THE WHITE HOUSE

WASHINGTON

January 2, 1985

MEMORANDUM FOR RICHARD G. DARMAN
ASSISTANT TO THE PRESIDENT

FROM: FRED F. FIELDING Orig. signed by FFF
COUNSEL TO THE PRESIDENT

SUBJECT: USITC Determination Regarding
Certain Alkaline Batteries

Counsel's Office has reviewed the memorandum for the President prepared by USTR on the above-referenced ITC decision. Both the recommendation to take no action, thereby permitting the order to go into effect on the sixty-first day, and the recommendation to disapprove the order by January 5, thereby rendering it without force or effect, are within the President's legal authority under 19 U.S.C. § 1337(g). I am advised, however, that USTR and Treasury agree that the letter to be sent if the President decides to disapprove the ITC order should be revised. When a new draft is available it should be circulated for review.

I agree with those that recommend that the President disapprove the ITC order. The policy decision with respect to the grey market issue has, at least for the present, already been made by the Executive Branch: Customs regulations permit the entry of grey market goods. USTR and others argue that permitting the order to go into effect will result in an appeal and eventual judicial resolution of the grey market issue, but there is no sound reason to subject an Executive Branch legal determination to judicial challenge, if it can be avoided. This one, unlike the pending appeals, can be. The Executive should preserve its legal determination by the means at its disposal (in this case, disapproval of a contrary ITC order) and not gratuitously permit the final say in such matters to be transferred to another branch (in this case, the judiciary).

FFF:JGR:aea 1/2/85
cc: FFFielding
JGRoberts
Subj
Chron

ID # 245347 CU

WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

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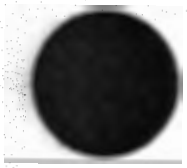
Date Correspondence Received (YY/MM/DD) 1 1



Name of Correspondent: Richard G. Darman

☐ **MI Mail Report** **User Codes: (A)** _____ **(B)** _____ **(C)** _____

Subject: USITC Determination re: Certain Alkaline Batteries

ROUTE TO:

Office/Agency (Staff Name)	Action Code	Tracking Date YY/MM/DD	Type of Response	Code	Completion Date YY/MM/DD
C Holland	ORIGINATOR	84/12/31			1 1
CWAT 18	D	84/12/31		S	85/01/02
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WHITE HOUSE STAFFING MEMORANDUM

DATE: 12/31/84 **ACTION/CONCURRENCE/COMMENT DUE BY:** c.o.b. 1/2/85 - Wednesday

SUBJECT: USITC DETERMINATION RE CERTAIN ALKALINE BATTERIES

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	MURPHY	☑	☐
MEESE	☐	☑	OGLESBY	☑	☐
BAKER	☐	☑	ROGERS	☐	☐
DEAVER	☐	☑	SPEAKES	☐	☑
STOCKMAN	☑	☐	SVAHN	☑	☐
DARMAN	☐P	☑S	VERSTANDIG	☑	☐
FIELDING	☑	☐	WHITTLESEY	☑	☐
FULLER	☑	☐	_____	☐	☐
HERRINGTON	☐	☐	_____	☐	☐
HICKEY	☐	☐	_____	☐	☐
McFARLANE	☑	☐	_____	☐	☐
McMANUS	☑	☐	_____	☐	☐

REMARKS:

Please provide any comments/recommendations by c.o.b. Wednesday, January 2, 1985.

Thank you.

RESPONSE:

1984 DEC 31 PM 10: 27

Richard G. Darman
Assistant to the President
Ext. 2702

THE UNITED STATES TRADE REPRESENTATIVE 1984 DEC 31 AM 9:24
WASHINGTON
20506

December 31, 1984

MEMORANDUM TO THE PRESIDENT

FROM: MICHAEL B. SMITH
ACTING

SUBJECT: U.S. International Trade Commission Determination Regarding Certain Alkaline Batteries

By January 5, you must decide what action, if any, you will take regarding the U.S. International Trade Commission's determination in its investigation, under section 337 of the Tariff Act of 1930, regarding certain alkaline batteries. I recommend that you take no action regarding the determination but that you direct the Trade Representative to advise the Commission, for the record, that your decision does not constitute an endorsement of the Commission's legal findings and does not indicate what action you might take in future cases involving the same issues. I believe that following my recommendation will preserve the rights of all concerned, including yours; will reserve to you the greatest latitude in the current review of the "grey market" issue; and will allow judicial review of the all of the Commission's legal findings by the Court of Appeals for the Federal Circuit. (A draft letter is attached at Tab A.) My recommendation is supported by the Departments of Agriculture, Commerce, Justice and Labor.

