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Foreign Trade Zones - Regulation of Foreign Commerce - Goods Remaining Exclusively within Foreign Trade Zones Are Subject to Federal Jurisdiction for Violations under the Lanham Trademark Act

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Commerce, Jurisdiction, Regulation, States

FOREIGN TRADE ZONES—REGULATION OF FOREIGN COMMERCE—GOODS REMAINING EXCLUSIVELY WITHIN FOREIGN TRADE ZONES ARE SUBJECT TO FEDERAL JURISDICTION FOR VIOLATIONS UNDER THE LANHAM TRADEMARK ACT. *A.T. Cross Co. v. Sunil Trading Corp.*, 467 F. Supp. 47 (S.D.N.Y. 1979).

Plaintiff A.T. Cross Company brought an action against defendants Sunil Trading Corporation (Sunil) and an individual officer of Sunil, Narsing N. Narson, alleging trademark infringement, unfair competition, and false designation of origin under the Lanham Trademark Act.¹ Specifically, plaintiff charged that defendants purchased bogus Cross pens from the Wang Pao Long Manufacturing Company of Taiwan, which were then passed through a New York foreign trade zone for eventual sale in a foreign country as American products. This use of the foreign trade zone, together with the procurement of false certificates as to the origin of the pens, aided Sunil in misrepresenting that the pens were manufactured within the United States. After plaintiff was granted a preliminary injunction restraining defendants from marketing the pens, defendants contested the jurisdiction of the federal courts to hear the dispute.

The United States District Court for the Southern District of New York held that since the jurisdiction of the Lanham Trademark Act was coextensive with the Commerce Clause, absent an express repudiation of federal jurisdiction under the Foreign Trade Zone Act of 1934,² the provisions of the Lanham Trademark Act extended to foreign trade zones. First, the court reiterated that as a sovereign nation, the United States possessed the inherent "power to impose, even upon foreigners owing no allegiance, liability for acts done abroad which proximately cause damage within the territorial limits of the sovereign."³ Whether federal jurisdiction existed in this case,

1. 15 U.S.C. §§ 1051-1072, 1091-1096, 1111-1121, 1123-1127 (1976).

2. 19 U.S.C. §§ 81a-81u (1976). The statute provides in pertinent part that each port of entry in the United States shall be entitled to at least one foreign trade zone wherein foreign goods may be stored, sold, exhibited, broken up, repacked, assembled, distributed, sorted, graded, cleaned, and even mixed with foreign or domestic merchandise without being subject to the customs laws of the United States, including the imposition of import duties.

3. 467 F. Supp. at 49 quoting from *Ramirez & Feraud Chili Co. v. Las Palmas Food Co.*, 146 F. Supp. 594, 600 (S.D. Cal. 1956), *aff'd*, 245 F.2d 874 (9th Cir. 1957), *cert. denied*, 355 U.S. 927 (1958). See *United States v. Sisal Sales Corp.*, 274 U.S. 268, 276 (1927); *United States v. Aluminum Co. of America*, 148 F.2d 416, 443-44 (2d Cir. 1945).

then, was to be determined by the legislative intent expressed in the Lanham Trademark Act.

Second, the court, relying upon the Supreme Court decision in *Steele v. Bulova Watch Co.*⁴ and the language within the Lanham Trademark Act itself,⁵ found the jurisdictional parameters of the Act to be coextensive with those found under the Commerce Clause. This definition included jurisdiction "where unfair trade practices were committed in foreign countries and the sole conduct complained of within the United States was otherwise lawful . . ."⁶ Therefore, Sunil's use of a foreign trade zone as an essential part of an unlawful scheme taking place outside of the United States, and its acquisition of false certificates of product origin, sufficiently established "a jurisdictional base under the Lanham Act in excess of the one expressly approved by the Supreme Court in *Steele*."⁷

Finally, the court concluded that since foreign trade zones were created pursuant to the Commerce Clause and were operated under the close supervision of United States Customs officials, absent any express repudiation of federal jurisdiction by the Foreign Trade Zone Act, Congress did not intend to exclude federal courts from enforcing the Lanham Trademark Act within foreign trade zones.

This conclusion is consistent with the only other two cases that qualify federal jurisdiction in the foreign trade zone. In *During v. Valente*,⁸ defendant hired plaintiff to locate purchasers for foreign liquor stored in a New York foreign trade zone. In an action for breach of contract, a New York court held that the "zone is created under the power of Congress to regulate commerce with foreign nations. This power is exclusive and plenary."⁹ More important, in an

4. 344 U.S. 280 (1952).

