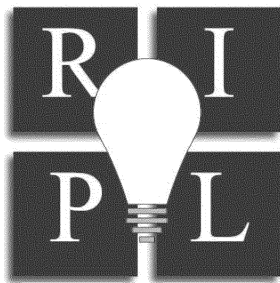


# THE JOHN MARSHALL REVIEW OF INTELLECTUAL PROPERTY LAW



## CAVEAT BIBLIOTHECA: THE FIRST SALE DOCTRINE AND THE FUTURE OF LIBRARIES AFTER *OMEGA V. COSTCO*

THOMAS J. BACON

### ABSTRACT

Having discovered that several of its watches, which were manufactured in Europe, were imported into the United States and sold without authorization, Omega, S.A. (“Omega”) commenced an action against Costco Wholesale Corp. in 2005. These watches are a typical example of what are referred to either as parallel imports or gray market goods. In finding for Omega, the Ninth Circuit held that the first sale doctrine does not apply to goods created or produced outside the United States. Such a rule, however, poses grave problems for libraries, in that circulation materials are not required to have a place of manufacture designated. Thus, libraries will be forced to endure large transaction costs in discerning the place of manufacture for circulation materials, or lend the materials at the risk of copyright infringement litigation. This comment proposes that the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”) be amended by recognizing international exhaustion rights, which would preclude most forms of price discrimination across international markets for identical goods, and allow for safer legal waters in which libraries may lend to patrons.

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## INTRODUCTION

“Meek young men grow up in libraries believing it their duty to accept the views which Cicero, which Locke, which Bacon have given; forgetful that Cicero, Locke, and Bacon were only young men in libraries when they wrote these books.”<sup>1</sup> While Emerson may have championed self-reliance and independence, he was, above all, a reader.<sup>2</sup>

Described as “democracy’s most important buildings,”<sup>3</sup> libraries are often repositories of history,<sup>4</sup> which are, most importantly, free and open to all.<sup>5</sup> Andrew Carnegie once remarked that, “[t]here is not such a cradle of democracy upon the earth as the Free Public Library, this republic of letters, where neither rank, office, nor wealth receives the slightest consideration.”<sup>6</sup> Additionally, reading proficiency has shown a strong correlation with educational level and, subsequently, income potential.<sup>7</sup> Furthermore, better readers make better citizens: they are more likely to both volunteer as well as to vote.<sup>8</sup>

Such benefits are in jeopardy with the Ninth Circuit’s holding in *Omega v. Costco*.<sup>9</sup> While *Omega* dealt specifically with a copyrighted emblem on a non-

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\* © Thomas J. Bacon 2011. *Juris Doctor* Candidate, May 2012, The John Marshall Law School, B.A. History & Classics, B.A. English & Philosophy, Wayne State University, June 2009. *Hanc litteram propter adiumentum et beneficentiam expedite ab ave carissima, familiis, amicis, et editore Kunal Ganti, mihi darebantur, ego solum scripsisse potui.*

<sup>1</sup> Ralph Waldo Emerson, *The American Scholar*, in RALPH WALDO EMERSON: ESSAYS AND JOURNALS 35 (Lewis Mumford ed., 1968).

<sup>2</sup> *Id.* at 37; see also Merton M. Sealts, Jr., *Emerson on the Scholar*, 85 PMLA 185, 188–90 (“The world of literature and its makers was clearly more relevant to Emerson’s ideal of scholarship than natural history could ever be.”).

<sup>3</sup> Benjamin Forgey, *A Library Bound for Glory*, WASH. POST, Nov. 23, 1996, at G1 (discussing the new Library of Virginia as an example of how libraries will survive the information revolution).

<sup>4</sup> Laura N. Gasaway, *Libraries, Digital Content, and Copyright*, 16 VAND. J. ENT. & TECH. L. 755, 760 (2010) (“[T]he Mississippi Civil Rights Archive contains very valuable materials including newspaper clippings, small circulation local newsletters, and oral histories from 1900 to the early 2000s.”).

<sup>5</sup> See also *Letters to the Editor*, WALL ST. J., Nov. 8, 2005, at A17 (quoting Paul LeClerc, then President of the New York Library, stating that “[t]he New York Public Library exists to provide the public with broad, democratic access to information”).

<sup>6</sup> Amicus Brief for Am. Library Ass’n et al. in Support of Petitioner at 9, *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2010) (No. 08-1423), 2010 U.S. S. Ct. Briefs LEXIS 623, at \*14 [hereinafter Am. Library Amici].

<sup>7</sup> NAT’L ENDOWMENT FOR THE ARTS, TO READ OR NOT TO READ: A QUESTION OF NATIONAL CONSEQUENCE, 17 (2007).

<sup>8</sup> *Id.* at 19.

<sup>9</sup> *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008), *aff’d*, 131 S. Ct. 565 (2010) (holding that the phrase “under this title” in section 109 of the Copyright Act only applied to copyrighted works produced in the United States).

copyrightable material good,<sup>10</sup> the Ninth Circuit's interpretation of the first sale doctrine has alarming implications for libraries in the United States.<sup>11</sup>

This comment will examine the first sale doctrine as it relates to the current catalogs and future acquisitions of various types of libraries across the country. Part I explains the current state of copyright law, as well as provides an overview of the international publishing industry as it relates to libraries in the United States. Part II analyzes differing interpretations of the first sale doctrine. Part III proposes an amendment to TRIPS as well as to the definition section of the Copyright Act.