The Department of the Treasury, supported by the Department of State, the Council of Economic Advisers, and the Office of Management and Budget, disagrees with my recommendation. These agencies believe that if you do not disapprove the Commission's determination, you, in effect, will have transferred this issue to the courts when you have the authority to decide the question yourself. This, they believe, would be an act directly against the interests of an Executive Branch department which currently is defending in federal court its interpretation of the statute involved. They further argue that this would be a severe intrusion into the authority of the President and the statutory authority of an Executive Branch department by the Commission which would be substituting its judgment for that of the Administration. Further, if you fail to disapprove, they argue, you will be giving up your discretionary authority regarding the Customs Service treatment of "grey market" goods. (A draft letter to the Commission giving your reasons for disapproval is attached at Tab B.)

The two positions are discussed following a brief statement of the facts, a description of the "grey market" issue, and a review of the President's authority under section 337.

BACKGROUND

The complainant, Duracell, Inc., a Delaware Corporation, owns the U.S. registered trademark, DURACELL. Duracell, Inc. manufactures batteries, for sale in the United States, in plants located in Waterbury, Conn., La Grange, Ga., Lancaster, S.C., and Cleveland, Tenn. N.V. Duracell S.A., a Belgian corporation, is authorized to use the Belgian registered trademark, DURACELL, owned by its parent, Duracell International, Inc. Duracell S.A. manufactures batteries in Belgium for sale in the European Communities.

The respondents in the case purchase batteries, for sale in the United States, after the batteries have left the control of Duracell S.A. and entered the European distribution system. The strong position of the U.S. dollar makes this practice profitable. The importers sell the batteries to U.S. wholesalers at prices below those of Duracell, Inc. The Commission record indicates that at least 10 million batteries bearing the Belgian registered trademark, DURACELL, have been imported by the three respondents. The record also indicates that there are others importing the batteries who were not named as respondents.

The Commission determined that there were unfair practices within the meaning of section 337 in the importation into, and sale in, the United States of batteries bearing the Belgian registered trademark, DURACELL, based upon 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) infringement of a registered trademark under section 32(a) of the Lanham Act, 15 U.S.C. 1114;
>
> (4) misappropriation of trade dress;
>
> (5) false designation of origin under the Lanham Act, 15 U.S.C. 1125; and
>
> (6) violations of the Fair Packaging and Labeling Act, 15 U.S.C. 1452 and 1453." (USITC Publication 1616, November 1984, p.6.)

The Commission found that the unfair practices tended to injure substantially an efficient and economically operated domestic

industry and, therefore, that there was a violation of section 337. The Commission (Chairwoman Stern and Commissioner Rohr dissenting) ordered the U.S. Customs Service to deny entry to imported batteries of particular sizes bearing the mark, DURACELL, or using the distinctive copper and black trade dress, unless importation was authorized by Duracell, Inc.

BACKGROUND REGARDING CUSTOMS TREATMENT OF "GREY MARKET" GOODS

Briefly, "grey market" goods are imported goods produced abroad bearing a foreign trademark identical or substantially similar to a U.S. registered trademark when there is common ownership or control between the U.S. trademark owner owner and the foreign user of the mark, or when the foreign user of the mark has the authorization of the U.S. trademark owner. The U.S. Customs Service traditionally has not applied the provisions of 15 U.S.C. 1124 (which prohibits entry of goods which bear marks copying or simulating U.S. registered trademarks) or 19 U.S.C. 1526 (which makes unlawful importation of goods without the written authorization of the owner of the U.S. trademark) to "grey market" goods. In two recent cases, the U.S. District Court for the District of Columbia and the Court of International Trade have upheld the Customs regulations. Both cases have been appealed, the latter to the Court of Appeals for the Federal Circuit, which is the reviewing Court for the Commission.

