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Territorial Exclusivity in U.S. Copyright and Trademark Law

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AND TRADEMARK LAW**

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Christine HAIGHT FARLEY

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INTRODUCTION

The different territorial applications of the “first sale rule,” or exhaustion in trademark and copyright law, provide intellectual property owners with effective strategies to control international trade and prevent the importation of parallel imports.¹ U.S. law generally adopts a regime of international trademark exhaustion with respect to products carrying a trademark owned by the same (or affiliated) entity inside or outside the national territory, and the recently decided copyright first sale case, *Kirtsaeng v. John Wiley & Sons, Inc.*,² held that the U.S. follows an international exhaustion regime in copyright law as well.³ Prior to *Kirtsaeng*, multinational corporations exploited the unsettled copyright issue by invoking copyright protection rather than, or in addition to, trademark protection to prevent the importation of gray market products into the U.S. by claiming authorship in their logos and the decorative elements of their product packaging. After *Kirtsaeng*, it may be that trademark law offers IP holders the strongest protection under U.S. law.⁴

¹ For a discussion of gray market goods, see Michael B. WEICHER, “K Mart Corp. v. Cartier, Inc.: A Black Decision for the Gray Market” (1989) 38 AM. U. L. REV. 463 at 463-64 (Gray market goods are products manufactured with a genuine trademark that an independent importer purchases in an authorized foreign market and resells in the United States, without the express consent of the trademark owner. Unlike the black market, which deals in counterfeit and stolen goods, the gray market is legal. Gray market importers charge less than authorized distributors because they are able to take advantage of fluctuating exchange rates. Authorized importers must maintain stable inventories to satisfy customer demand, and cannot wait for favorable exchange rates. Gray market importers, however, only make purchases when the dollar is relatively strong. American consumers purchase everything from camer[a]s to cars through gray market channels. Retail gray market sales are estimated at six to ten billion dollars per year.”)

² 133 S. Ct. 1351 (2013).

³ *Ibid.* at 1355-56 (holding that copyrighted works lawfully manufactured abroad are subject to the first sale doctrine).

⁴ *AFL Telecommunications LLC v. SurplusEQ.com Inc.*, WL 2211629 (D. Ariz. 2013) (Trademark claims survive despite *Kirtsaeng* first sale defense.).

The exhaustion issue arises when someone other than the designated exclusive U.S. importer buys genuine trademarked and/or copyrighted goods outside the U.S. and imports them into the U.S. for sale in competition with the exclusive U.S. importer. Parallel imports are not counterfeit goods because they have been produced by, for, or under license from the trademark owner. The imported goods can be referred to various ways, typically as either “parallel imports” or “gray market goods.”⁵ One court addressed the connotative differences between the terminology:

The term ‘gray-market goods’ refers to foreign manufactured goods, for which a valid United States trademark has been registered, that are legally purchased abroad and imported into the United States without the consent of the American trademark holder. [Defendants] in the present case note that the term ‘gray-market’ unfairly implies a nefarious undertaking by the importer, and that the more accurate term for the goods at issue is ‘parallel import.’ We agree that the term parallel import accurately describes the goods and is, perhaps, a better term because it is devoid of prejudicial suggestion. For that reason, we use that term in this discussion. However, we also employ the term ‘gray-market’ goods because, for better or worse, it has become the commonly expected and employed reference to the goods at issue.⁶

As per the above explanation, this author will refer to this scenario as “parallel importation.”

Additionally, the terms “exhaustion” and “first sale” are often used interchangeably to refer to the concept that once a rights holder has lawfully sold (or given ownership away freely) to another, the trademark holder’s rights are considered “exhausted,” meaning that the legal

⁵ See WEICHER, *supra* note 1 at 463-64.

⁶ *Weil Ceramics & Glass, Inc. v. Dash*, 878 F Supp 2d 659 at 662 n.1 (3d Cir. 1989).

rights attached to that particular good are extinct.⁷ This concept allows for goods to be resold without creating potential liability on the part of the re-seller.

In a case of parallel importation, U.S. trademark and copyright law take different approaches both statutorily and under common law to address the question of whether the intellectual property owner has exhausted their rights.

