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IN PURSUIT OF PROFIT MAXIMIZATION BY RESTRICTING PARALLEL IMPORTS: THE U.S. COPYRIGHT OWNER AND TAIWAN COPYRIGHT LAW

Soojin Kim

Abstract: Parallel importation occurs when goods which are authorized by the copyright owner to be sold only in a specific territory abroad are imported, without the copyright owner's authorization, into a non-authorized market. Parallel importation into Taiwan has been cause for concern for both U.S. copyright owners and their Taiwan licensees because such importation undermines their control over the marketing of copyrighted goods. A copyright owner may wish to market goods differently in different countries, setting the price of goods sold in one country higher than in another country. This Comment discusses the role of U.S. political pressure in Taiwan's enactment of article 87, the 1993 amendment to the Taiwan Copyright Law restricting parallel imports into Taiwan. This Comment notes that, unlike section 602(a) of the U.S. Copyright Act, the harsh effect of article 87's restriction on parallel imports has yet to be modified by caselaw; in effect, article 87 holds Taiwan importers to a potentially higher standard than the standard enforced by the United States against U.S. importers.

I. INTRODUCTION

In May of 1993, Taiwan amended its copyright law to restrict parallel importation under article 87 of the Copyright Law of the Republic of China.¹ Parallel importation refers to the general phenomenon in which goods manufactured with the authority of the copyright owner, and meant to be resold only in a specific territory abroad, are imported without the copyright owner's authorization back into his or her domestic market where the goods have the potential to undercut domestic retail prices.² Although Taiwan has no reliable estimate of profits lost from the retail sales of parallel imports³ in Taiwan, the U.S. media estimated ten years ago that sales of parallel imports accounted for approximately six billion dollars of total retail sales in the United States annually.⁴

¹ Copyright Law of the Republic of China, art. 87-4 (1993) ("import[ing] any copies of a work without the authorization of the owner of economic rights . . . shall be deemed as an infringement upon copyright or plate-right unless this Law provides otherwise.")

² See generally Doris R. Perl, Note, *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 (Jan. 1990).

³ "Parallel imports" refers to genuine goods possessing a brand name protected by a trade mark or copyright. *Id.* at 646. Unlike pirated or counterfeit goods, which constitute an intentional attempt to imitate and reproduce a product's trademark or copyright as closely as possible, parallel imports bear the manufacturer's genuine trademark or copyright. *Id.* at 646 n.13.

⁴ See *id.* at 646 n.12 (quoting 1984 estimates of annual U.S. retail sales of parallel imports from, among other sources, Boyer, *The Assault on the Right to Buy Cheap Imports*, FORTUNE, Jan. 7, 1985, at 89).

The typical scenario involving parallel importation is illustrated by the following: Copyright owner A in country X sells a license to manufacture and/or distribute copies of a copyrighted good to licensee B in country Y.⁵ B agrees to restrict his or her reselling of goods to his allotted territory, i.e., country Y. B then sells copies of the good to C, a distributor in country Y.⁶ C, however, ignores A's desire to restrict resales to country Y, resells the copies to importer D in country X. D then undercuts A's domestic retail prices⁷ in country X by taking advantage

⁵ Generally, copyright encompasses a bundle of rights. This bundle of rights is enumerated and comprises different means of economically exploiting the work created. PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES, CASES & MATERIALS ON THE LAW OF INTELLECTUAL PROPERTY 609 (rev. 3d ed. 1993). See generally Melville Nimmer & David Nimmer, 1 NIMMER ON COPYRIGHT § 1.03[A] (1995). Taiwanese copyright law enumerates eight exclusive economic rights: reproduction, public recitation, broadcast, presentation, performance, exhibition, adaptation, and rent. Copyright Law of the Republic of China, arts. 22-29 (1993). In the United States, Section 106 of the Copyright Act of 1976 enumerates five exclusive rights: reproduction, adaptation, distribution, public performance, and display. 17 U.S.C. § 106 (1994). See generally Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2598 (codified as amended at 17 U.S.C. §§ 101-810 (1982)).

⁶ Under Taiwanese copyright law, "economic rights may, in whole or in part, be assigned to another person or co-owned with another person. The scope of assignment of the economic rights to a work shall be defined by the agreement between the parties to such assignment." Copyright Law of the Republic of China, art. 36 (1993). Similarly, the 1976 Copyright Act recognizes the principle of divisibility. This principle contemplates that the various rights under a copyright can each be assigned separately and also that, with certain procedural safeguards, the assignee of a particular right could sue for infringement in his own name, without having to join his assignor. See STAFF OF HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 1ST SESS., COPYRIGHT LAW REVISION, (PT. 2): DISCUSSIONS AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, 144 (Comm. Print 1963) [*hereinafter* COMMENTS ON COPYRIGHT REPORT]. See generally HOUSE COMM. ON THE JUDICIARY, 87TH CONG., 1ST SESS., COPYRIGHT LAW REVISION: REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW. (Comm. Print 1961) [*hereinafter* COPYRIGHT REPORT]. Under Section 106 of the 1976 Copyright Act, the author/creator might have sold the right to distribute as an economic right, separate from the right of reproduction, to an individual who then becomes the authorized distributor. Thus, authorized distributors could also qualify as potential plaintiffs in cases where the U.S. author/creator sold the right to reproduce and to distribute as separate rights. Under Taiwan copyright law, by contrast, the determination of who can sue under art. 87-4 is made problematic by the absence of a clearly defined distribution right under Taiwan copyright law. See discussion *infra* part V.

⁷ For various economic reasons, domestic suppliers may set the retail price of the product sold abroad lower than the retail price of identical goods sold domestically. For example, advertising and marketing costs may be lower abroad. See Perl, *supra* note 2, at 645. Other reasons relating to a copyright owner's desire to control resales or future distributions stems from a desire to control the marketing of the goods. A copyright owner may wish to market goods differently in different countries: the copyright owner may wish to use more expensive packaging or advertising in country Y than in country X, or the owner may wish to sell the goods to only certain types of stores. David E. Korn, *Closing Down the Gray-Goods Market*, LEGAL TIMES, May 2, 1994, at 7.

of,⁸ currency fluctuations,⁹ brand recognition, or distribution networks that A has been able to establish by investment.¹⁰

Under the typical scenario, the main beneficiaries of a law prohibiting parallel importation into country X would be the copyright owning citizens of country X. Legislative history,¹¹ however, indicates that the intended beneficiary of article 87 is the U.S. copyright owner,¹² even more than his or her Taiwan licensee.¹³ Under the Taiwan scenario, the U.S. copyright owner licenses or assigns to a Taiwan manufacturer, and/or Taiwan distributor the right to reproduce and distribute copyrighted goods to consumers in Taiwan.¹⁴ The U.S. copyright owner thus joins his or her licensee to become Taiwan's domestic suppliers.¹⁵ As domestic suppliers, both the U.S. copyright owner and his or her Taiwan licensee would be able to claim injury from parallel importation.¹⁶ The interest injured would be the suppliers' interest in maximizing profits by dividing up the international market into separate, specific geographic markets and controlling resales of copyrighted goods.

That U.S. copyright owners benefit from article 87 is clear; less clear is why the Taiwan legislature wished to confer the benefit on U.S. copyright owners.¹⁷ Finding the reason requires a discussion of the chain of influence leading from the U.S. copyright industry to the Taiwan legislature's enactment of article 87.

⁸ See, e.g., *Vivitar Corp. v. United States*, 593 F. Supp. 420, 435 (Ct. Int'l. Trade 1984), *aff'd*, 761 F.2d 1552 (Fed. Cir. 1985), *cert. denied*, 474 U.S. 105 (1986). In *Vivitar*, domestic suppliers complained that parallel importers typically incur lower overhead costs because importers rarely service the warranties accompanying the goods and freely profit from the advertising provided by suppliers. *Id.*

⁹ Currency fluctuations result in price differentials which may exceed tariff, freight, and related importation costs and which may be great enough to permit independent importers to sell goods at less than the current domestic price. CRAIG JOYCE ET. AL., COPYRIGHT LAW 548 (3d ed. 1994).

¹⁰ MARKETING AND DISTRIBUTION COMMITTEE, AMERICAN CHAMBER OF COMMERCE, ROC, GUIDELINES ON HOW TO RESPOND TO PARALLEL IMPORTS 73 n.3, (Lee & Li, eds. & trans., 1988). Often domestic suppliers will have made large investments in a particular brand name product to develop brand recognition and distribution networks. *Id.*

¹¹ See discussion *infra* part III.B.

¹² If the retail price set by the Taiwan licensee for the Taiwan market is undercut by competition from parallel importers, then the value of the license that the U.S. copyright owner sells to the licensee would be correspondingly lowered.

¹³ See *infra* note 83 and accompanying text. The American Institute in Taiwan ("AIT"), known as the unofficial U.S. consulate in Taiwan, acknowledged that the U.S. copyright owner would benefit from a law restricting parallel imports into Taiwan. In the absence of formal diplomatic relations since 1949, the AIT serves as a substitute for an official American embassy and consulate in Taiwan, while the Coordination Council for North American Affairs ("CCNAA") serves as the Taiwan counterpart in the United States. See also discussion *infra* part III.C.3.

¹⁴ See discussion *supra* note 5.

¹⁵ When discussed jointly, U.S. copyright owners and their Taiwan licensees, including authorized Taiwan manufacturers and distributors, shall hereinafter be referred to as (Taiwan's) "domestic suppliers."

¹⁶ See discussion *supra* note 6.

¹⁷ See *infra* part III.B-C.

Underlying this chain of influence is the nature of Taiwan-United States relations, which are characterized as follows: Taiwan is susceptible to the use of the threat of trade sanctions; Taiwan's desire to avoid trade sanctions influences Taiwan's governmental policy; and Taiwan's susceptibility to trade-related threats stems from the fact that Taiwan has a bigger economic stake in maintaining trade relations with the United States than the United States does with Taiwan.¹⁸ Thus, the U.S. role in Taiwan's enactment of article 87 needs to be examined in order to fully understand the significance of the parallel imports debate.

