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TRADEMARK OWNER'S GUIDE TO PARALLEL IMPORTS IN THE UNITED STATES

Working with U.S. Customs and Border Protection to Prevent Importation of Gray Market Goods

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I. Overview: Parallel Imports

This Guide is intended to assist trademark owners in working with U.S. Customs and Border Protection ("CBP") to prevent parallel imports in the U.S. It focuses primarily on *Lever* rule regulatory protection available through CBP. Additional information regarding parallel imports in the U.S. and other countries is available in the International Trademark Association Position Paper on Parallel Imports (July 2007), available at http://www.inta.org. Trademark owners may also be able to invoke the assistance of industry-specific agencies, such as the FDA for pharmaceutical products, to prevent parallel imports, which is addressed in Section VI of this Guide. The CBP may aid such agencies in detaining parallel imports without requiring *Lever* rule compliance by the trademark owner, but a full discussion of the relief available through these other agencies is beyond the scope of this Guide.

A. What are Parallel Imports?

Parallel imports, also known as gray market goods, are branded goods that have been purchased through legal channels outside the United States and imported for sale into the United States without authorization from the U.S. trademark owner. Parallel imports are not counterfeit goods because they have been produced by, for, or under license from the trademark owner. However, they may have been formulated or packaged differently for sale in markets outside the United States and not intended for sale domestically by the U.S. trademark owner. It is possible for parallel imports to be sold for a profit, often at a lower price, than similar goods authorized for sale in the United States because of international pricing policies or currency differences.

B. Why are Parallel Imports a Problem?

Materially different parallel imports are problematic for both trademark owners and consumers. For trademark owners, parallel imports often lead to an inability to control the quality of their goods in the United States. Often products may be tailored to the specific tastes of a particular market. If goods intended for foreign consumers are sold without authorization in the United States, the U.S. trademark owner loses the ability to ensure that U.S. consumers are receiving goods designed for their consumer preferences and potentially to satisfy U.S. governmental regulations. Packaging and instructions may be in a language other than English, and may lack domestic telephone numbers for customer support. In the case of electronic goods, issues may arise with goods manufactured for use in countries with different electrical standards than the United States. Products may emanate from a country with different environmental protection laws or waste packaging laws, or may be formulated for conditions that exist in some countries but not others, such as hard water or tropical weather. U.S. consumers who buy gray market goods may not be able to use or enjoy these unauthorized products because of these differences, and may also be left without recourse. Such differences are often material to the purchasing decision, and lead to confusion over whether the products are authorized by the trademark owner. This likelihood of confusion leads to disappointment and can have a real economic impact.

Both trademark owners and consumers may suffer financially as a result of parallel imports. Consumers may find they have wasted money on differently formulated products that do not meet their expectations based on their past experience with the similar product formulated for sale in the United States. Consumers may damage, through unintended improper use, products that came without instructions in English. Additionally, equipment produced for other markets may not carry a valid manufacturer's warranty in the United States, and may not be serviced as readily as products manufactured for the U.S. market. In addition, they may suffer a loss in goodwill in the U.S. if products formulated for foreign consumer tastes and regulations create a negative impression with U.S. consumers. Moreover, trademark owners may find their relationships and contractual obligations for distribution of their goods in the United States to be frustrated by the sales of unauthorized goods by parallel importers.

C. Two Sources of Protection Available

As a general matter, parallel imports are governed by Sections 32, 42, and 43(a) of the Lanham Act (15 U.S.C. §§ 1114(1)(a), 1124 and 1125(a)(1)), and Section 526 of the Tariff Act (19 U.S.C. § 1526).

The CBP will prevent the importation of goods under Section 42 of the Lanham Act only if the trademark owner applies for *Lever* rule protection and demonstrates that the imported goods are physically and materially different than the authorized goods sold in the U.S. *Lever* rule protection is available to the owner of a mark that is registered with the USPTO and recorded with the CBP, even if the owner is a foreign company or the owner is a U.S. company and the foreign goods are manufactured by a corporate affiliate. *Lever* rule protection is also available to a trademark owner who has recorded its trade name with the CBP, provided that the trade name is displayed on the parallel imports. The importer may comply with the *Lever* rule, however, by affixing a certain disclaimer to the goods which allows for their importation.