I. TRADEMARK LAW

There are a number of separate statutory sources for private parties to sue for the exclusion of parallel imports under U.S. trademark law. These include the Lanham act in § 42⁸ as well as § 32(a)⁹ (for registered marks) and § 43(a)¹⁰ (for unregistered marks). An additional right can be found in the Tariff Act in § 526.¹¹

Early U.S. cases refused to protect U.S. trademark owners from parallel imports of genuine goods obtained from the foreign manufacturer.¹² For instance, in *A. Bourjois & Co. v. Katzel*¹³ the Second Circuit Court of Appeals upheld this rule in 1921 in a case in which a French cosmetics firm sold its U.S. operations and assigned its U.S. JAVA trademark to a plaintiff who then continued to buy face powder manufactured by the French firm, but packaged and sold it in the U.S. in

⁷ See J. THOMAS MCCARTHY, *McCarthy on Trademarks & Unfair Competition*, 4th ed. (New York: Clark Boardman Callaghan, 2013) at § 25:41 (using the terms “exhaustion” and “first sale doctrine” interchangeably).

⁸ 15 U.S.C.A. § 1124.

⁹ 15 U.S.C.A. § 1114.

¹⁰ 15 U.S.C.A. § 1125(a).

¹¹ 19 U.S.C.A. § 1526.

¹² William SCOTT GOLDMAN, “Unfair Competition, False Advertising and Only Two Calories: Will the Tic Case Close the Gray Market for Good?” (1993) 83 *Trademark Rep.* 495 at 501.

¹³ 270 F. 539 (2d Cir. 1921).

boxes prominently displaying the name of the plaintiff as the importer.¹⁴ The defendant, a third party, purchased authentic JAVA powder in France and imported it into the U.S. in competition with the plaintiff.

The *Katzel* case proved to be an important historical moment in the development of this area of law. While the case was on appeal, Congress enacted the Tariff Act § 526 with the intent of overruling the *Katzel* case.¹⁵ Shortly thereafter, the Supreme Court reversed the court of appeals, without applying the new statute, and held that a trademark owner could prevent the importation of genuine goods and maintain a trademark infringement suit against the importer.¹⁶ The Supreme Court reasoned that U.S. purchasers would be deceived and confused because the trademark designates to them the U.S. importer as it “indicates in law . . . that the goods come from the plaintiff although not made by it” and the mark “stakes the reputation of the plaintiff upon the character of the goods.”¹⁷ This ruling emphasized territoriality over universality.¹⁸

After the *Katzel* case, many lower courts followed the Supreme Court’s reasoning and applied its theory of confusion to bar parallel imports, although some courts strayed.¹⁹ Then, beginning in the 1980s, courts largely abandoned the *Katzel* reasoning in favor of other ap-

¹⁴ *A. Bourgeois & Co. v. Katzel*, 270 F. 539 (2d Cir. 1921).

¹⁵ See GOLDMAN, *supra* note 12 at 501 (“After limited debate, Congress decided to apply tariff law as a bar to parallel imports. It enacted Section 526 as an amendment to the Tariff Act of 1922.”).

¹⁶ 260 U.S. 689 (1923).

¹⁷ *Ibid.* at 692.

¹⁸ GOLDMAN, *supra* note 12 at 505.

¹⁹ It appears that these courts did not rely on the recently enacted Tariff Act. This author speculates that courts might have avoided the Tariff Act because they viewed it as a source of confusion. See GOLDMAN, *supra* note 12 at 501 (discussing the ambiguous and unclear legislative history surrounding § 526).

proaches.²⁰ In a series of cases, the legal position on whether the designated exclusive U.S. importer would be able to block these parallel imports of genuine goods under trademark law began to change.

For instance, under one approach some courts held that there is no § 42 violation where the goods are genuine even that section of the Lanham Act bars the importation of goods that “copy or simulate” registered U.S. trademarks.²¹ If the parallel imported goods are in fact genuine, then their sale in the U.S. should not deceive consumers as to their source. If U.S. consumers identified the source of the goods bearing the mark as the foreign manufacturer, they would not be deceived. If, however, U.S. consumers identified the source of the goods bearing the mark as the U.S. importer, then they would be deceived. As it would be the unusual case in which a U.S. consumer regards the U.S. importer as the source of the goods, traditional trademark protections would not seem to aid the exclusive importer.

However, in 1987, the Second Circuit provided another approach to address these claims. In a case involving the parallel importation of Cabbage Patch Kids dolls, the court found that the fact that the imported dolls’ adoption and birth certificate papers were in Spanish made them “materially different” from the licensed dolls, whose certificates were in English.²² This difference amounted to a finding that the goods were not “genuine.”²³ The court reasoned that since the goods were not genuine, consumers would therefore be likely to confuse the non-genuine goods with the genuine goods.²⁴ Stressing the material differences between the goods, the court found that consumers would believe

²⁰ See, e.g. *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, 816 F.2d 68 (2d Cir. 1987) (emphasizing material differences between the goods as an indication the goods were not genuine).

