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Determining the Scope of a Copyright Owner's Right to Bar Imports: *L'Anza Research International, Inc. v. Quality King Distributors*

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DETERMINING THE SCOPE OF A COPYRIGHT OWNER'S RIGHT TO BAR IMPORTS: *L'ANZA RESEARCH INTERNATIONAL, INC. v. QUALITY KING DISTRIBUTORS*

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Abstract: In *L'Anza Research International, Inc. v. Quality King Distributors*, the Ninth Circuit held that a copyright owner's right to bar imports is not limited by the first sale doctrine, which ordinarily prohibits a copyright owner from controlling the further distribution of copies after the copyright owner has consented to their sale. This Note examines the importation right in light of the purposes of the Copyright Act's distribution and first sale provisions, congressional intent behind the importation right, and the underlying purposes of copyright law. The Note argues that the first sale doctrine properly limits a copyright owner's right to bar imports, and that withholding from copyright owners the power to bar importation of copies first sold within the United States is an appropriate way to limit the importation right.

In *L'Anza Research International, Inc. v. Quality King Distributors*,[1] the Ninth Circuit held that a copyright owner's right to bar imports[2] is unrestricted by the first sale doctrine,[3] which ordinarily prohibits copyright owners who consent to the sale of a copy from imposing conditions upon future sales of that copy.[4] With this holding, the Ninth Circuit granted copyright owners unprecedented power to restrict the movement of copyrighted goods across the U.S. border, openly splitting from the Third Circuit by rejecting that court's narrower reading of the copyright importation right,[5] codified at 17 U.S.C. § 602(a). The U.S. Supreme Court will review *L'Anza* during the current term, marking the first time the Court has reviewed a section 602(a) copyright importation case.[6]

In *L'Anza*, the Ninth Circuit faced one of the most difficult questions of copyright law confronting the courts since section 602(a) of the

1. 98 F.3d 1109 (9th Cir. 1996), *cert. granted*, 117 S. Ct. 2406 (1997).

2. *See* 17 U.S.C. § 602(a) (1994) (providing importation right).

3. *See* 17 U.S.C. § 109(a) (1994) (prescribing first sale doctrine).

4. *See* 17 U.S.C. § 109(a).

5. Sebastian Int'l, Inc. v. Consumer Contacts Ltd., 847 F.2d 1093 (3d Cir. 1988) (holding that first sale doctrine prevents copyright owner from enjoining importation of copies first sold by copyright owner himself, rather than by licensee or other authorized manufacturer).

6. *See* L'Anza Research Int'l, Inc. v. Quality King Distribs., 98 F.3d 1109 (9th Cir. 1996), *cert. granted*, 117 S. Ct. 2406 (1997).

Copyright Act took effect in 1978.[7] In attempting to define the boundaries of a copyright owner's right to control imports under section 602(a), courts have struggled to determine the effect on that right of the first sale doctrine, contained in 17 U.S.C. § 109(a). If courts give the first sale doctrine full effect over the importation right, that right will lose much of its meaning; after all, many imports have already changed hands at least once with the copyright owner's consent prior to importation.[8] If a copyright owner could not bar these imports, the importation right would apply in relatively few cases.[9] Conversely, if, as the *L'Anza* court found, the first sale doctrine has no effect on the importation right, the importation right would become virtually unlimited in commercial contexts, giving copyright owners power to prevent most copies, including those that had already changed hands, from entering the United States.[10] Such an outcome risks erecting unwarranted trade barriers and giving copyright owners excessive control over secondary distribution channels.

Like most section 602(a) cases, *L'Anza* arose within the context of parallel importation. Parallel importation refers to the distribution and domestic sale of non-pirated copyrighted works that are imported and sold domestically without the U.S. copyright owner's consent.[11] Parallel

7. Copyright Act of 1976, Pub. L. 94-553, tit. I, § 101, 90 Stat. 2541, 2589 (1976) (codified at 17 U.S.C. § 602(a) (1994)).

8. In almost all § 602(a) cases to date, a copyright owner has sought to enjoin the importation of copies that had already been the object of an authorized first sale. *See* cases cited *infra* note 46.

9. Nonetheless, even if the first sale doctrine does have full effect over the importation right, § 602(a) would still give copyright owners the right to bar importation of copies that have never been sold, or that have been sold without the authority of the U.S. copyright owner. Thus, for example, copyright owners could still bar importation of pirated copies; stolen copies; copies imported by bailees or foreign licensees who do not have proper title to them; and copies manufactured abroad, without the U.S. copyright owner's consent, by the owner of a foreign copyright. *See* Petitioner's Brief at 25–28, Quality King Distribs. v. L'Anza Research Int'l, Inc., 117 S. Ct. 2406 (1997) (No. 96-1470).

10. Section 602(a) contains three explicit exceptions to the importation right; however, none of these exceptions is relevant in a commercial context. *See* 17 U.S.C. § 602(a)(1)–(3).

11. Jamie S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C. J. Int'l L. & Com. Reg. 205, 205 n.1 (1986) ("The purchase, importation and sale of such goods is said to be 'parallel' to the channels 'authorized' by the [copyright] owners."). Parallel importation also occurs with trademarked and patented goods, and those bodies of law have unique provisions that address it. The term "gray market goods" is often used to describe parallel imports, especially when referring to trademarked goods. The basic economic problem in all contexts is the same, but the legal solution will differ depending on the policies and provisions of the body of law involved. *See, e.g.*, Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 U. Pa. J. Int'l Bus. L. 373, 408 (1994).

importation is widespread and lucrative,[12] and evaluating the probable costs and benefits of restricting the industry through restrictions on importation is difficult. Copyright owners and authorized U.S. distributors oppose parallel importation because the imported goods can usually be re-sold within the United States at prices that undercut identical goods sold through authorized distribution channels.[13] In addition, parallel importers often "free ride" on manufacturers' domestic marketing and promotional activities,[14] and parallel importation can undermine a manufacturer's attempts to sell goods at a price and of a quality that reflect differences in buyers' tastes and purchasing abilities.[15] Although the practice often harms manufacturers, it arguably benefits consumers by allowing them to acquire goods at a greater number of outlets for a wider range of prices, and by preventing manufacturers from discriminating against U.S. consumers by charging them higher prices than they charge foreign consumers.[16] If the *L'Anza* decision is upheld, it will likely affect the parallel importation industry to a significant degree. A proper analysis of *L'Anza* will consider whether those likely effects accord with the underlying purposes of copyright law.

The Ninth Circuit's broad interpretation of section 602(a) conflicts both with the broad purpose of copyright law, which is to find an

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12. An estimated $10 billion in parallel imports entered the United States in 1985. *See* J. Thomas Warlick IV, Comment, *Of Blue Light Specials and Gray-Market Goods: The Perpetuation of the Parallel Importation Controversy*, 39 Emory L.J. 347, 350 (1990).

