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GRAY MARKET GOODS AND COPYRIGHT LAW: AN END RUN AROUND *K MART* *V. CARTIER*

Gray market goods bear an authorized United States trademark or embody an authorized copy of copyrighted material, but are intended for sale outside the United States and have entered the country without the trademark or copyright owner's consent.¹ During the 1980s, the gray market exploded in size, primarily in response to variations in the strength of the dollar.² Those who seek to outlaw the gray market, usu-

1. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 285 (1988); *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1382 n.1 (C.D. Cal. 1993) (describing gray market goods as those that are intended for sale outside the United States and imported without the United States trademark or copyright owner's consent), *aff'd in related proceeding*, *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, *cert. denied*, 115 S. Ct. 1315 (1995); *Vivitar Corp. v. United States*, 761 F.2d 1552, 1555 (Fed. Cir. 1985) (defining a gray market good as one legally sold abroad and subsequently imported into the United States to compete against those sold by the United States trademark owner), *cert. denied*, 474 U.S. 1055 (1986); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1164 (S.D.N.Y. 1984) (describing gray market goods as those bearing trademarks lawfully applied abroad and reimported into the United States); *see also* Maureen Beyers, Note, *The Greying of American Trademarks: The Genuine Goods Exclusion Act and the Incongruity of Customs Regulation 19 C.F.R. § 133.21*, 54 *FORDHAM L. REV.* 83, 83-84 (1985) (defining gray goods similarly).

Supporters of this practice refer to them as "parallel imports." Jamie S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 *N.C. J. INT'L L. & COM. REG.* 205, 207 n.5 (1986) (arguing that the phrase "gray market" has created an unjustified atmosphere of borderline legality around this practice).

2. *W. Goebel Porzellanfabrik v. Action Indus., Inc.*, 589 F. Supp. 763, 764 n.1 (S.D.N.Y. 1984) (stating that gray markets are created when a speculator buys products cheaply in one market and sells them for profit in another); SETH E. LIPNER, *THE LEGAL AND ECONOMIC ASPECTS OF GRAY MARKET GOODS* 3 (1990); David Bender & David A. Gerber, *In Wake of High Court Decision, The Gray Market Gets Grayer*, *THE NAT'L L.J.*, Sept. 19, 1988, at 15 (stating that when a good costs less in a foreign market than in the United States, an incentive exists to import it).

For example, if a good costs \$10 in country A and, because of the weakness of a foreign currency relative to the dollar, \$5 in country B, an incentive exists to import the good from Country B into Country A and sell it for \$7. The scheme works best for items that have a high value relative to their weight. Hugh E. Hansen, *Gray Market Goods: A Lighter Shade of Black*, 13 *BROOK. J. INT'L L.* 249, 252 (1987) (stating that the lower shipping costs of light, highly priced goods make them an attractive candidate for gray market importation); Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 *U. PA. J. INT'L BUS. L.* 373, 374-75 (1994) (recognizing that shipping costs may negate the incentive to import goods); LEXECON, INC., *EXECUTIVE SUMMARY, THE ECONOMICS OF GRAY MARKET IMPORTS* 5 (1985) (unpublished report, on file with the

ally the United States distributors of the corresponding domestic goods,³ argue that these gray marketers are “free riding”⁴ on the manufacturers’ goodwill.⁵ Furthermore, they argue that some items sold through these unauthorized channels, originally targeted for sale abroad, may differ no-

Catholic University Law Review) [hereinafter LEXECON EXECUTIVE SUMMARY] (describing the active presence of light-weight products with well-known trademark reputations in gray markets).

Currency fluctuations do not drive all gray market importation, however. Bender & Gerber, *supra*, at 15; *see also, e.g., Givenchy*, 832 F. Supp. at 1390 (noting that a manufacturer may decide to sell its product at a lower price to gain a competitive foothold in a new market). Generally, a gray market probably will appear when the value added by United States marketing investments totals less than shipping costs. *See LEXECON EXECUTIVE SUMMARY, supra*, at 4-5.

3. *E.g., Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 479 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); *Lever Bros. Co. v. United States*, 877 F.2d 101, 102 n.1 (D.C. Cir. 1989) (describing how the United States trademark owner brought suit under § 42 of the Lanham Act); *NEC Elec. v. CAL Circuit Abco*, 810 F.2d 1506, 1507 (9th Cir.) (wholly owned subsidiary suing to enjoin parallel importation); *cert. denied*, 484 U.S. 451 (1987); *Cosmair, Inc. v. Dynamite Enter., Inc.*, 226 U.S.P.Q.2d (BNA) 344, 345 (S.D. Fla. 1985) (exclusively licensed distributor suing to enjoin importation); *see also LIPNER, supra* note 2, at 4 (describing the competition of gray market importers with authorized dealers); *COLLADO ASSOCIATES, INC., THE ECONOMIC IMPACT OF DIVERSION* 5 n.1 (1984) (on file with the Catholic University of America Law Review) [hereinafter *COLLADO STUDY*] (focusing on free riding as the cause of competition between the gray market importers and authorized dealers).

United States distributors are not the only opponents of the gray market, however. *E.g., Legislation to Amend the Lanham Trademark Act Regarding Gray Market Goods: Hearing on S.626 Before the Subcomm. on Patents, Copyrights and Trademarks of the Senate Comm. on the Judiciary*, 101st Cong., 2d Sess. 522-23 (1990) [hereinafter *Senate Hearing on S. 626*] (statement of the National Council of Senior Citizens) (stating that the failure of some gray market goods to meet United States health and safety standards presents health and safety risks to consumers); *see also id.* at 126-29 (statement of John A. Boardman, Food and Allied Trade Services Department, AFL-CIO) (arguing that the sale of gray market goods destroys jobs along the domestic distribution chain).

4. Free riding can be described as the process by which one person avails himself of the marketing and promotional efforts of another without compensation. *See, e.g., Osawa*, 589 F. Supp. at 1172 (describing how the gray marketer, who attracts customers to the brand based entirely on price, benefits from the marketing and promotional efforts of the United States trademark owner).

5. Goodwill is generally defined as favorable public perception attaching to goods from a specific source. *See White Tower System, Inc. v. Darby Dental Supply Co.*, 90 F.2d 67, 69 (6th Cir.), *cert. denied*, 302 U.S. 720 (1937). The concept includes the brand’s name recognition and the purchaser’s belief in the quality of the product. *Premier Dental Prod. Co. v. Darby Dental Supply Co.*, 794 F.2d 850, 853 n.3 (3d Cir. 1986), *cert. denied*, 479 U.S. 950 (1986).

United States trademark owners argue that a firm investing the time and resources to develop and promote its products through seminars, public relations campaigns, advertising, and extensive customer service will not be able to retail its product at the same price as a dealer who bears none of these costs. *Osawa*, 589 F. Supp. at 1166; *Premier Dental*, 794 F.2d at 854; *see also COLLADO STUDY, supra* note 3, at 5-6; *LEXECON INC., THE ECONOMICS OF GRAY MARKET IMPORTS* 26-30 (1985) [hereinafter *LEXECON STUDY*].

ticeably from those sold by the authorized United States distributor.⁶

Gray market retailers, on the other hand, assert that the sale of these goods benefits consumers because it prevents foreign manufacturers from creating price differences between markets.⁷ Manufacturers frequently sell merchandise on international markets at prices substantially lower than those charged in the United States.⁸ A manufacturer of a good presumably acting in his own economic self-interest will sell the good at a profit abroad.⁹ Thus, because he can equalize the prices between markets, the manufacturer holds the "key to their own release."¹⁰

Opponents of gray market importation suffered a severe setback in *K Mart v. Cartier*.¹¹ In *K Mart*, the Supreme Court upheld United States Customs Service (Customs) regulations construing section 526 of the Tariff Act of 1930.¹² Customs permits the unauthorized importation of

6. See, e.g., *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 635 (1st Cir. 1992) (finding a difference between Venezuela-bound Perugina chocolate and that destined for the United States); *Lever Bros. Co. v. United States*, 877 F.2d 101, 102-03 (D.C. Cir. 1989) (finding Sunlight dish soap intended for sale in Great Britain materially different from that intended for sale in the United States); *Original Appalachian Artworks, Inc. v. Granada Elec., Inc.*, 816 F.2d 68, 73 (2d Cir.) (finding a material difference when gray market Cabbage patch dolls came with Spanish instructions, and the seller would not process the "adoption papers" and send birthday cards to the end purchaser), *cert. denied*, 484 U.S. 847 (1987).

When a consumer purchases a brand name that he recognizes, he buys it with a certain expectation that could go unfulfilled because the manufacturer designed the goods to meet the tastes or requirements of a different market. See, e.g., *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, 1247 (D.N.J.) (finding a caloric difference between Tic Tac mints destined for England and those intended for the United States, as well as differences involving labeling and the type of sweetener employed), *aff'd*, 935 F.2d 1281 (3d Cir.), *rev'd on other grounds*, 952 F.2d 44 (3d Cir. 1991); *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951, 952 (S.D. Fla. 1986) (finding difference in soap packaging and formulation to be material).

7. See Gorelick & Little, *supra* note 1, at 206-07.

8. *Id.*

9. *Id.* at 206.

10. *Id.*; see also Richard A. Fogel, Note, *Grey Market Goods and Modern International Commerce: A Question of Free Trade*, 10 *FORDHAM INT'L L.J.* 308, 326 (1986). Fogel's article, as well as Gorelick's article, cite tenuous support for their positions on this point. Fogel's authority for the price discrimination argument comes from interviews with a large discount retailer's general counsel. *Id.* at 320 n.66 (citing Raymond J. Wysocki, *Resale Price Maintenance and the Mass Market: A Separate Business Rebuttal to Professor Baxter*, 14(2) *ANTITRUST L. & ECON. REV.* 91, 99-100 (1985)). Gorelick and Little, for their part, cite no authority for their proposition. See Gorelick and Little, *supra* note 1, at 207-09. *But see* *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 667 (3d Cir.) (describing how a foreign parent concerned about intrabrand competition from identical gray goods may solve its problem by pulling its wares out of the United States market), *cert. denied*, 493 U.S. 853 (1989).

11. 486 U.S. 281 (1987).

12. *Id.* at 294 (construing § 526 of the Tariff Act of 1930, 19 U.S.C. § 1526(a) (1994)). The statute provides:

goods bearing a valid United States trademark if the United States trademark owner is an affiliate of a foreign registrant, even though the literal language of the statute requires Customs to stop any goods bearing a valid United States trademark from entering the country without the written consent of the domestic trademark owner.¹³ Firms opposing gray market importation have attempted to circumvent the effect of the *K Mart* holding using theories arising out of sales,¹⁴ trademark,¹⁵ and copyright¹⁶ law. For differing reasons, the first two methods have, at least partially, failed.¹⁷

The law of sales makes an ineffective tool because of the good faith requirements of the Uniform Commercial Code (UCC).¹⁸ Although most gray retailers know that a manufacturer does not wish to see its wares sold outside authorized distribution channels,¹⁹ a court will enjoin the sale of gray market goods only if the end retailer possesses actual knowledge that the goods originally were procured through a fraudulent representation regarding the point of sale.²⁰ The difficulty of proving this actual knowledge makes a UCC-based attack on gray market practices unfeasible.²¹

Trademark law, however, allows Customs to stop gray market goods at

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 . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States. . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 526(a) (1994).

13. *K Mart*, 486 U.S. at 294; 19 C.F.R. § 133.21(c)(2) (1995) (allowing the importation of goods bearing a United States trademark if the domestic mark holder shares common control with the foreign registrant).

14. See *Johnson & Johnson Prods., Inc. v. DAL Int'l Trading Co.*, 789 F.2d 100 (3d Cir. 1986) (describing Johnson & Johnson's ultimately unsuccessful efforts to use the UCC to prevent parallel importation); *infra* notes 32-42 and accompanying text (discussing the *Johnson & Johnson* case in detail).

15. See *K Mart*, 486 U.S. at 287-88; *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 638 (1st Cir. 1992).

16. See generally *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); *Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 847 F.2d 1093 (3d Cir. 1988); *Cosmair, Inc. v. Dynamite Enters., Inc.*, 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985).

17. See *infra* notes 32-42 (discussing the shortcomings of the UCC as a weapon against the gray market) and notes 88-109 (discussing the shortcomings of trademark law as a weapon against the gray market); *cf. infra* notes 119-41 and accompanying text (describing the comparative appeal of copyright law to address gray market imports).

18. See *Johnson & Johnson*, 789 F.2d at 104.

19. *Id.* at 103.

20. *Id.* at 106.

21. See *id.* (stating that, in contrast, subjective suspicion of a fraud in the chain of title could create a voidable title in the purchaser); see also Doris R. Perl, Comment, *The Use of*

the border if they bear a "material difference" from those sold in the United States.²² A product destined for sale abroad may have very different characteristics than one sold under the same mark domestically.²³ This difference may surprise the consumer and harm the brand's reputation in the United States market.²⁴

The judicially created "material difference" standard provides a substantial, but ultimately defective shield against the gray market.²⁵ The reason for enforcing trademark rights disappears if the gray goods are physically identical to those sold by the United States trademark owners, as the consumer will neither be confused as to the product's source, nor disappointed by the product's characteristics.²⁶ Second, the administration of the materially different standard may impose a practical burden

Copyright Law to Block the Importation of Gray-Market Goods: The Black and White of It All, 23 LOYOLA L.A. L. REV. 645, 648 (1990) (discussing the *Johnson & Johnson* case).

22. *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d at 633, 638 (1st Cir. 1992); *Lever Bros. Co. v. United States*, 981 F.2d 1330, 1332-33 (1st Cir. 1991). Customs recently has received commentary on the promulgation of regulations implementing the *Nestle* and *Lever* decisions, see *infra* note 27 (discussing the proposed language), but, according to the opinion, material difference has to be determined on a facts and circumstances basis. *Nestle*, 982 F.2d at 641. Thus, Customs faces a large administrative burden—these decisions may be impossible to practically implement. *Cf. infra* notes 87-103 and accompanying text (discussing the analysis used to determine whether an import infringes § 42 of the Lanham Act).

23. See, e.g., *Lever Bros.*, 981 F.2d at 1331 (describing how soap destined for sale in Great Britain produces less lather than soap intended for sale in the United States); *PepsiCo, Inc. v. Nostalgia Prods. Corp.*, 18 U.S.P.Q.2d (BNA) 1404, 1405 (N.D. Ill. 1990) (illustrating differences in the packaging and formula of Pepsicola destined for sale abroad); *cf. El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 395-96 (2d Cir. 1986) (showing how an unauthorized import may differ from the domestic enough to make it a counterfeit article), *cert. denied*, 484 U.S. 817 (1987).

24. See also *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.* 753 F. Supp. 1240, 1241-49 (D.N.J.) (finding a one-half calorie difference between a gray market breath mint and its domestic counterpart to be material), *aff'd*, 935 F.2d 1281 (3d Cir.), *rev'd on other grounds*, 952 F.2d 44 (3d Cir. 1991); *Appalachian Art Works v. Granada Elec., Inc.*, 816 F.2d 68, 70, 73 (2d Cir.) (describing how Cabbage Patch dolls made by a Spanish licensee had "adoption papers" in Spanish and did not provide for "birthday card" delivery, as compared to the U.S. distributor), *cert. denied*, 484 U.S. 847 (1987); *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951, 952 (S.D. Fla. 1986) (holding small differences in soap ingredients to be material).

25. See discussion *infra* notes 123-41 and accompanying text (discussing how trademark law is designed to prevent consumer confusion, and how that confusion will not exist when the goods are identical).

26. See, e.g., *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 687 (3d Cir.) (declining to grant a remedy for trademark infringement where both the gray market good and its domestic counterpart were identical and when the trademark holder was a subsidiary of a foreign corporation), *cert. denied*, 493 U.S. 853 (1989); *NEC Elec. v. CAL Circuits Abco*, 810 F.2d 1506, 1511 (9th Cir.) (stating that the parallel importation of a good does not infringe United States trademark rights), *cert. denied*, 484 U.S. 851 (1987).

on Customs that the agency cannot feasibly meet.²⁷

Copyright law appears to present a much more effective sword; § 602 prohibits the importation of a copyrighted work without the consent of the owner.²⁸ Juxtaposed against that provision, however, is the limitation of the "first sale" doctrine contained in § 109(a) of the Act, which provides that upon the transfer of a copyrighted work, the copyright holder no longer controls future transfers of the item.²⁹ The question presented to the courts in the gray market context is whether the first sale doctrine prevents a manufacturer from obtaining relief against a gray marketer in an infringement suit, even if the first sale occurred abroad. Existing case law has not yielded a uniform answer.³⁰ This Comment favors protecting manufacturers and their distributors from gray marketing via the Copyright Act.

First, this Comment examines the utility of sales and trademark law to fight the gray market, and the shortcomings of each, focusing on the implications of the Supreme Court's decision in *K Mart v. Cartier*.³¹ This Comment then explains the allure of copyright law as a weapon in fighting the sale of gray market goods. It next reviews the present state of copyright case law, particularly the analytical division between the Third

27. See *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992) (stating that the reviewing court is concerned with "subtle differences"). The Coalition to Protect the Integrity of American Trademarks (COPIAT), which represents the anti-gray market manufacturers, recently proposed a rule to Customs that would bar goods possessing "demonstrable difference in the pre- or post-sale characteristics or treatment." *Outline: COPIAT Legal Seminar*, COPIAT NEWS, Nov. 1994, at 6. The status of this language remains undetermined as of this writing. *Id.* at 7.

28. 17 U.S.C. § 602(a) (1994). Section 602 states that "[i]mportation into the United States, without the authority of the owner of copyright . . . 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."

29. *Id.* § 109(a). Section 109 expressly limits the distribution right conveyed by § 106(3). Section 109(a) states that ". . . 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. . . ."

30. See, e.g., *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 (9th Cir. 1994) (finding that § 109 only extinguishes the distribution right attached to copies made and sold in the United States), *cert. denied*, 115 S. Ct. 1315 (1995); *BMG Music v. Perez*, 952 F.2d 318, 319-21 (9th Cir. 1991) (holding similarly), *cert. denied*, 505 U.S. 1206 (1992); *Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.* 847 F.2d 1093, 1095-97 (3d Cir. 1988) (denying plaintiff the protection of § 602); *Neutrogena Corp. v. United States*, 7 U.S.P.Q.2d (BNA) 1900, 1901-04 (D.S.C. 1988) (denying a preliminary injunction based on § 602); *Selchow & Righter Corp. v. Goldex Corp.*, 612 F. Supp. 19, 22-23, 25 (S.D. Fla. 1985) (enjoining the sale of Canadian Trivial Pursuit games).

31. 486 U.S. 281, 292-95 (1987) (upholding Customs regulations allowing the importation of goods bearing a trademark held by a domestic affiliate of the foreign manufacturer).

and Ninth Circuits in their methods of reconciling § 109 and § 602 of the Copyright Act. Finally, after reviewing the legislative history of each provision, this Comment concludes that the Ninth Circuit's reasoning, which does not allow sale of a work abroad to exhaust the United States owner's right to prevent its importation, is more sound, and may well spur the demise of the gray market.

I. LEGAL APPROACHES TAKEN TO COMBAT THE GRAY MARKET

A. *The Failure of the Uniform Commercial Code to Prevent the Sale of Gray Market Goods*

United States trademark owners cannot rely upon the law of sales to challenge the practices of a gray market retailer unless they can prove that the end retailer actually knew that the goods were purchased fraudulently.³² In *Johnson & Johnson v. DAL International Trading*,³³ the plaintiff sold toothbrushes to DAL, a Polish government corporation, solely for distribution in Poland.³⁴ Johnson & Johnson shortly learned, however, that the goods traveled back into the United States and were on sale at a discount health and beauty chain, Quality King.³⁵ The District Court

32. *Johnson & Johnson Prods., Inc. v. DAL Int'l Trading Co.*, 798 F.2d 100, 103 n.2 (3d Cir. 1986).

33. 798 F.2d 100 (3d Cir. 1986).

34. *Id.* at 101. The contract itself was not a sale of goods for cash. Because of the volatility of Polish currency, Johnson & Johnson arranged a barter transaction between DAL and a third company, Wendexim. *Id.* Johnson & Johnson would ship the goods to DAL, who in turn would send lumber to Wendexim. *Id.* Wendexim ultimately paid Johnson & Johnson in cash for the cost of the goods. *Id.*; *cf. supra* note 2 (describing the effect of changing currency rates on gray market importation).

35. *Johnson & Johnson*, 798 F.2d at 102. DAL made the purchase order over the phone in March of 1985, and Johnson & Johnson executed a written contract in April, and delivered the goods in June. *Id.* Between March and June, however, a third person had learned of the good's availability on the market and informed Quality King. *Id.*

The District Court for the Eastern District of Pennsylvania addressed whether Quality King qualified as a good faith purchaser under the Uniform Commercial Code (UCC) and therefore acquired valid title to the goods at issue. *Id.* at 103; *see* U.C.C. § 2-403(1) (1989) (describing the UCC's procedure for acquiring valid title); *see also* U.C.C. § 2-103(1)(b) (defining good faith as "honesty in fact" and the observance of reasonable commercial standards in the trade). According to the court below, the circumstances surrounding the transaction "cried out for inquiry." *Johnson & Johnson*, 798 F.2d at 103 (quoting the district court opinion, and noting that the goods' abnormally low price should have made Quality King suspicious).