²¹ *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659 (3d Cir. 1989); *Yamaha Corp. of America v. ABC International Traders, Corp.*, 703 F. Supp. 1398 (C.D. Cal. 1988).

²² *Original Appalachian Artworks, Inc.*, 816 F.2d at 73.

²³ *Ibid.*

²⁴ *Ibid.*

that the goods came from another source.²⁵ This is now the approach taken by most U.S. courts.²⁶

It should be noted that this approach invokes a conceptually different theory of consumer confusion. The goods in question do in fact come from the same source. As a result, there cannot be any source of origin confusion. If the theory is that consumers may unwittingly purchase the imported goods on the basis of the domestic markholder's reputation only to be disappointed when the product does not meet their expectations, one would think this would be a false advertising claim, not a trademark infringement claim.

Thus, an exception to the general rule of universal exhaustion occurs where there is a physical and material difference between the parallel imports and the goods authorized for sale in the U.S. In such a case, there could be a likelihood of confusion of U.S. consumers giving rise to a violation of § 42.

Material differences are thus likely to cause consumer confusion. The likelihood of confusion in trademark cases is a question that is routinely submitted to juries. Later courts clarified what types of differences will rise to the level of "material." The threshold of materiality turns out to be quite low—any difference that consumers would likely consider relevant creates a presumption of confusion.²⁷ It is not

²⁵ See *ibid.* ("It is this difference that creates the confusion over the source of the product and results in a loss of OAA's and Coleco's good will.")

²⁶ See, e.g. *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 at 635 (1st Cir.1992); *Abercrombie & Fitch v. Fashion Shops of Kentucky, Inc.*, 363 F. Supp. 2d 952 at 963 (S.D. Ohio 2005); *Davidoff & CIE, S.A. v. PLD Intern. Corp.*, 263 F.3d 1297 at 1302 (11th Cir.2001); *Iberia Foods v. Romeo*, 150 F.3d 298 at 302–303 (3d Cir.1998); *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 at 1301–302 (5th Cir.1997).

²⁷ *Societe Des Produits Nestle, S.A.*, 982 F.2d at 641 ("Thus, when dealing with the importation of gray goods, a reviewing court must necessarily be concerned with subtle differences, for it is by subtle differences that consumers are most easily confused. For that reason, the threshold of materiality must be kept low enough to take account of potentially confusing differences—differences that are not blatant

necessary to prove that the imported goods are of inferior quality.²⁸ Any slight difference that a consumer would deem relevant to a purchasing decision will suffice.²⁹ So unlicensed imports of Perugina chocolate that were not shipped in refrigerated containers, had 5% less milk fat, had fewer varieties of shapes, and were packaged in different colors were distinct enough from the lawfully-licensed imported chocolates to be likely to confuse.³⁰ In this case, the First Circuit created a presumption of confusion that is triggered by a material difference in goods.³¹ In these cases, there is no need for a court to consider the eight-factor test for confusion. The burden is on the defendant to show that the difference is not something that consumers would consider during a purchasing decision.³²

Taking this reasoning to the furthest extreme is the case of *Davidoff & Cie SA v. PLD International Corp.*,³³ in which the court held that the mere obliteration of the batch codes from the packaging of cologne and aftershave was a material difference because it deprived the trademark owner of the means to conduct quality control.³⁴ Other courts

enough to make it obvious to the average consumer that the origin of the product differs from his or her expectations.”).

²⁸ *Ibid.* at 640.

²⁹ *Davidoff & CIE, S.A. v. PLD Int’l Corp.*, 263 F.3d 1297 at 1302 (11th Cir. 2001); *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F.Supp. 1240 at 1247 (D.N.J.), *aff’d*, 935 F.2d 1281 (3d Cir.1991) (finding a one-half calorie difference and slight differences in packaging to be material).

³⁰ *Societe Des Produits Nestle, S.A.*, 982 F.2d at 642-43.

³¹ *Ibid.* at 641 (“We conclude that the existence of any difference between the registrant’s product and the allegedly infringing gray good that consumers would likely consider to be relevant when purchasing a product creates a presumption of consumer confusion sufficient to support a Lanham Trade-Mark Act claim.”).

