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The Use of Copyright Laws to Prevent the Importation of Genuine Goods

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I. Introduction

United States subsidiaries or affiliates of foreign corporations[1] and U.S. companies with foreign subsidiaries[2] find their domestic distribution networks increasingly threatened by the unauthorized importation of goods substantially similar to the goods they market. The imported goods are intended to be marketed abroad, but are instead imported into the United States and sold in competition with established U.S. distribution networks. This practice is referred to as "parallel importation"[3] or "diversion."[4] The imports, so-called "genuine goods,"[5] are often referred to as "grey market" goods.[6]

The primary reason for the success of grey market distributors is their ability to offer the same goods at prices lower than those demanded by U.S. distributors operating within established distribu-

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[1] *See, e.g.*, Osawa & Co. v. B & H Photo, 589 F. Supp. 1163 (S.D.N.Y. 1984).

[2] *See, e.g.*, Vivitar Corp. v. United States, 593 F. Supp. 420 (Ct. Int'l Trade 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986).

[3] Parallel importation has been defined as "the importation of genuine goods by someone other than the designated exclusive importer." Takamatsu, *Parallel Importation of Trademarked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433 (1982). In Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated and remanded*, 719 F.2d 42 (2d Cir. 1983), the court framed the issue as:

> whether an American company, which is engaged in the business of importing and selling trademarked goods of foreign manufacture under United States trademark rights owned by it, may enjoin another's unauthorized, competitive sale in the United States of the same identically marked trademarked goods, which were made and placed in the stream of international commerce by the foreign manufacturer, who did not intend that such goods be sold here.

Id. at 1064-65.

[4] *See, e.g.*, Coalition to Preserve the Integrity of Am. Trademarks v. United States, 598 F. Supp. 844, 846 (D.D.C. 1984), *rev'd*, 790 F.2d 903 (D.C. Cir. 1986).

[5] The term "genuine goods" means that the articles imported have the same origin as the goods marketed in the United States. *See* Dam, *Trademarks, Price Discrimination and the Bureau of Customs*, 57 TRADE-MARK REP. 14, 15 (1967).

[6] *See, e.g., Osawa*, 589 F. Supp. at 1164. This article will refer to the U.S. trademark or copyright owner as the "authorized distributor." "Grey market distributor" will refer to the importer who imports "genuine goods" from abroad. "Genuine goods" have the same origin, by manufacture or license, as those distributed by the authorized distributor.

tion networks.[7] The reasons given for this price differential vary. Those who defend unrestricted grey market sales contend that absent unauthorized imports, there is a total lack of intrabrand competition.[8] This permits U.S. companies to establish higher prices than those which would prevail with the unauthorized imports.[9] Conversely, authorized U.S. distributors contend that the price differential is explained by the following factors: (1) international currency fluctuations vis-á-vis the currently strong U.S. dollar;[10] (2) because the "market" for the goods is established by authorized distributors, grey market dealers have little, if any, promotional expense associated with their operations, and hence get a "free ride" on the efforts of the authorized distributors;[11] (3) little, if any, after-sale servicing or warranty protection is offered by the grey market dealers;[12] (4) authorized dealers often must carry full product line inventory and pay the associated costs of adequately servicing the line;[13] and (5) authorized U.S. distributors face higher costs from foreign manufacturers for services offered to domestic consumers.[14]

Regardless of how the price differential is explained, one thing is clear—parallel importation has been costly to U.S. businesses in

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7 In W. Goebel Porzellanfabrik v. Action Indus., Inc., 589 F. Supp. 763 (S.D.N.Y. 1984), the court stated:

> AII operates in what has become known as the "gray market," in which legitimately produced goods are imported without the authorization of the trademark or copyright holder. A gray market is created when an arbitrageur takes advantage of a price difference between two markets by buying in the market where prices are lower and selling in the market where prices are higher. The Hummel figures at issue here are genuine items produced by Goebel; what Goebel seeks to challenge is AII's unauthorized importation of them into the country.

Id. at 764 n.1. *See also* Richter, *"Gray" Sales Cut Prices of Cameras*, L.A. Times, Nov. 13, 1982, at 1, col. 1.

8 *See, e.g.*, United States v. Guerlain, Inc., 155 F. Supp. 77 (S.D.N.Y. 1957), *prob. juris. noted sub. nom.* Lanvin, Parfums, Inc. v. United States, 355 U.S. 951, *cert. denied*, 357 U.S. 924, *vacated and remanded sub nom.* Guerlain, Inc. v. United States, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959).

9 *See, e.g.*, *Osawa*, 589 F. Supp. at 1166.

10 *See, e.g.*, *id.*; *see also* Auerbach, *The Gray Market: Where a $200 Watch Can Be Bought for $140*, Wash. Post, Dec. 16, 1984, at L1, col. 1.

11 *See, e.g.*, *Vivitar*, 593 F. Supp. at 435; Certain Alkaline Batteries, 225 U.S.P.Q. (BNA) 823, 831, *disapproved by President Reagan pursuant to 19 U.S.C. § 1337(g) (1982)*, 50 Fed. Reg. 1655, *reprinted in* 225 U.S.P.Q. (BNA) 862, *appeal dismissed sub. nom.* Duracell, Inc. v. United States Int'l Trade Comm'n, 778 F.2d 1578 (Fed. Cir. 1985) [hereinafter cited as *Duracell*].

12 *No Guarantees for Guarantees in Gray Market*, Wall St. J., Feb. 5, 1985, at 33, col. 2. State legislatures have responded to the absence of guarantees. Legislation recently enacted in New York requires grey market goods retailers to inform consumers whether goods have a warranty valid in the United States. Failure to comply can result in a fine not to exceed $5,000, but the fact the retailer offers equal or greater warranty protection is a defense. Assembly Bill No. 5971 (effective Oct. 22, 1985) (to be codified at N.Y. Gen. Bus. Law § 218-aa).

13 *See, e.g.*, *Osawa*, 589 F. Supp. at 1167.

14 *Id.* at 1167 n.3.

terms of lost sales.[15] Recently, affected businesses have begun to fight back. Distributors owning trademarks on goods sold in the United States are asserting their trademark rights to block unauthorized importation of goods bearing the registered trademarks.[16] Where imports have already reached the United States, trademark owners are suing grey market distributors for infringement of their marks.[17]

The hopes of authorized distributors for judicial relief based on trademark grounds were raised substantially in 1982 by *Bell & Howell: Mamiya Co. v. Masel Supply Co.*[18] The United States District Court for the Eastern District of New York issued a preliminary injunction barring the unauthorized importation and sale of Mamiya brand cameras. The U.S. distributor's victory was short lived. The United States Court of Appeals for the Second Circuit[19] vacated the injunction, holding that no irreparable harm had been shown, and remanded the matter to the trial court. Since *Bell & Howell*, several

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[15] For example, it is estimated that one in four Seiko watches is sold through a grey market dealer in the United States. Auerbach, *supra* note 10, at L1, col. 3. In addition, 15% to 20% of top quality camera equipment sold between 1982 and 1984 was sold on the grey market. This is up from approximately five percent in 1979. Hughey, *"Gray Market" in Camera Imports Starts to Undercut Official Dealers*, Wall St. J., Apr. 1, 1982, at 29; Richter, *supra* note 7. In *Duracell* the record showed that in 1983 10 million Belgian-made Duracell batteries were imported for sale in competition with U.S. manufactured Duracell batteries in the New York sales area alone, causing millions of dollars of lost sales. *See* 225 U.S.P.Q. at 838.