Quality King's vice president prepared a purchase order for the goods while Johnson & Johnson negotiated the specifics of the transaction with DAL. *Id.* at 102. Furthermore, he also knew that Johnson & Johnson would not voluntarily place their goods on the gray market. *Id.* at 103. Under these circumstances, the lower court concluded that Quality King suspected that the goods were acquired from Johnson & Johnson by fraud, and thus the defendant did not meet the UCC's definition of good faith purchaser. *Id.* at 102-03.

for the Eastern District of Pennsylvania enjoined Quality King from selling the toothbrushes.³⁶

In vacating the lower court's injunction for the plaintiff, the Third Circuit noted that, given the nature of the gray trade, the end retailer probably knew that a manufacturer has no intention of retailing his goods at deflated prices.³⁷ This general knowledge, however, imposed no duty on the end retailer to examine the chain of title to determine whether the presence of fraud exists.³⁸ The court then stated that the imposition of an affirmative duty to investigate would frustrate the goals of the UCC, namely, the reduction of transaction costs.³⁹ Accordingly, the court could not conclude that Quality King knew of DAL's misrepresentations or willfully blinded itself to the truth.⁴⁰

Had Johnson & Johnson prevailed, the gray market would have suffered greatly; a territorial distribution clause in the contract of sale and a well-drafted complaint easily could have led to an injunction barring the sale of these goods.⁴¹ Instead, the purchaser met the UCC's good faith

Had no knowledge of the fraud been pled, the transfer of title from DAL to Quality King would have been entirely valid. *Id.* at 103 n.2; *see also* U.C.C. § 2-403(1). The District Court enjoined Quality King from future sales. *Johnson & Johnson*, 798 F.2d at 103.

Had Johnson & Johnson won, the title to the goods would have reverted to DAL. *Id.* DAL acquired voidable title because it arguably committed a fraud when purchasing them; thus, Johnson & Johnson would have regained title to the goods. *See id.*

36. *Id.* at 102.

37. *Id.* at 103.

38. *Id.* at 105-06. Interestingly, the court noted that a duty to investigate could have been created out of commercial practice pursuant to the definition of good faith in § 2-103(1)(b) as "the observance of reasonable commercial standards of fair dealing in the trade." *Id.* at 106 n.4 (quoting U.C.C. § 2-103(1)(b)). "[T]he evidence suggested that this was not normally done," however, and the burden of production of custom would have rested on Johnson & Johnson. *Johnson & Johnson*, 798 F.2d at 106 n.4. In fact, it is the practice in this line of business to conceal the chain of title as much as possible; in this case, by ripping the original shipping labels off of the cartons. *Id.* at 102. Ironically, although the court's holding advances the policy goal of reducing transaction costs, it also licenses an ostrich mentality on the part of the retailer.

39. *Id.* at 104; *see also* U.C.C. § 1-102 (defining the purpose of the code).

40. *Johnson & Johnson*, 798 F.2d at 103; *see also* RONALD A. ANDERSON, 1 ANDERSON ON THE UNIFORM COMMERCIAL CODE 378-85 (3d ed. 1981) (noting that under the UCC, mere negligence does not equate bad faith). If "the subsequent purchaser lacks good faith, however, he acquires only the seller's voidable title and may be required to surrender the goods to the defrauded party." *Johnson & Johnson*, 798 F.2d at 102.

41. *See Johnson & Johnson*, 798 F.2d at 103. In *Johnson & Johnson*, the Third Circuit accepted the lower court's conclusion that the plaintiff would not welcome Quality King's distribution of their products, and that Quality King was aware of this fact. *Id.* The Third Circuit explicitly rejected the District Court's conclusion that the gray market practice of intentionally obscuring the chain of title amounted to bad faith. *Cf. id.* at 103-04 (also stating that, if this rule were accepted, the acquisition of goods at an unusually low price could trigger an inference of bad faith).

Under the District Court construction, if a retailer knows that a manufacturer probably

standard and acquired valid title because he had a “‘pure heart and . . . empty head.’”⁴² *Johnson & Johnson* prevents the trademark owner from being able to use the original contract of sale as a basis for preventing the later disposition of gray market goods.

B. *The Use of Tariff and Trademark Law to Combat Gray Market Goods and the Importance of Material Difference*

1. *The Relationship Between the Purpose and Function of Trademarks and the Gray Market*

Trademarks are words, symbols, or devices that distinguish products from a particular source from those of another.⁴³ Unlike copyright protection, which arises from an explicit grant of constitutional authority,⁴⁴ federal trademark legislation springs from Congress' general constitutional power to regulate commerce among the several states.⁴⁵ Trade-

does not wish his goods to be sold by that retailer, he must investigate as a matter of law. *Id.* Thus, a plaintiff would only have to demonstrate the removal of shipping labels and the presence of an abnormally low price at which the unauthorized retailer acquired the goods. *Id.* The pleading of all of these facts could lead to an injunction and the eventual return of the unsold gray goods to the manufacturer.

42. *Id.* at 106.

43. 15 U.S.C. § 1127 (1994). See *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942) (describing a trademark as a “merchandising short-cut which induces a purchaser to select what he wants, or what he has been led to believe he wants”); *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403, 412-14 (1916) (noting that a trademark associates a product and its manufacturer); see also William M. Landes and Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 268-70 (1987) (describing a trademark as a shorthand mechanism to distinguish goods or services on the market).

44. U.S. CONST. art. 2, § 8, cl. 8 (stating that Congress shall have the power “[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries”); see *infra* notes 110-11 (discussing the history of this constitutional provision).

45. In re Trade-mark Cases, 100 U.S. 82, 93-95 (1879). Unlike a copyright, which vests in the author at the time he creates his work, trademark rights accrue only when the mark is used in commerce. J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 6.01[2] (3d ed. 1995). Failure to use the mark can result in the abandonment of any rights that may have accrued. *Silverman v. CBS, Inc.*, 870 F.2d 40, 45 (2d Cir.), *cert. denied*, 492 U.S. 907 (1989).

A trademark is also territorial—its goodwill can only be protected within a confined regional market. *A. Bourjois & Co. v. Katzel*, 275 F. 539, 543 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923) (Hough, J., dissenting) (stating that “a trade mark is primarily a protection to the owner’s business. It is attached to the business, is a part of it, and cannot be detached therefrom . . . [the parallel importation of the] genuine article has become an infringement because the business of dealing in that article within the United States is the plaintiff’s business”). See also *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 98 (1918) (describing the operation of the territoriality principle within the United States); *Dawn Donut Co. v. Hart’s Food Stores, Inc.*, 267 F.2d 358, 367 (2d Cir. 1959) (illustrating its operation in cases where the mark has always been registered). The territoriality of

mark rights facilitate commerce in two ways. First, by attributing a product's origin to a specific manufacturer, it provides an incentive for the producer to maintain the quality of its goods.⁴⁶ Second, trademarks make market transactions more efficient by reducing consumer search costs.⁴⁷

The sale of a good on the gray market can harm the goodwill embodied in an owner's trademark in a number of ways. First, the gray market retailer may not offer services that lend to a brand's favorable perception.⁴⁸ Many gray market retailers make their sale based almost entirely on price and expend little effort advertising the brand name or maintaining its image.⁴⁹ A consumer may purchase a good believing the manufacturer will guarantee its performance, only to find that, when it breaks, no recourse exists.⁵⁰ Second, in addition to service-based differences be-

trademark rights also has been recognized as a matter of international law. Paris Convention for the Protection of Industrial Property, July 14, 1967, art. 6(3), 21 U.S.T. 1630, 1639 (confining the enforcement of trademark rights to the country in which the mark is registered).

46. McCARTHY, *supra* note 45, at § 201[2][a].

47. *Id.*; see also Landes and Posner, *supra* note 43, at 268-70 (describing how the use of a trademark as a shorthand in the marketplace decreases transaction costs). *But see* Felix S. Cohen, *Transcendental Nonsense and the Functional Approach*, 35 COLUM. L. REV. 809, 816-17 (1935) (arguing that protecting words via trademark statutes unnecessarily removes language from circulation).

48. *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1168 (S.D.N.Y. 1984); COLLADO STUDY, *supra* note 3, at 26 (describing the lack of warranty service that can accompany some gray goods).

49. See *Osawa*, 589 F. Supp. at 1166 (stating that the advertisements for gray market camera equipment generally consist of a one line price quote); cf. LEXECON STUDY, *supra* note 5, at 43 (stating that a distributor with a long term interest in maintaining brand reputation will be more likely to invest in proper shipping, storage, and inventory control). Indeed, the proclivity of businesses to engage in price arbitrage creates the gray market. See *supra* note 2 and accompanying text (describing the effect of currency fluctuation, among other factors, on parallel importation). In order for the parallel importer to maximize its profits, brand advertising must be kept to a minimum. LEXECON STUDY, *supra* note 5, at 59 (Illustration 2).

As a corollary, the gray market retailer depends on the marketing investments of the authorized distributor. Cf. *id.* at 27 (stating that gray market importing centers around products with strong trademarks); Hansen, *supra* note 2, at 252, 254 (stating that gray marketers free ride on the marketing investments of authorized distributors). Opponents of the gray market assert that this free riding harms consumers because, as the gray market grows in force, the distributor will have less incentive to develop a market for products vulnerable to parallel importation. LEXECON STUDY, *supra* note 5, at 29-30.

50. See *Osawa*, 589 F. Supp. at 1167; *Senate Hearing on S. 626*, *supra* note 3, at 512-13 (statement of Linda F. Goldoner, Executive Director, National Consumers League) (listing excerpts from consumer correspondence complaining of the lack of warranty service accompanying gray market watches and camera equipment); Desiree French, *Ruling Seen as Boon to Consumers: Gray Market Purchases Saved Customers Estimated \$3 to \$4 Billion*, BOSTON GLOBE, June 1, 1988, at 63 (stating that many gray market goods do not come with warranties, but, in some cases, the gray retailer issues its own; in other cases the

tween gray market and authorized goods, the gray good may differ physically from that sold by an authorized distributor.⁵¹ Evidence also exists that counterfeit goods are often mixed with gray market goods, facilitating their importation.⁵² Finally, the appearance of goods in discount out-

consumer is simply "lost"). Some state statutes, however, legislatively ameliorate the harm to the consumer. *See, e.g.*, CAL. CIVIL CODE §§ 1797.8(2)(1), (2) (Deering 1994) (requiring, for example, the gray marketer to notify the consumer if the item does not conform to United States voltage requirements or is not covered by the manufacturers warranty); N.Y. GEN. BUS. LAW § 218-aa(3)(b) (McKinney 1988) (requiring retailer to inform the consumer when the instructions are not in English).

51. *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 635 (1st Cir. 1992) (finding a difference between Venezuela-bound Perugina chocolate and that destined for the United States); *Lever Bros. Co. v. United States*, 877 F.2d 101, 102-03 (D.C. Cir. 1989) (finding Sunlight dish soap intended for sale in Great Britain materially different from that intended for sale in the United States); *Original Appalachian Artworks, Inc. v. Granada Elec., Inc.*, 816 F.2d 68, 73 (2d Cir.) (finding a material difference when gray market Cabbage patch dolls came with Spanish instructions, and the seller would not process the "adoption papers" and send birthday cards to the end purchaser), *cert. denied*, 484 U.S. 847 (1987).

Differences in quality tend to manifest itself most acutely when a foreign licensee manufactured the gray market good. *See The Luxury-Goods Trade*, THE ECONOMIST, Dec. 12, 1992, at 98 (noting how Pierre Cardin had its U.S. sales destroyed by the parallel importation of licensee-manufactured products). More serious differences between the gray good and the genuine article may exist, however. For example, 50,000 units of gray market Oil of Olay were pulled off of the shelves because they contained Red Dye # 2, which is legal in Canada but not in the United States. *Senate Hearing on S. 626, supra* note 3, at 522 (Statement of the National Council of Senior Citizens). Another case involved the importation of fluoride toothpaste into the United States intended for countries without fluoride in their water supply. *Id.* at 522-23. This toothpaste is potentially dangerous to consumers of a fluoridated water supply. *Id.* Other flaws in gray market goods may include erroneous or incomplete ingredient lists. *Id.* at 523; *see also id.* at 440 (documenting the Food and Drug Administration's recall of gray market Johnson & Johnson baby shampoo and sunblock for failure to list the ingredients properly).

52. *See Senate Hearing on S. 626, supra* note 3, at 62-63 (statement of Rep. Cardin); *id.* at 86 (statement of Christopher Edley, Jr., President, Coalition to Preserve the Integrity of American Trademarks (COPIAT)) (quoting a policeman's affidavit stating that " 'the gray market is a tremendous boon to counterfeiters' "). According to the affidavit, gray market imports provide a perfect cover for counterfeits because Customs may let them into the country if they appear similar to the gray good. *Id.* Furthermore, the intermingled goods allow retailers to argue that they thought that the illegal counterfeits were merely gray imports. *Id.*

COPIAT hired a private investigator to determine whether any connection existed between gray market imports and counterfeiting. Letter from T.M. Huhn, Huhn and Associates to Emilio Collado, COPIAT, July 3, 1989, at 2 *in* Brief of the National Consumers League, the Food and Allied Service Trades Department, AFL-CIO, and the Coalition to Preserve the Integrity of American Trademarks as Amicus Curiae, Appendix B, *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994) (92-56,359; 92-55,050), *cert. denied*, 115 S. Ct. 1315 (1995). The investigator concluded that a "significant linkage" existed, *id.* at 1-2, and cited a number of instances, including that of the fluoride toothpaste, *supra* note 51, as among the more egregious evidence of a connection. The investigator found gray market goods intermingled with substantial amounts of counterfeits in the area of video game boards, *id.* at 2-4, cosmetics, *id.* at 3, and auto parts, *id.* at 2, 4.

lets may tarnish the image that the brand has sought to develop and protect.⁵³

The gray market also may harm the integrity of American markets in the long run.⁵⁴ The presence of unauthorized goods in the United States

The letter noted, however, that its findings were "by no means comprehensive," due to the short period of time that the investigator had to complete his investigation. *Id.* at 2. In addition, some law enforcement officials would not talk to him because they were in the process of investigation pending indictment. *Id.*

53. The harm suffered by the trademark owner in this regard is akin to the harm caused by trademark dilution, which occurs when a likelihood of injury to the business reputation or distinctiveness of a mark exists notwithstanding an absence of consumer confusion. N.Y. GEN. BUS. LAW § 368d (McKinney 1988); *see also* ILL. ANN. STAT § 1035/15 (Smith Hurd 1993) (defining dilution similarly). State dilution statutes prevent the loss of a trademark's distinctiveness by prohibiting its use by another on an unrelated product. *See, e.g.,* Ringling Bros. & Barnum & Bailey Combined Shows, Inc., v. Celozzi-Ettelson Chevrolet, Inc., 855 F.2d 480, 482-84 (7th Cir. 1988) (finding that a car dealership's use of the phrase "The Greatest Used Car Show on Earth" in a fashion designed to evoke thoughts of a circus violated the Illinois dilution statute, and stating that unlike the often measurable injury caused by confusion, " 'dilution . . . if allowed to spread, will eventually destroy the advertising value of the mark' ") (quoting Polaroid Corp. v. Polaroid, Inc., 319 F.2d 830, 836 (7th Cir. 1963)). Liability under a dilution statute does not exist in the gray market context because the trademark is genuine. *See supra* note 1 and accompanying text (defining gray goods). However, to the extent that a brand's reputation is tied directly to an exclusive image, it suffers the same type of harm from its ubiquitous appearance in unauthorized outlets. *Cf. The Luxury Goods Trade, supra* note 51, at 98 (noting "though styles may change, snobbery is forever"); MCCARTHY, *supra* note 45, § 2.14[3] (describing "irrational" consumer choices). Luxury items thus will suffer most from gray market importation because the brand conveys a certain sense of style, *see The Luxury Goods Trade, supra* note 51, at 98, and, more practically, because they tend to carry a high level of value relative to their weight. Hansen, *supra* note 2, at 252 (stating that the gray market tends to involve goods with a high value relative to weight); LEXECON STUDY, *supra* note 5, at 11, 14; COLLADO STUDY, *supra* note 3, at 10-11 (describing the gray marketer's dependence on the domestic marketer's advertising). In the long run, the appearance of a bottle of expensive perfume in a discount outlet will undercut the exclusive image from which these goods derive their value. For a discussion of state trademark dilution statutes and their relation with traditional trademark concepts, see generally David S. Welkowitz, *Reexamining Trademark Dilution*, 44 VAND. L. REV. 531 (1991); Elizabeth C. Bannon, *Revisiting "The Rational Basis of Trademark Protection: Control of Quality and Dilution — Estranged Bedfellows?"*, 24 J. MARSHALL L. REV. 65 (1990).

54. *See* Beyers, *supra* note 1, at 109-15; Shira R. Yoshor, Comment, *Competing in the Shadowy Gray: Protecting Domestic Trademark Holders from Gray Marketeers Under the Lanham Act*, 59 U. CHI. L. REV. 1363, 1380-90 (1992); LEXECON STUDY, *supra* note 5, at 47 (stating that gray market goods harm consumers when the gray good is inferior to the authorized one, when it fails to meet expectations, and when the harm to the brand's market reputation causes the United States trademark owner to cut costs in marketing or in maintaining the product's quality). *But see* Parfums Stern, Inc. v. United States Customs Service, 575 F. Supp. 416, 419 (S.D. Fla. 1983) (noting that, although the domestic mark owner expended considerable funds in marketing the name "Oscar de la Renta," the placement of its goods into the international stream of commerce forfeited the protection of the trademark laws to insulate itself from the practices of its distribution network and, furthermore, that the parent company had already been paid for the gray imports and therefore no legal remedy exists).

market inflates supply.⁵⁵ Accordingly, it lowers the price that consumers are willing to pay in authorized outlets, causing a diminished profit margin for the manufacturer.⁵⁶ While this pressure may result in increased efficiency, it also may encourage the manufacturer to produce a more cheaply made product.⁵⁷ When it forces the manufacturer to do so, the gray market undercuts one of the primary functions of the trademark system: the production of quality goods.⁵⁸

2. Customs Regulations and Identical Goods

Section 526 of the Tariff Act of 1930 explicitly prohibits the importation of goods bearing a valid United States trademark without the written consent of the United States trademark owner.⁵⁹ In the 1970s, however, Customs administratively created broad exceptions to the statute.⁶⁰ These regulatory exceptions allow goods bearing a valid United States trademark to enter the country without the domestic markholder's con-

In addition, United States trademark owners assert that as an economic matter, when a different product is sold with a genuine trademark, the gray market retailer suffers almost no damage, as his share of the market will measure substantially less than that of the distributor. LEXECON STUDY, *supra* note 5, at 44-45. The gray retailer, therefore, has no vested economic interest in maintaining the product's market reputation. *Id.* at 45.

55. *E.g.*, LEXECON STUDY, *supra* note 5, at 45 (describing the harm to the distributor from the presence of the gray good in the domestic market).

56. *See id.* at 59 (Illustration 2) (demonstrating in table format the incentives of the gray market retailer as opposed to those of the manufacturer); *cf.* *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 317 (1987) (Brennan, J., concurring) (commenting that if the trademark owner wants to prevent losses from parallel importation of a licensee's products, it may always terminate the licensing agreement).

57. *See* LEXECON STUDY, *supra* note 5, at 47 (stating that the United States trademark owner may cease investing in the maintenance of product quality as a result of gray market sales); *Senate Hearing on S. 626, supra* note 3, at 137, 147 (statement of Carol Tucker Foreman) (arguing that gray market sales may lead to fewer products on the market and higher prices); *see generally* J. MAURICE CLARK, *STUDIES IN THE ECONOMICS OF OVERHEAD COSTS* 59-64 (1923) (describing the nature of selling costs and their relationship with production).

58. *See* MCCARTHY, *supra* note 45, § 2.01[2][a] (describing the effect of trademarks on the producer's incentive to maintain quality); Landes and Posner, *supra* note 43, at 268-72 (describing the incentives created by trademarks similarly).

59. 19 U.S.C. § 1526(a) (1994). An issue may exist as to whether § 526 constitutes a tariff or a trademark statute. *Compare* *Vivitar Corp. v. United States*, 761 F.2d 1552, 1557-60 (Fed. Cir. 1985) (upholding the Customs regulations, but claiming jurisdiction over the interpretation of this provision because the injunction sought did not involve an infringement as such, but related to the propriety of the Customs' enforcement), *cert. denied*, 474 U.S. 1055 (1986) *with* *Coalition to Preserve the Integrity of Am. Trademarks v. United States*, 790 F.2d 903, 904-05 (D.C. Cir. 1986) (finding general federal question jurisdiction in actions relating to trademarks), *aff'd in part and rev'd in part sub nom* *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988).

60. *K Mart*, 486 U.S. at 312. Between 1959 and 1972, the language of the Customs regulations mirrored that of § 526. *Id.* at 311.

sent if: (1) the United States and the foreign trademark are owned by the same entity; (2) the United States and the foreign mark holders are subject to "common control"; or (3) the goods bear a mark applied "under authorization of the U.S. owner."⁶¹

In *K Mart v. Cartier*,⁶² the Supreme Court considered whether these regulations constituted a proper construction of section 526.⁶³ The Court assumed that the parallel imports perfectly mirrored those sold by the American trademark owner.⁶⁴ In a divided opinion, the Court struck down the "authorized use" exemption, but left the "same entity" and common control exemptions standing.⁶⁵ As a result, American trademark owners must find less direct means of keeping gray goods out of the

61. *Id.* at 289-90 (citing 19 C.F.R. § 133.21(c)(1)-(3) (1987)). The current Customs regulations, promulgated at 19 C.F.R. § 133.21 (1995) provide that:

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

The regulations also state that if the above provisions are violated, the offending articles will be detained for 30 days, during which the importer may show that they meet one of the exceptions. 19 C.F.R. § 133.22(a). The failure to do so will cause Customs to institute forfeiture proceedings. *Id.* § 133.22(c).