This Comment first provides a summary of applicable laws in Part II. It then discusses the U.S. role in the legislative history of article 87 in Part III. Part III also examines the significance of the parallel import debate in the context of the larger question of Taiwan and U.S. goals with respect to the 1993 amendments to Taiwan copyright law. Part IV then discusses the body of litigation arising from section 602(a) of the U.S. Copyright Act of 1976.¹⁹ Part IV examines the ways in which section 602(a) litigation modifies the severity of the restriction on parallel importation. Examination of the variables²⁰ used by U.S. courts to determine whether the parallel import restriction would apply in a given fact pattern will indicate that article 87 could be modified without becoming any more permissive towards importers than is section 602(a). Part V then compares article 87 with section 602(a) to show the ways in which article 87 is potentially more restrictive. The comparison supports the inference that the United States influences Taiwan to hold Taiwan importers to a potentially higher standard than the United States itself enforces against U.S. importers. Finally, this Comment suggests in Part VI that it is important for the U.S. government, before applying trade pressure, to keep separate the goal of encouraging Taiwan to eliminate piracy from the goal of encouraging the enlargement of the copyright owner's economic rights.

¹⁸ In 1991, the year before Taiwan and the United States signed the Memorandum of Understanding [on Copyright], CCNAA-AIT (June 1992), U.S. consumption of Taiwan exports was such that Taiwan was the United States' third largest creditor. If the United States had imposed trade sanctions in 1992, Taiwan would have suffered a loss of approximately \$9.8 billion in trade surplus for that year alone. See BUREAU OF THE CENSUS, U.S. DEPT. OF COMMERCE, STATISTICAL ABSTRACT OF THE U.S.: 1992, at 800-03 (112th ed. 1992).

¹⁹ 17 U.S.C. §§ 101-810 (1982) (repealing the Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075).

²⁰ See discussion *infra* part IV.A.2.

II. SUMMARY OF APPLICABLE LAWS

A. *Articles 87 and 87bis:*

Article 87 describes the parallel import restriction and article 87bis outlines the exception to that restriction. The law states that "import[ing] any copies of a work without the authorization of the owner of economic rights . . . shall be deemed as an infringement upon copyright or plate-right unless this Law provides otherwise."²¹

1. *Goods Subject to Article 87*

The import prohibition applies to all goods except for certain non-commercial cases, such as materials imported for religious, educational, scientific, or government use.²² Since April 28, 1993, no individual has been allowed to bring into Taiwan, without authorization, more than one copy of any given copyrighted book, compact disk, laser disk, or computer program from abroad.²³ The focus of article 87 appears to be the prevention of unauthorized commercial distribution by allowing copyright owners to choke off the primary and initial conduit, i.e.,

²¹ Copyright Law of the Republic of China, art. 87 (1993).

²² The exceptions as outlined in Article 87bis include:

1. Certain amount of copies of work for use by central or local governments, but not including copies for use in schools or other educational institutions, or copies of any audiovisual work imported for purposes other than archival use.

2. Certain amount of copies of any audiovisual work for archival purposes of an organization operated for scholarly, educational, or religious purposes and not for private gain; copies of any other work for library lending or archival purposes of such organization where use is in conformity with provisions of Article 48.

3. Certain amount of copies of a work for private use of importer, if such copy is not for distribution, or by any person arriving from outside the territory if such copy forms a part of such person's personal baggage.

4. Work incorporated into any goods, machinery, or equipment otherwise legally imported where such work cannot be copied during the ordinary operation or use of the goods, machinery, or equipment.

5. Instructional or operational manual, accompanying any goods, machinery, or equipment otherwise legally imported. However, prohibition applies where importation of such work is an essential object of the act of importation of the goods, machinery, or equipment.

²³ Copyright Law of the Republic of China, art. 87bis (1993); Edward G. Durney, *Copyright Law in China and Taiwan*, PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY COURSE HANDBOOK SERIES, Sept.-Oct. 1993, at 7, available in WESTLAW, PLI database (Sept.-Oct. 1993).

importation. Nevertheless, it does constrain the freedom of individual Taiwanese shoppers to obtain goods abroad.

2. *Parallel Imports Ban Applies to Genuine Goods*

Article 87's true intent can be inferred from the existence of article 84 which made it unnecessary to create a new provision aimed at pirated goods. Even before adoption of articles 87 and 87bis Taiwan copyright law provided copyright holders with a remedy in cases where pirated goods had been imported into Taiwan. Article 84 of both the May 1992 and May 1993 Copyright Law states that a copyright or plate-right owner may request a remedy including the destruction of the offending goods where "infringement of his/her rights" has occurred.²⁴ These rights refer to the rights enumerated in articles 22 through 29 under the Classification of Economic Rights in the Copyright Law.²⁵ The first of the eight rights enumerated is the author's "exclusive right to reproduce his/her work."²⁶ A pirated good would violate this reproduction right, triggering the remedy provided in article 84; thus, the statement in article 87 that importation of unauthorized goods is an infringement does not create a new remedy for pirated goods. It is only when the clause, "import[ation] . . . without the authorization of the owner of economic rights"²⁷ is interpreted as referring to genuine copies that article 87 has significance. The plain meaning of article 87 also seems to indicate that it is intended to describe additional circumstances (rather than merely reiterate the ones already enumerated in articles 22 through 29) which would constitute a violation of copyright.

Finally, political pressure from the United States Trade Representative ("USTR"),²⁸ which provided the impetus for the passage of the 1993 Amendments clearly indicate that Taiwan responded to U.S. pressure to adopt a parallel imports ban that would prevent unauthorized imports of genuine goods.²⁹ Indeed, as a result of U.S.-Taiwan trade talks in July 1993, Taiwan agreed to establish a copyright registration system to prevent unauthorized imports of genuine goods. Under this system, U.S. companies can provide the Taiwan Customs Service with lists of authorized importers.³⁰ Customs would notify the local agent of a U.S.

²⁴ Copyright Law of the Republic of China, art. 84 (1993).

²⁵ *Id.*

²⁶ *Id.* art. 22.

²⁷ *Id.* art. 87.

²⁸ See *infra* part III.C.1 for discussion of U.S. trade pressure on Taiwan.

²⁹ *Id.*

³⁰ Robin Winkler, *Taiwan: Parallel Imports—The Debate Continues*, IP ASIA, Aug. 6, 1993, at 6.

company if an importer trying to import copyrighted goods was not on the list of authorized importers.³¹ The local agent would then have three days to notify Customs to block the import of the goods.³² Violations of the import provision are punishable by confiscation of the excess copies and a prison sentence of up to two years.³³

III. SIGNIFICANCE OF THE PARALLEL IMPORTS DEBATE

The larger, macroeconomic significance of the parallel imports debate lies in the tension between protecting intellectual property and promoting free trade. The premise of the main argument in support of the domestic suppliers' exclusive right to import is that the suppliers ought to be able to rely on a whole series of exclusive rights whereby they can market their properties in different forms, different territories, or for finite periods of time so as to secure maximum profits.

A ban on parallel imports ensures the domestic suppliers' receipt of maximum profits from future sales. Domestic suppliers argue that an outright ban on parallel imports is needed because the cost of complying with relevant regulations, taxes, and duties have not been enough to eliminate the profitability of undercutting authorized prices.³⁴ Parallel importers of genuine goods still manage to realize a profit even while complying with all relevant regulations, paying all applicable taxes and duties, obtaining import clearance, and undercutting the authorized importer's prices.³⁵ In the process of securing maximum profits for themselves, domestic suppliers argue that this system of exclusive rights not only provides sufficient incentive for continued creativity but also secures the widest possible range of products available in different markets.³⁶ Parallel importers, on the other hand, argue that they represent the interests of the consumer in preventing monopolies and having better access to a greater range of goods and prices.³⁷

³¹ *Id.*

³² *Id.*

³³ Copyright Law of the Republic of China, art. 93 (1993). Article 93 states that in addition to the prison sentence, a fine of a maximum of one hundred thousand New Taiwan Dollars may be imposed. In 1992, Taiwanese currency converted 27 to the U.S. dollar. See Sally Taylor, *Rights in Taiwan: Special Report, The Market-Actual & Possible*, PUBLISHERS WEEKLY, May 18, 1992, at S3(2), available in LEXIS, NEWS Library, PUBWKL File.

³⁴ See Winkler, *supra* note 30, at 2.

³⁵ See Winkler, *supra* note 30, at 2.

³⁶ Clive Bradley, *Market Rights: When Does Importation Infringe?*, 5-1 RIGHTS 1 (1991).

³⁷ See Winkler, *supra* note 30, at 4.

A. *Parallel Importation Into Taiwan*

In the case of parallel importation into Taiwan, the opportunity to parallel import is created whenever the U.S. copyright owner or the Taiwan licensee ("first licensee") sells or licenses the right to distribute the goods to a distributor in a different geographic market ("second licensee"). In essence, the import right gives domestic suppliers the right to control not only the sale to the second licensee but also the chain of future sales in which the goods might be transferred from that second licensee to the parallel importer.

As the import right joins the bundle of economic rights belonging to the domestic suppliers,³⁸ however, Taiwan must define the proper scope of this new right. Like the other enumerated rights in the bundle that comprises copyright, the import right seeks to provide a stimulus to creativity by rewarding the author/creator with a right to exclusivity for a specific period of time.³⁹ The terms and conditions of this exclusivity, however, need to be defined in order to avoid the evils of monopoly.⁴⁰

In cases where the importer has obtained the goods without knowledge of the geographic resale restrictions, as the result of a chain of sales leading from the second licensee, a parallel imports ban would penalize an innocent third party purchaser. The problem is acute for many U.S. copyright owning companies whose profits are earned from both domestic and international sales of goods that it produces. In that case, the question is: to what extent should such a company be allowed to control resales of those goods in order to ensure that a second or third transfer of goods initially sold abroad will not result in the importation of goods into its domestic market at prices that will undercut authorized prices and thus reduce the copyright owner's or licensee's profits? The answer depends upon the scope of the import right which, in turn, depends upon copyright law's commitment to helping owners maximize their profits.