The CBP will prevent the importation of goods under Section 526 of the Tariff Act without any showing of physical or material differences, but only where the owner of the mark is a U.S. company and the foreign goods are not manufactured by a party under common ownership or control. In addition, in some circumstances the CBP may deny Tariff Act protection where the U.S. trademark owner owns a trademark registration in the country of manufacture. An importer may not defeat the protections of the Tariff Act by use of a disclaimer.

II. Preliminary Steps for Protection Against Parallel Imports

A. Can CBP Regulations Help a Trademark Owner Prevent Unauthorized, Parallel Imports from Coming into the Country?

YES. National customs regulations in the U.S. may help you to prohibit parallel imports. The *Lever* rule, codified in U.S. Customs and Border Protection (CBP) Regulations at 19 C.F.R. §§ 133.2 to 133.27, states that if there are physical and material differences between the unauthorized imported goods and the U.S. goods sold under the same trademark or trade name, the U.S. trademark owner can prevent unauthorized importation.[1] A trademark owner must apply for *Lever* rule protection, as CBP will not apply such protection unilaterally. Even if *Lever* rule protection is granted, however, there are exceptions within the rule. If the unauthorized importer affixes a disclaimer that complies with customs regulations, the goods will be permitted to enter the U.S. unless the trademark owner seeks protection under the Tariff Act. See Section IV(E) below. Also, if the mark is removed from the goods, they will be permitted entry in accordance with CBP's regulations.

[1] This rule was set forth initially in response to *Lever Bros. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993), interpreting Section 42 of the Lanham Act.

INTA has objected to the disclaimer label remedy in the *Lever* rule because it allows for the importation of the parallel imports, despite the existence of material differences. Pursuing the *Lever* rule labeling remedy also may undercut the ability to bring a subsequent district court action against a gray market good that has such a label attached, as a court may be convinced that such a disclaimer actually works, whereas in reality studies have found that they do not effectively dispel confusion. See Section VI(C) below. These considerations should be addressed before seeking protection under the *Lever* rule.

B. How Does a U.S. Trademark Owner Use Existing Law to Prevent Parallel Importation?

It is possible to work in partnership with the CBP[2] to enforce trademark rights at the port of entry to prevent parallel importation. However, having a legally enforceable trademark right in the U.S. is not always enough to invoke the protection of the CBP. CBP regulations require that the U.S. trademark owner register its mark with the U.S. Patent and Trademark Office (USPTO). Common-law rights, state registrations and foreign registrations are not sufficient to trigger CBP action: you must have a valid, federally registered trademark to obtain CBP assistance.

To determine if you can work in partnership with the CBP to prevent parallel importation, you need to ask yourself the following questions:

(1) Do you have trademark rights associated with a product sold both in the United States and abroad?

- If yes, move on to question #2.
- If no, parallel imports currently may not be an issue for your business with respect to trademarks. However, if you have copyrights related to your goods sold both in the U.S. and abroad

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[2] For further information about CBP, visit its website at www.cbp.gov.

you may still have a parallel imports issue. See Section VI(C) below.

(2) Is the trademark(s) that you own registered with the USPTO?

- If yes, you are likely eligible to work with the CBP to prevent parallel imports. Move on to Section III below for more information.

- If no, move on to question #3 to determine if there is anything that can be done.

(3) Is the trademark(s) you own eligible for registration with the USPTO?[3]

- If yes, and if you want to work with the CBP to prevent parallel importation, work with your trademark attorney to obtain federal registration of your mark(s) with the PTO. Once you receive a registration, you may record your registration with CBP and thereafter you will be eligible for CBP protection. See Section III below.

- If no, move on to question #4 to determine if there is anything that can be done.

(4) Do the goods in question bear your company's trade name?

- If yes, you may record your trade name with the CBP. Goods bearing a trade name recorded with the CBP may receive *Lever* rule protection, even if the trade name is not also a registered trademark.

- If no, you won't be able to partner with the CBP under the *Lever* rule to prevent parallel importation. However, other options may exist. See Section VI below.