[16] Such actions are based primarily upon a claimed violation of the Tariff Act of 1930, ch. 497, § 526(a), 46 Stat. 590, 741 (1930) (codified as amended at 19 U.S.C. § 1526(a) (1982)), which provides:

> Except as provided in subsection (d) of this section, 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 trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of title 15, and if a copy of the certificate of registration of such trademark 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 trademark is provided at the time of making entry.

[17] Such actions are based primarily upon a claimed violation of § 42 of the Lanham Act, ch. 540, § 42, 60 Stat. 440 (1946) (codified as amended at 15 U.S.C. § 1124 (1982)), and § 32(1)(a) of the Lanham Act, 15 U.S.C. § 1114(1)(a). Section 42 provides in part: "[N]o article of imported merchandise . . . which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any customhouse of the United States." Section 32 provides in part:

> (1) Any person who shall, without the consent of the registrant—
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> (a) use in commerce any reproduction, counterfeit, copy or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with such use is likely to cause confusion, or to cause mistake, or to deceive . . .
>
> shall be liable in a civil action by the registrant for the remedies hereinafter provided.

[18] 548 F. Supp. 1063 (E.D.N.Y. 1982), *vacated and remanded*, 719 F.2d 42 (2d Cir. 1983).

[19] 719 F.2d 42 (2d Cir. 1983).

other decisions have been handed down and with two[20] or arguably three[21] exceptions, each has resulted in defeat for the U.S. trademark owner seeking to block the parallel importation of so-called genuine goods.[22]

Most authorized U.S. distributors affected by the grey market have yet to discover the breadth of the U.S. Copyright Act[23] as a means of redress. Section 602[24] of the Copyright Act provides a powerful weapon against grey market importation and distribution.

This article briefly discusses the rationale behind the decisions denying relief to U.S. trademark owners. The article then turns to the subject of why and how the copyright laws can provide the relief sought, and identifies the risks and limitations associated with the use of copyright law in such a manner.

II. Use of Trademarks To Block Grey Market Goods

In 1921 the United States Court of Appeals for the Second Circuit decided *A. Bourjois & Co. v. Katzel*,[25] holding that the principle of "universality" applied to trademarks. The court also stated that trademarks were merely an indication of source of origin, and there was no trademark infringement by goods that were properly marked as to place of manufacture. Hence, no infringement occurred when one U.S. company imported "genuine" face powder bearing the French manufacturer's mark, despite sale by the manufacturer to another U.S. company of its U.S. trademark and goodwill in the product. The Second Circuit reasoned that "[i]f the goods sold are the genuine goods covered by the trade-mark, the rights of the owner of the trade-mark are not infringed."[26]

In 1922 Congress enacted section 526 of the Tariff Act[27] to overrule the decision of the Second Circuit. There was very little debate on the measure.[28]

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20 Weil Ceramics and Glass, Inc. v. Dash, 618 F. Supp. 700 (D.N.J. 1985); *Osawa*, 589 F. Supp. at 1163.

21 *Duracell* was an action before the International Trade Commission challenging parallel importation as an unfair trade practice under § 337 of the Tariff Act of 1930, ch. 497, § 337, 46 Stat. 590, 702 (codified as amended at 19 U.S.C. § 1337 (1982)). The Commission concluded that grey market importation was an unfair practice. A Commission determination and ordered remedy is, however, subject to presidential disapproval "for public policy reasons" pursuant to 19 U.S.C. § 1337(g). The Commission decision was disapproved by President Reagan on January 5, 1985. *See* 225 U.S.P.Q. 862 (1985).

22 *See infra* notes 55, 60.

23 17 U.S.C. §§ 1-810 (1982).

24 *Id.* § 602.

25 275 F. 539 (Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

26 *Id.* at 543.,

27 Tariff Act of 1922, ch. 356, Pub. L. No. 318, 42 Stat. 858, 975 (1922).

28 When the bill was passed debate was limited to 10 minutes by floor vote. 62 CONG. REC. 11,585, 11,602 (Aug. 19, 1922). Based on the bill's legislative record, some commentators have found the legislative intent to be strongly supportive of restrictive importation. *See, e.g.*, Nolan-Haley, *The Competitive Process and Gray Market Goods*, 5 N.Y.L. SCH. J.

Subsequently, the Supreme Court reversed the Second Circuit in *Katzel*.[29] The Court framed the issue before it as follows: "There is no question that the defendant infringes the plaintiff's rights unless the fact that her boxes and powder are the genuine product of the French concern gives her a right to sell them in the present form."[30]

Without referencing the newly-adopted section 526, the Court rejected the "universality" principle of trademark rights and adopted the "territoriality"[31] concept of trademark rights. The territorality concept provides that trademarks can indicate that the owner of the mark is the source of the goods in a *particular* market and a guarantor of the quality of those goods, even though he might not be the original manufacturer.[32]

In a case decided shortly thereafter, *A. Bourjois & Co. Inc. v. Aldridge*,[33] the Supreme Court held that section 27 of the 1905 Trademark Act, now codified at section 42 of the Lanham Act,[34] applied to importation of "genuine goods." In neither *Katzel* nor *Aldridge*, however, was the U.S. trademark owner affiliated with the foreign original source.

In 1957 in *United States v. Guerlain*[35] the Justice Department brought an antitrust action against three U.S. companies who were using section 526 to bar importation of "genuine" perfume manufactured by affiliated foreign companies. In *Guerlain* the district court found for the Government, holding that the defendants used section 526 to bar intraband competition, thereby monopolizing the sale of their own products in violation of section 2 of the Sherman Act.[36] While the appeal was before the Supreme Court,[37] the Government decided to seek legislation effectively adopting the trial court decision, and upon motion of the Solicitor General, the decision was vacated by the Supreme Court,[38] and the case dismissed.[39]

INT'L & COMP. L. 231, 242 (1984); Note, *Importation Control Under Tariff Act, Section 526: Trademark Privileges and Antitrust Policy*, 67 YALE L.J. 1110, 1111 n.2 (1958). *But see, e.g.*, Dam, *supra* note 5, at 14. In *Vivitar*, 761 F.2d at 1552, the Court of Appeals for the Federal Circuit concluded that "the [floor] debate is too unfocused and misinformed to serve as a definitive basis for interpretation of § 1526." *Id.* at 1563.

29 260 U.S. 689 (1923).

30 *Id.* at 691.

31 *Id.* at 692.

32 *Id.*

33 263 U.S. 675 (1923).

34 15 U.S.C. § 1124 (1982).

35 155 F. Supp. 77 (S.D.N.Y. 1957), *prob. juris. noted sub nom.* Lanvin, Parfums, Inc. v. United States, 355 U.S. 951, *cert. denied*, 357 U.S. 924, *vacated and remanded sub nom.* Guerlain, Inc. v. United States, 358 U.S. 915 (1958), *dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959).

36 Sherman Anti-Trust Act, 15 U.S.C. § 2 (1982).

37 355 U.S. 937 (1958) (noting probable jurisdiction).

38 358 U.S. 915 (1958).

39 172 F. Supp. 107 (S.D.N.Y. 1959).

Legislation to change section 526 was introduced[40] to deny U.S. companies import protection against genuine goods manufactured and sold by related companies. The proposed legislation, however, was never enacted. It is with this background that recent trademark-based challenges to grey market distribution have taken place.