## I. BACKGROUND

While the main focus of the *Omega* court has been the effect of the first sale doctrine on gray market goods, its likely effect on libraries has received notice as well.<sup>12</sup> The *Omega* court's holding subjects the catalogs of libraries to both the possible peril of infringement actions, and the unrest of operating at the fringe of legality.<sup>13</sup>

### A. Current State of Libraries and the Publishing Industry

The sheer size of libraries in the United States ("U.S.") is staggering,<sup>14</sup> where 9221 public libraries<sup>15</sup> circulated in excess of 2.2 billion volumes in 2008.<sup>16</sup> It was recently estimated that approximately 200 million of these volumes were published

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<sup>10</sup> *Id.* at 983 (stating that the copyrighted material in question is a small engraving of the "Omega Globe Design" on the underside of the watches manufactured by Omega).

<sup>11</sup> Am. Library Amici, *supra* note 6, at 8 (stating that the Ninth Circuit's holding would allow infringement actions against U.S. libraries, which contain some 200 million volumes that have foreign publishers).

<sup>12</sup> See Eric Felten, *Taste—de gustibus: Watch out for the Omega Copyright Windup*, WALL ST. J., July 30, 2010, at W9 (noting that libraries may become collateral damage in light of the *Omega* court's holding); see also Peter Hirtle, *How a Watch Manufacturer Could Make Use of Foreign Manuscripts and Artwork a Copyright Violation*, LIBR. LAW BLOG (July 12, 2010), <http://www.blog.librarylaw.com/librarylaw/2010/07/costco-v-omega.html> (raising the issue, in light of the Ninth Circuit's holding, as to whether libraries can legally lend foreign items); Transcript of Oral Argument at 34, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010) (No. 08-1423) 2010 U.S. Trans. LEXIS 61, at \*34 (inquiring whether the respondent's argument would also engulf the entire world of books).

<sup>13</sup> Amicus Brief for Am. Ass'n of Law Libraries et al. in Support of Petitioner at 6, *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2010) (No. 08-1423), 2010 U.S. S. Ct. Briefs LEXIS 624, at \*10 [hereinafter Law Library Amici] ("The uncertainty created by the Ninth Circuit's holding will harm used bookstores, libraries, yard sales, out-of-print book markets, movie and video game rental markets, and innumerable other secondary markets."); see also Gasaway, *supra* note 4, at 766 (arguing that fair use is too tenuous for libraries and librarians to feel comfortable with the legality of their lending practices).

<sup>14</sup> INST. OF MUSEUM AND LIBRARY SERVICES, PUBLIC LIBRARY SURVEY FISCAL YEAR 2008 4 (June 2010).

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 17.

outside the United States.<sup>17</sup> Harvard and Yale, the nation's two largest university libraries, have a combined catalog of 28,769,631 volumes as of 2008.<sup>18</sup> Such massive collections are not only the result of generations of well-funded growth, but are due in large part to annual purchases.<sup>19</sup> Both schools added a combined total of 558,409 volumes between 2007 and 2008.<sup>20</sup>

Outside of universities, both literary reading,<sup>21</sup> as well as public library circulation are on the rise.<sup>22</sup> Fifty percent of surveyed readers stated that they had read literature within the past twelve months.<sup>23</sup> There was also a nearly twenty percent increase in per capita circulation across U.S. public libraries.<sup>24</sup> What these statistics make evident is that libraries and reading are both alive and well in the United States and that reports of their demise have been greatly exaggerated.<sup>25</sup>

The U.S. publishing industry feeds this appetite with net sales totaling \$23.9 billion in 2009.<sup>26</sup> However, a growing number of publishers ship their print work to foreign companies<sup>27</sup> due to the availability of cheaper labor costs overseas.<sup>28</sup>

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<sup>17</sup> Ed O'Neil, *How Many "Foreign" Books Are in US Libraries?*, METALOGUE: NEW DIRECTIONS IN CATALOGUING AND METADATA FROM AROUND THE WORLD (June 24, 2010, 8:29 AM), <http://community.oclc.org/metalogue/archives/2010/06/how-many-foreign-books-are-in.html>; see also Am. Library Amici, *supra* note 6, at 4 (noting that some publishers denote the printing location for a particular volume on the book itself, while many do not).

<sup>18</sup> ASS'N OF RESEARCH LIBRARIES, ARL STATISTICS 2007-2008 74 (Martha Kyrillidou & Les Bland eds., 2009).

<sup>19</sup> *Id.* at 79.

<sup>20</sup> *Id.* at 75; see also Eugene Volokh, *Foreword: The Future of Books Related to the Law?*, 108 MICH. L. REV. 823, 846 n.31 (2010) (noting that UCLA's law library spent \$60,000 on shelving books, \$45,000 of freight related to new book purchases above and beyond the cost of the new materials themselves); DATAMONITOR, INDUSTRY PROFILE: PUBLISHING IN THE UNITED STATES 8 (June 2010) ("Book sales proved the most lucrative for the US publishing market in 2009, with total revenues of \$26.1 billion, equivalent to 52.2% of the market's overall value.").

<sup>21</sup> NAT'L ENDOWMENT FOR THE ARTS, READING ON THE RISE: A NEW CHAPTER IN AMERICAN LITERACY 3 (2008), available at <http://www.nea.gov/research/readingonrise.pdf>.