13. Parallel importers usually purchase the goods abroad at prices low enough to offset the additional transaction and transportation costs of importing them into the United States. The reasons for the price differential are many and varied, and the nature of the economic problem and its impact on the copyright owner vary in turn. *See, e.g.*, Ghosh, *supra* note 11, at 412. Ghosh writes:

> If price differences reflect differences in tastes and costs, the response to gray marketing would be different from the situation in which the price difference results from an attempt by businesses to price discriminate between two markets. In the former case, gray markets would almost certainly be viewed as salutary because they provide a means to integrate global markets. In the latter case, however, gray markets would undermine attempts to develop regional goodwill and expand markets to areas where the goods would not be sold but for the price discrimination.

Id.

14. *See, e.g.*, Respondent's Brief at 13, *L'Anza* (No. 96-1470).

15. Furthermore, parallel imports are often sold without warranties and can be damaged in transit. Although the discounted price of a parallel import can compensate for inferiorities in the product, such inferiorities can nonetheless result in a loss of goodwill to the manufacturer. *See id.* at 12–13.

16. *See, e.g.*, Myra J. Tawfik, *Parallel Importation and Intellectual Property Law*, in *International Trade and Intellectual Property: The Search for a Balanced System* 19, 22–23 (George R. Stewart et al. eds., 1994); Gorelick & Little, *supra* note 11, at 226–29; Richard A. Fogel, Note, *Grey Market Goods and Modern International Commerce: A Question of Free Trade*, 10 Fordham Int'l L.J. 308, 334–35 (1987).

optimum balance between the interests of copyright owners in obtaining value for their creative works and the public's interest in free access to those works, and with one of the central purposes of the first sale doctrine, which is to promote alienation of property. The court's holding that the first sale doctrine does not limit the importation right also contravenes Congress's intent behind the importation right, which is to give copyright owners power to bar imports only when distribution of the copies within the United States would infringe the copyright owner's exclusive rights. Allowing the first sale doctrine to limit the importation right better achieves these three objectives.

In order to determine whether and how the first sale doctrine limits a copyright owner's right to bar imports, courts have given legal significance to particular factual differences among section 602(a) cases. Generally, courts have found one or more of the following factors to be significant: the location of the imported copies' manufacture (either within the United States or outside of it),[17] the location of the copies' first sale (within the United States or outside of it),[18] the location of manufacture *and* first sale,[19] or the identity of the person who first sold the copies (either the U.S. copyright owner or someone else).[20] This Note argues that giving legal significance to the location of a copy's first sale accords with both congressional intent behind the importation right and the purposes of copyright law.

Part I of this Note discusses the purposes of the distribution and first sale provisions of the Copyright Act of 1976, demonstrating that the importation right conflicts with the underlying purposes of both provisions. This Part examines the importation provision and the legislative intent behind it, concluding that Congress probably did not intend to give copyright owners the right to bar importation of copies first sold within the United States. The Part also analyzes the section 602(a) case law prior to *L'Anza*. Part II discusses the *L'Anza* decision. Part III analyzes the *L'Anza* decision in light of the purposes of the first sale doctrine and the broader purposes of copyright law, concluding that prohibiting a copyright owner from enjoining the importation of copies made or first sold within the United States is a sensible way to limit that right.

17. *See infra* note 47.

18. *See infra* note 48.

19. *See infra* note 49.

20. *See infra* note 50.

I. COPYRIGHT LAW AND THE RIGHT TO BAR IMPORTS

A. The Distribution and First Sale Provisions of the 1976 Copyright Act

A full understanding of the Copyright Act's importation provision applying to non-pirated copies, 17 U.S.C. § 602(a), rests on a familiarity with both the distribution provision, 17 U.S.C. § 106(3), and the first sale provision, 17 U.S.C. § 109(a). The purposes of the three provisions are inconsistent in significant ways.

According to the language of section 602(a), the right to bar imports is an extension of a copyright owner's distribution right. Section 602(a) provides that "[i]mportation 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 outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106."[21] The purpose of this provision is to give copyright owners the power to prevent importation of lawfully made copies whose "distribution in the United States would infringe the U.S. copyright owner's exclusive rights."[22] The distribution right, in turn, is granted in section 106(3), which gives copyright owners the exclusive right to "distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending."[23] The purpose of the distribution right is to give copyright owners the right to control the first public distribution of a copy.[24] If the importation right is part of the distribution right, it should be subject by implication to the same limitations as the distribution right.

The first sale doctrine is the primary limitation on the distribution right. Section 109(a) provides: "[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."[25] According to the first

21. 17 U.S.C. § 602(a) (1994).

22. H.R. Rep. No. 94-1476, at 70 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5785, 5786; S. Rep. No. 94-473, at 152 (1975).

23. 17 U.S.C. § 106(3) (1994).

24. *See* 2 Melville B. Nimmer & David Nimmer, *The Law of Copyright* § 8.11[A], at 8-135, 8-137 (1997) ("In essence, [the distribution right] is a right to control the work's publication .... [It] has special application to the first such act of public distribution."). The first public distribution may be by sale, rental, lease, or lending. *See* H.R. Rep. No. 94-1476, at 62, *reprinted in* 1976 U.S.C.C.A.N. at 5676.

25. 17 U.S.C. § 109(a) (1994).

sale doctrine, once the copyright owner has authorized the sale of a particular copy of a copyrighted work, he or she loses the right to control subsequent distribution of that copy.[26] The purpose of the doctrine is to prevent restraints on alienation of property.[27] The doctrine holds that a rightful buyer of a copy can determine not only *whether* to sell the copy without interference from the copyright owner, but also the *conditions* under which that buyer can make future sales.[28] Thus, barring importation and thereby imposing geographic restrictions on the distribution of a copy that has been the object of an authorized first sale is equivalent to imposing a condition on a rightful buyer's future sales, which contravenes the purpose of the first sale doctrine.

Allowing a copyright owner to bar the importation of copies that have already changed hands conflicts not only with the first sale doctrine, but also with the purposes of the distribution right itself. The distribution right is primarily a right of first publication.[29] This right is an extension of the copyright owner's central right, the right to make copies, because it guarantees that the copyright owner has the power to determine whether those copies will be made available to the public.[30] Thus, after the first sale, the distribution right has served its purpose and further control over distribution is unjustified:

> [C]ontinued control over the distribution of copies is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property that embodies the copyrighted work. Therefore, at this point, the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation.[31]

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26. 2 Nimmer & Nimmer, *supra* note 24, § 8.12[B][1], at 8-144.

27. H.R. Rep. No. 98-987, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2898, 2899 ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property.").

28. *See, e.g.*, Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 350 (1908) ("[O]ne who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it."); Fawcett Publications v. Elliot Publ'g Co., 46 F. Supp 717, 718 (S.D.N.Y. 1942) ("The exclusive right to vend is . . . confined to the first sale of any one copy and exerts no restriction on the future sale of that copy."). *But see* Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F. Supp. 1378, 1391 (C.D. Cal. 1993) (holding that since importation is not technically sale, it is not affected by first sale doctrine).

29. *See supra* note 24.

30. 2 Nimmer & Nimmer, *supra* note 24, § 8.12[A], at 8-142. The copyright owner exercises this power through the first sale. *Id.*

31. *Id.* Thus, the distribution right is in theory self-limiting, even without the first sale provision.