The function of a trademark is "to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his."[41] The legal protection given trademarks, however, is closely related to the functions they serve, and the distinction between "how a trademark operates and why it should be protected is often blurred by the courts."[42]

These distinctions are not only blurred by the courts but by commentators[43] as well. The use of trademarks to block parallel importation has been applauded by some authors[44] and condemned by

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[40] H.R. 7234, 86th Cong., 1st Sess. (1959). This bill would have repealed § 42 of the Lanham Act by striking it and substituting provisions that would bar importation of counterfeit goods. The bill provided that Lanham Act remedies against trademark infringement

> shall not be available against an importer or seller of goods bearing a mark registered to an agent, authorized distributor, or subsidiary of, or to a person who is affiliated with or controlled by, a foreign manufacturer or merchant who uses the registered mark to identify and distinguish his goods.

Id.

[41] United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918).

[42] 1 J. GILSON, TRADEMARK PROTECTION AND PRACTICE § 1.03 (1984). Gilson identifies the function of a trademark as:

> (1) designation of "source or origin of a particular product or service . . . ;"
> (2) denoting "a particular standard of quality . . . embodied in the product or service;"
> (3) identification of "a product or service [distinguishing] it from the products or services of others;"
> (4) a symbol of the goodwill of the owner;
> (5) a representation of "a substantial advertising investment [which] is treated as a species of property; or"
> (6) a protection for "the public from confusion and deception, [ensuring consumers] are able to purchase the products and services they want and [a device to] enable courts to fashion a standard of acceptable business conduct."

Id. See also 3A R. CALLMAN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 21.06 (4th ed. 1983), in which the author identifies "three distinct and separate purposes" for a trademark: "(1) It identifies the product and its origin, (2) it guarantees the product's unchanged quality, and (3) it advertises the product."

[43] Using the term "genuine goods" to describe grey market goods, or those coming from the same manufacturer as those marketed in the United States, causes part of the confusion. Because the grey market goods were not intended for sale in the United States, they may not be identical to those sold by the authorized distributor—and therefore not "genuine." This may be because differences in quality standards result in slight alterations in the goods, or because different post-sale servicing and warranty services may be appropriate. *See* O'Brien, *Can Your Trademark Be Used To Stop Importation of Your Licensee's Product*, 1 A PRACTICAL APPROACH TO PATENTS, TRADEMARKS AND COPYRIGHTS 255, 264-65 (1980). *See also Osawa*, 589 F. Supp. at 1172-73.

[44] *See, e.g.*, J. MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 16.16B (2d ed. 1984); Callman, *Another Look at the Unlawful Importation of Trademarked Articles*, 52 TRADE-MARK REP. 556, 561 (1962); Derenberg, *Current Trademark Problems in Foreign Travel and Import Trade*, 49 TRADE-MARK REP. 674, 681 (1959). *See also* Nolan-Haley, *supra* note 28.

others.[45] Indeed, even the U.S. Government has taken inconsistent positions on the issue.[46]

U.S. trademark owners seeking relief have taken the position that the language contained in section 526 of the Tariff Act[47] and section 42 of the Lanham Act[48] is unequivocal,[49] and that the best means to determine congressional intent on the issue is to look directly to the statutes.[50] Courts sustaining the position of the trademark owners[51] have done so on the basis of the language of the statutes and the concept that trademarks are territorial rather than universal in scope, that is, a trademark has a separate legal existence under each country's laws.[52]

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[45] *See, e.g.*, Callman, *Unfair Competition with Imported Trade-Marked Goods*, 43 VA. L. REV. 323 (1957); Note, *Preventing the Importation and Sale of Genuine Goods Bearing American-Owned Trademarks: Protecting an American Goodwill*, 35 ME. L. REV. 315 (1983); Note, *Trademark Infringement: The Power of an American Trademark Owner To Prevent the Importation of the Authentic Product Manufactured by a Foreign Country*, 64 YALE L.J. 557 (1955).

[46] In *Bell & Howell* the United States filed an amicus brief supporting the position of the U.S. trademark owner. Justice Department Brief, Bell & Howell: Mamiya v. Masel Supply Co., 719 F.2d 42 (2d Cir. 1983). It has taken the opposite position in two subsequent cases, however, representing the United States Customs Service in actions challenging the validity of Customs regulations (19 C.F.R. § 133.31 (1985)) that permit the entry of grey market goods. *See Vivitar*, 593 F. Supp. at 420; *Coalition*, 598 F. Supp. at 844. The International Trade Commission noted the about face in *Duracell*, an action challenging parallel importation as an unfair method of competition under § 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 (1982). Vice Chairman Liebler noted: "Unlike the court in Vivitar Corp. v. United States, I cannot ignore the brief filed by the Chief Counsel of the U.S. Customs Service and the Department of Justice in the Second Circuit in Bell & Howell: Mamiya Co. v. Masel Supply Co." *Duracell*, 225 U.S.P.Q. at 842.

[47] *See supra* note 16.

[48] *See supra* note 17.

[49] *See, e.g.*, *Osawa*, 589 F. Supp. at 1175; *Bell & Howell*, 548 F. Supp. at 1076.

[50] The United States Customs Service and the Justice Department, in its amicus brief, advanced this argument in Mamiya's appeal to the Second Circuit:

> Here, nothing in the language of § 32 or § 42 of the Lanham Act, or in the language of § 526 of the 1930 Tariff Act, 19 U.S.C. § 526, which affords additional remedies to U.S. trademark holders, expressly limits the exclusionary rights conferred to U.S. firms that are independent of owners of identical foreign marks. Rather, the relevant language purports to confer the exclusionary rights awarded to all owners of U.S. trademarks who satisfy the other requirements of the provisions. Since the statutory language contains no ambiguity on this point, only the clearest expression of a contrary intent in the legislative history would warrant departing from the normal meaning of the language employed by Congress. *See CPSC v. GTE Sylvania, Inc.*, 447 U.S. 102, 108 (1980). But neither the legislative reports nor the congressional debate contain any clear evidence of a legislative intent to deny trademark protection where the owner of the U.S. mark is owned or controlled by the foreign manufacturer of the trademarked goods.

Justice Department Brief at 7-8, *Bell & Howell*, 719 F.2d at 42.

[51] *Bell & Howell*, 548 F. Supp. at 1063; *Osawa*, 589 F. Supp. at 1163; *Duracell*, 225 U.S.P.Q. at 823; *Weil Ceramics*, 618 F. Supp. at 700; *cf.* A. Bourjois & Co. v. Katzel, 260 U.S. 689 (1923); Model Rectifier Corp. v. Takachiho Int'l, Inc., 221 U.S.P.Q. (BNA) 502 (9th Cir. 1983).

[52] For example, in *Osawa*, the court stated the universality principle has faded and been generally supplanted by the

> principle of "territoriality," upon which the *Bourjois* rulings were based. This principle recognizes that a trademark has a separate legal existence under each country's laws, and that its proper lawful function is not necessarily to

The argument that trademark laws cannot be used to block parallel importation is as follows: because there is no property in a trademark separate from the goodwill it represents,[53] when an authorized U.S. distributor neither cultivates a public perception of itself as the original source nor maintains significant controls over the use of the mark, goodwill does not exist apart from the foreign manufacturer or owner of the rights.[54] Courts rejecting the use of trademarks to block grey market goods have held that because the grey market goods are "genuine goods" (meaning they come from the same manufacturing source), there is no confusion as to the source by ultimate users.[55] These courts focus on one of the functions of the trademark,[56] but ignore others.[57]

Current U.S. Customs regulations provide little assistance to the domestic trademark owner.[58] While one court has opined in dictum

> specify the origin or manufacture of a good (although it may incidentally do that), but rather to symbolize the domestic goodwill of the domestic marketholder so that the consuming public may rely with an expectation of consistency on the domestic reputation earned for the mark by its owner, and the owner of the mark may be confident that this goodwill and reputation (the value of his mark) will not be injured through use of the mark by others in domestic commerce.

