In the Matter of

CERTAIN ALKALINE BATTERIES

Investigation No. 337-TA-165

USITC PUBLICATION 1616

NOVEMBER 1984

United States International Trade Commission / Washington, D.C. 20436

UNITED STATES INTERNATIONAL TRADE COMMISSION

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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of CERTAIN ALKALINE BATTERIES	)	Investigation No. 337-TA-165

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NOTICE OF ISSUANCE OF EXCLUSION ORDER

AGENCY: U.S. International Trade Commission.

ACTION: Notice is hereby given that the Commission has issued a general exclusion order in the above-captioned investigation.

AUTHORITY: 19 U.S.C. § 1337.

SUPPLEMENTARY INFORMATION: The Commission determined that there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) in the importation and sale of certain alkaline batteries. The Commission found that all respondents had engaged in unfair acts by reason of registered trademark infringement, misappropriation of trade dress, and false designation of origin in the unauthorized importation and sale of certain alkaline batteries with the DURACELL trademark and trade dress, and that all respondents, except for respondent Continent-wide Enterprises, Ltd., had committed unfair acts by reason of violation of the Fair Packaging and Labeling Act (15 U.S.C. §§ 1452 and 1453.

The Commission determined that a general exclusion order pursuant to section 337(d) is the appropriate remedy for the violations of section 337 found to exist; that the public interest considerations enumerated in section 337(d) do not preclude such relief; and that the amount of the bond during the Presidential review period under section 337(g) shall be 75 percent of the entered value of the imported articles.

Copies of the Commission's Action and Order, the Opinions issued in connection therewith, and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, Docket Section, U.S. International Trade Commission, 701 E Street NW., Washington, D.C. 20436, telephone 202-523-0471.

FOR FURTHER INFORMATION CONTACT: William E. Perry, Esq., Office of the General Counsel, U.S. International Trade Commission, telephone 202-523-0499.

By order of the Commission.

Kenneth R. Mason
Secretary

Issued: November 5, 1984

UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C. 20436

In the Matter of CERTAIN ALKALINE BATTERIES	)))))	Investigation No. 337-TA-165

COMMISSION ACTION AND ORDER

Background

A complaint was filed with the Commission on August 16, 1983, by Duracell, Inc. alleging unfair acts and methods of competition in the unauthorized importation and sale of certain alkaline batteries. The Commission on September 21, 1983, instituted the above-captioned investigation to determine whether there is a violation of section 337 of the Tariff Act of 1930 (19 U.S.C. § 1337) in the importation of certain alkaline batteries into the United States, or in their sale, by reason of (1) registered trademark infringement; (2) misappropriation of trade dress; (3) false representation and false designation of origin; and (4) failure to identify the quantity of the contents of imported packages, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States. 48 Fed. Reg. 43106.

On July 10, 1984, the presiding officer issued an initial determination that there is a violation of section 337 in the unauthorized importation and sale of certain alkaline batteries. Specifically, the ALJ found that the following unfair acts had the tendency to substantially injure an industry, efficiently and economically operated, in the United States: (1) registered trademark infringement; (2) misappropriation of trade dress; (3) false designation of origin; and (4) violation of the Fair Packaging and Labeling Act (15 U.S.C. §§ 1452 and 1453.

On August 10, 1984, the Commission determined to review certain issues in the initial determination, viz., registered trademark infringement, misappropriation of trade dress, false designation of origin, and effect or tendency to substantially injure an industry, efficiently and economically operated, in the United States.

A notice requesting written comments on those issues and on the issues of remedy, the public interest, and bonding was published in the Federal Register on August 15, 1984 (49 Fed. Reg. 32688). The notice also requested amicus briefs on the trademark issues and set a date for the public hearing. In addition to submissions from the parties, the Commission received submissions from interested members of the public and the U.S. Customs Service. A public hearing was held by the Commission on September 17, 1984.

Action

Having reviewed the record in this investigation, including the aforesaid written submissions and the testimony at the public hearing, the Commission (Chairwoman Stern and Commissioner Rohr dissenting as to remedy) has determined to issue a general exclusion order prohibiting entry of foreign DURACELL alkaline batteries in the major cell sizes, "AA" (MN 1500), "AAA" (MN 2400), "C" (MN 1400), "D" (MN 1300), and "9-volt" (MN 1604), that infringe Duracell, Inc.'s trademark, U.S. Trademark Registration No. 793,273, or its copper and black trade dress, except under license from or with the permission of Duracell, Inc. The Commission also has determined that the public interest factors enumerated in section 337(d) (19 U.S.C. § 1337(d)) do not preclude issuance of such an exclusion order, and that the bond during the Presidential review period should be in the amount of 75 percent of the entered value of the imported articles.

Order

Accordingly, it is hereby ORDERED THAT--

1. Foreign DURACELL alkaline batteries in the major cell sizes, "AA" (MN 1500), "AAA" (MN 2400), "C" (MN 1400), "D" (MN 1300), and "9-volt" (MN 1604), that infringe Duracell, Inc.'s registered trademark, U.S. Trademark Registration No. 793,273, or its copper and black trade dress are excluded from entry into the United States, except (1) as provided in paragraph 2 of this order or (2) under license from or with the permission of Duracell, Inc.;

2. The alkaline batteries ordered to be excluded are entitled to entry into the United States under bond in the amount of 75 percent of the entered value of the subject articles, from the day after this order is received by the President pursuant to subsection (g) of section 337 of the Tariff Act of 1930, until such time as the President notifies the Commission that he approves or disapproves this action, but, in any event, no later than 60 days after the date of such receipt;

3. Notice of this Action and Order shall be published in the Federal Register;

4. A copy of this Action and Order and of the Commission Opinions issued in connection therewith shall be served upon each party of record in this investigation and upon the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and the Secretary of Treasury; and

5. The Commission may amend this Order in accordance with the procedure described in 19 C.F.R. § 211.57.

By order of the Commission.

Kenneth R. Mason
Secretary

Issued: November 5, 1984

In the Matter of CERTAIN ALKALINE BATTERIES	Investigation No. 337-TA-165

VIEWS OF VICE CHAIRMAN LIEBELER, COMMISSIONER ECKES, AND COMMISSIONER LODWICK 1/

In July of 1984, the administrative law judge ("ALJ") issued his initial determination ("ID") in Certain Alkaline Batteries, Inv. No. 337-TA-165, that there is a violation of section 337.

The Commission determined to review two issues in that ID:

1. Whether there is a violation of section 337 by reason of infringement of U.S. Trademark Registration No. 793,273, misappropriation of trade dress, and false designation of origin by certain imported alkaline batteries.

2. Whether imports of genuine Duracell batteries have caused substantial injury to Duracell, Inc.

On the basis of that review, we determine that there have been unfair methods of competition and unfair acts under section 337 in the importation of foreign DURACELL batteries into the United States which have the effect or tendency to destroy or substantially injure a domestic industry. We also determine that a general exclusion order is the appropriate remedy, that the public interest does not preclude the issuance of relief in this investigation and that a bond of 75 percent is also appropriate.

1/ The following abbreviations are used in this opinion:
ALJ = Administrative Law Judge;
ID = ALJ's Initial Determination;
CX = complainant's exhibit;
RX (respondent's name) = respondent's exhibit;
TR = transcript of evidentiary hearing before ALJ;
CTR = transcript of Commission hearing on ALJ's initial determination on violation and on remedy, public interest, and bonding;
FF = ALJ's finding of fact.

PROCEDURAL BACKGROUND

On August 16, 1983, complainant Duracell, Inc. ("Duracell") filed a complaint with the Commission alleging that proposed respondents had violated section 337. The Commission issued a notice of investigation which was published in the Federal Register on September 21, 1983 (48 Fed. Reg. 43106). The investigation was to determine whether there is a violation of section 337 in the unauthorized importation of certain alkaline batteries, or in their sale, by reason of the alleged (1) infringement of a registered trademark; (2) misappropriation of trade dress; (3) false representation and false designation of geographic origin; (4) failure to mark country of origin; and (5) failure to identify the quantity of the contents of imported packages. The complaint further alleged that the effect or tendency of the unfair methods of competition and unfair acts is to destroy or substantially injure an industry, efficiently and economically operated, in the United States.

In its complaint, Duracell named 14 respondents. Only one respondent, Dr. Mark Nussbaum d/b/a Continent-Wide Enterprises, Ltd. (hereinafter referred to as CWE), participated in the investigation. Three respondents--Masel Supply Co., Merchant's Buying Syndicate Co., and Webb International, Inc.--were terminated from the investigation on the basis of settlement agreements. The remaining respondents were found to be in default.

On March 6, 1984, K mart Corp. ("K mart") filed a motion to intervene as a non-party respondent. ALJ Order No. 22 granted K mart's motion in part and permitted it to intervene as a non-party and to file a post-hearing brief on the gray market issues. 2/

2/ For the definition of the gray market issue, see discussion, infra, at p. 6.

During the course of the investigation, CWE refused to supply Duracell with any documents which disclosed the identities of its suppliers. As a result, at the prehearing conference, the ALJ imposed evidentiary sanctions on CWE finding that: (1) CWE had not instructed its suppliers in the proper procedure for handling, shipping, and storing batteries; and (2) CWE's suppliers and shippers did not handle, ship and store foreign Duracell batteries in a manner calculated to prevent product deterioration. 3/ The ALJ also ruled that CWE was precluded from introducing any evidence which would contradict the two inferences and from objecting to the introduction and use of secondary evidence to show what the withheld evidence would have shown. 4/

The ALJ conducted an evidentiary hearing on April 9-13, 1984. On July 10, 1984, the ALJ issued his ID that there is a violation of section 337 on the basis of (1) infringement of a registered trademark; (2) misappropriation of trade dress; (3) false designation of origin; (4) violations of the provisions of the Fair Packaging and Labeling Act; (5) the existence of an "industry . . . in the United States"; and (6) the noted unfair practices have a tendency to injure that industry.

On August 10, 1984, the Commission determined to review 5/ two issues raised by the ID of the ALJ. The Commission also determined to declare the case "more complicated" and to extend the deadline for completion of the investigation to November 5, 1984. 6/ The Commission also determined to request _amicus_ briefs on the gray market issue. Notice of this determination was published in the _Federal Register_ on August 15, 1984. 7/

3/ Prehearing Conference Tr. at 46.
4/ _Id_.
5/ The Commission's review was conducted pursuant to Rule 210.54-.56, 19 C.F.R. § 210.54-.56.
6/ 49 Fed. Reg. 43807 (Oct. 31, 1984).
7/ 49 Fed. Reg. 32688.

In addition to the parties, the U.S. Customs Service ("Customs") submitted a prehearing brief. K mart, The Association of General Merchandise Chains, Inc., The Coalition to Preserve the Integrity of American Trademarks, 47th Street Photo, Inc., and Vivitar Corporation also submitted amicus briefs. The Commission held a public hearing on September 17, 1984.

THE PARTIES

Duracell is a Delaware corporation with its principal place of business in Connecticut. Duracell U.S.A. is an unincorporated division of Duracell and the domestic manufacturer of U.S.-trademarked DURACELL batteries. Duracell International, Inc. is a Delaware corporation and the wholly-owned subsidiary of Duracell. N.V. Duracell S.A. (Duracell Belgium) is a wholly-owned subsidiary of Duracell International, Inc., and manufactures the accused foreign batteries bearing the Belgian-registered DURACELL trademark.

Respondent CWE is an importer of alkaline batteries into the United States. Its principal place of business is Toronto, Canada.

PRODUCTS AT ISSUE

The products at issue are alkaline batteries, sizes AA, AAA, C, D, and 9-volt, which are known as the major cells, and are manufactured by Duracell Belgium for sale in the European market.

PROPERTY RIGHTS AT ISSUE

The property right at issue is the trademark DURACELL which is registered in the United States as U.S. Trademark Registration No. 793,273. This mark is owned by Duracell. 8/

8/ Duracell also owns the trademark "The Copper Top Battery," registered as U.S. Trademark Registration 1,232,536, and the copper and black trade dress used on the jackets, i.e., the exterior of all DURACELL major batteries, registered as U.S. Trademark Registration No. 1,039,589. These marks are not at issue in this investigation.

THE FACTS

We adopt the ALJ's factual findings in the ID. The following facts are set forth for the convenience of the reader.

The accused foreign DURACELL batteries are manufactured by Duracell Belgium for sale in Europe under the Belgian registered trademark DURACELL. This trademark is owned by Duracell International, Inc. Duracell Belgium has had permission to manufacture alkaline batteries under the Belgian trademark since 1967.

The ALJ found that Duracell does not in any way authorize or sponsor the importation or sale of foreign DURACELL batteries in the United States and that Duracell Belgium does not sell in the United States the batteries it manufactures. (FF 154-55). The ALJ further found that no license agreement grants Duracell Belgium the right to sell these batteries in the United States. (FF 156). 9/

Duracell-Belgium packages the foreign DURACELL batteries in packs bearing one of several European languages, including English. None of the packs, including those using the English language, state the name or the address of the manufacturer, packer, or distributor. (FF 159). After these batteries have left the control of Duracell-Belgium and entered the European wholesale distribution system, quantities are purchased by importers, including CWE, for sale in the United States. This transaction is profitable to the importer due to the strong position of the U.S. dollar as against European currencies.

9/ Respondent CWE argued that the license agreement between Duracell and Duracell Belgium gave foreign subsidiaries the right to sell Duracell batteries in the United States (RX 44C). Duracell at the hearing before the ALJ testified that the license agreement was for a different trademark, not the trademark DURACELL. See TR. at 904-10.

U.S. wholesalers purchase these foreign DURACELL batteries from the importers at prices significantly below the wholesale price of domestic DURACELL batteries (FF 44). Retail stores sell foreign DURACELL batteries at the same retail price as domestic DURACELL batteries. (FF 45). 10/

UNFAIR PRACTICES

Our determination that there is a violation of section 337 is based on six independent grounds: (1) infringement of a registered trademark under the common law of trademarks; (2) violation of section 42 of the Lanham Act, 15 U.S.C. § 1124; (3) violation of section 32(1) of the Lanham Act, 15 U.S.C. § 1114; (4) misappropriation of trade dress; (5) false designation of origin, 15 U.S.C. § 1125; and (6) violations of the Fair Packaging and Labeling Act, 15 U.S.C. §§ 1452 and 1453. 11/

I. Infringement of a registered trademark

The principal legal issue presented in this case is whether it is an unfair act or unfair method of competition under section 337 to import and sell in the United States merchandise produced by a foreign company affiliated with the U.S. complainant and bearing a foreign trademark visually identical to the U.S. trademark without the consent or license of complainant, the U.S. trademark owner. The unlicensed merchandise are sold as so-called "gray market goods." The term "gray market goods" refers to trademarked

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10/ This finding was based on the testimony of Peter H. Frank, the Vice President of Montgomery Ice Corporation which operates Talbert's Ice and Beverage Service, a convenience store in Bethesda, Maryland, and the testimony of Michael F. Cooney, a buyer for Walgreen Company. The ALJ also based this finding on the testimony of William C. McKenzie, Duracell's Vice President of Sales.

11/ Vice Chairman Liebeler also finds a violation of 19 U.S.C. § 1526.

merchandise purchased from foreign sources, authorized by the U.S. owners of such trademarks to use the marks in areas where the foreign sources do business, for importation into the United States. 12/

A. The General Principles of Trademark Law, Including The Principle of Territoriality.

In this investigation, the ALJ determined and the Commission concurs that the principle of territoriality incorporates two basic concepts: (1) a trademark has a separate legal existence under each country's law; and (2) the primary function of a trademark under the law is to symbolize the local business goodwill of the domestic owner of the mark. 13/ The basis for the principle of territoriality is that trademark rights were created to "facilitate the protection of one's goodwill in trade by placing a distinguishing mark or symbol--a commercial signature--upon the merchandise or the package in which it is sold." 14/ 15/

12/ ID at 50.
13/ ID at 55.
14/ ID at 52.
15/ It has been argued that section 337 does not create a new cause of action and, therefore, a violation of section 337 must be based on a separate statutory violation. This is not correct; the common law of trademarks can serve as a basis for finding a violation of section 337. As the Supreme Court stated in the Trade-Mark Cases, 100 U.S. 82, 92 (1879), the exclusive right to a trademark "was not created by the act of Congress, and does not now depend upon it for its enforcement. The whole system of trade-mark property and the civil remedies for its protection existed long anterior to that act, and have remained in full force since its passage." Further, as Rudolf Callman has stated: "[T]he right to a trademark does not depend upon the statutory enactments. The right originates in common law by prior appropriation and use. . . . Registration does not perfect a trademark right; although under the Lanham Act it may eventually confer certain new rights to the mark, at the outset it does not grant any greater right than that which would be recognized at common law without registration. Unlike the patent and copyright, trademarks are not created by governmental grant. 'The trademark, whether registered or not, is a creature of the common law.'" R. Callman, The Law of Unfair Competition, Trademarks, and Monopolies, § 25.03 at 14 (1983). See also House of Westmore v. Denney, 151 F.2d 261, 265 (3d Cir. 1945); Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412-14 (1916).

The principle of territoriality has evolved from a series of cases beginning with the Supreme Court decision, A. Bourjois & Co., Inc. v. Katzel. 16/ In that case, the plaintiff, a New York corporation, purchased from a French company its entire U.S. business for face powder, including the U.S. registered trademark "JAVA." The face powder sold by plaintiff was made by the French company in France, but packed in the United States by plaintiff. The defendant bought on the open market in Europe face powder which had been manufactured by the French firm, and imported the face powder in the original boxes bearing the trademark "JAVA" into the United States. Because of the strength of the U.S. dollar relative to the French franc at the time, the transaction was profitable for defendant.

The central issue in the case was whether sale of the "genuine product" 17/ by the defendant was an infringement of the U.S. trademark when plaintiff was the exclusive owner of the mark in the United States. The Second Circuit found no infringement, stating "[i]f the goods sold are the genuine goods covered by the trade-mark, the rights of the owner of the trade-mark are not infringed." 18/ On the basis of territoriality, the Supreme Court reversed, holding that there was infringement. The Supreme Court stated:

> Ownership of the goods does not carry the right to sell them with a specific mark. It does not necessarily carry the right to sell them at all in a given place. If the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. . . . The monopoly in that case is more

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16/ 260 U.S. 689 (1923).

17/ The term "genuine" as used by the 2d Circuit in Bourjois means that the batteries come from the same international enterprise.

18/ 275 F. 539, 543 (2d Cir. 1921).

> extensive, but we see no sufficient reason for holding that the monopoly of a trade mark, so far as it goes, is less complete. It deals with a delicate matter that may be of great value but that easily is destroyed, and therefore should be protected with corresponding care. It is said that the trade mark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trade mark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought. . . . It stakes the reputation of the plaintiff upon the character of the goods. . . . 19/

Starting with the Supreme Court decision in the Bourjois case, it has become generally recognized that a trademark is a creature of a country's laws and can stand for different qualities in different national markets. Bourjois stands for the propositions that (1) a trademark has a separate legal existence under each country's laws, and (2) a trademark can symbolize the local goodwill of the owner of the national mark. 20/

The principle of territoriality has been invoked by a number of courts. In 1930 in Frischer & Co., Inc. v. Bakelite Corp., 21/ one of the first cases involving the predecessor statute to section 337 (section 316 of the Tariff Act of 1922), the U.S. Court of Customs and Patent Appeals ("CCPA") applied the principle of territoriality in a patent and trademark case. In that case, the CCPA noted that the imported goods complied with the patent and trademark laws of the country of manufacture. The court held that the imported goods infringed U.S. patents and trademarks which have a separate legal existence. 22/

19/ 260 U.S. 689, 692 (1923).

20/ See Perry v. American Hecolite Denture Corp., 78 F.2d 556 (8th Cir. 1935); Quabaug Rubber Co. v. Fabiano Shoe Co., Inc., 567 F.2d 154 (1st Cir. 1977) (in dicta); Model Rectifier Corp. v. Takachiho International, Inc., 221 U.S.P.Q. 502 (9th Cir. 1983).

21/ 39 F.2d 247, 259 (C.C.P.A. 1930).

22/ For another CCPA case which adopted the principle of territoriality, see Roger & Gallet v. Janmarie, Inc., 245 F.2d 505 (1957).

