Enforcing Trademark Rights Against Gray Market Imports
Preventing Sales, Dealing With Retailers, U.S. Customs, and Copyright Law

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Challenges of Enforcing Trademarks against Gray Market Products over the Internet

• The sale of “gray market” products, i.e. genuine products intended for sale only outside of the United States, has long been a problem for U.S. trademark owners
• Total annual gray market sales in the United States have been estimated at over $100 billion
• It has been estimated that a company with $10 billion in annual U.S. sales can lose as much as $450 million to gray market sales by unauthorized distributors
• The growth of the Internet, and particularly online marketplaces such as Amazon, eBay, and Alibaba, has led to a significant increase in the importation and sale of gray market goods in the United States
  – Favorable exchange rates have also been a factor
Challenges of Enforcing Trademarks against Gray Market Products over the Internet

• Previously, high capital costs and the difficulty of purchasing products overseas tended to discourage unauthorized resellers from becoming a significant factor in the market
• Now, any reseller can set up an Amazon Marketplace or similar account, easily buy foreign version products over the Internet, and resell those products to consumers in the United States with almost no overhead
• On some web sites (such as Amazon), gray market products are often listed and sold on the same web pages as U.S.-authorized products
Challenges of Enforcing Trademarks against Gray Market Products over the Internet

• It can be difficult to discover the true identity of unauthorized retailers, particularly on Internet marketplaces such as Amazon Marketplace or Alibaba
• It is also usually difficult for brand owners to track the source of gray market products
• It is very difficult to hold Internet marketplaces themselves responsible for the unauthorized sale of gray market products by users
    • Dental supply company Dentsply sued Net32, an online marketplace for dental supplies sold by third party merchants, for trademark infringement based upon the unauthorized sale of gray market Dentsply products
    • On motion for preliminary injunction, court agreed with Dentsply that the gray market products were materially different than Dentsply's U.S. products
    • However, relying on *Tiffany v. eBay*, found that Net32 did not have actual knowledge that the gray market products were materially different and thus infringing
Challenges of Enforcing Trademarks against Gray Market Products over the Internet

- COVID-19 has exacerbated the problem of unauthorized sale of gray market goods in some industries
- Shortages of PPE, masks, pharmaceuticals have led retailers and consumers to look to the gray market for solutions
  - 3M and other manufacturers of PPE equipment have already filed several lawsuits against retailers of unauthorized gray market goods
- Online shopping has substantially increased in popularity during the pandemic; much easier to find gray market goods on the Internet than in brick-and-mortar retail stores
- Fashion brands and retailers of clothing and accessories have liquidated unsold products in overseas markets; these products may eventually be imported back into the United States as gray market goods
How Can Trademark Owners Prevent Gray Market Importation and Sales?

- Trademark infringement claims
- Copyright infringement claims
- Unfair competition claims
- International Trade Commission investigations
- Customs enforcement
- Working directly with retailers
- Working with clients to tighten contracts with manufacturers and distributors
Trademark Infringement Claims Against Gray Market Retailers

• Trademark infringement claims
  – The “first sale” doctrine generally bars the owner of a trademark from preventing the further re-sale of a product bearing the trademark after the trademark owner has made a first sale placing the product in the stream of commerce “
  – However, there is an exception to the first sale doctrine if the goods bearing the trademark are “materially different” than the goods authorized for sale by the trademark owner in the United States
  – There is a presumption that even a single material difference has the “potential to mislead or confuse consumers about the nature or quality of the product.” Societe des Produits Nestle S.A. v. Casa Helvetia, 982 F.2d 633 (1st Cir. 1992)

• What is a “material difference”?
  – Any difference which consumers would find relevant in deciding whether to purchase the products
  – A difference does not have to be physical or obvious in order to be material
  – Courts have consistently stated that the threshold for materiality is low
Trademark Infringement Claims Against Gray Market Retailers