589 F. Supp. at 1171-72. *See also Weil Ceramics*, 618 F. Supp. at 705-06. The concept of territoriality of trademarks is also recognized by article 6(3) of the International Convention for Protection of Industrial Property (Paris Convention), which provides in part: "A mark duly registered in a country of the Union shall be regarded as independent of marks registered in other countries of the Union, including the country of origin." The United States is a signatory and a member of the Paris Convention, which elevates this treaty to the force of law. *See* Davidson Extension S.A. v. Davidoff Int'l Inc., 221 U.S.P.Q. (BNA) 465, 467 (S.D. Fla. 1983).

53 *See United Drug Co.*, 248 U.S. at 97.

54 Note, *supra* note 45, at 337.

55 *See, e.g., Bell & Howell*, 719 F.2d at 46 (dicta); El Greco Leather Prods. Co. v. Shoe World, Inc., 599 F. Supp. 1380, 1399 (E.D.N.Y. 1984); Parfums Stern, Inc. v. United States Customs Serv., 575 F. Supp. 416 (S.D. Fla. 1983); *Guerlain*, 155 F. Supp. at 82. *Cf.* Monte Carlo Shirt Co. v. Daewoo Int'l (Am.) Corp., 707 F.2d 1054, 1058 (9th Cir. 1983) (buyer confusion as to source of goods is element of cause of action for trademark infringement); DEP Corp. v. Interstate Cigar Co., 622 F.2d 621, 622 n.1 (2d Cir. 1980) (distributor of goods which has no property interest in trademark lacks standing to bring trademark infringement action).

56 *See supra* note 42.

57 Two of the functions are to denote a standard of quality and to recognize a substantial advertising investment as a species of property. *See supra* note 42. Grey market goods frequently are associated with a lack of post-sale servicing and warranties, which could impair the standard of quality that the U.S. trademark owners seek to establish. *See supra* note 12. In addition, the grey market distributor engages in little, if any, promotional activity. *See generally Duracell*, 225 U.S.P.Q. at 829-31. As Rudolf Callman noted:

> The proposition that a trademark owner can exclude others from only a use which causes confusion is based upon the fallacious premise that the guarantee function is the most significant of the three trademark functions. The courts have been somewhat unmindful of the manifold functions of the trademark and have failed to realize its value as something more than a mere symbol of goodwill . . . . The trademark owner, however, should be entitled to protection with respect to any form of trademark use.

3A R. CALLMAN, *supra* note 42, § 17.07, at 32.

58 19 C.F.R. § 133.21 (1985) provides in relevant part:

that the current Customs regulations are *ultra vires*, given the unambiguous language of section 526 of the Tariff Act,[59] other courts considering the issue have directly upheld the reasonableness of the regulations.[60] The Customs Service is conducting an ongoing inquiry into grey market trade practices,[61] but has yet to post formal notice of regulation changes for comment.

In *Vivitar Corp. v. United States*[62] the United States Court of Appeals for the Federal Circuit considered the validity of Customs regulations in an appeal from the Court of International Trade. Vivitar sought to force the Customs Service to bar importation of any foreign manufactured photographic equipment bearing the registered trademark VIVITAR®. The court held that the regulations did not define the limits of protection afforded a U.S. trademark owner, but were a reasonable exercise of Customs power, leaving to the courts the determination whether the goods should be excluded in a given grey market fact situation, and permitting Customs to enforce the court's decision.[63]

The *Vivitar* court in dictum, however, approved the use of section 526 as a means of providing relief to private parties affected by grey market importation. The court held that the language of section 526(a) evidenced an intent to provide an exclusion remedy broader than that of 15 U.S.C. section 1124, because section 526(a) was not limited by the words "copy or simulate" contained in section 1124, and because section 526(c) provides a private cause of action for the same damages as those provided for in trademark infringement cases.[64] Hence, the court reasoned that the reach of section

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(b) *Identical trademark. Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States* or a corporation or association created or organized within the United States *are subject to seizure and forfeiture as prohibited importations.*

(c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:

(1) Both the foreign and the U.S. trademark or trade name are *owned by the same person* or business entity;

(2) The *foreign and domestic trademark* or trade name *owners are parent and subsidiary companies or are otherwise subject to common ownership or control* (see §§ 133.2(d) and 133.12(d));

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.

Id. (Emphasis added).

Common ownership and common control are defined as follows:

(1) "Common ownership" means individual or aggregate ownership of more than 50 percent of the business entity; and

(2) "Common control" means effective control in policy and operations and is not necessarily synonymous with common ownership.

Id. § 133.2(d).

[59] *Osawa*, 589 F. Supp. at 1177.

[60] *See Coalition*, 598 F. Supp. at 848-52; *Vivitar*, 593 F. Supp. at 433-36.

[61] 49 Fed. Reg. 21,453 (1984).

[62] 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986).

[63] *Id.* at 1569.

[64] *Id.* at 1563-64.

526 had to be broader than section 1124 because a private damage remedy was already available for typical trademark infringement cases. Judge Davis, although concurring in the result, criticized his colleagues for delving into a discussion of the availability of section 526 to private parties, since the appeal related to the Customs Service and not private parties.[65]

In sum, the use of trademarks to block parallel importation is often unavailable to the authorized U.S. distributor. Courts applying traditional trademark principles to the issues posed by the grey market have been hostile to the trademark owner, primarily because of blurred distinctions as to the appropriate functions of trademarks. Attorneys contemplating section 337 actions before the International Trade Commission are faced with the possibility of presidential disapproval of findings in favor of the trademark owner.[66] Section 526 holds some promise, but is also uncertain because the strongest appellate court opinion supporting such a claim is dictum.[67] It is because of the uncertainty of trademark protection that distributors should look to copyright law for assistance. Because of the fundamental differences between trademarks and copyrights, the same problems faced by trademark owners do not exist for copyright owners seeking to block the entry of grey market goods.

III. Use of Copyright To Block Grey Market Goods

A. *The Purpose of Copyright Laws*

Unlike trademark laws which are of common law origin,[68] the government grant of authority to regulate copyright comes directly from the Constitution.[69] The principal purpose of copyright is not to reward the author, sometimes referred to as a secondary consideration,[70] but rather to advance the public welfare by encouraging the

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65 *Id.* at 1572.

66 *Duracell*, 225 U.S.P.Q. at 862.

67 Indeed, one court has already refused to follow the dictum of the court of appeals in *Vivitar*, believing the lower court reasoning to be more persuasive. *See* Olympus Corp. v. United States, 627 F. Supp. 911 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (2d Cir. 1986).

68 *See, e.g.*, Trade-Mark Cases, 100 U.S. 82, 92 (1879); 3A R. CALLMAN, *supra* note 42, § 25.03.