[3] This is not an easy question to answer without the expertise of an experienced trademark attorney. To make sure this question is answered correctly, please consider seeking the advice of counsel.

III. Determining If Parallel Imports are a Problem for Your Trademark

If you own federal trademark rights in a product sold in the U.S. and other international markets, you may have a problem with parallel imports. Someone other than a licensed distributor of your product may be purchasing the trademarked goods manufactured and sold abroad and importing them into the U.S. without your authorization. Parallel imports can cause confusion among U.S. consumers, cause damage to your company's goodwill, may not be covered by a warranty, and pose a risk to the carefully developed relationships you have with those in your U.S. distribution chain. It is important to you, your customers, and your business partners that only the trademarked goods you intend for sale in the U.S. be made available if the goods sold abroad are different than the goods sold in the U.S. in a way that you think could affect consumer demand and satisfaction. There are some basic questions to ask if you are concerned about parallel imports:

1. In what countries are your products sold?

As the owner of a global trademark, it is important to know in which countries your products are sold. The more countries in which your products are sold, the more likely they are to be vulnerable to parallel importation. Fundamentally, parallel importers are in business to make a profit. If they cannot buy your foreign products at a price that allows them to bear the costs of transport to U.S. markets and still make a profit, it is not worth their effort. You likely don't want to limit where your products are sold merely to avoid parallel imports, but knowing where your products are sold and for what price will help you identify areas where parallel importation is viable for unauthorized importers and, just as importantly, will help you identify from where parallel imports are likely to come.

2. Where are your goods manufactured?

The *Lever* rule, as currently codified in CBP regulations, only applies to goods of foreign manufacture. However, it is quite possible that a U.S. domestic trademark owner may manufacture goods in the U.S. intended exclusively for foreign markets and wish to prevent those very goods from being brought back into the U.S. in the gray market. In fact, since the current CBP regulation were written, U.S. district courts have found that the Lanham Act and the material differences standard apply to U.S. manufactured goods of this kind.[4] Unfortunately, CBP regulations have not been updated since these decisions have issued. It stands to reason, however, that because the CBP is charged with implementing Section 42 of the Lanham Act according to *Lever*, a trademark owner who manufactures goods domestically for exclusive foreign sale should be able to apply for CBP *Lever* rule protection for such goods, consistent with how courts continue to analyze and develop the *Lever* ruling. It should nonetheless be noted that this conclusion has not been formally tested with the CBP and a trademark owner should be aware that the CBP has not altered its regulations in conformity with these subsequent cases. If the goods involved in your case are manufactured in the U.S. for foreign distribution, you should consult your trademark counsel for further guidance or consider other enforcement options. See Section VI.

[4] *See, e.g., R.J. Reynolds Tobacco Co. v Premium Tobacco Stores, Inc.*, 71 U.S.P.Q.2d 1670 (N.D.Ill. 2004), *aff'd* 426 F.3d 690 (7th Cir. 2006) (finding the fact that the foreign-intended goods were manufactured in the U.S. did not preclude a finding of infringement under the Lanham Act, citing *Lever Brothers Co. v. United States*, 877 F.2d 633 (1st Cir. 1992)).

3. Are there differences between the U.S. goods bearing your trademark and the foreign manufactured goods, and are these differences *physical and material*?

The *Lever* rule can be relied on to prevent parallel importation when there are physical and material differences between the U.S. goods and the foreign manufactured goods bearing the same mark, as such differences may lead to a likelihood of consumer confusion. This confusion results in U.S. consumer expectations not being met which may diminish the U.S. trademark owner's goodwill. The *Lever* rule has been codified by CBP regulations, which provide that the differences must be both physical and material.

According to CBP regulations, *physical and material* differences may include, but are not limited to, considerations of:

(1) The specific composition of both the authorized and gray market product(s) (including chemical composition);

(2) Formulation, product construction, structure, or composite product components, of both the authorized and gray market product;

(3) Performance and/or operational characteristics of both the authorized and gray market product;

(4) Differences resulting from legal or regulatory requirements, certification, etc.;

(5) Other distinguishing and explicitly defined factors that would likely result in consumer deception or confusion as proscribed under applicable law.