If the distribution right's purpose is to empower copyright owners to determine whether to withhold a product or release it for public sale, extending the right to cover importation is unjustified after a first sale has occurred because the copyright owner has already made the decision to allow public access to that copy. This apparent discrepancy between the respective purposes of the importation right and the distribution and first sale provisions has made section 602(a) difficult to apply, and the extent of the right that it grants difficult to determine.

B. The Importation Provision: Congressional Intent Behind Section 602(a)

1. Statutory Language

The language of 17 U.S.C. § 602(a) indicates that the importation right depends on the location of a copy's acquisition. Section 602(a) provides that copyright owners may bar importation of copies that were "acquired *outside* the United States."[32] Although this phrase seems to provide a limitation on the importation right, when applied to the facts of a typical importation case it has virtually no effect because only very rarely are imports not "acquired outside the United States" by the importer.[33] However, if Congress had intended section 602(a) to apply to all unauthorized imports, it could have simply omitted the phrase requiring that the imported copies be "acquired outside the United States."[34] Since Congress included the phrase, Congress must have intended it to have some effect on the importation right. Allowing copyright owners to enjoin importation of copies acquired abroad only when also *first sold* abroad would give effect to this statutory phrase.

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32. 17 U.S.C. § 602(a) (1994) (emphasis added). See *supra* text accompanying note 21 for a more complete version of the provision.

33. In all § 602(a) cases to date in which courts found that importation had occurred, the imported copies had been acquired abroad prior to importation. *See* cases cited *infra* note 46. One could imagine an exception to this situation, in which one person acquires copies within the United States, exports and then re-imports them back into the United States. However, this situation must be rare and probably did not induce Congress to include the phrase.

34. The provision would then read: "Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work . . . is an infringement of the exclusive right to distribute copies or phonorecords under section 106 . . . ." *See* 17 U.S.C. § 602(a).

2. Legislative History

The legislative history of section 602(a) does not explicitly reveal the limits of a copyright owner's right to bar imports; congressional intent regarding the effect of the older first sale doctrine on the newer importation right is equivocal.[35] The central issue of much of the debate during the drafting of section 602(a) concerned whether Congress should extend the importation right to cover authorized copies as well as pirated copies.[36] In its final version, section 602(a) does extend to authorized copies.[37] However, Congress failed to address a logical implication of extending the right to non-pirated copies, by failing to clarify whether the importation right would give copyright owners power to bar importation of copies after an authorized first sale had occurred.[38]

Nonetheless, the legislative history of section 602(a) suggests that the first sale doctrine limits the importation right, and that the limitation may depend on the location of a copy's first sale. Congress explained that section 602(a) applies when "the copies or phonorecords were lawfully made but their distribution in the United States would infringe the U.S. copyright owner's exclusive rights."[39] This statement suggests that the importation right is limited, like the copyright owner's other exclusive rights. In particular, if a copyright owner has authorized the first sale of a copy within the United States, the first sale doctrine holds that subsequent distribution within the United States does not infringe the exclusive right to distribute;[40] thus, according to Congress, a copyright

35. See Stephen W. Feingold, Note, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U. J. Int'l L. & Pol. 113, 134–37 (1984), and Doris R. Perl, Comment, *The Use of Copyright Law to Block the Importation of Gray-Market Goods: The Black and White of It All*, 23 Loy. L.A. L. Rev. 645, 656–65 (1990), for extensive discussions of the legislative history of § 602(a).

36. For instance, the Copyright Office, an active participant in drafting the 1976 amendments, initially opposed extending the importation right to authorized copies. Staff of House Comm. on the Judiciary, 87th Cong., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 119–26 (Comm. Print 1961).

37. Section 602(a) gives copyright owners the right to enjoin the importation of copies that were "lawfully made." H.R. Rep. No. 94-1476, at 169–70 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785–86; S. Rep. No. 94-473, at 151–52 (1975). Thus, the provision gives copyright owners more control over imports than did prior versions of the Copyright Act. *See, e.g.*, Perl, *supra* note 35, at 652–58 (discussing history of importation right in earlier versions of Copyright Act).

38. Neither the House nor the Senate Report on § 602(a) contains any reference to 17 U.S.C. § 109 or the effect of a first sale on the importation right. *See* H.R. Rep. No. 94-1476, at 169–70, *reprinted in* 1976 U.S.C.C.A.N. at 5785–86; S. Rep. No. 94-473, at 151–52.

39. H.R. Rep. No. 94-1476, at 170, *reprinted in* 1976 U.S.C.C.A.N. at 5786; S. Rep. No. 94-473, at 152.

40. *See supra* notes 25–28 and accompanying text.

owner also cannot enjoin importation in this situation. Furthermore, because the first sale doctrine ordinarily limits the distribution right regardless of the identity of the seller, as long as the copyright owner authorized the sale,[41] Congress's statement also implies that the seller's identity is irrelevant to the importation right. What remains unresolved is the effect of the first sale doctrine on importation when copies are first sold or made abroad.[42] Evidence from panel discussions and early drafts of section 602(a) indicates that at least some participants in the drafting process believed that U.S. copyright owners would have the right to bar importation of copies made or first sold abroad.[43] Most commentators agree that Congress intended the importation right to cover the importation of copies either made or first sold abroad, or both.[44]

Thus, both the statutory language and legislative history of section 602(a) suggest that copyright owners do not have the right to bar importation of copies first sold within the United States. However, neither indicates whether the identity of the first seller is legally significant.

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41. *See supra* note 26.

42. Some courts have held that the first sale doctrine does not apply to copies *manufactured* abroad. *See infra* notes 56–58 and accompanying text.

43. *See, e.g.*, Staff of House Comm. on the Judiciary, 89th Cong., *Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill* 150 (Comm. Print 1965) (explaining that § 602(a) would apply in situations "where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country"); Staff of House Comm. on the Judiciary, 88th Cong., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* 210 (Comm. Print 1964) (statement of General Counsel of the Copyright Office) (suggesting that importation right would extend to imported copies first sold by German publisher who had authority to make and sell them).

44. *See, e.g.*, Sebastian Int'l, Inc. v. Consumer Contacts Ltd., 847 F.2d 1093, 1097 (3d Cir. 1988) ("[Congressional hearings on section 602(a) reveal] copyright owners' desire to prevent importation . . . of copies made by licensees in foreign countries."); 2 Nimmer & Nimmer, *supra* note 24, § 8.12[B][6], at 8-164.2 ("As limited to its core situation in which both the sale and manufacture of copyrighted goods occur outside the United States, [the] imposition of a right to bar importations should . . . be followed."); Christopher A. Mohr, Comment, *Gray Market Goods and Copyright Law: An End Run Around* K Mart v. Cartier, 45 Cath. U. L. Rev. 561, 600 (1996) ("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."); Perl, *supra* note 35, at 677 ("[I]n instances where the goods are subject to a domestic first sale, section 109(a) would appear to grant the importer a complete defense."). *But see* 2 Paul Goldstein, *Copyright* § 5.6.1.2(a), at 5:115–17 (1996) (suggesting interpretation of § 602(a) that would extend importation right to all imports, even those made in United States).