69 U.S. CONST. art. 1, § 8, cl. 8 provides: "The Congress shall have the power to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their discoveries . . . . "

70 *See, e.g.*, United States v. Paramount Pictures, Inc., 334 U.S. 131, 158 (1948).

> Despite what is said in some authorities that the author's interest in securing an economic reward for his labors is "a secondary consideration," it is clear that the real purpose of the copyright scheme is to encourage works of the intellect, and that this purpose is to be achieved by reliance on the economic incentives granted to authors and inventors by the copyright scheme. This scheme relies on the author to promote the progress of science by permitting him to control the cost of and access to his novelty.

Universal City Studios, Inc. v. Sony Corp., 659 F.2d 963, 965 (9th Cir. 1981), *rev'd*, 104 S. Ct. 774 (1984).

efforts of authors.[71] The cases recognize, however, that it is difficult to distinguish this purpose of copyright from the recognition that the rewarding of the author is the means by which to accomplish the purpose. For example, in *Mazer v. Stein*,[72] the Court held that "the economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and Useful Arts.' "[73]

When these purposes are contrasted with the primary purpose of the trademark, which is the designation of the source of origin of goods,[74] it becomes clear that, at least as far as parallel importation is concerned, trademark decisions should have no bearing on the use of the copyright laws to block grey market goods.[75] The trademark cases which deny relief have focused on the claim that because the grey market goods are "genuine goods," there is no confusion as to their source.[76] This consideration is irrelevant for purposes of copyright analysis.

B. Section 602 and the First Sale Doctrine

The ability of the copyright owner to block unauthorized imports arises from section 602 of the Copyright Act.[77] Section 602(a) provides:

> Importation into the United States, without the authority of the owner of the copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

Section 602(b) provides in part:

> In a case where the making of copies or phonorecords would have constituted an infringement if this title had been applicable, their importation is prohibited. In a case where the copies or phonorecords were lawfully made, the United States Customs Service has no authority to prevent their importation unless the provisions of Section 601 are applicable. In either case, the Secretary of Treasury is authorized to prescribe, by regulation, a procedure under which any person claiming an interest in the copyright in a particular work may . . . be entitled to notification by the Customs Service of the importation of articles that appear to be copies or phonorecords

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71 1 M. NIMMER, NIMMER ON COPYRIGHT § 1.03[A] (1985).

72 347 U.S. 201 (1954).

73 *Id.* at 219.

74 J. GILSON, *supra* note 42, § 1.03.

75 The Supreme Court has indicated that while patent and copyright matters are similar, there is a distinction between copyright and trademark law. *See, e.g.*, Sony Corp. of Am. v. Universal City Studios, 104 S. Ct. 774, 787 n.19 (1984); *United Drug Co.*, 248 U.S. at 97 (trademark rights have "little or no analogy" to copyright matters).

76 *See supra* notes 54-55 and accompanying text.

77 17 U.S.C. § 602 (1982).

of the work.[78]

The plain language of the statute, therefore, makes it clear that unauthorized importation constitutes a violation of the exclusive right to distribute copies accorded to the copyright owner under section 106(3).[79] If it were otherwise, there would be no reason for section 602(b) to deal with a situation in which copies "were lawfully made" abroad. The only question raised about such a conclusion is that posed by the first sale doctrine, embodied in section 109(a) of the Act,[80] which specifically limits the copyright owner's distribution rights under section 106(3). These distribution rights are referenced in section 602(a).

The first sale doctrine recognizes the right of the copyright owner to exercise his distribution rights with respect to the initial sale. Thereafter, however, the copyright owner loses his ability to use the copyright laws to prevent or restrict resale or subsequent transfer.[81]

The first sale doctrine comes into play in the case of parallel importation if the initial sale by a foreign source (either the original manufacturer or the foreign licensee of a U.S. licensor) in a foreign market was treated as a valid first sale of the work for the purposes of the statute. Any subsequent sale would be taken out of the reach of the Copyright Act, particularly section 602, thereby preventing the U.S. copyright owner from blocking importation and distribution in the United States through use of the copyright laws.

The legislative history[82] accompanying the Copyright Act, however, makes it clear that the first sale doctrine has no application to

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78 Section 602 provides three exceptions: (1) importation under authority or for use of government, excluding schools; (2) importation for private use of importer and distribution of no more than one copy of a work at any one time; and (3) limited importation by organizations operated for scholarly, educational, or religious purposes. *See id.*

79 Section 106(3) provides: "*Subject to sections107 through 118*, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: . . . (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending." *Id.* § 106(3) (emphasis added).

80 Section 109(a) provides:

> Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord 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 that copy or phonorecord.

Id. § 109(a).

81 The copyright owner may have other claims against a transferee who subsequently transfers a copy in breach of a contractual provision restricting transfer, but not under the copyright laws. *See, e.g.*, Lantern Press, Inc. v. American Publishers Co., 419 F. Supp. 1267 (E.D.N.Y. 1976) (no copyright infringement when one who purchased paperback copies from unauthorized distributor rebinds and sells them in hard cover, even though such rights were reserved to copyright owner). *See generally* 2 M. NIMMER, *supra* note 71, § 8.12[B].

82 S. REP. NO. 473, 94th Cong., 1st Sess. 7 (1976); H.R. REP. NO. 1476, 94th Cong., 2d Sess. 8, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659.

cases involving unauthorized importation of copyrighted works. In discussing section 602, the House Report states:

> Section 602 . . . deals with two separate situations: importation of "piratical" articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made. The general approach of section 602 is to make unauthorized importation an act of infringement, in *both* cases, but to permit the Bureau of Customs to prohibit importation only of "piratical" articles.[83]

To eliminate any question that the section would apply to works in the international stream of commerce, the House Report continued:

> The second situation covered by section 602 is that where the copies of phonorecords were lawfully made but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights. As already said, the mere act of importation in this situation would constitute an act of infringement and could be enjoined.[84]

Prior to the effective date of the Copyright Act of 1976, there was no basis for copyright owners to prevent importation of their work into the United States—copyright owners could only prevent importation of "piratical copies."[85] At the outset, the drafters of the Copyright Act of 1976 did not deal with prevention of importation, believing that copyright laws should not be used to enforce contractual obligations and rights of parties. This view, however, did not prevail.[86] The phrase "lawfully made" which appears in section 602 appears to have derived from the report of the Register of Copyrights on the 1965 Revision Bill.[87] This report cited as an example of the applicability of section 602 a scenario "where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country."[88]

Thus, the import of the language in section 602[89] and its legisla-

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[83] H.R. REP. No. 1476, *supra* note 82, at 169 (emphasis added).

[84] *Id.* at 170. The Senate Report also stated that § 602(a):

> first states the general rule that unauthorized importation is an infringement merely if the copies of phonorecords "have been acquired abroad, but then enumerates three specific exemptions . . . . If none of the exemptions applies, any unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution in this country has taken place."

S. REP. No. 473, *supra* note 82, at 151-52. *See also* H.R. REP. No. 1476, *supra* note 82, at 169.

[85] Act of Mar. 4, 1909, ch. 320, 35 Stat. 1075 (repealed 1976).

[86] *See generally* Note, *Parallel Importing Under the Copyright Act of 1976*, 17 J. INT'L L. & POL'Y 113, 134-37 (1984).

[87] Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, 89th Cong., 1st Sess. 148-50 (1965).

[88] *Id.* at 150.