³² *Ibid.* (explaining that the alleged infringer may attempt to rebut the presumption that is created by material differences between the goods).

³³ *Davidoff & Cie SA v. PLD International Corp.*, 263 F.3d 1297 (11th Cir. 2001).

³⁴ *Ibid.* at 1303.

have held that different language on product labels³⁵ or different warranty coverage³⁶ both constitute material differences.

I believe there is some more creative lawyering to be done here. I have not yet seen a case in which the parallel imports are not materially different, but the trademark holder nevertheless objects to their import because the goods will likely dilute the mark under § 43(c). I imagine such a claim will be made under facts similar to the E.U. case of *Levi Strauss v. Tesco Stores, Ltd.*³⁷ Recall that in that case, the trademark holder complained that it did not desire to have its Levi's 501 jeans available for sale at the defendant discount outlets.³⁸ I can easily imagine a luxury good brand claiming that the accessibility of its goods in a discount setting would injure its reputation.

In contrast to the general rule of universal exhaustion under trademark law, section 526(a) of the Tariff Act of 1930 forbids the importation of merchandise of foreign manufacture that "bears a trademark owned by a citizen of ... the United States, and registered in the Patent and Trademark Office" if a copy of the certificate of registration is filed with the Secretary of the Treasury.³⁹ Significantly, this prohibition requires no proof of a likelihood of confusion.⁴⁰ An important limitation of the Tariff Act is that Section 526 applies only to goods manufactured outside the United States.⁴¹

³⁵ *PepsiCo, Inc. v. Nostalgia Products corp.*, 18 U.S.P.Q. 2d 1404 (N.D. Ill. 1990) (label in Spanish).

³⁶ *Perkins School for the Blind v. Maxi-Aids, Inc.*, 274 F. Supp.2d 319 (E.D.N.Y. 2003).

³⁷ *Levi Strauss v. Tesco Stores, Ltd.*, CH 1998 L 5360 [2000] EWHC 1556.

³⁸ *Ibid.*

³⁹ *Ibid.*

⁴⁰ See generally *ibid.*

⁴¹ *Premier Dental Prods. Co. v. Darby Dental Supply Co.*, 794 F.2d 850 (3d Cir. 1986).

In 1988 the Supreme Court in *Kmart Corp. v. Cartier, Inc.*⁴² held that the “extraordinary protection” afforded by the Tariff Act is exclusively for domestic U.S. trademark owners that have no corporate affiliation with the foreign manufacturer.⁴³ Thus, where there is a parent subsidiary relationship between foreign manufacturer and U.S. distributor, the Tariff Act cannot be used to stop parallel imports.⁴⁴ Where the U.S. importer is a wholly owned subsidiary of the foreign manufacturer, § 526 should be interpreted consistent with the *Kmart* decision so that § 526 does not bar parallel imports.⁴⁵ However, when the foreign manufacturer and the U.S. trademark owner maintain a close and long-standing business relationship, this is not sufficient to disqualify the U.S. trademark owner from using § 526 to bar parallel imports.⁴⁶ Joint decision-making and cooperative efforts by the foreign manufacturer and its U.S. exclusive importer to develop and market products in the U.S. do not prove that there is the kind of “common ownership or control” which would disqualify a U.S. importer and trademark owner from invoking the Tariff Act against a parallel import.⁴⁷

Therefore where imported merchandise bearing an identical trademark is produced abroad by a parent or subsidiary of the U.S. trademark owner, or a party subject to common ownership or control of the U.S. trademark owner § 526 does not bar importation. This is known as the affiliate exception to parallel imports otherwise barred by the Tariff Act.⁴⁸

⁴² *Kmart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988).

⁴³ *Ibid.* at 295.

⁴⁴ *Yamaha Corp. of America v. ABC International Traders, Corp.*, 703 F. Supp. 1398 (C.D. Cal. 1988).

⁴⁵ *Weil Ceramics & Glass, Inc.*, 878 F.2d 659.

⁴⁶ *United States v. Eighty-Three Rolex Watches*, 992 F.2d 508 (5th Cir. 2001).

⁴⁷ *Vittoria North America, L.L.C. v. Euro-Asia Imports Inc.*, 278 F.3d 1076 (10th Cir. 2001).