<sup>22</sup> INST. OF MUSEUM AND LIBRARY SERVICES, *supra* note 14, at 5.

<sup>23</sup> NAT'L ENDOWMENT FOR THE ARTS, *supra* note 21, at 3.

<sup>24</sup> INST. OF MUSEUM AND LIBRARY SERVICES, *supra* note 14, at 5.

<sup>25</sup> NAT'L ENDOWMENT FOR THE ARTS, *supra* note 21, at 4 (noting that reading literature has seen the greatest growth among young adults, aged eighteen to twenty-four).

<sup>26</sup> ASS'N OF AM. PUBLISHERS, INDUSTRY STATISTICS 2009, 2 (Apr. 7, 2010), [http://www.publishers.org/main/IndustryStats/indStats\\_02.htm](http://www.publishers.org/main/IndustryStats/indStats_02.htm); see also DATAMONITOR, *supra* note 20, at 8 ("The US publishing market had total revenue of \$50.1 billion in 2009, representing a compound annual growth rate (CAGR) of 1.6% for the period spanning 2005-2009.").

<sup>27</sup> See, e.g., Richard Perez-Pena, *The Chronicle Outsources Its Printing*, N.Y. TIMES, July 13, 2009, at B5 (noting that the San Francisco Chronicle joined a growing number of newspapers that outsource their printing); Joyce Koh, *Print, Publish, Project!*, BUS. TIMES SINGAPORE, Dec. 28, 2004, available at <http://sph.listedcompany.com/news.html/id/149002/print/1> (noting that Singapore's printing industry exported \$670 million worth of goods to the United States, England and Australia earning seventy percent of their revenue from dealings with foreign markets as an outsource printer).

<sup>28</sup> See, e.g., Michael M. Phillips, *U.S. News: Senate to Debate Bill to Slow Overseas Hiring*, WALL ST. J., Sept. 27, 2010, at A6 (describing a newly proposed bill, which sought to decrease unemployment by providing tax credits and deductions for companies that bring jobs back to the U.S. from overseas); Jia Lynn Yang, *Jobs Bill Ignites Debate over Foreign Profit of U.S. Firms; Industry Fights Higher Taxes Intended to Slow the Outsourcing of Work*, WASH. POST, May 29, 2010, at A15 (noting the backlash against a bill passed in the House that sought to increase the tax burden on U.S. companies who derive profits from operations overseas).

Moreover, U.S. copyright law does not require an explicit declaration of the place of manufacturing.<sup>29</sup> The outsourcing of printing is creating a catalog of books published by U.S. companies, but physically printed abroad.<sup>30</sup> With the growing size of both the publishing industry as well as libraries, the *Omega* court's holding puts both librarians and those who depend upon them in a perilous position.<sup>31</sup>

### B. Basics of Copyright Law

Both the publishing and library industries function within and are defined by copyright law. The following section will explain the current contours of copyright law, including rights, remedies, and defenses.

#### 1. Origins and Rights

United States copyright law strikes a balance between rewarding creativity through economic incentives for authors and ensuring further creativity by allowing access to works in the public domain.<sup>32</sup> This goal is accomplished by granting limited monopolies to authors for their works and by allowing individuals access through the public domain and fair use.<sup>33</sup>

The authority through which Congress regulates copyrightable material is vested in article I section 8 of the Constitution.<sup>34</sup> Currently, under section 106 of the United States Copyright Act ("section 106"), an author of a copyrightable work has the exclusive right to reproduce, create derivative works, distribute, perform, display and transmit recorded works.<sup>35</sup> The Act states that exclusive rights may be granted "in original works of authorship fixed in any tangible medium of expression."<sup>36</sup> The Act specifically denies protection to "any idea, procedure, process, system, method of operation, concept, principle, or discovery . . ."<sup>37</sup> Additionally, for any work that was created on or after January 1, 1978, the author may retain exclusive rights for his or

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<sup>29</sup> Am. Library Amici, *supra* note 6, at 22 n.8.

<sup>30</sup> *Id.* at 20–22.

<sup>31</sup> *Id.* at 31.

<sup>32</sup> See *Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in Science and useful Arts.") (internal quotations omitted).

<sup>33</sup> Pierre N. Leval, *Toward a Fair Use Standard*, 103 HARV. L. REV. 1105, 1107–10 (1990) ("Notwithstanding the need for monopoly protection of intellectual creators to stimulate creativity and authorship, excessively broad protection would stifle, rather than advance, the objective.").

<sup>34</sup> U.S. CONST. art. I, § 8 ("To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.").

<sup>35</sup> 17 U.S.C. § 106 (2006).

<sup>36</sup> *Id.* § 102(a); see also Laura N. Gasaway, *Copyright Ownership & the Impact on Academic Libraries*, 13 DEPAUL-LCA J. ART & ENT. L. & POL'Y 277, 292–93 (2003) ("The copyright is in the literary work; the tangible object in which the literary work is embodied might be a hardcover book, a paperback, or an audiorecording an electronic book. Thus, the copyright is in the underlying literary work, not in the format in which the work is stored.").