C. *Judicial Interpretations of Section 602(a): Case Law Prior to* L'Anza Research International, Inc. v. Quality King Distributors

Since the provision first took effect in 1978,[45] numerous plaintiffs have brought section 602(a) actions to enjoin parallel importation of copyrighted goods.[46] Generally, in delineating the effect of the first sale doctrine on the importation right, courts prior to *L'Anza* found the location of the copies' manufacture[47] or first sale,[48] the location of the

45. Copyright Act of 1976, Pub. L. 94-553, tit. I, § 101, 90 Stat. 2541, 2589 (1976) (codified at 17 U.S.C. § 602(a) (1994)).

46. *See, e.g.*, L'Anza Research Int'l, Inc. v. Quality King Distribs., 98 F.3d 1109, 1111, 1118 (9th Cir. 1996) (hair care products made in United States, sold to foreign distributor, acquired abroad by third party, and imported into United States), *cert. granted*, 117 S. Ct. 2406 (1997); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 479 (9th Cir. 1994) (perfume products made and first sold in France, acquired abroad by third party, and imported into United States); BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991) (sound recordings made and first sold abroad, acquired abroad by defendant, and imported into United States); Sebastian Int'l, Inc. v. Consumer Contacts Ltd., 847 F.2d 1093, 1094 (3d Cir. 1988) (beauty supplies made in United States and exported by copyright owner to foreign distributor, acquired abroad by defendant, and imported into United States); Summit Tech., Inc. v. High-Line Med. Instruments Co., 922 F. Supp. 299, 302–03 (C.D. Cal. 1996) (software made in United States and exported by copyright owner, acquired abroad by defendant, and imported into United States); Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F. Supp. 1378, 1381–82 (C.D. Cal. 1993) (perfume products manufactured and first sold in France, acquired abroad by third party, and imported into United States); Red Baron-Franklin Park, Inc. v. Taito Corp., No. 88-0156-A, 1988 WL 167344, at *1 (E.D. Va. Aug. 29, 1988) (video game circuit boards made and first sold in Japan, acquired abroad by third party, and imported into United States), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989); Neutrogena Corp. v. United States, No. 2:88-0566-1, 1988 WL 166236, at *1 (D.S.C. Apr. 5, 1988) (personal care products made in United States, shipped to foreign distributor, acquired abroad by third party, and imported into United States); Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc., 658 F. Supp. 458, 461–62 (E.D. Pa. 1987) ("Cabbage Patch" dolls made and first sold abroad, acquired abroad by defendant, and imported into United States); T.B. Harms Co. v. Jem Records, Inc., 655 F. Supp. 1575, 1577 (D.N.J. 1987) (phonorecords manufactured and first sold in New Zealand, acquired abroad by defendant, and imported into United States); Hearst Corp. v. Stark, 639 F. Supp. 970, 972 (N.D. Cal. 1986) (books published and first sold in United Kingdom, acquired abroad by defendant, and imported into United States); Cosmair, Inc. v. Dynamite Enters., No. 85-0651-Civ-Hoeveler, 1985 WL 2209, at *1 (S.D. Fla. Apr. 5, 1985) (fragrances made in United States and exported by copyright owner, acquired abroad by third party, and imported into United States); Selchow & Righter Co. v. Goldex Corp., 612 F. Supp. 19, 21–23 (S.D. Fla. 1985) ("Trivial Pursuit" games made and first sold in Canada, acquired abroad by defendant, and imported into United States); CBS, Inc. v. Scorpio Music Distribs., 569 F. Supp. 47, 47 (E.D. Pa. 1983) (phonorecords made and first sold in Philippines, acquired abroad by defendant, and imported into United States), *aff'd*, 738 F.2d 421 (3d Cir. 1984); Nintendo of Am., Inc. v. Elcon Indus., Inc., 564 F. Supp. 937, 940–42 (E.D. Mich. 1982) (video game circuit boards apparently made and first sold in Japan, acquired abroad by defendant, and imported into United States).

47. *See, e.g.*, *BMG Music*, 952 F.2d at 319 ("The first sale doctrine . . . does not . . . provide a defense to infringement under 17 U.S.C. § 602 for goods manufactured abroad."); *Hearst*, 639 F. Supp. at 977 ("[The first sale doctrine] does not limit the application of section 602 where

copies' manufacture *and* first sale,[49] or the identity of the first seller[50] to be determinative. The first case to provide a rationale for the relationship between the first sale doctrine and the importation right was *CBS, Inc. v. Scorpio Music Distributors*[51]

1. The Scorpio *Rationale*

A district court in *CBS, Inc. v. Scorpio Music Distributors* was the first to articulate a theory explaining why a copyright owner could bar imported copies first sold abroad, notwithstanding the first sale doctrine.[52] In *Scorpio*, a copyright owner sued to enjoin the importation of phonorecords that a Filipino licensee had manufactured for exclusive distribution in that country.[53] A third party had acquired the phonorecords abroad, and then imported them into the United States without the U.S. copyright owner's consent.[54] The court allowed the copyright owner to enjoin the importation.[55]

In support of its holding, the *Scorpio* court found that the first sale doctrine was inapplicable because it had no effect extraterritorially.[56] The court reasoned that "[t]he protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states [so]," and that only copies "lawfully made under this title" are subject to the first sale limitation.[57] The court concluded that "lawfully made under this title" meant lawfully made within the United

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defendants make wholesale importations into the United States of copyrighted materials manufactured outside this country.").

48. *See, e.g., Drug Emporium*, 38 F.3d at 481 ("[T]he importation right survives as to a particular copy unless and until there has been a 'first sale' *in the United States*.").

49. *See, e.g., C & C Beauty Sales*, 832 F. Supp. at 1391 ("Applying the first sale doctrine to actions for unauthorized importation of goods manufactured and first sold abroad would violate [the] principle [that copyright owners are entitled to receive full value upon a copy's first sale]."); *Scorpio*, 569 F. Supp. at 49 ("[Section 109(a)] grants first sale protection to the third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports [made and first sold abroad]."); *see also T.B. Harms*, 655 F. Supp. at 1583.

50. *See, e.g., Sebastian*, 847 F.2d at 1099 ("[A] first sale by the copyright owner extinguishes any right later to control importation of those copies."); *see also Summit Tech.*, 922 F. Supp. at 315.

51. 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd*, 738 F.2d 421 (3d Cir. 1984).

52. *Id.* at 49.

53. *Id.* at 47.

54. *Id.*

55. *Id.* at 50.

56. *Id.* at 49.

57. *Id.* This language appears in the first sale provision. *See* 17 U.S.C. § 109(a) (1994).

States.[58] Although the phrase "lawfully made under this title" seems to refer only to the place of manufacture, the court concluded that the protection afforded by the first sale provision only applied to copies manufactured *and* first sold within the United States.[59] In other words, the court implied, copies made or first sold abroad were not subject to the first sale doctrine; therefore, copyright owners could control the subsequent distribution of those copies even after the first sale.