The Treasury and Commerce Departments on behalf of the Working Group on Intellectual Property of the Cabinet Council on Commerce and Trade have solicited data from the public concerning the issue of "grey market" goods. To date they have received in excess of 1,000 responses. These are being reviewed currently.

In the section of its opinion regarding 15 U.S.C. 1124, the Commission majority held that importation of goods bearing the foreign trademark identical to the U.S. registered trademark should be denied entry even though the U.S. trademark owner is related to the user of the foreign mark. It is this finding that has raised questions regarding what action you should take in this case.

Senators Baker, D'Amato, DeConcini, Kasten, and Thurmond and Representatives Roybal, Spratt, and Stark have written urging you to take no action in this case. Senators Chafee, Hawkins, Roth, and Symms and Representatives Broomfield, Frenzel and Gibbons have written urging that you disapprove the determination in this case.

THE PRESIDENT'S AUTHORITY UNDER SECTION 337

Under subsection 337(g)(2), you may disapprove a Commission determination for policy reasons, leaving the determination, and any order issued under its authority, without force or effect.

You also may approve a determination, making it, and any associated order, final and ripe for appeal. The determination and associated order become final automatically, and ripe for appeal, after the sixty day review period if you take no action.

The Report of the Senate Finance Committee on the Trade Reform Act of 1974 (Report No. 93-1298, p. 199), in discussing the reasons for including authority for the President to disapprove Commission determinations, states:

> "It is recognized by the Committee that the granting of relief against imports could have a very direct and substantial impact on United States foreign relations, economic and political. Further, the President would often be able to best see the impact which the relief ordered by the Commission may have upon 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.
>
> Therefore, it was deemed appropriate by the Committee to permit the President to intervene before such determination and relief become final, when he determines that policy reasons require it. The President's power to intervene would not be for the purpose of reversing a Commission finding of a violation of section 337; such finding is determined solely by the Commission, subject to judicial review."

RECOMMENDATION TO TAKE NO ACTION

The scope of the issue before you is a narrow one. With regard to this case, I believe there are no policy reasons, as outlined in the legislative history to section 337, sufficient to justify disapproval of the Commission's determination in this case, thereby denying the U.S. manufacturer relief from the unfair practices found by the Commission to exist. A decision to take no action regarding a section 337 determination does not, in any way, constitute approval of that determination since the President does not have authority to reverse a determination on the merits of a case. A letter to the Commission will prevent any of the misunderstandings which concern the Treasury Department, the State Department, the Council of Economic Advisers, and the Office of Management and Budget.

Reviewing the particular facts of this case in the manner followed in other cases, the alkaline batteries that are the subject of the exclusion order are not necessary for human health and safety. The domestic manufacturer can supply the demand for its product. No allegations of anticompetitive behavior on the part of the complainant were made during the Commission's

investigation. Competing brands of comparable quality and price are readily available. Competitive conditions in the United States, therefore, will not be affected by the exclusion of foreign produced batteries bearing the Belgian trademark, DURACELL. The U.S. Customs Service has indicated that shipments of other batteries will not be delayed as a result of the exclusion order. Exclusion of infringing batteries will not affect the production of like or directly competitive products in the United States. In fact, production of domestically produced batteries bearing the U.S. registered trademark, DURACELL, is likely to increase. Nothing in the Commission record suggests that consumers will be affected adversely by the order since the foreign produced batteries are sold for the same price as the domestically produced ones.

The order is not inconsistent with U.S. obligations under the General Agreement on Tariffs and Trade. No foreign government has raised questions about this case. The Paris Convention for the Protection of Industrial Property, to which most of our trading partners adhere, expressly recognizes the principle of territoriality of trademarks and, therefore, permits exclusion of "grey market" goods. There are, therefore, no foreign or domestic policy considerations presented by the facts of this case, as ordinarily analyzed, that would justify a recommendation that you disapprove the determination.

Regarding the larger questions that have been raised, if you disapprove the determination, it cannot be appealed. On the other hand, if you take no action, the Commission determination will become final and ripe for appeal. While there is no guarantee that it will be appealed, appeal seems very likely given the interest in the issue. That would enable the Court of Appeals for the Federal Circuit to review each of the issues before the Commission at the same time as it reviews the Treasury Department's regulations which are the subject of the case appealed from the Court of International Trade.

