Customs Update

Steven S. Weiser & Ari L. Kaplan

A primer for Customs’ new regulations on gray market imports

In March, following a judicial order, Customs’ most recent effort to make its gray market regulations “black and white” (i.e., understandable) took effect. The new regulations feature certain pitfalls, which owners of registered U.S. trademarks, as well as importers of gray market goods, should be aware of.

Gray market goods, sometimes referred to as “parallel imports,” are genuine products imported without the authorization of the registered U.S. trademark owner.

Before Customs’ recent policy change, the agency took the position that imported goods, bearing genuine trademarks and produced and imported by affiliated parties or those with common ownership or control, were permitted entry without restriction.

Customs determined that this kind of issue was best left up to the companies themselves rather than the government.

However, the court in Lever Brothers Co. vs. United States (981 F.2d 1330 (D.C Cir) 1993) disagreed.

It made a distinction between foreign-made goods bearing registered U.S. trademarks identical to those products distributed in the United States, and goods physically and materially different from goods produced or distributed in this country.

Court rules gray goods can cause confusion

Accordingly, the court determined that Customs’ treatment of physically and materially different goods bearing trademarks identical to those of items sold in the United States have the potential to cause consumer confusion and, therefore, unregulated importation should be avoided.

To illustrate this point, consider the following example. Frank Johnson Industries Worldwide is an American company with a U.S. affiliate, Frank Johnson U.S., that produces skin cream under the Frank Johnson trademark.

It also has a British affiliate, Frank Johnson UK, which produces a similar type of cream using an identical trademark registered in Britain.

While both products are skin creams, the British version has a much higher percentage of oil, is distributed in different colors, and is packaged differently from those distributed by Frank Johnson in the United States.

Under Customs’ former policy, the British version would have likely been permitted to enter the United States without restriction since the merchandise possessed a genuine trademark and the parties involved were affiliated or under common ownership or control.

Under the current policy, imports of such items will be subject to greater scrutiny.

However, registered trademark owners, who have also recorded their trademarks with Customs, must file an application requesting this protection.

Description of goods needed to get Lever-Rule protection

In describing what it has designated as “Lever-Rule” protection, Customs identified certain factors that importers must highlight in reporting physical and material differences.

They include the composition, formulation, construction and structure of both the foreign and domestic goods at issue, any differences in certification requirements and other distinguishing factors that might result in confusion by prospective consumers.

Once an application is approved, imports of physically and materially different gray market goods, unauthorized for importation by the U.S. trademark owner though bearing genuine U.S. trademarks, will be subject to detention by Customs.

Goods must be labeled to avoid substantial fines

To avoid such actions and possible seizure (followed by forfeiture proceedings), such articles must bear a label conspicuously located on the product or its packaging that states this product is not a product authorized by the U.S. trademark owner for importation and is physically and materially different from the authorized product.

Failure to comply with these regulations could result in substantial civil penalties. In lieu of this label, to receive approval to import its goods, the importer may try to prove that the merchandise is not physically and materially different, or that the U.S. trademark owner authorized the importation.

While Customs regulations provide restrictions for both gray market articles and goods having their registered trademarks recorded, importers of products bearing genuine U.S. trademarks must be aware of these rules.

The recent change in Customs’ policy concerning gray market goods bearing genuine trademarks that are physically and materially different from domestic items provides importers and U.S. trademark owners with a clearer policy addressing treatment of these articles.

But it must be understood that the new policy requires affirmative action on their part. Trademark owners must request protection before importers are required to label their goods (or demonstrate that they qualify under an exception).

On balance, trading in gray market goods still can be profitable, but U.S. trademark holders and gray market importers are entering a new phase of the ongoing battle between them for U.S. market share.