<sup>37</sup> 17 U.S.C. § 102(b).

her entire lifetime.<sup>38</sup> His or her estate may then retain the right(s) for seventy years following the author's death.<sup>39</sup>

## 2. Infringement Actions

The copyright act gives remedies for redress.<sup>40</sup> A copyright owner may bring an action for injunctive relief,<sup>41</sup> or for monetary damages,<sup>42</sup> which may include the actual loss suffered by the copyright owner,<sup>43</sup> or statutory damages,<sup>44</sup> possibly even including an award of attorneys' fees.<sup>45</sup> There is also a specific provision, 602, that deals with the importation or exportation of copyrighted goods into or out of the United States, which grants the copyright holder exclusive authority to regulate imports and exports of copies of his or her work(s).<sup>46</sup> This right, however, is not without limitation.<sup>47</sup> In *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*,<sup>48</sup> the Supreme Court held that because section 602 protected the right of distribution,<sup>49</sup> which is defined in section 106,<sup>50</sup> section 602 was subject to the limitations of sections 107 through 122, including the first sale doctrine.<sup>51</sup> Germane to the current discussion is the exception for "scholarly, educational, or religious purposes and not for private gain."<sup>52</sup> This exception, however, only allows one copy of an audiovisual work and up to five copies of other works.<sup>53</sup>

Similarly, section 108(a) grants libraries special exemptions that allow for the creation of unauthorized copies of copyrighted material or distribution thereof.<sup>54</sup> This exception applies only if the library has undertaken a "reasonable effort" to ascertain a commercial copy of the work.<sup>55</sup> So doing, however, is often impracticable either because of prohibitive cost or complete unavailability.<sup>56</sup>

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<sup>38</sup> *Id.* § 302(a).

<sup>39</sup> *Id.*

<sup>40</sup> *See generally id.* §§ 501–505 (listing available remedies).

<sup>41</sup> *Id.* § 502(a).

<sup>42</sup> *Id.* § 504.

<sup>43</sup> *Id.* § 504(b).

<sup>44</sup> *Id.* § 504(c).

<sup>45</sup> *Id.* § 505.

<sup>46</sup> *Id.* § 602(a)(2).

<sup>47</sup> *Id.* § 602(a)(3).

<sup>48</sup> *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

<sup>49</sup> *Id.* at 144.

<sup>50</sup> 17 U.S.C. § 106 ("Subject to sections 107 through 122, the owner of a copyright under this title has the exclusive right . . . to distribute copies or phonorecords of the copyrighted works to the public by sale or other transfer of ownership, or by rental, lease or lending.").

<sup>51</sup> *Quality King*, 523 U.S. at 144.

<sup>52</sup> 17 U.S.C. § 602(a)(3)(C).

<sup>53</sup> *Id.*; *but see* *Pearson Educ., Inc. v. Liu*, 656 F. Supp. 2d 407, 411 (S.D.N.Y. 2009) (noting that section 602 is related to the right of distribution founding section 106, which is limited by section 107–122).

<sup>54</sup> 17 U.S.C. § 108(a); *see also* *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 201 (4th Cir. 1997) (holding that "a library distributes a published work . . . when it places an unauthorized copy of the work in its collection, includes the copy in its catalog or index system, and makes copy available to the public").

<sup>55</sup> *Hotaling*, 118 F.3d at 204.

<sup>56</sup> *See* *Eldred v. Ascroft*, 537 U.S. 186, 252 (2003) (Stevens, J. dissenting).

The possible problems posed by section 108 were acknowledged during the drafting process of the 1976 Copyright Act,<sup>57</sup> and continue to drive scholarly debate today.<sup>58</sup> Some of the most contentious issues facing librarians today include: seeking permission from copyright owners in digitizing portions of collections,<sup>59</sup> employing statutory exemptions,<sup>60</sup> and advising patrons as to proper uses of copyrighted material.<sup>61</sup>

### 3. Fair Use Standards

Where statutory exemptions fall short, individuals may still assert a fair use defense. A noted peculiarity to U.S. copyright law,<sup>62</sup> the fair use doctrine allows for the unauthorized use of copyrighted material under special circumstances.<sup>63</sup> The Supreme Court has noted that the fair use doctrine is “an equitable rule of reason which permits courts to avoid rigid application of the copyright statute when . . . it would stifle the very creativity which that law is designed to foster.”<sup>64</sup> The statute also provides a non-exhaustive list of fair uses including: “criticism, comment, news reporting, teaching, scholarship, or research.”<sup>65</sup> Fair use is an affirmative defense,<sup>66</sup> for which litigation is extremely fact-specific.<sup>67</sup> Thus, the exact circumstances of a case, as well as the jurisdiction in which it is litigated, are likely to have an effect on the outcome.<sup>68</sup>

The statute provides four criteria through which a court is to determine whether a specific use is an infringement.<sup>69</sup> Courts typically examine the first statutory fact

<sup>57</sup> See Steven J. Melamut, *Pursuing Fair Use, Law Libraries, and Electronic Reserves*, 92 LAW LIBR. J. 157, 177–78 (2000).

<sup>58</sup> See Gasaway, *supra* note 4, at 776 (“Librarians face difficult questions almost daily about the use of non-licensed copyrighted works and whether the use is potentially a fair use.”).

<sup>59</sup> See Hal R. Varian, *Copyrights That No One Knows About Don’t Help Anyone*, N.Y. TIMES, May 31, 2007, at C3 (noting that librarians at Carnegie Mellon University were only able to ascertain the proper copyrights owners of twenty percent of the out-of-print materials they sought to digitize).