The interpretation of the Treasury regulations themselves is not completely clear, as illustrated by the Justice Department's amicus brief, submitted to the U.S. Court of Appeals for the Second Circuit in Bell & Howell : Mamiya Co. v. Masel Supply Co., in which the Justice Department took the opposite position to that which it now argues on behalf of the Treasury Department's regulations. The CAFC will review the question of the Treasury regulations regardless of your decision here because of the appeal of the Court of International Trade case. The Court of Appeals for the District of Columbia also will rule on the appeal before it regardless of your decision. If either of the Courts upholds the Treasury Department's regulations, the respondents in this case can ask the Commission to modify its order in light of the changed circumstances.

Neither of those Courts, however, will address the question of how common law trademark infringement, or registered trademark infringement under 15 U.S.C. 1114, or misappropriation of trade dress, or passing off, or violations of the Fair packaging and Labeling Act should be treated when the owner of a U.S. trademark and the user of a foreign trademark are related. An appeal of the Commission's determination would allow the CAFC to review all of the questions regarding the appropriate treatment of "grey market" goods under U.S. trademark law and related laws. The Court would tell us for the first time what the law is in each of these areas. If you disapprove the Commission's determination, it cannot be appealed. We would lose the opportunity to have all of the issues related to trademarks, when "grey market" goods are involved, reviewed by one court at one time.

The CAFC's opinion would enhance the CCCT Working Group's review of the "grey market" question rather than negating it, since it would enable us to consider the question in light overall trademark policy, not just in terms of Customs Service treatment of trademarked goods. Consideration of the question in light of trademark policy is particularly important at a time when Congress has passed major legislation strengthening trademark protection at home and tying trade benefits to adequate and effective intellectual property protection abroad. This view is supported by the Chairman of the CCCT Working Group.

The Commission's jurisdiction under section 337 also is a legal question suitable for review by the CAFC. Section 337 requires the Commission to investigate any allegations presented in a legally sufficient petition. The law states that relief under section 337 is in addition to any other provision of law. The statute excepts only allegations of subsidization and dumping and that exception has been in the law since 1975. On several occasions, the Commission has has found violations of section 337 based upon trademark infringement and copyright infringement, over which the Customs Service also has jurisdiction, without objection from the Administration or from the Congress.

A statement that the Commission should not assert jurisdiction in an area where Congress has not indicated it should not could be viewed by the Congress as overreaching by the Administration. Disapproval also would not act as a legal precedent on which the Commission could rely in future cases. It also would not answer the question of jurisdiction when petitions allege only registered trademark infringement and common law trademark infringement and there is a relationship between the owner of the U.S. trademark and the foreign user of the mark. A CAFC decision defining the Commission's jurisdiction would serve as precedent for the Commission and would provide direction on treatment of "grey market" goods under section 337.

A decision to take no action in this case in no way will compromise

the position taken by the Justice Department, as the Treasury Department's legal representative, in pending legal actions. A letter to the Commission stating that your decision to take no action in this case does not represent an endorsement of the Commission's legal findings should prevent any misunderstanding of your position. The Justice Department advises that its ability to defend the Treasury Department in pending litigation would not be seriously prejudiced if a letter of clarification is sent to the Commission for the record.

The Commission is an independent Executive branch agency. It defends itself in the CAFC, it is not represented by the Justice Department. The Commission's arguments do not represent those of the Administration. Commission determinations do not act as precedents in U.S. courts. Lawyers opposing the Treasury Department's regulations certainly will cite Commission findings they view as favorable to their clients' interests. They also are likely to cite the amicus brief submitted to the Court of Appeals for the Second Circuit by the Justice Department in which it takes a position opposite that taken in the current litigation. Justice Department lawyers, I am certain, will be prepared to respond in either case.

Finally, a decision to take no action in this case will not result in a flood of future section 337 cases based upon the same allegations. For the Commission to find a violation under section 337, it must conclude that there is an unfair practice (here it found six) and that the unfair practice is causing or threatening substantial injury to an efficient and economically operated U.S. industry. The latter requirement would prevent many U.S. trademark owners that are exclusive distributors for foreign manufacturers from obtaining a remedy from the Commission. In addition, every affirmative determination under section 337 must be referred to the President for policy review. As in the past, each will be reviewed carefully in light of foreign and domestic policy. Any that affect consumers adversely, that have anticompetitive effects in the U.S. market, or that raise other policy issues not present here, can be disapproved. A decision to take no action here will not narrow the President's authority under section 337 in any way.

