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Albert E. Strasser

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PROTECTION AGAINST FOREIGN COMPETITION: A MANY SPLENDORED THING

ALBERT E. STRASSER †

BASIC CONSIDERATIONS

“WHAT can I do to protect myself against foreign competition?” “What protection is available to me, and how may it be obtained?” These and many other related questions are often asked by the businessman who, particularly in recent years, has felt the keen sword of foreign competition cut deeply into his prime domestic market.

It is, and must be, an accepted fact of life that many foreign manufacturers have a decided economic advantage over the domestic manufacturer, due in large measure to the differences in labor costs. While at one time this advantage was offset by what might be characterized as the inferior quality and design of foreign merchandise, this is no longer the case. The domestic manufacturer who clings to the belief that his foreign competitor cannot produce goods of comparable quality and craftsmanship is sadly mistaken. Although there are exceptions to the foregoing hypothesis it is indicative of the competitive situation as it exists today—a situation which the domestic manufacturer must face and combat with the weapons available to him.

Contrary to some beliefs, his basic weapon is not found in statutory enactments or in judicial declarations. The basic weapon is, rather, the creative ability and ingenuity of the American businessman, coupled with his ability and initiative to convert his ideas into practical reality. American patent and copyright laws merely implement this basic weapon by securing for limited times, to authors and in-

† Lecturer in Law, University of Cincinnati College of Law; Member of the Ohio Bar.

ventors, the exclusive right to their respective writings and discoveries.¹ Similarly, the other statutory measures which may be utilized for protective purposes, such as the Trade-mark Act² and the Tariff Act,³ are in large measure directed to the protection of a preferred position which the manufacturer himself has created, although this protection is by no means absolute.

The United States Supreme Court made this quite clear in the recently decided case of *Sears, Roebuck & Co. v. Stiffel Co.*,⁴ wherein it ruled that competition will not be curtailed when material is copied, no matter how closely the copy resembles the original. In the Court's own words:

An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so. What Sears did was to copy Stiffel's design and to sell lamps almost identical to those sold by Stiffel. This it had every right to do under the federal patent laws. That Stiffel originated the pole lamp and made it popular is immaterial. "Sharing in the goodwill of an article unprotected by patent or trademark is the exercise of a right possessed by all—and in the free exercise of which the consuming public is deeply interested." *Kellogg Co. v. National Biscuit Co.*, . . . 305 U.S. at 122.⁵

The Court, in a companion case, *Compco Corp. v. Day-Brite Lighting, Inc.*,⁶ indicated the applicability of its views to copyrights, stating:

Today we have held in *Sears, Roebuck & Co. v. Stiffel Co.*, . . . that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. 1, § 8, Cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.⁷

¹ U.S. CONST. art. I, § 8; 35 U.S.C. (1958); 19 U.S.C. (1958).

² 60 Stat. 427 (1946), 15 U.S.C. §§ 1051-1127 (1958).

³ 46 Stat. 763 (1930), as amended, 19 U.S.C. §§ 1001-1654 (1958).

⁴ 376 U.S. 225 (1964).

⁵ *Id.* at 231.

⁶ 376 U.S. 234 (1964).

⁷ *Id.* at 237.

These decisions should make it clear to the manufacturer that if he is to protect himself against competition, whether it be of domestic or foreign origin, the burden is upon him to create products which are capable of protection under the patent and copyright laws. He must also seek to create trademark rights which will afford him a basis for relief in the event his trademark is copied.

Effective protection is a many splendored thing, involving the intelligent application and coordination of patents, trademarks and copyrights. "Yankee ingenuity" must be utilized to its fullest, not only in the creation of the products themselves but also in an analysis of the available protection and how such protection can be utilized to obtain maximum benefits for the creator of a new product. For example, in the *Stiffel* case, the Stiffel Company had secured design and mechanical patents on its pole lamp, but these patents were held invalid for want of invention when considered in the light of the rigorous requirements established for patentable inventions. The situation might well have been different if the Stiffel Company had copyrighted its lamp, thereby basing its protection on originality rather than on novelty or invention. In a case involving the ability to copyright a lamp base in the form of a statuette, the Supreme Court held that neither the copyright statutes nor any others provide that because a thing is patentable it may not be copyrighted.⁸ This is not to say that the particular lamp involved in the *Stiffel* case was of such a character that it could have been copyrighted. Indeed, the contrary is undoubtedly true. However, the fact remains that in many instances a manufacturer would be well advised to look to the copyright law as a potential source of protection, even if it means possible redesigning or restyling of his product to bring it within the purview of the copyright statutes. It is the writer's belief that the copyright law is often overlooked as an effective weapon against competition, not only as applied to products which may be fitted into one of the classes of registrable subject

⁸ *Mazer v. Stein*, 347 U.S. 201 (1954).

matter, but also insofar as the packaging and promotion of a new product is concerned. In many instances the dress of the carton in which the product is packaged, or the manner in which the product is advertised, makes a lasting impression on the purchaser. Competitors, particularly of the cut-throat variety, are quick to copy successful material and the copyright law affords an effective weapon against such conduct.