Under a regime where the import right is reserved for holders of a distribution right with respect to the copyright product, the next step would be to examine any limitations on the distribution right. Taiwan copyright law, however, fails to enumerate distribution as belonging in the bundle of economic rights held

³⁸ The purpose of copyright under both United States and Taiwan copyright law is to "promote the progress of science and the useful arts" by granting to an author/creator the right to exclusive economic exploitation of his/her works for a specific period of time. U.S. CONST. art. I, § 8, cl. 8.; Copyright Law of the Republic of China, art. 1 (1993). Rewarding authors is a means to the primary end of advancing the public welfare. Nimmer & Nimmer, *supra* note 5. See generally 17 U.S.C. § 106 (1994).

³⁹ U.S. CONST. art. I, § 8, cl. 8.; Copyright Law of the Republic of China, art. 1 (1993).

⁴⁰ See Perl, *supra* note 2, at 648 n.23.

by the author/creator.⁴¹ Instead, like some other countries, Taiwan provides that the author/creator's exclusive right to transfer ownership (by sale or other means) is implicit in the author's reproduction right.⁴²

Thus, article 87 has the effect of enlarging a right to which Taiwan legislators and legal scholars never gave independent status. If the absence of an enumerated distribution right represents Taiwan copyright law's deliberate departure⁴³ from the structure of U.S. law, then the wisdom of borrowing the construction of the U.S. law on parallel imports⁴⁴ must be questioned. In the United States, section 602(a) has spawned substantial litigation regarding the parallel import provision's relationship with the distribution right and its conflict with the first sale doctrine.⁴⁵ In Taiwan, the absence of a first sale doctrine means that Taiwan copyright law provides no clear limitation on exclusive distribution.

B. *Sign of Debate: Legislative History of Article 87*

To a significant degree, the adoption of the law banning parallel imports was the Taiwan government's response to U.S. trade pressure.⁴⁶ In order to understand the purpose of article 87's parallel import ban, it is therefore necessary to examine the source of this trade pressure. In Taiwan's case the source of this trade pressure can be traced to the activities of various U.S. copyright industry representatives and coalitions. These groups have successfully called attention to the ways in which Taiwan copyright law was inconsistent with the 1989 United States-Taiwan bilateral agreement⁴⁷ which detailed the provisions to be enacted by the Taiwanese legislature (Legislative Yuan) in order to further the bilateral objective

⁴¹ Copyright Law of the Republic of China, arts. 22-29 (1993).

⁴² Interview with Toshiko Takenaka, Research Associate and Lecturer, University of Washington School of Law, in Seattle, Wash. (Jan. 18, 1995). Commentary from Japanese legal scholars suggest that the absence of a direct provision for the distribution right under Japanese Copyright Law is deliberate. Indeed, Japanese legal scholars have questioned the value of adopting a distribution right that would be independent of a reproduction right; Japanese and German scholars have argued that borrowing from United States legal provisions would unnecessarily complicate copyright by requiring the adoption of exceptions, such as the first sale doctrine, as well as case law interpreting conflicts presented by different laws. *Id.*

⁴³ The same reasoning employed by Japanese legal scholars could apply to Taiwan copyright law. *Id.*

⁴⁴ Compare Copyright Law of the Republic of China, art. 87 (1993) with 17 U.S.C. § 602(a) (1994).

⁴⁵ 17 U.S.C. § 106(3) provides for a distribution right while 17 U.S.C. § 109(a) (otherwise referred to as "first sale doctrine") restricts the distribution right once goods are lawfully first sold under Title 17. 17 U.S.C. §§ 106(3), 109(a) (1994).

⁴⁶ See *infra* part III.C.1.

⁴⁷ Agreement for the Protection of Copyright between the Coordination Council for North American Affairs (CCNAA) and the American Institute in Taiwan (AIT) available from the American Institute in Taiwan (U.S.A.) (on file with the author) [hereinafter U.S.-Taiwan Copyright Pact of 1989].

of improving copyright enforcement in Taiwan.⁴⁸ For the purpose of intellectual property protection, a bilateral agreement is binding upon the parties to the extent that the two countries can hold each other accountable for keeping the promises made in the agreement.⁴⁹

With respect to the United States-Taiwan Copyright Pact of 1989, the first step in ensuring accountability was for the United States to urge the Legislative Yuan to enact the provisions set forth in the bilateral agreement. The memorandum of understanding signed by Taiwan and the United States in June 1992 required that the Taiwan administration "use its best efforts" to work with the Legislative Yuan for passage of the 1989 bilateral agreement by January 31, 1993. To the dismay of the U.S. copyright industries, however, when the Legislative Yuan ratified the 1989 Copyright Pact, thereby enacting amendments to Taiwan's copyright law,⁵⁰ the legislature excepted eight reserved portions.⁵¹ The provision on import rights was one of the eight reserved portions.⁵² Using these omissions to support its finding that Taiwan had continuously failed to adequately protect intellectual property rights, the U.S. copyright industry recommended to the USTR that trade sanctions be imposed on Taiwan.⁵³ United States industry's objections to Taiwan's reservations to the 1989 bilateral agreement led to the threat of immediate sanctions under "Special 301."⁵⁴ This threat aroused the Taiwanese

⁴⁸ See generally U.S.-Taiwan Copyright Pact of 1989, *supra* note 47.

⁴⁹ Conventions and treaties guarantee reciprocal protection of property rights among countries. JAMES CHENG, *DOING BUSINESS IN TAIWAN* 113 (1989). Although Taiwan is not a signatory to any of the conventions or treaties for the protection of intellectual property, Taiwan extends protection to those whose rights are registered in Taiwan as well as to those who are nationals of countries which grant protection to the rights of Taiwan nationals. *Id.*

⁵⁰ Taiwan enacted a comprehensive new copyright law in May 1992, partly as a response to "priority foreign country" designation by the U. S. Trade Representative. Winkler, *supra* note 30, at 5; *infra* note 54.

⁵¹ *Taiwan IP Update*, J. PROPRIETARY RTS., June 1993, at 37, available in WESTLAW, JPROPR database.

⁵² *Id.*

⁵³ Winkler, *supra* note 30, at 5.

⁵⁴ 19 U.S.C. § 2242, as amended by Uruguay Round Agreements Act, Pub. L. No. 103-465, 1994 U.S.C.A.N. (108 Stat.) 4938. "Special 301" provisions apply to intellectual property. See 19 U.S.C. § 2242 (1994). Special 301 provides that the U.S. Trade Representative must identify, within 30 days after submission of the annual National Trade Estimates (foreign trade barriers) report to the Congress, those foreign countries that (a) deny adequate and effective protection of intellectual property rights or fair and equitable market access to U.S. persons that rely upon intellectual property protection, and (b) those countries falling under (a) which are determined by the U.S. Trade Representative to be "priority foreign countries." "Super 301" provides for annual identification of "priority foreign countries." "Priority foreign countries" are those countries that have the most onerous or egregious acts, policies, or practices having the greatest adverse impact on the relevant U.S. products. 19 U.S.C. § 2420, as amended by Uruguay Round Agreements Act, Pub. L. No. 103-465, 1994 U.S.C.A.N. (108 Stat.) 4941. See Paul C.B. Liu, *U.S. Industries & Government Interaction on International Negotiations on Trade and Intellectual Property: A Case Study of "Special 301" Between the United States and Taiwan* 165, 186 (Feb. 1994) (unpublished manuscript, on file with the *University of Washington Gallagher Law Library*). See generally Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (codified at 19 U.S.C. §§ 2901-06 (1988)).

Executive branch (Executive Yuan) and the majority political party, the KMT, to mount a massive lobbying effort in the Legislative Yuan that resulted in the withdrawal of reservations.⁵⁵ Thus, the ban on parallel imports was enacted as an April 1993 amendment to the existing copyright law.⁵⁶

The ratification was not without controversy. Although the Legislative Yuan passed the bilateral copyright agreement in January 1993, a number of legislators continued to feel that there remained a number of issues with respect to parallel imports that required more research; many of these same legislators "criticized the Executive Yuan for having misled the United States by implying that passage of the Bilateral Copyright Agreement by the legislature would occur as a matter of course."⁵⁷

Indeed the controversy is illustrated by reactions to the agency decisions which have attempted to interpret the scope of the import right provided under the amendments to the copyright law in May 1992. The Ministry of Interior Copyright Committee interpreted the import right provided under the May 1992 copyright law as prohibiting imports of genuine goods.⁵⁸ In line with this interpretation, the Government Information Office ("GIO"), the authority in charge of supervising film and video imports and distribution, announced in July 1992 its "final decision" not to accept applications for imports of genuine laser disks unless the applications included the copyright owners' authorization.⁵⁹ The subject of several meetings and legislator-sponsored public meetings, these decisions caused a swell of opposition among the importers of video products, particularly laser disks.⁶⁰ The opposition from importers influenced the Ministry of the Interior ("MOI") to issue a letter on November 3, 1992, reversing its earlier policy. This letter stated that the May 1992 law only covered pirated or counterfeit goods, i.e., goods that were manufactured without authorization by persons other than the copyright owner or the copyright owner's licensee.⁶¹

Interestingly, the MOI letter suggested that other authorities, such as the GIO, should use other laws to control parallel imports for copyrighted subject matter under its control.⁶² The MOI interpretation, in turn, resulted in strong protests by the U.S. film industry and its authorized distributors in Taiwan.⁶³ The

⁵⁵ Winkler, *supra* note 30, at 5.

⁵⁶ See *Taiwan IP Update*, *supra* note 51.

⁵⁷ Winkler, *supra* note 30, at 5.

⁵⁸ Winkler, *supra* note 30, at 5.

⁵⁹ Winkler, *supra* note 30, at 5.

⁶⁰ Winkler, *supra* note 30, at 5.

⁶¹ Winkler, *supra* note 30, at 5.