• Examples of material differences
  – Lack of warranty coverage
    • *Kia Motors America Inc. v. Autoworks Distributions* (D. Minn. 2009)
      – Kia sued importer of gray market auto parts
      – Importer argued that goods were physically identical to goods sold by Kia in U.S.
      – However, court found that imported goods were materially different because they were not covered by Kia warranty
  – Foreign language manuals, labels, decals, stickers
    • *Bourdeau Bros, Inc. v. ITC* (Fed. Cir. 2006)
      – John Deere self-propelled forage harvesters intended for sale in Europe found materially different than forage harvesters intended for sale in the U.S.
      – European version forage harvesters had manuals in the language of the target country (French, German, etc.), while North American forage harvester manuals were all in English
      – North American forage harvesters had warning labels and safety decals with pictures and English wording; European version forage harvester had pictograms only
Trademark Infringement Claims Against Gray Market Retailers

• Examples of material differences
  – Differences in instructional inserts
    • *Abbot Labs v. Adelphia Supply USA* (2nd Cir. 2016)
      – International versions of diabetes testing strips found to be materially different from U.S. version strips based upon several differences in inserts
      – U.S. inserts directed users to obtain blood from the finger, upper arm, or palm as required by FDA guidance; international inserts directed users to obtain blood from other sites
      – U.S. inserts list measurements in milligrams per decilitre and Fahrenheit; international inserts list measurements in millimoles per litre and Celsius

  – Differences in composition
      – U.K. version of “Tic Tac” breath mints was found to be materially different where each mint had an extra half calorie and came in different packaging

  – Differences in quality control procedures
    • *Hiroto Kinoko Co. v. Concord Farms* (9th Cir. 2015)
      – Grey market mushrooms imported from Japan were materially different where the U.S. grower used a special growing medium and more extensive quality control procedures than the imported mushrooms
Venues for Gray Market Trademark Infringement Claims

- U.S. District Court claims
  - Advantages of U.S. District Court Claims
    - Availability of monetary damages
    - Familiarity
    - Availability of preliminary injunctions and TROs
    - Cost
  - Drawbacks of U.S. District Court Claims
    - Identification and notice of defendants
    - Personal jurisdiction and venue requirements
    - Timeline
Venues for Gray Market Trademark Infringement Claims

• **International Trade Commission Claims**
  – In addition to District Court claims under the Lanham Act, a claim against importers and retailers of gray market products can also be brought under Section 337 of the Tariff Act
  – **Advantages of ITC Claims**
    • Ability to include multiple respondents
    • No concerns about personal jurisdiction and venue
      – In rem jurisdiction over products at issue
    • Availability of general exclusion orders (i.e. not limited to respondents in investigation)
    • Shorter timeframe than District Court litigation
      – Most investigations completed within 12-18 months
  – **Drawbacks of ITC claims**
    • ITC does not have authority to award monetary damages
    • “Domestic industry” requirement
    • “All or substantially all” requirement
      – In re Bearings (ITC 2006): SKF was not able to obtain relief against importers of gray market bearings lacking post-sale support because approximately 12.6% of SKF’s U.S. sales were to entities that did not offer support services
    • All remedies subject to Presidential review
ITC Proceedings – Remedies

• International Trade Commission Remedies
  – Limited Exclusion Orders bar infringing imports of a named respondent and are effectively the default relief for a finding of violation of Section 337. See 19 U.S.C. §1337(d).
  – Before an LEO can be issued, the appropriate scope of the remedy and the effect of the remedy on the four public interest factors identified in the statute must be determined. See 19 U.S.C. §1337(d)(1)
    • Potential impact on: (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) the production of like or directly competitive articles in the U.S., and (4) U.S. consumers
Venues for Gray Market Trademark Infringement Claims

• International Trade Commission Remedies
  – General Exclusion Orders (GEOs) bar all infringing imports regardless of their source. This means that customs will exclude infringing imports even if the importer was not a party to the ITC investigation from which the GEO resulted.
  – In order for the commission to issue a GEO, a complainant must satisfy one of two additional criteria:
    • a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or
    • there is a pattern of violation of this section and it is difficult to identify the source of infringing products.