Although the *Scorpio* extraterritoriality rationale was initially influential in section 602 cases,[60] it gradually drew criticism, and the Ninth and Third Circuits have apparently abandoned it.[61] Judicial criticisms of *Scorpio* have taken three primary forms. First, some courts have questioned the *Scorpio* court's notion that the effects of the U.S. Code do not extend beyond the U.S. border in section 602(a) cases. For instance, the Ninth Circuit found that the U.S. Code has extraterritorial effect in cases of parallel importation because "the unauthorized importation into and distribution within the United States of copyrighted goods clearly has an effect within the United States."[62] According to a second criticism of the *Scorpio* reasoning, the location of first sale is immaterial in section 602(a) cases. For example, the Third Circuit found that if Congress had intended the place of manufacture to be determinative, it would have said so affirmatively.[63] Finally, according to a third criticism, the *Scorpio* rationale leads to undesirable results because if copies made abroad are not subject to the first sale doctrine, a copyright owner could control subsequent sales of those copies even

58. *Scorpio*, 569 F. Supp. at 49.

59. *Id.*

60. Many courts explicitly considering the relationship between the first sale doctrine and the importation right have relied upon *Scorpio*'s extraterritoriality analysis of the first sale doctrine. *See, e.g.*, BMG Music v. Perez, 952 F.2d 318, 319–20 (9th Cir. 1991); Neutrogena Corp. v. United States, No. 2:88-0566-1, 1988 WL 166236, at *4 (D.S.C. Apr. 5, 1988); Hearst Corp. v. Stark, 639 F. Supp. 970, 976 (N.D. Cal. 1986).

61. The Third Circuit criticized the *Scorpio* rationale in *Sebastian International, Inc. v. Consumer Contacts Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988), and the Ninth Circuit explicitly abandoned it in *L'Anza Research International, Inc. v. Quality King Distributors*, 98 F.3d 1109, 1115 (9th Cir. 1996), *cert. granted*, 117 S. Ct. 2406 (1997). In general, commentators agree with the result of *Scorpio*, in which a copyright owner was allowed to enjoin the importation of copies that were made and first sold abroad by a licensee, but not its underlying rationale. *See, e.g.*, 2 Goldstein, *supra* note 44, § 5.6.1.2(a), at 5:116 ("[O]n the facts, *Scorpio*'s result was correct . . . ."); 2 Nimmer & Nimmer, *supra* note 24, § 8.12[B][6], at 8-164.2 ("[T]hat trailblazing case perhaps continues to remain closest to the legislative intent underlying what is admittedly a difficult statutory juxtaposition.").

62. *L'Anza*, 98 F.3d at 1115 (quoting Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc., 832 F. Supp. 1378, 1386–87 (C.D. Cal. 1993)).

63. *Sebastian*, 847 F.2d at 1098 n.1.

when imported into the United States *with* the copyright owner's consent.[64] However, courts could avoid this result if they allow the first sale doctrine to limit the distribution right once an authorized sale occurs within the United States.

2. Sebastian International, Inc. v. Consumer Contacts Ltd.

In *Sebastian International, Inc. v. Consumer Contacts Ltd.*,[65] the Third Circuit disregarded the *Scorpio* court's theory about the extraterritorial application of the first sale doctrine and stated the most influential alternative rationale to explain the relationship between the importation right and the first sale doctrine.[66]

In *Sebastian*, the plaintiff copyright owner, Sebastian International, manufactured beauty supplies with copyrighted labels within the United States. Sebastian entered into a contract with the defendant to distribute the copies exclusively in South Africa and shipped them to South Africa pursuant to that agreement. Upon receipt of the goods, the defendant reshipped the unopened containers back into the United States.[67] The *Sebastian* court held that the first sale doctrine prevented the copyright owner from enjoining importation of those copies.[68]

The Third Circuit found that the identity of the first seller, rather than the location of the imported copies' manufacture or first sale, determined whether a copyright owner could bar imports notwithstanding the first sale doctrine.[69] The court concluded that when a copyright owner, rather than a licensee or other third party, makes the first sale, he or she cannot subsequently bar importation of that copy.[70] The court found that the first sale doctrine presumes that a copyright owner has already received a "reward" for creating a copy.[71] Copyright owners who make first sales

64. *E.g.*, *C & C Beauty Sales*, 832 F. Supp. at 1386; *see also* 2 Goldstein, *supra* note 44, § 5.6.1, at 5:116; 2 Nimmer & Nimmer, *supra* note 24, § 8.12[B][6], at 8-164.1 to 8-164.2.

65. 847 F.2d 1093 (3d Cir. 1988).

66. *See, e.g.*, Summit Tech., Inc. v. High-Line Med. Instruments Co., 922 F. Supp. 299, 314 (C.D. Cal. 1996) (relying on *Sebastian* court's reasoning); Red Baron-Franklin Park, Inc. v. Taito Corp., No. 88-0156-A, 1988 WL 167344, at *3 (E.D. Va. Aug. 29, 1988) (same), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989).

67. *Sebastian*, 847 F.2d at 1094.

68. *Id.* at 1099.

69. *Id.*

70. *Id.*

71. *Id.* at 1096–97 (citing Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 854 (2d Cir. 1963), and Burke & Van Heusen, Inc. v. Arrow Drug, Inc., 233 F. Supp. 881, 883 (E.D. Pa. 1964)).

have already received an adequate reward from the sale price and thus are not justified in controlling further distribution of those copies.[72] The court found that first sellers receive an adequate reward regardless of where the sale takes place.[73]

Although the Third Circuit found the location of the first sale of imported copies to be irrelevant,[74] the court's holding is consistent with the results in most pre-*L'Anza* section 602(a) cases. In most cases where U.S. copyright owners or their foreign affiliates first sold imported copies, courts have prevented them from enjoining subsequent importation of those copies,[75] although often for reasons that differ from the Third Circuit's reasoning.[76] Nonetheless, applying the Third Circuit's rule will result in a different outcome from a rule that looks to the location of manufacture or first sale, if applied to a situation where copies are made abroad by a foreign affiliate corporation of a U.S. copyright owner. Although infrequent in section 602(a) cases, this situation has occurred and may become more common if U.S. producers with foreign affiliates turn increasingly to copyright law as a way to combat parallel importation.[77]

II. OVERVIEW OF *L'ANZA RESEARCH INTERNATIONAL, INC. V. QUALITY KING DISTRIBUTORS*

A. Facts and Holding

The facts at issue in *L'Anza Research International v. Quality King Distributors*[78] were similar in significant respects to those in *Sebastian*

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72. *Id.* at 1099.

73. *Id.*

74. *Id.*

75. *See, e.g.*, Summit Tech., Inc. v. High-Line Med. Instruments Co., 922 F. Supp. 299, 315 (C.D. Cal. 1996); Red Baron-Franklin Park, Inc. v. Taito Corp., No. 88-0156-A, 1988 WL 167344, at *3 (E.D. Va. Aug. 29, 1988), *rev'd on other grounds*, 883 F.2d 275 (4th Cir. 1989); Neutrogena Corp. v. United States, No. 2:88-0566-1, 1988 WL 166236, at *4 (D.S.C. Apr. 5, 1988). *But see* Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 479 (9th Cir. 1994) (allowing copyright owner to enjoin importation of copies manufactured abroad by U.S. copyright owner's parent company).