⁶² Winkler, *supra* note 30, at 5.

⁶³ Winkler, *supra* note 30, at 5.

April 1993 ratification of article 87 thus overturns the MOI's November 3, 1992 interpretation, and establishes that the import restriction applies even to goods manufactured with the permission of the copyright owner. Thus, it represents a victory for U.S. copyright interests and their lobbying groups.

C. Role of U.S. Copyright Industry in the Push for a Parallel Import Restriction

1. Section 301

Section 301 of the Omnibus Trade Act of 1988 "expressly permits anyone, including the industries and industrial organizations, to file petitions and supply information in the government's investigation process; they, therefore, provide industries a major forum" in which to operate.⁶⁴ The direct result of heavy lobbying from copyright industries, passage of section 301, Special 301, and their related provisions has significantly enhanced the influence of copyright industry representatives.⁶⁵

The impetus behind the U.S. push for the parallel imports ban was the U.S. copyright industries' successful use of section 301 of the Omnibus Trade and Competitiveness Act of 1988⁶⁶ as a mechanism for pressuring Taiwan to enact article 87 as an amendment to Taiwan copyright law. Under the 1988 Trade Act, the USTR is responsible for investigating the laws and practices of foreign countries in order to determine whether they are in violation of bilateral or international agreements with regard to the protection of intellectual property rights ("IPR").⁶⁷ Following the investigation, the USTR initiates a nine-month trade negotiation with the country under investigation. The negotiation is meant to either resolve the IPR abuse or result in trade sanctions against the country involved.⁶⁸ Following the negotiation, the USTR determines whether the country involved belongs on the USTR's list of "priority foreign countries,"⁶⁹ which is released annually on April 30 and which identifies countries with inadequate intellectual property protection.⁷⁰ The significance of the "priority foreign country"⁷¹

⁶⁴ Liu, *supra* note 54, at 191.

⁶⁵ Liu, *supra* note 54, at 191.

⁶⁶ 19 U.S.C. § 2411 (1994); *see also* discussion *supra* note 56.

⁶⁷ *See* Liu, *supra* note 54.

⁶⁸ Under the "Special 301" provision of U.S. trade law, the U.S. Trade Representative has primary responsibility to conduct bilateral and multilateral intellectual property negotiations under § 301. *See* Liu, *supra* note 54, at 184-85.

⁶⁹ *See* Liu, *supra* note 54, at 186.

⁷⁰ *Taiwan IP Update*, *supra* note 51.

designation is that any country so designated is subject to immediate imposition of trade sanctions in the form of import bans or punitive tariffs.⁷²

Individual industry representatives as well as lobbying groups composed of industry coalitions serve as advisors to the USTR in shaping the USTR's negotiation strategies so that industries' interests are taken into consideration in the U.S. final policy or position.⁷³ These representatives and coalitions, moreover, play a critical role in the USTR's investigation process.⁷⁴

One group that exercises particular influence with the USTR is the International Intellectual Property Alliance ("IIPA") which represents eight major copyright based industrial organizations whose mission is to coordinate and influence government policy on intellectual property concerns.⁷⁵ The IIPA is described as a powerful coalition of movie producers, software publishers, and record companies⁷⁶ whose list of offending countries often becomes the basis for U.S. trade action each year under section 301.⁷⁷ The group publishes reports of its studies "which provide a thorough documentation" of countries which allow copyright infringement. Every year, the IIPA also submits to the USTR its own suggested list of countries that ought to be designated as "priority countries," "priority watch," and "watch" along with detailed explanations.⁷⁸ The USTR's final list in both 1992 and 1993 bore a seventy percent resemblance to the IIPA's suggested lists.⁷⁹

Under the influence of groups such as the IIPA, the United States has not hesitated to use section 301 to exert considerable trade pressure on Taiwan with regard to improved enforcement of Taiwan's copyright law. United States Trade Representative Clayton Yeutter, defending the use of section 301 to settle trade disputes with the European Community, Japan, South Korea, and Taiwan, said: "We are sometimes accused of being heavy-handed or inordinately aggressive in our demands for fair trade. [Unfair trade] practices are not the major cause of the

⁷¹ See Liu, *supra* note 54, at 186.

⁷² See Jack C.C. Li, *Taiwan: Legislative Haggling Slows Passage of Some IPR Laws*, BUSINESS TAIWAN, June 28, 1993, at 2.

⁷³ Liu, *supra* note 54, at 183, 196.

⁷⁴ Liu, *supra* note 54. Industries have been an important source of assistance in providing statistics and other information to governmental negotiations. *Id.* See also USTR, 1993 TRADE POLICY AGENDA AND 1992 ANNUAL REPORT 115-18 (1993).

⁷⁵ Liu, *supra* note 54, at 196.

⁷⁶ The IIPA has as its mission the elimination of piracy through public awareness and lobbying efforts. Liu, *supra* note 54, at 196.

⁷⁷ See Liu, *supra* note 54, at 196. See also John Maggs, *Group Releases "Hit List" of Countries Seen as Lax on Copyright Protection*, J. COM., Feb. 16, 1993, at 2A(1), available in WESTLAW, JOC Dialog database.

⁷⁸ Liu, *supra* note 54, at 196.

⁷⁹ Liu, *supra* note 54, at 196.

U.S. trade deficit, but they are a significant threat to confidence in the world trade system."⁸⁰ In defense of the USTR's use of section 301, Senator Max Baucus, Chairman of the Senate Finance Subcommittee on International Trade, has said that it "is a proven market opening tool. . . . U.S. negotiations with [offending countries] have only succeeded when backed up with the threat of sanctions."⁸¹

2. *Inappropriate Use of Piracy Loss Statistics to Support Enactment of Article 87*

The exercise of influence by the U.S. copyright industry to effect the passage of an import right was consistent with U.S. copyright industry's usual tactics. When pushing for the elimination of piracy, it is logical to offer statistics on the economic losses suffered by U.S. industry as a result of piracy in Taiwan. Lobbying organizations such as the IIPA, however, confuse the American public when they offer these same statistics (via the media) to engender support for the copyright owner's right to ban parallel imports.

As part of its lobbying efforts the IIPA testified before Congress that piracy costs the U.S. motion picture, television, sound recording, publishing, and computer software industries \$669 million in 1992.⁸² The copyright industry's lobbying organizations, however, have failed to establish that parallel importation contributed to this \$669 million loss. Thus, the USTR cannot rely on the piracy loss figures to support the finding that parallel importation is a major factor in Taiwan's continued failure to adequately protect intellectual property rights. As discussed in Part III of this Comment, under a parallel importation scenario, the level of just compensation is in dispute; often, if the owner wins, then innocent third party purchasers and consumers desiring the benefit of lower retail prices lose.

3. *American Institute In Taiwan's Arguments for Enactment of Parallel Imports Restriction*

Article 14 of the U.S.-Taiwan Copyright Pact of 1989 gives the copyright owner the right to block parallel imports. When Taiwan ratified the 1989 bilateral

⁸⁰ *Trade Policy: Yeutter Defends U.S. Use of Section 301, EEP Program Before Australian Media Group*, INT'L TRADE REP., Jan. 13, 1988, at 1, available in WESTLAW, BNA-ITR database.

⁸¹ *Trade Policy: Clinton Renews Super 301 Measure; Provision Seeks Market Opening*, INT'L TRADE REP., Mar. 9, 1994, at 7, available in WESTLAW, BNA-ITR database.

⁸² See Durney, *supra* note 23, at 9. Most of this \$669 million loss consisted of \$585 million in piracy of computer software. See Maggs, *supra* note 77.

agreement in January 1993, however, the Legislative Yuan stated a reservation with respect to article 14.⁸³ The reservation states that the import of "legal" copyrighted works shall not be banned.⁸⁴ The reservation notes:

the Berne Convention^[85] does not clearly stipulate that the import of legal copyrighted works should be banned and that the draft TRIPs agreement^[86] does not address this issue. Furthermore, since the Bilateral Agreement does not provide for an 'import right' or a 'distribution right,' the importation of 'legal' copyrighted works will not infringe the author's copyright . . . that if the TRIPs agreement is amended to provide for an 'import right' and 'distribution right,' [the Legislative Yuan] will consider amending the copyright law to provide those rights.⁸⁷

In the American Institute in Taiwan's ("AIT") quarterly consultation with its Taiwan counterpart, the Coordination Council for North American Affairs ("CCNAA"), in March 1993, the AIT commented on the reservation to article 14⁸⁸ for the purpose of urging Taiwan to adopt article 14. The substance of the AIT's arguments was that: (1) the import right is important to international trade; (2) the import right is available in developed economies such as Germany, Japan and the United States; (3) the import right will benefit not only the copyright owner but

⁸³ See Third Quarterly Review of the June 1992 Intellectual Property Rights (IPR) Understanding between the American Institute in Taiwan (AIT) and the Coordination Council for North American Affairs (CCNAA) held in Washington, D.C., 131-32 (Mar. 8-12, 1993) (on file with author) [hereinafter AIT/CCNAA IPR Quarterly Consultations].

⁸⁴ *Id.* AIT comments are based on an informal translation of the eight reservations placed on several articles of the U.S.-Taiwan Copyright Pact of 1989. *Id.* at 127. The eight reservations apply to the following articles and subparagraphs of articles: art. 1, subparas. (1) and (6); art. 1(4); art. 2(1); art. 8; art. 9(1); art. 10; art. 14; art. 16(2). *Id.* at 127-133.

⁸⁵ See *Berne Convention for the Protection of Literary and Artistic Works of Sept. 9, 1886*, 2 RECORDS OF THE INTELLECTUAL PROPERTY CONFERENCE OF STOCKHOLM, JUNE 11 TO JULY 14, 1967, 1285-1319 (1971) [hereinafter *Berne Convention*]. See also Korn, *supra* note 7, at 10. The U.S.-Taiwan Copyright Pact of 1989 drew upon the *Berne Convention* as a guide to improve the levels of protection for copyright owners in Taiwan. In several instances, the terms of the bilateral agreement differ from *Berne* provisions. Those differences accommodate specific provisions of the laws in both Parties' territories and include instances in which the level of protection is lower than that required under *Berne*. AIT/CCNAA IPR Quarterly Consultations, *supra* note 83, at 133.

