October 17, 2006

The Honorable W. Ralph Basham, Commissioner
United States Customs and Border Protection
1300 Pennsylvania Avenue
Washington, DC 20229

Re: Parallel Imports—Lever Rule

Dear Commissioner Basham:

The International Trademark Association (INTA) is writing to invite your attention to the concerns of trademark owners regarding parallel imports (also known as gray market goods). In particular, brand owners are concerned about the ineffectiveness of Customs’ Lever Rule in combating gray market goods that undercut the goodwill of brands and also cause consumer confusion, dissatisfaction, and in some cases risk serious harm. We would like to open a dialogue with your office regarding these matters, specifically on how to improve the implementation and effectiveness of the Lever Rule regulations through the elimination of the disclaimer labeling option that now exists.

INTA is a 128-year-old not-for-profit organization comprised of over 5,000 members. It is the largest organization in the world dedicated solely to the interests of trademark owners. The membership of INTA, which crosses all industry lines and includes manufacturers, service providers, and retailers, values the essential role that trademarks play in promoting effective commerce, protecting the interests of consumers, and encouraging free and fair competition. INTA has a long history of making recommendations to Congress and Customs in connection with parallel import and counterfeiting issues.

Gray Market Goods Problem

Gray market goods touch upon almost all industries that sell goods to consumers. For the IT industry alone, gray market goods are a multi-billion dollar annual problem.¹ In recent years, several federal court cases involving gray market

¹ See Michael Singer, Gray Market a Double Edged Sword, Internetnews.com (January 21, 2005) located at http://www.internetnews.com/bus-news/article.php/3462561; Paul Festa, Net Tightens
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imports have focused on the health and safety problems raised by their importation into and sale in the United States. These concerns have existed for some time, however. The problems arise specifically from the importation of gray market goods that are materially different from their domestic counterparts. Consumers encounter these gray goods and are confused by the differences, generally dissatisfied, and potentially harmed. In our experience, and based on court decisions and the literature on point, they blame the brand owners for this, despite the presence of disclaimer labels.

The materially different gray market goods appear in a variety of product categories. For example, personal care or cleaning products sold for use in some countries are formulated to meet hard water conditions which do not exist in other countries. A brand of toothpaste in one country may taste different from the same brand sold in another country because the brand owner has researched local flavor preferences and tailored the product accordingly. Ingredients in motor oils need to be adjusted according to the climate in which they are intended to be sold.

Of even more significance, gray market medicine and beverages may not meet FDA or other governmental requirements, emergency telephone numbers on the packaging for medicine may be missing or inaccurate, directions may be inapplicable, and the product may be stale or otherwise rendered ineffective. Consumers using these products run the risk not simply of being dissatisfied, but of putting at risk their own health and the health of their families.

**LEVER RULE**

As you know, Customs attempted to address the gray market goods problem and the decision in *Lever Bros. Co. v. United States*, through the implementation of the Lever Rule regulations in 1999. Under these regulations, a trademark owner, who first records its registered mark with U.S. Customs, may petition Customs to stop the importation of any gray market good that bears its mark and materially differs from the authorized domestic goods. The regulations provide that the gray market importer in turn can respond by either obliterating the trademark or applying a special label that states that the goods are physically and materially different from

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4 See cases *supra* at notes 2-3.

5 981 F. 2d 1330 (D.C. Cir. 1993) (prohibiting the unauthorized importation into the United States of physically and materially different gray market goods).

6 19 CFR § 133.23.
authorized products of the U.S. trademark owner. Customs will not detain goods that have this special label.

INTA originally expressed its objection to the planned implementation of the disclaimer option in a May 7, 1998 submission to Customs. In particular, the INTA statement urged Customs not to proceed, because the labeling exception: is inconsistent with the holding of Lever Bros., ignores the rights of trademark owners and consumers, is outside the scope of Customs' authority, and does not promote fair competition.

LEVER RULE IMPACT UNDERCUT

INTA has undertaken a review of the impact of the Lever Rule on the sale and importation of gray market goods in the United States and found that it is very rarely used by brand owners because of their concern about its operation. The use of the label option under the Lever Rule, we have found, presents a risk that a Federal court might not enjoin the gray goods once they have the Lever Rule label applied to them. The court may mistakenly believe that the brand owner who invokes the Lever Rule considers the labeling option to be effective, and is admitting as much by having applied for Lever protection, when in fact it probably does not.

Brand owners do not consider the Lever Rule label to be an effective option, "because labeling will not eliminate consumer confusion [and] the labeling option provision is not in accordance with the Lanham Act." There is ample literature and case law which supports INTA's position that labeling has very little effect in alleviating consumer confusion. The labeling does nothing to address the health and safety concerns that may arise when dealing with goods that are physically and materially different from what the consumer expects. It does not, for example, provide an emergency telephone number or bring a gray market product into compliance with FDA or EPA regulations. Even if the label were effective,

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7 Geoffrey M. Goodale, "The New Customs Gray Market Regulations: Boon or Bust for U. S. Trademark Owners?", 28 AIPLA Quarterly Journal 335 (Fall 2000).
9 The following cases discussed these problems but not the labeling option specifically: Novartis, 2005 U.S. Dist. Lexis 15214 at * 4; see also Bayer Corporation v. Custom School Frames, LLC, 259 F.Supp.2d 503 (E.D.La. 2003)(consent judgment), and PepsiCo, Inc. v. Martin Reyes, 70 F.Supp.2d 1057 (C.D.Cal. 1999) (consent judgment).
another concern is that the label could be removed, and therefore, consumers actually may not encounter it in the marketplace.

As courts have noted, "Gray market goods by their nature, can be difficult to distinguish from genuine goods; they are often similar in composition and appearance to their United States counterparts....[W]hen dealing with the importation of gray goods, a reviewing court must necessarily be concerned with subtle differences, for it is by subtle differences that consumers are most easily confused." The labeling option under the Lever Rule does not address these subtle yet significant differences that cause confusion and undermine the goodwill that trademark owners have earned from consumers.

PROPOSED CHANGES

For these reasons and in light of the risks posed by materially different gray market imports, INTA would like to begin a dialogue with Customs concerning the elimination of the label provision. In conjunction with the elimination of the label provision, we are asking that Customs increase the detention of physically and materially different gray market goods, which in our opinion is consistent with the Lever Bros. decision and recent precedent.

Thank you for considering INTA's position and request with respect to the Lever Rule. We look forward to working with your office to address the concerns of trademark owners, and we invite a member of your staff to contact INTA Washington Representative Jon Kent at (202) 223-6222 to open a dialogue.

Sincerely,

Paul W. Reidl
President

cc: Jon Kent

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