• Can be particularly appealing for trademark owners in the case of gray market goods
Venues for Gray Market Trademark Infringement Claims

• International Trade Commission Remedies
  – Cease and Desist Orders (CDOs) prohibit the domestic use, sale, and marketing of imported infringing products. CDOs are often issued in addition to an exclusion order against named respondents.
  – The ITC enforces CDOs and has the power to impose civil penalties that are “not more than greater of $100,000 or twice the domestic value of the articles entered or sold” for each day of violation. 19 U.S.C. §1337(f)(2).
  – Typically, the commission requires complainants to prove that a respondent has commercially significant inventory of imported infringing products in the United States. Complainants bear the burden to prove that CDOs are necessary to address a violation of Section 337
Copyright Infringement Claims Against Gray Market Retailers

• Copyright infringement
  – Recent decisions have limited the ability to use copyright law to prevent the importation and sale of gray market goods

• **Omega S.A. v. Costco Wholesale Corp. (9th Cir. 2015)**
  – Omega sought to prevent the importation of Seamaster watches by obtaining copyright protection for a globe design engraved on the back of the watches (as the watches themselves were not protected by copyright)
  – Omega sued Costco for copyright infringement after Costco imported and sold Seamaster watches intended for foreign distribution
  – The District Court granted Costco summary judgment based upon the “first sale” doctrine
  – The Ninth Circuit reversed in 2008, holding that the first sale doctrine does not apply to copies of copyrighted works produced outside the United States
Copyright Infringement Claims Against Gray Market Retailers

• Omega S.A. v. Costco Wholesale Corp. (9th Cir. 2015)
  – On remand, the District Court again ruled for Costco, this time on the grounds of copyright misuse
  – Omega had admitted that the globe design was intended solely to prevent unauthorized retailers from selling Omega’s products
  – The Court found that Omega had misused its copyright to create a monopoly on the importation and sale of the watches and eliminate price competition
  – While the second District Court decision was on appeal to the Ninth Circuit, the Supreme Court issued its decision in Kirtsaeng, concluding that the first sale doctrine applies even where the product is manufactured and first sold abroad
  – The Ninth Circuit therefore revisited its earlier opinion on the first sale doctrine in light of Kirtsaeng, finding that the first sale doctrine barred Omega from enforcing its copyright to prevent the importation and sale of gray market goods
Copyright Infringement Claims Against Gray Market Retailers

• Is there any viability for copyright infringement claims against gray market products after Kirtsaeng and Omega?
• Claims based on copyright in the product itself would appear to be barred
• However, claims based upon images, product descriptions, etc. would still be viable
  – The Internet has made it easy for unauthorized resellers to copy product images, descriptions, etc., directly from the web site of a manufacturer or authorized retailer of a product
  – First sale doctrine would not apply because the photographs, descriptions, etc. are being copied, not purchased and re-sold
  – Relatively straightforward to enforce through DMCA claims
  – However, if a reseller’s gray market products are listed on the same page as authorized retail sellers of the product (for example, on Amazon Marketplace), or if the reseller produces its own promotional content, this strategy would not be effective
Other Causes of Action
Against Gray Market Retailers

• Unfair competition claims under the Lanham Act/state law
  • Some online retailers falsely represent that they are “authorized dealers”
  • Other retailers’ web sites may mislead consumers into believing that they are unauthorized dealers, for example if the web site repeatedly and prominently displays the trademark owner’s name and logo
  • Some retailers also falsely represent that the products are covered by manufacturer’s warranty
  • These types of actions could be grounds for an unfair competition claim

• “Gray market” state laws
  • New York and California both have state laws requiring retailers to disclose when a gray market product is not accompanied by a US warranty, instructions in English, other differences
    – California law does not apply to Internet sales
    – New York law does apply to “mail order” sales; however, no private cause of action for trademark owner
ITC Proceedings – Registered Trademarks

• 19 U.S.C. §1337(a)(1)(C) requires complainants to prove that “an industry in the United States, relating to the articles protected by the ... trademark ... concerned, exists or is in the process of being established.” See 19 U.S.C. §1337(a)(2).