⁸⁶ *Agreement on Trade-Related Aspects of Intellectual Property Rights*, 33 I.L.M. 1197 (1994) [hereinafter TRIPs]. The TRIPs agreement, requires member countries to adopt border measures to prohibit piratical imports, but is silent with regard to parallel imports. *Id.* See also Korn, *supra* note 7, at 10; David Nimmer, *Impossible Realities*, in NIMMER & NIMMER, NIMMER ON COPYRIGHT 7 (1989 & Special Supplement 1995). TRIPs now constitutes the world's most wide-reaching and far-ranging international copyright treaty. *Id.* TRIPs was not amended to provide for an "import right" and "distribution right." See *id.* at 114-16.

⁸⁷ AIT/CCNAA IPR Quarterly Consultations, *supra* note 83, at 131-32.

⁸⁸ AIT/CCNAA IPR Quarterly Consultations, *supra* note 83, at 132.

also those who are licensed to distribute the work in Taiwan;⁸⁹ and (4) the import right is part of the 1989 bilateral agreement and thus an "important part of the balance of concessions upon which the Agreement is based."⁹⁰

These arguments, however, seem to assume that copyright law should facilitate international trade. The arguments leave unanswered the questions of: (1) how the import right is to facilitate international trade; (2) whether copyright is really the appropriate medium in which to balance the need to preserve free trade⁹¹ with the need to provide just compensation for authors/creators and their authorized distributors and manufacturers; and (3) why further negotiation cannot change the "balance of concessions" made in the negotiations which led to the bilateral agreement.

D. *Goals of the United States and Taiwan for Taiwan Copyright Law*

Both the United States and Taiwan seem to have the common goal of strengthening copyright enforcement in Taiwan;⁹² each also seems to trace the impetus for strengthened copyright to a common source: economic interest. In the case of the United States, powerful lobbies representing the copyrighted industries are interested in preventing piracy in Taiwan.⁹³ The Taiwan government responded to this interest because it is interested in avoiding trade sanctions as well as in improving the country's reputation for copyright protection.⁹⁴

In dispute, however, is the extent to which copyright law should be used to protect economic interests. Although the IIPA and other representatives of U.S. industry have focused on statistics that show the extent of piracy in Taiwan to persuade the United States and Taiwan that a ban on parallel imports would be necessary,⁹⁵ it is clear that article 87, provision 4, is aimed not so much at pirated goods but rather genuine goods.

⁸⁹ This argument indicates U.S. efforts to align the interests of Taiwan licensees with those of the U.S. copyright owners. See also *supra* note 13 and accompanying text.

⁹⁰ AIT/CCNAA IPR Quarterly Consultations, *supra* note 83, at 132.

⁹¹ Actual discussion of antitrust concerns inherent in the restriction of parallel importation is beyond the scope of this Comment. Briefly, however, vertical restraints on the marketing of goods may run afoul of certain provisions of the Sherman Anti-Trust Act, 15 U.S.C. § 1 (1988). Perl, *supra* note 2, at 648 n.23. See generally Jacqueline M. Nolan-Haley, *The Competitive Process and Gray Market Goods*, 5 N.Y.L. SCH. J. INT'L & COMP. L. 231 (1984).

⁹² See generally AMERICAN INSTITUTE IN TAIWAN, MEMORANDUM OF UNDERSTANDING, CCNAA-AIT (June 1992).

⁹³ See discussion *supra* part III.C.1.

⁹⁴ Cheng, *supra* note 49, at 112.

⁹⁵ See discussion *supra* part III.C.2.

The Ministry of the Interior in Taiwan has already suggested that copyright law is not the proper medium for banning parallel imports.⁹⁶ This view agrees with the argument presented by importers and consumer groups that parallel imports is an economic issue⁹⁷ involving the extent to which an author should have the right to control the distribution of his or her work so as to maximize profits.

IV. FRAMEWORK OF U.S. COPYRIGHT LAW AND SECTION 602(A) LITIGATION

In the United States, litigation over section 602(a) has defined the extent to which authors/creators should be allowed to control resales of their goods so as to maximize profits. The framework of U.S. copyright law is built on three distinct concepts: right of importation in section 602(a), right of distribution in section 106(3), and the exception to the right of distribution, known as the first sale doctrine, in section 109(a). These concepts have provided sufficient tension to allow the courts to weigh copyright interests against the free trade interests of purchasers. In Taiwan, by contrast, the absence of both a clearly defined distribution right and the first sale doctrine exception will impede the proper evaluation of these competing interests. Nevertheless, the framework of U.S. copyright law and section 602(a) litigation is a good starting point for consideration of these and other questions.

A. *Treatment of Parallel Imports Under U.S. Law*

Section 602(a) proscribes "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 outside the United States"⁹⁸

1. *Section 106(3) is Basis of Importation Right*

In the United States, the section 602(a) importation right is consistent with the right of distribution.⁹⁹ The Copyright Act provides that copyright owners enjoy the exclusive right "to distribute copies or phonorecords of the copyrighted

⁹⁶ See *supra* notes 58-63 and accompanying text for discussion of agency interpretation of scope of import right.

⁹⁷ Winkler, *supra* note 30, at 2.

⁹⁸ 17 U.S.C. § 602(a) (1994).

⁹⁹ David Nimmer, *United States*, in 2 INTERNATIONAL COPYRIGHT LAW AND PRACTICE § 8[1][b](ii), at USA-127 (Melville B. Nimmer & Paul Edward Geller eds., 1994).

work to the public by sale or other transfer of ownership, or by rental, lease, or lending."¹⁰⁰ In essence, this distribution right allows an author to control the terms and conditions of how and where consumers obtain access to his work.¹⁰¹ Section 602 prohibits the distribution of copies which the importer acquired abroad unless the copyright owner gives the importer permission.

2. *First Sale Doctrine Is Exception To Distribution Right*

The first sale doctrine in section 109(a) is an exception to the exclusive right of distribution given to the author. Section 109(a) states: "Notwithstanding the provision 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."¹⁰² The first sale doctrine "finds its origins in the common law aversion to limiting the alienation of personal property."¹⁰³ The text of section 109(a) destroys the exclusiveness of the author's distribution right by giving it to the purchaser of a lawfully made good.

The enactment of section 602(a) raised the issue of the extent to which the first sale defense would be available to parallel importers whose act of purchasing the lawfully made goods takes place abroad. U.S. case law and legislative history have considered four main factors for determining the availability of the first sale defense: (1) did the importer acquire the good abroad in the sense that the purchase took place abroad? (2) was the good lawfully made in the sense that it was manufactured with the copyright owner's authorization? (3) did the first sale take place abroad or in the domestic market? and (4) was the good manufactured abroad or domestically?¹⁰⁴

In defending a section 602(a) action, the defendant importer would first inquire whether the goods were acquired abroad or in the United States. If acquired in the United States, the importer need look no further for a defense; section 602 would not apply.¹⁰⁵ If acquired abroad, the importer must attempt to meet the requirements of a section 109(a) defense. The legislative history of

¹⁰⁰ 17 U.S.C. § 106(3) (1994).

¹⁰¹ 17 U.S.C. § 101 (1994) ("publication" defined).

¹⁰² 17 U.S.C. § 109(a) (1994).

¹⁰³ *Sebastian Intern., Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988). See discussion *infra* part IV.C.2.

¹⁰⁴ See discussion *infra* parts IV.B.1-3 and IV.C.1-3.

¹⁰⁵ 17 U.S.C. § 602 (1982). See *infra* notes 114-15 and accompanying text for discussion of legislative history of § 602(a).

section 602(a) indicates that, under section 109(a), the importer must show that the copies were manufactured with the copyright owner's authorization.¹⁰⁶ Beyond the requirements of acquisition abroad and lawful manufacture, however, legislative history provides insufficient guidance with respect to how section 109(a) is to be reconciled with section 602(a).¹⁰⁷ Confronted with the problem of reconciling section 109(a) with section 602(a), U.S. courts have disagreed over whether the section 109(a) defense applies regardless of where the copies are manufactured and first sold, or whether it applies only where the copies are first sold or manufactured in the United States.¹⁰⁸ At the heart of this disagreement is the significance to be attached to the section 109(a) statutory requirement that the goods be "lawfully made under this title."¹⁰⁹

B. Legislative History of Section 602(a)

The Copyright Act of 1976¹¹⁰ marked the culmination of efforts originating in 1955, when Congress appropriated funds for a series of studies analyzing the problems of the 1909 Act. These efforts yielded the influential Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law.¹¹¹ After more than fifteen additional years of hearings, revisions, and compromises, the new Copyright Act of 1976 was enacted by Congress in late 1976.¹¹²

1. Significance of Acquisition Site

The House Report accompanying the final legislation of the 1976 Act states that under section 602(a), "unauthorized importation is an infringement merely if the copies or phonorecords have been acquired outside the United States."¹¹³ That report suggests that the determinative factor for preventing importation of copyrighted goods under section 602(a) is ascertainment of their site of acquisition.¹¹⁴

¹⁰⁶ See discussion *infra* part IV.B.2.

¹⁰⁷ See discussion *infra* part IV.B.3.

¹⁰⁸ See discussion *infra* part IV.C.1-2.

¹⁰⁹ See *infra* parts IV.B.2 and C.1.

¹¹⁰ 17 U.S.C. §§ 101-810 (1994) (repealing the Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075) (1909).

¹¹¹ *Id.* See generally COPYRIGHT REPORT, *supra* note 6.

¹¹² Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2598 (1976) (codified as amended at 17 U.S.C. §§ 101-810 (1994)).

¹¹³ H.R. REP. NO. 1733, 94th Cong., 2d Sess. 169, *reprinted in* 1976 U.S.C.C.A.N. 5785 (emphasis added).

