes 72-78 and accompanying text (discussing corporate relationship involved in *Lever Bros.*).

133. *See supra* notes 124-29 and accompanying text (explaining benefits to consumers and trademark owners resulting from modification of common control exception).

134. *See* Palladino, *supra* note 43, at 199-200 (giving another treatment of labeling versus exclusion of gray market goods); Sandler, *Gray Market Goods: The Controversy Will Continue*, 13 BROOKLYN J. INT'L L. 267, 274 (1987) (discussing considerations involved in labeling or demarking of gray market goods). In discussions of informative labeling or demarking, courts and commentators stress the importance of a consumer's identification of a trademark. Sandler, *supra*, at 274. Demarking or labeling will not reduce the likelihood of consumer confusion regarding gray market goods because the product packaging is similar or identical and the public often focuses solely on the trademark. Palladino, *supra*, at 199.

market trademark from the package.[135] Some courts have encouraged this method because labeling or demarking informs the consumer that the goods do not come from the domestic trademark owner.[136] Consumers still may choose to purchase gray market goods of inferior quality or gray market goods without warranties if the consumers decide that the lower prices outweigh the risks associated with the gray market goods.[137]

However, problems with labeling or demarking still exist.[138] Consumers may not notice or understand the label, making an unconscious decision to purchase a lower quality or an unwarranted product.[139] Consumers who purchase labeled gray market goods may not comprehend the gray market situation and, consequently, may place the blame for any dissatisfaction on the domestic trademark owner.[140] Demarking of a gray market trademark also does not help consumers because, without a trademark, consumers do not know what they are purchasing.

A third proposal, already in effect in New York,[141] would allow importation of gray market goods but require retailers of gray market goods to post signs informing customers that these goods lack warranties or other features.[142] Violation of this law would result in a fine on the retailer and the opportunity for the customer to return the merchandise within a limited time.[143] Implementing this proposal would relieve the burden on Customs for making infringement determinations and increase the responsibility on the faction that encourages and promotes gray market importation, the retailers.

While this proposal would give some protection to consumers, difficulties similar to those incurred in informative labeling and demarking still would exist.[144] Consumers' ignorance or disregard of the signs would make

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135. Palladino, *supra* note 43, at 199.

136. *See* Note, *supra* note 99, at 204-05 (discussing cases requiring competitors to label competing goods). The United States Supreme Court allowed importation of gray market face powder containing labels that plainly stated foreign products were not connected with domestic products. *Prestonnettes, Inc. v. Coty*, 264 U.S. 359, 369 (1924). The Supreme Court also permitted trademark use on second-hand sparkplugs as long as the labels revealed that the plugs were used. *Champion Sparks Plugs*, 331 U.S. 125, 132 (1947).

137. *See* Note, *supra* note 99, at 204-05 (discussing consumer considerations in purchasing gray market goods).

138. *See supra* notes 139-40 and accompanying text (discussing drawbacks to labeling or demarking).

139. *See supra* notes 106-07 (discussing reactions and motives of consumers to foreign and domestic products at issue in *Lever Bros.*).

140. *See supra* notes 115-17 (relating letters from consumers who blamed dissatisfaction with gray market goods on domestic trademark owner).

141. *See Imports Without Warranty*, N.Y. Times, June 22, 1985, at 52, col. 1 (reporting substance of New York gray market law requiring retailers to post signs). The purpose of the New York legislation is to force merchants to accept the responsibility of informing consumers about gray market goods. *Id.* A spokesman for the Department of Consumer Affairs observed that "just telling people verbally that they are gray market goods just won't cut it." *Id.*

142. *Id.*

143. *See supra* notes 130-40 and accompanying text (discussing limitations on labeling).

144. *Id.*

retailers' signs ineffective, and consumers nevertheless might blame domestic trademark owners for problems with purchases of gray market goods.[145] In addition, implementing a national sign-posting requirement for retailers would result in enormous expenses not only for the retailers, but also for the government, which would have to setup, maintain, and enforce this law.

Of the three proposed modifications mentioned, a rewriting of the common control exception that elicits relevant and specific information about related companies is preferable to informative labeling either at the border or in the marketplace,[146] primarily because informative labeling may not eliminate the consumer confusion or the warranty problems that gray market goods may cause.[147] Customs should except gray market goods from the general prohibitions on importation in section 526 of the Tariff Act and section 42 of the Lanham Act only if the foreign goods are identical to their domestic counterparts, if the foreign affiliates warrant the gray market goods, and if the domestic trademark owner and the foreign affiliate truly share control over production, distribution, and servicing.[148] The current common control exception recognizes the importance of permitting importation of gray market goods if the goods originate from a single source and have a single trademark.[149] However, as *Lever Bros.* illustrates, affiliates of modern multinational corporations do not fit easily into the common control exception.[150] Customs should modify the current common control exception to better reflect the trademark law's policy of protecting consumers and domestic trademark owners.[151] Customs should make an intensive inquiry into the nature of the affiliated companies' corporate relationship and permit importation only of gray market goods that will not confuse consumers or damage the goodwill of domestic manufacturers.[152]

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145. *See supra* notes 12-15 and accompanying text (detailing current common control exception).

146. *See supra* notes 124-45 and accompanying text (discussing three proposals for modifying common control exception).

147. *See supra* notes 138-40 and accompanying text (describing difficulties with informative labeling).

148. *See supra* notes 124-33 and accompanying text (explaining first proposal for modification of current common control exception).

149. *See supra* notes 12-22 and accompanying text (setting out background and application of common control exception in gray market).

150. *See supra* notes 72-86 and accompanying text (illustrating difficulties in applying common control exception to corporate relationship in Lever Bros).

151. *See supra* notes 88-93 (discussing underlying purposes of § 526 of Tariff Act and § 42 of Lanham Act).

152. *See supra* notes 94-133 and accompanying text (discussing harms gray market good can cause and suggesting modification of current common control exception).