AVAILABLE REMEDIES

Patents

Assuming that the United States manufacturer has sought and obtained such statutory protection as is available to him, what effective action can be taken to enforce his rights in the event of foreign competition? Too often the aggrieved manufacturer has his sights set solely on the source of his competition—the foreign manufacturer—and experiences a feeling of helplessness when he realizes that his American patent has no extra-territorial effect since it affords protection only against acts of infringement committed within the United States. He sometimes loses sight of the fact that his patent grant contemplates a bundle of rights, among which are the divisible rights to prevent others from using and selling the patented invention.⁹ If goods covered by his patent are being imported into this country, he has a cause of action for patent infringement against the importer or consignee who sells the product in this country, and also against the ultimate user who purchases the product from the importer or other distributor. While there are numerous situations wherein it would be obviously impractical to file a myriad of suits against individual users of an infringing product, or even against individual dealers selling the infringing articles, there are also situations wherein the domestic infringement can be effectively curtailed by an infringement action. This is particularly true where the infringing product is supplied

⁹ 35 U.S.C. § 271(a) (1958).

to but a few large consumers, or where the foreign manufacturer must confine his shipments to a relatively small number of importers because of the expensive packaging, shipping, and merchandising problems which would otherwise result. Consequently, in spite of possible exceptions, an action for patent infringement can be a potent weapon against foreign competition although the foreign manufacturer himself cannot be reached.

It is recognized that one of the major difficulties faced by the patent owner in enforcing his rights is the difficulty of obtaining speedy relief. Preliminary injunctions restraining infringement are notoriously difficult to obtain in patent cases, unless the patent is valid and unquestionably infringed upon.¹⁰ However, such injunctions are cognizable at law and should be granted where it is shown that a failure to grant the injunction will result in irreparable damage.¹¹ It is suggested that protection of the rights of domestic patentees would be greatly facilitated by a specific provision granting preliminary injunctions in cases where imported merchandise is shown to constitute an infringement of a United States patent. The domestic patentee should be entitled to rely on the prima facie validity of his patent and, upon a showing of infringement, he should be allowed to prevent the use or sale of the infringing subject matter in this country unless and until it has been established that the patent is invalid or not infringed.

What protection is available in a situation where the user or seller cannot be reached or where the imported product is per se unpatentable but was produced in a foreign country by an infringing process? Under these circumstances, as well, the American patent owner is not without recourse under existing laws. The Tariff Act of 1930 expressly recognizes the problems of unfair trade practices in import trade and provides:

Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner,

¹⁰ 3 WALKER, PATENTS ch. 24 (Dellar ed. 1937).

¹¹ *E.g.*, *Nicholl, Inc. v. Schick Dry Shaver, Inc.*, 98 F.2d 511 (9th Cir. 1938); *United States Plywood Corp. v. Zeesman Plywood Corp.*, 84 F. Supp. 78 (S.D. Cal. 1949).

importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the President to exist shall be dealt with, in addition to any other provisions of law, as hereinafter provided.¹²

This statute is administered by the Tariff Commission which, upon the filing of a complaint, has the power to investigate and make recommendations to the President as to whether or not an offending product should be excluded from entry into the United States.¹³ In spite of the absence of a direct reference to patents in section 1337, the Court of Customs and Patent Appeals, which has appellate jurisdiction of recommendations by the Tariff Commission on matters of law,¹⁴ spelled out the applicability of the statute to patents as follows:

It is argued at great length by appellants that in view of the fact that Congress made a special provision authorizing customs officers to stop the importation of goods, which if sold here violated American registered trade-mark rights, and made no mention there or elsewhere of the violation of a patent right, it could not have contemplated the violation of a patent right being within the purview of the term used.

We find no merit in this contention. . . . In view, however, of the solicitude of Congress to protect American trade-mark rights, it would seem to follow that it would be and was also concerned with the protection of American patent rights, and we believe it intended that the section in controversy should meet this particular situation as well as other unfair acts.¹⁵

While section 1337 was thus construed to cover patent rights, the Court of Customs and Patent Appeals subsequently concluded that the section did not apply to the importation of a product produced abroad by a process

¹² 46 Stat. 703 (1930), 19 U.S.C. § 1337(a) (1958).

¹³ 46 Stat. 703 (1930), 19 U.S.C. §§ 1337(b)-(g) (1958).