¹¹⁴ Perl, *supra* note 2, at 658.

2. "Lawfully Made Under This Title" Requirement

Legislative history indicates that the drafters of the 1976 Copyright Act intended to expand the scope of coverage of the importation provisions from what they had been under the 1891 and 1909 acts.¹¹⁵ The earlier acts did not permit the exclusion of copyrighted works if they were manufactured abroad under the authorization of the copyright owner.¹¹⁶ In doing so they were responding to the complaints of copyright owners unhappy with the narrowness of the protection granted under the earlier acts.¹¹⁷ Witnesses for publishing companies proposed that the definition of piratical copies be extended to include authorized manufactured copies.¹¹⁸

3. *Insufficient Guidance as to Relationship Between Sections 109(a) and 602(a)*

Legislative history does not provide sufficient guidance to clarify the relationship between sections 109(a) and 602(a).¹¹⁹ The discussions and comments following the Report of the Register of Copyrights on the General Revision of the U.S. copyright law did not define the scope of the first sale defense in relation to the importation provision. The only relevant discussion between witnesses Irwin Karp of the Authors League of America, and Abe Goldman of the Copyright Office suggests that they were concerned about the first sale doctrine; they never, however, came to a definite conclusion regarding its scope.¹²⁰ In his analysis of

¹¹⁵ Perl, *supra* note 2, at 654 n.68. The 1909 Act contained a provision similar to section 4964 of the 1891 Act. The 1909 Act provided that: "The importation into the United States of any article bearing a false notice of copyright when there is no existing copyright thereon in the United States, or of any piratical copies of any work copyrighted in the United States, is prohibited." Copyright Act of 1909, ch. 320, § 30, 35 Stat. 1075, 1082 (1909) (amended by Copyright Act of 1976, ch. 320, § 41, 35 Stat. 1075 (1976); current version at 17 U.S.C. § 602 (1994)).

¹¹⁶ *Id.* Copyright Act of 1909, ch. 320, § 30, 35 Stat. 1075 (1909).

¹¹⁷ Perl, *supra* note 2, at 660 n.104. Both Horace S. Manges and Sidney A. Diamond were concerned with the encroachment of foreign licensees into the United States market without the consent of the United States copyright owner. COMMENTS ON COPYRIGHT REPORT, *supra* note 6, at 212-13. Additional comments submitted by the American Book Publishers Council and American Textbook Publishers Institute also supported the notion of changing the definition of "piratical copies" from goods illegally produced *and* imported to goods "produced *or* imported" without the authority of the copyright owner. *Id.* at 232.

¹¹⁸ *Id.* at 213 (statement of Horace S. Manges).

¹¹⁹ Perl, *supra* note 2, at 665.

¹²⁰ Perl, *supra* note 2, at 664. See STAFF OF HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 2ND SESS., COPYRIGHT LAW REVISION, (PT. 4): FURTHER DISCUSSIONS AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW 203-15 (Comm. Print 1964) (testimonies of Abe Goldman and Irwin Karp). Karp asked Goldman whether foreign sale would qualify as a "first sale" for purposes of terminating the importation right. Goldman said: "the whole answer depends on whether the distribution that would take place in the United States

the relationship between sections 109(a) and 602(a), Goldman implied that the importation right was indirectly restricted by the first sale defense, through the effect of section 109 on the section 106(3) distribution right.¹²¹ Goldman's comment suggests that the sole importance of the importation provision was to protect distribution rights under section 106(3).¹²²

4. *Alternative to Breach of Contract Action*

Legislative history indicates the existence of some resistance towards using the copyright laws as a method of enforcing private contractual territorial agreements.¹²³ Nevertheless, under the current language of section 602(a), witnesses representing the U.S. copyright industry won their effort to place even those copies made with the authorization of the copyright owner under the importation restrictions.¹²⁴ Specifically, Horace S. Manges of the American Book Publishers Council and Sidney Diamond of London Records suggested that the definition of "piratical copies" should be changed from works illegally produced *and* imported, to works illegally produced *or* imported.¹²⁵

In support of their proposal, Manges noted that traditionally available causes of action in contract against third-party importers were expensive and ineffective.¹²⁶ Diamond went further to describe two scenarios under which a contract remedy would be unavailable: (1) where privity of contract¹²⁷ does not exist either because the first licensee sold the work to the importer or because someone even further down the chain of sales, unaware of the territorial resale restriction, becomes a parallel importer; and (2) where contract does not exist because the

would itself constitute an infringement of copyright. When you apply this rule about the effect of the first sale of a copy exhausting the right to control the further distribution of that copy, your question would be whether this represents a sale of the copy that does exhaust the right." *Id.*

¹²¹ Perl, *supra* note 2, at 662.

¹²² Perl, *supra* note 2, at 662.

¹²³ COMMENTS ON COPYRIGHT REPORT, *supra* note 6, at 193-94 (statement of Barbara A. Ringer). See also *Hearings Before Subcomm. No. 3 of the House Comm. on the Judiciary*, 89th Cong., 1st Sess., Copyright Law Revision (Pt. 1) 464-68 (statement of Robert T. Jordan of the Council on Library Resources) (1966). Jordan specifically objected to using the Copyright Act to enforce territorial resale restrictions on lawfully purchased copies. *Id.*

¹²⁴ Perl, *supra* note 2, at 659. See COMMENT ON COPYRIGHT REPORT, *supra* note 6, at 212-13 (testimonies of Horace S. Manges of American Book Publishers Council, Sidney A. Diamond of London Records, and Edward A. Sargoy, Committee on Program for Revision of the copyright Law, American Bar Association).

¹²⁵ COMMENT ON COPYRIGHT REPORT, *supra* note 6, at 212-13 (testimonies of Horace S. Manges and Sidney Diamond).

¹²⁶ *Id.* (testimony of Horace S. Manges).

¹²⁷ The domestic supplier generally cannot enforce a territorial resale restriction against a non-contracting party. See generally A. Corbin, 1 Corbin on Contracts § 124 (1963 & Supp. 1989) (discussing requirement of privity of contract).

work was put into the "stream of commerce" by means of publication in a country that provides no copyright protection.¹²⁸ Neither Diamond nor Manges discussed the validity of their argument regarding the unavailability of privity of contract in cases where covenants run with a given territorial restriction contract. They failed to explain why the original assignor of the right to sell or distribute would not be able to sue on the contract as a third party beneficiary of each succeeding sales contract.¹²⁹

C. U.S. Case Law

United States case law has focused on the apparent conflict between the first sale defense and the importation restriction in cases where the goods were lawfully manufactured somewhere but were acquired abroad by the importer.¹³⁰ In such cases, U.S. courts have disagreed over whether the determination of the scope of section 109(a)'s application to section 602(a) should be based on the "lawfully made under this title" language of section 109(a).¹³¹

1. "Lawfully Made Under This Title" Requirement

In *CBS v. Scorpio Music Distrib.*, the district court concluded that the words "lawfully made under this title" in section 109(a) grant first sale protection only to copies legally made and sold in the United States.¹³² More recently, the 1992 decision by the Court of Appeals for the Ninth Circuit in *BMG Music v. Perez*,¹³³ agreed with the *Scorpio* court, and held that recordings manufactured and sold abroad failed the "lawfully made under this title" requirement under section 109(a). The Ninth Circuit adopted the reasoning of the *Scorpio* court to conclude that to construe section 109(a) as superseding the prohibition on importation set

¹²⁸ COMMENT ON COPYRIGHT REPORT, *supra* note 6, at 212-13.

¹²⁹ Mr. Diamond and Mr. Manges failed to explain why a covenant limiting distribution to a particular territory cannot run with the original sales agreement in the same way that covenants run with the land in contracts involving the conveyance of land. *Id.*

¹³⁰ See *infra* part IV.C.

¹³¹ See discussion *infra* parts IV.C.1-2.

¹³² *Columbia Broadcasting Sys. v. Scorpio Music Distrib.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984) (finding § 602(a) infringement where copies, produced and sold exclusively in the Philippines under a license agreement, were imported in the United States and where the plaintiff owned the sole distribution rights).

¹³³ *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), *cert. denied*, 112 S.Ct. 2997, 120 L. Ed. 2d 873 (1992) (no first sale protection where BMG Music and other record companies licensed the manufacture and sale of their recordings in foreign countries; and where defendant Perez purchased those recordings abroad and without authorization imported them to and sold them in the United States).

forth in the more recently enacted section 602 would render section 602 meaningless.¹³⁴

The court's reasoning for rejecting the applicability of section 109(a) to goods of foreign origin was that the "protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states."¹³⁵ The *Scorpio* court found that, in the absence of a clearly expressed legislative intent to the contrary, statutory language is conclusive.¹³⁶ The *Scorpio* court also reasoned that if section 109(a) were allowed to supersede section 602, then third party purchasers who import copies could circumvent section 602, in every instance, by simply buying the copies indirectly.¹³⁷ The *Scorpio* court found infringement even where the defendant did not import but rather purchased from a U.S. importer who bought recordings which had been liquidated overseas instead of dealing directly with a foreign manufacturer.¹³⁸

2. "Lawfully Made Under This Title" Requirement Ignored

In *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*,¹³⁹ the Court of Appeals for the Third Circuit questioned the relevance of the "lawfully made under this title" language of section 109(a).¹⁴⁰ Although the Third Circuit noted that the "lawfully made under this title" language did not affect its decision, a footnote to the opinion questioned the *Scorpio* court's construction of the language.¹⁴¹ Specifically, the Third Circuit questioned the appropriateness of emphasizing source of origin within the scheme of the 1976 Copyright Act. The Third Circuit stated that "it is trademark law that emphasizes the source of origin; copyright law focuses instead on originality of authorship."¹⁴² Citing *Sony Corp. of America v. Universal City Studios*, the Third Circuit noted that the "Supreme

¹³⁴ *Scorpio*, 569 F. Supp. at 49; *Perez*, 952 F.2d at 318.

¹³⁵ *Scorpio*, 569 F. Supp. at 49.