19 C.F.R. § 133.2(e).

Differences which have been deemed by CBP to be physical and material include differences in packaging and labeling, languages other than those used on U.S. products being used in packaging or in product information, different ingredients being used to produce the products, and disparities in warranty protections. A summary of representative rulings on *Lever* rule applications appears below:

Date of Notice of Grant	***Applicant and Mark(s)***	**Stated Basis for CBP Ruling Granting *Lever* Rule Application**
10/10/2008 CUSTOMS BULLETIN AND DECISIONS, VOL. 42 NO. 45, OCT 30, 2008, pp. 5-6	*Colgate-Palmolive Company* *COLGATE; COLGATE* *(plus design)*	"CBP has determined that the above-referenced gray market COLGATE toothpaste products differ physically and materially from the COLGATE toothpaste products authorized for sale in the United States in one or more of the following respects: packaging not presented as required with U.S. Food and Drug Administration's ''drug facts'' labeling requirements; measurement of net contents differs; products distributed by an entity other than Colgate-Palmolive Company in New York; products certified by foreign dental associations and not by American Dental Association; products are labeled in or contain a foreign language; product packages have additional designations on them; and products have ingredients not found in U.S. authorized products."
10/3/2008 CUSTOMS BULLETIN AND DECISIONS, VOL. 42 NO. 45, OCT 30, 2008, p. 7	*John Wiley & Sons, Inc.* *Scientific and technical text book, written by Erwin Kreyszig, entitled <u>Advanced Engineering Mathematics</u>*	"CBP has determined that the gray market editions differ physically an materially from their correlating edition authorized for sale in the United States with respect to the following product characteristics: product construction, durability, quality, appearance, packaging, market pricing, and differences due to regulatory standards."

Date of Notice of Grant	***Applicant and Mark(s)***	**Stated Basis for CBP Ruling Granting *Lever* Rule Application**
10/17/2008 CUSTOMS BULLETIN AND DECISIONS, VOL. 42 NO. 46, NOV 6, 2008, pp. 1-2	*Embotelladora Aga Del Pacifico, S.A. de C.V.* *AGA carbonated soft drinks*	"CBP has determined that the above-referenced gray market AGA carbonated soft drink products differ physically and materially from the AGA carbonated soft drink products authorized for sale in the United States in one or more of the following respects: different chemical composition between the products authorized for sale in the United States and the products distributed in Mexico, including ingredients found in the Mexican products that are banned in the United States by the U.S Food and Drug Administration; different product construction and labeling, including lack of United States product specification on Mexican bottles, as well as written [sic] that is in Spanish only, and differing trade dress exhibited by the United States and Mexican products."
8/12/2009 CUSTOMS BULLETIN AND DECISIONS, VOL. 43 NO. 35, AUG. 27, 2009, pp. 43-44	*Chopard USA Ltd.* *CHOPARD GENÉVE (stylized); CHOPARD (stylized); and CHOPARD*	"CBP has determined that the above-referenced gray market CHOPARD and CHOPARD GENÈVE watches differ physically and materially from the CHOPARD and CHOPARD GENÈVE watches authorized for sale in the United States in one or more of the following respects: accompanying documentation contains a foreign language; differences in warranty documentation due to statutory and regulatory standards; and products lack a valid manufacturer's warranty."
1/11/2010 CUSTOMS BULLETIN AND DECISIONS, VOL. 44 NO. 5, JAN. 27, 2010, pp. 18-19	*Red Bull GmbH* *RED BULL*	"CBP has determined that the gray market energy drink products differ physically and materially from their correlating drink products authorized for sale in the United States with respect to the following products characteristics: different in language, indicia, or phrases on can; different distributor contact information; different nutritional, volumetric, and product information; and the absence of United States quality control information."