For these reasons, I recommend that you take no action to disapprove the Commission's determination in this case and that you direct me to send the attached letter to the Commission to be entered in the record.

RECOMMENDATION TO DISAPPROVE

The Treasury Department has supplied this explanation of its position. I have removed the citations to cases since the citations are provided in the Trade Policy Staff Committee paper which is included with this memorandum.

"The Treasury Department, the State Department, OMB and CEA believe that you should disapprove the decision for the following six reasons:

First, the Commission should not substitute its judgment for that of the Treasury Department with respect to the regulatory interpretation of 19 U.S.C. 1526 and 15 U.S.C. 1124;

Second, the Commission's interpretation of the law is contrary to the position taken by the Administration through the Department of the Treasury, with Department of Justice representation, in various court cases which are currently in various stages of litigation. Recent decisions of the U.S. District Court for the District of Columbia and the Court of International Trade explicitly support the Administration's position and uphold the regulations;

Third, a decision not to disapprove would be a direct narrowing of the authority of the President to decide these and related cases. There is no sound reason for the President to, in effect, send himself to court to argue his case when he has the authority to decide the issue himself;

Fourth, the Treasury and Commerce Departments on behalf of the Working Group on Intellectual Property (WGIP) of the Cabinet Council on Commerce and Trade (CCCT) have solicited data from the public concerning the issue of parallel market importation and are currently reviewing in excess of 1,000 responses with a view toward formulating a cohesive, well-developed policy in this area. Failure by the President to disapprove the Commission's decision would effectively change the present U.S. policy prior to the completion of this process;

Fifth, any approval of this decision by the President, whether tacit or explicit, would send conflicting signals to U.S. trade partners regarding the policy of the U.S. Government concerning the issue of parallel market importation. Exclusion of grey market goods would be inconsistent with the policies of our trading partners on this issue making trade conflicts likely with possible retaliation against U.S. exports;

Sixth, by excluding parallel imports, the precedential effect of the ITC decision would necessarily reduce competition for sales in the United States, hurting consumers, feeding inflation, and would in effect aid multi-national corporations in efforts to segment markets for their goods and price discriminate among those markets to increase profits. For example, foreign owned multi-national corporations could refuse to sell their goods to discounters or others who seek to sell the goods at prices below suggested retail price.

While the Treasury Department believes that the Commission possesses broad authority to investigate a wide-range of unfair trading practices, this authority should not be considered unlimited. Specifically, the Commission should not exercise jurisdiction in those instances where the resolution of the allegations raised more properly resides with another federal agency. The Treasury Department has been charged with interpreting, implementing and enforcing 19 U.S.C. 1526 and 15 U.S.C. 1124. Pursuant to this authority, Treasury and Customs have promulgated a comprehensive regulatory scheme for the protection of certain American trademark owners. The Commission, in exercising jurisdiction over Duracell's section 1526 and 1124 claims, permitted Duracell to circumvent the comprehensive scheme established by Treasury for the resolution of these disputes. In doing so, the Commission unjustifiably intruded into an area which Congress has entrusted to another agency.

A second reason for disapproval by the President is that there are three pending lawsuits directly challenging Treasury's interpretation of 15 U.S.C. 1124 and 19 U.S.C. 1526. Treasury has vigorously defended its regulatory scheme. The case of Vivitar Corporation v. United States is currently on appeal before the Court of Appeals for the Federal Circuit, the same court which would hear any appeal of the Commission's decision in this case. If the President were to allow the Commission's decision to take effect, the Government could be placed in the anomalous and untenable position of arguing conflicting views on the parallel market issue in the same forum.

The case of Coalition to Preserve the Integrity of American Trademarks, et al. v. United States et al., decided on December 5, 1984, by District Judge Norma Johnson, ratifies Treasury's longstanding interpretation of both 15 U.S.C. 1124 and 19 U.S.C. 1526. The final case challenging Treasury's position is Olympus Corporation v. United States et al. Briefs have been filed by parties to this proceeding and oral argument has been scheduled for January 4, 1985. It is important to note that the only two courts to have directly addressed the parallel market goods issue, to date, found Treasury's position to be legally correct and wholly consistent with the intent of Congress. Since the Commission has taken a conflicting view of 15 U.S.C. 1124, any approval by the President of the Commission's decision would make it far more difficult to sustain the position taken by the Government in these cases. Indeed, the Department of Justice has advised Treasury that the Government's continued defense of these actions could prove difficult should the President approve the Commission's determination.