• Known as the “domestic industry” requirement, registered trademark owners must satisfy both “technical” and “economic” prongs:
  – The “technical prong” requires a complainant to prove that it is using the asserted trademark.
  – The “economic prong” requires “significant” or “substantial” qualifying activities in the United States, with respect to the articles that practice the asserted trademark (the articles that satisfy the technical prong).
• Domestic Industry – the “Economic Prong”
  – The statute lists three subparts that set forth the type of investments that complainants must show to demonstrate that an economic domestic industry exists:
    • Significant investment in plant and equipment;
    • Significant employment of labor or capital; or
    • Substantial investment in its exploitation, including engineering, research and development, or licensing.

• No separate damage/injury requirement
ITC Proceedings – Unregistered Trademarks

• Investigations of common law trademark infringement are conducted pursuant to 19 U.S.C. §1337(a)(1)(A), which pertains to non-statutory methods of unfair competition:
  – 19 U.S. Code § 1337. Unfair practices in import trade
  – (a)(1)(A) Unfair methods of competition and unfair acts in the importation of articles (other than articles provided for in subparagraphs (B), (C), (D), and (E)) into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—
    • (i) to destroy or substantially injure an industry in the United States;
    • (ii) to prevent the establishment of such an industry; or
    • (iii) to restrain or monopolize trade and commerce in the United States.
ITC Proceedings – Unregistered Trademarks

• Under §1337(a)(1)(A), in addition to demonstrating the existence of a domestic industry, common law trademark owners must also prove that the importation of infringing articles has the “threat or effect of which is to destroy or substantially injure an industry in the United States.” 19 U.S.C. §1337(a)(1)(A)(i).

• Known as the “injury” requirement, the complainant must establish a “nexus” between the Respondents’ unfair acts and the injury to complainant’s domestic industry.

• This requirement does not apply to assertions of registered trademarks
ITC Proceedings – Unregistered Trademarks

• The Commission has historically considered a “broad range of indicia” to determine whether common law trademark infringement has the threat or effect of substantially injuring a domestic industry, including:
  – a respondent’s volume of imports and penetration into the market;
  – the complainant’s lost sales;
  – underselling by the respondents;
  – the complainant’s declining production, profitability and sales; and
  – harm to goodwill and reputation
ITC Proceedings – Unregistered Trademarks

• The injury requirement can also be met “[w]hen an assessment of the market in the presence of the accused imported products demonstrates relevant conditions or circumstances from which probable future injury can be inferred.”

• Circumstances may include:
  – foreign cost advantages and production capacity;
  – the ability of the imported product to undersell the domestic product; and
  – substantial foreign manufacturing capacity combined with the respondent’s intention to penetrate the United States market

• For a future injury, the threatened injury must be “substantive and clearly foreseen,” and the complainant must show a causal connection between the respondent’s unfair act and the alleged future injury

A failure to satisfy the injury requirement is grounds for the commission to find no violation of Section 337.
ITC Proceedings - Procedure

• Summary of Process
  – Complaint
  – Institution
  – Appointment of ALJ
  – Discovery
  – Evidentiary Hearing
  – Initial Determination
  – Commission Review
  – Remedy
  – Presidential Review
  – Appeal
Enforcement - U.S. Customs

- The United States Customs and Border Protection (“CBP”) enforces ITC orders, including exclusion orders restricting importation of gray market goods.
- CBP, an administrative agency with law enforcement powers, has the authority to carry out searches, seizures, detention and destruction of counterfeit, infringing, and/or restricted gray market goods.
- Customs’ Intellectual Property Rights Branch (IPRB), together with the industry-focused Centers for Excellence and Expertise (CEEs), assumes the primary responsibility for the interpretation and implementation of ITC limited exclusion orders. Complainants and respondents often have ex parte meetings with IPRB and CEE officials to discuss the scope of exclusion orders and assist customs in the identification of infringing or non-infringing products.
CBP and Gray Market Goods

• The CBP also has limited powers to restrict/exclude gray market goods independent of an ITC exclusion order.
  – The general rule of CBP is to allow gray market goods to be imported into the United States absent enforcement of an ITC order
  – This is true even if the rights holder has recorded its trademark with CBP
• However, the CBP will restrict importation of gray market goods if a rights holder applies for and obtains “restricted” gray market protection
CBP and Gray Market Goods

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CBP and Gray Market Goods

Requirements

1. Register your trademark with the USPTO
2. Record your registered trademark or trade name with CBP
3. Apply for restricted gray market protection
CBP and Gray Market Goods

The Easy Part....