Date of Notice of Grant	*Applicant and Mark(s)*	Stated Basis for CBP Ruling Granting *Lever* Rule Application
11/19/2010 CUSTOMS BULLETIN AND DECISIONS, VOL. 44 NO. 50, DEC. 8, 2010, pp. 1-2	*Arla Foods amba* *PUCK*	"CBP has determined that certain cream and processed cheese products bearing the PUCK trademark are physically and materially different from the PUCK articles authorized by Arla Foods amba for importation into the United States. Specifically, CPB has determined that the above-referenced gray market products differ from those authorized for importation in the United States in the following respects: the labels on the gray market goods lack nutrition information, serving size, amount of nutrients and caloric breakdown, rendering it misbranded food under the Food, Drug and Cosmetic Act, 21 U.S.C. §343; the net contents of the gray market can is not expressed in ounces as required by the Fair Packaging and Labeling Act, 15 U.S.C. §1453(a)3(A)(i); the gray market goods are not in compliance with the Animal Health Protection Act, 7 U.S.C. § *et seq.* and 9 CFR §94.16, which prohibits the importation of milk products from regions where the animals are infected with foot-and-mouth disease and rinderpest."

It is important for the U.S. trademark owner to know of the differences between the U.S. and foreign manufactured goods, in order to assert properly to the CBP that the difference is *physical and material.* This is a tougher standard than that applied in the federal courts or before the International Traded Commission. See Section VI below. As the above cases reflect, however, certain differences as to packaging have been found by the CBP to be physical and material.

IV. Practical Considerations: Prepare for Enforcement with U.S. Customs

A. Register and Record Your Trademark

The first step, if it has not already been done, is registering your trademark with the USPTO. The next step in preparing for enforcement of your trademark rights with the CBP is recordation of your federally registered trademark with the CBP. Using the CBP's Intellectual Property e-Recordation (IPRR), your trademark can be recorded online. Simply visit https://apps.cbp.gov/e-recordations. A fee of $190.00 is charged for each class of goods of a trademark the applicant wishes to record. Among other information, you will be required to provide: (1) the name, complete business address and citizenship of the trademark owner; (2) the country of manufacture of goods bearing the recorded trademark; (3) the names and addresses of any persons or companies authorized to use the trademark; and (4) the identity of any parent or subsidiary company or other foreign company under common ownership or control which uses the trademark abroad. While the CBP regulations suggest that *Lever* protection may be sought as part of the initial recordation process, in fact trademark owners typically record their marks first and file a separate application for *Lever* rule protection later, as the recordation form does not request the information to make the required showing under *Lever* and a *Lever* rule application can take several months or more to be processed. Once a mark is recorded with the CBP, its *Lever* rule status will be denoted in the IPR database as follows:

- "Y" if no one other than trademark owner or designee may import genuine articles bearing trademark.
- "N" if gray market goods may be imported without restriction.
- "L" if *Lever* rule protection has been granted.

IPRR recordation is just the initial step in working with the CBP to enforce your trademark rights and will not, without more, result in *Lever* rule protection. The next steps are requesting *Lever* rule protections and developing an enforcement strategy with respect to both parallel imports and counterfeit goods. To get started determining what plan of action may work best for you and your business, you can visit the CBP

Intellectual Property Rights (IPR) resources at www.cbp.gov/xp/cgov/trade/priority_trade /ipr/. Through the IPR resource page you can find valuable information and materials to help you set up your own enforcement strategy. Information is available at www.cbp.gov/xp/cgov/trade/priority_trade/ipr/pubs/ipr_assistance.xml.

The following sections provide an overview of some of the things that you can do to start preparing your enforcement strategy in cooperation with the CBP.

B. Request *Lever* Rule Protection from the CBP for Protection Against Known Parallel Imports

After recording your trademark(s) with the CBP, you can provide additional information regarding gray market imports in the form of a request for *Lever* rule protection. Such a request should refer to the trademark(s) recorded with the CBP and provide information regarding the gray market imports as well as specificity regarding the physical and material differences between the authorized product(s) and the gray market imports. Most *Lever* rule requests are in the form of a letter with attachments, which provide a detailed comparison between the genuine U.S. goods and the gray market goods sought to be excluded. Your *Lever* rule application should persuasively demonstrate the physical and material differences between the products. Upon receipt of such a request, CPB will publish an acknowledgement in the Customs and Border Protection Bulletin (the "Bulletin"). If and when *Lever* rule protection is granted, acknowledgment of the grant will be published in the Bulletin as well.