In a number of cases similar to this investigation, courts have applied the principle of territoriality. 23/ The most recent cases which rely on the principle of territoriality are Bell & Howell: Mamiya Co. v. Masel Supply Co. 24/ and Osawa & Company v. B & H Photo. 25/ In Bell & Howell: Mamiya, a Federal district court in New York enjoined the unauthorized importation of genuine, MAMIYA cameras on the basis of the principle of territoriality. 26/

In a later case involving the same factual situation brought by the same plaintiff against different defendants, Osawa & Company v. B & H Photo, the court detailed the harm to the plaintiff and issued a preliminary injunction under 19 U.S.C. § 1526 and the Lanham Act. In his decision, Judge Leval agreed with the district court in Bell & Howell: Mamiya in rejecting the universality principle and adopting the principle of territoriality. Judge Leval stated:

> Since Holmes' decision, the universality principle has faded and been generally supplanted by the principle of "territoriality," upon which the Bourjois rulings were based. This principle recognizes that a trademark has a separate legal existence under each country's laws, and that its proper lawful function is not necessarily to specify the origin or manufacture of a good (although it

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23/ See, e.g., Perry v. American Hecolite Denture Corp., 78 F.2d 556 (8th Cir. 1935); Quabaug Rubber Co. v. Fabiano Shoe Co., Inc., 567 F.2d 154 (1st Cir. 1977) (in dicta); Model Rectifier Corp. v. Takachiho International, Inc., 221 U.S.P.Q. 502 (9th Cir. 1983).

24/ 548 F. Supp. 1063 (E.D.N. Y. 1982), reversed on other grounds, 719 F.2d 42 (2d Cir. 1983).

25/ 589 F. Supp. 1163 (S.D.N.Y. 1984).

26/ The district court found that the Bourjois decision had rejected the "universality principle," that is the principle that "goods manufactured abroad under a trademark and then imported and sold in the United States" do not "infringe the rights of the owner of the American trademark, simply because the goods were genuine and the public, therefore, was undeceived." 548 F. Supp. at 1066.

The Second Circuit subsequently vacated the district court's injunction on the ground that irreparable injury had not been established, Bell & Howell: Mamiya Co. v. Masel Supply Co. Corp., 719 F.2d 42 (2d Cir. 1983).

> may incidentally do that), but rather to symbolize the domestic goodwill of the domestic markholder so that the consuming public may rely with an expectation of consistency on the domestic reputation earned for the mark by its owner, and the owner of the mark may be confident that his goodwill and reputation (the value of the mark) will not be injured through use of the mark by others in domestic commerce. 27/

In addition to case law, Article 6(3) of the Paris Convention, 28/ which has been signed by the United States, clearly provides for the "territoriality" of marks:

> Article 6
>
> [Marks: Conditions of Registration; Independence of Protection of Same Mark in Different Countries]
>
> * * * *
>
> (3) A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin.

27/ 589 F. Supp. at 1171-72. Judge Leval also stated:

> The universality principle upon which the older cases had been decided was flawed in several related respects. First, it failed to recognize that legal rights within one sovereignty are creatures of that sovereignty's law. The establishment by A of legal rights to exclusivity in one country could obviously not satisfactorily be squared with B's establishment of exclusive right in a second country, if either right (much less if both) were thought to extend across the world universally. The principle was perhaps based on an idealistic view of the world as a single marketplace. That view, however, did not conform to reality or to international treaty. While it might have been possible to imagine the development of a unified world marketplace, organized on the same set of assumptions that have dominated the creation of a single marketplace among the United States, the development between nations did not occur in that fashion.
>
> A second flaw, an outgrowth of the first, is the failure to recognize that, within one country, a mark may represent a factually different goodwill from that which the mark signifies elsewhere. Id.

28/ 21 UST 1583; 24 UST 2140; TIAS 6923, 7727.

Not only does the Paris Convention on Trademarks set forth the principle of territoriality, Article 6(3) also covers the exact situation presented here where the DURACELL marks are registered in separate countries. According to Article 6(3), marks registered in one country shall be regarded as independent of marks registered in other countries, including the country of origin.

We are persuaded and compelled by the numerous Federal cases, well-known commentators, 29/ and the international treaty which establish and support territoriality of trademarks. We, therefore, apply the principle of territoriality to this case. When the Belgian DURACELL batteries are imported into the United States, they enter the territory lawfully held by the U.S.-trademarked batteries, and should, therefore, be excluded. If the principle of territoriality is viewed as merely establishing that the Belgian-registered and U.S.-registered DURACELL trademarks have a separate legal existence under each country's laws, then the trademark rights which flow from that separate legal existence include the right to exclude the visually identical Belgian-registered DURACELL trademark. 30/

We are, however, aware of a number of divergent cases 31/ holding that imports of foreign trademarked goods do not infringe U.S. trademarks where

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29/ See Callman, Another Look at the Unlawful Importation of Trademarked Articles, 52 Trade-Mark Rep. 561 (1962). It is clear when this article is examined that Callman has changed his original position in Worldmarks and the Antitrust Law, 11 Vand. L. Rev. 515 (1958), in which he adopted the principle of universality to his present position adopting the principle of territoriality. See also Derenberg, Current Trademark Problems in Foreign Travel and the Import Trade, 49 Trade-Mark Rep. 674 (1959).

30/ Additional views of Vice Chairman Liebeler: the importation of foreign DURACELL batteries infringes the U.S. trademark as a matter of law.

31/ See, e.g., United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957); Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983); Bell & Howell: Mamiya Co. v. Masel Supply Co., 719 F.2d 42, 46 (2d Cir. 1983) (in dicta); Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416 (S.D. Fla. 1983).

there is no confusion. These decisions are based on the theory that the only function of trademark law is to prevent consumer confusion.

We do not believe that this is the only purpose of trademark law. A trademark has several functions including: (1) to enable buyers to identify one seller's goods and distinguish them from goods sold by others; (2) to signify that all goods bearing the trademark come from a single, albeit, anonymous source; (3) to signify that all goods bearing the trademark are of an equal level of quality; and (4) to assist the seller in the advertising and selling of his goods. 32/ A trademark is also the objective symbol of the goodwill built up by the trademark owner. 33/ A function of the trademark law is to protect a trademark owner's investment in goodwill because it is considered unfair to allow one to appropriate goodwill and profits which a competitor has built up by quality and advertising in a trade symbol. 34/

When a trademark symbolizes a trade or business, the trademark owner has the exclusive right to use the mark on the goods of the same description of his manufacture or sponsorship. 35/ The mark DURACELL is registered in the

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32/ J. McCarthy, Trademarks and Unfair Competition, § 3:1 (1984)

33/ American Steel Foundries v. Robertson, 269 U.S. 372 (1926); United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90 (1918); Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916); Dynamet Technology, Inc. V. Dynamet, Inc., 593 F.2d 1007 (C.C.P.A. 1979); see also McCarthy, supra, § 2:7.

34/ See Hanover Star Milling Co. v. Metcalf, 240 U.S. 403, 412 (1916); Armstrong Cork Co. v. Armstrong Plastic Covers Co., 434 F. Supp. 860 (E.D. Mo. 1977); McCarthy, supra, § 2:4 at 55. In Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co., 316 U.S. 203 (1942), the Supreme Court held that once infringement was established, in order to recover profits, a trademark owner, need only establish the sales of the goods with the infringing mark and need not prove that the purchasers of goods bearing the infringing mark were induced, i.e., confused, by the mark to believe that the goods were the goods of the trademark owner. See also W. E. Basset Co. v. Revlon, Inc., 435 F.2d 656 (2d Cir. 1970); Maier Brewing Co. v. Fleischmann Distilling Corp., 390 F.2d 117 (9th Cir. 1968), cert. denied, 391 U.S. 966 (1968); Monsanto Chemical Co. v. Perfect Fit Products Manufacturing Co., 349 F.2d 389 (2d Cir. 1965), cert. denied, 383 U.S. 942 (1966).

35/ See R. Callman, supra, § 17.07.

United States. Under Section 33 of The Lanham Act, 36/ federal registration is "prima facie evidence of registrant's exclusive right to use the registered mark in commerce on the goods . . . .," in the United States. Implicit in the exclusive right to use the mark is the right to exclude others. 37/ Thus Judge Rich stated in Application of Deister Concentrator Co., 289 F.2d 496, 501-02, n. 5 (C.C.P.A. 1961): "To say one has a 'trademark' implies ownership and ownership implies the right to exclude others. If the law will not protect one's claim of right to exclude others from using an alleged trademark, then he does not own a 'trademark,' for that which all are free to use cannot be a trademark."

The Senate Report on the Lanham Act states that the purpose of trademark law is twofold:

> One is to protect the public so it may be confident that, in purchasing a product bearing a particular trade-mark which it favorably knows, it will get the product which it asks for and wants to get. Secondly, where the owner of a trade-mark has spent energy, time, and money in presenting to the public the product, he is protected in his investment from its misappropriation by pirates and cheats. This is the well-established rule of law protecting both the public and the trade-mark owner. 38/

The legislative history of the Lanham Act also states:

> Trade-marks, indeed, are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community

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36/ 15 U.S.C. § 1115.

37/ De Walt, Inc. v. Magna Power Tool Corp., 289 F.2d 656, 661 (C.C.P.A. 1961); Chromium Industries, Inc. v. Mirror Polishing & Plating Co., Inc., 448 F. Supp. 544, 555 (N.D. Ill. 1978).

38/ Senate Report No. 1333, 79th Cong., 2nd Sess. reprinted in 1946 U.S. Code Cong. Serv. 1274 (emphasis added).

> <u>the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not</u>. <u>39</u>/

Under the principle of territoriality, Duracell's registered U.S.-trademark is a separate and distinct property right. It does not just protect consumers from likelihood of confusion, <u>40</u>/ but it also protects the trademark owner's goodwill and the benefits that are derived from that goodwill, including profits. The Supreme Court in <u>Hanover Star Milling Co. v. Metcalf</u> <u>41</u>/ stated:

> Where a party has been in the habit of labeling his goods with a distinctive mark, so that purchasers recognize goods thus marked as being of his production, others are debarred from applying the same mark to goods of the same description, because to do so would in effect represent their goods to be of his production and <u>would tend to deprive him of the profit he might make through the sale of the goods which the purchaser intended to buy</u>. Courts afford redress or relief upon the ground that a party has a valuable interest in the good-will of his trade or business, and in the trade-marks adopted to maintain and extend it. (Emphasis added).

The rights of a trademark owner to the return from his investment in the goodwill his trademark represents is deeply embedded in the law. The law of

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<u>39</u>/ <u>Id</u>. at 1275 (emphasis added).

<u>40</u>/ As Rudolf Callman has stated:

> The proposition that a trademark owner can exclude others from only a use which causes confusion is based upon the fallacious premise that the guarantee function is the most significant of the three trademark functions. The courts have been somewhat unmindful of the manifold functions of the trademark and have failed to realize its value as something more than a mere symbol of goodwill. . . . The trademark owner, however, should be entitled to protection with respect to any form of trademark use. Callman, <u>supra</u>, § 17.07 at 32 (footnotes omitted).

<u>41</u>/ 240 U.S. 403, 412 (1916) (emphasis added).

trademarks is a subset of the law of unfair competition 42/, and the leading case on unfair competition, International News Service v. Associated Press, 248 U.S. 215 (1918), establishes the principle that the redirection of profit away from the parties that made the investment to those who have not is both unfair and illegal. In that case, defendant International News Service ("INS") was copying news prepared by the plaintiff Associated Press ("AP") from bulletin boards and from early editions of AP's newspapers and selling the news, either verbatim or rewritten, to INS's clients. INS argued, as has been argued in this case, the exhaustion doctrine, i.e., once AP published the news it had collected, it lost all rights of property and could not prohibit INS from using the news. 43/ The Supreme Court rejected INS's argument that it had the right to appropriate the news after it had been published by AP, and enjoined INS on the grounds of unfair competition. The Court noted that the question of unfair competition depended on the character and circumstances of the business. The Court chose to focus not on the rights of either party against the public but the parties' rights between themselves.

> The fault in the reasoning lies in applying as a test the right of the complainant as against the public, instead of considering the rights of complainant and defendant, competitors in business, as between themselves. . . . [T]his defendant, by its very act, admits that it is taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money,

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42/ McCarthy, supra, § 2:2. Thus the 1946 Senate Report on the Lanham Act stated: "There is no essential difference between trade-mark infringement and what is loosely called unfair competition. Unfair competition is the genus of which trade-mark infringement is one of the species; . . . . All trademark cases are cases of unfair competition and involve the same legal wrong." S. Rep. No. 1333, supra, at 1275.

43/ In this case respondents apparently argue that once Duracell has sold its trademarked goods in Europe, it has lost all rights of property in the trademark in both Belgium and the United States.

> and that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown, and by disposing of it to newspapers that are competitors of complainant's members is appropriating to itself the harvest of those who have sown. Stripped of all disguises, the process amounts to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit is to be reaped, in order to divert a material portion of the profit from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news. The transaction speaks for itself, and a court of equity ought not to hesitate long in characterizing it as unfair competition in business.
>
> The underlying principle is much the same as that which lies at the base of the equitable theory of consideration in the law of trusts--that he who has fairly paid the price should have the beneficial use of the property. 44/

In this case, the same type of problem is present. By importing and selling foreign DURACELL batteries, the importers and retailers are diverting a material portion of the profit from those who have earned it (Duracell) to those who have not (the importers and the retailers). The sales of the foreign DURACELL batteries by the importers have deprived Duracell of its profits, that is, the portion of the price that is a return from its goodwill to which Duracell is legally entitled.

This basic premise that unfair competition laws should protect the benefits of goodwill is embedded in the trademark laws. Thus, in a case of trademark infringement under the Lanham Act, Truck Equipment Service Co. v. Fruehauf Corp., 536 F.2d 1210, 1215 (8th Cir. 1976), cert. denied, 429 U.S. 861 (1976), the court stated:

> Full and fair competition requires that those who invest time, money and energy into the development of goodwill and a favorable reputation be allowed to reap the advantages of their investment.

44/ 248 U.S. 215, at 239-40 (emphasis added).

The respondents unauthorized importation of the foreign DURACELL batteries are unfair acts which trademark law is meant to protect. First, as the dissent finds, respondents are confusing the public because the public believes that it is buying DURACELL batteries at the point of sale that have been sponsored by Duracell. This problem will be discussed latter. More importantly, and more perniciously, however, respondents are reaping where they have not sown. 45/ By underselling Duracell at the wholesale level, the respondents are depriving Duracell of the benefits of its goodwill which Duracell is legally entitled to, that is, Duracell's profits.

Duracell has extensively advertised its batteries in the United States and built up its reputation as a purveyor of quality batteries. Because of this reputation, Duracell is able to sell its batteries at a premium. When Duracell attempts to reap these benefits to which it is legally entitled, it finds that importers have sold foreign DURACELL batteries to retailers at lower prices. The importers and the retailers together appropriate the benefit from Duracell's goodwill for themselves by selling foreign DURACELL batteries as U.S.-made DURACELL batteries at the same retail price. Thus, the importers and retailers are appropriating the benefits of Duracell's goodwill for themselves which they have not helped to create. This is the essence of unfair competition and the basis for our finding of trademark infringement.

Our holding under section 337 is not inconsistent with the Customs Service's interpretation of 19 U.S.C. § 1526 and 15 U.S.C. § 1124 as embodied in its regulations. Duracell and Duracell Belgium are related companies and

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45/ Vice Chairman Liebeler observes that this practice was condemned long ago by the Little Red Hen and more recently by the Supreme Court in International News Service, 248 U.S. 215 at 236.

under Customs' regulation 133.21(c), there would be no violation of these laws. We do not challenge Customs' interpretation of 19 U.S.C.§ 1526. We merely hold that the common law of trademarks affords a remedy for infringement of a trademark-holder's territorial right independent of the Customs law or the Lanham Act. We base our decision on the general principles of trademark law including the principle of territoriality. Under this principle the U.S.-registered trademark and the Belgian-registered trademark are two separate, albeit limited, property rights.

More importantly, our decision is that these actions are unfair acts under section 337. In In re Von Clemm, 229 F.2d 441, 443-44 (C.C.P.A. 1955), the court commented on the definition of unfair methods of competition and unfair acts in section 337:

> The statute here under consideration provides broadly for action by the Tariff Commission in cases involving 'unfair methods of competition and unfair acts in the importation of articles,' but does not define those terms nor set up a definite standard. As was noted in our decision in In re Northern Pigment Co., 71 F.2d 447, 22 C.C.P.A., Customs, 166, T.D. 47124, the quoted language is broad and inclusive and should not be held to be limited to acts coming within the technical definition of unfair methods of competition as applied in some decisions. The importation of articles may involve questions which differ materially from any arising in purely domestic competition, and it is evident from the language used that Congress intended to allow wide discretion in determining what practices are to be regarded as unfair. 46/

The definition of an unfair act under section 337 is not a policy question, but a legal question to be decided by the courts. Thus the CCPA stated in Frischer & Co., Inc. v. Bakelite Corp., 39 F.2d 247, 259 (1930): "What constitutes unfair methods of competition or unfair acts [under section

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46/ See also Frischer & Co., Inc. v. Bakelite Corp., 39 F.2d 247 (C.C.P.A. 1930).

337] is ultimately a question of law for the court and not for the Commission." 47/

Our decision is based on the common law of trademarks. Violations of the Lanham Act provide a separate ground for our decision. For these findings, we adopt the ALJ's findings of violations under the different provisions of the Lanham Act.

B. Section 526 of the Tariff Act and Section 42 of the Lanham Act 48/

Section 526 proscribes the unauthorized importation into the United States of merchandise bearing a trademark owned by a U.S. citizen. Section 42 of the Lanham Act excludes imported goods which copy or simulate a U.S. trademark. Customs has issued regulation 133.21(c) which restricts Customs' application of section 526 and section 42 to situations involving unrelated

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47/ See In re Orion Co., 71 F.2d 458, 463 (C.C.P.A. 1934); see also F.T.C. v. Gratz, 253 U.S. 421, 427 (1920). We recognize that our obligation is to treat imports no differently than goods of domestic origin. A court similarly situated would hold as we do, Bell & Howell: Mamiya, supra. However, the problem presented in this case is one which would not be presented in the purely domestic context, because the principle of territoriality applies where the same mark is registered in two different countries. As the Paris Convention illustrates, however, the Commission is not deviating from the international norm.

48/ Section 526(a) provides:

> [I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, . . . and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, . . . unless written consent of the owner of such trademark is produced at the time of making entry.

parties and parties who have applied the mark without authorization of the U.S. trademark owner. 49/

We concur with the ALJ's finding that there is no violation of section 526 of the Tariff Act, 19 U.S.C. § 1526. 50/ Section 526 was enacted by the Congress to overrule the Court of Appeals' holding of trademark infringement in the Bourjois case, before the Supreme Court reversed the Court of Appeals' decision. As the ALJ found, the section was intended to apply only in a situation where a foreign owner of trademark rights has sold those rights to an American company. 51/

We also defer to Judge Restani's interpretation of section 526 in Vivitar Corp. v. United States, __ CIT __, slip op. 84-95 (Aug. 20, 1984), which was handed down after the ALJ issued the ID. In that case, the CIT upheld Customs' regulation 133.21(c) as applied to section 526 of the Tariff Act. However, Judge Restani specifically refused to consider whether there was any violation of the law of unfair competition, including the Lanham Act.

> If plaintiff is suffering from unfair competition generally, relief might be available under the Lanham Act or other laws. But plaintiff has brought his claim under §1526(a) and has not attempted to prove the elements of a

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49/ 19 C.F.R. 133.21(c). This regulation was issued by Customs under Section 526 of the Tariff Act and Section 42 of the Lanham Act. It states:

> (c) Restrictions not applicable. The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:
>
> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
>
> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control . . . ;
>
> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner. . . .

50/ Vice Chairman Liebeler disagrees with this finding. See her Additional Views.

51/ ID at 65.