⁴⁸ See *Lever Bros. Co.*, 981 F.2d at 1331-32 (“[The] ‘affiliate exception’ created by 19 C.F.R. § 133.21(c)(2), . . . provides that foreign goods bearing United States trademarks are not forbidden when the foreign and domestic trademark or trade

What happens when the material difference exception to universal exhaustion meets the affiliate exception to the Tariff Act? This intersection of rules occurred in the famous case of *Lever Bros. Co. v. United States*,⁴⁹ in which the D.C. Circuit Court of Appeals held that § 42 prevents the U.S. Customs service from using the affiliate exception with respect to physically, materially different goods.⁵⁰ The D.C. Circuit reasoned that “the natural, virtually inevitable reading of § 42 is that it bars foreign goods bearing a trademark identical to a valid U.S. trademark but physically different, regardless of the trademarks’ genuine character abroad or affiliation between the producing firms.”⁵¹ Hence, where the parallel imports are not genuine because they differ materially from the authorized goods, § 42 does bar importation regardless of the fact that the parallel imports are made by an affiliate of the U.S. trademark owner.⁵²

In the *Lever Bros.* case, related companies Lever U.S. and Lever U.K. both made SHEILD brand soap.⁵³ In order to cater to certain local preferences, the two soaps differed in that the U.S. soap produced more lather, contained an anti-body odor antibacterial agent and smelled differently.⁵⁴ These differences were enough that U.S. consumers complained to Lever U.S. about their experiences with the Lever U.K. imports, finding them inferior to the products intended for the U.S.⁵⁵ Customs, however, refused to bar the imports because the two firms were affiliated.⁵⁶ The D.C. Circuit held that where goods are physi-

name owners are parent and subsidiary companies or are otherwise subject to common ownership or control.” (internal quotation marks and citation omitted).

⁴⁹ *Lever Bros. Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989).

⁵⁰ *Ibid.*

⁵¹ *Ibid.* at 111 (upheld after second appeal in *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993).

⁵² *Ibid.*; see also *Société Des Produits Nestlé, S.A.*, 982 F.2d 633.

⁵³ *Lever Bros. Co.*, 877 F.2d at 102.

⁵⁴ *Lever Bros. Co.*, 877 F.2d at 103.

⁵⁵ *Ibid.*

⁵⁶ *Ibid.*

cally different there can be confusion actionable under the Lanham Act regardless of the corporate affiliation of the foreign and domestic firms.⁵⁷

In 1999, U.S. customs amended its regulations to be consistent with the *Lever Bros.* rule.⁵⁸ The new customs rule permits a U.S. trademark owner, upon application, to restrict importation of certain parallel imports.⁵⁹ The articles that may be restricted from entry are those that display/have genuine trademarks identical or substantially indistinguishable from those appearing on articles authorized by the U.S. trademark owner and that create a likelihood of consumer confusion because the parallel imports are physically and materially different.⁶⁰ This ban on importation will apply notwithstanding the fact that the U.S. and foreign trademark owners are the same, are parent and subsidiary companies, or are otherwise subject to common ownership or control.⁶¹

In order to exclude parallel imports, the U.S. trademark owner must submit an application for *Lever* rule protection to customs.⁶² The application must include a summary of the physical and material differences between the parallel imports and those authorized by the U.S. trademark owner.⁶³ This application notifies customs to publish a notice in the customs' bulletin giving interested parties an opportunity to comment on the request for protection before making a final determination.⁶⁴ If customs decides to grant protection, a notice to this effect would likewise be published.⁶⁵

⁵⁷ *Ibid.* at 111.

⁵⁸ 19 C.F.R. § 133.

⁵⁹ *Ibid.*

⁶⁰ 19 C.F.R. § 133.23.

⁶¹ 19 C.F.R. § 133.23(a)(3).

⁶² 19 C.F.R. § 133.2.

⁶³ 19 C.F.R. § 133.2 (e).

⁶⁴ 19 C.F.R. § 133.2 (f).

⁶⁵ *Ibid.*

The new *Lever* rule is then an exception to the affiliate exception. An exception to this rule occurs where the parallel imports are labeled in accordance with the prescribed disclosure that, in the view of the customs service, will eliminate consumer confusion.⁶⁶

Customs took the position that a label that makes clear that the parallel imports are physically and materially different from the U.S. trademark owner's product is an appropriate means of dispelling consumer confusion.⁶⁷ The label should inform consumers that the good is not authorized by the U.S. trademark owner for importation and that the product is physically and materially different.⁶⁸ The required language is as follows: "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."⁶⁹ The label may be thought of as a safe harbor option for importers of physically and materially different parallel imports.⁷⁰ The label must remain on the goods until the first point-of-sale to a retail consumer in the United States.⁷¹ It is required that the label be placed next to the trademark in its most prominent location.⁷² There are penalties for intentionally removing, obliterating, or concealing the label prior to the first sale.⁷³ The removal of the label prior to retail sale could result in a seizure and forfeiture.⁷⁴

In the event that a U.S. trademark owner has received *Lever* rule protection, goods bearing the protected trademark that are imported into the U.S. will be initially detained.⁷⁵ The trademark owner is not re-

⁶⁶ 19 C.F.R. § 133.23.