C. Provide Information Regarding Your Products to the CBP for Protection Against Parallel Imports and Counterfeits

The CBP can better assist you if they know what to look for. Creating a brief, easy-to-reference Product Identification Training Guide (PITG) for the CBP personnel to use is an invaluable tool for stopping gray market goods and counterfeits at the border.

CPB has a guide that you can use to help develop your PITG, which you can retrieve at www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/pubs/cpg_final_090306.ctt/cpg_final_090306.pdf. You should consult the CBP guide for specific information to include in your PITG.[5] Generally speaking, the information contained in a well-written PITG includes:

- **Your company information**
- **Identification of the trademark, including registration and recordation information**
- **A photograph of the product bearing the trademark**
- **Other product information which may distinguish legitimate imports from gray market goods and counterfeits such as packaging information, product size, etc.**
- **Product manufacture and distribution information for legitimate authorized imports**
- **Expected mode of transport of potential parallel imports and counterfeits**
- **How to identify unauthorized goods**

An example of a PITG can be found at the end of this document, attached as Appendix A. Once you have completed your PITG, you may email it to iprpolicyprograms@dhs.gov. It will be posted on the CBP intranet, and agents at all ports will have access to it.

Once you have obtained *Lever* rule protection and/or have a claim under the Tariff Act, in addition to creating a PITG, one of the most effective things you can do to help the CBP is to identify for them where and how your authorized goods routinely enter the U.S. If you can anticipate which ports of entry will be used to import unauthorized

[5] PITG's have traditionally been designed and used in the case of counterfeit products, but there is no reason that a PITG would not be equally useful in the case of parallel imports where *Lever* rule protection has been granted.

goods, alert CBP. Once you know what ports to focus on, contact CBP personnel at those ports to provide them with your PITG and to set up on-site education sessions.

D. Report Illegal Import Activity to the CBP

Trademark owners should immediately report known violations to the CBP. There are several methods for reporting illegal activity to the CBP, including:

- e-Allegations system. You may use this online reporting form, which can be filled out anonymously, to report known or suspected violations. The form may be found at www.apps.cbp.gov/allegations. This is the CBP's preferred method of notification.

- 1-800-BE ALERT. Call CBP to report violations at this hotline, which has an automated voicemail system, and also provides assistance from officials.

- IPR Help Desk. Contact the IPR Help Desk at 562-980-3119 x252 or via email at irp.helpdesk@dhs.gov with information regarding goods entering the U.S., or for questions regarding CBP procedures.

E. Set Up a Trademark Security Plan to Help You Identify Where Unauthorized Imports are Entering the United States

If you want to identify where unauthorized goods are coming from, a coordinated effort will likely be required. A Trademark Security Plan that utilizes a number of different resources to monitor the marketplace for unauthorized goods is an excellent strategy. Consider the following:

1. **Educate your own business people on unauthorized sales.**

2. **Create a process internally for reporting suspected unauthorized sale issues, including a central person(s) to receive reports.**

3. **Consider involving key stakeholders (e.g., fans, clients, outside vendors, partners, etc.) to report on possible unauthorized sales.**

4. **Clearly prohibit parallel importing, as well as sales to suspected parallel importers, in agreements with manufacturers/distributors and keep open lines of communication to help each other identify**

unauthorized goods.

One final thing to look out for is the use of disclaimers by parallel importers. CBP regulations state that even if parallel imports are materially different than the U.S. goods, they can still be imported if a certain disclaimer is affixed to them. CBP regulations state that parallel imports:

> shall not be detained . . . where the merchandise or its packaging bears a conspicuous and legible label designed to remain on the product until the first point of sale to a retail consumer in the United States stating that: **This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.** The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container.

19 C.F.R. § 133.23(b).

It is important to know how the CBP defines a properly affixed disclaimer, as set forth above, because parallel imports with an insufficient disclaimer may still be stopped at the point of entry.

If you are a U.S. trademark owner, and the foreign manufactured goods were not made under the authority of an entity under your common ownership or control, you may be eligible for Tariff Act protection independently of the *Lever* rule. In those circumstances, the goods will be excluded even if there are no physical or material differences and/or even if a *Lever* disclaimer is used. See Section I(C).