Customs has defined "common control" as the existence of any relationship that allows one company to share effective control over the policy and operations of another. 19 C.F.R. § 133.2(d)(2). The companies do not need to share common ownership. *Id.*

62. 486 U.S. 281 (1987).

63. *Id.* at 291. The Court granted certiorari to resolve conflicts between the Courts of Appeals. *Id.* at 290. *Compare Vivitar*, 761 F.2d at 1557-60 (Fed. Cir. 1985) (upholding the Customs regulations, but claiming jurisdiction over the interpretation of this provision because the injunction sought did not involve an infringement as such, but related to the propriety of the Customs Service Enforcement), *cert. denied*, 474 U.S. 1055 (1988) with *Olympus Corp. v. United States*, 792 F.2d 315, 317-19 (2d Cir. 1986) (upholding the regulations as a reasonable construction of § 526), *cert. denied*, 486 U.S. 1042 (1988) and *Coalition to Preserve the Integrity of Am. Trademarks*, 790 F.2d at 907-08 (striking the Customs regulations as an unreasonable interpretation of § 526).

64. *See K Mart*, 486 U.S. at 290 n.3 (declining to address the interaction between the Customs regulations and § 42 of the Lanham Act, 15 U.S.C. § 1124 (1994), which bars the importation of products bearing trademarks that copy or simulate those of a United States trademark owner). The congruity of the Customs regulations with § 42 formed the issue addressed in *Lever Bros. Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989); *see also infra* notes 88-109 and accompanying text (describing the legal theories behind the *Lever* line of cases in greater detail).

65. *K Mart*, 486 U.S. at 293-94.

domestic market.⁶⁶

The *K Mart* Court envisioned gray market importation as occurring in one of three situations.⁶⁷ In the first scenario, an independent domestic firm buys the right to use a trademark in the United States from a foreign company only to find the foreign company itself importing the same goods into the country, thereby resulting in competition with the domestic trademark owner.⁶⁸ In the second case, the foreign trademark owner, its domestic subsidiary, or other United States entity related to the foreign trademark owner, registers the trademark in the United States.⁶⁹

66. See discussion *infra* notes 88-109 and accompanying text (discussing the use of § 42 of the Lanham Act to prevent importation when the goods are "materially different") and notes 135-92 (discussing the use of copyright law to prevent importation when no difference exists).

67. *K Mart*, 486 U.S. at 286.

68. *Id.*; see generally *A. Bourjois & Co., Inc. v. Katzel*, 275 F. 539, 539-40 (2d. Cir. 1921) (describing a situation in which the plaintiff bought exclusive distribution rights for foreign face powder only to find the face powder on sale at a competing retailer), *rev'd*, 260 U.S. 689 (1923).

69. *K Mart*, 486 U.S. at 286. This scenario forms the basis for the "same entity" and "common control" exemptions. See 19 C.F.R. § 133.21(c)(1), (2) (1995) (allowing the importation of goods bearing a valid United States trademark if the domestic trademark owner is either the same entity or shares common control with the foreign trademark registrant). In some cases, a foreign firm wishing to distribute its wares in the United States will incorporate a domestic subsidiary, and then register its trademark in the subsidiary's name. *K Mart*, 486 U.S. at 286; see also *supra* note 3 (describing the ubiquitousness of this corporate arrangement in the gray market context). Alternatively, however, an American company may create a manufacturing subsidiary abroad. *K Mart*, 486 U.S. at 286. If the products sold abroad by the manufacturing parent or the subsidiaries are imported into the United States, a gray market appears. *Id.* at 287; see also *supra* note 1 and accompanying text (defining the gray market).

In the United States, registration of a trademark gives the owner an exclusive privilege to use that mark. *Natural Footwear, Ltd. v. Hart, Schaffner & Marx*, 760 F.2d 1383, 1395 (3d Cir.), *cert. denied*, 474 U.S. 920 (1985). Until recently, a United States trademark owner could only register a trademark after using it in commerce. See *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260, 1265-66 (5th Cir. 1975) (requiring that, in order to receive registration, a trademark must be actually used in commerce and internal shipments do not qualify as use within the meaning of the Lanham Act), *superseded by statute*, 15 U.S.C. § 1051(b) (1994). Treaty obligations, however, required the U.S. to register a foreign trademark even if the foreign company's registration requirements differed drastically from those in the United States. See 15 U.S.C. § 1126(b), (d) (1994) (requiring the Patent and Trademark Office to register marks and extend the protection of the Lanham Act to any business that has registered a trademark in a country party to the same trademark agreements as the United States); Paris Convention, *supra* note 45, art. 6(3). Thus, a foreign entity could register its trademark abroad in a country without a use requirement, and then register the mark in the United States market. S. REP. NO. 515, 100th Cong., 2d. Sess. 5 (1988) (noting that foreign applicants could register the mark in the United States notwithstanding lack of use of the mark anywhere else). Although the judicially created "token use" doctrine eased the burden on American businesses, see generally *Fort Howard Paper Co. v. Kimberly-Clark Co.*, 390 F.2d 1015 (C.C.P.A. 1968) (holding that a sale of forty cases of toilet tissues and two hundred cases of facial tissue constituted enough use to

The importation of these goods into the United States by someone other than an entity related to the foreign trademark owner creates a gray market.⁷⁰ In the third scenario, the domestic markholder licenses the use of its mark in a specific region abroad, only to find the goods reappearing on the gray market.⁷¹ A majority of the justices agreed, albeit for differing reasons, that the statute only allows Customs to admit goods in the second scenario.⁷²

Justice Scalia, concurring in part and dissenting in part, asserted that the plain language of the statute nullified all three exceptions, and therefore inquiry into the legislative history was unnecessary.⁷³ Accordingly, all three of the exceptions contained in the Customs regulations exceeded

support a trademark registration), the use requirement nonetheless put American businesses at a competitive disadvantage. *See* S. REP. NO. 515, *supra*, at 6 (stating that although the token use doctrine eased competitive burdens for some businesses, it could not address the concerns of service industries such as banks, or others involving large and expensive products such as airplanes). In 1988, Congress amended the Lanham Act to allow American businesses to register their marks by demonstrating a bona fide intent to use the mark in commerce. P.L. 100-667, 102 Stat. 3935 (1988) (codified at 15 U.S.C. § 1051(b) (1994)).

70. *K Mart*, 486 U.S. at 286-87.

71. *Id.* at 287. Generally, the domestic trademark owner sells a foreign manufacturer the exclusive right to use its trademark in a United States location, conditioned on the foreign licensee's promise not to import its goods into the United States. *Id.* If the licensee imports its goods, it creates a gray market. *Id.*

72. *Id.* at 294; *see, e.g., id.* at 302 (Brennan, J., concurring) (finding the common control exemption a reasonable agency interpretation of § 526, and also finding that the foreign parent may prevent gray market importation through contractual means); *id.* at 291-94 (Kennedy, J., concurring) (describing the common control and same entity exceptions as permissible constructions due to the ambiguity in the statute); *id.* at 294 (finding the creation of an authorized-use exception an impermissible construction of § 526). Justice Scalia would have struck all three exemptions because of their conflict with the plain language of the statute; *see id.* at 318 (Scalia, J., concurring in part and dissenting in part).

73. *K Mart*, 486 U.S. at 318-29 (Scalia, J., concurring in part and dissenting in part). In construing the language of the Tariff Act, the majority first looked to its plain language, which, at first glance, seems to offer little room for the Customs interpretation. *Id.* at 291. The Act states:

. . . [I]t shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . 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 . . . unless written consent of the owner of such trademark is produced at the time of making entry.

19 U.S.C. § 1526(a) (1995).

Justice Scalia noted that the statutory language requiring the trademark to be "owned by" an American entity is ambiguous because some question may exist as to whether a foreign parent, by owning a domestic subsidiary, actually owns the mark. *K Mart*, 486 U.S. at 319 (Scalia, J., concurring in part and dissenting in part). That ambiguity becomes irrelevant, however, because the mark's ownership resides in a domestic entity regardless of the locus of the parent. *Id.*

the bureau's statutory authority.⁷⁴

Justice Kennedy, on the other hand, found ambiguity in the phrase "goods of foreign manufacture," claiming that the term could mean goods manufactured abroad, goods made by a foreign company, or goods manufactured abroad by a foreign company.⁷⁵ Given this alleged ambiguity in the statute, Justice Kennedy found Customs' construction of the statutory language with regard to the common control and same entity exemptions reasonable.⁷⁶ The statute's categorical exclusion of goods of "foreign manufacture," however, could not support the "authorized use" exception.⁷⁷

Although Justice Kennedy's brief concurrence provided a substantive rationale for the Court's holding,⁷⁸ Justice Brennan's concurrence provides greater insight into the Court's reasoning in upholding the common control exceptions.⁷⁹ Analyzing the statute's language, Justice Brennan found that the phrase goods of "foreign manufacture" could refer either to goods manufactured abroad or goods made by a foreign company.⁸⁰ In order to resolve that ambiguity, he looked to the legislative history of section 526.⁸¹ Justice Brennan concluded that Congress intended section 526 to prohibit the importation of genuine goods in one specific case, that of the independent United States business that buys a trademark from a foreign manufacturer, only to find the manufacturer importing the goods into the United States market.⁸²

74. *Id.* at 318 (Scalia, J., concurring in part and dissenting in part).

75. *Id.* at 292. (Kennedy, J., concurring). Justice Kennedy also found some ambiguity in the phrase regarding ownership. *Id.* If a wholly owned subsidiary of a foreign corporation holds title to the U.S. mark, the issue is whether the foreign corporation owned the mark by owning the subsidiary. *Id.* If so, then the goods fall outside the protection of the statute. *Id.*

76. *Id.* at 292-93.

77. *Id.* at 293-94; *id.* at 292 (Kennedy, J., concurring).

78. *Id.* at 292-93.

79. *See id.* at 295-317 (Brennan, J., concurring in part and dissenting in part).

80. *Id.* at 299.

81. *See id.* at 304-08.

82. *Id.* at 302-03 (concluding that *Katzel* provided the "major stimulus" for the enactment of § 526); *see also id.* at 307 (Brennan, J., concurring) (citing H.R. CONF. REP. NO. 1223, 67th Cong., 2d Sess. 158 (1922)); *A. Bourjois and Co. v. Katzel*, 275 F. 539, 543 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923); *see generally* 62 CONG. REC. 11,585-604 (1922) (evidencing Congress' intent to protect the United States trademark owner in this situation). In codifying the decision, Congress attempted to protect the territoriality of trademarks. Judge Hough of the Second Circuit (whose views the Supreme Court followed) summed up the doctrine nicely by noting that "a trade-mark [sic] is primarily a protection to the owner's business. It is attached to the business, is a part of it, and cannot be detached therefrom [The] genuine article has become an infringement because the business of dealing in that article within the United States is the plaintiff's business." *Katzel*, 275 F. at 543-44.

Despite American trademark owners' assertion that the statute should be read literally and allow no unauthorized importations, the "common control" exception survived.⁸³ Although the Court's holding in *K Mart*

Justice Brennan decried Justice Scalia's plain language approach as resting on the flawed assumption that Congress had clearly expressed its intent. *K Mart*, 486 U.S. at 315. In Justice Brennan's view, when postenactment development presents an uncertain implication of the statute's purpose, the Court should evaluate the extent to which the purpose of the statute would be furthered by following its directives in a new situation. *See id.* at 315-16 (drawing a parallel between deciding the issue in *K Mart* to determining the proper application of a 19th century statute requiring the inspection of ovens that may spew flames to modern microwave appliances). Analogizing to § 526, he argued that the reviewing court should examine to what degree the change in the conceptualization of trademark ownership from universal to territorial has implicated the statute's purposes. *Id.* at 316-17.

On this theory, Justice Brennan asserted that Congress intended § 526 only to remedy the inequity created in *Katzel*. *Id.* at 307. There, the plaintiff had bought the exclusive rights to sell face powder in the United States from a French manufacturer. *Katzel*, 275 F. at 539. The powder was manufactured in France, but boxed and retailed by an American company. *Id.* The French company continued to import the face powder and sell it in competition with that sold by the American business. *Id.* at 540. In upholding the right of the French company to sell the goods in the United States, the Second Circuit reasoned that because the good sold under the French trademark and the United States trademark came from the same source, there can be no infringement. *Id.* The Supreme Court, in overturning the Second Circuit, found that a trademark is territorial, and that it protects its owner's goodwill in a specific market. *Katzel*, 260 U.S. at 692.

By the same token, Justice Brennan would have upheld the authorized use exception, 19 C.F.R. § 133.21(c)(3) (1987), on the theory that the concept of territoriality in trademark rights had not developed cogently at the time of § 526's enactment. *K Mart*, 486 U.S. at 315 (Brennan, J., concurring in part and dissenting in part). "Any prescient legislator who could have contemplated that a trademark owner might license the use of its trademark would almost certainly have concluded that such a transaction would divest the licensor . . . of *all* trademark protection." *Id.* A view of trademarks as universal would preclude the possibility of assignment through a license. *See id.* Thus, the authorized use exception involved an application of the statute to a situation not foreseen by its drafters, and did not implicate the interests driving its enactment. *Id.*

As further support for his position, Justice Brennan notes that the floor debate expired before the question of whether an international corporation that registers a trademark through a United States domiciled entity or agent may have that entity enjoy parallel importation of those goods. *Id.* at 306 (citing 62 CONG. REC. 11,585, 11,605 (1922)). The exclusion of any specific answer to the question of "common control" heightened the deference entitled to Treasury's interpretation of the statute over the period following its enactment, which led to a series of exceptions to § 526 based on the relationship between the foreign parent and the American subsidiary. *See id.* at 309-11. Accordingly, the practice of parallel importation should be allowed to stand unless Congress speaks to silence it, and implicitly, Treasury's "long-standing agency position" of allowing gray market merchandise into the country evidenced Congress' intent that it continue. *Id.*

83. *K Mart*, 486 U.S. at 291. In deciding whether to defer to agency interpretation, the Court applied the two-part test developed in *Chevron U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837, 842-43 (1984). *K Mart*, 486 U.S. at 291. Under this analysis, if Congress unambiguously has stated its intent, the reviewing court cannot inquire further because it is bound to uphold the intent of the statute. *Chevron*, 467 U.S. at 842. However, if the statute is ambiguous, then the court must determine whether the agency has permissibly interpreted the statute. *Id.* at 843. The court does not have to agree; it

did not remove all the weapons from the legal arsenal of the manufacturer,⁸⁴ preventing the importation of gray market goods at the United States border became all but impossible because of the relationship that typically exists between a United States trademark owner and a foreign producer.⁸⁵ In the absence of legislation directly addressing parallel importation,⁸⁶ the opponents of the gray market turned to a theory that focused on the quality of the goods themselves.⁸⁷

3. *The Prevention of Brand Confusion and the Material Difference Standard*

Although the *K Mart* decision addressed the congruity of the Customs regulations with the Tariff Act, it did not address their relationship with federal trademark law and policy.⁸⁸ As discussed, the *K Mart* Court's

must only find the interpretation reasonable. *Id.* at 843 n.11. In *K Mart*, because of the ambiguity of the words "of foreign manufacture," the interpretation given by Customs passed the reasonableness test. *See K Mart*, 486 U.S. at 292 (Kennedy, J., concurring in part and dissenting in part), 294 (holding that the common control and same entity exemptions constitute a permissible construction of § 526).

The Court stated its distaste for overturning agency practice as one of the reasons for upholding the common control exemption, and, perhaps more importantly, the "immense domestic retail industry" that has grown around the importation of gray market goods. *Id.* at 312; *see also* J. Thomas Warlick IV, *Of Blue Light Specials and Gray-Market Goods: The Perpetuation of the Parallel Importation Controversy*, 39 EMORY L.J. 347, 404 (1990) ("K Mart is . . . a policy determination in the guise of statutory construction"). Justice Scalia's approach would have required Customs to detain *all* unauthorized genuine goods at the border. *See id.* at 318 (Scalia, J., concurring in part and dissenting in part). The Court may not have wanted to eliminate this entire industry by judicial fiat. *See K Mart*, 486 U.S. at 316 (Brennan, J., concurring in part and dissenting in part). Alternatively, the Court's holding could have recognized a concern that multinational corporations could otherwise profit twice from the sale of the same product: once when sold abroad, and again when the courts enjoin the importation of the gray good. Ghosh, *supra* note 2, at 380 (characterizing the *K Mart* decision in this fashion).

84. *K Mart*, 486 U.S. at 291. Despite the survival of 19 C.F.R. § 133.21 (c)(1) & (2), the foreign affiliate may still sue for infringement based on 15 U.S.C. § 1114(1)(a) (1994) (barring the use of a registered mark in conjunction with any goods if the use will cause consumer confusion) or for an injunction against the Customs service, if the Customs service's administration and enforcement of § 526 of the Tariff Act is improper. *See, e.g., Vivitar Corp. v. United States*, 761 F.2d 1552, 1558 (Fed. Cir. 1985) (finding jurisdiction over matters relating to § 526 on this basis), *cert. denied*, 474 U.S. 1055 (1986). The foreign affiliate may also bring suit. *Duracell, Inc. v. Global Imports, Inc.*, 12 U.S.P.Q.2d (BNA) 1651, 1653 (S.D.N.Y. 1989).

85. *See supra* note 3 (describing the structure of gray market importation).

86. *See generally* Yoshor, *supra* note 54, at 1383-90 (asserting that legislation is the only solution to the gray market phenomenon).

87. *See* discussion *infra* notes 89-109 and accompanying text (describing the use of the Lanham Act as a weapon against the gray market).

88. *See K Mart*, 486 U.S. at 290 n.3 (noting that the plaintiff had also asserted that the Customs regulations were at odds with § 42 of the Lanham Act, 15 U.S.C. § 1124 (1994),

interpretation of the Tariff Act prevents the importation of identical genuine goods when the importer will blatantly "free ride" on the marketing investments of an *independent* American trademark owner.⁸⁹ Section 526 only protects the United States trademark owner from gray market importation based on its relationship with the foreign trademark owner, and not based on any particular characteristics of the goods themselves.⁹⁰ Another problem with gray goods that may arise is that the goods prepared for sale abroad physically may differ in some respect from goods intended for sale domestically, thereby causing consumer confusion when they appear on the American market.⁹¹

Under the Lanham Act, if the United States trademark owner can prove that the unauthorized goods bear a material difference from those intended for domestic production, then it can either enjoin their importation at the border,⁹² or seek civil damages for trademark infringement.⁹³

which bars the importation of products bearing trademarks that copy or simulate those of a United States trademark owner).

89. See *supra* notes 78-82 and accompanying text (describing the Supreme Court's interpretation of the rationale behind the enactment of § 526 of the Tariff Act); see also *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1168 (S.D.N.Y. 1984) (dealing with gray market camera equipment). In *Osawa*, the "free ride" taken by the gray marketer caused a drop in sales, resulting in the layoffs of part of its repair force as well as a reduction in the efficiency of warranty service. *Id.* These layoffs have prompted some labor groups to oppose parallel importation. See *Senate Hearing on S. 626, supra* note 3, at 126-29 (statement of the AFL-CIO) (arguing that the sale of gray goods destroys jobs along the domestic distribution chain).

90. See 19 C.F.R. § 133.21(c)(1)-(2) (1995) (allowing the importation of goods bearing a United States trademark if the United States trademark owner is controlled by or shares common control with the foreign trade name or trademark owner). See also *supra* notes 59-86 and accompanying text (discussing the Supreme Court's treatment of these Customs regulations in *K Mart v. Cartier*).

91. See, e.g., *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 642-43 (1st Cir. 1992) (noting that chocolate destined for Venezuelan market has different flavoring characteristics than that destined for the United States); *Lever Bros. Co. v. United States*, 877 F.2d. 101, 103 (D.C. Cir. 1989) (observing that Sunlight brand soap slated for distribution in the United Kingdom is made for the harder water found there, and furthermore does not have to meet FDA standards); *Original Appalachian Artworks, Inc. v. Granada Elec., Inc.*, 816 F.2d 68, 72-73 (2d Cir.) (noting that Cabbage Patch dolls made by Spanish licensee had "adoption papers" in Spanish and did not provide for "birth-day card" delivery, as compared to the U.S. distributor), *cert. denied*, 484 U.S. 847 (1987); *Ferrero U.S.A., Inc. v. Ozak Trading Co.*, 753 F. Supp. 1240, 1247 (D.N.J.) (finding a caloric difference between Tic Tac mints destined for England and those intended for the United States), *aff'd*, 935 F.2d 1281 (3d Cir.), *rev'd on other grounds*, 952 F.2d 44 (3d Cir. 1991); *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951, 952 (S.D. Fla. 1986) (finding that allegations of differences in soap labeling and formulation will support an infringement claim under the Lanham Act).