<sup>60</sup> *Eldred*, 537 U.S. at 252 (Stevens, J. dissenting) (asking “[w]hat database proprietor can rely on so limited an exception—particularly when the phrase “reasonable investigation” is so open ended and particularly if the database has commercial, as well as noncommercial aspects?”).

<sup>61</sup> See Gasaway, *supra* note 4, at 776.

<sup>62</sup> See Richard J. Peltz, *Global Warming Trend? The Creeping Influence of Fair Use in International Copyright Law*, 17 TEX. INTELL. PROP. L.J. 267, 270 (2009) (discussing how the U.S. fair use doctrine differs greatly from its European counterparts, both in its generosity as well as its judicial, as opposed to legislative, origins).

<sup>63</sup> See 17 U.S.C. § 107 (2006).

<sup>64</sup> *Stewart v. Abend*, 495 U.S. 207, 236 (1990); see 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 13.05[A] (2009).

<sup>65</sup> 17 U.S.C. § 107.

<sup>66</sup> *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 590 (1994).

<sup>67</sup> See *Blanch v. Koons*, 467 F.3d 244, 251 (2d Cir. 2006) (“[T]he task [of apply the fair use doctrine] is not to be simplified with bright-line rules, for the statute, like the doctrine it recognizes, calls for case-by-case analysis.”).

<sup>68</sup> Ashley M. Pavel, *Reforming the Reproduction Right: The Case for Personal Use Copies*, 24 BERKLEY TECH. L.J. 1615, 1622 (2009) (“The fact specific nature of the fair use inquiry coupled with the uncertainty of its outcome makes fair use an arduous and cost-intensive defense.”).

<sup>69</sup> 17 U.S.C. § 107(1)–(4).



in light of whether the infringing use is commercial in nature,<sup>70</sup> although courts typically parse this factor in terms of whether the infringing use is transformative in some manner.<sup>71</sup> The second statutory factor looks to the nature of the work infringed.<sup>72</sup> Although courts continually espouse the anti-discrimination principle,<sup>73</sup> they are likely to grant stronger protection to artistic or scholarly works than to “merely” commercial products.<sup>74</sup> The third statutory factor examines the amount of material infringed.<sup>75</sup> While not a bright-line test, courts will look to the amount of material infringed by the defendant,<sup>76</sup> including whether the material was the “heart” of the underlying work.<sup>77</sup> Courts generally agree that the fourth factor is weighed most heavily in the balancing act of fair use determinations.<sup>78</sup> Importantly, this factor addresses not only the current effect on the market, but also the potential adverse effect on the copyright holder.<sup>79</sup> Many courts also apply additional factors and place varying weights upon each of the statutory criteria.<sup>80</sup> For instance, circuits have examined the intent of the infringer<sup>81</sup> and whether the use transformed the copyrighted work,<sup>82</sup> among others.<sup>83</sup>

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<sup>70</sup> See *Campbell*, 510 U.S. at 578.

<sup>71</sup> See Leval, *supra* note 33, at 1111–12 (noting that the added value found in transformative works furthers the goals of copyright law).

<sup>72</sup> 17 U.S.C. § 107.

<sup>73</sup> *Bleistein v. Donaldson Lithographic Co.*, 188 U.S. 239, 251 (1903) (“It would be a dangerous undertaking for persons trained only to the law to constitute themselves final judges of the worth of pictorial illustrations, outside of the narrowest and most obvious limits.”).

<sup>74</sup> See also Visual Artists Rights Act, 17 U.S.C. § 106A (2006) (granting moral rights only to authors of works of “visual art,” which is defined in section 101 as including only paintings, drawings, prints, sculptures or photographs).

<sup>75</sup> 17 U.S.C. § 107.

<sup>76</sup> See *Peter Letterese and Assoc. v. World Inst. of Scientology Enter.*, 533 F.3d 1287, 1307 (11th Cir. 2008) (“The extent of copying must be assessed with respect to both the quantitative and the qualitative significance of the amount copied to the copyrighted work as a whole.”).

<sup>77</sup> See *Harper & Row Publishers, Inc. v. Nation Enter.*, 471 U.S. 539, 564–65 (1985).

<sup>78</sup> See *id.* at 566.

<sup>79</sup> *Campbell v. Acuff-Rose Music* 510 U.S. 569, 590 (1994) (noting that the fourth factor requires consideration of “whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market” for the original) (quoting 4 NIMMER, *supra* note 64, § 13.05); see also *Harper & Row*, 471 U.S. at 568 (stating that for a court “to negate fair use one need only show that if the challenged use should become widespread, it would adversely affect the *potential* market for the copyrighted work”).

<sup>80</sup> See Leval, *supra* note 33, at 1125–32 (noting the various factors courts have implemented in fair use analysis).

<sup>81</sup> *Time, Inc. v. Bernard Geis Assoc.*, 293 F. Supp. 130, 146 (S.D.N.Y. 1968) (nothing that the defense of fair use presupposes good faith on the part of the infringer); see also, Leval, *supra* note 33, at 1126 (“Copyright is not a reward for goodness but a protection for the profits of activity that is useful to the public education.”).

<sup>82</sup> See *Campbell*, 510 U.S. at 579 (noting that a finding of transformative use was not necessary, but where present furthered the goals of copyright in fostering new expression).