V. Working with U.S. Customs on Suspected Parallel Imports

A. What to Expect from Customs

Once you have developed and implemented a Trademark Security Plan, recorded your federally registered trademark(s) with the CBP, received a *Lever* rule protection grant, and preferably provided the CBP with your PITG and conducted on-site training sessions with CBP personnel, the next step is to be prepared to act quickly when the CBP informs you that they have detained suspected unauthorized goods. The CBP, within thirty business days of detention, will contact you with information related to the suspected unauthorized merchandise, such as date of importation, port of entry, description of merchandise, quantity, and country of origin. The CBP may, upon request, provide samples or detailed photographs of the goods.

Remember that the CBP doesn't always know right away if the goods are counterfeit or parallel import or otherwise, and they will rely on you for assistance.

B. How Can You be Prepared to Assist?

1. Be ready quickly to investigate the goods and share the information with the CBP.

It is important to remember that the CBP may only detain for thirty business days goods suspected of infringing intellectual property rights. If contacted by the CBP, the trademark owner should be prepared to move quickly to inspect the suspected goods in order to demonstrate infringement before the expiration of the temporary detention period. Otherwise the CBP may allow entry of the goods. Absent clear evidence of counterfeit, the CBP will often allow entry of the goods directly if there is no *Lever* rule protection. If the *Lever* rule applies, the CBP may contact the importer to inquire about a lack of physical or material differences or indicate that a *Lever* disclaimer is sufficient to allow entry.

2. Be prepared to clearly demonstrate a "physical and material difference" to the CBP.

By being ready to provide rapid assistance to the CBP, you are in the best position to enforce your trademark rights at the border. The CBP is authorized by U.S. law to permanently seize unauthorized merchandise. The faster you provide proof of a physical and material difference with respect to the detained goods, the easier it will be for the CBP to issue a Notice of Seizure to the unauthorized, parallel importer.

VI. Other Enforcement Options

Some trademark owners prefer to seek protection against parallel imports by working with the CBP, as it is a relatively low-cost enforcement mechanism and the parallel importer may not contest the matter. Not every trademark owner can work with the CBP to enforce its trademark rights at the border, however. For example, if you have a trademark or trade name that is not or for some reason cannot be registered with the USPTO, CBP recordation and enforcement is not an option. Or you may be faced with a situation in which the parallel importer is using or is willing to apply a *Lever* rule disclaimer to the goods, and the Tariff Act does not apply. This does not mean, however, that you are powerless to enforce your rights in other ways. Briefly, some of your other options are:

A. Enforcement Through Other Regulatory Agencies

- If the gray market goods do not comply with the regulations or laws enforced by a federal agency other than the CBP, it may be possible to work with that agency to enforce your rights and stop the importation of these gray goods. For example, the Food and Drug Administration ("FDA") may take action to block the importation or sale of food, drug, or cosmetic products that do not comply with its ingredient or labeling regulations.

- In the case of gray market prescription pharmaceuticals, CBP may work with the FDA to address violations, with the FDA taking the lead role in directing inspections and detentions made by CBP. The authority to take action over these regulatory violations does <u>not</u> require a trademark owner to seek *Lever* rule protection. It is usually best to contact the FDA first in these situations, and then to have the FDA contact CBP about the steps to take in stopping the importation of the gray market pharmaceuticals at issue.

B. International Trade Commission (ITC) Proceeding

- Trademark-related claims may constitute a violation of Section 337 of the Tariff Act, which grants the ITC jurisdiction to investigate claims of trademark infringement. (19 U.S.C. § 1337)

- ITC proceedings are fast paced, typically concluding within 12 to 15 months.

- The ITC cannot award damages, but can issue exclusion orders which are enforced by the CBP and bar the importation of the infringing items.

- The ITC may not view a disclaimer as an effective way of eliminating likelihood of confusion.

- The ITC considers whether differences are material without regard to whether they are also physical (an advantage over the *Lever* rule.

- The ITC can also bar imports that infringe U.S patents and copyrights.