¹³⁶ *Id.* at 49.

¹³⁷ *Id.* at 49.

¹³⁸ *Id.* at 49.

¹³⁹ *Sebastian*, 664 F. Supp. 909 (D.N.J. 1987), *vacated*, 847 F.2d 1093, (3d Cir. 1988) (holding that the first sale defense applies regardless of place of manufacture or place of initial sale where the plaintiff manufactured shampoo in the United States for shipment to South Africa. Several cases of the goods made an unauthorized round trip, and were offered for sale in the United States by defendant. Plaintiff, claiming that shampoo bottle labels as a copyrighted work, invoked § 602(a) against the importation).

¹⁴⁰ *Sebastian*, 847 F.2d at 1098.

¹⁴¹ *Id.* at 1098 n.1.

¹⁴² *Id.*

Court has cautioned against applying doctrine formulated in one area to the other."¹⁴³

Instead of relying on the statutory construction of "lawfully made under this title," the Third Circuit chose to justify its holding that the section 109(a) defense is *available* regardless of where the copies were made or initially sold by reasoning that "a copyright owner who elects to sell copies abroad" should not receive "a more adequate [re]ward" than those who sell domestically.¹⁴⁴ The *Sebastian* appellate court reasoned that nothing in the wording of section 109(a), nor its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a "reward for his work."¹⁴⁵ Therefore, the court reasoned, giving the copyright owner the right to limit importation in addition to the purchase price received upon initial sale would constitute a "more adequate [re]ward."¹⁴⁶ Finally, the appellate court noted that "the controversy over 'gray-market' goods, or 'parallel importing,' should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly."¹⁴⁷

3. *Cosmair, Neutrogena, and Hearst*

Other courts since *Scorpio*, but prior to *Perez*, while not specifically endorsing the *Scorpio* and *Perez* courts' construction of "lawfully made under this title," have recognized place of manufacture and place of initial sale as distinguishing factors. *Hearst Corp. v. Stark*,¹⁴⁸ *Neutrogena Corp. v. United States*,¹⁴⁹ and *Cosmair, Inc. v. Dynamite Enterprises, Inc.*¹⁵⁰ all stated that the section 109(a)

¹⁴³ *Id.* (citing *Sony Corp. of America v. Universal City Studios*, 464 U.S. 417, 439 n.19 (1984)).

¹⁴⁴ *Sebastian*, 847 F.2d at 1099.

¹⁴⁵ *Id.*

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

¹⁴⁸ *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D. Cal. 1986) (denying a § 109(a) defense to importer where a U.S. copyright owner had granted a license to a United Kingdom publisher to make and sell books in the United Kingdom, and where a wholesale purchaser of these books in the United Kingdom had subsequently sold them to a U.S. importer).

¹⁴⁹ *Neutrogena Corp. v. United States*, 7 U.S.P.Q.2d (BNA) 1900 (D.S.C. 1988). *Neutrogena* was decided approximately one month before the Third Circuit's reversal of the district court opinion in *Sebastian*. In *Neutrogena*, the plaintiff, Neutrogena Corporation, shipped goods manufactured in the United States to one of its distributors in Hong Kong, Koba International Ltd. 7 U.S.P.Q.2d (BNA) at 1901. After receiving the shipment in Hong Kong, Koba sold the product to a third party, who in turn, sold the product to defendant Federal Airport Services Transport (FAST). *Id.* The product was then shipped back to the United States. *Id.*

¹⁵⁰ *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985). In *Cosmair*, the defendants imported cosmetic products that had been originally manufactured in the United States, but were intended for resale abroad. *Id.* at 345. The court held that section 109(a) would provide a defense where the goods are manufactured and first sold in the United States, but not where the goods are manufactured within the United States but first sold abroad. *Id.*

defense is available where goods were manufactured and first sold in the United States, but held that a section 109(a) defense was unavailable where the copies were first sold abroad. Even where the goods were manufactured in the United States, the courts in *Hearst* and *Neutrogena* disallowed a section 109(a) defense in cases where the first sale took place abroad.¹⁵¹ In cases where the copies were first sold in the United States but manufactured abroad, however, the *Cosmair* court differed from the other courts to allow the section 109(a) defense.¹⁵²

4. *Lessons Taiwan Can Learn from Review of U.S. Case Law*

What, if anything, can Taiwan learn from U.S. attempts to distinguish between different fact patterns in the application of the importation restriction under section 602(a)? The above review of U.S. case law shows that U.S. courts have not unequivocally embraced the "lawfully made under this title" language as a clear test for determining whether imported copies fall under section 602(a) or under a section 109(a) defense.¹⁵³ This seems to indicate that categories of people and goods falling under an importation restriction should be more clearly defined by statutory language. That is, if an exception such as the first sale defense exists, then the statute should define the scenarios under which that exception applies to the importation restriction instead of relying merely on the language of the exception. For Taiwan, this means that any language that the Legislative Yuan might adopt to limit the scope of the present importation restriction under article 87 should be precise enough to (1) define the exception, and (2) define the scenarios under which the exception applies to article 87. Before such language can be adopted, however, the ways in which the framework of Taiwan copyright law is different from that of the U.S. copyright law must be acknowledged.

V. UNRESOLVED ISSUES UNDER TAIWAN COPYRIGHT LAW

A. *Who Can Sue Under Article 87?*

Unlike section 602(a) of the United States Copyright Law, article 87 does not limit the list of potential claimants to the holder of the distribution right. Instead, under article 87, the ambiguity of the clause, "the owner of the economic rights" leaves unanswered the question of who qualifies as owner. It is not clear

¹⁵¹ See *Hearst*, 639 F. Supp. at 977; *Neutrogena*, 7 U.S.P.Q.2d (BNA) at 1903.

¹⁵² See *Cosmair*, 226 U.S.P.Q. (BNA) at 347.

¹⁵³ See *Sebastian*, *supra* note 140 and accompanying text.

from article 87 whether the owner of the economic rights must own all of the rights enumerated in articles 22-29; whether only the right relating to distribution is required; or whether any one of the enumerated rights is sufficient. In conjunction with the provision for the severability of economic rights in article 36, article 87 expands the list of potential claimants.

Article 36 states, "economic rights may, in whole or in part, be assigned to another person or co-owned with another person." Under article 36, two different scenarios can arise: in the first scenario, potential claimants of infringement could be co-owners, for example, the copyright holder (a U.S. company) and its Taiwan licensee; in the second scenario, the claimant could be the owner of only one of the eight economic rights, for example, the right to public exhibit or the right to rent.

The ambiguity of article 87 is compounded by the absence of a clearly defined distribution right and first sale doctrine. The existence of an inferred rather than an enumerated distribution right means that no defined limit attaches to the distribution right. Under the Taiwan Copyright Law's definition of "distribution," both the exclusive right to rent and the exclusive right to sell are subsets of the distribution right.¹⁵⁴ Unlike the separately enumerated exclusive right to rent, the exclusive right to sell owes its existence to a vague right of distribution which is inferred in part from the right to rent, and in part from the right of reproduction. This means that, like the distribution right as a whole, the exclusive right to control sales has no defined limits. This absence of defined limits makes it correspondingly difficult to limit the list of potential claimants under article 87.

B. Taiwan Copyright Law Only Indirectly Provides For Right of Distribution

Taiwan copyright law only indirectly provides for the right of distribution.¹⁵⁵ The first provision supporting the inference that the exclusive right to sell in fact exists lies in the inclusion of the term "distribution" in the list of defined terms in article 3. Taiwan copyright law defines distribution in article 3 as meaning "the activity of providing the original of a work or its reproduction to the

¹⁵⁴ Copyright Law of the Republic of China, art. 3 (1993). Although the right of distribution is not enumerated, the list of defined terms under the ROCCL includes the term "distribution." *Id.*

¹⁵⁵ For comparison to another country that does not provide for an enumerated distribution right under its copyright law, consider Japan's copyright law. Teruo Doi, *Japan*, in Nimmer & Geller, *supra* note 99 at JAP-50. Effective January 1, 1985, art. 26bis of the Japan Copyright Act provides for the "author's exclusive right to rent to the public copies . . . of his work of authorship (except cinematographic works)." *Id.* Although art. 2(1)(xx) of the Japan Copyright Act defines the right of "hampu," or distribution, as the right "to assign or lend copies of a work to the public," the right of distribution does not have a separate existence from the right to rent enumerated under art. 26bis. *Id.* at JAP-49.

general public for trading or circulating, no matter whether with or without compensation.” The second provision supporting the same inference is the existence of a separately enumerated though limited form of the distribution right.¹⁵⁶

C. *Distribution Right Inferred From Right of Reproduction*

In countries that do not explicitly provide for a distribution right, the copyright owner’s exclusive right to control the sale of his or her work is generally inferred from the right of reproduction.¹⁵⁷ The reasoning is that reproduction would not take place but for an intent to distribute and that therefore the intent of a law which provides for an exclusive reproduction right is to control distribution.¹⁵⁸

The effect of an inferred rather than an enumerated right, however, is that there is no explicit limitation on the owner/creator’s distribution right. Assuming that the exclusive right to sell is fundamental to the exclusive right to distribute, it follows that the absence of limitations on the distribution right means an absence of explicit limitations on the exclusive right to control sales. The result is that article 87 presents the danger of unduly restricting the alienation of property.¹⁵⁹

C. *Problems Arising From Failure to Distinguish Place of Origin*

United States case law and legislative history indicate that both site of acquisition and site of first sale are crucial factors for determining whether a violation of the importation provision under section 602(a) has occurred.¹⁶⁰ By contrast, under article 87 of the Taiwan Copyright Law, the reference to “import[ation] of copies” fails to differentiate between copies acquired in Taiwan as opposed to abroad let alone distinguish between a domestic first sale and a foreign first sale.¹⁶¹ The absence of a clearly defined distribution right and the complete absence of a first sale doctrine further diminishes the importance of site of acquisition and site of first sale as factors for determining infringement.

¹⁵⁶ Copyright Law of the Republic of China, art. 29 (1993).