76. *See, e.g., Neutrogena*, 1988 WL 166236, at *4 (preventing copyright owner from enjoining importation because copies were made within United States, not because made or first sold by copyright owner); *Taito*, 1988 WL 167344, at *3 (holding that sale of copyrighted good extinguishes right to bar importation, with no consideration of identity of seller).

77. *See* Mohr, *supra* note 44, at 587–89 (suggesting that U.S. corporations with foreign affiliates turn to copyright law as weapon against parallel importation).

78. 98 F.3d 1109, 1111–12 (9th Cir. 1996), *cert. granted*, 117 S. Ct. 2406 (1997).

International v. Consumer Contacts.[79] The plaintiff copyright owner, L'Anza, manufactured hair care products with copyrighted labels in the United States.[80] L'Anza arranged to sell the products to its United Kingdom distributor for exclusive distribution abroad and then shipped them to the United Kingdom.[81] Although the products clearly were acquired abroad by the importer prior to importation, the court declined to determine where the first sale occurred.[82] The U.K. distributor sold the products to a third party for distribution in Malta and possibly Libya, but the second buyer sold them instead to another party.[83] Although the subsequent chain of distribution was unclear, the products were eventually imported into the United States without L'Anza's permission and delivered to the defendant, Quality King.[84] The court held that the first sale doctrine did not prevent L'Anza from enjoining importation of the copies.[85]

The arguments of the parties both to the Ninth Circuit and the U.S. Supreme Court illustrate the competing forces at work in a typical section 602(a) parallel importation case.[86] The U.S. copyright owner, L'Anza, sold copies for distribution abroad at prices thirty-five to forty percent less than it charged its domestic distributors; the price differential, L'Anza claimed, reflected the amount it invested in advertising and promotional activities in order to establish its reputation within the United States.[87] The defendant Quality King, a "discount wholesaler," routinely bought low-priced consumer products, both domestic and imported, for re-distribution to discount retailers. Quality King sold the products at issue in *L'Anza* to various discount drug

79. 847 F.2d at 1094.

80. *L'Anza*, 98 F.3d at 1111.

81. *Id.*

82. *Id.* at 1118. Determining the location of first sale when goods are manufactured in the United States and exported by the copyright owner pursuant to an agreement with a foreign distributor is problematic and the case law does not provide a clear answer. However, one district court has explicitly addressed the issue. In *Cosmair, Inc. v. Dynamite Enterprises*, No. 85-0651-Civ-Hoeveler, 1985 WL 2209, at *3 (S.D. Fla. Apr. 5, 1985), the court denied a copyright owner's request for preliminary injunction barring importation of copies made in the United States because the defendant had shown that title to the goods, which were shipped "cost, insurance and freight" (C.I.F.), had transferred within the United States.

83. *L'Anza*, 98 F.3d at 1111.

84. *Id.*

85. *Id.* at 1117.

86. *See supra* notes 13–16 and accompanying text (discussing effects of parallel importation on manufacturers and consumers).

87. *L'Anza*, 98 F.3d at 1111.

stores.[88] Quality King argued that by attempting to bar importation of copies sold for distribution abroad, L'Anza was seeking to enforce a pricing regime that discriminated between U.S. and foreign consumers.[89] L'Anza, in turn, complained that Quality King was simply a free-rider, unfairly benefiting from L'Anza's promotional investments within the United States.[90]

B. Reasoning

The *L'Anza* court held that the first sale doctrine had no effect upon the importation right, because applying the first sale doctrine to the importation right renders that right "meaningless,"[91] and because copyright owners would otherwise not receive "full value" on the disposition of copyrighted goods.[92] The court defined "full value" as "'the price at which the copyright owner is willing to sell copies of his work.'"[93] The court concluded that Congress had passed section 602(a) in order to shield copyright owners from the competitive effects of parallel imports, by giving them power to "control the distribution (including the price and quantity) of copies distributed through authorized channels *within* the United States."[94] In other words, the problem that Congress intended to address through the importation provision was the effect of parallel imports on domestic distribution.[95] Thus, the court's principal concern was to ensure that copyright owners received "full value" on the

88. Petitioner's Brief at 4–5, Quality King Distribs. v. L'Anza Research Int'l, Inc., 117 S. Ct. 2406 (1997) (No. 96-1470).

89. *Id.* at 2–3.

90. Respondent's Brief at 13, *L'Anza* (No. 96-1470).

91. *L'Anza*, 98 F.3d at 1115.

92. *Id.* at 1117. The court relied on Paul Goldstein's interpretation of the first sale doctrine. *See* 2 Goldstein, *supra* note 44, § 5.5, at 5:99–100 ("[The first sale doctrine] presupposes that the copyright owner will be able to realize the full value of each authorized copy . . . upon its first sale to a purchaser.").

93. *Id.* at 1116 (quoting Parfums Givenchy, Inc. v. C & C Beauty Sales, Inc. 832 F. Supp. 1378, 1390–91 (C.D. Cal. 1993)). The "price at which the copyright owner is willing to sell" is a circular formulation: this price will depend on demand and the degree of competition that copyright owners face from parallel importation. In other words, the Ninth Circuit seems to be saying that copyright owners are entitled to receive the price at which they would be willing to sell a copy in a market free from competition from parallel importers. In particular, the court intended to insulate copyright owners from the competitive effects of global price differentials. *Id.*

94. *Id.* at 1116.

95. *Id.* at 1117 (finding that *Sebastian* court had "missed the crucial point that unauthorized imports cause copyright owners to lose control over domestic distribution").

sale of domestically distributed copies that were in competition with parallel imports, not copies intended for distribution abroad.[96]

III. THE IMPORTATION RIGHT AND THE PURPOSES OF COPYRIGHT LAW

A. The Importation Right and Competing Purposes of the First Sale Doctrine

Both the Third Circuit in *Sebastian International v. Consumer Contacts*[97] and the Ninth Circuit in *L'Anza Research International, Inc. v. Quality King Distributors*[98] analyzed the relationship between the first sale doctrine and the importation right in light of their findings that the first sale doctrine entitles a copyright owner to receive a "reward" on a copy's first sale. Inherent in the holdings of both courts is the implication that if copyright owners receive an inadequate reward upon a first sale, they are justified in controlling further distribution of that copy or other copies that compete with it.

However, judicial precedent generally holds that copyright owners are not entitled to receive any particular value upon a copy's first sale, especially when the copyright owner has authorized the sale. Courts have found that copyright owners who consent to the first sale of a copy cannot later control that copy's distribution through copyright infringement actions, even if subsequent sales do not conform to the instructions or intent of the copyright owner.[99] Contrary to the Ninth Circuit's holding in *L'Anza*,[100] courts generally have been unwilling to find copyright infringement even when buyers sell copies at prices lower than the copyright owner's intended retail price.[101] Furthermore, courts

96. *Id.*

97. 847 F.2d 1093, 1099 (3d Cir. 1988).