1. Register your trademark with the USPTO

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   - To file a continuation of use
   - To file a declaration of use under section 8

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CBP and Gray Market Goods

The Easy Part....

2. Record your registered trademark or trade name with CBP
CBP and Gray Market Goods

The Easy Part....

2. Record your registered trademark or trade name with CBP
   – Once you obtain a trademark registration, you may register your trademark with the CBP through its online recordal portal
   – The registration fee is approx. $190 per mark, per international class
   – The deadline for renewal runs concurrently with the trademark registration
CBP and Gray Market Goods

The Easy Part....

2. Record your registered trademark or trade name with CBP
   - You may also record a trade name with Customs if it has been used for at least 6 months to identify a manufacturer or trader
   - Recordal of a trade name is not available through IPR e-portal; should contact CBP directly at iprrquestions@cbp.dhs.gov to request recordal
     • Recordal requirements are set forth at 10 CFR § 133.12
   - Protection for a recorded trade name shall remain in force as long as the trade name is used
CBP and Gray Market Goods

...The Hard Part

- Trademark recordal is an important first step in protecting against counterfeit and infringing goods at the border, but it is not sufficient to restrict importation of gray market goods
  - Agency’s different treatment of suspected counterfeit/infringing goods and suspected gray market goods
- CBP will not stop suspected gray market goods at the border unless the rights holder also qualifies for and seeks restricted gray market protection
...The Hard Part

• There are two types of restricted gray market protections:
  1. “Gray Market” protection under Section 526 of the Tariff Act (19 U.S.C. § 1526); and
  2. “Lever-rule” protection under the Lanham Act
• “Gray market” protection generally provides broader protection, but is more difficult to obtain
• More rights holders likely qualify for “Lever-rule” protection, but there are important exceptions which limit its protections
CBP and Gray Market Goods

§ 133.23 Restrictions on importation of gray market articles.

(a) Restricted gray market articles defined. “Restricted gray market articles” are foreign-made articles bearing a genuine trademark or trade name identical with or substantially indistinguishable from one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States and imported without the authorization of the U.S. owner. “Restricted gray market goods” include goods bearing a genuine trademark or trade name which is:

(1) Independent licensee. Applied by a licensee (including a manufacturer) independent of the U.S. owner, or

(2) Foreign owner. Applied under the authority of a foreign trademark or trade name owner other than the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (see §§ 133.2(d) and 133.12(d) of this part), from whom the U.S. owner acquired the domestic title, or to whom the U.S. owner sold the foreign title(s); or

(3) “Lever-rule”. Applied by the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (see §§ 133.2(d) and 133.12(d) of this part), to goods that the Customs Service has determined to be physically and materially different from the articles authorized by the U.S. trademark owner for importation or sale in the U.S. (as defined in § 133.2 of this part).

• 133.23(a)(1) and (2) fall under the “gray market” protection under the Tariff Act
• 133.23(a)(3) codifies the “Lever-rule” protection
Requirements for “Gray Market” Protection

• In order to qualify for “gray market” protection under the Tariff Act and current CBP regulations, a rights holder must:
  1. Be a U.S. citizen or a company organized in the United States;
  2. Own a federal trademark registration and record it with CBP; and
  3. It must be independent from the foreign manufacturer or licensee of the gray market goods

• The U.S. rights holder will not qualify for protection if the foreign manufacturer/licensee is owned by the U.S. company, is a parent or subsidiary, or if the companies are under common ownership or control.
Requirements for “Gray Market” Protection

• If the rights holder can meet the strict requirements, there are numerous benefits to seeking “gray market” protection –
  – If a trademark/name receives gray market protection, foreign-made goods bearing the protected mark or name that are imported into the U.S. will be detained by CBP and are subject to potential seizure and forfeiture.
  – There is no material differences requirement for detention under this provision
  – There is also no disclaimer loophole.
CBP and “Lever-Rule” Protection