⁶⁷ 19 C.F.R. § 133.23 (b).

⁶⁸ *Ibid.*

⁶⁹ 19 C.F.R. § 133.23 (b).

⁷⁰ *Ibid.*

⁷¹ *Ibid.*

⁷² *Ibid.* (asserting the label must be "conspicuous").

⁷³ 19 U.S.C. § 1595a (c) (2) (C).

⁷⁴ 19 C.F.R. § 133.23 (f).

⁷⁵ 19 C.F.R. § 133.23 (d).

quired to demonstrate that the parallel imports infringe its trademarks.⁷⁶ Once the goods have been detained, the burden is on the importer to show either that the goods are identical and *Lever* rule protection should not apply or that an exception is applicable.⁷⁷ If the importer uses a label in compliance with the regulation, the goods will be released.⁷⁸

In summary, U.S. trademark law generally follows an international exhaustion regime with two exceptions. A national exhaustion rule for parallel imports exists in two categories: materially different goods and identical goods and marks manufactured abroad. In the first category, protection stems from whether there are differences between the foreign and domestic product. The difference need not be material; a court should consider any alteration in the product. In the second category, protection depends on whether a foreign importer has the same origins as the U.S. trademark holder. A relationship may permit parallel importation.⁷⁹

II. COPYRIGHT

Under U.S. copyright law, once the copyright owner consents to the sale of particular copies of his work, he may not thereafter exercise the distribution right with respect to those copies.⁸⁰ This first sale

⁷⁶ *Ibid.*

⁷⁷ *Ibid.*

⁷⁸ 19 C.F.R. § 133.23 (e).

⁷⁹ See Christopher A. MOHR, “Gray Market Goods and Copyright Law: An End Run Around *K Mart v. Cartier*” (1996) 45 *Cath. U. L. Rev.* 561 at 565 (suggesting that the material difference standard “provides a substantial, but ultimately defective shield against the gray market,” and advocating copyright law as a better route for protection from parallel goods importation). This (article) will next discuss the copyright law in more depth and the legal opportunities it provides.

⁸⁰ See Alexander B. POPE, “A Second Look at First Sale: An International Look at U.S. Copyright Exhaustion” (2011) 19 *J. Intell. Prop. L.* 201 at 206 (“The copyright owner receives a reward for his or her labor at the point of first sale; any further

doctrine traces back to *Bobbs-Merrill Co. v. Straus*,⁸¹ in which the U.S. Supreme Court construed the exclusive right to vend under pre-1909 Act copyright law as applicable only to the initial sale, so that absent an appropriate contractual provision, there could be no restriction on resale.⁸² Under the 1909 Act, § 27 acted largely like the current first sale doctrine: the right to vend could be exercised with respect to the initial sale of copies of the work, but not to prevent or restrict the resale, or other subsequent transfer even if not through resale, of such copies.⁸³

Under U.S. copyright law § 602,⁸⁴ the unauthorized importation into the United States of copies purchased outside the United States is an infringement of the U.S. copyright owner's exclusive right to distribute copies under § 106.⁸⁵ However, the § 106 distribution right is

downstream control of distribution would arguably be exerting an ownership right over the material object itself and not simply ownership of the copyright.”).

⁸¹ 210 U.S. 339 (1908).

⁸² *Ibid.* at 350-51.

⁸³ § 27. Copyright distinct from property in object copyrighted; effect of sale of object, and of assignment of copyright

The copyright is distinct from the property in the material object copyrighted, and the sale or conveyance, by gift or otherwise, of the material object shall not of itself constitute a transfer of the copyright, nor shall the assignment of the copyright constitute a transfer of the title to the material object; but nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.” *Copyright Act of 4 March 1909*, 35 Stat. 1075.

⁸⁴ 17 U.S.C. § 602 (“Importation into the United States, without the authority of the owner of copyright under this title, of copies ...of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies ... under section 106.”).