<sup>83</sup> See generally C. T. Drechsler, Annotation, *Extent of Doctrine of “Fair Use” Under Federal Copyright Act*, 23 A.L.R.3d 139 (2010) (examining the current state and successful applications of the fair use defense across the federal circuits).

#### 4. First Sale Doctrine

While the fair use defense applies to the underlying work, the first sale doctrine applies to individual copies of a work. The owner of a copyright does not have unending control over his or her work(s) due in large part to the first sale doctrine.<sup>84</sup> First elucidated in *Bobbs-Merrill Co. v. Straus*,<sup>85</sup> the first sale doctrine provides that once the owner of a copyright makes a lawful sale, he or she extinguishes their rights to further control of that copy of the work.<sup>86</sup> The doctrine is thought to properly balance economic incentives of creators against the rights of the public to enjoy and use the works as they please.<sup>87</sup> The first sale doctrine is what allows libraries to lend books that it has legally acquired.<sup>88</sup> This seemingly simple doctrine becomes complicated, however, when applied to the importation and exportation of copyrighted goods into and out of the United States.<sup>89</sup>

#### C. International Treaty Obligations

The U.S. Copyright Act, however, is not the end of the story. The United States has entered into several international treaties and trade agreements, most apposite to the current discussion being The Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”).<sup>90</sup> The result of labored efforts to augment the rights granted under the Berne Convention,<sup>91</sup> TRIPS sought to facilitate efficient international trade through standardized intellectual property rights among the signatories.<sup>92</sup> Instead of creating a unified code of intellectual property law, the agreement provides minimum substantive standards by which each signatory must

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<sup>84</sup> See 17 U.S.C. § 109(a) (2006).

<sup>85</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

<sup>86</sup> *Id.* at 349.

<sup>87</sup> See Michael Stockalper, *Is There a Foreign “Right” of Price Discrimination Under United States Copyright Law? An Examination of the First Sale Doctrine as Applied to Gray-Market Goods*, 20 DEPAUL J. ART TECH. & INTELL. PROP. L. 513, 514 (2010) (“[The First Sale Doctrine] strikes a fluid and logical balance between transacting parties: the work’s creator receives the benefit of controlling how her work reaches the public, but the public gets to enjoy the work, sell it, give it away, recycle it, or dispose of it at whim.”).

<sup>88</sup> PAUL GOLDSTEIN, INTERNATIONAL COPYRIGHT: PRINCIPLES, LAW, AND PRACTICE § 5.4.1.1 A(iii) (2001) (“Historically, once a publisher sells a book to a library, the first sale or exhaustion doctrine liberates the copy from further copyright control.”).

<sup>89</sup> See generally Tim Neu, *Bollywood is Coming! Copyright and Film Industry Issues Regarding International Film Co-Production Involving India*, 8 SAN DIEGO INT’L L.J. 123, 139–40 (2006) (detailing the problems associated with the first sale doctrine in light of the global nature of the digital commercial market).

<sup>90</sup> See generally GOLDSTEIN, *supra* note 88, § 52–53 (discussing the history of the Berne Convention, World Intellectual Property Organization Treaty, North American Free Trade Agreement, Trade-Related Intellectual Property Agreement).

<sup>91</sup> See SILKE VON LEWINSKI, INTERNATIONAL COPYRIGHT LAW AND POLICY § 10.20 (2008); see also GOLDSTEIN, *supra* note 88, § 52–53 (noting that the convention that led to TRIPS was spurred on by a “mounting frustration over weak enforcement measures”).

<sup>92</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, Legal Instruments—Results of the Uruguay Round, Apr. 15, 1994, 33 I.L.M. 1125, 1869 U.N.T.S. 299 [hereinafter TRIPS], available at [http://www.wto.org/english/docs\\_e/legal\\_e/27-trips.pdf](http://www.wto.org/english/docs_e/legal_e/27-trips.pdf).

abide.<sup>93</sup> Each party to the treaty may choose the method by which the enumerated principles are enforced in their own country.<sup>94</sup> In so doing, however, members are required to grant other members, at the very least, the same protections as afforded to their own citizens.<sup>95</sup> Article 6 of TRIPS states that “nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”<sup>96</sup> Thus, each party to the treaty must observe and enforce exhaustion rights, which are tantamount to the extinguishment of rights through the aforementioned first sale doctrine as related to copyrighted works, such as a natural citizen would enjoy.<sup>97</sup>

#### D. *Omega v. Costco*

A seemingly innocuous wristwatch has embroiled all of these aforementioned aspects of copyright law through the Ninth Circuit’s decision in *Omega v. Costco*. This section examines the *Omega* decision including: the inapplicability of trademark law, the presumption against extraterritorial application of U.S. law, as well as gray-market goods.

##### 1. *Facts & Background*

Turning to the *Omega* decision, the dispute revolves around the meandering path of a cache of watches manufactured by the Omega in Switzerland.<sup>98</sup> Having created the watches bearing the copyrighted emblem in Switzerland, Omega authorized the sale to a distributor overseas.<sup>99</sup> Costco purchased the watches in question from a New York Company, ENE Limited, who obtained them from an unnamed third party.<sup>100</sup> Omega then filed a lawsuit sounding in copyright infringement on the basis that they did not authorize the importation of the watches into the United States, which constituted an infringement under sections 106(3) and 602(a).<sup>101</sup> The district court granted Costco’s motion for summary judgment based on the first sale doctrine, and awarded attorney’s fees.<sup>102</sup>

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<sup>93</sup> *Id.* at art. 1 (“Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.”).