The third reason for disapproval by the President is that allowing the International Trade Commission decision to go into effect would constitute a narrowing of the authority of the President. There is no sound reason for the President to cause the Treasury

Department to argue its case in Federal Court when the President has the authority to decide the matter himself. By such an act the President would be acknowledging the authority of the International Trade Commission to overrule the considered opinions of his Executive Branch departments. It has been argued that a decision to take no action "will preserve the rights of all concerned" in this matter. This would not be the case in that the position of the Treasury Department would be contradicted by such a decision. The President's decision in this matter is a policy decision. However, the practical effect of a decision to take no action would be to allow the legal findings of the International Trade Commission to stand and have the force and effect of law. This is the case regardless of whatever language is inserted into a side letter from the President. The President would be putting himself and the Treasury Department in the anomalous position of having to argue against the legal findings that the President has allowed to stand. Indeed the decision of the ITC has already been cited as legal authority against the Government by an opposing party in the grey market litigation.

A fourth reason supporting disapproval by the President is that on May 21, 1984, the Department of the Treasury and the Department of Commerce published a notice in the Federal Register requesting the public to comment on the complex issues raised by parallel market imports. The reasons underlying this request are the desire by the Administration to make an informed decision in this matter. Any final policy decision in this area requires consideration of the economic, trade and foreign policy ramifications of any change in existing policy.

A fifth reason supporting disapproval is that the proper implementation of sound trade policy requires, at the very least, that the United States speak in a consistent manner on important trade issues. The issue of parallel market importation has attracted considerable public attention in the last several years. Thus far, the Department of the Treasury has taken the position before the International Trade Commission and various judicial tribunals, that United States policy permits parallel market importation in those instances where the foreign and U.S. trademark owners are "related" companies. If the President were to approve the Commission's determination in this investigation, particularly in light of the Government's continuing defense in court of Treasury's position, it will appear that U.S. trade policy in this area is in a state of confusion.

Finally, the precedential consequences of failing to reject the exclusion order will almost assuredly result in higher prices for U.S. consumers. Lower prices result not only from the parallel imports themselves, but also their competitive effects. The mere availability of such products to retailers acts as a restraint on potential price increases and ensures market access by discount chains. Estimates of the cost savings to the American consumer

run as high as 40 to 50 percent on a given product line. In the past several years protectionist measures have been taken with regard to commodities such as steel and textiles. In those cases clear, articulable benefits existed and/or clear rules of trade were violated. These factors are not present in this case and therefore no justification exists for the economic cost of protecting multi-national corporations from themselves."

For these reasons, the Department of Treasury, supported by the Department of State, the Council of Economic Advisers, and the Office of Management an Budget, recommends that you disapprove the Commission's determination, sending the Commission a copy of the attached letter and rationale.

OPTIONS	ACTION REQUIRED
Option 1 (my recommendation)	
Take no action.	None, the determination will become final automatically on January 6, 1985. I will send a letter of clarification to the Commission for the record.
Option 2 (Treasury's recommendation)	
Disapprove the determination.	Inform the Commission of your disapproval by sending the attached letter. The determination and order will be without force or effect when the Commission receives notice.
Option 3 (Not recommended by any agency)	
Approve the determination.	Inform the Commission of your approval. The determination and order will become final when the Commission receives notice.

DECISION

OPTION 1: Take no action. _____

OPTION 2: Disapprove. _____

OPTION 3: Approve. _____

Attachments

For Option 1

January 5, 1985

The Honorable Paula Stern
Chairwoman
United States International Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

Dear Madame Chairwoman:

The President has asked me to advise you that he has decided to take no action regarding the Commission's determination in Investigation No. 337-TA-165, Certain Alkaline Batteries. The determination and the exclusion order, therefore, become final on January 6, 1985.

The President also has directed me to advise the Commission, on the record, that his decision to take no action in this case does not represent an endorsement of the Commission's legal findings. The President has decided only that there are no policy reasons within the narrow facts of this case that call for disapproval.