⁸⁵ 17 U.S.C. § 602 (a); 17 U.S.C. § 106 (“...the owner of copyright under this title has the exclusive rights ... to distribute copies ... of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.”).

limited by the first sale doctrine in § 109.⁸⁶ The copyright issue with respect to parallel imports is whether the first sale doctrine exempts importers who acquired ownership of the imported copies that were lawfully made abroad. The question is whether the phrase “lawfully made under this title” in 17 U.S.C. § 109(a) exempts from infringement copies legally made and sold outside the United States. Thus, when goods are manufactured in the U.S. with copyrighted labels, shipped abroad, and subsequently reimported, they are protected by the first sale doctrine and are not barred entry into United States by the copyright act. The Supreme Court has already ruled that goods that make a round trip are exempted from § 602.⁸⁷

But, what if the goods that are imported are lawfully made abroad? This was precisely the question the U.S. Supreme Court considered in *Kirtsaeng v. John Wiley & Sons, Inc.*⁸⁸ In *Kirtsaeng*, a Thai student attempted to finance his U.S. education by purchasing textbooks in Thailand and selling them in the U.S. on eBay at a profit.⁸⁹ In fact, he had made a \$100,000 profit by the time the publisher John Wiley & Sons found that he had sold eight of their textbooks.⁹⁰ The publisher sued him for copyright infringement and the trial court awarded it statutory damages of \$600,000.⁹¹ The Second Circuit Court of Appeals affirmed.⁹²

⁸⁶ 17 U.S.C. § 109 (“Notwithstanding the provisions of section 106(3), the owner of a particular copy ... lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of the copy”).

⁸⁷ *Quality King Distributors Inc. v. L'Anza Research Int'l*, 523 U.S. 135 (1998).
⁸⁸ 133 S. Ct. 1351 (2013).

⁸⁹ *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 at 212-13 (2d Cir. 2011) *cert. granted*, 132 S. Ct. 1905, 182 L. Ed. 2d 770 (U.S. 2012).

⁹⁰ *Ibid.* at 215.

⁹¹ *John Wiley & Sons, Inc. v. Kirtsaeng*, CIV.A.08CIV.7834GELD, 2009 WL 3003242 (S.D.N.Y. Sept. 15, 2009).

⁹² *John Wiley & Sons, Inc.*, 654 F.3d 210.

In oral argument, Justice Ginsburg asked the first question, stating “we are told that no country has adopted that international exhaustion regime . . . your argument is asking for something that runs against the regime that is accepted in most places.”⁹³ The petitioner responded that there is some disagreement among states over international exhaustion and that this disagreement was effectively codified in TRIPS.⁹⁴ Justice Ginsburg then pointed out that if the case were tried in Europe, the petitioner would lose.⁹⁵

The U.S. Supreme Court gave its ruling in *Kirtsaeng* in March 2013. It reversed the Second Circuit, ruling that the first sale doctrine limited even those goods that were lawfully made abroad and imported into the U.S. Notably, it found that the first sale doctrine applied to text books sold with the copyright owner’s authority outside the U.S. As a result, that foreign sale exhausted the copyright within the U.S.

The Supreme Court dealt with a similar case a few years prior when it decided *Costco Wholesale Group v. Omega, S.A.*⁹⁶ This case involved Costco’s selling of parallel imports of Omega watches produced abroad. Significantly, Omega sued Costco for copyright infringement of the small stamp of its logo on the back of the watch. In this scenario, that logo was both trademark and copyright protected. This fact allowed Omega to avoid trademark law as the watches apparently were not materially different. At the appellate level, the Ninth Circuit followed its own precedent to hold that that the first sale does not apply to goods made abroad and not imported with the authorization of the copyright owner.⁹⁷ The court reasoned that were the rule otherwise, the first sale doctrine would impermissibly extend the U.S. Copy-

⁹³ Available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/11-697.pdf

⁹⁴ *Ibid.*

⁹⁵ *Ibid.*

⁹⁶ *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010).

⁹⁷ *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008).

right Act extraterritorially and would render § 602 (which prohibits importation of a work acquired outside the U.S.) virtually meaningless.⁹⁸ Although the Supreme Court upheld the Ninth Circuit's decision, it was a 4-4 split because Justice Kagan recused herself.⁹⁹ In the subsequent *Kirtsaeng* decision, Justice Kagan concurred with the majority opinion holding that the first sale doctrine applied.¹⁰⁰ One might surmise what her vote would have been in the *Omega* case had she not recused herself.