92. *Lever Bros. Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993). The relevant parts of § 42 of the Lanham Act provide that no imported good that:

[S]hall copy or simulate the name of . . . [any] domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country

This protection also applies to United States affiliates of foreign trademark registrants because, "when identical trademarks have acquired different meanings in different countries, one who imports the foreign version to sell it under that trademark will (in the absence of some specially differentiating feature) cause the confusion that Congress sought to avoid."⁹⁴

For example, in *Lever Bros. v. United States*,⁹⁵ the United States Court of Appeals for the District of Columbia found that differences in the fragrance, color, and packaging of dish and deodorant soap between the domestic good and the gray import could cause consumer confusion.⁹⁶ In that case, the court considered specifically whether section 42 of the Lanham Act⁹⁷ prohibited Customs from admitting gray goods physically different from those sold by the United States trademark owner.⁹⁸ Although conceding that a trademark owner cannot infringe its own

which, by treaty, convention, or law affords similar privileges to citizens of the United States . . . or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse in the United States.

15 U.S.C. § 1124 (1994).

93. Section 32(1)(a) of the Lanham Act of 1946 provides that:

1) Any person who shall, without the consent of the registrant:

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 foods or services . . . with which such use is likely to cause confusion . . . shall be liable in a civil action by the registrant.

15 U.S.C. § 1114(1)(a) (1994).

Section 43(a)(1) of the Lanham Act provides that:

Any person who . . . uses in commerce any word, term, name, symbol . . . or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which . . . is likely to cause confusion . . . as to the origin, sponsorship, or approval of his or her goods . . . shall be liable in a civil action by any person who believes that he or she is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1) (1994). Despite the differing language of §§ 42 and 43, "liability necessarily turns on the existence *vel non* of material differences between the products of a sort likely to create consumer confusion." *Nestle*, 982 F.2d at 1340.

94. *Lever I*, 877 F.2d at 111.

95. 981 F.2d 1330 (D.C. Cir. 1993).

96. *Id.* at 1340.

97. 15 U.S.C. § 1124 (1994).

98. *Lever I*, 877 F.2d at 104. Prior to the *Lever* cases, Customs had ignored physical differences between goods when those goods bore valid marks from a manufacturer affiliated with the U.S. markholder. *Id.*; see 19 C.F.R. § 133.21(c)(2) (1995). Imported goods that do not differ physically from those sold by the United States trademark owner, however, do not violate § 42. See *Weil Ceramics and Glass, Inc. v. Dash*, 878 F.2d 659, 668 n.11 (3d Cir.), *cert. denied*, 493 U.S. 853 (1989).

mark, the court declared that the affiliation between parent and subsidiary becomes irrelevant when third parties import physically different goods.⁹⁹ Thus, if the third party has imported the materially differing good without the consent of the trademark owner, the same brand confusion results as if the trademark was infringed by an unaffiliated domestic competitor.¹⁰⁰

Although the *Lever* decision created the material difference standard, it gave little direction as to the proper manner in which it should be applied.¹⁰¹ In *Societe Des Produits Nestle v. Casa Helvetia*,¹⁰² the First Circuit stated that a reviewing court should center its inquiry on "subtle differences."¹⁰³ In determining whether the differences between the two

99. *Lever II*, 981 F.2d at 1338. The D.C. Circuit based its ruling on the principle of territoriality, which states that trademarks have different identities in different regions, and that the determination of a good's genuineness must be determined from the viewpoint of the consumer. *Id.* In determining that materially different goods infringe the trademark owner's rights under § 42 of the Lanham Act, 15 U.S.C. § 1124 (1994), the D.C. Circuit significantly undercut the effect of the *K-Mart* holding. *Lever II*, 981 F.2d at 1338; cf. *K Mart v. Cartier*, 481 U.S. 281, 295-96 (1987) (holding that Customs does not have to block the importation of goods bearing a trademark held by a U.S. affiliate).

Customs allowed the goods at issue into the country pursuant to the affiliate exception currently contained in 19 C.F.R. § 133.21(c)(2) (1994). *Lever II*, 981 F.2d at 1331. Although the meaning of § 526 of the Tariff Act of 1930 paralleled that of § 42 in the case of identical goods, the D.C. Circuit found nothing in the administrative practice of the Customs service or the legislative history of § 42 that warranted the admission of physically different products, even when the American trademark owner shares common control with the foreign manufacturer within the meaning of 19 C.F.R. § 133.2(d)(2). *Lever II*, 981 F.2d at 1338 (applying *Chevron U.S.A. v. Natural Resources Defense Council*, 467 U.S. 837, 842-43 (1984)). In sum, Customs cannot indiscriminately apply the affiliate exception upheld in *K Mart* — to the extent that the plain meaning of § 42 conflicts with the agency interpretation of § 526 contained in 19 C.F.R. § 133.21(c)(2), the plainly expressed intent must prevail. *Lever II*, 981 F.2d at 1333-34.

100. *Id.* (applying 17 U.S.C. § 1124 (1988)) (stating that physically different foreign goods bearing trademarks identical to those used in the United States are not genuine to the domestic consumer); *Lever I*, 877 F.2d at 108 (observing that differing conditions in the United States and the United Kingdom caused the plaintiff's trademarks to acquire different meanings in the two countries, and therefore the use of the English trademark in the United States is deceptive).

101. *Lever II*, 981 F.2d at 1332, 1338; see also *Lever I*, 877 F.2d at 111 (describing the consumer confusion caused by materially different trademarks).

102. 982 F.2d 633 (1st Cir. 1992).

103. *Id.* at 641 (citing *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, 1243-44, 1247 (D.N.J.), *aff'd*, 935 F.2d 1281 (3d Cir.), *rev'd on other grounds*, 952 F.2d 44 (3d Cir. 1991)).

Nestle involved the unauthorized importation of chocolate destined for the Venezuelan market. *Nestle*, 982 F.2d at 635. The chocolates originated in Italy, but Nestle licensed an independent distribution company to manufacture them in Venezuela. *Id.* After discontinuing its distribution arrangements in Puerto Rico with the defendant, Nestle's ex-distributor bought the Venezuelan chocolates from a middleman and sold them in Puerto Rico without Nestle's consent. *Id.*

types of chocolates were material, the court looked to five specific factors: quality control, composition, configuration, packaging, and price.¹⁰⁴ The court held that the unauthorized goods infringed Nestle's mark, as the products intended for sale in the United States market differed from the Venezuelan ones with respect to these factors.¹⁰⁵ Thus, a "material difference" in products must be determined on a case-by-case basis and may turn on extremely small factual distinctions.¹⁰⁶

The need for detailed factual findings like those supporting the holding in the *Nestle* decision sends a simple message to a manufacturer wishing to eliminate or discourage unauthorized importation of its goods: make sure that the goods have slight, but tangible differences in each regional marketplace, "for it is by subtle differences that consumers are most easily confused."¹⁰⁷ If a company imports the goods into the United States without authorization, then the trademark law will protect the domestic trademark owner's goodwill.¹⁰⁸ Yet, trademark law still renders a plain-

104. *Id.* at 642-43. In applying these criteria, the *Nestle* court looked at differences not readily apparent to the customs official for the purposes of § 42 of the Lanham Act without the expenditure of significant investigative effort. Differences in "milk fat content," for example, could be "potentially significant." *Id.* at 644. With regard to packaging and configuration, the Court looked at "differences in presentation and chocolate shape." *Id.* at 643. Nonetheless, although administrative realities may allow these infringing goods to enter the domestic market because of the level of factual analysis the *Nestle* decision requires, the American trademark owner will still have recourse under § 43 and § 32(a)(1). See *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 23-24 (S.D. Fla. 1985) (finding, in a case where materially different goods have entered the country, that the defendant had infringed the plaintiff's trademark under § 43 and § 32). *But cf. supra* note 27 (discussing a blanket rule proposal implementing the *Lever* and *Nestle* decisions).

105. *Nestle*, 982 F.2d at 644.

106. *Id.* at 641. ("[w]ith 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"). Given the volume of goods coming into the United States daily, however, one wonders how Customs will be able to administrate these subtle differences.

107. *Nestle*, 982 F.2d at 641. *But see* *Gorelick and Little, supra* note 1, at 214, (suggesting additionally that the manufacturer sells the good at the same price in the United States and abroad). However, this latter suggestion somewhat sweepingly assumes that price discrimination causes gray market importation, when the weight of evidence suggests that currency fluctuation causes it. See *supra* note 2 (discussing the effect of changing currency rates on gray market importation).

108. See Barry P. Miller, *New Risks to Importers of Gray Market Goods*, TRADEMARKS AMERICA, April 1993, at 18 (asserting that *Lever* and *Nestle* increase the risk of gray market activity). Miller also points out that because § 42 of the Lanham Act does not require that the owner of the mark be a U.S. citizen or corporation, a domestic trademark owner could theoretically use the law to prevent either the re-importation of American manufactured goods or the importation of foreign goods that meet the *Nestle* physical differences test. *Id.* at 16; *cf. also Nestle*, 982 F.2d at 638-40 (omitting any discussion regarding the nationality of the plaintiff as a relevant factor in determining liability). For a thorough discussion of the implications of the *Lever* decisions, see generally Theodore H. Davis, Jr., *Lever Bros. v. United States and the legality of Gray Market Imports: A New Shield (R) for*

tiff unable to prevent gray imports physically identical to those sold by the authorized distributor.¹⁰⁹

C. *The Appeal of Copyright and the Immateriality of Difference*

The United States copyright system, like its English ancestor,¹¹⁰ is a creature of the legislature, provided entirely by statute.¹¹¹ Section 106 of the Copyright Act of 1976¹¹² enumerates the five basic rights of the copyright holder: reproduction,¹¹³ the preparation of derivative works,¹¹⁴ dis-

United States Trademark Owners in Transnational Markets, 28 WAKE FOREST L. REV. 571 (1993) (examining the *Lever* decision's interaction with § 526 of the Tariff Act, as well as traditional trademark doctrine). One scholar asserts that, as an economic matter, the trademark law should protect the American public from undifferentiated materially different gray imports. See Ghosh, *supra* note 2, at 374, 428, 434 (demonstrating that materially different gray market goods, if unlabeled, could negatively affect consumer welfare).

109. See *Weil Ceramics and Glass, Inc. v. Dash*, 878 F.2d 659, 685 (3d Cir. 1989) (stating that the importation of identical goods is not an infringement), *cert. denied*, 493 U.S. 853 (1989); cf. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 290 n.3 (1987) (declining to address the implications of gray market importation under 19 C.F.R. § 133.21(c)(1)&(2) on federal trademark law and policy).

110. See *An Act for the Encouragement of Learning, by Vesting the Copies of Printed Books in the Author's or Purchasers of Such Copies*, 8 Anne, c.19 (1709), reprinted in 3 FARRAND, *THE FOUNDERS' CONSTITUTION* 36 (Philip B. Kurland & Ralph Lerner eds., 1987). In order to encourage "learned men to compose and write useful books," the Act gave authors "the sole right and liberty of printing such book and books for the term of one and twenty years." *Id.*

As in England, the commercial and cultural advances created by this limited grant drove the enactment of colonial legislation, see James Madison, *Act Securing Copyright for Authors*, Virginia House of Delegates, 8 *The Papers of James Madison* 418-19, reprinted in FARRAND, *supra*, at 39, and eventually, a provision in the Constitution granting Congress authority to enact copyright statutes. U.S. CONST., art. 1, § 8, cl. 8. (expressly granting Congress the power to "promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their Respective Writings and Discoveries"). James Madison noted that "[t]he utility of this power will scarcely be questioned. . . . The States cannot separately make effectual provision for either of the cases, and most of them have anticipated the decision of this point, by laws passed at the instance of Congress." THE FEDERALIST No. 43 (James Madison). The Founders' faith in the production incentives created by the copyright system appears to be well founded; industries that have the benefit of copyright have generally outgrown other sectors of the economy. See STEPHEN E. SIWEK AND HAROLD FURCHTGOTT-ROTH, *COPYRIGHT INDUSTRIES IN THE U.S. ECONOMY: 1977-1990* 7 (1992). The "core" copyright industries (news-papers, periodicals, movies, advertisements, and computer software) grew at an annual compounded rate of more than 6.2%, as compared to a 2.4% growth rate for the rest of the economy. *Id.*

111. *Wheaton v. Peters*, 33 U.S. (8 Pet.) 591, 658 (1834) (stating that, under the common law of the United States or England, an inventor does not have a perpetual monopoly on his invention); see also *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279, 281 (2d Cir. 1929) (adamantly declining to create a common law copyright system), *cert. denied*, 281 U.S. 728 (1930).

112. Pub. L. No. 94-553, 90 Stat. 2546 (1976) (codified at 17 U.S.C. § 106 (1994))

113. 17 U.S.C. § 106(1) (1994) (giving the copyright holder the right to duplicate his

tribution,¹¹⁵ public performance,¹¹⁶ and display.¹¹⁷ Over the last two centuries, parties have litigated the scope of that statutory grant in nu-

works). A copyright protects a work embodied in a "fixed" medium of expression, meaning one embodied in a "permanent or stable" form. *Id.* § 101. Reproduction, therefore, for the purposes of the Act, does not always equal "copying," as some reproduction may not result in a "fixed" object. 2 NIMMER ON COPYRIGHT § 8.02[A] (1995); see *Corcoran v. Montgomery Ward & Co.*, 121 F.2d 572, 573-74 (9th Cir.) (holding that the protection afforded the copyright holder is limited to the form in which the work is registered; for example, setting a copyrighted narrative poem, registered as a book to music did not constitute a reproduction of the poem for the purposes of the statute), *cert. denied*, 314 U.S. 687 (1941).

114. 17 U.S.C. § 106(2). Section 101 of the statute defines a derivative work as one "based upon one or more preexisting works, such as a translation, musical arrangement, dramatization, fictionalization . . . or any other form in which a work may be recast, transformed, or adapted." *Id.* § 101; see also *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1343 (9th Cir. 1988) (finding that tiles made from the artworks contained in a book qualify as derivative works), *cert. denied*, 489 U.S. 1018 (1989); *Harry Fox Agency, Inc. v. Mills Music, Inc.*, 543 F. Supp. 844, 849 (S.D.N.Y. 1982) (defining a derivative work as one "substantially derived from an underlying work"), *rev'd*, 720 F.2d 733 (2d Cir. 1983), *rev'd*, 469 U.S. 153 (1985).

115. 17 U.S.C. § 106(3) (1994). See 2 NIMMER, *supra* note 113, § 8.11[a] (noting that only distribution to the "public at large" will infringe the distribution right). In order to violate this right, an infringer must actually give the physical object in which the copyright is embodied to members of the public; again, like the reproduction right of § 106(1), a performance of the work would not infringe the rights of the copyright holder under the distribution section. See *National Car Rental Sys., Inc. v. Computer Assoc. Int'l, Inc.*, 991 F.2d 426, 434 (8th Cir. 1993) (holding that allowing other companies to use a copyrighted software program that has been exclusively licensed to the original user does not constitute an infringement of the distribution right because no actual copies were made), *cert. denied*, 114 S. Ct. 176 (1993).

116. 17 U.S.C. § 106(4). Section 101 defines performance as the recital or other playback of a work on any type of device. 17 U.S.C. § 101. In order to provide a cause of action under the statute, however, the performance must also be public. 2 NIMMER, *supra* note 113, § 8.14[C]. The playing of a movie to family and friends, therefore, although technically a performance, would not infringe the rights of the copyright holder because it is not a public performance. H.R. REP. NO. 1476, 94th Cong., 2d Sess. 64 (1976), *reprinted in* 1976 U.S.C.C.A.N. at 5659, 5677 (1976) [hereinafter H.R. REP. NO. 1476].

117. 17 U.S.C. § 106(5). Section 101 defines display as the showing of a copy of a work "by means of a film, slide, television image, or any other device or process." *Id.* § 101. The display must also be public. See 2 NIMMER, *supra* note 113, §§ 8.14[C], 8.20[A] (outlining the elements of the publicity requirement and noting that a display must be public to violate the Copyright Act). The owner of a lawfully made copy, however, generally may display the work with impunity, provided that the owner displays the work directly or one image at a time, and that the viewer be present in the same place in which the work is located. *Id.* § 8.20[B]. Display, as opposed to performance, involves the showing of part of a work. *Cf.* 17 U.S.C. § 101 (1994) (defining the display of a motion picture as the showing of nonsequential images); *Red Baron Franklin-Park, Inc., v. Taito Corp.*, 883 F.2d 275, 279 (4th Cir. 1989) (distinguishing performance, e.g., the showing of images in order, from display, e.g., the showing of the same pictures out of sequence), *cert. denied*, 493 U.S. 1058 (1990); 2 NIMMER, *supra* note 113, § 8.20[A] (noting that the images of a work must be shown sequentially to constitute a performance and, conversely, that the nonsequential display of images does not violate the Act).

merous contexts.¹¹⁸ In the 1980s, practitioners found a relatively novel use for the copyright system: to use it to circumvent the affiliate exception upheld in *K Mart*.¹¹⁹ This use of the copyright law, as a practical matter, became another wedge in solving what was mainly a trademark problem.¹²⁰

Despite the inroads made in the *Nestle* line of cases regarding “material differences,”¹²¹ the domestic trademark owner still needed a way to prevent the sale of gray market goods if they: 1) perfectly mirrored those sold in the United States; and 2) bore a United States trademark owned by a United States affiliate of a foreign trademark registrant.¹²² The sword of trademark is inherently limited by its purpose—preventing brand confusion and encouraging the presence of quality goods on the

118. See, e.g., *Twentieth Century Music Co. v. Aiken*, 422 U.S. 151, 155, 162-64 (1974) (holding that a restaurant owner playing a copyrighted musical composition received over a licensed radio station has not infringed the rights of the holder, and noting in *dictum* that singing someone else’s song in the shower is also not an infringement); *Bellsouth Advertising & Pub. Corp. v. Donnelly Info. Pub., Inc.*, 933 F.2d 952, 960 (11th Cir. 1991) (holding that transferring the overall format of a rival’s telephone directory onto a computer medium constitutes an infringement of the rival’s copyrighted compilation), *vacated*, 977 F.2d 1435 (11th Cir. 1992); see also *Daly v. Webster*, 56 F. 483, 487-88 (2d Cir. 1892) (holding that the classic dramatic scene in which a hapless victim is bound to train tracks and subsequently rescued is “common literary property” and unprotected by copyright law provided the familiar elements of the story are simply adjusted or rearranged), *appeal denied*, 163 U.S. 155 (1896).

119. See, e.g., *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988) (describing the domestic copyright holder’s claim that the unauthorized importation of goods bearing a United States copyright infringed its rights under § 602, but holding that the sale of the goods abroad may extinguish § 602’s protection); *Neutrogena Corp. v. United States*, 7 U.S.P.Q.2d (BNA) 1900, 1903 (D.S.C. 1988) (adjudicating a similar claim); *Cosmair, Inc. v. Dynamite Enters.*, 226 U.S.P.Q. (BNA) 344, 346-47 (S.D. Fla. 1985) (same); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985) (holding that the sale of Trivial Pursuit games in the United States that were intended for sale in Canada infringes the rights of the U.S. copyright holder).

120. See *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 286-87 (1987) (describing the three general contexts in which gray market importation arises); see also *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984) (describing the harm to the trademark owner caused by the sales of gray market imports); see also *supra* notes 43-58 and accompanying text (providing an overview of the gray market).

121. *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992) (establishing a low threshold of “subtle differences” whether a material difference exists between a U.S. trademark owner’s product and the gray market import). See *supra* notes 88-109 and accompanying text (discussing the development of the material difference doctrine).

122. *Weil Ceramics and Glass, Inc. v. Dash*, 878 F.2d 659, 675 (3d Cir.) (holding that a domestic trademark owner affiliated with a foreign trademark owner may not bring a trademark suit against its foreign affiliate), *cert. denied*, 493 U.S. 853 (1989); *NEC Elec. v. CAL Circuit Abco*, 810 F.2d 1506, 1509-10 (9th Cir.) (holding that a domestic subsidiary of a foreign manufacturer may not invoke the Lanham Act against companies that buy identical goods abroad to sell in the United States), *cert. denied*, 484 U.S. 851 (1987).

market.¹²³ When the consumer buys an identical gray good and is satisfied with the product, theoretically, the transaction runs no less efficiently than one involving an authorized import.¹²⁴ Indeed, consumers buy gray market goods because they think that they are getting the same product for less money, and the advertising practices of gray market retailers reflect that fact.¹²⁵ The identical gray good, therefore, does not directly subvert the policy directives that the trademark law advances.¹²⁶

In contrast, copyright law has different policy goals that make it an attractive weapon for fighting the gray market.¹²⁷ First, the issue of consumer confusion, and its deleterious effects on competition¹²⁸ generally bears no relevance to copyright law. Instead, copyright law strives to advance public welfare by allowing authors and inventors to control the exploitation of their works.¹²⁹ In copyright cases involving parallel

123. See McCARTHY, *supra* note 45, § 2.01[2] (describing the economic benefits of trademarks); Landes and Posner, *supra* note 43, at 268-72 (defining the purposes of trademarks similarly).

124. Cf. Landes and Posner, *supra* note 43, at 268-70 (stating that the consumer's identification of the qualities associated with a particular brand via the trademark makes market transactions more efficient by reducing search costs). Other policy objectives, however, may become implicated by the transaction. For example, if goods bought on the gray market were made abroad and competed against goods manufactured in the United States, the purchase of those goods would deny the domestic manufacturer the revenue from its sale, possibly causing the domestic manufacturer to lay off some of its labor force. Cf. *In re Certain Alkaline Batteries*, 225 U.S.P.Q. (BNA) 823, 838 (1984) (observing that the revenue lost from the sale of gray market goods caused a loss of goodwill on the part of the American trademark, low morale among sales personnel and lower production).