¹⁵⁷ See Copyright Law of the Republic of China, arts. 22-29 (1993), *supra* note 43 and accompanying text.

¹⁵⁸ See Copyright Law of the Republic of China, arts. 22-29 (1993), *supra* note 43 and accompanying text.

¹⁵⁹ See *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988), *supra* note 105 and accompanying text (noting that concern about free alienation of property was basis for judicial support of first sale doctrine).

¹⁶⁰ See discussion *supra* parts IV.B.1, IV.C.1-3.

¹⁶¹ Copyright Law of the Republic of China, art. 87 (1993).

The failure to distinguish between initial sales that occur in Taiwan, as opposed to those that occur in countries abroad, however, leads to confusion. In cases where the author/creator received a full U.S. or Taiwan royalty rate from the initial sale, that author should not be allowed to argue that he or she was inadequately compensated. The argument that the copyright owner has not been adequately compensated¹⁶² for his or her work usually only applies to works first sold abroad at reduced foreign rates.¹⁶³ Also, the possible argument that the first sale was made from a disadvantageous bargaining position is less convincing in cases where the owner had access to legal advice and was able to secure the jurisdiction of his or her choice in a contract.¹⁶⁴

It is unlikely that the Legislative Yuan intended to sacrifice the interest of the innocent third party purchaser in Taiwan in favor of a copyright owner who has already been adequately compensated by the first sale in Taiwan. Article 87's failure to differentiate on the basis of site of acquisition thus indicates Taiwan's failure to weigh the interests of the different parties who might be affected, i.e., importers, innocent third party purchasers, and consumers, as against copyright owners and their licensees.

The scope of the ban on parallel imports has been the source of much litigation in the United States.¹⁶⁵ Proper reconciliation of the interests of opposing parties has been possible only through the interpretation of three different provisions setting forth and limiting rights: the import restriction itself, the distribution right underlying that restriction and the first sale doctrine.¹⁶⁶ In the absence of such provisions in Taiwan, the interests of importers, third party purchasers, and consumers, the ban on parallel imports has exacerbated the inadequacy of the Taiwan government's representation of these interests. In using Special 301 deadlines to pressure Taiwan to adopt, without time for debate,¹⁶⁷ the ban on parallel imports, the United States spent an unnecessary amount of Taiwan goodwill.

Given the Taiwanese population's fierce opposition to both the Taiwan-United States Copyright Pact of 1989, and the 1993 Copyright Law amend-

¹⁶² See *Sebastian, supra* notes 144-46 and accompanying text for discussion of what constitutes adequate reward for the author of a work.

¹⁶³ Reduced foreign rates would arise, for example, where a U.S. publisher attempts to supply the readers' market in a developing country.

¹⁶⁴ Jurisdictional issues are beyond the scope of this Comment.

¹⁶⁵ See discussion *supra* part IV. C.

¹⁶⁶ See discussion *supra* part IV. C.

¹⁶⁷ The Legislative Yuan had from January until April 30 to ratify the 1993 amendments consisting of articles 87 and 87bis.

ments,¹⁶⁸ it is unlikely that individuals would refrain from taking advantage of loopholes in the law.¹⁶⁹

VI. RECOMMENDATION

The United States should distinguish between its two main goals for Taiwan copyright law. While the U.S. copyright industry has legitimate concerns about losses from piracy in Taiwan, the goal of encouraging the elimination of piracy should not be confused with the goal of enlarging the economic rights of the copyright owner. That is, the United States must not claim that pressure to adopt the parallel import restriction is mainly motivated by an anti-piracy goal where the facts show otherwise; such a claim will only distort the American view of how much harm the United States and Taiwan should be willing to trade off in order to strengthen copyright law. Instead, the measure of both harm and gain should depend on the aspect of copyright which is perceived as needing strengthening.

Article 87 fails as to both the goal of helping to eliminate piracy and the goal of effectively enlarging and defining the economic rights of the copyright owner. It fails to help eliminate piracy because it is subject to the same logistical problems of enforcement faced by claimants under the other articles of Taiwan copyright law.¹⁷⁰ Failure as to this first goal, however, is of little concern because piracy was not the intended focus of article 87. However, the problems with article 87 extend further; article 87 is also an inappropriate vehicle for enlarging the economic rights of the copyright holder because the ambiguity of its language as well as its inconsistency with the framework of Taiwan copyright law fails to define who qualifies as a claimant and results in overreaching.

¹⁶⁸ See Durney, *supra* note 23.

¹⁶⁹ Copyright Law of the Republic of China, art. 87bis (1993), (outlining the five exceptions to parallel imports restriction). Provisions 3, 4, and 5 allow individuals to import works; however these provisions leave loopholes. Even if the "certain amount" set forth in provisions 2 and 3 is prescribed by the competent authority as one copy per individual or institution, the nature of international travel, as well as private use, makes it almost impossible to stem the import of copyrighted works. Provision 4 does not address, for example, the problem of individuals who might agree to act as couriers, stashing copies in personal baggage, for profit-making enterprises. The nature of private use, moreover, leaves open the possibility that the goods, machinery, or equipment to which provision 4 refers, will be used in extraordinary as opposed to ordinary ways. Finally, it would be difficult for authority to distinguish cases in which an individual is importing a manual for accompanying use with a good from cases in which the individual is seeking to import and distribute the manual itself. *Id.*

¹⁷⁰ Logistical problems affecting enforcement of copyright in Taiwan in the past have involved weak penal provisions, difficulty of access to the Taiwan judicial system for U.S. citizens, and feeling on the part of Taiwan judges that the American company or the U.S. Trade Representative act in an imperialistic manner. Telephone Interview with Paul C.B. Liu, Affiliate Professor of Law, University of Washington School of Law (Sept. 20, 1994).

Taiwan needs to define the scope of Taiwan's parallel imports restriction in a manner which is consistent with the framework of Taiwan copyright law and which address some of the issues raised by section 602(a) litigation in the United States by modifying the severity of an outright importation ban.

Parallel imports have a substantial impact on the domestic marketplace, whether it be Taiwan or the United States. United States suppliers had a substantial stake in enacting a ban on parallel imports under the copyright laws of both Taiwan and the United States in order to protect their profits and their ability to develop both domestic and foreign markets. Suppliers have sought to use amendments to the Taiwan Copyright Law to supplement the ineffective protection offered by remedies under contract and trademark law. Yet it is clear that the scope of the protection from parallel imports must be consistent with the overarching purpose of Taiwan copyright law.

With respect to the goal of eliminating piracy, the United States should work with Taiwan's judicial system to address the problems that have led to low penalties or nominal fines in the past. The United States should be encouraged by the Taiwan High Court decision of June 18, 1993. This decision ordered a Taiwan company, Datastate Corporation, to pay to Microsoft Corporation \$1,000,000 in damages, the largest amount ever awarded in a civil copyright case in Taiwan.¹⁷¹

An example of the kind of administrative enforcement action that the United States should continue to encourage is the export inspection procedure for computer software products and compact disks.¹⁷² Under this procedure, which was initially implemented for computer products in November 1992, export permits are required for certain products.¹⁷³ More attention to inspection procedures and greater staffing of permit offices would help isolate serious violators of copyright from petty ones. To the extent that those who seek to export copies of pirated works seek bigger profits from their infringing act and seek to distribute the offending copies even more widely, they are the serious violators against whom copyright enforcement efforts should be concentrated. The United States should encourage Taiwan through trade incentives to make effective and efficient use of Taiwan's enforcement resources.

¹⁷¹ *Id.* See also Durney, *supra* note 23.

¹⁷² See Durney, *supra* note 23.

¹⁷³ See Durney, *supra* note 23.

VII. CONCLUSION

By ratifying article 87, the Legislative Yuan amended Taiwan's Copyright Law to ban parallel imports. Clearly, article 87 will have far-reaching impact on international traders of copyrighted products because the ban on parallel imports enlarges the originator/copyright owner's right to control the distribution of his or her products.

Much less clear, however, is the extent to which that distribution right has been enlarged. As explained above, drafters failed to define the scope of the ban on parallel imports. Article 87, on its face, gives no indication of who would have the right to sue; it is not clear whether the "owner of the economic rights" refers just to the owner of all the eight enumerated rights or whether the term also includes licensees and others who might have purchased from the originator the right to sell or otherwise distribute the product. The ambiguity is compounded by the fact that the first sale doctrine has no counterpart under Taiwan copyright law. Consequently, Taiwan law does not provide a means of distinguishing between goods first sold domestically as opposed to abroad.

Instead of limiting the parallel imports ban to cases of first sale abroad, article 87 allows copyright owners who have already been adequately compensated on their first sale to protect future profits by allowing them and their authorized agents to monopolize a given territorial market. While it is true that copyright law is intended to protect the originator/copyright owner's economic interests, the owner's interest in maximizing profits from his or her work product should not be upheld at the expense of antitrust principles. In cases where the owner first sold the product or license (to sell the product) domestically, the owner has had adequate opportunity to draft restrictive license and distribution agreements through contract provisions. Furthermore, the owner cannot claim that he or she has been forced to accept reduced foreign rates in the interest of including developing countries in the distribution network.

Thus, it is misleading to state that the sole purpose of the political pressure brought to bear on the Legislative Yuan by the United States was to ensure that copyright owners are adequately compensated for their work. Copyright industries, through lobbying organizations such as the IIPA, and with the support of the USTR and the American media, have successfully linked all of Taiwan's recent copyright amendments to the piracy issue. With respect to some of these amendments, piracy may have been the true impetus behind U.S. threats of section 301 sanctions. It is clear, however, that the ban on parallel imports has much less to do

with piracy than with protecting the interest of U.S. copyright owners in maximizing profits from their sales in the Taiwan market.

To the extent that it is this latter goal rather than the former which motivated U.S. political pressure on Taiwan, both the United States and Taiwan must make sure that the latter goal is acceptable to both countries. If it is not, Taiwan should draft further amendments to its Copyright Law in order to clearly define the scope of article 87.