The President's decision to take no action in this case also should not be understood to be an indication of his decision in future cases involving the issues present here. As you know, the Administration is studying the range of issues connected with so-called "grey market" imports. The President's decision in this case does not in any way prejudge the results of that review.

In particular, the President has directed me to advise the Commission of his concern with the Commission's interpretation of section 42 of the Lanham Act, one of several grounds for the Commission's determination. The Commission's interpretation is at odds with the interpretation of that section by the Department of the Treasury, which the Administradion has advanced in a number of court cases that are currently pending. The President's decision not to disapprove the determination in this case should not be viewed as altering that interpretation.

Very truly yours,

William E. Brock

WEB:z

Dear Madame Chairwoman:

This is to inform you that I have disapproved the Commission's determination in Investigation No. 337-TA-165, Certain Alkaline Batteries.

This determination is based on the following policy reasons:

1) The Commission should not exercise jurisdiction in those instances where the resolution of the allegations raised specifically resides with another federal agency. The Treasury Department has been charged by the Congress with interpretating, implementing and enforcing 19 U.S.C. 1526 and 15 U.S.C. 1124. Pursuant to this authority, the Treasury Department and the Customs Service have promulgated a comprehensive regulatory scheme for the protection of trademark owners. The Commission, to the extent that it has exercised jurisdiction over Duracell's section 1526 and 1124 claims, permitted Duracell to circumvent the comprehensive scheme established by Treasury for the resolution of these disputes. In doing so, the Commission unjustifiably intruded into an area which Congress has entrusted to a Cabinet-level department. As was stated by the two dissenting Commissioners in this case, "the impossibility of reconciling the proper administration of section 526 [19 U.S.C. 1526] and section 42 [15 U.S.C. 1124] 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."

2) Recent decisions of the U.S. District Court for the District of Columbia and the Court of International Trade explicitly support the Administration's position and uphold the regulations. Allowing the Commission's decision to stand would conflict with the posture of the Government in this litigation.

3) The Treasury and Commerce Departments on behalf of the Cabinet Council on Commerce and Trade (CCCT) have solicited data from the public concerning the issue of parallel market importation and are currently reviewing responses with a view toward formulating a cohesive policy in this area. Failure to disapprove the Commission's decision would effectively change the present U.S. policy prior to the completion of this process.

4) The precedential consequences of allowing the Commission's decision to stand would necessarily reduce competition for sales and would almost assuredly result in higher prices for U.S. consumers.

Yours very truly,

Ronald R. Reagan

The Honorable Paula Stern
Chairwoman
United States International
Trade Commission
701 E Street, N.W.
Washington, D.C. 20436

THE WHITE HOUSE

WASHINGTON

December 27, 1984

MEMORANDUM FOR: JOHN A. SVAHN

FROM: MICHAEL A. DRIGGS

SUBJECT: The ITC Duracell Decision

I expect a draft TPRG memorandum for the President to reach us tonight. It will contain the split of views I described to you yesterday. I will give you a copy as soon as I receive it. In anticipation of that memo, I have summarized key elements of the case that probably will not appear in the decision memo.

Conclusion

The Administration has a long-standing policy favoring the grey market which has been upheld by both the Courts and Congress. The ITC Duracell decision overturns this policy. If the President allows it to stand, he cedes to the Courts the decision of whether to continue current policy. (And potentially places the Administration on different sides of the issue before the Court.) I believe that the President should make the policy decision directly.

Current Administration Policy

The current Administration policy is stated in regulations of the U.S. Customs Service first published in 1936. Basically, they allow the importation of goods bearing a trademark owned by a United States citizen, where the United States and foreign trademark owners are related companies. The exact language is:

> "The trademark or trade name on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible."

This ruling is currently under judicial attack in three cases, VIVITAR vs. U.S., COPIAT vs. U.S., and OLYMPUS vs. U.S.

VIVITAR vs. the U.S.

VIVITAR is a California Corporation and the owner of the VIVITAR trademark in the United States. It licenses foreign manufacturers to apply the VIVITAR trademark to photographic equipment. Its wholly owned subsidiaries market this equipment outside the United States. The foreign manufacturers are not licensed to market these goods in the United States. Third parties unrelated to VIVITAR have been importing photographic equipment into the U.S. bearing the VIVITAR trademark.