125. See *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1167 (S.D.N.Y. 1984) (noting that, to the extent that the gray market retailer advertises the brand name, it is only in a one-line-per-item listing to indicate low prices).

126. McCARTHY, *supra* note 45, § 2.01[1] (noting that trademark law advances the policies of "consumer protection, property rights, economic efficiency, and universal concepts of justice"). By positively identifying a manufacturing source, the trademark promotes the production of quality products. *Id.* § 2.01[2][a], at 2-4. Second, by identifying the source of manufacture, the trademark makes the market more efficient by decreasing the consumer's cost of collecting information about products. *Id.* § 2.01[2][b], at 2-7. See also Landes and Posner, *supra* note 43, at 268 (describing the trademark as a marketing shortcut). The purpose of copyright law, on the other hand, revolves around the provision of production incentives for authors and inventors. See U.S. CONST. art. I, § 8, cl. 8; THE FEDERALIST No. 34 (James Madison).

127. The Supreme Court has made it clear that courts should not draw analogies between the two areas. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n.19 (1983) (noting that the standard used to determine contributory infringement in a trademark suit does not apply in the copyright arena); see also *United Drug Co. v. Theodore Rectanus Co.*, 248 U.S. 90, 97 (1918) (stating that equating trademark rights with those granted by a copyright is a "fundamental error").

128. See McCARTHY, *supra* note 45, § 2.03.

129. H.R. REP. NO. 2222, 60th Cong., 2d Sess. (1909), reprinted in E. FULTON BRYLAWSKI AND ABE GOLDMAN, 6 LEGISLATIVE HISTORY OF THE 1909 COPYRIGHT ACT S1-S21 (1976). As the House Judiciary Committee stated in 1909:

importation, it is precisely the similarity of the imported item to the domestic one that creates an infringement.¹³⁰

Second, the Copyright Act makes unauthorized importation of a copyrighted work acquired outside the United States an infringement of the distribution right under § 106.¹³¹ Unlike trademark and tariff case law, the affiliation of the American copyright holder with a foreign producer is irrelevant to the question of infringement.¹³² In this sense, § 106(3) grants a right to control distribution.¹³³

Third, the Copyright Act's damage remedies enhance its allure as a weapon against gray market importation. Among the remedies available

The enactment of copyright legislation by Congress . . . is not based upon any natural right that the author has in his writings . . . but upon the ground that the welfare of the public will be served and progress of science and useful arts will be promoted by securing to authors for limited periods the exclusive rights to their writings.

Id. at 57; *see also Sony*, 464 U.S. at 429 (1983) (stating that “[The copyright law] is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired”); *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (noting that “[p]rivate motivation must ultimately serve the cause of promoting broad public availability of literature, music and the other arts”); *American GeoPhysical Union v. Texaco, Inc.*, 802 F. Supp. 1, 9 (S.D.N.Y. 1992) (commenting that the copyright laws encourage the growth of knowledge by guaranteeing the author the opportunity to profit from his writings), *aff'd*, 37 F.3d 881 (2d Cir. 1994), *cert. dismissed*, 116 S. Ct. 592 (1995); *see also supra* notes 110-11 (discussing the historical incentives behind the enactment of copyright legislation).

Congress has deemed the policy goals advanced by this protection important enough to require only that a work be “original,” and does not require that it have “novelty, ingenuity, or esthetic merit.” H.R. REP. NO. 1476, *supra* note 116, at 51, *reprinted in* 1976 U.S.C.C.A.N. at 5664; *see also Feist Publications, Inc. v. Rural Tel. Service*, 499 U.S. 340, 346 (1991) (noting that the word ‘original’ as used in the copyright context means only that the work was independently created by the author and possesses a minimal amount of creativity). Another attraction, therefore, is the ease with which a manufacturer theoretically could create a protectable work. *See generally* NEIL BOORSTYN, COPYRIGHT LAW § 2.2 (1981) (describing the nature of the originality standard); *see also Sebastian Int'l, Inc., v. Consumer Contacts (PTY) Ltd.*, 664 F. Supp. 909, 913 (D.N.J. 1987) (finding the requisite originality on a shampoo label's description of the product's properties).

130. *See, e.g., CBS, Inc. v. Casino Record Distribs. of Fla., Inc.*, 654 F. Supp. 677, 678-79 (S.D. Fla. 1987) (finding that the defendant violated § 602 through the importation of legally made works identical to those sold by the American copyright holder); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 972 (N.D. Cal. 1986) (holding similarly); *Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49-50 (E.D. Pa. 1983) (holding similarly), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984).

131. 17 U.S.C. § 602(a) (1994).

132. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482-83 (9th Cir. 1994) (declining to create an affiliate exception to § 602), *cert. denied*, 115 S. Ct. 1315 (1995); *see also infra* notes 201-29 and accompanying text (describing the legislative history of § 602).

133. 17 U.S.C. § 106(3) (1994).

to the successful plaintiff¹³⁴ are injunction,¹³⁵ actual and statutory damages,¹³⁶ and, most importantly, attorney's fees.¹³⁷ As both the gray marketer and the manufacturer usually pursue their positions aggressively, the prospect of paying the other side's lawyers greatly increases the risks of gray market importing.¹³⁸

The distribution right of § 106(3), and the attendant importation restriction, however, find their limitations in the "first sale doctrine" codified in § 109(a), which limits the copyright owner's right to control future transfers of once the first sale is made.¹³⁹ Despite the attractiveness of this particular body of law to address the gray market problem, the plain

134. *Cf. id.* § 501(a) (stating that infringement occurs upon the violation of any of the copyright holder's rights in §§ 106-118, or the importation of copies or phonorecords in violation of § 602).

135. *Id.* § 502(a) (granting any court with jurisdiction the power to grant temporary and final injunctions to prevent or restrain copyright infringement).

136. *Id.* § 504(b), (c). The plaintiff can compute damages through a number of schemes. In addition to its own lost profits, the copyright holder is entitled to any profits acquired by the infringer. *Id.* § 502(b). The copyright owner only must show the gross receipts of the infringer. *Id.* § 504(a)(1). Once he does, the burden shifts back to the infringer to demonstrate deductible expenses "and the elements of profit attributable to factors other than the copyrighted work." *Id.* § 504(b).

The copyright holder also has the option to accept an award of statutory damages between \$500 and \$20,000 before final judgment; Congress left the amount awarded within that range to the discretion of the court. *Id.* § 504(c)(1). Furthermore, if the plaintiff proves that the infringement was committed "willfully" (i.e. with the knowledge that the action in question infringed the copyright), the plaintiff could receive as much as \$100,000. *Id.* § 504(c)(2). By the same token, the defendant's unawareness that his acts constituted infringement may lead the court to reduce the damages. *Id.*

Section 412 of the Act, however, conditions the award of statutory damages and attorneys fees on timely registration. 17 U.S.C. § 412 (1994). Courts will not award either remedy to a successful plaintiff if copyright infringement occurred after the publication of a work but before its registration, unless the copyright is registered within three months of initial publication. *Id.* (also denying statutory damages and attorneys' fees for infringement commenced before the effective date of registration of a copyright in unpublished works). Congress limited the applicability of both remedies to encourage the prompt registration of published works. *See* H. REP. NO. 1476, *supra* note 116, at 158 (noting that because the Act does not compel copyright registration, some means of inducing the prompt registration of works is necessary), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5774.

137. 17 U.S.C. § 505 (making the award of fees entirely discretionary). The Supreme Court recently announced that in determining whether the prevailing party should receive attorney's fees, a reviewing court should consider the totality of the circumstances surrounding the suit, including its frivolousness, motivation, objective unreasonableness, and the need to further the related considerations of compensation and deterrence. *Fogarty v. Fantasy, Inc.*, 114 S. Ct. 1023, 1033 n.19 (1994).

138. *Cf. Hansen, supra* note 2, at 250 & n.7 (noting the intervention on behalf of the importers by two prominent retailers and permanent development of a trade association, the Coalition to Preserve the Integrity of American Trademarks (COPIAT), on the behalf of American trademark owners).

139. 17 U.S.C. § 109(a) states: "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person

language of these two sections leaves uncertain whether the provisions of § 109 also limit the importation rights of the copyright holder under § 602.¹⁴⁰ The case law has yielded inconsistent answers.¹⁴¹

II. JUDICIAL CONSTRUCTION OF THE COMPETING SECTIONS

A conflict has developed in the federal circuits over the proper interaction between the importation restriction contained in § 602 and the first sale right embodied in § 109.¹⁴² The problem stems from the wording of the two sections. An importation of a copyright owner's work without his consent infringes the distribution right under § 106.¹⁴³ Section 109, however, expressly terminates the copyright holder's right to control distribution once a particular copy of a work has been sold.¹⁴⁴ Thus, the question has arisen as to how courts should treat the unauthorized importation of a copyrighted work first sold abroad.¹⁴⁵ In answering this question, an

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.*

Piracy problems in the computer software business led Congress to enact a special exception to the provisions of § 109: computer software, once bought, cannot be rented or leased for profit. The Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, 104 Stat. 5134 (1990) (codified at 17 U.S.C. § 109(b) (1994)). For a thorough discussion of these provisions, see Kenneth R. Corsello, Note, *The Computer Software Rental Amendments Act of 1990: Another Bend in the First Sale Doctrine*, 41 CATH. U. L. REV. 177 (1991).

140. See *infra* notes 141-44 and accompanying text (discussing the plain language of § 109 and § 602).

141. See *infra* notes 142-99 and accompanying text (describing the Circuit Courts of Appeals' conflicting constructions of these sections).

142. Compare generally *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991) (finding a § 602 violation), *cert. denied*, 505 U.S. 1206 (1992), and *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 479 (9th Cir. 1994) (same), *cert. denied*, 115 S. Ct. 1315 (1995) with *Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988) (finding no violation). See also *infra* notes 148-99 and accompanying text (describing the Circuit Courts of Appeals' conflicting constructions in these cases).

143. 17 U.S.C. § 602(a) (1994).

144. *Id.* § 109(a).

145. Different courts have found different answers. Compare *BMG Music*, 952 F.2d at 319 (recognizing that "the first sale doctrine in 17 U.S.C. § 109(a) does not . . . provide a defense to infringement under 17 U.S.C. § 602 for goods manufactured 'abroad'"); *Givenchy*, 38 F.3d at 482 n.7 (declining to consider the outcome in *Sebastian*) with *Sebastian*, 847 F.2d at 1098 (using a different construction of sections 109 and 602 to arrive at the opposite result for domestically manufactured goods).

Unfortunately, the seminal importation restrictions shed no light on the newer and more sweeping restriction of § 602. Restrictions on the importation of copyrighted works predate the ratification of the Constitution, see James Madison, An Act Securing Copyright for Authors, Virginia House of Delegates, 16 Nov. 1785, reprinted in 3 FARRAND, *supra* note 110, at 39 (stating that anyone who "shall import into this commonwealth, from any foreign kingdom or state, any printed or re-printed copies of such book or pamphlet, without the consent of the author or proprietor thereof first obtained in writing . . . shall forfeit

odd focus on the site of manufacture has emerged,¹⁴⁶ despite Congress' explicit statements that the Copyright Act's manufacturing requirements and the importation right granted in § 602 exist independently of one another.¹⁴⁷

A. *The Development of the Manufacturing Requirement*

The first case addressing the effect of § 109's first sale doctrine on

to the party injured, double the value of all copies so printed"), and have appeared in each revision of the copyright law since the formation of the Republic. *See* The Copyright Act of 1790, ch. 15, 1 Stat. 124 (barring importation of a copyrighted article without the copyright owner's consent).

In a later revision, Congress added a provision making it an infringement to import books printed abroad. *See* Act of March 3, 1891, ch. 565, § 7, 26 Stat. 1106, 1109 (1891). The last substantial revision of the Copyright Act before 1976 occurred in 1909, and that statute also contained similar protective language. *See* The Copyright Act of 1909, ch. 302, § 15, 35 Stat. 1075, 1078-79 (1909), *reprinted in* 6 BRYLAWSKI AND GOLDMAN, *supra* note 129, § 15, at T109-110 (requiring books to be printed within the United States or on plates type-set within the United States in order for the work to enjoy copyright protection). In the 1909 Act, the importation restrictions applicable to non-literary goods barred only the importation of piratical items or those bearing a false notice of copyright. *Id.* Section 32 of the 1909 Act, which applied to literary and non-literary works, prohibited the importation of any article bearing a false notice of copyright when no American copyright existed, or of any piratical copies of any work copyrighted in the United States. Copyright Act of 1909, 35 Stat. 1075, 1082 (1909), *reprinted in* 6 BRYLAWSKI & GOLDMAN, *supra* note 129, § 32, at T120.

The current version of the copyright law, like its predecessors, also included a provision requiring books to be printed within the United States, or on plates type-set within, to enjoy copyright protection. 17 U.S.C. § 601(c)(1) (1994). Congress designed these restrictions as a protection for the printing industries. *See* H.R. REP. NO. 1476, *supra* note 116, *reprinted in* 1976 U.S.C.C.A.N. at 5780-81; H.R. REP. NO. 2222, at 11-13, *reprinted in* 6 BRYLAWSKI AND GOLDMAN, *supra* note 129, at S12-S13. However, the manufacturing restrictions that survived the 1976 revision expired in July of 1986. *See* 17 U.S.C. § 601(a) (1994). The expiration of § 601(a) undercuts the interpretation of § 602 that places an emphasis on the situs of manufacture of a given work when determining whether an infringement of the importation right has occurred. *See infra* note 147 (discussing Congress' expression of intent regarding § 601).

For a thorough examination of these earlier revisions, see Perl, *supra* note 21, at 653-56.

146. *See infra* notes 163-98 and accompanying text (describing the necessity of a manufacturing requirement as a basis of distinction).

147. H.R. REP. NO. 1476, *supra* note 116, at 169, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785 (stating flatly that § 602 "has nothing to do with the manufacturing requirements of section 601," as they address two distinct problems). This exact report language accompanied § 602's import restriction throughout the history of its development. *See* S. REP. NO. 473, 94th Cong., 1st Sess. 151 (1975); S. REP. NO. 983, 93d. Cong., 2d Sess. 200 (1974); H.R. REP. NO. 83, 90th Cong., 1st Sess. 138 (1967); H.R. REP. NO. 2237, 89th Cong., 2d Sess. 166 (1966); COPYRIGHT LAW REVISION PART 6, 89TH CONG., 2D SESS, SUPPLEMENTARY REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 148 (Comm. Print 1961); *see generally* COPYRIGHT LAW REVISION STUDY NO. 35, 86th Cong., 2d Sess. (1963) (outlining the history of the manufacturing provision); *supra* note 144 (discussing past versions of the manufacturing requirement).

§ 602's importation right, *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*,¹⁴⁸ involved phonorecords imported into the United States, but only licensed for production and sale in the Philippines.¹⁴⁹ Immediately prior to the termination of the licensing agreement, a jobber¹⁵⁰ bought several thousand copies of the recording from the Philippine corporation, and imported them into the United States.¹⁵¹ The American copyright owner sued for infringement, alleging that by bringing those records into the United States, Scorpio had infringed the copyright holder's rights under § 602.¹⁵² The defendant responded by arguing that § 109 shielded him from liability.¹⁵³ Focusing on § 109's phrase "lawfully made under this title", the District Court for the Eastern District of Pennsylvania refused to extend the reach of the first sale doctrine beyond United States borders without express statutory authorization, and held that the plaintiff's right to prevent unauthorized importation did not expire with the sale of the recordings in the Philippines.¹⁵⁴ Accordingly, the court concluded that the first sale defense would succeed only if used to avoid liability for the importation of copies first made *and* sold in the United States.¹⁵⁵

In *Cosmair v. Dynamite Enterprises*,¹⁵⁶ the situs of sale became the crit-

148. 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984).

149. *Id.* at 47. CBS-Sony, a Japanese corporation, licensed the Philippine manufacturer to produce records exclusively in the Philippines. *Id.* The plaintiff, a U.S. corporation, held the copyright to the work and consented to the offshore production arrangement. *Id.*

150. BLACK'S LAW DICTIONARY defines a jobber as "a middleman . . . one who buys from a wholesaler and sells to a retailer." BLACK'S LAW DICTIONARY 835 (6th ed. 1990).

151. *Scorpio*, 569 F. Supp. at 47.

152. *Id.* (noting that although the record did not conclusively show whether the defendant was the consignee of the infringing shipment, the law of vicarious liability in tort actions rendered that ambiguity irrelevant).

153. *Id.* at 49.

154. *Id.* (stating that "[t]he protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states. Absent a clearly expressed legislative intent to the contrary, statutory language must be recognized as conclusive").

155. *Id.* The court further stressed that: "Construing § 109(a) as superseding the prohibition on importation set forth in the more recently enacted § 602 would render § 602 virtually meaningless. Third party purchasers who import phonorecords could thereby circumvent the statute, in every instance, by simply buying the recordings indirectly." *Id.* Under this analysis, the site of manufacture becomes irrelevant; the critical determination is where the sale of the work took place. This interpretation meshes more readily with the legislative history of the importation provision. *See infra* notes 201-29 and accompanying text (discussing the history of § 602). The *Scorpio* court, however, does not refer to the legislative history of either provision. *Cf. Scorpio*, 569 F. Supp. at 47-49 (omitting any such discussion).

156. 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985).

ical focal point for determining whether an infringement had occurred.¹⁵⁷ There, the plaintiff sold a quantity of Ralph Lauren fragrances to its distributor in Hong Kong, only to find them re-imported into the United States by a third party.¹⁵⁸ In refusing to enjoin a domestic retailer from disposing of the offending articles, the court reasoned that because title to the goods passed in the United States, the sale occurred in the United States, and the first sale doctrine therefore precluded importation liability.¹⁵⁹

*Hearst Corporation v. Stark*¹⁶⁰ added its own peculiar twist to the interaction between § 602 and § 109, but its result followed that in *Scorpio*.¹⁶¹ In *Hearst*, the copyright holder sued an importer that bought several editions of a book lawfully made in England, and subsequently attempted to bring them into the United States.¹⁶² Deciding that § 109 did not limit the importation right, the court contrasted § 109's reference to a "particular copy" of a work against the plural language of § 602,¹⁶³ and concluded that the importation of large quantities of books without authorization

157. *Id.* at 345-46; *cf.* *Neutrogena Corp. v. United States*, 7 U.S.P.Q. (BNA) 1900, 1903 (D.S.C. 1988) (commenting that, in a case involving the unauthorized importation of copyrighted works, *Cosmair* provides the basis for denying a preliminary injunction).

158. *Cosmair*, 226 U.S.P.Q. at 345, 347.

159. *Id.* at 346-47. In *Cosmair*, the plaintiff shipped the goods CIF, passing title to the buyer once the shipper receives the goods. *Id.* at 346. In finding for the defendant, the court strained to point out that if the works had been manufactured abroad for distribution in a specific geographic region, the outcome would have differed. *Id.* at 347; *cf. infra* notes 201-29 and accompanying text (discussing the legislative history of § 602 and arguing that Congress intended to apply the provision to works destined for distribution abroad). Using § 602 to enjoin the sale of works sold in the United States not only would have violated Congressional intent, but would also raise antitrust considerations. *Cosmair*, 226 U.S.P.Q. at 346-47; *cf. infra* notes 237-44 and accompanying text (discussing the antitrust concerns embedded in the legislative history of § 109). In contrast, if the company made and sold the goods abroad, liability would attach if the goods were imported without the American copyright holder's consent. *BMG Music v. Perez*, 952 F.2d 318, 319-20 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 974-77 (N.D. Cal. 1986); *Selchow & Righter Corp. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *cf. Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 847 F.2d 1093, 1098 (3d Cir. 1988) (finding that the importation of works manufactured in the United States and sold abroad does not violate the Copyright Act).

160. 639 F. Supp. 970 (N.D. Cal. 1986).

161. *Id.* at 976-77; *cf. Columbia Broadcasting System, Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 48-49 (E.D. Pa. 1983) (reasoning that the first sale doctrine only applies to products made in the United States), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984).

162. *Hearst*, 639 F. Supp. at 972. This situation closely parallels the concerns raised before the House Committee on Patents in the early 1960s. *See infra* notes 206-17 and accompanying text (describing the panel discussions before the House Committee on Patents). The record in *Hearst* does not indicate whether currency fluctuations drove the transaction.

163. *Id.* at 976.

fits squarely within the literal terms of § 602.¹⁶⁴

The importance of the manufacturing requirement became apparent after the Third Circuit's decision in *Sebastian International, Inc. v. Consumer Contacts (PTY), Ltd.*¹⁶⁵ In *Sebastian*, the plaintiff sold shampoo to Consumer Contacts, which claimed that it desired to be Sebastian's first and exclusive distributor of hair products in South Africa.¹⁶⁶ The cartons were never opened; instead, Consumer Contacts shipped the shampoo back to the United States and ultimately sold it to a large discount drug chain.¹⁶⁷ Initially, Sebastian sued for breach of contract and trademark infringement.¹⁶⁸ Further research indicated, however, that the label on these shampoo bottles was copyrighted, and Sebastian amended its complaint to assert a copyright claim under § 602.¹⁶⁹ The district court granted injunctive relief for copyright infringement,¹⁷⁰ but the Third Circuit vacated the injunction.¹⁷¹

In rejecting the plaintiff's claim for infringement, the Court of Appeals assumed that a copyright owner who sells copies of his works abroad has already received a financial reward for his work.¹⁷² From this premise, the appellate court reasoned that, while unauthorized importation of a work infringes the right to distribute copies, § 109(a) expressly limits the distribution right.¹⁷³ The court concluded that "it necessarily follows that once transfer of ownership has canceled the distribution right to a copy, the right does not survive so as to be infringed by importation."¹⁷⁴ As

164. *Id.* The *Hearst* court also found that, contrary to the defendant's assertion, § 602's importation restriction did not violate the First Amendment. *Id.* at 978.