> claim for unfair competition. Plaintiff seeks an unqualified right to demand exclusion of unauthorized imports bearing its trademark. Section 1526(a) does not give plaintiff this right. 52/

We concur with the ALJ, however, that Customs' regulation 133.21(c) does not bind other tribunals to Customs' interpretation of trademark law because trademark law is not within the Customs' specialized expertise, especially when considerations of antitrust law are involved. 53/

Section 42 provides: "[N]o article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacture, or manufacturer, or trader . . . or which shall copy or simulate a trademark registered in accordance with the provisions of this Chapter . . . shall be admitted to entry at any customhouse of the United States . . . ." 54/ It is our opinion that the words "shall be admitted to any customhouse of the United States . . . ." in the statute do not give Customs the exclusive right to interpret the trademark law embodied in section 42 of the Lanham Act. 55/

Respondents argue that all the provisions of the Lanham Act, including section 42, are not applicable to this situation because the foreign DURACELL batteries are not copies or simulations, but "genuine" DURACELL batteries. The issue in this case, however, is not whether foreign DURACELL batteries are copies of U.S. DURACELL batteries, but whether the Belgian-registered trademark on the imported batteries is a copy of the U.S.-registered trademark on the domestic batteries.

Respondents overlook the case, A. Bourjois & Co., Inc. v. Aldridge, 263 U.S. 675 (1923), in which the Supreme Court held per curiam that a French-

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52/ Slip Op. 84-95 at 34-35 (footnote omitted).
53/ ID at 59-60.
54/ Section 42 of the Lanham Act, 15 U.S.C. § 1124.
55/ See testimony of Customs, CTR at 124.

registered trademark, "Poudre Manon Lescaut," used on a French face powder that was imported into the United States did copy or simulate the U.S.-registered trademark, "Poudre Manon Lescaut," within the meaning of section 27 of the Trademark Act of 1905, the forerunner of section 42. 56/

Customs and respondents argue that in reenacting the same words of section 27 of the Trademark Act of 1905 into section 42 of the Lanham Act, Congress incorporated Customs' interpretation of this provision. However, in addition to incorporating interpretations of administrative agencies, Congress in enacting the same words also incorporates the interpretations of the statute by the Supreme Court. With regard to the meaning of the words, "copy or simulate," in section 42, we must defer to the Supreme Court's interpretation of trademark law, rather than to Customs' interpretation. We, therefore, concur with the finding of the ALJ that there is a violation of section 42 of the Lanham Act. 57/

C. Application of Section 32(1) of the Lanham Act, 15 U.S.C. § 1114

Section 32(1) of the Lanham Act provides in part:

> Any person who shall, without the consent of the registrant--
> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant . . . .

Thus, in the present case, to find violation of section 1114, three elements have to be proved: (1) a registered trademark was copied; (2) the copy was used in connection with a sale of goods; and (3) the copy was used in a way

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56/ See 292 F. 1013-14 (2d Cir. 1922).
57/ See ID at 65-66.

likely to cause confusion. We concur with the ALJ's finding that Duracell is entitled to relief under section 1114. 58/

1. Copy of a registered trademark

As stated above, 59/ we reject respondents' arguments that the words "reproduction, counterfeit, copy or colorable imitation" prevent the application of the Lanham Act to this situation. In addition to the Supreme Court case, Bourjois v. Aldridge, supra, there is additional support for the finding that the Belgian-registered trademark on the foreign batteries is a copy or simulation of the U.S.-registered trademark.

At the time the foreign DURACELL batteries are stamped with the Belgian-registered trademark and the batteries are sold in Europe, the Belgian trademark, although visually identical to the U.S. trademark, is not a "copy" of the U.S. trademark. However, when the batteries are imported and sold in the United States, the Belgian trademark becomes a copy of the U.S. trademark. 60/

58/ ID at 67-71.

59/ See discussion, infra, at 22-23.

60/ An additional argument against a technical reading of the words "copy or simulate" in the Lanham Act is that made by the district court in Adolph Coors Co. v. A. Genderson & Sons, Inc., 486 F. Supp. 131, 135 (D. Colo. 1980), where the court stated:

> Defendant contends that its conduct did not constitute trademark infringement because it has not reproduced, counterfeited, copied or imitated the plaintiff's trademark.
>
> However, § 1114 has not been construed as narrowly as defendant suggests. Although defendant's conduct does not literally involve reproduction, counterfeit, copy or colorable imitation of a trademark, it nevertheless falls within the scope of § 1114. As plaintiff asserts, § 1114 has been liberally construed to prevent misappropriation of the goodwill of the owner of a trademark; the act forbids misappropriation which will adversely influence the owner and the public.

Respondents argue that there can be no copy or simulation because the foreign DURACELL batteries are "genuine" DURACELL batteries. "Genuine" goods are goods produced or selected by the owner of a trademark, to which the owner of that trademark affixes the trademark or in connection with which the owner of the trademark uses the trademark (as in advertising). The phrase simply serves to distinguish the goods so produced and marked from goods marked with a trademark by someone not authorized to use the mark (i.e., someone other than the owner or licensee of the owner).

So DURACELL batteries produced in Belgium by Duracell and stamped with the visual indication intended to operate as the Belgian DURACELL trademark are "genuine" goods, and they never cease to be "genuine" Belgian trademarked goods. Still, the Belgian trademark can constitute an actionable copy of the U.S. trademark when marked on batteries sold in the United States.

The confusion of the U.S. consumers is not with regard to the "genuineness" of the batteries being offered for purchase, but as to the efficacy of the goods to fulfill the U.S. consumer's reasonable expectations, one of which surely is that the item being purchased has been given the same care in production and distribution as were the same trademarked goods previously purchased and used by the consumer with satisfaction.

U.S. consumers are unaware that there exists more than one "genuine" DURACELL battery. 61/ They are acquainted with only one "genuine Duracell" battery, the one produced and marketed by Duracell USA. Their knowledge comes from Duracell's advertising and their own experience as users of DURACELL batteries. Thus, their expectation stems from experience with and knowledge

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61/ FF 132-33 in ID at 29.

of the "genuine" (U.S.) DURACELL battery. These expectations may include one or more of the following, and others: consistency in performance ("never a bad one in a barrel"), long performance life, and no leaking. Thus the Belgian-registered trademark DURACELL on "genuine" Belgian-made batteries can be a copy of the U.S.-registered trademark DURACELL on genuine U.S.-made batteries and can also cause confusion as to the source of the foreign-made DURACELL batteries.

2. Sale of Goods

There is evidence on the record to establish that a copy of the registered mark is used in connection with the sale of merchandise. 62/

3. Likelihood of Confusion

In determining likelihood of confusion, the issue should be examined from the viewpoint of the consumer. 63/ As Justice Frankfurter stated in Mishawaka Rubber & Woolen Manufacturing Co. v. S.S. Kresge Co., 316 U.S. 203, 205 (1942):

> The protection of trade-marks is the law's recognition of the psychological function of symbols. If it is true that we live by symbols, it is no less true that we purchase goods by them. A trade-mark is a merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants. The owner of a trademark exploits this human propensity by making every effort to impregnate the atmosphere of the market with the drawing power of a congenial symbol. Whatever the means employed, the aim is the same--to convey through the mark, in the minds of potential customers, the desirability of the commodity upon which it appears. Once this is attained, the trade-mark owner has something of value. If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress.

62/ ID at 83.

63/ As Professor McCarthy has stated: "At issue in most cases is the likely confusion of members of the relevant class of customers and potential customers." (footnote omitted). McCarthy, supra, § 23:1 at 46.

There are two types of confusion that are remedied by trademark and unfair competition law. The first type is confusion as to source and the second type is confusion as to affiliation, connection, or sponsorship. 64/ Both types are present in this case, but in this case, the most conspicuous type of confusion is that as to sponsorship.

Duracell does not sponsor the foreign DURACELL batteries at the point of sale in the United States. In Monte Carlo Shirt Co., Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (1983), the Ninth Circuit stated in a gray market case that there was no trademark infringement because "[b]uyers of the product . . . get precisely what they bargain for." 65/ But that is not true in this case. Buyers do not get what they bargained for. The consumer is bargaining for a DURACELL battery, that is a battery sponsored by Duracell at the point of sale, and warrantied by the U.S. company at the point of sale. This is evidenced by the fact that the retail price for the Belgian and U.S.-trademarked DURACELL batteries is the same. Presumably, consumers would not be willing to pay the same price for a foreign DURACELL battery that is not backed by Duracell at the point of sale as opposed to a domestic DURACELL battery which is backed by Duracell at the point of sale.

This is not a case involving an article where differences in quality are likely to be detected by the consumer before purchasing the goods. 66/ Consumers must rely on the trademark and the fact that the battery is authorized by Duracell at the point of sale. The importance of authorization is demonstrated by Trail Chevrolet, Inc. v. General Motors Corp., 381 F.2d 353 (5th Cir. 1967), where the Fifth Circuit affirmed the issuance of an

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64/ Id. at 47.
65/ 707 F.2d 1054, 1057, n. 3.
66/ See discussion of experience goods in Additional Views of Vice Chairman Liebeler at p. 8.

injunction enjoining a used car dealer from advertising itself as an authorized "Chevrolet" car dealer. In Professional Golfers Association of America v. Bankers Life & Casualty Co., 514 F.2d 665 (5th Cir. 1975), the court enjoined the use of the registered trademark "PGA" because consumers were confused into thinking that a certain country club was authorized by the PGA. The respondent importers, in violation of section 32(1) of the Lanham Act, are using a copy of the trademark DURACELL on the foreign batteries to create consumer confusion as to the sponsorship of the batteries in the U.S. marketplace.

There is also confusion as to the "source of origin." As the district court found in the Bell & Howell: Mamiya case, supra, "source of origin" does not mean only manufacturer, but also the distribution chain. 67/ Thus, in describing the evolution of the territoriality principle, Judge Neaher described the term "source of origin":

> Trademarks traditionally are said to identify a single 'source of origin' of goods. . . . This 'source' or origin, however, is not necessarily the product's manufacturer. It has long been settled that a merchant can own a trademark and receive protection for its use on a product he did not manufacture. . . .
>
> In such circumstances, the term 'origin' denotes the party responsible for exercising judgment respecting the quality of the goods it distributes to the public. Again, this principle is expressly reflected in the Lanham Act's definition of a 'trademark' as 'any word, name, symbol, or device or any combination thereof adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others.' 15 U.S.C. § 1127. 68/

67/ As Callman states "a 'genuine' article to the modern consumer connotes not only the source of manufacture but also the chain of selection, distribution and servicing upon which he has been able to rely in the past." Callman, Another Look at the Unlawful Importation of Trademarked Articles, supra, fn. 15 at 561.

68/ 548 F. Supp. 1069-70 (emphasis in original) (footnote omitted).

Judge Neaher went on to trace the language "source of origin." He noted the change in section 32 of the Lanham Act, 15 U.S.C. § 1114, when Congress eliminated the "source of origin" language from the statute because "Congress wanted to make it clear that trademark imitations which caused confusion as to the identity of the company which stands behind or insures the quality of trademarked goods would be actionable under the statute." 69/ Thus in this case, the "source of origin" does not just mean Duracell the manufacturer, but also Duracell the distributor that assures the quality of the product at the point of sale.

These two types of confusion are prevented by two fundamental principles of trademark law. The first principle being that "a trademark is a kind of 'warranty' to purchasers that they will receive, when they purchase goods bearing the mark, goods of the same character and source, anonymous as it may be, as other goods previously purchased bearing the mark that has already given the purchaser satisfaction." 70/ Recognizing the exclusive right to use a trademark in a particular territory protects a producer's efforts to maintain goodwill, and enables a consumer to select a particular product on the basis of its attributes.

The second principle of trademark law is the consumer's right to be told the truth. As one well-known commentator has stated: "Thus, the consumer's right to be told the truth not only extends to the facts about the nature and quality of the product, but also extends to the true facts about the source and sponsorship of the products purchased." 71/

69/ Id. at 1071.
70/ McCarthy's Trademarks and Unfair Competition, § 3:4 at 112-113; Revlon, Inc. v. La Maur Inc., 157 U.S.P.Q. 602 (T.T.A.B. 1968).
71/ McCarthy, supra, § 2:13 at 94.

We, however, do not base our decision on the type of analysis exemplified by the district court decision in Adolph Coors Co. v. A. Genderson & Sons, 486 F. Supp. 131 (D. Colo. 1980). In that case, a Maryland corporation went to Colorado and bought COORS beer from retailers and transported it to Maryland where it was sold. On a stipulated record that defendant had mishandled the beer so as to cause the quality to deteriorate, the court enjoined the defendant under section 32(1) of the Lanham Act for trademark infringement because the COORS trademark serves as a guarantee of the quality of the beer. The court found that defendant's resales of inferior products under the COORS trademark "are likely to affect adversely the goodwill of Coors and cause irreparable harm to Coors' reputation for high quality beer, . . ."

Although we recognize the ALJ's sanctions to the effect that respondent CWE's suppliers and shippers have not handled, shipped, and stored the foreign DURACELL batteries in a manner calculated to prevent product deterioration, the quality of the foreign DURACELL batteries is irrelevant to our decision. 72/ We base our finding on confusion as to the sponsorship of the batteries at the point of sale, including confusion as to who is distributing the batteries in the United States.

As noted above, courts have established that there are a number of ways in which a consumer can be confused. If a consumer is deceived or confused into buying a product other than that for which he bargained and the product

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72/ Although quality is irrelevant to our decision, we note that this does not mean that respondents in an investigation may ignore the ALJ's request for information with impunity. In another factual situation, the failure to provide this information might be crucial to the outcome of our determination. The quality or lack thereof of the foreign DURACELL batteries might also have provided an additional basis for our affirmative decision in this case if Duracell had performed quality tests on a sample of the foreign batteries and found them to be of inferior quality.

does not measure up to his expectations, he is likely to blame the company whose name is on the package, in this case Duracell. In other words, this deception may damage Duracell's goodwill which is the basis of an unfair competition cause of action.

In the instant case, the ALJ found that Duracell has established local goodwill and likelihood of confusion. The similarity of the foreign and domestic DURACELL packaging and the survey conducted by Duracell's expert 73/ establish that American consumers are likely to be confused into believing that the foreign DURACELL batteries are sponsored for sale by Duracell in the United States.

As the ALJ found, determining similarity of appearance as a basis for a finding of likelihood of confusion "is really nothing more than a subjective eyeball test." 74/ When the foreign and domestic DURACELL packages are examined, there clearly is a similarity of appearance. In fact, they are almost identical. As the ALJ also found, the black labels used by CWE also blend into the black on the DURACELL package.

In addition to the similarity in the packaging, the type of evidence that can be used to prove likelihood of confusion is testimony by accredited expert

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73/ In March 1983, a survey was conducted on behalf of Duracell by Dr. Virginia Miles and Mr. James Fouss at an F.W. Woolworth store in a New Jersey shopping mall. (FF 96-102). The universe was all shoppers, sixteen years of age or older, who purchased DURACELL batteries during April 21-23, 1983, at the store. (FF 103). A rebate of $2.00 was used to entice shoppers to participate in the survey. (FF 155). On the first day of the survey, only DURACELL U.S. batteries were placed on the shelf. On the second day, only English language foreign DURACELL batteries were placed on the shelf, and on the third day only foreign language DURACELL batteries were placed on the shelves. (FF 109). On each day 100 purchasers were interviewed for each group of batteries.

74/ McCarthy, supra, § 23:7; ID at 68; Certain Braiding Machines, Inv. No. 337-TA-130, USITC Pub. 1435 (1983) at 66.

witnesses and survey evidence. Courts have repeatedly held that properly conducted surveys are persuasive evidence of likelihood of confusion. 75/

It should be noted that the survey in this case is not being submitted to show secondary meaning throughout the country. Secondary meaning has already been established by Duracell's registration of the mark and its extensive sales and advertising throughout the United States. This survey is being submitted to demonstrate likelihood of confusion, and it represents a sample of "reasonably prudent buyers" who have been actually confused as to Duracell's sponsorship of the foreign DURACELL batteries. Such evidence may be very persuasive on the issue of likelihood of confusion. 76/ Furthermore, there is no reason to think that consumers at a New Jersey shopping mall should be any more or less confused than consumers at any other shopping mall in the United States.

When the survey of consumers that purchased the English language foreign batteries is examined, 98 out of 100 said that they did not notice where the batteries were made. Even with the foreign language DURACELL batteries, 84 of the 100 consumers surveyed did not realize where the batteries were made. When first told that the rebate offer applied to both foreign and U.S.-made DURACELL batteries, of the 100 consumers interviewed who purchased British DURACELL batteries, 73 consumers preferred U.S.-made batteries, 26 preferred Belgian-made batteries, and 1 had no preference. Of the foreign language DURACELL batteries, 58 of the 100 consumers chose the U.S.-made batteries, 36 chose the foreign language batteries, and 6 had no preference. When the

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75/ See Certain Plastic Food Storage Containers, Inv. No. 337-TA-152, USITC Pub. 1563 (1984) at 57.
76/ McCarthy, supra, §32.46 at 765.

consumers were told that the batteries were not authorized by the U.S. Duracell company and that the U.S. Duracell company had no control over the shipping, storage, and handling, 97 consumers that purchased the English language foreign batteries selected the U.S.-made batteries and 87 consumers that purchased the foreign language DURACELL batteries chose the U.S.-made batteries. This is convincing evidence that consumers do care whether or not Duracell authorizes the batteries at the point of sale.

When the similarity of the packaging is combined with the testimony of the expert witness and the survey, likelihood of confusion is established. This finding of likelihood of confusion also supports the ALJ's findings of misappropriation of trade dress and false designation of origin.

II. Misappropriation of Trade Dress

We adopt the ALJ's findings that respondents have misappropriated Duracell's trade dress. Duracell's trade dress is a blister container sealed on a card having a black frame surrounding a copper-colored rectangle in which copper and black design batteries are placed under the blister and within the copper rectangle. Duracell has employed its distinctive copper and black trade dress since at least 1978 and Duracell has promoted that trade dress by extensive advertising. (FF 165-74). Based on the findings of the ALJ, we find that respondents have violated section 337 by reason of misappropriation of Duracell's trade dress. 77/

III. False Designation of Origin

We concur with the findings of the ALJ on section 43(a) of the Lanham Act, 15 U.S.C. § 1125, false designation of origin. We reject respondents'

77/ *See* ID at 72-75.

arguments that "origin" should be limited to manufacturer or the "international enterprise Duracell, Inc." As stated above, the term "origin" does not just mean the manufacturer, but also the distribution chain. We, therefore, find that all respondents, including CWE, have violated section 337 because they have violated section 43(a) of the Lanham Act by false designation of origin. 78/

IV. Fair Packaging and Labeling Act

The Commission determined not to review the ALJ's findings on the Fair Packaging and Labeling Act. The ALJ found that, other than CWE, no respondent had complied with the requirements of the Fair Packaging and Labeling Act, 15 U.S.C. §§ 1452 and 1453. The ALJ found that the Fair Packaging and Labeling Act was applicable to the respondents because "they are first and foremost importers." Specifically, the ALJ stated:

> Pursuant to a project known as 'Operation Short Circuit,' the Federal Trade Commission, together with the Customs Service, adopted a set of requirements to examine batteries imported into the United States in order to determine whether those batteries complied with the Act . . . . These requirements, which are set forth below, are in conformity with the provisions of the Fair Packaging and Labeling Act.
>
> a. All required information must appear in the English language.
>
> b. A statement of identity (e.g., type, size 'batteries') must be contained on the principal display panel (e.g., face of blister pack). The statement of identity must be easily read and understood and must appear even though the commodity (i.e., battery) is obvious.
>
> c. A statement of net quantity (even though obvious) is required, e.g., two batteries. Exception - one battery and statement of identity indicates 'battery.'

78/ ID at 76-77.

d. The <u>name</u> and <u>place</u> of business of the manufacturer, packer or distributor must appear conspicuously on the label. Note: This may be placed on reverse side of blister pack.

e. Of the above requirements, identity, and the name and place of manufacturer, packer or distributor are required whether or not packaged. 79/

We, therefore, find there to be an unfair act under section 337 because all foreign DURACELL batteries imported by respondents and others, except those by CWE, fail to comply with the provisions of the Fair Packaging and Labeling Act.

V. Injury

We concur with the findings of the ALJ regarding injury, and add our additional views in support of the ALJ's findings.