We have likely not heard the last word on copyright's first sale doctrine as to foreign made goods. In the meantime, Omega's strategy of evading the material difference threshold through copyright will not be successful.

III. CONSUMER PROTECTION

In addition to federal intellectual property laws, it should be noted that some states such as California and New York have consumer protection laws that deal with parallel imports. These laws require retailers of parallel imports to disclose certain information to consumers such as product incompatibility with U.S. standards, the lack of English language instructions, and the lack of coverage by the manufacturer's warranty.¹⁰¹ For instance, the California act requires retailers to disclose, both at the point-of-sale and in advertising, seven specific possible incompatibilities such as no instructions in English or incompatibility with U.S. electrical power.¹⁰² The New York act requires retailers to conspicuously post the following information as it is ap-

⁹⁸ *Ibid.*

⁹⁹ *Ibid.*; see also Anandashankar MAZUMDAR, "Parties Dispute Applicability of Copyright Act's First Sale Doctrine to Imported Goods, Patent, Trademark & Copyright Law Daily", *Bloomberg BNA*, (31 October 2012).

¹⁰⁰ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

¹⁰¹ Cal. Civ. Code § 1797.81 (West); N.Y. Gen. Bus. Law § 218-aa (McKINNEY).

¹⁰² Cal. Civ. Code § 1797.81 (West).

plicable that the goods are not accompanied by manufacturers warranty, not accompanied by instructions in English, or not eligible for manufacturer's rebate.¹⁰³ A violation enables the consumer to obtain a refund, which may not be a remedy strong enough to change behaviors.¹⁰⁴

CONCLUSION

These disputes raise fundamental policy questions as well as conceptual questions about the law. In the numerous changes in the courts' positions with regard to parallel imports in trademark in the U.S. over the last century, courts have been wrestling not with what makes for good trade policy, but with the most basic concept in trademark law: source of origin. What does source of origin mean in a parallel imports case? If the law takes a territorial position, it must mean the source located in the U.S. is the most responsible for consumer expectations of the brand. In that case, the source of origin will be the exclusive licensee. If the law takes a functional approach, then it will ask which party controls the quality of the goods and will inquire into the relationship of the parties to that control function. In that case, the source of origin could be located abroad, depending on that relationship. Finally, if the law adopts a consumer protection approach, it will locate the source of origin in relationship to consumer expectations of the goods. In that case, the source of origin will depend on the quality or physicality of the goods. Thus, the only means for the law to take an absolute international approach is if it were to not inquire too deeply into this question of source of origin.

In copyright law, we see a similar phenomenon at work. There the fundamental question is not about basic concepts in copyright law, but instead focuses on the central structure of the law. How extensive were the authors' rights intended to be? Where could the author's actions be regulated?

¹⁰³ N.Y. Gen. Bus. Law § 218-aa (McKINNEY).

¹⁰⁴

Although these concerns are fundamental to each legal regime, they are not similar. Thus, U.S. trademark and copyright law have developed in different directions with regard to the issue of parallel imports. I would submit that this divergence does not make for good trade or IP policy. As we see from the *Costco v. Omega*¹⁰⁵ case, it is not difficult for trademark owners to disguise their trademark disputes as copyright disputes in order to bar parallel imports. Conversely, copyrighted works are often embedded in imported goods. For instance, Justice Breyer posed a hypothetical in the *Kirtsaeng* argument about one's ability to resell a Toyota that was manufactured abroad, but which contained copyrighted GPS system under a national exhaustion rule.¹⁰⁶

Because these disputes also raise fundamental policy questions, I would submit that analysis of these questions should direct the legal response. A national exhaustion regime may hinder various business models, may frustrate the free alienation of authorized goods, may encourage counterfeiting, may inhibit fair trade, and may incentivize the overseas outsourcing of manufacturing. An international exhaustion regime may hinder brand protection, may inhibit merchants from developing market differentiation, and may disproportionately affect consumers' access to goods in developing economies. These are important political and economic concerns and should be studied further. That study should inform policy makers with information that judges in a particular dispute will necessarily lack. This approach would be a marked contrast to what has transpired in this area of law. Thus far, the doctrines that have emerged have all been common law developments, some of which have later been codified. These issues deserve more reflection than the current ad hoc approach is able to provide.

¹⁰⁵ *Costco Wholesale Corp.*, 131 S. Ct. 565.

¹⁰⁶ Available at http://www.supremecourt.gov/oral_arguments/argument_transcripts/11-697.pdf.