C. District Court Action for Injunction and Damages

- Sections 32, 42, and 43(a) of the Lanham Act (15 U.S.C. §§ 1114(1)(a), 1124 and 1125(a)(1)) and Section 526 of the Tariff Act (19 U.S.C. § 1526) provide a basis to bring claims in federal district court against parallel importers for damages and injunctive relief.

- Federal courts have the power to enjoin the importation of gray market goods, but such injunctions are enforced by the trademark owner through the federal courts and not the CBP.

- Federal district courts may not view a disclaimer as an effective way of eliminating likelihood of confusion.

- Most federal courts consider whether differences are material without regard to whether they are also physical.

- It is possible to file a district court action simultaneously with an ITC proceeding, although the district court action may be stayed pending the outcome of the ITC proceeding.

D. Copyright-Based Actions as Alternative to Trademark-Based Actions

- If you cannot register your trademark, does your product consist of or bear a design, graphic element, or text that can be registered under U.S. copyright law? Is your product of a type that is otherwise subject to copyright registration? If so, you may be able to use copyright law to prevent importation of gray market goods manufactured abroad that consist of or bear your copyrighted work, through the courts and the ITC, but not CBP. The current CBP regulations prohibit the importation of unlawfully made copies, but not parallel imports. See 19 C.F.R. § 133.42.

- The Copyright Act allows the copyright owner exclusively to control the first sale of an authorized copy. Current U.S. jurisprudence provides that goods manufactured and first sold abroad cannot be sold again in the U.S. without the U.S. copyright owner's authorization. If the goods were first manufactured or sold in the U.S., there is no remedy.

- If a trademark owner obtains a U.S. copyright registration for some aspect of its product or product packaging (which requires that a requisite level of originality and creativity be shown), it may record its copyright registrations with the CBP. Current CBP regulations do prohibit the importation of pirated or counterfeit goods, but do not prohibit the importation of copyrighted goods which were manufactured and first sold abroad with authorization. Therefore, trademark owners should seek relief through the district courts or the ITC to address gray market copyright infringement.

- The enumeration of material issues that could arise in an action under copyright law exceeds the scope of this Guide. Accordingly, trademark owners are encouraged to seek advice from appropriate copyright counsel before considering any such action.

E. Patent-Based Actions as an Alternative

- In addition to the foregoing options involving trademarks and copyrights, you may also be able to use patent law to prevent U.S. importation of goods intended for foreign markets, provided that the importation would constitute a patent infringement in the U.S.

- The ITC may also issue exclusion orders pursuant to Section 337 of the Tariff Act for a finding of patent infringement, and the CBP will enforce such orders.

- If the foreign goods are covered by patents owned by the U.S. trademark owner as well, then issues of exhaustion of U.S. patent rights would also need to be considered. Although a full examination of exhaustion of U.S. patent rights is beyond the scope of this Guide, we note that the U.S. Court of Appeals for the Federal Circuit adopted in 2001 a general requirement that an authorized sale occur in the United States before the U.S. patent rights are exhausted.

- If patent rights are involved, patent counsel should be consulted.

VII. Summary

This Guide describes a number of steps that trademark owners can take to curtail parallel imports by working cooperatively with the CBP. When evaluating a potential parallel import situation, the following checklist may be helpful:

- Do the accused imported products bear a trademark that has been registered with the PTO and recorded with the CBP, or a trade name that has been recorded with the CBP?

- Are the goods in fact gray market goods, or counterfeit goods for which no physical and material differences need be shown? Note that products manufactured by a factory during an unauthorized "second shift" without the trademark owner's consent are generally considered counterfeits rather than gray market goods.

- Can the trademark owner show physical and material differences between the authorized goods and the accused imported goods?

- Are the imported goods of foreign manufacture?

- Do the imported goods have a specific "*Lever*" disclaimer ("This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.")?

- Does the trademark owner have time to pursue a *Lever* rule application with the CBP, which typically takes several months to process?

- Is the trademark owner a U.S. company eligible for Tariff Act protection, so that it can seek to exclude certain parallel goods without showing physical and material differences?

- Are there factors that suggest that an action before the ITC or district court would be more productive than seeking protection through the CBP? See Section VI.

Trademark owners should also consider enforcing their copyright and patent rights in appropriate circumstances.