Section 337 provides that in order for there to be a violation, the effect or tendency of the unfair methods of competition or unfair acts must be to destroy or substantially injure an efficiently and economically operated domestic industry. In its notice of review, the Commission stated that the second issue it would review is:

> Whether imports of genuine Duracell batteries have caused substantial injury to Duracell, Inc. The Commission will specifically consider whether a parent company is injured by sales lost to imported batteries produced by its wholly-owned Belgian subsidiary.

The appropriate question in a section 337 case is not whether the parent company is injured but whether an industry in the United States is injured by respondents' unfair acts. Section 337 states that unfair methods of competition are unlawful under section 337 when their "effect or tendency . . . is to destroy or substantially injure an industry, efficiently

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79/ ID at 81-82.

and economically operated, <u>in the United States</u> . . . ." Thus it is irrelevant that the lost sales are to Duracell Belgium and that Duracell is benefited by those sales.

The health of Duracell U.S.A. is intertwined with the goodwill of the U.S. mark. To the extent that Duracell has been deprived of the benefits of its goodwill, which it is legally entitled to, e.g., profits, it has been injured. 80/

Each sale of a foreign DURACELL battery is a lost sale to the domestic industry. The ALJ found likelihood of confusion and that the retail prices of the foreign and domestic DURACELL batteries are the same. These facts indicate that consumers are not buying foreign batteries as a substitute for other domestic batteries such as "Everready." Instead, consumers are buying a foreign DURACELL battery rather than a domestic DURACELL battery.

The ALJ found that the 10 million foreign DURACELL batteries are imported by only three respondents--CWE, Masel, and Loeb. 81/ The ALJ found that there are numerous importers of foreign Duracell batteries who were not named as respondents. Therefore, the actual imports of foreign DURACELL batteries are

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80/ Additional views of Vice Chairman Liebeler:

Section 337 proscribes unfair methods of competition that have the effect or tendency to substantially injure an industry. Thus, I find it unnecessary for there to be actual injury before issuing an exclusion order. The sale in the United States of foreign goods of the same quality as the domestic goods deprives the owner of the U.S. trademark of profits derived from his goodwill, whereas the sale of lesser quality goods not only deprives the owner of his profits but destroys that goodwill as well. Thus, the possibility of the loss of goodwill or the possible appropriation of the premium flowing from goodwill has the tendency to substantially injure, and is therefore a sufficient basis for a finding of a violation of section 337. <u>See</u> Bally/Midway Mfg. Co. v. U.S. International Trade Commission, 714 F.2d 1117, 1124-25 (C.A.F.C. 1983) (Reversing the Commission for applying too stringent an injury standard).

81/ FF 211, 213-14.

substantially higher than the 10 million figure. Because of imports of these foreign DURACELL batteries, Duracell has lost millions of dollars in additional sales to foreign DURACELL batteries in its New York City sales district alone during 1983. 82/

In addition to the indicia cited by the ALJ, imports of the foreign DURACELL batteries have caused harm to Duracell's domestic distribution system through loss of sales personnel and a reduction in the morale and effectiveness of Duracell's sales force. 83/ This injury is cognizable under section 337. 84/ There is also evidence that because of the imported DURACELL batteries, Duracell has had lower production, and that the foreign DURACELL batteries have had a detrimental effect on Duracell's customer relationships, which will mean lost cooperation, lost shelf space, and lost retail displays. (FF 210-33).

We, therefore, concur with the findings of the ALJ and determine that the unfair acts have a tendency to substantially injure the domestic industry.

VI. Remedy

A general exclusion order excluding all foreign DURACELL batteries is the only remedy which will protect Duracell from the unfair acts of respondents. The facts of this investigation satisfy the criteria set forth in Certain Airless Paint Spray Pumps and Components Thereof 85/ for the issuance of a general exclusion order. In Spray Pumps, the Commission noted that it had an obligation to balance complainant's interest in complete protection from

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82/ FF 217.
83/ FF 224-25, 230.
84/ Certain Cube Puzzles, Inv. No. 337-TA-112, USITC Pub. 1334 (1983) at 33; Certain Coin-Operated Audiovisual Games and Components Thereof, Inv. No. 337-TA-105, USITC Pub. 1220 (1982) at 15.
85/ Inv. No. 337-TA-90, USITC Pub. 1199 (1981); 216 USPQ 465.

unfair trade with the inherent potential of a general exclusion order to disrupt fair trade. 86/ 87/ Since Spray Pumps the Commission has required that a complainant seeking a general exclusion order must prove a widespread pattern of unauthorized use of the trademarked products and/or certain business conditions from which the Commission might reasonably infer that importers other than the respondents to the investigation may attempt to enter the U.S. market with infringing articles. 88/

With respect to a widespread pattern of unauthorized use of the trademarked batteries, complainant has established that numerous respondents and other companies that were not named in the complaint have imported the foreign DURACELL batteries into the United States. The ALJ's Finding of Fact 233 is that "there has been a large amount of importation of foreign DURACELL batteries by entities not named as respondents in this investigation." Complainant also has provided information indicating an established demand for the product and the existence of significant marketing and distribution networks in the United States for the foreign batteries. 89/ Thus, there is a widespread pattern of unauthorized importation and sale of the infringing batteries. Some type of exclusion order, therefore, must be issued and not cease and desist orders.

The dissent argues for a narrow exclusion order. We agree with the dissent that the foreign DURACELL batteries in foreign language packages should be excluded. The foreign language packages do not comply with the

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86/ Id. at 18.

87/ It should be noted that in Spray Pumps the Commission did not issue a general exclusion order because the facts of the case did not satisfy the criteria set forth.

88/ Spray Pumps at 18.

89/ See ID at 88-91.

requirements of the Fair Packaging and Labeling Act, one of which is that all instructions, warnings, and guarantees be in English. The foreign DURACELL batteries in the foreign language packages would literally have to be repackaged to comply with the act.

The question presented is whether a general exclusion order, excluding all foreign Duracell batteries or a narrower exclusion order, excluding only foreign language DURACELL batteries and unlabeled English language batteries, should be issued. Because we view the nature of the unfair act differently from the dissent, we have determined to issue a general exclusion order. 90/

As noted in our discussion, there are two separate marks--one registered in the United States and one registered in Belgium. Under the principle of territoriality, when the Belgian DURACELL batteries are imported into the United States, they enter the territory lawfully held by the U.S.-trademarked batteries, and should, therefore, be excluded. The importers by their actions are depriving Duracell of the profits derived from the goodwill of its mark to which it is legally entitled. The only way to rectify this situation is to exclude all foreign DURACELL batteries.

Cases such as Prestonettes, Inv. v. Coty, 264 U.S. 359 (1924), and Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947), do not establish that labeling is an adequate remedy in this factual situation. In Prestonettes, supra, the mark was separated from the goodwill which it

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90/ This question of the nature of the unfair act is a question of law and not a question of policy. See Frischer & Co., Inc. v. Bakelite Corp., 39 F.2d 247, 259 (C.C.P.A. 1930); In re Orion Co., 71 F.2d 458, 463 (C.C.P.A. 1934); see also F.T.C. v. Gratz, 253 U.S. 421, 427 (1920).

symbolized. 91/ The defendant there was not capitalizing on the goodwill of Coty's trademark so as to deprive it of a benefit which it was rightfully due. In this case, however, respondents, through the retailers, are selling Belgian-made DURACELL batteries as U.S.-made DURACELL batteries and thereby using the mark so as to capitalize on Duracell's goodwill. In Champion Spark Plug Co. v. Sanders, supra, the "Champion" spark plugs had already been sold as new spark plugs in the U.S. market and Champion had reaped the benefit from that sale. The spark plugs were then reconditioned and sold as "used" spark plugs. In this case, however, the foreign Duracell batteries are sold as new and are competing head-to-head with Duracell's U.S.-made batteries. Every sale of foreign Duracell batteries in the U.S. market deprives Duracell of the benefit of its goodwill which it is legally entitled to for sale of new domestic DURACELL batteries in the United States.

Moreover, because of the strength of the trademark, the low value of the product, and the fact that the imported batteries are being sold in the same trade dress, we find that labeling would not eliminate all the consumer confusion. 92/ Some consumers would still be inevitably confused into thinking that the foreign DURACELL batteries were sponsored by Duracell at the

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91/ In that case, the defendant imported genuine perfume from a French company, Coty, rebottled it, and sold it under the label "Prestonettes, Inc. not connected with Coty." The Supreme Court held no infringement for use of the trademark "Coty", because the mark was not used in such a way so as to deceive the public. The Supreme Court stated: "When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo." 264 U.S. at 368.

92/ See discussion in ID at 68-69. Because of the low value of batteries, consumers are unlikely to invest time reading any label disclosures.

point of sale. The only remedy which will eliminate all the consumer confusion is a general exclusion order. 93/ 94/

VII. Public Interest

Section 337(d) requires that we consider the effect of a general exclusion order on "the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and the United States consumers."

We reject respondents' arguments that the Commission should not issue an exclusion order because of the potential harm to competitive conditions in the United States. The public interest arguments regarding most of the antitrust violations have been adequately addressed by the ALJ in his ID. 95/

93/ In past cases, the Commission has held that labeling would not eliminate consumer confusion in a trademark case. See Certain Cube Puzzles, Inv. No. 337-TA-112, USITC Pub. 1334 (1982), fn. 82 at 22. In accord, McCarthy § 23:15H; Harlequin Enterprises Limited v. Gulf & Western Corp., 644 F.2d 946, 949 (2d Cir. 1981); Truck Equipment Service Co. v. Fruehauf Corp., 536 F.2d 1210, 1221 (8th Cir. 1976), cert. denied, 429 U.S. 861 (1976); Levi Strauss & Co. v. Blue Bell, Inc., 632 F.2d 817, 822 (9th Cir. 1980); T&T Manufacturing Co. v. A.T. Cross Co., 449 F.Supp. 813, 822 (D.R.I. 1978), aff'd, 587 F.2d 533 (1st Cir. 1978), cert. denied. 441 U.S. 908 (1979). See also Teledyne Industries, Inc. v. Windmere Products, Inc., 433 F.Supp. 710, 739 (S.D. Fla. 1977).

94/ Vice Chairman Liebeler believes that: It is unnecessary for us to find that labeling would not eliminate all consumer confusion in order to grant a general exclusion order. A general exclusion order would still be appropriate if there were no confusion so consumers knew precisely what they were getting when they obtained a foreign DURACELL battery. There are two reasons for this. First, if there are any quality problems consumers will not know whether to attribute the failure to factors beyond Duracell's control or to revise downward their estimate of all Duracell batteries. Secondly, if there were no quality problems and consumers knew that Duracell did not sponsor the batteries at the point of sale, they will still associate the production of the batteries with Duracell. Thus, because of Duracell's good reputation the batteries will still command a premium, albeit a smaller one than domestic Duracell batteries. This premium rightfully belongs to Duracell, who created the goodwill, and not to the importers. Thus, a general exclusion order is appropriate even if there is no confusion.

95/ See ID at 92-94.

It has been argued that the effect of granting a general exclusion order to Duracell would be to impair competitive conditions in the United States and allow it to engage in monopolistic price discrimination. The argument is made that Duracell could charge a higher price at home where it has more market power and a lower price abroad where it has less market power without fear that its goods sold at a lower price abroad will be shipped to the United States so as to reduce the monopolistic price. Respondents argued that the exclusion order would serve as a barrier between the two markets and thus allow Duracell to engage in monopolistic price discrimination. The argument is without foundation. First, Duracell does not have monopoly power at home. Other corporations, such as Union Carbide, are vigorous competitors. There is no risk of monopolistic price discrimination. Second, there is a body of antitrust law based on Section 2 of the Sherman Act that is the appropriate vehicle for attacking monopolies, including those that price discriminate.

The argument is also made that competition in the United States is harmed because the ability of Duracell to exclude its genuine articles produced abroad bearing its trademark essentially amounts to a vertical territorial restraint. The alleged restraint is vertical, rather than horizontal; Duracell is deciding how it will produce and distribute its product, rather than agreeing with a competitor how they will divide the market. The alleged restraint is also a territorial one because it gives different entities the exclusive right to sell the goods in different countries. 96/ If the thought remains that consumers are the parties hurt by the territorial restrictions

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96/ Of course, since Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977), the Supreme Court's approach to vertical restraints is to examine them under a Rule of Reason.

through higher prices, it is only necessary to point out that if it is profitable to do so importers can import European trademarked batteries into the United States, and other battery manufacturers can go to Belgium and produce batteries for export to the United States.

The argument against any remedy at all assumes that the imported products are being sold to consumers at lower prices than the domestic products. That is not true in this case. The evidence is that retailers are selling the domestic batteries and foreign batteries at the same price. Therefore, consumers are not being offered a choice; they are being deceived.

There are a number of strong arguments for the issuance of an exclusion order. A trademark imparts valuable information to consumers: it is a guarantee of quality. Consumers who use DURACELL batteries know that DURACELL batteries will work as well one time as the next. Because of this assurance of quality, consumers will pay a premium for the trademarked product. This premium is a return for the goodwill the company has developed.

In turn, the fact that consumers are willing to pay a premium for trademarked merchandise encourages the domestic trademark owner to produce high quality goods so as to increase that premium. 97/ If there were no trademarks, consumers might never know who made a product and would have difficulty rewarding through repeat purchases manufacturers who produce high quality product. Here many consumers base their purchases on the manufacturer's reputation for quality, which is tied up with the trademark. A reputation for quality is not easy to obtain, but must be built at great

97/ Thus the legislative history of the Lanham Act states: "Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates." S. Rep. No. 1333, supra, 1275.

expense through advertising as well as actual performance. If there was no return from having a recognizable trademark, companies would have no incentive to develop trademarks, and without trademarks that allowed customers to recognize manufacturers and reward their quality with continued purchases, manufacturers would have no incentive to develop quality goods.

The exclusion of foreign DURACELL batteries will insure the integrity of Duracell's trademark and, in turn, protect the trademark system. Protecting the trademark system, in turn, protects the consumer by insuring the quality of the goods marketed under the DURACELL trademark and by encouraging Duracell to produce as high a quality a product as possible for the domestic market.

Finally, there is a strong public health and safety argument for excluding all foreign language DURACELL batteries. Important warnings on the foreign language battery packs such as "Do not recharge or dispose of in fire" are not in English. The consequence of not being able to read such a warning could be quite high. This public interest factor outweighs any possible competitive advantages to the public for this product.

For the above reasons, we find that the public interest factors do not preclude the issuance of a general exclusion order, excluding all foreign DURACELL batteries.

VII. Bonding

The Commission has determined that a bond of 75 percent of the entered value of foreign DURACELL batteries will offset any competitive advantage resulting from unfair methods of competition or unfair acts enjoyed by the persons benefiting from the importation. This figure for the bond is better than that proposed by others because it is based on respondent CWE's average price for all batteries.

ADDITIONAL VIEWS OF VICE CHAIRMAN LIEBELER

While I join in the majority opinion, these additional views are offered for my further thoughts on the public interest and for my separate interpretation of the applicability of Section 526 of the Tariff Act. 1/

Section 526

It is my view that the importation of the foreign DURACELL batteries into the U.S. in this case is a violation of Section 526 of the Tariff Act of 1930.

Section 526 makes it unlawful to import into the United States any goods of foreign manufacture bearing a trademark owned by a U.S. citizen or corporation and registered in the U.S., without the written consent of the owner. Customs' view that Section 526 applies only to unrelated parties is mistaken. The plain meaning of the statute is controlling, and Customs' interpretation of Bourjois is wrong. Unlike the court in Vivitar Corp. v. United States 2/, I cannot ignore the brief filed by the Chief Counsel of the U.S. Customs Service and the Department of Justice in the Second Circuit in Bell & Howell: Mamiya Co. v. Masel Supply Co. 3/

I am not alone in this view that the plain meaning of the statute is controlling. 4/ In Osawa & Co. v. B & H Photo, Judge Leval was similarly

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1/ 19 U.S.C. §1526 (1982).
2/ Slip Op. 84-95 (CIT, Aug. 20, 1984).
3/ 719 F.2d 42 (2d Cir. 1983).
4/ Kenneth Dam, who claimed that Section 526 aided European manufacturers who found it profitable to price discriminate and to charge a higher price in the U.S. than in Europe, conceded that Section 526 applied to related U.S. and foreign enterprises. K. Dam, Trademarks, Price Discrimination and the Bureau of Customs, 7 Journal of Law and Economics 45 (1964) reprinted in 57 Trade-Mark Rep. 14, at 17 n.14.

unconvinced by attempts to contradict the plain meaning of Section 526 by what he described as "snatching at fragments from its legislative history". . . . 5/ Just because Section 526 was enacted in response to the decision of the Court of Appeals in Bourjois does not imply that the statute should only control the narrowest version of the facts presented in Bourjois.

Any attempt to distinguish the instant case from Bourjois on the basis of the affiliation between Duracell Belgium and Duracell U.S.A., a connection which was absent in Bourjois, is not persuasive. In Bourjois, as in the instant case, the foreign manufacturer was not importing goods into the U.S. Instead, in both cases defendants were buying the goods on the European market, and reselling them in the United States. To hold that the distinction between this case and Bourjois mandates a narrow interpretation of section 526 rests far too much on the fact of who owns the trademark.

In Vivitar Corp. v. United States, the court noted a long-standing and consistent administrative policy by Customs of narrowly interpreting Section 526. It would appear, however, that Customs' interpretation is not consistent with a brief it filed last year in the Second Circuit in the Bell & Howell: Mamiya case. 6/ The brief contains a three page discussion of Section 526 and argues that the plain meaning of the statute supports a broad interpretation of Section 526 (brief at 7-8).

5/ 589 F.Supp. 1163, 1175 (S.D.N.Y. 1984).
6/ The brief was filed by the Antitrust Division and was signed by the Chief Counsel of the Customs Service.

It goes on to argue that because the statutory language is unambiguous, only the clearest showing of contrary Congressional intent would warrant departing from the plain meaning (brief at 8). The brief concludes that there is no clear evidence of legislative intent to deny the owner of the U.S. trademark the protection of Section 526 because the U.S. owner is owned or controlled by the foreign manufacturer (brief at 8-9). I cannot agree with the Vivitar court which dismissed this discussion by saying the brief mentions Section 526 only in passing.

Also, an interpretation of Section 526 limiting its applicability to transactions between unrelated entities is premised on an improper view of trademarks. This view of trademarks is based on the theory of universality, which ignores the independent goodwill the trademark can represent in separate national markets.

Public Interest

Section 337(d) requires the Commission to consider the effect of a general exclusion order on "the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers. . . ." 7/

In this case, as in all Section 337 cases, it appears at first blush that there may be a public interest in not excluding the offending product. Batteries and *a fortiori* DURACELL batteries will be cheaper in the immediate future if we permit these European DURACELL batteries to enter the American market. 8/ Therefore, some consumers will gain in the

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7/ 19 U.S.C. 1337(d).

8/ The importation of the foreign batteries into the U.S. will increase the supply of batteries in the U.S. thereby lowering the price of batteries in the U.S.

short run from such a reduction in price. We cannot adopt such a limited view of the public interest in this case. 9/

Violating a trademark often has the short-run effect of lowering price. The long-run effect, however, is generally to reduce the investment in trademarks. The reason for this is that a trademark, which is a socially useful property right, is produced by private firms investing in trademarks. Thus, the failure of judicial bodies to defend these property rights will result in less investment in trademarks, and consequently less investment in the goods they represent. 10/

The majority's holding and remedy in the instant case means that regardless of the corporate relationship between the holder of a U.S. trademark and a foreign trademark, the U.S. trademark holder can exclude from the U.S. the identically marked foreign product. The U.S. trademark holder is thereby assured that foreign sales of goods bearing the same trademark they use at home will not return to injure them in the domestic market. This is in the public interest, for it provides: 1) a clear and unambiguous rule; 2) an incentive to develop foreign markets; 3) the benefits of economies of scale in the investment in trademarks and advertising; 4) an incentive to invest in trademarks; 5) an incentive to develop high quality goods; and 6) an incentive to maintain the quality of goods.

9/ See generally J. Schumpeter, Capitalism, Socialism, and Democracy (1975) (chapter VII); M. Kamien & N. Schwartz, Market Structure and Innovation (1982) (chapter 1).

10/ See generally F. Scherer, Industrial Market Structure and Economic Performance (2d ed. 1980) (chapter 15).