[89] In addition, § 501 of the Act separates the unauthorized importation provisions of § 602 of the Act from the grants and restrictions provisions set forth in §§ 106-118 of the Act. Section 501(a) defines an infringer as "anyone who violates any of the exclusive rights of the copyright owner as provided by § 106 through § 118, *or* who imports copies or phonorecords into the United States in violation of § 602 . . . ." 17 U.S.C. § 501 (1982) (emphasis added).

tive history makes it clear that the first sale doctrine has no impact in cases of unauthorized importation.[90]

This conclusion is in accord with the case law interpreting section 602. In *Nintendo of America, Inc. v. Elcon Industries, Inc.*[91] plaintiff brought an action for copyright and trademark infringement and unfair competition against defendants, distributors of the video game "Crazy Kong," which plaintiff alleged infringed its rights in "Donkey Kong." Plaintiff was a corporation organized under the law of the State of Washington, but was a wholly owned subsidiary of a Japanese corporation, Nintendo Co. Ltd.[92] The Japanese parent corporation assigned the rights to the U.S. copyright in the video game to its U.S. subsidiary.[93] Subsequently, the parent corporation licensed a Japanese company to make copies under the name Crazy Kong, but limited sales to Japan.[94] When Crazy Kong games found their way into the United States, the U.S. subsidiary sought to enjoin the distribution of the games, alleging a violation of its distribution rights under section 106(3) of the copyright law.

Defendant argued, among other things, that the licensing in Japan by the parent company acted as a first sale. Defendant reasoned that once the infringing games appeared in the United States, the Japanese parent could have an action for breach of contract against its Japanese licensee, but the U.S. subsidiary could not maintain an action for copyright infringement. The court disagreed. It held that the copyright was owned by the U.S. subsidiary who had not licensed the production of the infringing games in Japan or authorized the importation of the games into the United States. Hence, *importation itself* was an infringement of the subsidiary's copyright.[95]

The same result was reached in *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*[96] In *Scorpio* a Japanese corporation, CBS-Sony, entered into an agreement with a Philippines company, granting to that company the right to manufacture and distribute copyrighted musical recordings exclusively in the Philippines. Plaintiff (CBS (U.S.)), owner of the U.S. copyright, consented to the license. The license was later terminated, and the licensee was given sixty days to sell its inventory to another Philippines corporation. A sale was consummated, and the second Philippines corporation then sold the phonorecords to a U.S. importer, which in turn consigned

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[90] This is also Professor Nimmer's conclusion. *See* 2 M. NIMMER, *supra* note 71, § 8.12[B][6].

[91] 564 F. Supp. 937 (E.D. Mich. 1982).

[92] *Id.* at 939.

[93] *Id.* at 940.

[94] *Id.*

[95] *Id.* at 943-44.

[96] 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984).

the shipment to defendant. CBS (U.S.) brought an action against the defendant consignee.

Defendant argued that the records were reproduced pursuant to a valid licensing agreement and were subject to a valid transfer between the two Philippine corporations; as a result, a first sale took place. The court held that section 602 was not subject to the limitations of the first sale defense in section 109. The qualifying phrase in section 109—"lawfully made under this title"—applied only to copies "legally manufactured and sold within the United States and not to purchasers of imports . . . ."[97]

The court noted that to construe section 109(a) as superseding section 602 would render section 602 meaningless. "Third party purchasers who import phonorecords could thereby circumvent the statute, in every instance, by simply buying the recordings indirectly."[98] The court concluded that section 602, as applied to the facts, made Scorpio a copyright infringer as a matter of law.[99]

In *Selchow & Righter Co. v. Goldex Corp*[100] the United States District Court for the Southern District of Florida granted the U.S. copyright and trademark owner's motion for summary judgment and enjoined defendants from importing Trivial Pursuit games from Canada and distributing these games in the United States. The court held that section 602(a) prohibited "importation without consent of the copyright owner into the U.S. of copies or phonorecords of a work acquired outside the U.S. and defines such action as an infringement of the exclusive right to distribute."[101] The court in *Selchow & Righter* did not, however, specifically deal with the first sale doctrine in its analysis.

Neither *Nintendo* nor *Scorpio* answers all questions concerning the scope of section 602 on the issue of blocking grey market products in a parent/subsidiary or affiliate relationship. For example, discussing section 602, the *Nintendo* court noted that neither the U.S. subsidiary which owned the copyright nor its parent consented to the importation into the United States of the games licensed in Japan.[102] It

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97 *Id.* at 49.

98 *Id.*

99 *Id.* at 50. The court also rejected the defendant's argument that it was not the importer for purposes of § 602 liability. The defendant ordered the phonorecords from another U.S. importer. The court held that Scorpio was a contributory and vicarious infringer, and that its alleged unawareness of the infringement would not insulate it from liability, but could only reduce its damages under 17 U.S.C. § 504(c)(2). *Id.* at 48 n.5.

100 612 F. Supp. 19 (S.D. Fla. 1985).

101 *Id.* at 25 n.7.

102 Although defendants contend that the Crazy Kong games do not infringe on the plaintiff's copyright because the games were distributed in the United States under the licensing agreement between Nintendo Co., Ltd. and Falcon, Inc., the licensing agreement clearly prohibited Falcon, Inc. from importing or exporting Donkey Kong or Crazy Kong printed circuit boards into the United States. There is no evidence to show that either plaintiff or

could be argued that had there been no contract between the Japanese parent and the Japanese licensee limiting the distribution of the infringing games to Japan, the unauthorized importation would be subject to the first sale defense. This conclusion is not warranted, however, because the existence of a valid first sale is not dependent on whether a contract is in existence or has been breached.[103] Hence, the inclusion of references to the consent or lack of consent of the Japanese parent by the court in *Nintendo* must be read as gratuitous to the section 602 analysis.

Similarly, *Scorpio* does not set forth the specific relationship between the Japanese corporation which granted the initial license (CBS-Sony, Inc.) and the corporation owning the U.S. copyright (CBS (U.S.)). In the absence of a parent/subsidiary or affiliate relationship, it might be argued that the case does not settle the issue whether a sale by a foreign parent would act as a first sale to bar section 602 relief to a U.S. subsidiary. The exact nature of the relationship in this case, however, was irrelevant. Plaintiff consented to the Philippine licensing arrangement which ultimately produced the phonorecords in question. Consent to activities abroad, however, did not alter the court's decision. The court held that the language of section 602 is clear, and with any other reading of section 602, "[t]he copyright owner would be unable to exercise control over copies of the work which entered the American market in competition with copies lawfully manufactured and distributed under this title."[104] The purpose of section 602, the court concluded, was to place restrictions "on the importation of phonorecords in order that the rights of *United States copyright owners* can be preserved."[105] Thus, the decision reached by the court in *Scorpio* would be the same regardless of the relationship between the U.S. copyright owner and the foreign manufacturer/licensor.

Nevertheless, in *Cosmair, Inc. v. Dynamite Enterprises, Inc.*[106] the United States District Court for the Southern District of Florida held that section 602 could not be used to block the re-entry of Lauren POLO fragrances and cosmetics into the United States when the cosmetics were manufactured in the United States and initially sold to a U.S. company for export. In *Cosmair* the court held that the first sale doctrine limited the scope of section 602 where the *initial* sale occurred *in* the United States. Moreover, injunctive relief was denied due to questions concerning the validity of plaintiff's copyrights.