<sup>94</sup> *Id.*

<sup>95</sup> *Id.* at art. 3.

<sup>96</sup> *Id.* at art. 6.

<sup>97</sup> GOLDSTEIN, *supra* note 88, § 5.4.1.1 A(iii).

<sup>98</sup> *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008).

<sup>99</sup> *Id.* at 984.

<sup>100</sup> *Id.*

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

## 2. Gray-Market Goods

The facts of this case present a typical example of gray-market goods, which are often referred to as parallel imports.<sup>103</sup> Manufacturers often engage in price discrimination across foreign markets.<sup>104</sup> This practice allows third parties to engage in arbitrage;<sup>105</sup> i.e., purchasing goods in one market and then selling them in another market for a profit.<sup>106</sup> Thus, gray-market goods are legitimate products and not reproductions, replicas, or counterfeits.<sup>107</sup> These authorized goods are usually purchased in a lower priced market, made so through the company's price discrimination structure across international markets, and then imported in the U.S. and sold for a profit.<sup>108</sup>

## 3. The Inapplicability of Trademark Protection

While it may seem odd that a useful article, such as the watches at issue in *Omega*, may be subject to copyright law,<sup>109</sup> companies began incorporating small copyrightable elements in their products after the Supreme Court's decision in *K Mart Corp. v. Cartier, Inc.*<sup>110</sup> In *K Mart*, the Court examined an agency regulation promulgated by the Secretary of Treasury pursuant the Tariff Act.<sup>111</sup> The regulation at issue created exceptions to the Customs Service's ability to seize importations of "foreign-made articles bearing a trademark identical"<sup>112</sup> to that of one owned by a U.S. citizen or corporation.<sup>113</sup> The Court upheld two provisions, but struck down one, which denied the Customs Service the ability to seize "articles of foreign manufacture [that] bear a recorded trademark . . . under the authorization of the U.S. owner."<sup>114</sup>

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<sup>103</sup> *Id.* at 984 n.1.

<sup>104</sup> Stockalper, *supra* note 87, at 520 ("Companies engaging in international commerce commonly sell the same products at one price in their own country, but then sell the same items at a higher or lower price in other countries to account for differing demands and consumer spending propensities.").

<sup>105</sup> See Vartan J. Saravia, *Shades of Gray: The Internet Market of Copyrighted Goods and a Call for the Expansion of the First-Sale Doctrine*, 15 SW. J. INT'L L. 383, 384 (2009) (focusing on the practice of arbitrage in which a third party purchases a lawfully made object in one market and then sells the item in another market for a profit).

<sup>106</sup> See *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 n.6 (9th Cir. 1994).

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*

<sup>109</sup> See 17 U.S.C. § 102 (2006); DONALD E. DEKIEFFER, UNDERGROUND ECONOMIES AND ILLEGAL IMPORTS 53 (2010); see also Saravia, *supra* note 105, at 395 ("Having lost in other fields of law, manufacturers realized that copyright may furnish a supplemental vehicle for protection.").

<sup>110</sup> *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 294 (1988); see generally Christopher A. Mohr, *Gray Market Goods and Copyright Law: An End Run Around K Mart v. Cartier*, 45 CATH. U.L. REV. 561, 564 (1996) (examining various legal methods employed by companies in an effort to thwart gray-market imports into the U.S.).

<sup>111</sup> *K Mart*, 486 U.S. at 285.

<sup>112</sup> *Id.* at 288.

<sup>113</sup> *Id.*

<sup>114</sup> *Id.* at 294.

The Court held that no reading of the statute could allow independently made foreign goods to be exempt from seizure procedures.<sup>115</sup>

A trademark serves to both protect a brand's good will and to prevent consumer confusion.<sup>116</sup> Courts have denied relief under trademark law largely because the gray market goods are not piratical copies and are not materially different from authorized copies.<sup>117</sup> Companies have also had difficulty in seeking relief against distributors and gray-marketers through contract law mainly due to a lack of privity, or knowledge on the part of third parties.<sup>118</sup> Having failed to stifle gray-market imports through either commercial contract or trademark law, companies then turned to copyright.<sup>119</sup>

#### 4. First Sale Doctrine Interpretation

The legal issue before the *Omega* court was the interpretation of the phrase "under this title" as used in the Copyright Act.<sup>120</sup> Relying on *Quality King Distributors, Inc. v. Lanza Research Int'l, Inc.*,<sup>121</sup> the Ninth Circuit held that "infringement does not occur under [section] 106(3) or [section] 602(a) where 'the owner of a particular copy . . . lawfully made under this title' imports and sells that copy without the authority of the copyright owner."<sup>122</sup> Having reconciled previous

<sup>115</sup> *Id.* ("Under no reasonable construction of the statutory language can goods made in a foreign country be an independent foreign manufacturer be removed from the purview of the statute.")

<sup>116</sup> See 1 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 2:1 (4th ed. 2000).

<sup>117</sup> See, e.g., *Sebastian Int'l, Inc. v. Consumer Contacts Ltd.*, 664 F. Supp. 909, 922 (D.N.J. 1987) ("[G]iven the confusion in the trademark world, it is unclear why plaintiffs continue to rely on those uncertain rights when the copyright law provides such a formidable shield.")