Denying Duracell a general exclusion order is likely to have little long-run effect on the importation of goods into the United States. Had we failed to rule in Duracell's favor, in the future companies that develop foreign markets either would choose business organizations that afford them protection against genuine goods bearing foreign trademarks that copy a U.S. trademark being imported back into the United States or they would offer the goods in the foreign market under a different trademark. 11/ This, however, does not mean that such a ruling would have no effect. It would increase the cost of conducting foreign operations.

Companies in Duracell's position could organize themselves in a variety of ways to prevent the appropriation of their goodwill. One option would be to integrate vertically their foreign operations in order to make it more difficult for importers to buy large supplies of batteries at a low price. A second option would be to license foreign businesses rather than operate their own overseas subsidiaries. There are a number of reasons why a U.S. company may prefer not to choose either of these alternatives. Both vertical integration and licensing may entail substantial monitoring costs that the trademark holder would prefer to avoid.

Because its goodwill is associated with the trademark, the U.S. corporation has an incentive to keep quality high to protect the

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11/ In this case the domestic corporation could not keep the goods out but there would be no misappropriation of the domestic corporation's goodwill as long as U.S. consumers did not recognize the foreign trademark.

trademark. 12/ The foreign licensee has a much weaker interest in the goodwill from the trademark. The domestic corporation might have to incur large expenses to monitor the licensee and still might suffer some debasement of its trademark. 13/ An opposite ruling might cause a domestic firm to choose a different and otherwise less profitable form of enterprise to conduct its foreign operations. This would needlessly impose significant costs on U.S. corporations trying to conduct business abroad. The additional cost to the firm of doing business is in equal measure a loss to society of the resources expended by the firm. 14/

When an established domestic company chooses to market its product in a foreign country in which it is not yet established, it can choose to develop a new trademark or to promote the original. There are a number of advantages to using the original trademark. Although national boundaries sometimes present significant barriers to the flow of information and goods, nonetheless a trademark in use in one country might have some goodwill in another country. This goodwill, albeit limited, would be lost if a new trademark had to be used. Also, there are probably savings in the costs of developing new trade dress

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12/ See generally B. Klein & K. Leffler, The Role of Market Forces in Assuring Contractual Performance, 89 Journal of Political Economy 615 (1981).

13/ See generally M. Jensen & W. Meckling, Theory of the firm: Managerial Behavior, Agency Costs, and Ownership Structure, 3 Journal of Financial Economics 305 (1976); E. Fama, Agency Problems and the Theory of the Firm, 88 Journal of Political Economy 288 (1980).

14/ One cannot help but note that an opposite ruling would promote additional investment in legal services. A rational decision on the form the foreign operations will take cannot possibly be made without lengthy discussions with counsel, and the ever-present danger of litigation.

and new advertising campaigns because only one trade dress or campaign has to be developed, rather than one for each country in which the product is sold. Finally, there would be savings in advertising costs when some forms of advertising reach more than one country.

When an established domestic corporation begins to sell in a new foreign country, it cannot command as large a premium for its product because, even if its trademark is not totally unknown, it is not as well established as it is in its own market. If the goods can be imported back into the United States, the company's return from the goodwill it has established in the United States will decline as sales are taken away by the importers. It is the redirection of this return from the manufacturer who has the cost of creating the goodwill to the importer who undertook no cost in its creation that is the essential unfair act. 15/

Frequently businesses produce a different product abroad in order to cater to local tastes. However, because of the economies of scale involved in using a single trademark, it is efficient to use the same trademark at home and abroad, even though the products have different qualities. In such a case, the risk to the goodwill associated with the U.S. trademark from unauthorized imports may be even greater. Although the unauthorized imported goods were never meant to be sold in the U.S. market, consumers will nonetheless attribute the product to the U.S.

15/ See International News Service v. Associated Press, 248 U.S. 215, at 239-40 and discussion supra, at 16-17.

trademark owner. The result could be a reduction of the goodwill associated with the U.S. trademark because the consumer thinks the domestic product is of low or inconsistent quality.

The primary benefit to the public interest from our decision to issue a general exclusion order is that it should result in greater investments in trademarks and the goods they represent. Trademarks are expensive to promote, yet businesses willingly undertake this expense because of the benefits a trademark brings. A trademark imparts valuable information to consumers: it is a guarantee of quality. Consumers who use Duracell batteries know that Duracell batteries will work as well one time as the next. Because of this assurance of quality, consumers will pay a premium for the trademarked product. This premium is a return on the goodwill the company has developed. 16/

If there were no trademarks, consumers might never know who made a product and would have difficulty rewarding through repeat purchases manufacturers who produce high quality products. Batteries are among a class of goods known as experience goods. Experience goods, as opposed to search goods, must actually be used before their quality can be ascertained. 17/ Many consumers base their purchases on the

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16/ See generally B. Klein & K. Leffler, supra.
17/ P. Nelson, Information and Consumer Behavior, 78 Journal of Political Economy 311 (1970).

manufacturer's reputation for quality, which is tied up with the trademark. 18/ A reputation for quality is not easy to obtain, but must be built at great expense through advertising as well as actual performance. 19/ The trademark in the United States represents the goodwill generated by these activities. 20/ Because of the assurance of quality the trademark has for consumers, consumers are willing to pay a premium for the product carrying a recognized and respected trademark. To the company, this increment represents a return to the goodwill it has acquired in the marketplace. Thus, economist Richard Craswell stated:

> If consumers can learn about the quality levels associated with each brand, this gives each manufacturer an incentive to improve the quality of his product as much as consumers are willing to pay for. 21/

If there were no return from having a recognizable trademark, companies would have no incentive to develop trademarks, and without trademarks that allowed customers to recognize manufacturers and reward their quality with continued purchases, manufacturers would have less incentive to develop quality goods. As Craswell states: "[I]f there were no trademarks . . . a manufacturer would gain little or nothing from improving his product's quality. Consumers would be unable to recognize high- or low-quality brands, so sales would tend to go to manufacturers who reduced their price by cutting corners on quality." 22/ The result

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18/ See A. Alchian & W. Allen, Exchange and Production: Competition, Coordination, and Control (2d ed. 1977) at 193.

19/ See P. Nelson, Advertising as Information, 81 Journal of Political Economy 729 (1974).

20/ See J. McCarthy, Trademarks and Unfair Competition, §2:7 (1984).

21/ Federal Trade Commission, FTC Office of Policy Planning, The Craswell Report, Trademarks, Consumer Information, and Barriers to Competition (1979) at 6.

22/ Id at 7.

would be a race to produce inferior products, rather than competition to produce better ones.

The trademark system benefits the public by encouraging businesses to develop foreign markets and to produce goods of a high and consistent quality. An exclusion order protects that system. Therefore, the exclusion order is in the public interest.

VIEWS OF CHAIRWOMAN STERN AND COMMISSIONER ROHR

This investigation, Certain Alkaline Batteries, presents several novel issues relating to the basic exercise of the Commission's powers under section 337 of the Tariff Act of 1930 and the use of those powers to protect the trademark rights of U.S. companies. While we agree with our colleagues that section 337 has been violated, we disagree with them on the legal basis of this violation and on the relevant public interest considerations in this investigation. 1/ These differences have led us to propose a different remedy and to set forth our separate views.

Complainant, Duracell, Inc., has alleged that alkaline batteries in various sizes produced by its Belgian subsidiary and bearing the trademark "Duracell" are being imported by third parties in violation of Duracell, Inc's. U.S. trademark rights. 2/ Duracell, Inc. is a U.S. company engaged in various business activities in the United States and abroad. Through its unincorporated division, Duracell, U.S.A., Duracell, Inc. produces "Duracell" trademarked alkaline batteries in the United States. 3/ Through its

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1/ We do not disagree with our colleagues on the appropriate bonding requirements to be imposed during the Presidential review period and do not address that issue.

2/ The imported Duracell batteries form a part of what has come to be known as the "gray" or parallel import market. Generally, the gray market consists of genuine but unauthorized trademarked imports which compete in the same market with genuine but authorized trademarked articles. A "genuine" product is one which is not counterfeit; an "unauthorized" product is one which is not approved for sale in a particular country by the owner of the trademark in that country. Goods may be considered a part of the gray market in several distinct factual situations--domestically produced goods which have been exported from and then reimported into the United States, unauthorized imports competing against authorized imports, or, as in this case, imports competing against domestically produced goods.

3/ I.D. at 10.

wholly owned subsidiary, Duracell International, Inc., Duracell, Inc. also owns and controls various foreign companies, including N.V. Duracell, S.A., a Belgian subsidiary which produces alkaline batteries bearing the trademark "Duracell" and sells them throughout Europe. 4/ This case has arisen because various market conditions, one of which is the strength of the U.S. dollar, enable U.S. importers to purchase the Belgian-made "Duracell" alkaline batteries and have them shipped to the United States for a price below the wholesale price of domestic "Duracell" batteries.

Duracell, Inc. alleges that such imports are unfair because many of the imports are labeled in violation of U.S. requirements and because the imports are marked in violation of its trademark and trade dress rights. 5/ The Administrative Law Judge (ALJ) ruled that Duracell's trademark and trade dress rights have been violated and that many of the imported batteries have been labeled in violation of the Fair Packaging and Labeling Act, 15 U.S.C. § 1451 et. seq. 6/ Duracell also alleged, and the ALJ found, that the effect or tendency of such imports is to substantially injure an efficiently and economically operated domestic industry. 7/

4/ I.D. at 13. The ALJ found there to be no explicit licensing agreement permitting Duracell, S.A. to sell batteries in the United States. It is also true that he found no agreements explicitly limiting the sale of Duracell, S.A.'s batteries to any particular markets of the world, or specifically excluding Duracell, S.A. from the United States. It is significant that the one explicit licensing agreement that was entered into evidence for the trademark "Flat Pak," specifically includes North America within Duracell, S.A.'s sales territory. The implication is that Duracell, Inc. conceived of itself as a single multinational enterprise at least until foreign "Duracell" batteries entered Duracell, Inc.'s U.S. market.

5/ Duracell has alleged unfair acts both on the basis of statutory violations and common law violations. The statutory violations include 19 U.S.C. 1526, 15 U.S.C. 1114, 1124 and 1125, the Fair Packaging and Labeling Act, and certain customs marking statutes. The common law violations include trademark and trade dress infringement.

6/ I.D. at 82. The ALJ found that CWE's new package labels did not violate this statute.

7/ I.D. at 87, 91.

The Commission has ordered review of the issues relating to the ALJ's finding of trademark and trade dress violations and relating to his finding of substantial injury. 8/ While we concur in the ALJ's ultimate finding of a violation, we disagree with his reasoning as to the nature of the unfair acts and believe his findings as to injury require additional support. We also find that the most appropriate remedy for the violation of section 337 in this investigation would be the exclusion of improperly labeled imports and of imports on which the use of the "Duracell" trademark is confusing. Such a remedy properly takes into account the important public interest factors which relate to the operation of the gray market.

Part I

Commission Jurisdiction

Two of the unfair acts Duracell has alleged are that the importation of foreign "Duracell" alkaline batteries violates section 526 of the Tariff Act of 1930, 9/ and section 42 of the Lanham Act. 10/ Before examining whether, in fact, these statutes are violated by unauthorized imports of foreign "Duracell" batteries, it is first necessary to determine whether these

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8/ 49 Fed. Reg. 32,688 (1984).

9/ 19 U.S.C. § 1526. Section 526 provides in relevant part:

(a) [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. . . .

(b) Any such merchandise imported into the United States in violation of this section shall be subject to seizure and forfeiture for violation of the customs laws.

10/ Section 42 of the Trademark Act of 1946, 60 Stat. 440, 15 U.S.C. § 1124. Section 42 provides in relevant part:

[N]o article of imported merchandise which shall copy or simulate the name of . . . any domestic manufacturer . . . or which shall copy or simulate a trademark . . . shall be admitted to entry at any customhouse of the United States . . . .

statutes are appropriate subject matter under section 337.

It is beyond dispute that the Commission has the authority to consider a broad range of unfair methods of competition and unfair acts under section 337. 11/ It is also clear that the Commission can consider both statutory violations and common law violations as unfair acts. 12/ Nevertheless, the Commission's authority is not unlimited. Specifically, the Commission's discretion to exercise jurisdiction should not be extended to those situations in which the performance of the Commission's statutory duty is incompatible with the rights afforded a complainant under a specific statute.

Congress enacted section 337 to afford domestic industries an additional remedy for the violation of their rights when existing laws are inadequate to remedy their injury. 13/ By law, the Commission can provide this remedy only when certain specific criteria are met. Not only must unfair acts be injurious, but they must have the "effect or tendency . . . to destroy or

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11/ See, In re Certain Novelty Glasses, Inv. No. 337-TA-55, USITC Pub. No. 991 (July 1979); In re Von Clemm, 229 F.2d 441 (CCPA 1955); In re Northern Pigment Co., 71 F.2d 447 (1934).

12/ See, Certain Vertical Milling Machines and Parts, Attachments, and Accessories Thereto, Inv. No. 337-TA-133, USITC Pub. No. 1512 (Mar. 1984); Certain Miniature Plug-In Blade Fuses, Inv. No. 337-TA-114, USITC Pub. No. 1337 (Jan. 1983); In re Northern Pigment Co., 71 F.2d at 447. Even if a set of facts has never before been considered to be unfair, the Commission has the discretion to find that they are unfair under section 337.

13/ In Frischer & Co. v. Bakelite Corp., 39 F.2d 247, 259-60 (CCPA 1930) the court notes with approval the Tariff Commission's analysis:

> The situation presented by the manufacture in the United States of articles infringing patents is quite different from that presented by the importation of such articles made abroad. In the case of the sale of articles manufactured in the United States the infringing manufacturer can be proceeded against and thus the unfair practice be reached at its source. Domestic patentees have no effective means through the courts of preventing the sale of imported merchandise in violation of their patent rights. . . . Unless, therefore, section 316 may be invoked to reach the foreign articles at the time and place of importation in forbidding entry into the United States of those articles which upon the facts in a particular case are found to violate the rights of domestic manufacturers, such domestic manufacturers have no adequate remedy.

substantially injure" a domestic industry. 14/ Further, even if an unfair act has resulted in substantial injury, the Commission must determine that considerations of the public interest do not preclude the provision of relief. 15/ Finally, the President is given the final authority to disapprove a remedy proposed by the Commission "for policy reasons." 16/. If the Commission's exercise of these statutory functions is not consistent with a specific statute, the violation of such a statute should not be considered the proper subject matter for action by the Commission under section 337.

In 1978, the Commission considered the case of Certain Welded Stainless Steel Pipe and Tube, Investigation No. 337-TA-29. The unfair act alleged in that investigation was predatory pricing, a commonly recognized unfair method of competition under the U.S. antitrust laws. The basic factual allegations involved sales at unreasonably low prices, often below the cost of production, claims that would constitute the basis for a proceeding under U.S. antidumping laws. Based upon its expansive reading of the terms "unfair methods of competition and unfair acts," the Commission found a violation of section 337. The President, however, disapproved the Commission's finding. 17/ To confirm the President's action, Congress subsequently added subsection (b)(3) to section 337, specifically instructing the Commission not to consider allegations of dumping and subsidization under section 337 when such allegations are the sole alleged unfair acts. 18/

14/ 19 U.S.C. § 1337(a)
15/ 19 U.S.C. § 1337(d).
16/ 19 U.S.C. § 1337(g).
17/ 43 Fed. Reg. 17,789 (1978).
18/ Section 337(b)(3) states in part:

> If the Commission has reason to believe that the matter before it is based solely on alleged acts and effects which are within the purview of sections 1303, 1671, or 1673 of this title, it shall terminate, or not institute, any investigation into the matter.

The rationale for the exclusion of dumping and subsidization from the scope of section 337 is equally, if not more, compelling in the case of section 526 and section 42. Congress has established a specific set of procedures for the consideration of dumping and subsidy allegations. While exclusion of the goods in question are not remedies for such acts, and section 337 would be an additional remedy, Congress has indicated that the proper and efficient administration of the dumping and countervailing duty laws outweighs the benefits of the additional remedy section 337 would offer. Congress' clear intent is that the procedures it has established should not be circumvented by reference to section 337.

In the present case, the alleged violations of section 526 of the Tariff Act and section 42 of the Lanham Act are explicitly to be dealt with in the context of a Congressionally created set of procedures by the Customs Service, and, thus, should not be considered a basis for a violation of section 337. Goods imported in violation of either of these statutes are subject to exclusion from the United States by the Customs Service. This exclusion operates on the finding of a violation regardless of whether a domestic industry is injured, substantially or otherwise, regardless of whether the public interest outweighs the benefit of the remedy, and regardless of whether the President approves the exclusion. The Commission, however, cannot remedy a violation without a finding of substantial injury, without determining that such remedy is not precluded by the public interest, and without Presidential acquiescence.

There is, thus, a clear distinction between the rights provided by section 526 of the Tariff act and section 42 of the Lanham Act and the rights conveyed under section 337. The impossibility of reconciling the proper administration of section 526 and section 42 with the Commission's administration of section 337 persuades us that violations of these statutes are not the proper subject matter for an action under section 337. Rather, such violations are to be determined-- according to the intent of Congress--by the United States Customs Service and the courts. Nonetheless, because other claims made by Duracell, Inc. that are the proper subject matter for the Commission action require discussion of these statutes, we analyze why they have not been violated within the context of section 337.

Part II

Violation of Section 337

To establish a violation of section 337 we must find three separate elements: (1) the existence of certain unfair acts; (2) importation or sale of goods; and (3) injury. 19/ In the present case we do not review the finding of the ALJ as to importation and sale. Before us are the questions of unfair acts 20/ and substantial injury.

19/ The injury requirement includes the determinations of a domestic industry, of the efficient and economic operation of that industry, of substantial injury or a tendency thereof and of a causal nexus between that injury and the unfair acts.

20/ The ALJ made findings of no unfair act based on Duracell, Inc.'s claims of false representation, I.D. at 78, and failure to mark country of origin, I.D. at 79-80. He also made a finding that all respondents, except one, have violated the Fair Packaging and Labeling Act. We are not reviewing these findings.

The ALJ determined that the unfair acts which existed in this case arose from the violation of certain statutes and common law rights. Specifically, he addressed the question of whether there were violations of section 526 of the Tariff Act of 1930, sections 32, 42 and 43 of the Lanham Act, and the misappropriation of certain trade dress rights. 21/ In this section we address specifically the ALJ's findings as to violations of 19 U.S.C. § 1526 (section 526), 15 U.S.C. § 1124 (section 42), 15 U.S.C. § 1114 (section 32), and 15 U.S.C. § 1125 (section 43). We also address the more general question whether, independent of the violation of these statutes, there is an unfair method of competition or unfair act based upon gray market importations.

19 U.S.C. § 1526

The first unfair act alleged by Duracell, Inc. is a violation of section 526 of the Tariff Act of 1930. Section 526 bars the unauthorized importation of articles bearing the registered trademark of a U.S. trademark holder. The ALJ determined that section 526 is applicable only to the circumstances of the sale of U.S. trademark rights by a foreign company to an independent U.S. firm. 22/ Because no such sale is involved in this case he found section 526 to be inapplicable. We concur.

21/ In our opinion the critical elements of a finding relating to misappropriation of trade dress are controlled by our other findings in this opinion.

22/ I.D. at 65. Section 526 was a direct result of the case of A. Bourjois & Co. v. Katzel, 275 F. 539 (2d Cir. 1921), rev'd 260 U.S. 689 (1923). The history of section 526 and the Bourjois case has been exhaustively reviewed elsewhere, particularly in Vivitar Corp. v. United States, ___ CIT___, slip. op. 84-95 (Aug. 20, 1984). As this history shows, and as the ALJ correctly points out, section 526 was adopted to specifically overrule the Second Circuit's decision and should be limited to the facts of that case, a sale of trademark rights by a foreign company to a U.S. company.