98. 98 F.3d 1109, 1116 (9th Cir. 1996).

99. *See, e.g.*, Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908); Denbicare U.S.A. Inc. v. Toys "R" Us, Inc., 84 F.3d 1143 (9th Cir.), *cert. denied*, 117 S. Ct. 190 (1996); Independent News Co. v. Williams, 293 F.2d 510 (3d Cir. 1961); Harrison v. Maynard, 61 F. 689 (2d Cir. 1894); Burke & Van Heusen, Inc. v. Arrow Drug, Inc., 233 F. Supp. 881 (E.D. Pa. 1964).

100. 98 F.3d at 1117 (holding that copyright owner could bar importation of copies because importation undercut copyright owner's ability to receive full value for competing copies sold through authorized domestic distribution channels).

101. A clear illustration of this is *Bobbs-Merrill Co. v. Straus*, 139 F. 155 (S.D.N.Y. 1905), *aff'd*, 210 U.S. 339 (1908). In *Bobbs-Merrill*, several book publishers formed an association, set minimum prices in order to combat price-cutting by retail sellers, and printed a minimum price notice on each book copy. The New York court held that subsequent purchasers did not infringe copyright by disregarding the notice and setting their own prices. *Id.* at 193.

are generally reluctant to find copyright infringement even when rightful buyers re-sell copyrighted works under conditions that breach a contract between the copyright owner and the first buyer.[102] In other words, even in cases where the copyright owner has not received "full value" on the sale of a copy, as defined in a distribution contract, copyright owners must depend on contract rather than copyright law remedies after a first sale has occurred.

In general, courts have applied the first sale doctrine "reward" test only to determine whether a copyright owner can enjoin distribution in situations where the copyright owner has not authorized a copy's first sale, such as in bankruptcy or other forms of court-ordered sales.[103] Again, courts commonly apply the reward test in these cases as a justification for preventing a copyright owner from controlling distribution, rather than as a means of extending the distribution right. In *Platt & Munk Co. v. Republic Graphics, Inc.*,[104] for example, the Second Circuit refused to enjoin the sale of copies by a licensed manufacturer in satisfaction of the copyright owner's unpaid debt, because the copyright owner had received "some value" from the sale in the form of debt relief.[105] As the Ninth Circuit itself recognized in *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*,[106] a case decided the same year as *L'Anza*, the reward test is generally appropriate only in situations where a first sale is involuntary: "Just as courts will not inquire into the sufficiency of consideration, there is no justification for reexamining the adequacy of the 'reward' received by the copyright owner in an alleged first sale where the owner has consented to that sale."[107]

This distinction that courts have drawn between authorized and non-authorized first sales when determining whether to apply the reward test is sensible because a copyright owner who consents to a copy's sale can set the price of the copy. Thus, copyright owners who sell copies for

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102. *See, e.g., Burke & Van Heusen*, 233 F. Supp. at 884 (holding that defendant's sale of phonorecords individually did not infringe copyright, even though such sale breached contract between copyright owner and first buyer requiring that phonorecords be sold in combination with another product). The court reasoned that the copyright owner had "received its reward" in the form of royalties on the first sale. *Id.*

103. *See, e.g., Denbicare*, 84 F.3d at 1151 (declining to apply reward test to bankruptcy sale because copyright owner had consented to sale); Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 855 (2d Cir. 1963) (applying reward test to determine whether copyright owner could enjoin licensed manufacturer's sale of copies in satisfaction of claim for unpaid debt).

104. 315 F.2d 847.

105. *Id.* at 854.

106. 84 F.3d 1143.

107. *Id.* at 1151.

distribution abroad can set the price of those copies at a level to ensure an adequate reward for the first sale and to discourage third parties from later importing the copies into the United States. This theory undermines the Ninth Circuit's holding in *L'Anza* that a copyright owner is entitled to control importation in order to receive "full value" on a copy's authorized first sale.[108]

Another important purpose of the first sale doctrine is to prevent copyright owners from restraining alienation of property. The doctrine seeks to ensure that rightful buyers have the power to dispose of copies that they own without having to negotiate with the copyright owner.[109] This purpose is especially relevant to parallel importation, because parallel importers are often bona fide third-party purchasers who are unaware of any contractual restrictions on distribution.[110] The buyer's right to unrestrained alienation should not be impinged merely because the copyright owner failed to achieve an adequate price on the first sale of a copy. Protecting the rights of bona-fide buyers supports a narrow interpretation of the importation right.

B. The Importation Right and the Broader Purpose of Copyright Law

The broader purpose of copyright law also supports a narrow reading of the importation right. Generally, this purpose is to balance the needs of authors and creators with those of the public.[111] Although copyright law regards reward to the copyright owner as a primary goal,[112] this goal is merely a means to the ultimate end of "promoting broad public

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108. L'Anza Research Int'l, Inc. v. Quality King Distribs., 98 F.3d 1109, 1116 (9th Cir. 1996), *cert. granted*, 117 S. Ct. 2406 (1997).

109. *See supra* note 27; *see also* Sebastian Int'l, Inc. v. Consumer Contacts, Ltd., 847 F.2d 1093, 1096 (3d Cir. 1988); 2 Goldstein, *supra* note 44, § 5.6.1, at 5:107; 2 Nimmer & Nimmer, *supra* note 24, § 8.12[A], at 8-142.

110. *See, e.g.*, Johnson & Johnson Prods., Inc. v. Dal Int'l Trading Co., 798 F.2d 100 (3d Cir. 1986).

111. Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984); Twentieth Century Music Corp. v. Aiken, 422 U.S. 151, 156 (1975); 1 Goldstein, *supra* note 44, § 1.14, at 1:40–42; 1 Nimmer & Nimmer, *supra* note 24, § 1.03[A], at 1-44.27 to 1-44.30. For general discussions of the underlying economic purposes of copyright law, see also Robert Cooter & Thomas Ulen, *Law and Economics* 125–28 (2d ed. 1997); Marshall A. Leaffer, *Understanding Copyright Law* 15–17 (Matthew Bender 2d ed. 1995); and William M. Landes & Richard A. Posner, *An Economic Analysis of Copyright Law*, 18 J. Legal Stud. 325 (1989).

112. *See, e.g.*, 1 Goldstein, *supra* note 44, § 1.14, at 1:42 ("[P]roperty rights for authors are an 'engine of free expression,' and only if that engine is adequately fueled will public access to literary, musical and artistic creations be ensured.") (quoting Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 558 (1985)). *But cf. Sebastian*, 847 F.2d at 1095 (finding that "the copyright law regards financial reward to the owner as a secondary consideration").

availability of literature, music, and the other arts."[113] Thus, the copyright monopoly should be broad enough to give authors an incentive to create,[114] but not so broad that the public loses its ability to utilize the creations freely.[115] The U.S. Supreme Court has said that judicial resolutions of ambiguities in the Copyright Act should conform to the underlying purposes of copyright law.[116] In light of these competing interests, courts should be "circumspect" before expanding a copyright owner's monopoly.[117]

Limiting a copyright owner's right to bar imports effectuates this broader purpose of copyright law because parallel importation increases the public's access to copyrighted works. Parallel importation facilitates the dissemination of copyrighted works by giving consumers more purchasing options and increasing the overall number of copyrighted works available for sale in this country. As long as a copyright owner's incentive to create is not overly burdened by parallel importation, these interests of the public should receive primary consideration.