VIVITAR asked the U.S. Court of International Trade to exclude these imports. On August 20, 1984, the court rejected VIVITAR's claim by saying:

> "...the Court is reluctant to disturb the Customs Service's long-standing construction... because of the substantial commercial reliance on Customs' interpretation... This interpretation [has been applied] since at least 1962 and business has been built based upon this interpretation ...Customs' construction is reasonable and consistent with Congressional intent. Congress has upheld this interpretation despite continuing public controversy. Congress is best suited to determine whether the current balance in trademark rights in international commerce is inappropriate."

VIVITAR has appealed this decision to the Court of Appeals for the Federal Circut. This is the same court which would hear any appeal of the ITC's decision in the Duracell case. The Administration's position in the VIVITAR case is to support Customs' regulations.

COPIAT vs. the U.S.

The Coalition to Preserve the Integrity of American Trademarks (COPIAT) maintains that it represents over 200 different manufacturers and distributers of various consumer goods. COPIAT filed with the U.S. District Court for the District of Columbia asserting that Customs' regulations denied them protection of their trademarks. They declared that the regulations were inconsistent with statute and sought an injunction prohibiting enforcement of these regulations and an order directing that the statutes be enforced in accordance with their express terms.

On December 5, 1984, the Court denied these petitions finding, among other things:

"The construction of Section 526 of the Tariff Act by the Customs Service as embodied in the challenged regulations is sufficiently reasonable. This construction is supported by the legislative history, judicial decision, legislation acquiescence, and the long-standing consistent policy of the Customs Service. The regulations clearly implement the limited purpose for which Section 526 was enacted and are consistent with and effectuate the intent of Congress to permit entry of trademark goods ..."

This case is expected to be appealed before the Court of Appeals before the Federal Circuit (the same court hearing the VIVITAR appeal). A third case challenging the same regulations has been filed in the U.S. Court of international Trade by the OLYMPUS Corporation. It is currently under review.

The Department of Justice has defended the Treasury regulations in all three cases. It has concluded in a letter to the Department of the Treasury that if the President were to approve the Commission's determination in the Duracell case "... the government's continued defense of the Treasury's interpretation of the two statutes... could prove to be difficult."

The ITC Decision

The ITC decision was based on a broadening of an old theory of trademark: territoriality. In essence, the principle of territoriality incorporates two concepts: (1) A trademark has a separate legal existence under each country's law and (2) the primary function of a trademark is to symbolize the local business goodwill of the domestic owner of the mark. The ITC held that a genuine trademark becomes an infringing copy when it crosses the national border if it is in the hands of an unauthorized importer. It does not, however, become an infringing copy if the U.S. holder of the trademark brings it across the border.

The President's Decision

The President has few options. By January 5 (the date can not be extended) the President must decide either to overturn the Duracell decision in its entirety or to let it stand. There is no intermediate course. If the Duracell case is overturned, it stops at that point. Duracell's only options, then, are to file another 337 case with the ITC or go to the Court as the other companies have done. The Administration's policy would continue to stand, and the President would preserve the option of setting his own policy subject to the outcome of the Court cases now in appeal.

If the President allows the ITC decision to stand, it almost certainly would be appealed to the same court considering the other cases. The Administration would be in the position of either changing its policy or trying to defend its policy before the Court with an additional case on the docket because of the President's decision.

The Larger Issue

The grey market, in itself, is highly controversial. There are legitimate concerns about product liability, responsibility for warranty, consumer safety, and consumer confusion that have been raised. On the other hand, there are equally legitimate concerns about price competition among foreign manufacturers (in most of these cases there is no U.S. manufacturer of the product). It has been estimated that the majority of perfumes, colognes, and cosmetics sold in this country come in under the grey market. Many other consumer products such as photographic equipment, stereos, electronic equipment, photo copiers, televisions, and typewriters would also be affected. No one has been able to estimate what the total economic impact could be if the Treasury regulations were overturned and if the grey market for these goods were eliminated.

It is an appropriate issue. A CCCT Working Group has been compiling an exhaustive survey of retailers and consumers to estimate the impact of the grey market. I believe, however, that it is appropriate for the President to make this decision directly.

cc: Porter