Section 526 and its interpretation by the Customs Service is currently the subject of much litigation. 23/ In view of its complicated history, it is not surprising that the courts have had divergent views as to its meaning. One view has been expressed by Judge Restani of the Court of International Trade in Vivitar Corp. v. United States, ___CIT___, slip op. 84-95 (August 20, 1984). The other view has been expressed by Judge Leval of the District Court of the Southern District of New York in Osawa & Co. v. B&H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984). Judge Leval, in dicta, stated that section 526 should be interpreted in accordance with its plain meaning to provide an American trademark holder an absolute right to prohibit the importation of goods bearing that trademark. 24/ Further, he stated that the Customs Service regulations which limit that right in the case of related companies, or "single international enterprise[s]," are of questionable authority, wisdom or necessity. 25/

Unlike Judge Leval, Judge Restani in the Vivitar case was directly confronted with the issue of proper interpretation of section 526 and the authority of the Customs Service regulation. In Vivitar, plaintiff sought a declaratory judgment to bar importation of cameras produced and trademarked abroad by its own licensed subsidiaries. 26/ The situation clearly fell

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23/ The Customs Service regulations implementing section 526, and section 42 of the Lanham Act as well, are contained at 19 C.F.R. Part 133 (1984). These regulations provide that the exclusion required by section 526 does not apply in the case of related companies, i.e., "single international enterprises." To the extent these rules are based on section 526 they appear to be a generalization of the specific factual situation of Bourjois. The factual situation in Bourjois involved a sale of trademark rights to an independent U.S. company . The Customs rule, in effect, states that where companies are "related" there can be no sale to an "independent" U.S. company.

24/ 589 F. Supp. at 1175.

25/ Id. at 1176-77.

26/ Vivitar, slip op. 84-95, at 2.

within the exception to section 526 contained in Customs regulations for related parties. 27/ Judge Restani reached two basic conclusions after exhaustively reviewing the history of section 526 and the Customs regulations First, she concluded that section 526 was "enacted . . . as a special remedy to protect American businesses that purchase foreign trademarks from imports that violate the rights the American businesses purchase." 28/ Second, she found the Customs Service's related party regulation to be a reasonable means of implementing the Congressional intent as to section 526 that she would not disturb. 29/

Even were we to believe, as has been urged, that Judge Restani did not fully consider the history of Customs' regulations or that we should not consider these regulations binding in the context of section 337, 30/ Judge Restani's interpretation of section 526 itself is compelling. The legislative history does strongly suggest that in enacting section 526 Congress was concerned only with the sale of trademark rights. The total exclusion of foreign trademarked goods bearing a registered American trademark is an issue Congress may appropriately consider when it decides to do so. Judge Restani has convincingly demonstrated that Congress did not provide for such a total

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27/ Id. at 4. In the Osawa case, the Customs Service had ruled that the U.S. trademark holder was entitled to the exclusion. 589 F. Supp. at 1177. The importers asserted that Customs had misapplied its rules because the U.S. trademark holder was related to the foreign manufacturer. Custom's rules were involved in Osawa only as to the question of whether the regulations were properly applied.

28/ Vivitar, slip op. 84-95, at 34.

29/ Id. at 35.

30/ It was argued that Judge Restani did not consider a brief in the original Osawa case by the Justice Department on behalf of the Customs Service which questions the authority for the Customs rule. We are not persuaded that this is a flaw in Judge Restani's argument. It reflects at most the fact that Customs has considered changing its rule. It is not relevant to the key element of Judge Restani's opinion: the meaning of section 526 itself.

exclusion when it enacted section 526. We therefore agree with the ALJ that a violation of section 526 affords no basis for the finding of a violation of section 337 in the present case.

15 U.S.C. § 1124 and the Principle of Territoriality

The second alleged unfair act in this investigation was a violation of section 42 of the Lanham Act, 15 U.S.C. § 1124, which provides for the exclusion from the United States of goods which "copy or simulate" U.S. trademarks. The ALJ determined that foreign "Duracell" alkaline batteries "copy or simulate" a U.S. trademark, and because they cause confusion, section 42 has been violated. He concluded that section 42 incorporates the principles of "territoriality" 31/ into U.S. law. He further determined that the application of "territoriality" is conditioned upon the existence of three elements:

(1) the trademark must have a separate legal existence under the laws of the United States;

(2) the trademark must symbolize the local goodwill of the domestic owner of the mark; and

(3) the use of the trademark is not separated from the goodwill of the business it identifies. 32/

He also found that the second and third elements of this test incorporate the concept of "confusion, mistake or deceit" as that concept exists under section 32 of the Lanham Act, 15 U.S.C. § 1114. 33/ While we agree with the ALJ that section 42 does incorporate the concept of territoriality into U.S. trademark law, we disagree with the test he established on which to base the

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31/ I.D. at 65.
32/ I.D. at 65-66.
33/ I.D. at 66.

applicability of the territoriality principle and with the consequences he derived from the application of the principle.

Territoriality is, as the majority in this investigation states, a general principle of trademark law. The origin of the territoriality principle and the checkered history of its incorporation into U.S. trademark law have been exhaustively reviewed in several recent court cases and in the briefs submitted in this investigation. 34/ We agree with the majority that territoriality is a part of U.S. law. The basis for our agreement is the Supreme Court's opinion in Bourjois v. Katzel, 35/ and U.S. adherence to international treaties setting forth the territoriality principle, specifically the 1967 Stockholm Revisions to the Convention of the Union of Paris for the Protection of Intellectual Property of March 20, 1883. 36/ The question before the Commission, however, is not only whether territoriality is a part of U.S. law, but also whether it creates an "unfair act" in this factual situation under section 337. Contrary to the opinion of the majority, we believe it does not.

The parameters of the doctrine of territoriality are not clear from the opinions that have incorporated it as part of U.S. law. The majority finds that territoriality, as expressed by the Supreme Court in the Bourjois case, implies that trademarks are necessarily infringed when goods bearing a mark

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34/ Vivitar, slip op. at 13-16; Osawa, 589 F. Supp. at 1171; Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063, 1070-74 (E.D.N.Y. 1982) rev'd. on other grounds. 719 F.2d 42 (2d Cir. 1983); Parfum Stern v. United States Customs Service, 575 F. Supp. 416 (S.D. Fla., 1983); See also Amicus curiae Pre-hearing Brief of Vivitar Corp. at 18-23; Pre-hearing Brief of the Commission Investigative Attorney at 6-9; Post-hearing Brief of Duracell, Inc. at A 1 through A-7.

35/ 260 U.S. 689 (1923).

36/ 21 U.S.T. 1583; 24 U.S.T. 2160; TIAS 6923, 7727.

identical to a U.S. mark are imported. This is not a proper interpretation of the Bourjois decision because it implies that the identity of the two marks was the basis for the finding of infringement. In Bourjois, the Court stated:

> There is no question that the defendant infringes the plaintiff's rights unless the fact that her boxes and powder are the genuine product of the French concern gives her a right to sell them in the present form. 37/

This does not imply that traditional concepts of trademark infringement are irrelevant when the principle of territoriality applies. The Court's statement of the issue is that given that all other requirements for trademark infringement have been met, the fact that the products are genuine does not preclude a finding of infringement. As Justice Holmes stated in Prestonettes, Inc. v. Coty, 264 U.S. 359, (1924) there is nothing in Bourjois which prohibits the use of a mark as long as it is used to tell the public the truth. 38/

The principle of territoriality establishes one thing and one thing only--that two marks, even if visually identical, regardless of who owns them, have independent legal existences based upon the fact that they are created by different legal sovereigns. This is clearly an important concept, but it is only a definitional one. The fact that two marks are legally separate does not establish that their use in any particular country or market is unfair. Unfairness results only when the independent marks are used to violate the rights the holder of the original mark has under the laws of the country in which the trademark is used. In the United States, the right which the

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37/ 260 U.S. at 691.
38/ 264 U.S. at 368.

trademark law confers is the right to be free of an infringing use of the mark. Specifically, it confers the right to be free from any use which is likely to cause confusion to the public. 39/ Under U.S. law, the concept of territoriality is properly used only to define an identical mark as a separate mark, which thus copies or simulates a U.S. mark.

The ALJ, instead, applied an overly broad concept of territoriality and by incorporating it into section 42 of the Lanham Act, concluded that section 42 of the Lanham Act has been violated.

The first element of the ALJ's test for the application of territoriality is that the mark be found to have a separate legal existence under U.S. law. This appears to be a tautology. The separate legal existence of trademarks under different national laws is the legal conclusion to be drawn from the application of the principle of territoriality. In effect, the ALJ used the definition of territoriality as a criterion for its existence. 40/

39/ 15 U.S.C. § 1114.

40/ Further, the requirement for the finding of a separate legal existence leads to anomalous results. Under the reasoning of the ALJ, for the trademark to have a "separate" legal existence it is obviously necessary that there be at least one foreign trademark for the U.S. mark to be "separate" from. There are generally two ways for a trademark to be established in various countries, through use or through registration. 1 Horowitz, World Trademark Law and Practice, § 1.03 (1983). If a U.S. company exports its trademarked products to two countries, one of which requires registration and the other use, and the U.S. company does not register its mark, it is clear that the mark would have legal existence in the country allowing the establishment of marks by use, but no legal existence in the country requiring registration. Thus, the U.S. mark would have a "separate" legal existence vis-a-vis the "use" country, but no legal existence in the "registration" country. There would be no trademark for the U.S. mark to be separate from in the case of the "registration" country. Therefore, goods exported to the "registration" country could be reexported back to the U.S. without violating section 42 while those reexported from the "use" country could not be imported into the United States. We do not believe such a result should be inferred nor is reasonable under section 42.

Our second disagreement with the ALJ's formulation of the territoriality concept and his interpretation of section 42 is his incorporation into section 42 of the confusion concept contained in section 32 of the Lanham Act. The statutory basis for trademark infringement, section 32, contains the language--"reproduction, counterfeit, copy, or colorable imitation." Section 42 uses the terms "copy or simulate." While the language of section 32 is broader, it clearly contains within it section 42's concept of "copy or simulation." However, while section 42 provides for the exclusion of copies or simulations, section 32 permits a finding of infringement only if an additional requirement has been met -- that the marks are likely to cause confusion, mistake or deception. A finding of confusion, mistake or deception thus are not contained in the finding that a mark is a "reproduction, counterfeit, copy or colorable imitation" under section 32. We must conclude, therefore, that "copy or simulate" as used in section 42 also does not incorporate a confusion test.

Section 42 should be viewed as a special statute intended to deal with a specific set of problems in the international marketplace. Generally, the infringement of a trademark right occurs when two identical or similar marks are used to cause confusion in the minds of consumers. Remedies are provided for such infringement by statute or by application of general common law principles in most circumstances. Such remedies may be difficult to enforce, however, when the infringing article is imported. Section 42 is intended as an additional remedy for trademark infringement by imports. Congress has said that in a domestic trademark action a U.S. trademark holder must prove both the "likeness" of two marks and confusion. However, when the alleged infringement involves imported goods, only "likeness" must be proven. Confusion will be presumed.

However, the Customs Service in its implementation of this statute has interpreted the presumption of confusion to apply only in the context of independent and unrelated companies. 41/ While some have questioned Customs' authority to add such a caveat into section 42, we choose to defer to Customs' regulations as they currently exist, implicitly ratified by Congress despite numerous opportunities for Congress to modify them. 42/

Thus, the principle of territoriality cannot be "violated." It is merely a definitional principle. To the extent territoriality is relevant to the finding of an unfair act, it is only relevant to a finding of the "likeness" of two trademarks. This is only one element of a finding of trademark infringement. It is relevant under section 42 to the extent it establishes a "copy or simulation" the use of which is presumed to be confusing in

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41/ Even if we did not agree with Custom's implementation of section 42, the Commission is not the appropriate forum for a collateral attack on the Customs rules. Moreover, the Customs rules on related companies are reasonable. While the likelihood of confusion in the case of imports from unrelated companies may be so great as to justify a presumption, the likelihood of confusion as to goods coming from the same or related companies is much less. When goods come from two independent companies, there is the inherent likelihood that consumers will be confused that the goods of one company are those of the other. However, when a single international enterprise is involved, both sets of goods come from the same manufacturer and so the confusion as to the identity of the goods themselves is much less. Such confusion may nonetheless exist. But if it does, the proper analysis should be that of traditional trademark infringement under 15 U.S.C. § 1114.

42/ See Vivitar, Slip Op. 84-95.

situations involving unrelated companies. Similarly, it is relevant under section 32, but only to the extent of defining what constitutes a reproduction, counterfeit, copy, or colorable imitation.

15 U.S.C. § 1114 and Trademark Infringement

Under U.S. law, a trademark is a valuable property right which identifies particular goods as those of the trademark holder. A trademark also represents the goodwill of the company which stands behind and insures the quality and reliability of those goods. 43/ However, property rights are not unlimited. As Justice Holmes, author of the Bourjois decision in 1923 stated in a subsequent case, Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924):

> Then what new rights does the trade mark confer? It does not confer a right to prohibit the use of the word or words. It is not a copyright. . . . A trade mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his. 44/

If Justice Holmes' words need further amplification, it is easily found in the Lanham Act itself. The Act provides, consistent with preexisting trademark law, that the rights of a trademark holder are violated only if the use of a similar mark is likely "to cause confusion, or to cause mistake, or to deceive." 45/ Thus, the violation of a trademark holder's rights

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43/ 15 U.S.C. § 1114; 1 McCarthy, Trademarks and Unfair Competition § 2:7 (2d ed. 1984); Rogers, Good Will, Trademarks, and Unfair Competition (1914).

44/ 264 U.S. at 368. See International Order of Job's Daughters v. Lindeburg & Co. 633 F.2d 912 (9th Cir. 1980), cert. denied, 452 U.S. 941 (1981); Kentucky Fried Chicken Corp. v. Diversified Packaging Corp., 549 F.2d 368 (5th Cir. 1977).

45/ 15 U.S.C. 1114. American Foundries v. Robertson, 269 U.S. 372, 380-82 (1925). See 1 Gilson, Trademark Protection and Practice § 1.04 [2] (1984); Industrial Rayon Corp. v. Dutchess Underwear Corp. 92 F.2d 33 (2d Cir. 1937), cert denied, 303 U.S. 640 (1938).

occurs not when goods bear his trademark or duplicate it, but rather, when the mark on such goods is used unfairly, i.e., is causing or is likely to cause confusion, mistake or deception.

In the present case, we can find there is an infringement of Duracell, Inc.'s U.S. trademark rights 46/ if two essential conditions are met:

(1) Duracell, S.A.'s use of trademark "Duracell" is a reproduction, counterfeit, copy or colorable imitation of Duracell, Inc.'s "Duracell" trademark; and

(2) The use of Duracell, S.A.'s Duracell trademark is likely to cause confusion, mistake or deception with respect to Duracell, Inc.'s use of its "Duracell" trademark.

With respect to the first issue, we agree with the ALJ that a foreign-made "Duracell" battery is the same battery as a domestically produced "Duracell" alkaline battery. 47/ Further, the trademark "Duracell" and the specific "Duracell" trade dress as used on foreign "Duracell" alkaline batteries is visually identical with the trademark and the trade dress of domestic "Duracell" alkaline batteries. 48/ Nevertheless, we conclude that the trademark and trade dress used on the foreign "Duracell" alkaline batteries is a "reproduction, counterfeit, copy, or colorable imitation" of the domestic "Duracell" trademark and trade dress when the batteries bearing the Belgian "Duracell" trademark enter the U.S. market.

46/ These basic holdings apply both to alleged statutory and common law trademark infringement.

47/ I.D. at 18.

48/ I.D. at 68.

The conclusion that the Belgian trademark "copies" that of the U.S. products is not readily apparent from the strict wording of "reproduction, counterfeit, copy or colorable imitation." Logically a thing cannot copy itself. Nevertheless, the principles of territoriality, as discussed above, establish that while, in fact, the marks are visually identical and are owned by the same entity, in law, they are not the same marks. The Belgian "Duracell" mark is thus a reproduction, counterfeit, copy, or colorable imitation of the U.S. "Duracell" mark.

The second issue is confusion. There are basically two types of confusion: (1) confusion of source or origin, which is confusion as to the manufacturer of the product, 49/ and (2) confusion of goodwill, which is confusion relating to ancillary services which the trademark holder provides up to the point of sale which affects the consumer's perception of the goods. 50/

We do not find in this case that there can be confusion based on differences in the actual product at the time of manufacture. The products are genuine, and they are identical or virtually so. 51/ Thus, we further find there is no confusion as to the actual manufacturer of the batteries.

49/ See, e.g., Grotrain, Helfferich, Schulz, th. Steinweg Nachf. v. Steinway & Sons, 523 F.2d 1331 (2d Cir. 1975); Ramirez & Feraud Chili Co. v. Las Palmas Food Co., 146 F.Supp. 594 (S.D. Cal. 1956).

50/ See, e.g., Clairol, Inc. v. Boston Discount Center of Berkley, Inc., 608 F.2d 1114 (6th Cir. 1979) (confusion as to instructions and warnings); Norman M. Morris Corp. v. Weinstein, 466 F.2d 137 (5th Cir. 1972) (prohibiting confusion as to company offering guarantee).

51/ I.D. at 18.

Duracell, Inc. manufactures the batteries and bears the ultimate responsibility for batteries produced by both Duracell, USA, its domestic manufacturing division, and Duracell, S.A., its wholly owned foreign manufacturing subsidiary. 52/

Nevertheless, there are certain critical differences between the "goodwill" associated with a foreign trademarked "Duracell" alkaline battery and that of a domestic trademarked "Duracell" battery that are likely to cause confusion. First, a domestic "Duracell" alkaline battery is guaranteed and warranted by Duracell, Inc., a domestic corporation, while the foreign Duracell batteries are warranted by Duracell, S.A., a Belgian corporation. While we express no opinion of Belgian warranty laws, we note that it would probably be substantially more difficult for a U.S. consumer to take advantage of the Belgian warranty than of the U.S. warranty. 53/

52/ The principle of territoriality requires the conclusion that the trademarks used by Duracell, S.A. in Belgium and Duracell, Inc. in the United States are different marks. This legal conclusion does not change the fact that Duracell, Inc. and Duracell, S.A. are related companies.

53/ Respondents and certain amici argue that these differences are of small significance, that consumers are largely unaware of them and that, in many cases, they do not care about them. Respondents did not persuade the ALJ and they do not persuade us. We believe that there is sufficient evidence to support the finding that consumers are likely to be confused. See Trail Chevrolet, Inc. v. General Motors Corp. 381 F.2d 353 (5th Cir. 1967) (confusion may be based on product guarantee); Bulova Watch Co. v. Allerton Co., 328 F.2d 20, 24 (7th Cir. 1964) (reseller required to disclose that trademark owner's original guarantee not effective so as to avoid confusion); Menendez v. Faber, Coe & Gregg, Inc., 345 F. Supp. 527 (S.D.N.Y. 1972) (customer confusion does not require a finding of actual quality differences); See generally, 3 R. Callman, The Law of Unfair Competition, Trademarks and Monopolies § 19.45 (4th ed. 1983).

Second, domestic "Duracell" alkaline batteries are subject to an extensive product surveillance system to reduce the overextension of the shelf life of the batteries. We do not imply there are quality differences between foreign "Duracell" alkaline batteries and domestic "Duracell" alkaline batteries. 54/ However, it is true that freshness is a desirable quality in a battery and that Duracell, Inc.'s product surveillance system in the United States is likely to provide greater assurance of freshness of individual batteries than is the case regarding foreign "Duracell" batteries.

Finally, we note that although foreign "Duracell" batteries are being imported into the United States at a lower wholesale price than domestic "Duracell" alkaline batteries, there is evidence on the record that these batteries are being sold to domestic consumers at the same price as domestic

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54/ The ALJ did find that respondent CWE (1) had not instructed its suppliers in the proper procedure for handling, shipping and storing batteries; and (2) that CWE's suppliers did not handle, ship and store foreign Duracell batteries in a manner calculated to prevent product deterioration. I.D. at 21-22. These findings are based on evidentiary sanctions against CWE. They do not, however, establish that such quality differences do, in fact, exist. We agree with the position of UIID that the ALJ's factual findings from which he concluded "the chance of consumers experiencing a faulty battery is greater with the foreign cells than with domestic batteries" are based on inference and secondary evidence. Duracell, Inc. had the opportunity to support these inferences with direct evidence. It could have, for example, tested imported batteries and compared these tests with the results of the tests it runs on domestic batteries as part of its domestic product surveillance program. Duracell, Inc. has argued that such tests would be irrelevant unless it knows the handling procedures with respect to the batteries it tests. Post-hearing brief of Duracell, Inc. at 27-29. We disagree. A statistically significant sample could have been obtained and tested had Duracell chosen to do so. Duracell does test other batteries that it imports from its other foreign subsidiaries. We do not believe it proper, therefore, to go beyond the explicit sanctions which the ALJ imposed. The record in this investigation contains no credible direct evidence that the foreign "Duracell" batteries imported and sold in the United States are generally inferior in quality to domestic "Duracell" batteries.