¹⁴ 46 Stat. 703 (1930), 19 U.S.C. § 1337(c) (1958).

¹⁵ *In re Northern Pigment Co.*, 71 F.2d 447, 455 (C.C.P.A. 1934).

patented only in the United States.¹⁶ The court held that use of the patented process outside the United States, where the patent has no effect, did not in itself show unfair methods of competition or unfair acts which justified exclusion of the product.

The foregoing ruling led to the enactment in 1940 of section 1337(a) which provides:

The importation for use, sale, or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of an unexpired valid United States letters patent, shall have the same status for the purposes of Section 1337 of this title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent.¹⁷

Cases decided subsequent to the passage of section 1337(a) have barred entry of materials produced abroad using a patented process.¹⁸ We thus see that the United States patent owner, irrespective of the nature of his patent, has at his disposal effective means of protecting his patent rights in the event that resort to the courts is impractical.

Copyrights and Trademarks

In the case of a copyrighted work, the copyright owner has the exclusive right to print, reprint, publish, copy, and vend the copyrighted work.¹⁹ Any person who infringes the copyright or any work protected under the copyright laws is liable as an infringer.²⁰ Furthermore, any person who willfully and for profit infringes any copyright, or who knowingly and willfully aids or abets the infringement, is deemed guilty of a misdemeanor, and upon conviction may be punished by imprisonment not exceeding one year or by a fine of not less than one hundred dollars or more than one thousand dollars, or both.²¹

¹⁶ *In re Amtorg Trading Corp.*, 75 F.2d 826 (C.C.P.A.), cert. denied, 296 U.S. 576 (1935).

¹⁷ 54 Stat. 724 (1940), 19 U.S.C. § 1337(a) (1958).

¹⁸ *E.g., In re Von Clemm*, 229 F.2d 441 (C.C.P.A. 1955).

¹⁹ 17 U.S.C. § 1 (1958).

²⁰ 17 U.S.C. § 101 (1958).

²¹ 17 U.S.C. § 104 (1958).

The copyright law thus provides the copyright owner with a very effective weapon to use against the importer or consignee who seeks to distribute infringing copies of the work in this country. The penal provision is particularly effective against fly-by-night operators who might otherwise lightly regard a civil action to recover profits and damages. Prosecution under the penal provision must be instituted on behalf of the United States by the United States District Attorney who may call upon the Federal Bureau of Investigation to investigate the charges.

Under section 106 of the copyright law,²² the importation into the United States of any article bearing a false notice of copyright or of any piratical copies of a work copyrighted in the United States is prohibited; and under section 108²³ any and all such articles are subject to seizure and forfeiture. Under section 109,²⁴ the Secretary of the Treasury and the Postmaster General are required to prevent the importation of prohibited works. In order to implement this provision, the copyright proprietor is required to file with the Post Office Department or the Treasury Department, Bureau of Customs, a certified copy of each certificate of registration, together with 700 specimens of the copyrighted subject matter.²⁵

In addition to copyright protection, an injured party may refer to the statutory protection against trademark infringement. Section 1114(1) of Title 15 of the *United States Code* provides redress against any person who commercially uses any reproduction, counterfeit, copy or colorable imitation of a registered trademark in conjunction with the sale, offering for sale, distribution or advertising of goods or services or in connection with which such use is likely to cause confusion, or to cause mistake or to deceive. Here again, the manufacturer whose rights have been violated has recourse to the courts²⁶ against the importer, consignee

²² 17 U.S.C. § 106 (1958).

²³ 17 U.S.C. § 108 (1958).

²⁴ 17 U.S.C. § 109 (1958).

²⁵ 19 C.F.R. § 11.19(a)(2) (1964) (recordation of copyrighted works). Photographs or other likenesses of the subject matter are sufficient "specimens" within the meaning of the regulation.

²⁶ 60 Stat. 440 (1946), as amended, 15 U.S.C. § 1121 (1958).

or others who would seek to sell or otherwise distribute goods in contravention of the statute.²⁷

A further weapon against trademark infringement is found in the Tariff Act which provides:

It 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 trade-mark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent Office by a person domiciled in the United States, under the provisions of sections 81-109 of Title 15, and if a copy of the certificate of registration of such trade-mark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15, unless written consent of the owner of such trade-mark is produced at the time of making entry.²⁸

The statute further provides that any such merchandise imported in violation of the section shall be subject to seizure and forfeiture and that any person dealing in such merchandise may be enjoined from doing so within the United States. Alternatively, the dealer may be required to export or destroy the merchandise or to remove or obliterate the trademark and shall be liable for the same damages and profits as provided under the trademark statutes when a wrongful use of a trademark occurs.²⁹ In order to take advantage of these provisions, the trademark owner must record each of his registered trademarks with the Bureau of Customs and furnish sufficient specimens of the registration for distribution to each customs house throughout the United States.