165. 847 F.2d 1093 (3d Cir. 1988).

166. *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 664 F. Supp. 909, 911 (D.N.J. 1987), *vacated*, 847 F.2d 1093 (3d Cir. 1988).

167. *Id.*

168. *Id.*

169. *Id.* The Court of Appeals also noted this amendment. *Sebastian*, 847 F.2d at 1095. Initially, Sebastian's counsel denied the existence of a copyright on the label. *Sebastian*, 664 F. Supp. at 911. This haphazard addition of the claim may have damaged the chances of success on appeal. *Cf. Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1381 (C.D. Cal. 1993) (finding that the copyrighted box and bottle design contributed significantly to the product's value and was an important part of the overall marketing campaign).

170. *Sebastian*, 664 F. Supp. at 922. The district court, after discussing the legislative history, *id.* at 915-16, would have extended the protection of § 602 to any transaction involving the unauthorized importation of a copyrighted work. *Id.* at 920.

171. *Sebastian*, 847 F.2d at 1099.

172. *Id.* Such a construction arguably ignores the realities of global business. *See Givenchy*, 832 F. Supp. at 1390 (noting that the holder of a copyright on a phonorecord may sell copies for \$10 in the United States, but must lower that price to \$7 when entering a foreign market).

173. *Sebastian*, 847 F.2d at 1098.

174. *Id.* at 1099. The court distinguished *Scorpio* by stating that when a licensee manu-

construed by the Third Circuit, § 602 does not create a new right separate from the distribution right grounded in § 106(3), but one subservient to it.¹⁷⁵ Under a *Sebastian* analysis, the country of manufacture becomes irrelevant because all distribution rights, including the importation right, extinguish at the time of sale, irrespective of where the sale occurs.¹⁷⁶

In order to avoid a direct split in the authority, the Ninth Circuit used the place of manufacture as the principal basis of distinction between *Sebastian* and *BMG Music v. Perez*.¹⁷⁷ In *BMG Music*, the defendant bought sound recordings manufactured and sold abroad, and imported them into the United States.¹⁷⁸ *BMG Music* sued for infringement under § 602(a), and *Perez* asserted the first sale doctrine as a defense.¹⁷⁹ The Ninth Circuit held that the first sale defense only applies to copies produced and sold in the United States.¹⁸⁰ However, the Ninth Circuit took particular care to limit its holding to the facts before it, and distinguished *BMG Music* from *Sebastian* on the ground that the goods there were originally manufactured and sold in the United States.¹⁸¹

Despite this disclaimer, the court suggested in dicta that a reading of § 109 that allows it to supersede the distribution right granted by § 602 renders the latter a practical surplusage.¹⁸² Had the Ninth Circuit fol-

factures a given copy, the copyright holder does not own it and, by implication, the importation protection survives. *Id.* at 1099 n.3.

175. *Id.* at 1098.

176. *Id.* at 1098 n.1 (noting that § 109's limitation of the distribution right to works "lawfully made" under this title may bear no relation to the place of manufacture because of Congress's practice of explicitly stating when the site of manufacture becomes legally significant).

177. 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992).

178. *Id.* at 319.

179. *Id.*

180. *Id.*

181. *Id.* at 319 n.3 (noting that *Sebastian* "involved the exportation and later importation of copyrighted goods originally manufactured and sold in the United States," and explicitly declining to pass judgment on its set of facts); *cf.* *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988) (finding that the right contained in § 602 does not create a protection in addition to that provided by the distribution right, but one subservient to it).

The facts of other cases supported this holding. *See, e.g.*, *Neutrogena Corp. v. United States*, 7 U.S.P.Q.2d 1900, 1903 (D.S.C. 1988) (declining to extend § 602's protection to works manufactured abroad); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 972 (N.D. Cal. 1986) (finding a violation of § 602 upon the importation of foreign-made goods); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985) (same); *Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 50 (E.D. Pa. 1983) (finding infringement under similar circumstances), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984). *But see* *Cosmair, Inc. v. Dynamite Enters., Inc.*, 266 U.S.P.Q. (BNA) 344, 346-47 (S.D. Fla. 1985) (using site of sale as the key inquiry when determining a § 602 violation although the fragrances at issue were American made).

182. *BMG Music*, 952 F.2d at 319 ("construing § 109(a) as superseding the prohibition

lowed a *Sebastian* analysis, it could have held that the sale of the records abroad extinguished the first sale right.¹⁸³ Under the Third Circuit's construction, the distribution right extinguishes upon sale because the copyright holder has received the value of his work.¹⁸⁴ If the distribution right has extinguished, however, then the protection from unauthorized importation given in § 602 also expires.¹⁸⁵ Because of the factual distinction drawn between the two cases, however, the Ninth Circuit technically avoided a split with the Third.¹⁸⁶ Yet, their respective constructions logically cannot coexist.¹⁸⁷

B. Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.: Using BMG Music's Manufacturing Requirement to Circumvent the Holding in K Mart

The holding in *BMG Music* seemed particularly well suited to challenging the sale of identical gray goods admitted into the United States via the affiliate exception.¹⁸⁸ Under the Ninth Circuit's construction, a plaintiff could attach a copyright to a given product that is manufactured and sold abroad, and theoretically, that good could not be imported into the United States without the consent of the U.S. copyright holder.¹⁸⁹ That precise factual scenario formed the basis for two subsequent companion cases: *Parfums Givenchy v. Drug Emporium*¹⁹⁰ and *Parfums Givenchy v. C & C Beauty Sales*.¹⁹¹

In 1991, Givenchy created a box design for one of its perfumes, copy-

on importation set forth in . . . § 602 would render § 602 virtually meaningless' ") (quoting *Scorpio*, 569 F. Supp. at 49); see also 2 NIMMER, *supra* note 113, § 8.12[B][6] (approving the Ninth Circuit's construction of § 109).

183. *Cf. Sebastian*, 847 F.2d at 1099 (finding that the right contained in § 602 does not create a protection in addition to that provided by the distribution right, but one subservient to it).

184. *Id.*

185. *See id.*

186. *BMG Music*, 952 F.2d at 319 n.3.

187. *See id.*; *cf. Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 664 F. Supp. 909, 918-19 (D.N.J. 1987) (stating that a construction that renders § 109 applicable to every sale of a work renders § 602 meaningless), *vacated*, 847 F.2d 1091 (3d Cir. 1988); 2 NIMMER, *supra* note 113, § 8.12[B][6] (reaching a similar conclusion).

188. *See BMG Music*, 952 F.2d at 319 (finding that § 602 applies to works produced abroad); *cf. K Mart Corp. v. Cartier, Inc.*, 486 U.S. 286, 298 (1988) (Brennan, J., concurring) (noting that, in the case of trademark ownership, a foreign trademark owner cannot avoid the effect of the affiliate exception to § 526 of the Tariff Act by registering its trademark under the name of a United States subsidiary).

189. *See BMG Music*, 952 F.2d at 319 (finding that § 602 relates to works manufactured abroad).

190. No. CV-92-4206, 1992 U.S. Dist. WL 532166 (C.D. Cal. Nov. 23, 1992), *aff'd*, 38 F.3d 477, (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995).

191. 832 F. Supp. 1378 (C.D. Cal. 1993).

righted the design and assigned those rights to its United States distributor, Givenchy U.S.A.¹⁹² After spending considerable sums advertising and marketing the fragrance as a "high prestige luxury item," Givenchy discovered that C & C Beauty had imported substantial quantities of the perfume into the United States and had distributed them to retail stores.¹⁹³ Givenchy sued C & C Beauty and Drug Emporium for copyright infringement under § 602(a), and won an injunction on the lower court level.¹⁹⁴

192. *Givenchy*, 832 F. Supp. at 1381. C & C Beauty initially challenged Givenchy U.S.A.'s standing to bring the suit. *Id.* at 1383. A copyright owner suffers harm only if it owns the copyright at the time of infringement. *Id.* at 1384. C & C Beauty's documents indicated that it acquired the perfume on February 4, 1992. *Id.* Givenchy U.S.A.'s parent did not assign the copyright until February 27th. *Id.* On this basis, C & C Beauty argued that Givenchy lacked standing to bring the suit. *Id.*

In rejecting this argument, the court noted that, once the infringing act of importation has occurred, everyone who distributes the imports also infringes the copyright and may be enjoined from further distribution. *Id.* (citing *Columbia Broadcasting Systems, Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 48-49 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984)). As undisputed evidence existed that C & C Beauty distributed the works *after* the date of assignment, the court found that Givenchy U.S.A. had standing to bring the suit.

193. *Id.* at 1381-82. Unlike the label in *Sebastian*, which "tri[ed] the limits of the modicum of creativity necessary for a work to be copyrightable," *Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 664 F. Supp. 909, 913 (D.N.J. 1987), *vacated*, 847 F.2d 1091 (3d Cir. 1988), and which presumably did not involve the promotion of the product, the district court noted that the box design formed "an important part" of the overall Amargie marketing scheme. *Givenchy*, 832 F. Supp. at 1381.

194. *Id.* at 1382, 1395; *Givenchy*, 1992 WL 532166 at *1. In comparing the interaction between § 602 and § 109, the United States District Court for the Central District of California relied on the holdings in *Scorpio* and *BMG Music*. *Givenchy*, 832 F. Supp. at 1385. Thus, the district court was bound to construct § 109's limitation on the distribution right as applying only when the goods are first manufactured and sold within the United States. *Id.* Although agreeing with the result reached in those cases, the court questioned the validity of their rationales in light of the court's own finding that the legislative history of the first sale doctrine makes no reference to the location of manufacture or sale as a relevant basis to interpret the phrase "lawfully made under this title." *Id.* at 1386-88. *See also* H.R. REP. No. 1476, *supra* note 116, at 79 (stating that in order to gain the protection of § 109, "a copy . . . must have been 'lawfully made under this title,' though not necessarily with the copyright owner's authorization."); *see infra* notes 230-42 and accompanying text (describing the legislative history of § 109).

The court's reasoning proceeded from the premise that the first sale doctrine and the importation right were intended to allow the copyright holder to recover the full value of each copy sold. *Givenchy*, 832 F. Supp. at 1389; *see also* *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) (expressing a similar opinion). Section 602, by prohibiting the importation of unauthorized copies into the United States, ensures that the demand for an American copy will not decrease because of an increase in the supply of the work over which the copyright holder has no control. *Givenchy*, 832 F. Supp. at 1390.

The court noted a severe flaw in the Third Circuit's construction of the two sections. The definition of "full value" is contingent upon on the assumption that the *price* of the good will give the copyright holder his full value. *Givenchy*, 832 F. Supp. at 1390. If the copy-

On appeal, the Ninth Circuit affirmed the lower court's decision, and further stated that § 602, if interpreted properly, expands the distribution right by giving it an extraterritorial scope.¹⁹⁵ Thus, by preventing the importation of copies sold abroad, § 602 protects the integrity of the § 106(3) distribution right beyond United States borders, and ensures that the copyright holder will receive the full value of each copy sold on the American market.¹⁹⁶ Significantly, in upholding the lower court decision, the Ninth Circuit explicitly rejected two arguments that had, in different contexts, upheld the gray market's legality.¹⁹⁷

right holder attempts to penetrate another market by offering his work at a lower price, the full value of the sale only occurs when the product is actually sold within the foreign market. *Id.*

195. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 479, 481 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); *cf.* *Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 48 (E.D. Pa. 1983) (stating that a reverse construction allows § 109(a) an extraterritorial scope), *aff'd without opinion*, 732 F.2d 424 (3d Cir. 1984).

196. *Givenchy*, 38 F.3d at 481.

197. *Id.* at 481 n.6. First, the defendant attempted to analogize between § 602 of the Copyright Act and § 526 of the Tariff Act of 1930. *Id.* at 483. Drug Emporium requested that the court distinguish *Givenchy* from *BMG Music* because, in *Givenchy*, the parent company wholly owned the U.S. distributor. *Id.* at 482. Unfortunately for the defendant, neither of the primary reasons for upholding the challenged affiliate exception in *K Mart* applied to copyright law. *Id.* Those reasons, specifically were: 1) the ambiguity of the statute on its face, and 2) the concern over protecting independent American trademark owners from foreign competition. *Id.* at 483-84 (citing *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 297 (1987) (Brennan, J. concurring)). Unlike the statute at issue in *K Mart*, neither the plain language nor the legislative history of § 602 indicate a concern with protecting U.S. businesses from intrabrand competition. *Givenchy*, 38 F.3d at 484 (stating that "[t]he import restrictions of Copyright Act § 602 were intended to protect U.S. copyright holders from pirated articles as well as gray market copies, not to give preferential treatment to domestic companies over foreign companies" [footnote omitted]); *cf. infra* notes 201-29 and accompanying text (describing the legislative history of 17 U.S.C. § 602(a)). Therefore, the court concluded that the existence of an affiliation between the foreign manufacturer and the U.S. copyright holder bears no relevance to the determination of liability under § 602. *Givenchy*, 38 F.3d at 482-83.

Second, Drug Emporium asked the court to analogize to the affiliate exception it had recognized in §§ 32 and 43(a) of the Lanham Act. 15 U.S.C. §§ 1114, 1125(a) (1994). *See NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir.) (preventing a wholly owned subsidiary from invoking the Lanham Act as a basis for preventing importation and sale of the parent company's product), *cert. denied*, 484 U.S. 451 (1987). Assuming that the gray good perfectly mirrors its domestic counterpart, the circulation of its mark in commerce cannot infringe the domestic trademark owner's rights. *Olympus Corp. v. United States*, 627 F. Supp. 911, 916 (E.D.N.Y. 1985), *aff'd*, 792 F.2d 315 (1986); *Coalition to Preserve the Integrity of Am. Trademarks v. United States*, 598 F. Supp. 844, 848 (D.D.C. 1984), *aff'd*, 790 F.2d 903 (D.C. Cir. 1986), *aff'd in part and rev'd in part sub nom.* *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1987). The picture of the trademark landscape drawn by the Ninth Circuit appears incomplete. In citing *NEC*, the court never addressed the issue of material difference raised by the *Lever* and *Nestle* decisions. *See Givenchy*, 38 F.3d at 481 (omitting any such discussion); *cf. supra* notes 88-109 and accompanying text

The Ninth Circuit again avoided direct conflict with the Third Circuit's *Sebastian* decision by taking great pains to state that the result in *Givenchy* merely followed the holding of *BMG Music*, both of which were limited to their respective facts.¹⁹⁸ Unlike the shampoo at issue in *Sebastian*, the plaintiff's product was manufactured outside the United States, and hence enjoyed a legally protected status.¹⁹⁹ As discussed below, the legislative history of both of these provisions tends to support the Ninth Circuit's position.²⁰⁰

III. IMPORTATION RIGHTS AND THE FIRST SALE DOCTRINE UNDER THE COPYRIGHT LAW

A. *The Development of the Importation Right Under § 602*

Before reaching its final form, the language that became § 602 went through an exhaustive revision process.²⁰¹ Between 1961 and 1964, the Copyright Office produced a tentative draft and solicited comments from interested parties, resulting in the introduction of draft legislation in

(discussing the *Lever* and *Nestle* decisions). Those cases specifically held that no affiliate exception to the prior sections of the Lanham Act exists when the imported goods differ from those sold by the United States trademark owner; in essence, recognizing the principle for which *Katzel* is more often cited: that trademarks are territorial. *Lever Bros. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993). Therefore, although the Ninth Circuit's categorical assertion that an affiliate exception to § 43(a) and § 32 exists may reflect the state of the law in the Ninth Circuit, it may not reflect the trend of jurisprudence in the rest of the country. *Cf. Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992) (barring importation of materially different goods); *Lever*, 981 F.2d at 1338 (holding similarly).

The court found that the reason for an affiliate exception under the Lanham Act—namely, to protect the investment of the United States trademark owner from brand confusion—did not apply to copyright. *Givenchy*, 38 F.3d at 485. In this respect, the purpose of these two provisions parallels that of § 526 of the Tariff Act, 19 U.S.C. § 1526(a) (1994). *See K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 287 (1988) discussed *supra* notes 59-86 and accompanying text (describing the protective function of § 526). On the contrary, Congress most likely intended § 602 to protect the U.S. copyright holder against unauthorized imports, regardless of their source. *Id.*; *see also infra* notes 201-29 and accompanying text (discussing the legislative history of § 602).

198. *Givenchy*, 38 F.3d at 482 n.8, 484.

199. *Id.* at 479. Dicta in the opinion, however, suggests that a split with the Third Circuit may loom on the horizon. Although limiting the holding to the facts of *BMG Music*, the court stated its disapproval with *Sebastian*, which makes the site of manufacture the crucial fact on which the existence of first sale protection turns and which effectively renders § 602 meaningless. *Id.* at 481-82.

200. *See infra* notes 201-29 and accompanying text (describing the legislative history of § 602).

201. In 1955, Congress appropriated funds for thirty-five monographs on what they thought were the significant aspects of the copyright law. *See generally* H.R. REP. NO. 1476, *supra* note 116, at 1-3, *reprinted in* 1976 U.S.C.C.A.N. at 5660-63 (describing the revision on a bill by bill basis).

1964.²⁰² In light of the comments received on that particular piece of legislation, the Copyright Office revised the bill again before its re-introduction in 1965.²⁰³ From 1965 until its enactment in 1976, the thrust of the language of § 602(a), relating to the lawfulness of the importation of copies acquired abroad, did not substantially change.²⁰⁴ The legislative history of § 602 suggests that Congress intended to implement a separate importation restriction that would not expire merely because a company first sold the work abroad.²⁰⁵

Initially, in 1961, the Register did not mention imposing liability for the unauthorized importation of lawfully made copyrighted works; in fact, the Register of Copyright opposed it.²⁰⁶ During a 1963 panel discussion of the Register's report, however, the possibility of unauthorized, but

202. H.R. 11947, 88th Cong., 2d Sess. (1964); S. 3008, 88th Cong., 2d Sess. (1964) (by request).

203. H.R. 4347, 89th Cong., 1st Sess. (1965); S. 1006, 89th Cong., 2d Sess. (1965).

204. See *infra* notes 217-68 and accompanying text (describing the development of this language). Section (b), however, underwent numerous changes between its introduction and enactment. Compare 17 U.S.C. § 602(b) (1994) (giving Customs the power to prevent the importation of piratical works, but failing to authorize them to detain works lawfully made with the authorization of the U.S. copyright holder) with PRELIMINARY DRAFT FOR U.S. COPYRIGHT LAW (PART 3), ALTERNATIVE A AND ALTERNATIVE B § 44(b) (1963) (prescribing a procedure, in the case of Alternative A, by which the American copyright holder may receive notice of a potentially infringing importation, but placing no burden on Customs to bar the import), reprinted in 6 KAMINSTEIN LEGISLATIVE HISTORY PROJECT 420 (1984). Alternative B, in contrast, prohibited piratical works only. *Id.*

Over the years, Congress ultimately prohibited the importation of pirated copies and those produced in violation of the Act's manufacturing requirement. See H.R. 11947, *supra* note 202, § 44(b) (only prohibiting importation of piratical copies); H.R. 4347, *supra* note 203, § 602(b) (only allowing Customs to prevent importation when the imports violate the manufacturing provision); see also 17 U.S.C. § 601 (1994) (using the same language as H.R. 4347).

205. See materials cited *supra* notes 145-47 (describing Congress' treatment of manufacturing requirements), as well as the discussion contained *infra* notes 207-27 and accompanying text (addressing the development of § 602).

206. STAFF OF THE HOUSE COMM. ON THE JUDICIARY, 87TH CONG., 1ST SESS., COPYRIGHT LAW REVISION, PART 1: REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 126 (Comm. Print 1961). The Register saw no reason to "impose the territorial restriction in a private contract on a third person with no knowledge of the agreement." *Id.* The Register initially only recommended that the new act bar "piratical copies" and grant the Treasury department the power to stop the goods at the border. *Cf. id.* at Chapter X, § C.

4. Recommendations. . . . b. The prohibition in section 106 [of the 1909 act] against importation of 'piratical copies'—i.e., copies made without the authorization of the author or any other copyright owner—should be retained in substance.

c. The provision of section 109 [of the 1909 act], authorizing the Secretary of the Treasury and the Postmaster General to prescribe rules and regulations for the enforcement of the import restrictions, should be retained in substance.

reprinted in KAMINSTEIN LEGISLATIVE HISTORY PROJECT, *supra* note 204, at 420.

non-piratical importation arose.²⁰⁷ Publishing and music industry representatives noted that the proposal would not cover copies of a book or song licensed for manufacture abroad, sold and then imported.²⁰⁸ They further recommended that Congress grant Customs the power to block those goods at the border.²⁰⁹

In response to these concerns, the Copyright Office drafted two alternative provisions containing identical language prohibiting unauthorized importation.²¹⁰ The 1964 panel discussion surrounding the preliminary

207. STAFF OF THE HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 1ST. SESS., COPYRIGHT LAW REVISION, PART 2: DISCUSSION AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, 212-15, 232, 235, 327 (Comm. Print 1963).