"Duracell" alkaline batteries. 55/ Despite the differences between foreign and domestic "Duracell" batteries, consumers are paying the same price for the foreign "Duracell" alkaline batteries they pay for domestic batteries. They thus appear to be unaware of those differences. We, therefore, conclude that complainant Duracell, Inc. has established the requisite likelihood of confusion required for a violation of 15 U.S.C. § 1114 and common law concepts of trademark/trade dress infringement and has consequently established the existence of an unfair act under section 337.

15 U.S.C. § 1125 and False Designation of Origin

Section 43 of the Lanham Act provides that goods marked with a false designation of origin shall not be imported into the United States. 56/ In this case, to the extent that section 43 of the Lanham Act establishes an unfair act other than those discussed elsewhere in this opinion, this unfair act involves confusion concerning the identity of the manufacturer of the goods. As we note above, however, where identical goods originate from a single international enterprise, the actual manufacturer of such goods is the same regardless of which part of the enterprise actually produces the goods. 57/ We, therefore, find no independent violation of section 43 of the Lanham Act.

55/ I.D. at 23.

56/ 15 U.S.C.§ 1125. We note that the ALJ determined that there was no violation of section 43 as to allegations of false representation, also contained in section 43, I.D. at 78. Traditional Commission practice has been to view false designation of origin as referring to geographical origin and as such would be encompassed by the ALJ's finding as to the customs marking law. I.D. at 76; see also Certain Log Splitting Pivoted Lever Axes, Inv. No. 337-TA-113, terminated, 48 Fed. Reg. 1360 (1983). The ALJ found section 43 to have been violated based on a misappropriation of trade dress theory. I.D. at 76-77. Our findings as to trade dress violations are subject to our finding as to trademark violation.

57/ See discussion, supra, at p. 19-20.

Trademark Rights and Section 337

Past Commission decisions involving trademark rights have analyzed the existence of unfair acts using traditional concepts of trademark infringement. 58/ Nevertheless, we agree with the majority that it is theoretically possible for the Commission to find an unfair act without finding a technical "infringement." We must then consider whether there is an inherent unfairness in the sale of gray market imports which may be independent of any confusion these gray market imports may cause.

An unfair act involving gray market goods must depend on the existence of a trademark right which is independent of the confusing use of the trademark. As the majority indicates, this right might exist if trademark law provides trademark holder an absolute, exclusive prohibitory right to prevent any other person's use of that mark. Contrary to the majority, we do not find that U.S. trademark law provides such an unlimited right.

While the Commission has been given broad authority to determine whether an unfair act exists in import trade, it has not been given the authority to expand the law of trademarks. The fact that the Commission's determination involves unfair competition does not expand the Commission's authority to create new legal rights in the context of trademarks.

As Congress stated in enacting the Lanham Act:

> All trademark cases are cases of unfair competition and involves the same legal wrong. 59/

58/ *In re* Certain Heavy-Duty Staple Gun Tackers, Inv. No. 337-TA-137, USITC Pub. No. 1506 (March 1984); *In re* Certain Braiding Machines, Inv. No. 337-TA-130, USITC Pub. No. 1435 (Oct. 1983); *In re* Certain Coin-Operated Audiovisual Games and Components Thereof, Inv. No. 337-TA-105, USITC Pub. No. 1220 (Feb. 1982).

59/ S. Rep. No. 1333, 79th Cong., 2d. Sess. (1946).

This legal wrong is the causing of confusion:

> Today, the keystone of that portion of unfair competition law which relates to trademarks is the avoidance of a likelihood of confusion in the minds of the buying public. Whatever route one travels, whether by trademark infringement or unfair competition, the signs give direction to the same inquiry--whether defendant's acts are likely to cause confusion. 60/

This key question of confusion is at the heart of the nature of trademark rights. To be sure, many early trademark cases likened the right on a trademark to monopolies and absolute property rights. 61/ But the analogy of a trademark to a monopoly or absolute property right has now been firmly discredited, if it was ever more than a convenient shorthand for the actual meaning of trademarks. As Justice Holmes stated:

> When the common law developed the doctrine of trademarks and tradenames, it was not creating a property in advertisements more absolute than it would have allowed the author of Paradise Lost, but the meaning was to prevent one man from palming off his goods as another's, from getting another's business or injuring his reputation by unfair means and perhaps, from defrauding the public. 62/

60/ J. McCarthy, supra, at § 2.3; see Dart Drug Corp. v. Schering Corp., 320 F.2d 745 (D.C. Cir. 1963); Safeway Stores, Inc. v. Safeway Properties, Inc. 307 F.2d 495 (2d Cir. 1962). The argument has been made that because the purpose of section 337 is to protect domestic industries and not consumers, that consumer confusion should not be considered dispositive of the issue of whether an unfair act exists under section 337. This ignores the underlying fact that the right which has been alleged to be violated is, nevertheless, a right conditioned on consumer confusion:

> A 'trademark' is not that which is infringed. What is infringed is the right of the public to be free of confusion and the synonomous right of the trademark owner to control his product's reputation. James Burrough Ltd. v. Sign of Beefeater, Inc., 540 F.2d, 266, 274 (7th Cir. 1976) (Judge Markey).

61/ Bourjois, 260 U.S. at 692; see Eastern Wine Corp. v. Winslow - Warren, Ltd., 137 F.2d 955 (2d Cir. 1943), cert. denied, 320 U.S. 758 (1944); Coca-Cola Co. v. J.G. Butler & Sons, 229 F. 224 (E.D. Ark 1916).

62/ McCarthy, supra, at § 2:6; See also Rogers, supra, at 50-52; Congressional rejection of the monopoly theory is reflected in the Senate Report on the Lanham Act. S.Rep. No. 1333, 29th Con. 2d Sess. (1946). McCarthy citing Chadwick v. Covell, 151 Mass. 190, 23 NE 1068 (1890); Artype, Inc. v. Zappulla, 228 F.2d 695 (2d Cir. 1956); Goodyear Tire & Rubber Co. v. A.J. Industries Corp., 165 U.S.P.Q. 665 (T.T.A.B. 1970); United Drug Co. v. Theodore Rectanus Co. 248 U.S. 90 (1918). International Order of Job's Daughters v. Lindeburg & Co., 633 F.2d at 919.

Similarly, analogies of trademark rights to other forms of property rights are also of limited relevance:

> Trademark law has many presumptions, assumptions, and a few overriding public policies, but the central key is, customer perception. Analogies to other forms of 'property', from real estate to patents and copyrights, falter on the basic definition of . . . trademark 'property'. . . the 'property' in a trademark is the right to prevent confusion. 63/

It is argued that section 33 of the Lanham Act, 15 U.S.C.§ 1115, establishes Duracell, Inc.'s "exclusive" right to the use of the term "Duracell." The argument continues that, based upon judicial precedents and the function of trademark rights, this exclusive right gives Duracell, Inc. the right to exclude any use of the mark, such as its use on N.V. Duracell, S.A.'s Belgian-made batteries. This expands the concept of exclusive use beyond its accepted function to create an entirely new trademark right for the holders of American trademarks.

In traditional trademark infringement cases there was a preliminary issue of determining in the case of two conflicting trademarks, which mark was the proper mark and which the infringing mark. Because marks could be established by use, it was possible for two marks to coexist in different parts of the United States. 64/ The exclusive use principle of 15 U.S.C. § 1115 was intended as a means of resolving the potential difficulties in the national use of trademarks. By registering the mark and obtaining the "exclusive use" of the mark, a national trademark holder, who had not yet entered a particular regional submarket with its product could nevertheless prohibit other

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63/ J. McCarthy, supra, at § 2:6; see also James Burrough Ltd. v. Sign of Beefeater, Inc., 540 F.2d at 274; Dresser Industries, Inc. v. Heraeus Englehard Vacuum, Inc., 395 F.2d 457 (3d Cir. 1968), cert. denied, 393 U.S. 934 (1968); Industrial Rayon Corp. v. Dutchess Underwear Corp., 92 F.2d at 35.

64/ Hanover Star Milling Co. v. Metcalf, 240 U.S. 403 (1916); see also United Drug Co. v. Theodore Rectanus Co., 248 U.S. at 91.

companies from establishing regional submarkets in which they could claim "first use" of the trademark. The concept of exclusive use does not therefore establish any new rights in a trademark or eliminate the need to establish confusion as the basis for a violation of trademark rights. 65/

Summary of Unfair Acts

In this investigation, the Commission faces a difficult task in sorting out complainant's allegations of unfair acts for purposes of section 337. The essence of Duracell, Inc.'s complaint is that the existence of a gray market for "Duracell" batteries is unfair to it. It has specifically alleged this unfairness based upon various statutes. The ALJ followed this analysis and concluded that Duracell, Inc. was correct in alleging that certain statutes had been violated and that violations of those statutes constituted unfair acts under section 337. The majority of the Commission has gone beyond the explicit findings of the ALJ and even the allegations of Duracell to find an inherent violation of trademark rights in the operation of the gray market.

We, too, believe that Duracell, Inc. has established the necessary unfair act required by section 337. However, we do not believe that unfair act to be based on the violations found by the ALJ or by the majority. Instead, we have reached the following conclusions.

65/ 15 U.S.C.§ 1115(b)(6); see Value House v. Phillips Mercantile Co., 523 F.2d 424 (10th Cir. 1975) (finding that section 33 of the Lanham Act distinguished between rights arising from registration and from use, that it provides the right to rely on evidentiary presumptions include the right to exclusive use, but also finding that the Lanham Act provides no right to relief absent a finding of confusion); Nature's Bounty, Inc. v. Basic Organics, 432 F. Supp. 546 (E.D.N.Y. 1977) (finding that although section 1115(a) provides for exclusive use, the Lanham Act requires a finding of confusion). Cf. De Walt, Inc. v. Magna Power Tool Corp., 289 F.2d 656 (C.C.P.A. 1961) (involving whether a mark could be registered, not the right of a registered mark vis a vis other users); Chromium Industries, Inc. v. Mirror Polishing and Plating Co., 448 F. Supp. 544 (N.D. Ill. 1978) (not involving a registered trademark).

First, neither 19 U.S.C.§ 1526 nor 15 U.S.C. § 1124 is the appropriate subject matter for the finding of an unfair act under section 337. Second, 19 U.S.C. § 1526 is applicable only in the situation of the sale of trademark rights and so is inapplicable to the current investigation, which does not involve such a sale. Third, 15 U.S.C. § 1124 does incorporate the principle of territoriality and does permit the exclusion of trademarked goods which "copy or simulate" a registered trademark, but only when the holder of the U.S.-registered trademark is not related to the company using the copy or simulation of that trademark. Fourth, to the extent that 15 U.S.C. § 1125 establishes an independent basis for an unfair act, this unfair act is the improper designation of the manufacturer of the goods. No such improper designation has been shown in this case. Fifth, assuming the Commission should go beyond the allegations made by complainant to establish an unfair act that the complainant did not allege, there is no unfair act in the operation of the gray market beyond traditional trademark infringement, which includes the requirement for confusion.

We do find, however, that Duracell, Inc. has established unfair acts for purposes of section 337. First, as determined by the ALJ, there have been violations of the Fair Packaging and Labeling Act. Second, the mark Duracell on Duracell S.A.'s Belgian-made batteries is a reproduction, copy, counterfeit or colorable imitation of the "Duracell" mark used on Duracell, Inc.'s U.S.-made batteries. Further, the use of the mark "Duracell" on the Duracell, S.A. batteries is causing or is likely to cause confusion between those batteries and Duracell, Inc.'s batteries. Therefore, the use of the "Duracell" mark on Duracell, S.A.'s batteries is an infringement of Duracell, Inc.'s U.S. trademark right and is an unfair act for purposes of section 337.

Part III

Violation of Section 337: Substantial Injury

The second issue the Commission specified for review is whether a domestic industry can be substantially injured by sales lost to its wholly owned foreign subsidiary and whether the facts in this case warrant a finding of substantial injury. We answer both questions affirmatively. We find that the record in this investigation shows there is a tendency to substantially injure a domestic industry even though Duracell, Inc.'s operations are international in scope, and the allegedly injurious imports spring from complainant's own subsidiary.

Injury to Domestic Industries from Foreign Affiliates

The major argument raised by respondents is that Duracell, Inc. is a multinational enterprise, and, therefore, should not be permitted to show injury from the importation of its own products. This argument rests on the allegation that because Duracell, Inc.'s trademarks are used internationally and Duracell, Inc. profits from these operations, the Commission should consider the entire scope of Duracell, Inc.'s international operations when analyzing injury. Respondents argue that every sale lost by Duracell, Inc. to its foreign subsidiary in Belgium actually benefits the entire international organization by increasing overall profitability of the parent company, and by expanding the market for "Duracell" alkaline batteries.

There are two compelling reasons why this domestic industry can be injured by imports which emanate from a foreign affiliated company. First, as long as the domestic facilities of a parent company meet the statutory criteria for an efficient and economically operated domestic industry under section 337 66/, the statute does not preclude a finding of substantial injury to those domestic operations, even if the parent corporation has international operations as well. 67/ The batteries in this investigation that are confused with the foreign "Duracell" batteries are developed, manufactured, distributed, inspected, and tested for quality entirely within the United States. 68/ The imported batteries use Duracell, Inc.'s U.S.-based technology, but are produced independently at Duracell's Belgian plant. The purpose of section 337 is "to further and promote the production of domestic goods" 69/ and to encourage "American manufacturers, using American labor, under American working conditions, and paying American wages." 70/ Thus, the ambit of our injury analysis in this investigation is properly "those Duracell operations in the United States that produce the batteries in question." 71/

Second, in this investigation, although the products which injure complainant emanate from its foreign subsidiary, the unfair acts which cause the injury to complainant result from the activities of others. 72/ Duracell, S.A. is not directly or indirectly exporting the batteries to the U.S.

66/ The Commission did not review the Administrative Law Judge's finding concerning the scope of the domestic industry or its efficient and economic operation.

67/ Certain Personal Computers and Components Thereof, Inv. No. 337-TA-140, USITC Pub. No. 1504 at 41 (Mar. 1984); Certain Molded-In Sandwich Panel Inserts and Methods for Their Installation, Inv. No. 337-TA-99, USITC Pub. No. 1246 at 8 (May. 1982); Certain Ultra-Microtome Freezing Attachments, Inv. No. 337-TA-10, USITC Pub. No. 771 at 8 (Apr. 1976).

68/ I.D. at 84.

69/ Frischer & Co. v. Bakelite Corp., 39 F.2d at 253.

70/ 71 Cong. Rec. S3905, (daily ed. Sep. 24, 1929) (Statement of Sen. Glenn).

71/ I.D. at 85.

72/ Transcript of Commission Hearing at p. 26. Complainant specified that it was injured by the act of importation, rather than the imports themselves.

market, nor is Duracell, Inc. importing the batteries from Europe. Complainant's injury occurs because U.S. importers purchase the unfairly traded products from independent European wholesalers and distributors. 73/ Because the unfair act is not the direct result of the activities of Duracell's own subsidiary but rather is based on the activities of independent third parties not within Duracell's control, the argument that Duracell's injury is "self inflicted" is not well founded.

Tendency to Substantially Injure

Having established that the domestic operations of a multinational enterprise can be injured by the imports of its foreign affiliate, we now turn to whether the injury in this case is "substantial injury" under section 337. We agree with the ALJ's overall conclusion that the injury to Duracell, Inc. warrants a finding of violation under section 337. Our analysis differs because we find certain of the elements of complainant's injury more determinative than others and only find from these specific factors a tendency to substantially injure a domestic industry.

First, there has been a considerable volume of imports of Belgian-made "Duracell" batteries, particularly of the AA type from Europe. 74/ We do not find, however, that this level of importation has caused present substantial injury to Duracell, Inc. This volume of imports represents only a miniscule portion of the the domestic industry's production of AA batteries in 1982 and an even smaller portion of U.S. production of all cells.

73/ I.D. at 44, 46.

74/ Over 10 million foreign Duracell batteries have been imported by only three respondents since January 1982. I.D. at 42. The ALJ also found that there was considerable importation of foreign batteries by parties not named as respondents in this investigation. I.D. at 45.

Consequently, these imports have not yet had any substantial effect on Duracell, Inc. as reflected in the traditional indicia of injury, such as production, sales and inventories. However, the volume of imports is increasing. 75/ The effect on the domestic industry of such an increase will be to cause substantial injury.

Second, the foreign "Duracell" imports have undersold the domestic product at the wholesale level. 76/ This is at least partially attributable to conditions of trade in the international marketplace--specifically, the favorable exchange rate between the U.S. dollar and European currencies. The dollar is expected to remain strong, and even if it weakens, there is a significant lag time before the effects of such weakening are reflected in transaction prices. This market factor will therefore continue to make the importation of foreign "Duracell" batteries attractive to importers, at least as long as they can rely on the confusion between the foreign and domestic batteries to maintain the price of the foreign batteries.

Third, the consumer's confusion between foreign and domestic "Duracell" batteries and the foreign batteries' attractiveness to the wholesaler because of this confusion and the exchange rate, has resulted in lost sales and contracts to the domestic industry. 77/ These sales are likely to increase.

75/ I.D. at 42.

76/ Foreign Duracell batteries are consistently sold to wholesalers and retailers at prices considerably below those charged by Duracell for domestic "Duracell" batteries. I.D. at 43.

77/ Respondent CWE has produced invoices indicating sales of foreign batteries to certain Duracell customers who had previously purchased domestic batteries. I.D. at 42, 43. Major Duracell accounts canceled orders for domestic batteries because foreign imports were purchased instead. I.D. at 43. Some purchasers have placed orders for domestic batteries as a hedge and then canceled the orders when they obtained foreign "Duracell" batteries. I.D. at 45.

Since 1982, there has been a rapid increase in the number of contract cancellations to Duracell, Inc., due to purchases of foreign "Duracell" batteries. 78/ One major importer intends to import and sell as many foreign "Duracell" batteries as it can. 79/ Thus, to the extent these lost sales have displaced domestic production 80/ and are likely to increase, there is evidence of a tendency to substantially injure the domestic industry.

However, the statutory criteria for a violation under section 337 is not satisfied unless there is a causal link between the injury experienced or to be experienced by the domestic industry and the unfair act. If, for example, the attractiveness of importing the foreign "Duracell" batteries was based exclusively on the strength of the dollar, and not related to the use of the "Duracell" mark, a finding of violation of 337 would not be warranted. In such a case the importation would be unrelated to the unfair trade practice, in this case trademark infringement.

We do not find this to be the case. If the exchange rate situation were all that is behind the recent large volume of imports from Duracell, S.A., complainant would be experiencing the effects of more than one brand of

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78/ I.D. at 43.

79/ I.D. at 42.

80/ The ALJ found that the above quantity of imported AA batteries was at least equivalent to two months of AA domestic production (FF 226). Duracell's capacity for production is significantly greater than its actual production and could supply fully the demand represented by the sale of foreign "Duracell" batteries. I.D. at 44.

imports from Europe. 81/ Rather, importers have chosen to purchase and sell "Duracell" batteries in the U.S. Importers know the "Duracell" trademark is recognized in the U.S. and that there is an established demand for "Duracell" batteries. This demand has developed specifically because the U.S. consumer associates a certain level of product performance with the name "Duracell."

Thus, there is a causal nexus between the unfair acts of trademark infringement (which is unfair because of the confusion between the imported and domestic product) and the injury suffered by complainant Duracell, Inc. The lost sales which, unabated, will likely cause substantial injury to Duracell, Inc. occur both because the exchange rate allows for large margins of underselling particularly at the wholesale level, and because importers know these profit margins will be maintained to the extent they can rely on consumer confusion of the "Duracell" batteries they sell with the "Duracell" batteries offered for sale by Duracell, Inc.