• Even if a rights holder does not qualify for “gray market” protection under current CBP regulations, it may still qualify for restriction of parallel imports under the “Lever-Rule” exemption
  – The Lever rule exemption was codified by CBP following Lever Bros. v. United States, 981 F.2d 1330 (D.C. Cir. 1993)

• Lever rule protection is available under different circumstances than “gray market” protection under the Tariff Act to the owner of a mark:
  – It may be sought even if the rights holder is a foreign company or the owner is a U.S. company and the foreign goods are manufactured by a foreign affiliate
CBP and “Lever-Rule” Protection

Requirements

1. Ownership of a U.S. trademark registration or trade name;

2. Recordal of the U.S. trademark registration with CBP; and

3. The rights holder must demonstrate that the goods sought to be excluded are physically and materially different than the goods authorized to be sold in the U.S.
   
   • These are independent requirements, both of which must be met
CBP and “Lever-Rule” Protection

Requirements

• CBP will consider the following non-exclusive factors in determining whether material differences exist:
  – 1. The specific composition of both the authorized and gray market products (including chemical composition);
  – 2. Formulation, product construction, structure, or composite product components, of both the authorized and gray market products;
  – 3. Performance and/or operational characteristics of both the authorized and gray market products;
  – 4. Differences resulting from legal or regulatory requirements, certification, etc.; and
  – 5. Other distinguishing and explicitly defined factors that would likely result in consumer deception or confusion as proscribed under applicable law.

• The emphasis on physical differences for Lever rule protection is tougher than the standard in federal court actions
CBP and “Lever-Rule” Protection

• The regulations also require CBP to publish a request for Lever protection in the Customs Bulletin, including information concerning the mark and product sought to be excluded.

• CBP then determines whether to grant Lever protection based on the application and will publish a favorable decision in the Customs Bulletin.

• While the bulletin does not publish in-depth factual details concerning each application, regular review of its decisions can be a good tool for understanding the types of product differences the agency finds to be material.
CBP and “Lever-Rule” Protection

• “Lever-Rule” protection may be sought even when the trademark owner and the foreign manufacturer/licensee are affiliates, provided it can show material and physical differences between the goods.

So why don’t the majority of companies seek “Lever-Rule” protection?
The Disclaimer Exception under the Lever Rule

- Foreign importers can avoid detention and/or seizure of goods which have been granted Lever rule protection by affixing the following disclaimer to the goods:
  - “This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.”
- Importers will also be given the opportunity to affix this disclaimer to the goods if they are detained by CBP.
- Depending upon the nature of the goods, this disclaimer exception may limit the practical benefits of seeking “Lever-Rule” protection.
CBP and “Lever-Rule” Protection

• **Seeking “Gray Market” or “Lever-Rule” Protection**
  – The CBP does not independently assess a rights holder’s entitlement to “gray market” or “Lever-Rule” Protection
  – Rather, a rights holder must apply for protection after it has recorded its trademark or trade name with CBP
  – There is no online application process.
  – Qualifying rights holders should send an email to hqiprbranch@cbp.dhs.gov with a letter and evidence showing its entitlement to restricted gray market or Lever-rule protection
    • This should consist of detailed information showing the rights holder’s entitlement to the requested protection
    • It should also include evidence, such as images of the physical and material differences between the goods
Managing the Marketplace

• Another important part of a comprehensive gray market goods/parallel imports strategy is managing the chain of distribution and monitoring the marketplace.

• From a business perspective, there are a number of key steps that rights holders can take to counter the importation and sale of gray market goods into the United States.
Managing the Marketplace

1. **Establish Distribution Controls**
   a) Establish a strong and traceable channel for authorized sales
   b) Contractual restrictions
   c) Conduct audits/compliance reviews

2. **Monitor the marketplace**
   a) Technology
   b) Customer complaints
Managing the Marketplace

3. Work Directly with Retailers
   a) Train, incentivize compliance
   b) Takedown requests
   c) Use retailers as a source of information, not just a target of litigation
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