208. *Id.* at 212. Horace Manges, speaking for the American Book Publisher's Council, posed the hypothetical of a U.S. book publisher that acquired the exclusive right to print a given work in the U.S. *Id.* The distribution of an English edition in the United States market harms the rights of the U.S. copyright owner. *Id.* Under the proposed provisions at that time, however, the U.S. copyright holder would have to demonstrate that the books in question were both illegally manufactured and imported, which it could not do. *Id.* Although the U.S. producer could theoretically sue the English firm for breach of contract, the copyright law gave the U.S. printer or distributor no protection from this practice. *Id.* at 213. A music industry representative pointed out, initially, that a copyrighted item could be imported without ever infringing the contract rights of the U.S. copyright owner, because the foreign publisher could sell it to a third party, who will then import it. *Id.* at 212. The representatives of both the publishing industry and the American Bar Association's Committee on the Program for Revision of the Copyright Law therefore conceded that the unauthorized importation of a non-piratical work did not fall squarely within the definition of piratical copy, but argued that it should constitute an infringement nonetheless. *See id.*

209. *Id.* In response to these arguments, the Register took definite position, but he did note that the enforcement of the provision would place a substantial burden on the Customs Service. *Id.* at 214. The Register added that the same problem of legitimate copies being imported without authorization turned up in the context of artificial flowers carrying a design copyright. *Id.*

210. PRELIMINARY DRAFT FOR U.S. COPYRIGHT LAW (PART 3), § 44 ALTERNATIVE A AND § 44 ALTERNATIVE B (1963) (providing that "Importation into the United States of copies or records of a work for the purpose of distribution to the public shall, if such articles are imported without the authority of the owner of the exclusive right to distribute copies or records under this title, constitute an infringement of copyright . . ."), reprinted in 6 KAMINSTEIN LEGISLATIVE HISTORY PROJECT, *supra* note 204, at 421.

The two alternatives only differed with respect to the powers given to Customs to stop infringing importation at the border. *Id.* Part (b) of Alternative A gave Customs the authority only to prescribe a procedure by which the American copyright holder could be notified of a possible infringing importation, piratical or otherwise, upon the payment of a specified fee; it did not give them any "right or obligation to prevent such importation." *Id.* In contrast, Alternative B expressly denied Customs the authority to prevent importation of "lawfully made articles," but barred the importation of articles if their production would have constituted an infringement. *Id.* Alternative B gave Customs the power to notify the U.S. copyright holder of a possible infringing importation in either case. The substance of alternative B survived the entire revision process. *Cf.* 17 U.S.C. § 602(b) (1994) (providing for a procedure by which the United States copyright holder may receive notice of an infringing importation). The language drafted by the Copyright Office ap-

drafts more fully addressed the concerns raised in 1963, but again did not reach any definite conclusion.²¹¹ The Copyright Office, however, took the position that the draft language made the unauthorized importation of copies for distribution an infringement.²¹²

During the 1964 panel discussion, the question arose as to the limits of the importation provision's protection.²¹³ A publishing industry representative posited a hypothetical transaction in which an American importer buys books from a German jobber, who had bought them from a German publisher licensed to print the book.²¹⁴ The Copyright Office responded that anyone who imports without authority into the United States has infringed; therefore, the importer is an infringer.²¹⁵ The representative then expanded the hypothetical, asking if a bookseller, after purchasing the infringing books from the importer, would also face liability for infringement.²¹⁶ In responding, the Copyright Office framed the issue currently before the courts: if the sale of a copyrighted work extinguishes the right to control further distribution, does it also extinguish the right to prevent importation which is also part of that distribution right?²¹⁷ Unfortunately, the Copyright Office never answered this question.

The next draft of the legislation incorporated substantial changes from

appears to incorporate the concerns of the panelists mentioned in 1963, as well as the difficulty of enforcing such a provision. *See supra* note 208 (mentioning the difficulty of enforcing such a provision); *cf. supra* note 27 (stating the rule proposal given by COPIAT to implement the materially different standard).

211. STAFF OF THE HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 2D. SESS., COPYRIGHT LAW REVISION, PART 4, FURTHER DISCUSSIONS AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW 203-04 (Comm. Print 1964) [hereinafter DISCUSSIONS, PART 4]. The broad language of the section referring to all works did draw some objection. Mr. Kaye of Broadcast Music suggested that exceptions for certain works existed, such as those intended for use in libraries, and works in Braille for the use of the blind. *Id.* at 205. This suggestion appears in the final version of the statute as 17 U.S.C. § 602(b)(1), (2) (1994).

212. DISCUSSIONS, PART 4, *supra* note 211, at 203-04.

213. *Id.* at 210.

214. *Id.*

215. *Id.*

216. *Id.* at 211.

217. *Id.* at 211-12 (stating that the application of the rule raises the question whether the sale of the work abroad exhausts the importation right). *Cf. Parfums Givenchy, Inc., v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1386 (C.D. Ca. 1993) (addressing the same issue, and finding that it does not when the good is manufactured abroad, but finding that analysis troubling); *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991) (holding similarly), *cert. denied*, 505 U.S. 1206 (1992); *Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd.*, 847 F.2d 1093, 1098 (3d Cir. 1988) (same); *Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983) (same), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984).

the previous year. None of the 1965 revisions touch directly on the conflict with the first sale doctrine, but they do raise an inference that Congress did not intend to limit the § 602 importation right.²¹⁸ The accompanying report of the Copyright Office stated that the rights of the American copyright holder would be infringed if a work, authorized for distribution abroad, appears in the United States.²¹⁹ Congress added language distinguishing educationally related importation from that made for “private gain.”²²⁰ The House Judiciary Committee report accompanying this bill deleted the reference to “private gain” and replaced it general language stating that an unauthorized importation constitutes an infringement, subject to exceptions for educational, personal, and religious use.²²¹ By carving out specific exceptions to the importation provi-

218. H.R. 4347, § 602, 89th Congress, 1st Sess. (1965). Unlike its predecessors, the bill exempted scholarly, educational, and religious institutions from the importation restriction if the institution intended to use the article as part of its library. *Id.* at § 602 (a). Second, the administrative concerns over Customs' capacity to deal with infringing imports resulted in the insertion of language categorically exempting lawfully made goods from exclusion at the border. *Id.* § 602(b) (stating that Customs has no authority to prevent the importation of lawfully made copies or phonorecords unless the importation unless the manufacturing provisions of § 601 apply). Finally, as a minor detail, the section numbers used in the U.S. Code first made appeared at this point. Compare, e.g., *id.* with H.R. 11,347, § 44.

219. STAFF OF THE HOUSE COMM. ON THE JUDICIARY, 89TH CONG., 1ST SESS. COPYRIGHT LAW REVISION, PART 6, SUPPLEMENTARY REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW 149-50 (Comm. Print 1965) [hereinafter COPYRIGHT REVISION, PART 6]. The report stated:

In the second situation covered by section 602, the copies . . . were lawfully made but their *distribution in the United States* would violate the exclusive rights of the U.S. copyright owner. This would occur, for example, where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country.

Id. (emphasis added).

220. *Id.* at 149.

221. H.R. REP. NO. 2237, 89th Cong. 2d Sess. 168-69 (1966). “The mere act of importation in this situation would constitute an act of infringement and could be enjoined.” *Id.* at 168. See also *supra* note 218 (discussing the religious and educational exceptions to H.R. 4347).

The report states that with regard to lawfully made articles, the mere act of unauthorized importation is an infringement. *Id.* at 167. Congress did not appear to care *how* a given work came into the country, or where its intended distribution took place, only that it did so with consent. See *id.* at 167-68 (expressing Congress' intent to make unauthorized importation an infringement); H.R. REP. NO. 1476, *supra* note 116, at 170 (stating that § 602 is intended to cover the situation where copies are lawfully produced, and that “the mere act of importation in this situation is an infringement and could be enjoined”), reprinted in 1976 U.S.C.C.A.N. 5659, 5786. But see COPYRIGHT REVISION, PART 6, *supra* note 219 at 149 (stating that infringement occurs not at importation, but when the work is actually distributed). The panelists' concerns with the inadequacy of a contract remedy to help the American copyright holder to recoup any losses he may suffer from unauthorized importation, see *supra* notes 201-07 (discussing this concern), may well have motivated Congress to switch the act of infringement from distribution to importation.

sion, Congress clarified the section and further strengthened the inference that § 602 does not expire upon the sale of a work abroad.²²²

From 1967 onward, the language of § 602(a)'s restriction of unauthorized importation did not substantively change.²²³ The gist of the testimony before the Judiciary Committee during earlier revisions addressed the harm done by the importation of works first sold abroad.²²⁴ Indeed, the record suggests that this concern motivated the section's inclusion.²²⁵ Furthermore, the use of the word "acquired" in the text of § 602 also supports the idea that Congress intended the first sale defense to be completely inapplicable with regard to the legality of an importation.²²⁶ Thus, the lack of substantial changes in the reports and the language of the legislation leads to the nearly inescapable conclusion that the sale of a

222. H.R. 4347, § 602(a), 89th Cong., 2d Sess. (1966) (as reported by the House Committee on the Judiciary). The reported version stated that "Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired abroad is an infringement of the exclusive right to distribute copies . . . under section 106, actionable under section 501." *Id.* Although not providing a direct resolution of the issue of parallel importation, the addition and deletion of this language adds some credence to the theory that the 602 right exists independently of § 109. *See id.* § 602(a)(3) (stating that § 602 does not apply to "importation by an organization operated for scholarly . . . purposes and not for private gain").

223. *See* H.R. 2512, § 602(a), 90th Cong., 1st Sess. (1967). The House Judiciary Committee reported version contained no changes, nor did the report itself give any substantial hints as to its interaction with § 109. *See* H.R. 2512, § 602(a), 90th Cong., 1st Sess. (1967) (as reported by the House Committee on the Judiciary); *cf.* H.R. REP. NO. 83, 90th Cong., 1st Sess. 138-39 (1967) (omitting any such reference). The language of section (a) would not change again until 1976, when the Committee substituted the phrase "acquired outside the United States" for the phrase "acquired abroad." *Compare* S. 543 § 602(a), 91st Cong., 1st Sess. (1969); S. 644, 92d Cong., 1st Sess. (1971); S. 1361, § 602(a), 91st Cong., 1st Sess. (1973); S. 1361, § 602(a), 93d Cong., 2d Sess. (1974) (as reported by Committee on the Judiciary); S. 22, 94th Cong., 1st Sess. (1975) (as reported) *with* S. 22, § 602(a), 94th Cong., 1st Sess., (1976) (as reported by the House Committee on the Judiciary) (containing the phrase acquired "abroad" instead of the phrase "outside the United States"). The report language also substituted the former phrase for the latter. *Compare* H.R. REP. NO. 1476, *supra* note 116, at 69-70 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785-86 *with* S. REP. NO. 983, 93d Cong., 2d Sess. 200 (1974).

224. *See supra* note 221 (describing the changes in the statute during this time period) and notes 201-16 and accompanying text (illustrating the industry concerns prompting the section's introduction).

225. *See supra* notes 207-217 and accompanying text (describing the concerns prompting the drafting of § 602).

226. *See* 17 U.S.C. § 602(a) (1994) (referring to works "acquired abroad"). It also, however, casts doubt on the importance of the site of manufacture as the determining factor in infringement suits brought under § 602. *Cf. supra* notes 141-98 and accompanying text (discussing the judiciary's focus on manufacture in addressing the application of § 602); *see also supra* notes 145-46 (discussing the copyright law's manufacturing requirements). The deletion of the language distinguishing importation for "private gain," *see supra* note 219, further suggests that the first sale doctrine would not protect parallel importations for a commercial purpose.

work abroad does not destroy the United States copyright owner's right to prevent importation.²²⁷

More importantly, for the intellectual property owner seeking to hamstring gray market sales of its products, the legislative history of § 602 never refers to an exemption for goods embodying a copyrighted work held by an affiliate of the foreign copyright owner.²²⁸ Instead, it seems to enhance the copyright law's attractiveness as a potential seal on the hole created by *K Mart v. Cartier*.²²⁹

B. The First Sale Doctrine Under § 109

Although the history of the importation provision became quite complex, that of the first sale doctrine embodied in § 109 is startlingly simple, and follows naturally from the common law's antipathy for restrictions on the alienation of property.²³⁰ Section 109 of the Copyright Act of 1976 limits the right of the copyright holder to control the distribution²³¹ of a work once the first sale has been made,²³² and arose directly out of Congress' desire to codify the Supreme Court's decision in *Bobbs-Merrill v. Straus*.²³³

Bobbs-Merrill claimed it had the power to control the price of subsequent sales through the exclusive right to vend as granted by the copyright statute then in force,²³⁴ but the Supreme Court disagreed.²³⁵

227. See *supra* notes 201-09, 219-21 (describing testimony by the Copyright office to this effect, as well as bill and report language). Admittedly, the legislative history does not define at what point the unauthorized importation of a work, after being sold several times, ceases to become an infringement. See *supra* notes 216-17 and accompanying text (describing this dilemma). However, courts have interpreted the statute as only barring wholesale importation. *Hearst v. Stark*, 639 F. Supp. 970, 976 (N.D. Cal. 1986) (holding that the plural language of § 602 renders it applicable only to wholesale importation).

228. See *supra* notes 201-29 and accompanying text (omitting any discussion of an affiliate exception to § 602).

229. 486 U.S. 281, 290-91 (1988); see *supra* notes 62-86 and accompanying text (describing the *K Mart* decision).

230. See *White v. Brown*, 559 S.W.2d 938 (Tenn. 1977) (rendering void a clause in a will prohibiting the legatee from selling the willed real estate).

231. See 17 U.S.C. § 106(3) (1994) (enumerating the distribution right).

232. 17 U.S.C. § 109(a) (1994).

233. 210 U.S. 339 (1908). In *Bobbs-Merrill*, the American Publisher's Association attempted to enforce a minimum retail price per copy of a book by appending each volume's copyright notice with the following statement: "The price of this book at retail is one dollar net. No dealer is licensed to sell it at a less[er] price, and a sale at a less[er] price will be treated as an infringement of the copyright." *Id.* at 341. The dispute arose when Macy's bought the books from a wholesaler at a price below that stated in the notice, and in turn sold them at eighty nine cents per copy. *Id.* at 342. *Bobbs-Merrill* then sued both Straus (the wholesaler) and Macy's.

234. *Id.* at 340 (describing the publisher's argument that the statute in question vested the whole field of exclusive rights in the copyright owner, and that the copyright owner

Because the function of the copyright statute centered around securing the right to *multiply* copies of a work, the Court flatly rejected this construction as beyond the statute's intended ambit.²³⁶ Congress promptly codified the result in *Bobbs-Merrill*, and although disagreement existed over the precise wording of the legislation during its drafting, the principle embodied in the decision was never challenged.²³⁷

may part with it to another to the extent that it desires, while withholding via contract as much of the right as it pleases); cf. 17 U.S.C. § 106 (1994). See Copyright Act of 1891, ch. 565, § 4952, 26 Stat. 1107 (stating that "...[t]he author, inventor . . . or assigns of any such person shall . . . have the sole liberty of printing, reprinting, publishing . . . and vending").

235. *Bobbs-Merrill*, 210 U.S. at 351.

236. *Id.* at 350 (commenting that the copyright statutes, although protecting the copyright holder's rights to multiply and sell his production, do not give it the right to impose a price limitation on future purchasers).

237. See NIMMER, *supra* note 113, § 8.12[A] (stating that Congress intended the first sale doctrine to further the common law policy against restrictions on alienation and restraints of trade). The first sale doctrine was embodied as § 41 of the 1909 Act. 35 Stat. 1075, 1084 (1909). See also ARGUMENTS ON COMMON LAW RIGHTS AS APPLIED TO COPYRIGHT, BEFORE THE COPYRIGHT SUBCOMMITTEE ON THE HOUSE COMM. ON PATENTS, 62d Cong., 2d Sess. (1909) (statement of William Jenner) (describing the control sought by the publishers in *Bobbs-Merrill*, if allowed, as an "intolerable condition"), reprinted in 5 BRYLAWSKI AND GOLDMAN, *supra* note 129, at 16; *id.* at 36 (noting that the arrangement in *Bobbs-Merrill* attempting to fix all future transfers of a book was invalidated in state court on a contract theory as being in restraint of trade) (statement of Mr. Parkinson). The panel wanted the statute's language specific enough to prevent the authorization of any similar collusive agreement. *Id.* at 35.

In the report accompanying the 1909 act, Congress unequivocally stated that it wished to extinguish the copyright holder's control over disposition of a given work after the first sale is made. H.R. REP. NO. 2222, *supra* note 129, at S19. In discussing § 30 of the Act, the committee reasoned that "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article . . . once said proprietor has made the first sale." *Id.* The rationale behind the Committee's language is, simply, that once the first sale has been made at a satisfactory price, the function of the limited monopoly has been served. See also *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) (describing the rationale behind the first sale doctrine similarly).

Although Congress made changes to the wording of the statute when enacting the next major revision in 1976, it did not intend to change the meaning of the statutory provision on this point. See Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075, 1084 (stating that nothing in the Copyright Act should restrict the transfer of a lawfully obtained work). Although some issues arose as to what constituted vending within the meaning of the statute, see *Platt & Munk*, 315 F.2d at 852, Congress crafted the 1976 provision so that it would eliminate any confusion about the nature of a valid sale. STAFF OF THE HOUSE COMM. ON THE JUDICIARY, 89TH CONG., 1ST SESS., COPYRIGHT LAW REVISION, PART 5: 1964 REVISION BILL WITH DISCUSSION AND COMMENTS 66 (Comm. Print 1965). Finally, the words "under this title" were added to ensure that the Copyright Act formed the basis for determining the meaning of this section. S. REP. NO. 473, 94th Cong., 1st Sess. 72 (1975); H.R. REP. 83, 90th Cong., 1st Sess. 38 (1967); S. REP. NO. 983, 93d Cong., 2d Sess. 123 (1974).

The report accompanying the 1976 Act stated that "Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy of a work, the person to whom the copy is transferred is entitled to dispose of it by sale, rental, or any other means." H.R. REP. NO. 1476, *supra* note 116, at 79 (emphasis

The concerns over restraints of trade underlying the first sale doctrine do not warrant its application to the sale of copyrighted works abroad.²³⁸ Antitrust law generally concerns itself with interbrand competition, and preventing one purveyor of goods or services from stifling the competitive workings of the market.²³⁹ Elimination of gray market imports only protects a domestic copyright owner from competing against copies of its *own work*.²⁴⁰ Assuming that the copyright owner is a rational economic actor, if an increased supply of his work through other channels would have earned greater profits, he would have probably taken those steps already.²⁴¹ Therefore, the concerns over resale price maintenance that fostered the codification of the first sale doctrine do not apply to the gray market scenario.²⁴²

added), reprinted in 1976 U.S.C.C.A.N. at 5693. Indeed, the report directly refers to the facts of *Bobbs-Merrill*. See *id.* (stating that “[t]hus, for example, the outright sale of an authorized copy of a book frees it from any copyright control over its resale price or other conditions of its future distribution”); see also Stephen W. Feingold, Note, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U. J. INT’L L. & POL. 113, 128-32 (1984) (describing the enactment of 17 U.S.C. § 109 in detail).

The underlying rationale reflected in the legislative history of § 109, therefore, is the Congressional policy of discouraging anticompetitive business behavior. Cf. The Sherman Antitrust Act, 15 U.S.C. § 1 (1994) (outlawing every agreement in restraint of trade); *United States v. Addyson Pipe and Steel Co.*, 85 F. 271, 294-95 (6th Cir. 1898) (striking down a horizontal price fixing arrangement as violative of antitrust principles), *modified*, 175 U.S. 211 (1899). Even if no collusive agreement between the publishers existed, the kind of resale price maintenance sought via the copyright notice constituted a *per se* violation of the antitrust laws. See *Dr. Miles Medical Co. v. John D. Park & Sons Co.*, 220 U.S. 373, 405 (1911) (stating that a vertical agreement which attempts to impose retail prices on a third party is void under the Sherman Act). Had the publishers in *Bobbs-Merrill* won, they could have controlled the price of books all the way down the chain of sale. *Bobbs-Merrill*, 210 U.S. at 340-41. Horizontal price fixing arrangements, such as the one the American publishers attempted to impose, produce a net loss of both productive output and efficiency. See ROBERT BORK, *THE ANTITRUST PARADOX* 107-09 (1978). Thus, the consumer is worse off because the output of a given good will fall, but no resources will be re-allocated to other sectors of the economy. Horizontal agreements result in a reduction in output (because demand will fall), but does not cause any reallocation of resources in the economy. *Id.* at 108.

238. See *supra* notes 226-37 (describing the policy driving the enactment of § 109).

239. *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 52 n.19 (1977) (stating that “[i]nterbrand competition is the competition among the manufacturers of the same generic product . . . and is the primary concern of antitrust law”).

240. See LEXECON STUDY, *supra* note 5, at 18 (stating that intrabrand competition injures distribution networks).

241. BORK, *supra* note 237, at 289; LEXECON STUDY, *supra* note 5, at 18-19.

242. Cf. *Sylvania*, 433 U.S. at 54-55. Indeed, some measure of restriction is necessary to operate any kind of business, as it allows the manufacturer to achieve certain efficiencies in distribution. *Id.* at 54; see also BORK, *supra* note 237, at 135 (stating that the adoption of business associations between individuals is an agreement not to compete).