Part IV
Remedy

Section 337(d) directs the Commission to remedy violations of section 337 by ordering the exclusion of the unfairly traded goods from the United States

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81/ No evidence was presented at the hearing to establish that the importation of batteries was due only to the exchange rate. There is, however, evidence that retailers are selling the foreign "Duracell" batteries for the same price as domestic "Duracell" batteries. It is, therefore, reasonable for us to presume that the use of the "Duracell" mark does play a significant role in the decision to import foreign "Duracell" batteries.

unless a cease and desist order is deemed a more appropriate remedy 82/ or unless the public interest precludes the issuance of such an order. 83/

We find, therefore, that the most appropriate relief for complainant is an exclusion order prohibiting from entry into the U.S. market improperly labeled, and thus confusing, "Duracell" alkaline batteries. 84/ Such an order would preclude from entry into the U.S. market all "Duracell" batteries with labels that violate the Fair Packaging and Labeling Act 85/ and all "Duracell" batteries not bearing labels clearly indicating that Duracell, Inc. does not sponsor, authorize, or guarantee the batteries when sold in the U.S. 86/ This remedy would exclude any "Duracell" alkaline battery that is unfairly traded by reason of failure to make proper disclosures of quantity and to contain proper instructions or that does not contain English language labels, as required by the Fair Packaging and Labeling Act. Most importantly, we would require that the labels adequately eliminate any confusion we have found to exist with respect to the use of the trademark and trade dress of Duracell, Inc., thus eliminating any trademark/trade dress infringement. Batteries

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82/ 19 U.S.C. 1337(f)(1). We do not find that the issuance of a cease and desist order would be adequate in the present circumstances. There is only one manufacturer, Duracell, S.A., producing the batteries abroad, but there are an unknown number of European independent wholesalers and distributors offering the batteries for sale over whom the Commission does not have personal jurisdiction. We, therefore, do not believe a cease and desist order issued against particular respondents could be properly enforced and would remedy complainant's injury.

83/ 19 U.S.C. 1337(d).

84/ The Commission has in the past issued orders requiring the exclusion of articles that are improperly labeled. See In re Certain Plastic Food Storage Containers, Inv. No. 337-TA-152, USITC Pub. No. 1563 (Aug. 1984). The courts have upheld the Commission's attempts to address specifically the unfair acts in its investigations. Sealed Air Corp. v. U.S.I.T.C., 645 F.2d 976 (C.C.P.A. 1981); Canadian Tarpoly Co. v. U.S.I.T.C., 640 F.2d 1322 (C.C.P.A. 1981).

85/ 15 U.S.C. 1451 et seq., 80 Stat. 1296 (1982).

86/ The requirements and wording of such labels would have been more specifically defined in the Commission's Action and Order had the majority of the Commission recommended such relief.

containing such labels would not be unfairly traded within the meaning of section 337 and would be allowed entry into the United States.

Labeling Offers Complainant Adequate Relief

First, a narrowly drawn exclusion order prohibiting from entry into the United States only confusingly trademarked batteries and batteries whose labels violate the Fair Packaging and Labeling Act would sufficiently remedy the unfair acts which tend to cause injury to complainant. Foreign "Duracell" batteries undersell domestically produced batteries at the wholesale level, not only because of the exchange rate between U.S. and European currencies but also because the foreign batteries' packaging does not reflect the difference between the foreign and domestic products. Proper labeling which clearly indicates that the two products, while the same at the point of manufacture, are not similarly authorized and guaranteed in the United States would eradicate the unfair advantage currently enjoyed by the foreign batteries and their tendency to injure complainant. Once the consumer is no longer confused, there will also be no tendency to injure complainant.

This unfair advantage is primarily reflected in the fact that while the foreign batteries cost less to U.S. wholesalers and retailers, they are generally sold for the same price to U.S. consumers. Once labeled, the attractiveness of the batteries to U.S. importers would be minimized, despite the dollar's strength in the European market. The ultimate price of the foreign batteries to the U.S. consumer in the U.S. market would then properly reflect the true nature of the imported product, and would be clearly distinguished from their domestic counterparts. The volume of such imports would be unlikely to increase to a level which would tend to injure complainant Duracell, Inc. There would also be no confusion between the foreign and domestic product and thus no unfair act under section 337. Hence, the result would be fairly traded imports legitimately competing with Duracell's domestic batteries, the situation that is intended by the trade laws.

Proper labeling of the foreign products specifically and completely eliminates the unfair act and the likelihood of complainant's future injury. Therefore, we believe the imports should not be precluded from entering the U.S. market if the goods, once labeled, are fairly traded.

Disclosure as the Proper Legal Remedy

A remedy of disclosure, which eliminates the unfair act, has widespread support in numerous judicial decisions, including those of the Supreme Court. The underlying principle of these cases is that once the confusion is eliminated, the unfair competition is remedied and that the less drastic means of disclosure is, as a matter of law, preferable. As long as the consumer is told the truth about the nature of the product (whether it is genuine or possibly modified by third parties) there is no prohibition against the use of the mark.

In Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924) use of the Coty trademark was permitted where defendant stated on its labels that it was not connected with Coty and had independently compounded and rebottled its products. Justice Holmes stated:

> When the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth. It is not taboo. 87/

Further, even if the potential for degradation of the product exists, a trademark holder has no rights beyond full disclosure.

87/ 264 U.S. at 368.

> It seems to us that no new right can be evoked from the fact that the perfume or powder is delicate and likely to be spoiled, or from the omnipresent possibility of fraud. If the defendant's rebottling the plaintiff's perfume deteriorates it, and the public is adequately informed who does the rebottling, the public, with or without the plaintiff's assistance, is likely to find out. 88/

Thus, the appropriate remedy for trademark infringement where genuine goods are at issue, and thus where some use of the "trademark" is necessary to tell the truth, is disclosure and not exclusion. 89/

In Champion Spark Plug Co. v. Sanders, 331 U.S. 125 (1947), Justice Douglas allowed defendants to use the Champion trademark so long as they indicated that the plugs they sold were "repaired" or "used." Full disclosure remedied the unfair competition at issue, and the Court noted extensive precedent for choosing the less drastic relief when it satisfied the equities of the case. 90/ The Court also found any alleged potential inferiority to be immaterial. 91/

88/ 264 U.S. at 369.

89/ However, the ALJ and the majority have distinguished this case from the instant circumstances. They argue that in Prestonettes, the mark was separated from the goodwill symbolized by the mark, since the "Coty" trademark was being used on labels which also specified that the product was independently compounded and rebottled by defendant. The majority thus reasoned that unlike the Duracell situation, there was no deprivation of complainant's goodwill and therefore no need for the injury to complainants' goodwill to be remedied with a general exclusion order. However, this reasoning overlooks the fundamental logic of the Prestonettes decision. We do not believe the fact that in Prestonettes complainants' goodwill was separated from the mark by proper labeling in any way distracts from the fundamental principle that the less drastic means of disclosure effectively and properly remedies the unfair act of confusion. Indeed, Justice Holmes found in favor of the defendant in Prestonettes precisely because the labeling sufficiently prevented any confusion or any loss of goodwill. Had the majority of the Commission determined that disclosure was the appropriate remedy in this case, Duracell, Inc.'s goodwill would also be properly separate from its U.S. trademark.

90/ 331 U.S. at 131.

91/ The majority similarly distinguishes the Champion Spark Plug case from the Duracell facts on the grounds that in Champion Spark Plugs there was no loss of goodwill. The spark plug had already been sold as new and complainant had already reaped the benefit from that sale. Again, this overlooks the fact

(Footnote continued)

The Fifth Circuit found in Trail Chevrolet, Inc. v. General Motors Corp., 381 F.2d 353 (1967) that the defendant should be allowed to use the Chevrolet trademark so long as it was not utilized "in a manner to deceive purchasers." The principle supporting the finding was that the defendants should be free to continue offering the Chevrolets for sale as long as they did not misrepresent to consumers that the products were sponsored by an authorized Chevrolet dealership. Numerous other courts have affirmed the principle of "less drastic means" enunciated in Prestonettes, Champion Spark Plug, and Trail Chevrolet. 92/

The principle of disclosure as an adequate and proper remedy for the unfair act of confusion and its corollary that goods should be allowed into commerce when the goods are fairly traded, was most recently dealt with in the case of Bell & Howell; Mamiya Co. v. Masel Supply Co. Corp., 719 F.2d 42 (2nd Cir. 1983). The case is significant to the issue of remedy here because the parallel importation was also a genuine good, and the confusion that was

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(Footnote continued)
that goodwill was not lost to complainant not because the batteries had already been sold as new but because the batteries were properly labeled when they were sold the second time.

92/ See Norman M. Morris Corp. v. Weinstein, 466 F.2d 137 (5th Cir. 1972) (prohibiting the defendant from selling Omega watches unless he made clear that they were not accompanied by a guarantee of the Omega Watch Company); Volkswageniwerk Aktiengeselleschaft v. Church, 411 F.2d 350 (9th Cir. 1969) (upholding the defendant's use of the trademarks Volkswagen and VW because he also employed the term "independent" in connection therewith); Stormor v. Howard Johnson, 587 F.Supp. 275 (W.D. Mich. 1984) (enjoining the defendants from using the Stormor and Ezee-Dry trademarks unless they indicated that they were not affiliated with plaintiff); Seiko Time Corp. V. Alexander's, Inc., 218 U.S.P.Q. 560 (S.D.N.Y. 1982) (proscribing the defendant's sale of Seiko watches unless the public was advised of the true source of the warranty); National Football League v. Governor of State of Delaware, 435 F.Supp. 1372 (D.Del. 1977) (permitting Delaware's use of the National Football League's schedules, scores, and public popularity in its lottery so long as there was a disclaimer of association with the League).

found to exist also related to the differences in the warranty between the U.S. and foreign distributor. The issue before the Second Circuit was whether the complainant had suffered irreparable injury as the result of the goods' importation and whether a preliminary injunction was, therefore, warranted. The Court reasoned that:

> it does not appear that the lack of warranties accompanying MAMIYA cameras sold by Masel amounts to irreparable injury, since the consumer can be made aware by, among other things, labels on the camera boxes or notices in advertisements as to whether the cameras are sold with or without warranties. Thus, less drastic means would appear to be available to avoid the claimed confusion. 93/ (emphasis supplied)

The goods were thus allowed to be fairly traded, and labeling was found to be the proper remedy in a corresponding situation where the parties were related and there was no confusion as to source. Although on remand the District Court ultimately granted a preliminary injunction after irreparable injury was demonstrated, significantly, the more drastic injunction was based on circumstances where the defendants refused to label the imported products and the confusion was held to be so pervasive that the labeling would not eliminate the confusion. 94/

93/ 719 F.2d 42, 46 (1983).

94/ See Osawa, 589 F.Supp. at 1163. The majority cites Certain Cube Puzzles, Inv. No. 337-TA-112, USITC Pub. 1334, fn. 82 at 22 (Jan. 1983) as authority for the proposition that in past cases the Commission has held that labeling would not eliminate consumer confusion in a trademark case. Chairwoman Stern dissented in the Rubik's Cube case on the basis that there was no domestic industry for purposes of 337 and the requisite injury to any domestic industry, if one existed, did not exist. Chairwoman Stern therefore did not reach the issues of appropriate relief and public interest. Moreover, even if she had found as the majority, the facts in Rubik's Cube are clearly distinguishable from the present case. Specifically, in Rubik's Cube the Commission was presented with evidence where proper labeling had proven to be inadequate. We have no information in this investigation on which to base such a finding.

Part V
The Public Interest

We agree with our colleagues that a general exclusion order is not precluded by the public interest. We do, however, believe that general exclusion order directed to <u>all</u> foreign Duracell batteries, regardless of whether they are fairly traded, is precluded by the public interest and is beyond the Commission's authority.

Our analysis of the unfair acts of respondents and the injury experienced by complainant has led us to select a less drastic form of relief than have our colleagues. At issue in our differing approaches toward the problem of an appropriate remedy is the question of whether an order directed to the elimination of the unfair act caused by the confusion we found to exist is an appropriate remedy under section 337. Under the majority's interpretation, trademark rights are exclusive and absolute. Their authority for this conclusion is the principle of territoriality. Thus, according to their analysis there is no way gray market products can be fairly traded, because once they enter the territory lawfully held by U.S.-trademarked batteries, they are by definition unfair. 95/

95/ This was the reasoning of Justice Holmes in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923) --

> If the goods were patented in the United States a dealer who lawfully bought similar goods abroad from one who had a right to make and sell them there could not sell them in the United States. . . . The monopoly in that case is more extensive, but we see no sufficient reason for holding that the monopoly of a trade mark, so far as it goes, is less complete. It deals with a delicate matter that may be of great value but that easily is destroyed, and therefore should be protected with corresponding care.

Significantly, however, *Bourjois v. Katzel* is distinguishable from the present set of facts on several grounds. The case did not concern a single international enterprise, did concern the fraudulent use of a trademarked product and specifically applied to circumstances where there is a sale of a trademark from one independent entity to another.

Our position, however, is that the choice of less drastic relief which allows the gray market goods to be imported if they are fairly traded better serves the public interest, for four reasons: (1) a more narrow exclusion order has a less disruptive effect on competitive conditions in the economy; (2) it is in the interest of the consumer and competitive conditions in the U.S. economy to maintain the option of purchasing fairly traded gray market goods; 96/ (3) legally it is possible for the goods to be fairly traded and the Commission has no authority to exclude imports that are not unfairly traded.

Fourthly, we believe that the general issue of the operation of the gray market is not strictly a legal issue but a policy issue which should be addressed by the appropriate policymaking bodies. Courts which have examined the right of a single international enterprise to preclude the fairly traded imports of its own foreign operations have not generally found adequate basis for such exclusion 97/ or have avoided the substantive issues on procedural grounds. 98/ We do not believe that Congress intended the Commission to

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96/ Chairwoman Stern notes, however, that it should be made clear that the issue which separates us from the majority is not that we have found that the competitive benefits of fairly traded gray market goods outweighs the rights of U.S. trademark holders. The balancing of such factors is clearly a policy issue outside the Commission's purview. Rather, our remedy finding is based on our determination that a more narrow exclusion order remedies the unfair act and the injury suffered by the complainant and is therefore more appropriate.

97/ Vivitar, slip op. 84-95 at 26-31; Parfums Stern, 575 F.Supp. at 419; Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp., 707 F.2d 1054 (9th Cir. 1983).

98/ Mamiya, 719 F.2d at 45-46.

create a new cause of action and extend its adjudicative powers in this situation.

First, the Commission in previous decisions has recognized the principle that the broader an exclusion order, the more burdensome and stifling such an order is on the flow of legitimate trade. 99/ Of course, any exclusion order has an inhibiting effect on trade. However, when goods are unfairly traded, and, for example, bear an infringing mark, excluding the goods from the U.S. market could be the appropriate remedy and could in fact have a positive competitive effect on the national economy. The significance of this case in our consideration of remedy, however, is that the unfair act can be properly remedied while allowing the goods to be fairly traded. While the Commission clearly has a responsibility to fashion a remedy which provides complainant with complete protection from whatever unfair acts the Commission has found to injure the domestic industry, it is also incumbent on the Commission to minimize disruption to the normal flow of international commerce. 100/

Second, as discussed previously, it can be presumed that once the foreign "Duracell" batteries are properly labeled to reflect their differences with the domestic product, not only will they be less attractive to U.S. importers,

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99/ See, e.g., Certain Airless Paint Spray Pumps and Components Thereof, Inv. No. 337-TA-90, USITC Pub. No. 1199, at 17-18 (Nov. 1981).

100/ See id.; Certain Headboxes and Papermaking Machine Forming Sections for the Continuous Production of Paper, and Components Thereof, Inv. No. 337-TA-82, USITC Pub. No. 1138, at 47 (views of Chairman Alberger on remedy and the public interest) (Apr. 1981).

but their appeal will lessen because retailers and wholesalers will soon discover that consumers will demand to pay less for them than the domestic product. Properly labeled, their advantage in the U.S. market will be gone. The resulting threat of injury to Duracell, Inc. will have disappeared.

However, it is unlikely that the foreign batteries would be entirely eliminated from the U.S. market. 101/ Because consumers enjoy paying less for similar goods, retailers and wholesalers would also discover that there is a demand for the fairly-traded product. Not only would consumers benefit from having the option of purchasing such fairly-traded gray market goods, but Duracell, Inc. would benefit by the resulting expansion of the market for lower priced, popular-sized foreign-made "Duracell" batteries. Because of these concomitant benefits on the welfare of the U.S. consumer and the competitive condition of the U.S . economy, we believe the public interest is better served by a choice of a narrow, rather than a broad, exclusion order.

Third, there is substantial legal precedent affirming the fact that such goods can indeed be legally traded absent the confusion that has given rise to

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101/ The majority thus finds a broad exclusion order more appropriate because complainant suffers from the unfair acts of confusion and from loss of goodwill and because respondents are "reaping what they did not sow." We have already discussed at length why we believe labeling will cure complainant's injury regarding confusion and why proper labeling would similarly prevent any future injury to complainant's goodwill. We do not agree that "reaping what one has not sown" constitutes an unfair act under section 337. First, we find little basis in common or statutory law for a determination that it is an unfair act. However, even if we did find legal grounds for such an argument, complainant has not raised it and such a finding would be inconsistent with complainant's theory of injury. Duracell has not alleged that its profits demonstrate its injury and has thus not submitted profit data of its foreign operations, where such injury would presumably be reflected. Further, Duracell, Inc.'s profits have increased dramatically and, were profits the sole basis of an injury allegation, such high profits might not support a finding of substantial injury under section 337.

the infringement action. The consistent choice of the courts of the less drastic means of disclosure to solve the problem of confusion, and Justice Holmes' explicit reasoning in the Prestonnettes case, makes clear that trademark rights like all rights, are not absolute. The rights bestowed on trademark holders do not extend to the point of prevention of the sale of a legitimately marked good. 102/ We believe it is contrary to the public interest to find otherwise.

Lastly, we do not believe it is within the purview of the Commission's discretion under section 337 to enter an exclusion order based on a novel theory of Lanham Act liability never before endorsed by a court, by the Customs Service or by Congress. The current statutory scheme has been renewed and expressly accepted by Congress in enacting the Lanham Act 103/ and reenacting section 526. 104/ Customs Regulations since 1936 have allowed the importation of fairly-traded trademarked goods manufactured by the foreign arm of a single international enterprise. 105/ Furthermore, retailers and

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102/ Previous Commission decisions support the conclusion that Congress did not intend the Commission to exclude goods that were either fairly traded or did not fall under the statutory authority of section 337. See, e.g., Certain Multicellular Plastic Film, Inv. No. 337-TA-54, USITC Pub. No. 987 (June 1979) (Commission issued exclusion order containing provision allowing any respondent to show that its manufacturing process did not infringe, and was therefore not unfair); Certain Welded Stainless Steel Pipe and Tube, Inv. No. 337-TA-29, USITC Pub. No. 863 at 19-23 (evidence of predatory intent must support claim of unfair act based on certain types of sales to fall within scope of 337).

103/ Trademarks: Hearing Before A Subcommittee of the Senate Committee on Patents on H.R. 82, 78th Cong., 2d Sess. 86-87 (1944).

104/ H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977).

105/ Treasury Decision 48537. Contrary to the position of some amici we do not believe this regulation was based on United States v. Guerlain, Inc., 155 F.Supp. 77 (S.D.N.Y. 1957). Rather, we believe the current regulation has its roots in the 1936 regulation. That regulation was based on established law that a trademark owner cannot "copy" his own trademark. Thus, it is inaccurate to say that the sole basis for the existing regulation is the 1957 Guerlain decision.

wholesalers have relied on the certainty of this statutory scheme and have developed their business strategies accordingly. It is in the public interest that the business community perceive that the rules which govern their behavior in international commerce reflect one voice, despite its promulgation by more than one administrative body.

But we believe the most compelling public interest rationale for not disturbing Customs' interpretation concerning the importation of fairly-traded gray market goods is that the resolution of this legal issue involves the balancing of numerous public interest factors. Congress, not the U.S. International Trade Commission, is the most appropriate forum to weigh and consider these various interests. We will not usurp the role of Congress to decide whether to outlaw the gray market. As Judge Restani stated in the Vivitar case:

> Congress is best suited to determine whether the current balance in trademark rights in international commerce is inappropriate. 106/

106/ Vivitar, slip. op. 84-95 at 35.