Practical experience has shown that registration with the Customs Bureau of trademarks and copyrights is an effective although not infallible means of preventing the importation of infringing material. It does, however, block

²⁷ See 60 Stat. 439 (1946), 15 U.S.C. §§ 1116-17 (1958); 60 Stat. 440 (1946), 15 U.S.C. § 1118 (1958).

²⁸ 46 Stat. 741 (1930), 19 U.S.C. § 1526(a) (1958). Old §§ 81-109 of Title 15 of the *United States Code* are now cited as 60 Stat. 427 (1946), 15 U.S.C. §§ 1051-1127 (1958).

²⁹ 60 Stat. 439 (1946), 15 U.S.C. §§ 1116-17 (1958); 60 Stat. 440 (1946), 15 U.S.C. § 1118 (1958).

entry of the objectionable material and places the burden on the importer to take positive action to secure its release.³⁰

Tariff Commission proceedings, on the other hand, have been found to be less effective in dealing with patent matters. A considerable delay is often involved, not only in obtaining a recommendation from the Commission, but also in having the recommendation effectuated by the President, whose judgment is final.³¹ The President is not bound to follow the recommendations of the Commission.³² He is free to seek the advice and counsel of his economic advisors and his advisors on foreign affairs, thereby resulting in the possibility that his decision might be influenced by considerations far afield from the patent itself.

Here again, it is suggested that the rights of the patent owner could be more effectively protected by affording him a remedy in the nature of a preliminary injunction, whereby upon a prima facie showing of infringement, the importation of the accused subject matter could be blocked, pending a final determination of the questions involved.³³ While it is appreciated that such a suggestion is of a broad and general character and subject to critical analysis, the fact remains that time is of the essence to the patent owner when dealing with a foreign infringement. Unless the owner is given an effective means to block infringement at the outset, he may very well find himself in the position of trying to lock the barn door after the horse has been stolen.

FOREIGN PROTECTION: PRACTICAL CONCLUSIONS

The discussion thus far has covered some of the aspects of protecting against foreign competition within the United

³⁰ See *Holland v. C. & A. Import Corp.*, 8 F. Supp. 259 (S.D.N.Y. 1934).

³¹ *Frischer & Co. v. Elting*, 60 F.2d 711 (2d Cir.), cert. denied, 287 U.S. 649 (1932).

³² 46 Stat. 703 (1930), 19 U.S.C. § 1337(e) (1958).

³³ This was the practical effect of the action taken by the President in *In re Orion Co.*, 71 F.2d 458 (C.C.P.A. 1934), wherein the Secretary of the Treasury was ordered to forbid entry of slide fasteners covered by a United States patent, pending examination by the Tariff Commissioner.

States. Can protection throughout the rest of the world be achieved? It has often been said that the best defense is a good offense, and this may be said with respect to seeking patent, trademark and copyright protection in countries where competition is most likely to arise. This not only applies to market areas which the United States businessman might logically enter, but also to those areas where like products might be most economically manufactured, even though the American businessman has no interest in manufacturing there himself. The licensing of a would-be competitor can have numerous advantages in that, in many instances, the license agreement can be used as an effective means for controlling the sphere of the licensee's operations while at the same time it is producing revenue through royalties which might not otherwise have been realized.

It is certainly not within the purview of this article to discuss the many ramifications and possibilities of foreign licensing and the exchange of technical data and know-how. At the very least, however, it should be noted that the American businessman who overlooks the possibility of obtaining foreign protection overlooks, as well, an important part of his industrial assets just as surely as if he were to cast the usable by-products of his manufacturing operation on the dump heap rather than seek a profitable outlet for them.

Needless to say, the average American businessman cannot realistically seek world-wide protection. Nevertheless, he can, by an intelligent analysis of his patent, trademark and copyright position, seek to pinpoint those areas wherein his development has the greatest potential. While heretofore foreign patents were considered by many to be a luxury indulged in only by the industrial giants, our jet-age society has instituted a revolution in industrial cooperation to the point where even relatively small businesses are entering into co-operative alliances with their foreign counterparts.

While it may be somewhat of an anomaly to speak on the one hand of the ways and means of protecting against

foreign competition and on the other to extol the virtues of co-operative endeavor, the two are not as incongruous as it may initially seem. In the final analysis the success or failure of the venture as a whole is the critical test, and the businessman who adopts a shortsighted view with respect to potential foreign markets for his development may very well find himself in the position of having won the battle of domestic competition but having lost the war of maximum return on his development.