Nintendo Co., Ltd. ever authorized anyone to import Crazy Kong games into the United States.
564 F. Supp. at 944.

[103] *See supra* note 81.

[104] *Scorpio*, 569 F. Supp. at 49.

[105] *Id.* at 50 (emphasis added).

[106] 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985).

In summary, section 602 is an appropriate tool to block unauthorized imports which are subject to copyright protection, notwithstanding the relationship between the U.S. copyright owner and the foreign manufacturing source.[107] Customs copyright regulations[108] in effect trace the Customs trademark regulations[109] on this issue. Unlike the case of trademark regulations, however, there is clear congressional direction to the Customs Service to promulgate copyright regulations treating grey market goods differently from piratical copies.[110] Although Customs may not block the entry of the grey market goods, the U.S. copyright owner has the ability to proceed with a private infringement action pursuant to section 602.

C. Availability of Copyright Protection

While section 602 can provide substantial relief from grey market importation of traditional forms of authorship—such as books, records, and movies—it is not so limited in scope. Rather, the benefits of section 602 can accrue to distributors of a number of other goods, if manufacturers and/or their authorized distributors seek copyright protection of the goods.

To be copyrightable, works must be "original works of authorship"[111] and fall within one of seven categories.[112] The work, however, must not be merely "an idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work."[113]

Practically all goods for general distribution have some feature

107 The conclusion that unauthorized importation is not subject to the first sale doctrine is supported by analogies to other areas of intellectual property. *See, e.g.*, Griffin v. Keystone Mushroom Farm, Inc., 453 F. Supp. 1283 (E.D. Pa. 1978); *In re* Reclosable Plastic Bags, 192 U.S.P.Q. (BNA) 674 (Ct. Int'l Trade 1977); Frischer & Co. v. Bakelite Corp., 39 F.2d 247, 259 (C.C.P.A. 1930); *cf.* Boesch v. Graff, 133 U.S. 697 (1890) (patents). *See supra* note 75 for the distinction between copyright and patent matters, and copyright and trademark law. The scope of import protection under the Semiconductor Chip Protection Act of 1984, 17 U.S.C. §§ 901-14 (Supp. II 1984), is unclear. The owner of a mask work is given the exclusive right to import or distribute a semiconductor chip under 17 U.S.C. § 905, but this right is subject to a first sale limitation under 17 U.S.C. § 906(b).

108 19 C.F.R. § 133.32(c) (1985) requires the copyright owner recording its copyright with the Customs Service to identify each person authorized or licensed to use the copyright.

109 *See supra* note 58.

110 *See* 17 U.S.C. § 602(b) (1982).

111 *Id.* § 102(a).

112 Section 102(a) states that works of authorship include the following categories of works:

(1) literary works; (2) musical works, including any accompanying words; (3) dramatic works, including any accompanying music; (4) pantomimes and choreographic works; (5) pictorial, graphic, and sculptural works; (6) motion pictures and other audiovisual works; and (7) sound recordings. *Id.*

113 *Id.* § 102(b).

that is capable of receiving copyright protection. For example, many goods have features that would qualify them as "pictorial" or "graphic" works under section 102(a)(5). These works are defined in the Act to "include two-dimensional . . . works of fine, graphic, and applied art . . . ."[114] The legislative history of section 102(a)(5)[115] states that the definition was intended to include everything in section 5(f) through 5(k) of the 1909 statute.[116] Section 5(k) of the former Act, which covered "prints and pictorial illustrations" included "prints or labels used for articles of merchandise" in its scope. This coverage was carried over to the new Act.[117]

A label, in this context, is generally understood to refer to artistic and/or literary work imprinted or attached to an article of merchandise.[118] While brand names and trade names themselves may not be copyrightable,[119] pictorial illustrations and designs are.[120]

Examples of copyrightable aspects other than labels include items such as advertisements on containers,[121] color schemes,[122] instructional booklets,[123] and assembly plans.[124] There are, of course, limitations on those seeking copyrights, including the requirements that the work be original[125] and that the work have more than a utilitarian function.[126]

The impact of potential copyright infringement actions on the distribution of grey market goods could be substantial. Although the

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[114] *Id.* § 101.

[115] S. REP. No. 473, *supra* note 82, at 53. While the subsequent House Report, *supra* note 82, did not contain the same language, Professor Nimmer believes that the omission has no substantive significance. *See* 1 M. NIMMER, *supra* note 71, § 2.08.

[116] Act of Mar. 4, 1909, ch. 320, 35 Stat. 1075 (repealed 1976).

[117] The Committee Report states: "There is no intention whatsoever to narrow the scope of the subject matter now characterized in section 5(k) as 'prints or labels used for articles of merchandise.'" S. REP. No. 473, *supra* note 82, at 53.

[118] *See* 1 M. NIMMER, *supra* note 71, § 2.08[G][1].

[119] *See* Alberto-Culver Co. v. Andreas Dumon, Inc., 466 F.2d 705 (7th Cir. 1972); Kitchens of Sara Lee, Inc. v. Nifty Foods Corp., 226 F.2d 541 (2d Cir. 1959). *See generally* 1 M. NIMMER, *supra* note 71, § 2.08[G][1]-[2].

[120] *See* Drop Dead Co. v. S.C. Johnson & Sons, Inc., 326 F.2d 87 (9th Cir. 1963); Abli, Inc. v. Standard Brands Paint Co., 323 F. Supp. 1400 (C.D. Cal. 1970).

[121] *See* Lin-Brook Builders Hardware v. Gertler, 352 F.2d 298 (9th Cir. 1965) (catalogue cover); Southwestern Bell Tel. Co. v. Nationwide Indept. Directory Serv., Inc., 371 F. Supp. 900 (W.D. Ark. 1974) (telephone directory).

[122] *See* Primcot Fabrics v. Kleinfab Corp., 368 F. Supp. 482 (S.D.N.Y. 1974).

[123] Gelles-Widmer Co. v. Milton Bradley Co., 132 U.S.P.Q. (BNA) 30 (N.D. Ill. 1961), *aff'd*, 313 F.2d 143 (7th Cir. 1963); *but see* Affiliated Hosp. Prods., Inc. v. Merdel Game Mfg. Co., 513 F.2d 1183 (2d Cir. 1975); Morrissey v. Proctor & Gamble Co., 379 F.2d 675 (1st Cir. 1967).

[124] Aitken v. Empire Constr. Co., 542 F. Supp. 252 (D. Neb. 1982).

[125] 17 U.S.C. § 102 (1982).

[126] *See* Baker v. Selden, 101 U.S. 99 (1879). In *Baker* the Court first decided that works whose function was solely or primarily utilitarian would be denied copyright protection. The work in question was a new system of bookkeeping with forms. After *Baker* some courts have held that blank forms intended to record rather than communicate facts are not copyrightable. *See, e.g.*, Time-Save Check, Inc. v. Deluxe Check Printers, Inc., 178 U.S.P.Q. (BNA) 510 (N.D. Tex. 1973); *see generally* 1 M. NIMMER, *supra* note 71, § 2.18[B].

Customs Service would be unable to block the parallel importation of these goods,[127] authorized distributors who own the U.S. copyrights would be able to bring actions under section 602 to enjoin the distribution of grey market products which are copies or that contain infringing material in violation of their exclusive distribution rights under section 106(3). This could force grey market distributors to take dramatic steps to avoid infringement problems, such as repackaging or relabeling the goods or providing different instructional or assembly materials. Additional handling or advertising costs associated with repackaging or relabeling could, with some commodities, eliminate the price differential between the goods sold by authorized U.S. distributors and grey market distributors, thus eliminating the economic incentives underlying grey market activities.