IV. THE IMPORTATION RESTRICTION CONTAINED IN THE COPYRIGHT ACT, IF PROPERLY INTERPRETED, PROVIDES AN END RUN AROUND THE K MART HOLDING

A. *Construction of the Two Sections*

As the law now stands, the site of manufacture has become crucial in determining whether the first sale doctrine will excuse an otherwise infringing importation.²⁴³ Such a requirement, however, does not appear in the statute or the legislative history.²⁴⁴ When Congress intends the site of manufacture to be relevant, it has said so explicitly.²⁴⁵ Regardless of the cause of this conflict, however, a court faced with this juxtaposition must find a way to resolve it without rendering either section surplusage.²⁴⁶

The plain language of each statute leaves two possible constructions. First, as construed by the Third Circuit, § 109 limits the distribution right granted by § 106(3).²⁴⁷ Because an importation violates only the distribution right, and the distribution right is extinguished by the first sale, then the importation right must also be extinguished by the first sale.²⁴⁸ That extinction will occur irrespective of either the situs of the sale or manufacture of a given copy.²⁴⁹

The Third Circuit analysis, if taken to its logical conclusion, renders the

243. *Compare* Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 480 (9th Cir. 1994) (finding that the unauthorized importation of works lawfully made abroad infringes an American copyright), *cert. denied*, 115 S. Ct. 1315 (1995) *with* Sebastian Int'l, Inc. v. Consumer Contacts (PTY), Ltd., 847 F.2d 1093, 1096-97 (3d Cir. 1988) (finding no infringement when a work is made in the United States).

244. *See* 17 U.S.C. § 602(a) (1994); *supra* notes 201-29 and accompanying text (discussing the legislative history of the importation provision).

245. *See* H.R. REP. NO. 1476, *supra* note 116, at 164, 169, *reprinted in* 1976 U.S.C.C.A.N. 5659, 5780, 5785; *see also supra* notes 145-46 (discussing the Copyright Act's manufacturing provisions).

246. *Gustafson v. Alloyd Co.*, 115 S. Ct. 1061, 1069 (1995) (stating that a reviewing court should avoid a construction that renders the words of a statute superfluous); *United States v. Nordic Village, Inc.*, 503 U.S. 30, 35 (1992) (stating that a statute should be construed to give meaning to it in its entirety); *Mountain States Tel. & Tel. Co. v. Pueblo of Santa Ana*, 472 U.S. 237, 249 (1985) (stating that courts should not interpret a statute so as to render one part inoperative); *Weinberger v. Hynson, Wescott & Dunning*, 412 U.S. 609, 633 (1973) (stating that it is axiomatic that all parts of an Act "if at all possible, are to be given effect"); *see also United States v. Morton*, 467 U.S. 822, 828 (1984) (stating that the Supreme Court considers statutes not as component parts, but as a whole).

247. *Sebastian*, 847 F.2d at 1099.

248. *Id.*

249. *Id.* at 1098. The court noted that the manufacturing requirements imposed by *Scorpio* and its progeny have no basis in the legislative history. *Id.*; *see also supra* notes 201-29 and accompanying text (discussing the legislative history of § 602). Although explicitly declining to pass on the validity of the phrase "lawfully made under this title," *id.*, the court found the judicially created manufacturing requirements "troubling." *Id.* at 1098

provisions of § 602 meaningless. Under the analytical framework of *Sebastian*, a third party could exploit the American market merely by purchasing the copyrighted item abroad.²⁵⁰ The legislative history of the importation provision strongly suggests that such a result falls beyond the pale of Congressional intent.²⁵¹ The reasoning in *Sebastian* makes the result in *BMG Music* a logical impossibility, as the sale of the works abroad would have extinguished the domestic copyright holder's distribution rights.²⁵² Like *K Mart*, the decision in *Sebastian* arguably involved the ramifications of shutting down a multimillion dollar business more than construing the plain language of the statutes.²⁵³ Unlike the *K Mart* decision, however, *Sebastian* violated one of the main tenets of statutory construction: that no part of a statute should be interpreted so as to make another part superfluous.²⁵⁴

Another, and perhaps more important, criticism of the Third Circuit's construction of these sections is that it gives extraterritorial effect to § 109.²⁵⁵ Absent express congressional intent, domestic laws are pre-

n.1; cf. *supra* notes 145-46, 47 (discussing Congress' expression of intent regarding manufacturing requirements).

250. *Id.* at 1097-98.

251. See *supra* notes 201-27 and accompanying text.

252. *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991), *cert. denied*, 505 U.S. 1206 (1992). As discussed earlier, the Ninth Circuit distinguished this case from *Sebastian* on the basis of the place where the goods are manufactured. *Id.* at 319 n.3. In *Givenchy*, the Ninth circuit again managed to avoid a split between it and the Third Circuit by reaffirming the same distinction. See *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.7, 8 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995). This is distinction without a difference.

253. *Sebastian*, 847 F.2d at 1099. The court stated:

[A]lthough this case turns purely on copyright issues, we recognize that the underlying "gray market," or "parallel importing," issues really are dominant. . . . [The failure of other remedies] has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that the controversy . . . should [not] be resolved by judicial extension of the Copyright Act's limited monopoly.

Id. The *Sebastian* decision parallels *K Mart* in the sense that neither reviewing court had a desire to put the gray market out of business via judicial fiat. Cf. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 295 (1987) (Brennan, J., concurring) (noting the emergence of a "multibillion dollar industry" around parallel imports).

254. *Gustafson v. Alloyd Co.*, 115 S. Ct. 1061, 1069 (1995) (stating that a reviewing court should avoid a construction that renders words superfluous); *United States v. Nordic Village*, 503 U.S. 30, 36 (1992) (stating that a statute should be construed to give every word some operative effect); *Mountain States & Tel. Co. v. Pueblo of Santa Ana*, 472 U.S. 237, 249 (1985); *Weinberger v. Hynson, Wescott & Dunning*, 412 U.S. 609, 633 (1973) (stating that it is axiomatic that all parts of an Act "if at all possible, must be given effect"); see also *United States v. Morton*, 467 U.S. 822, 828 (1984) (stating that the Supreme Court considers statutes not as component parts, but as a whole).

255. See *Columbia Broadcasting Systems, Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983) (stating that allowing sales abroad to extinguish the distribu-

sumed not to apply outside the United States.²⁵⁶ By allowing the sale abroad to extinguish the importation right, the Third Circuit's construction attaches domestic legal significance to an event that occurs outside the borders of the United States.²⁵⁷ Such extraterritorial recognition would violate the "undisputed axiom" of copyright law—that it has no extraterritorial application.²⁵⁸

These two sections offer an alternative construction, however. Section 602 states that the importation of works that have been "acquired outside the United States" without the consent of the United States copyright holder infringes the distribution right granted in § 106.²⁵⁹ If Congress intended the Copyright Act to have no extraterritorial application, then, contrary to what the Ninth Circuit concluded in *Givenchy*,²⁶⁰ the distribution right of § 106(3) does not exist outside the United States and hence

tion right gives the distribution right an extraterritorial effect), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984).

256. See *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 248 (1991) (stating that legislation applies only within the boundaries of the United States unless Congress has manifested a contrary intent) (quoting *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949)).

257. See *Scorpio*, 569 F. Supp. at 49 (stating that allowing sales abroad to extinguish the distribution right gives the distribution right an extraterritorial effect).

258. *Subafilms Ltd. v. MGM-Pathe Communications Co.*, 24 F.3d 1088, 1095 (9th Cir. 1994); *Capitol Records, Inc. v. Mercury Records Corp.*, 221 F.2d 657, 662 (2d Cir. 1955). In theory, if the distribution right can be extinguished outside the United States, then it follows that it must exist. If it exists, then it can be infringed outside the United States.

The reasons for this rule against extraterritorial application center around maintaining the United States' international obligations with respect to copyright and other intellectual property agreements. *Subafilm*, 24 F.3d at 1097. The central theme of these agreements is national treatment—each country must provide a foreign author the same protection it provides its own nationals. *Subafilm*, 24 F.3d at 1097; *cf.* The Berne Convention for the Protection of Literary and Artistic Works, art. 5(1) (requiring signatories to accord national treatment to qualifying works), *entered into force*, March 1, 1989, *reprinted in* WORLD INTELLECTUAL PROPERTY ORGANIZATION, GUIDE TO THE BERNE CONVENTION ON LITERARY AND ARTISTIC WORKS (PARIS ACT, 1971) Appendix (1978); Final Text, Uruguay Round Trade Agreements, Agreement on Trade Related Aspects of Intellectual Property Rights, art. 1(3) (requiring member states to accord national treatment and to adhere to most of Berne), *reprinted in* MESSAGE FROM THE PRESIDENT OF THE UNITED STATES, THE URUGUAY ROUND TRADE AGREEMENTS, H.R. DOC. NO. 316, 103d Cong., 2d Sess 1627 (1994). In addition to raising issues of national treatment, extraterritorial application of the Copyright Act may offend other signatories to these agreements "by effectively displacing their law in circumstances in which previously it was assumed to govern." *Subafilm*, 24 F.3d at 1097. The extraterritorial application of copyright law could also send a message to other nations that the U.S. does not trust their enforcement mechanisms as adequate. *Id.* at 1098. In contrast, by keeping the effect of the Act within U.S. territory, the courts not only avoid creating strife between the U.S. and other nations, but also avoid difficult choice of law decisions that would otherwise arise. See *id.* (describing the choice of law problem).

259. 17 U.S.C. § 602(a) (1994).

260. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995); see also *Subafilms*, 24 F.3d at 1095.

cannot expire.²⁶¹ Section 602 makes unauthorized *importation* of a work an infringement of the *American* copyright holder's right to distribute copies.²⁶² The infringement of the § 106(3) distribution right therefore occurs within United States borders.²⁶³

Considering the circumstances surrounding § 109's development, the

261. See *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1386 (C.D. Cal. 1993) (confining the existence of the distribution right to within the United States).

262. See *id.*

263. Cf. 17 U.S.C. § 501(a) (1994) ("Anyone who violates any of the exclusive rights of the copyright owner. . . [delineated in §§ 106-118, 602] is an infringer . . ." (emphasis added)). The report accompanying § 501 states that "an unauthorized importation of copies or phonorecords acquired abroad is an infringement of the exclusive right of distribution under certain circumstances." H.R. REP. NO. 1476, *supra* note 116, at 158, *reprinted in* 1976 U.S.C.C.A.N. at 5774. The words "certain circumstances" might mean 'except when the imported copies were first sold abroad.' However, the presence of 602's exceptions for imports destined for educational, governmental, or personal use, 17 U.S.C. § 602(b) (1994), makes it more likely that the phrase "under certain circumstances" means 'when sections 602(a) (1), (2) and (3) do not apply.'

In computing the measure of statutory damages, 17 U.S.C. § 504(c)(2) (1994) allows the court to reduce the minimum amount of damages awarded to as little as \$100, in cases involving innocent infringement. See 17 U.S.C. § 504(c)(2) (1994) (stating that when the infringer lacks any knowledge or reason to know that his acts constituted a copyright infringement, statutory damages may total as little as \$100). The gray marketer, however, cannot afford to admit any liability at all because the practice in that line of business is to obscure the chain of title and because the marketer probably knows that the goods are present in the U.S. against the wishes of the manufacturer. See *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1166 n.2 (S.D.N.Y. 1984) (gray market retailer refused to give name of importer and therefore was found the importer as a matter of law); *Johnson & Johnson Prods., Inc. v. DAL Int'l Trading Co.*, 798 F.2d 100, 102 (3d Cir. 1986) (noting the gray market practice of ripping shipping labels from boxes). The innocent infringer provision of § 504(c)(2) should therefore offer the gray marketer little solace.

Although infringement technically occurs upon the unauthorized importation of a copyrighted work, see *supra* note 219 (describing Congress' decision to make importation rather than distribution the act of infringement), as a practical matter the harm to the copyright holder occurs when the work enters the domestic market and disrupts his monopoly therein. Cf. *Givenchy*, 38 F.3d at 480 n.2 (stating that the Copyright Act protects copyright holders from unauthorized importation and from the distribution of unauthorized imports). The monopoly of copyright law is intended to reward each copyright holder for the value of each copy. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 428-31 (1984). One question left unanswered by these cases is whether courts should use a subjective or objective standard in determining the "value" of a copyrighted work. If subjective, then § 109 cannot trump § 602 because, if a manufacturer would sell its goods abroad at a loss or deflated price in order to penetrate a foreign market, the importation and subsequent domestic sale of those goods denies him the expected value of his bargain. See *Givenchy*, 832 F. Supp. at 1390-91 (stating that, in addition to price, the value of a sale to the seller may involve its location). If value is objective, then the mere receipt of money by the copyright holder could theoretically satisfy the value requirement. Cf. *id.* Ideally, the two strands would be combined so that a reviewing body would consider the subjective strand (what the manufacturer expected) and the objective strand (whether the manufacturer's actions belie his stated expectation).

first sale doctrine should not limit liability under § 602.²⁶⁴ As the facts of *Bobbs-Merrill* indicate, Congress designed § 109 to further the free alienation of property, and to prevent resale price maintenance.²⁶⁵ This problem does not occur in the gray market scenario because irrespective of its effect abroad, § 109 as applied in the United States unequivocally prevents the copyright holder from controlling future transfers of a copy.²⁶⁶ Section 602's prohibition protects the copyright holder from the equivalent of intrabrand competition, a result consistent not only with the intended scope the Copyright Act,²⁶⁷ but also well within that of the anti-trust laws.²⁶⁸

B. The Implications of a Proper Construction of this Split on the Gray Market

Espousal of the *Givenchy* holding in other Circuits could significantly constrict the sale of gray goods in the United States. The appearance of identical gray goods on the domestic market when the United States owner has an affiliation with the foreign trademark registrant does not implicate either the trademark law's concern with consumer confusion²⁶⁹ or the protectionist concern over the goodwill of the United States trademark holder that upheld Customs' interpretation of the Tariff Act.²⁷⁰ The Lanham Act only ignores affiliations if the gray market goods materially differ from those sold by the United States trademark holder.²⁷¹

The purpose of the trademark law and that of copyright law, as the Court in *Givenchy* noted, differ completely.²⁷² Nowhere in the legislative

264. Cf. H.R. REP. NO. 1476, *supra* note 116, at 79 (discussing the first sale provision, and making no mention of a negative effect on § 602), *reprinted in* 1976 U.S.C.C.A.N. at 5693.

265. See *supra* notes 230-37 and accompanying text (discussing the legislative history of § 109).

266. 17 U.S.C. § 109(a) (1994). Cf. *Givenchy*, 832 F. Supp. at 1386 (illustrating the effect that gray market importation has on the U.S. intellectual property owner); see also *supra* notes 43-58 and accompanying text (describing the nature of the gray market).

267. See *supra* notes 201-29 (discussing the legislative history of § 602).

268. See *Continental T.V., Inc. v. GTE Sylvania Inc.*, 433 U.S. 36, 52 n.19 (1977) (noting that "[i]nterbrand competition is the competition among the manufacturers of the same generic product. . . and is the primary concern of antitrust law"). See also *BORK*, *supra* note 239, at 288-91 (arguing for the legality of all vertical restraints, including those involving price).

269. See *supra* notes 88-109 and accompanying text (discussing the *Lever* and *Nestle* decisions).

270. 19 U.S.C. § 1526 (1994); see *supra* notes 59-86 and accompanying text (discussing the relationship between Customs regulations and the Tariff Act of 1930).

271. See discussion *supra* notes 87-106 and accompanying text (describing the "material difference" standard).

272. *Givenchy*, 38 F.3d at 483-84; cf. *NEC Elec. v. CAL Circuit Abco*, 810 F.2d 1506,

history of § 602 does the potential of an affiliate exception, or a concern over confusion of the consumer, exist.²⁷³ If the products imported and sold to United States consumers are *identical* to those sold to foreign consumers, the authorized United States importer need only create a sufficiently original label or design, register the copyright, and sue for injunctive relief as well as attorney's fees.²⁷⁴ The Ninth Circuit's holding in *Givenchy* has made it possible to prevent the sale of gray market merchandise imported under the affiliate exception.²⁷⁵

Thus, for identical genuine goods, the copyright law provides an end run around the affiliate exception upheld in *K Mart*. That end run, however, is far from secure. First, although this civil liability will make the sale of gray goods less profitable, it is unclear whether it will prohibitively raise the cost of selling them.²⁷⁶ Second, the Supreme Court may not look favorably upon the use of copyright law to partially circumvent the effects of its *K Mart* holding.²⁷⁷ The Court could be compelled to resolve the issue if a case involving the parallel importation of copyrighted works made in the United States appears before the Ninth Circuit.²⁷⁸ Scholars have divided on whether the sale of gray market goods, as an economic matter, benefit the United States consumer.²⁷⁹ Although

1509 (9th Cir.) (discussing the rationale behind the Lanham Act's affiliate exception for identical goods), *cert. denied*, 484 U.S. 451 (1987); *see also supra* notes 72-78 (describing the Court's construction of § 526's purpose).

273. *Givenchy*, 38 F.3d at 482; *cf. supra* notes 201-29 and accompanying text (discussing the legislative history of § 602's importation provision).

274. *See generally* *Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1392 (C.D. Cal. 1993) (enjoining the sale of gray goods based on the imports' infringement of the copyright owner's distribution right), *aff'd in related proceeding*, *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d. 477 (9th Cir. 1994), *cert. denied*, 115 S. Ct. 1315 (1995).

275. *See Givenchy*, 38 F.3d at 479 (noting that the United States copyright holder, Givenchy U.S.A., was wholly owned by its French parent); 19 C.F.R. § 133.21(c)(2) (1995) (allowing gray market goods into the country where the U.S. trademark registrant shares "common control" with the foreign trade name owner), discussed generally *supra* notes 66-82 and accompanying text.

276. *Cf. PETER W. HUBER, LIABILITY: THE LEGAL REVOLUTION AND ITS CONSEQUENCES* (1988) 139-52 (describing how increased product liability raises the price of manufactured goods). *See also supra* note 263 (discussing the applicability of the Copyright Act's damage remedies).

277. As of this writing, Justices Scalia, O'Connor, and Chief Justice Rehnquist still sit on the Court. In contrast, the majority that upheld the common control exemption has lost three of its five votes (Justices Marshall, Brennan and White) while only one dissenter has retired. Four of nine justices are as yet untested on gray market issues.

278. *Cf. Givenchy*, 38 F.3d at 482 n.7 (declining to pass on the facts of *Sebastian*); *see supra* notes 165-87 and accompanying text (discussing the factual distinction between the *Givenchy* and *Sebastian* cases).

279. *Compare* Hansen, *supra* note 2, at 265 (arguing that the gray market is more properly characterized as black) *with* Ghosh, *supra* note 2, at 428-29, 434-35 (concluding that

no split in the circuits exists in the construction of these two sections because of the factual differences between the cases, in substance they collide—in short, distinction without a difference.²⁸⁰ The Supreme Court, however, will find itself caught between the Scylla of permanently crippling the “multibillion dollar industry” in gray market imports that it protected in 1988, and the Charybdis of distorting the intended scope of the copyright law.²⁸¹

V. CONCLUSION

The holding in *Givenchy* keeps copyright law within its intended boundaries: to wit, those of the United States. The Supreme Court’s denial of certiorari has left the decision sitting underneath the gray market like a land mine, waiting for the pressure of fluctuating currency rates to detonate it. As the use of copyright law to prevent gray market sales increases, this issue will eventually fall squarely in front of the institution best qualified to deal with it: the Congress. For the moment, however, copyright law has provided an end run around the *K Mart* decision by allowing United States intellectual property owners to enjoin the sale of identical goods, regardless of the affiliation between themselves and the foreign intellectual property owner.

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the sale of properly labeled gray goods is economically harmless). *But see* BORK, *supra* note 239, at 288-91 (arguing that vertical distribution restraints do not harm consumer welfare).

280. *See supra* notes 175-89 and accompanying text (describing the implications of the Third Circuit’s analysis in Sebastian).

281. One important caveat exists to this statement. In the *Givenchy* cases, the District Court made an express finding of fact that the perfume’s box design was both prominently featured and was an important part of the product’s overall image. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 1992 WL 532116 at *1 (C.D. Cal. 1992), *aff’d*, 38 F.3d 477 (9th Cir. 1994), *cert. denied*, 115 U.S. 1315 (1995); *Parfums Givenchy, Inc. v. C & C. Beauty Sales, Inc.*, 832 F. Supp. 1378, 1381 (C.D. Cal. 1993). *Cf. Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 664 F. Supp. 909, 913 (D.N.J. 1987) (finding that the label carrying the copyright “tri[ed] the limits of the modicum of creativity necessary for a work to be copyrightable,” and which presumably had little or nothing to do with promoting the product), *vacated*, 847 F.2d 1093 (3d Cir. 1988). The relative importance of the copyrighted material to the product’s value may make it difficult for plaintiffs to recover substantial damages. The availability of injunctive relief, however, should not be affected. *See also supra* notes 247-58 (arguing that allowing § 109 to categorically extinguish the distribution right renders § 602 meaningless, exceeds Congressional intent, and also may raise issues under U.S. treaty obligations).