C. *The Consequences of Limiting the Right To Bar Imports*

Because people often conform their behavior to a legal rule, courts should consider the effects of their holdings on future behavior,

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113. *Aiken*, 422 U.S. at 156 ("The immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the ultimate aim is, by this incentive, to stimulate artistic creativity for the general public good."); *see also, e.g.*, *Sony*, 464 U.S. at 432 ("'The sole interest of the United States and the primary object in conferring the monopoly . . . lie in the general benefits derived by the public from the labors of authors.'" (quoting Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932))).

114. In order to induce an author to create a new work, the expected reward should exceed the expected costs both of creating the work, and of manufacturing and distributing it. Landes & Posner, *supra* note 111, at 327.

115. *See, e.g.*, 1 Goldstein, *supra* note 44, § 1.14, at 1:40 ("To give greater property rights than are needed to obtain the desired quantity and quality of works would impose costs on users without any countervailing benefits to society.").

116. *Aiken*, 422 U.S. at 156 ("When technological change has rendered its literal terms ambiguous, the Copyright Act must be construed in light of this basic purpose [of copyright law]."). Unlike in *Aiken*, technological change is not the cause of the statutory ambiguity at issue in *L'Anza*; the relationship between the importation right and the first sale provision has been ambiguous since Congress passed § 602(a) in 1976. Yet, technological progress has since altered the nature of parallel importation and may have altered the balance between the competing interests at stake in parallel importation. For instance, progress in communications technology means that copyright owners are better able to track and control the movement of copies that they sell to foreign distributors.

117. *Sony*, 464 U.S. at 431 ("[When] Congress has not plainly marked our course, we must be circumspect in construing the scope of rights created by a legislative enactment which never contemplated such a calculus of interests.").

especially in areas of the law such as copyright that are based on economic incentives.[118] If courts fashion a rule limiting the importation right in a way that facilitates a copyright owner's ability to compensate for the limitation, they will lessen the impact of the rule on the incentive to create and will obviate a copyright owner's need for additional protection from the Copyright Act. In particular, copyright owners can better avoid the effects of parallel importation when imported copies are made within the United States, first sold within the United States, or made or first sold by the copyright owner. A rule that limits the importation right may increase the free flow of goods without creating too significant a burden on the incentives that copyright law establishes.

Copyright owners can prevent or minimize the effects of parallel importation in several ways, regardless of where a copy is first sold. For instance, they can often preempt parallel importers by raising the price of copies intended for foreign distribution (or by increasing license fees for foreign manufacturers);[119] they can avoid foreign markets known to be sources of parallel imports;[120] and they can differentiate between copies intended for domestic distribution and those intended for foreign distribution by using different packaging and labels, or by giving products different names.[121]

A copyright owner is even better able to avoid the effects of parallel importation when copies are made and first sold within the United States. A manufacturer's primary means of preventing parallel importation is to include geographical restrictions in its distribution contracts. Such clauses are easier to enforce when copies are made and first sold within the United States. For instance, a copyright owner can more easily obtain jurisdiction over a contracting party when the contract is formed within the United States. Furthermore, a contracting party with U.S. contacts is more likely to have assets within the United States, enabling a manufacturer to enforce any judgment obtained. Admittedly, this argument is somewhat undermined by the fact that geographical contract restrictions are difficult to enforce when manufacturers cannot prove that parallel importers were aware of contractual restrictions on distribution.[122] Still, domestic jurisdiction over the contract with the primary

118. *See* Frank H. Easterbrook, *The Court and the Economic System*, 98 Harv. L. Rev. 4, 11–12 (1984). A clear rule helps to ensure a court's intended result. *Id.* at 7.

119. Ghosh, *supra* note 11, at 413.

120. Gorelick & Little, *supra* note 11, at 214.

121. *Id.*

122. *See, e.g.*, Johnson & Johnson Prods., Inc. v. Dal Int'l Trading Co., 798 F.2d 100 (3d Cir. 1986) (holding that manufacturer could not enforce contract restrictions on importation against U.S.

distributor clearly weakens a copyright owner's efforts to control distribution through copyright law.

In addition, a manufacturer who makes and sells goods himself, especially goods that are made and sold within the United States, has more control over the goods' production and initial distribution than when goods are made abroad by another person. A U.S. manufacturer, for example, is more likely to have power to set the sale price of goods or to differentiate between goods intended for domestic distribution and those to be distributed abroad in the manufacturing process. In contrast, when a licensee, partial affiliate, or unrelated party manufactures copyrighted goods abroad, contract restrictions or foreign law may prevent the U.S. copyright owner from imposing price and other restrictions on a copy's manufacture and first sale. Furthermore, a copyright owner can better monitor the initial distribution of copies that are manufactured and first sold within the United States.

Finally, a rule that allows copyright owners to enjoin importation of copies manufactured by someone other than the copyright owner, or copies that are made and first sold abroad, would protect copyright owners from parallel importation of copies that are made and first sold abroad without the copyright owner's authorization. This can occur, for example, when the owner of a foreign copyright unrelated to the U.S. copyright holder manufactures copies abroad. In *Hearst Corp. v. Stark*,[123] for example, a U.S. copyright holder successfully enjoined the importation of books that had been manufactured abroad under authority of the U.K. copyright holder.[124] This situation can also occur when copies are manufactured abroad under a compulsory license provision of foreign law. In *T.B. Harms Co. v. Jem Records, Inc.*,[125] for instance, a U.S. copyright owner successfully enjoined the importation of phonorecords manufactured in New Zealand pursuant to a compulsory license provision of the New Zealand Copyright Act.[126] In both of these scenarios, copyright owners are justified in preventing importation of the foreign-made copies because the U.S. copyright holder could not have prevented or controlled the copies' manufacture.

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distributor without proof that distributor knew that goods had been sold abroad by first buyer in breach of contract).

123. 639 F. Supp. 970 (N.D. Cal. 1986).

124. *Id.* at 972.

125. 655 F. Supp. 1575 (D.N.J. 1987).

126. *Id.* at 1577.

IV. CONCLUSION

Interpreting section 602(a) of the Copyright Act as granting copyright owners the power to enjoin the importation of some but not all copies most closely accords with congressional intent and with the underlying purposes of copyright law. The statutory language and legislative history of the provision suggest that Congress intended the location of first sale of the imported copies to be determinative in distinguishing between those copies that copyright owners can enjoin and those that they cannot. Since copyright owners are better able to compensate for the effects of parallel importation of copies first sold within the United States, copyright owners in this situation are less in need of help from the Copyright Act. For these reasons, and because parallel importation increases the public's access to copyrighted works, the broad interpretation of section 602(a) given by the Ninth Circuit in *L'Anza Research International, Inc. v. Quality King Distributors* is unwarranted.