5. Lanham Trademark Act § 45, 15 U.S.C. § 1127 (1976) states:

The intent of this chapter is to regulate commerce within the control of Congress by making actionable the deceptive and misleading use of marks in such commerce; . . . to protect persons engaged in such commerce against unfair competition; to prevent fraud and deception in such commerce by the use of reproductions, copies, counterfeits, or colorable imitations of registered marks; and to provide rights and remedies stipulated by treaties and conventions respecting trade-marks, trade names, and unfair competition entered into between the United States and foreign nations.

6. 467 F. Supp. at 50.

7. *Id.* See *Drop Dead Co. v. S.C. Johnson & Son, Inc.*, 326 F.2d 87 (9th Cir. 1963), *cert. denied*, 377 U.S. 907 (1964); *Crossbow, Inc. v. Glovemakers, Inc.*, 265 F. Supp. 202 (N.D. Ill. 1967).

8. 267 A.D. 383, 46 N.Y.S.2d 385 (1944).

9. *Id.* at 385, 46 N.Y.S.2d at 387.

action for wrongful death arising out of an accident occurring within a foreign trade zone, the District Court for the Eastern District of Louisiana determined in *Fountain v. New Orleans Public Service, Inc.*¹⁰ that the Foreign Trade Zone Act conferred jurisdiction upon the federal courts only in those cases relating to customs or to enforcement of federal regulations concerning foreign commerce.¹¹ The court's opinion in the instant case, however, cites *During* only briefly and *Fountain* not at all. Rather, it relies upon the Supreme Court's holding in *Steele*, as restricted by two later cases, *Vanity Fair Mills, Inc. v. T. Eaton Co.*¹² and *Ramirez & Feraud Chili Co. v. Las Palmas Food Co.*¹³

Defendant in *Steele* was a United States citizen who, while residing in Texas, conducted a watch business in Mexico. Utilizing a Mexican trademark registration, defendant was able to stamp the mark "Bulova" on watches composed of parts manufactured in Switzerland and the United States but assembled in Mexico. Bulova Watch Company, asserting violations of the trademark laws of the United States, sought injunctive and monetary relief against Steele in the Western District of Texas. The district court's dismissal of the action for lack of jurisdiction was reversed by the Fifth Circuit Court of Appeals. The Supreme Court upheld the reversal, stating that federal courts could exercise, through the Lanham Trademark Act, jurisdiction to enjoin a United States citizen from utilizing unfair trade practices in foreign commerce, even when those acts which took place within the United States were not illegal by themselves.¹⁴

The breadth of the Supreme Court's holding in *Steele* was limited by the Second Circuit Court of Appeals' finding in *Vanity Fair*. Here, an American manufacturer in an action against a Canadian corporation alleged infringement of a United States trademark by a Canadian mark. The court held that while Congress' power to regulate trade reached commerce among the States and between the United States and foreign countries, the Lanham Trademark Act could not be given "extraterritorial application against foreign citizens acting under presumably valid trade-marks in a foreign country."¹⁵ The degree to which federal jurisdiction under the Lanham Trademark Act could be exercised in foreign commerce, then, was

10. 265 F. Supp. 630 (E.D. La. 1967).

11. *Id.* at 635.

12. 234 F.2d 633 (2d Cir. 1956).

13. 146 F. Supp. 594 (S.D. Cal. 1956), *aff'd*, 245 F.2d 874 (9th Cir. 1957), *cert. denied*, 355 U.S. 927 (1958).

14. 344 U.S. at 255-56.

15. 234 F.2d at 643.

not determined by the courts until *Ramirez & Feraud Chili*. This case announced that congressional power over commerce extended to all commerce except that which "does not *substantially affect* interstate or foreign commerce."¹⁶ (Emphasis added.)

This line of decisions allows a broad basis for the exercise of federal court jurisdiction in cases involving unfair trade practices. By interpreting the jurisdictional reach of the Lanham Trademark Act to be coextensive with the Commerce Clause, the test for determining federal court jurisdiction becomes whether or not the questioned activities substantially affect United States interstate or foreign commerce. Jurisdiction does not depend upon whether the activities carried on in the United States were themselves illegal, nor does it require that the goods involved actually be introduced into commerce within the United States. As held by the court in *A.T. Cross*, federal courts have jurisdiction even where the goods involved remain in a foreign trade zone not subject to United States customs tariff laws. This decision should help protect against the use of foreign trade zones in schemes utilizing unfair trade practices which adversely affect United States interstate or foreign commerce.

Matthew P. Jaffe

16. 146 F. Supp. at 601. For clarification of this precept see *Miller Brewing Co. v. Carling O'Keefe Breweries of Canada, Ltd.*, 452 F. Supp. 429, (W.D.N.Y. 1978), wherein the court held:

For jurisdiction to lie over goods bearing the [alleged infringing] mark, they must have been sold or transported in interstate commerce (either within the United States or between the United States and a foreign country) or, if in intrastate or entirely foreign commerce, there must have been a substantial effect on interstate commerce.

Id. at 442-43.