D. Antitrust Concerns

The limited monopoly rights conferred by the grant of copyright can be abused in ways which violate the antitrust laws.[128] The primary antitrust concern of a copyright owner using section 602 to block importation of goods of related companies would be a potential claim of conspiracy to divide international markets[129] in violation of section 1 of the Sherman Act.[130] Since the Supreme Court's decision in *Copperweld Corp. v. Independence Tube Corp.*,[131] however, this should not be a significant problem as it concerned relationships between parent corporations and their wholly owned subsidiaries.

In *W. Goebel Porzellanfabrik v. Action Industries, Inc.*[132] plaintiff owner of the U.S. copyrights in Hummel figures brought a copyright infringement action against a grey market importer under section 602. At issue was the copyright owner's motion to dismiss the antitrust counterclaims of the grey market importer. The holder of the U.S. copyright was a West German limited partnership that manufactured the Hummel figures. The grey market importer purchased the goods from plaintiff's authorized dealers in Europe and imported them into the United States without consent of the U.S. copyright owner.

Defendants argued that plaintiff was attempting to use the copyrights to limit the quantity of Hummel figures being imported into

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127 *See supra* note 108.

128 United States v. Loew's Inc., 371 U.S. 38 (1962); *cf.* Broadcast Music, Inc. v. Columbia Broadcasting Sys., 441 U.S. 1 (1979) (blanket licensing is not price fixing per se unlawful under antitrust laws).

129 *See, e.g.*, *Parfums Stern*, 575 F. Supp. at 416; *Guerlain*, 155 F. Supp. at 77; *cf.* F. Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951) (agreements between legally separate companies to suppress competition and to aggregate trade restraints violate Sherman Act).

130 15 U.S.C. § 1 (1982).

131 104 S. Ct. 2731 (1984).

132 589 F. Supp. 763 (S.D.N.Y. 1984).

the United States, thereby keeping prices artificially high. This conduct, they maintained, amounted to copyright misuse, thereby stripping the plaintiff of the antitrust immunity it would otherwise have by virtue of the copyright laws. The United States District Court for the Southern District of New York held that defendant lacked standing to assert the counterclaims, because defendants were not purchasers. As to the defendants' claim that the infringement suit filed by the copyright owner was an act in furtherance of a conspiracy, the court concluded "[g]iven the direct language of Section 602 of the copyright laws, . . . AII's claim that Goebel's suit was part of an antitrust conspiracy must also be dismissed."[133]

A second potential antitrust concern is that exclusion of grey market goods could constitute monopolization or an attempt to monopolize the copyrighted goods in violation of section 2 of the Sherman Act.[134] Any such contention, however, would require a very narrow relevant market consisting of only the copyrighted articles themselves. To succeed, a grey market distributor would have to show a lack of *interbrand* competition as well as a lack of intrabrand competition.[135] Such a showing would be difficult. Other antitrust concerns have been raised,[136] but as one commentator noted with respect to the antitrust concerns facing trademark owners seeking to block parallel importation:

> [D]espite all of the antitrust arrows thrown in the gray market area, the antitrust issues seem to be of only secondary importance. The basic issue remains one of trademark rights and its resolution will not turn fundamentally on the antitrust considerations being raised.[137]

E. *Limitations on the Use of Copyright*

The copyright laws are not a panacea for all problems faced by U.S. distributors. Apart from antitrust concerns, there are several limitations on copyright protection. For example, all works for which copyright protection is sought must carry an appropriate copyright notice.[138] This might require new packaging and instructional material if substantial numbers of copies of the work have been dis-

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[133] *Id.* at 767; *see also* Original Appalachian Artworks, Inc. v. Grenada Electronics, Inc., 229 U.S.P.Q. (BNA) 54 (S.D.N.Y. 1986).

[134] 15 U.S.C. § 2 (1982).

[135] *See, e.g., Guerlain*, 155 F. Supp. at 77. In Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977), the Court stated that interbrand competition and not intrabrand competition "is the primary concern of the antitrust law." *Id.* at 51 n.19. An exclusive distribution contract that limits or eliminates *intrabrand* competition can enhance consumer welfare by increasing *interbrand* competition. *See* Nolan-Haley, *supra* note 28, at 233.

[136] Victor, *Preventing Importation of Products in Violation of Property Rights*, 53 ANTITRUST L.J. 783, 801 (1984). *See also Duracell*, 225 U.S.P.Q. at 840-41.

[137] *See* Victor, *supra* note 136, at 802.

[138] 17 U.S.C. § 401 (1982).

tributed without the required notice.[139]

Additionally, in the event of infringement, if a substantial portion of the profits from the sale of grey market goods are not derived from that portion of the goods that are copyrighted, damages can be limited. The infringer is entitled to a remission of any damage award in the amount of revenues not associated with infringement.[140] Hence, as a practical matter, other than injunctive relief,[141] a copyright owner's remedy may be limited to statutory damages amounting to as little as one hundred dollars.[142] Moreover, because the manufacturing clause[143] remains a part of the copyright law, copyright protection for printed material could be lost if the printing occurs outside the United States.

IV. Conclusion

Grey market goods are substantially impacting authorized U.S. distribution channels. The lost sales are significant, both in terms of lost revenue and the ability to develop markets. In many situations, intellectual property owners develop international licensing programs with different royalty bases, recognizing that the value of the licensing right depends on the market in which licensed goods are to be sold. To permit the flow of goods from an area in which their cost is relatively low to an area where their cost is relatively high dilutes the value of the intellectual property rights in the latter market area and deprives the licensee and the licensor from receiving the benefit of their bargain. To emphasize that the U.S. consumer is benefitted by the lower prices sometimes charged by grey market distributors is to ignore that these distributors are profiting from the development of product markets by and at the expense of trademark and copyright owners. The Senate Report on the Lanham Act stated:

> Trade-marks encourage the maintenance of quality by securing to the producer the benefit of good reputation which excellence creates. To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and goodwill by preventing their diversion from those who have created them to those who have not.[144]

As the courts make it more difficult for authorized U.S. distributors to prevail in grey market trademark cases, serious thought should be given by those distributors to section 602 of the Copyright Act. Section 602 is a powerful tool to deter parallel importation, and

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139 *Id.* § 405(a)(2).
140 *Id.* § 504(b).
141 *Id.* § 502.
142 *Id.* § 504(c)(1).
143 *Id.* § 601.
144 S. REP. No. 1333, 79th Cong., 2d Sess. (1945), *reprinted in* 1946 U.S. CODE CONG. & ADMIN. NEWS 1275.

can be used by firms with nontraditional copyright works. This section should not be overlooked by those firms affected by the grey market.[145]

[145] Since this article was accepted for publication, two major decisions relating to it have been rendered. First, the district court decision in *Coalition* was reversed, causing a split in the circuit courts as to the validity of Customs' regulations affecting the grey market. *Compare* Coalition to Preserve the Integrity of Am. Trademarks v. United States, 790 F.2d 903 (D.C. Cir. 1986) *with* Vivitar Corp. v. United States, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 106 S. Ct. 791 (1986).

In addition, another decision determining that the first sale doctrine has no application to cases involving unauthorized importation in copyright cases has been issued. *See* Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986).