<sup>118</sup> See DEKIEFFER, *supra* note 109, at 240 ("Even where it can be proven that the parties in a gray market transaction were collaborating, it is often difficult to prove that the buyer of the gray market goods had knowledge of the existence of a *specific* restrictive contract between the original seller and the first level buyer.") (emphasis in original); see also RESTATEMENT (SECOND) OF TORTS § 766 cmt. i (stating that a defendant must have knowledge of the contract with which he or she allegedly interferes).

<sup>119</sup> Saravia, *supra* note 105, at 395 ("Having lost in other fields of law, manufacturers are now realizing that copyright may furnish a supplemental vehicle for protection."); see also Donna K. Hintz, *Battling Gray Market Goods with Copyright Law*, 57 ALB. L. REV. 1187, 1191 (1994) (discussing a possible solution to the problem of gray market goods through copyright law).

<sup>120</sup> *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988 (9th Cir. 2008) (dismissing Costco's argument that the copyright owner's authorization of the production of works would satisfy the phrase "lawfully made under this title" and instead requiring that the copies were physically made within the United States).

<sup>121</sup> *Quality King Distrib., Inc. v. Lanza Research Int'l, Inc.*, 523 U.S. 135 (1998) (holding that the re-importation of copyrighted goods manufactured in the U.S. was a legal enterprise because the manufacturer produced the goods and made a first legal sale within the United States).

<sup>122</sup> *Omega*, 541 F.3d at 985; see *CBS, Inc. v. Scorpio Music Distrib., Inc.*, 569 F. Supp. 47 (1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984); *contra Sebastian Int'l, Inc. v. Consumer Contracts Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988) (reading section 602(a) to apply to any goods imported into the U.S., regardless of the place of manufacture).

Ninth Circuit precedent<sup>123</sup> with *Quality King*, the court explained its interpretation as being driven by two concerns: the extraterritorial application of U.S. Copyright law,<sup>124</sup> as well as the fear of rendering section 602(a) moot.<sup>125</sup> The court concluded that the phrase “under this title” required something more, which it defined as “the making of the copies within the United States, where the Copyright Act applies.”<sup>126</sup>

Thus, the *Omega* court, while cognizant of possible difficulties stemming from its interpretation,<sup>127</sup> felt compelled, due mostly to the presumption the extraterritorial application of U.S. law, to hold that “under this title” applies only to goods domestically manufactured.<sup>128</sup>

Having granted a petition for a writ of certiorari,<sup>129</sup> the Supreme Court heard oral argument on the case.<sup>130</sup> The Justices’ questions focused largely on ascertaining explicit statutory language for the arguments proffered by the parties.<sup>131</sup> With Justice Kagan having recused herself, an equally divided Court affirmed the Ninth Circuit’s holding without opinion.<sup>132</sup> The issue, thus, is still contentious and unsettled.<sup>133</sup>

### *E. Extraterritorial Application of U.S. Law*

The *Omega* court’s fear of extraterritorial application of U.S. law is well-founded, as there is a long-standing presumption against the extraterritorial application of U.S. law abroad.<sup>134</sup> This presumption is based upon two principles:

<sup>123</sup> *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991) (affirming a district court’s finding of infringement for importing sound recordings manufactured abroad because the first sale doctrine applies only to goods manufactured in the U.S.); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 485 (9th Cir. 1994) (“In sum, nothing in the Copyright Act, the Lanham Act, or the Tariff Act, suggests that we should create an exception to the importation right granted to U.S. copyright holders by § 602(a) for U.S. subsidiaries of foreign manufacturers.”).

<sup>124</sup> *Omega*, 541 F.3d at 986.

<sup>125</sup> *Id.*

<sup>126</sup> *Id.* at 988 (emphasis in original).

<sup>127</sup> *See id.* at 989–90 (noting the possibility that granting first sale applicability to only those copies manufactured in the U.S. seemed to give greater protection to foreign copyrights).

<sup>128</sup> *Id.* at 987–86; *see also* *Subafilms, Ltd. v. Mgm-Pathe Commc’ns. Co.*, 24 F.3d 1088, 1098 (9th Cir. 1994) (noting that the adoption of provisions in accordance with the Berne Convention served only to strengthen independent national intellectual property laws and not to allow for the extraterritorial application thereof); *but see* GOLDSTEIN, *supra* note 88, § 3.1.2.3 (noting that “it will not offend the territoriality principle for one country to attach legal consequence to acts occurring in a second country is the legal consequence bears exclusively on the question whether a right has been infringed inside the first country’s borders”).

<sup>129</sup> *Costco Wholesale Corp. v. Omega, S.A.*, 130 S. Ct. 2089 (2010).

<sup>130</sup> *See* Transcript of Oral Argument at 1, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010) (No. 08-1423) 2010 U.S. Trans. LEXIS 61, at \*1.

<sup>131</sup> *Id.* at 29 (stating that the respondent must “bring in a skyhook with a limitation that finds no basis in the text” to support its argument).

<sup>132</sup> *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010).

<sup>133</sup> *See Copyright Confusion*, L.A. TIMES, Dec. 16, 2010, at A34; *Court’s Tie Vote Sustains Swatch against Costco*, N.Y. TIMES, Dec. 14, 2010, at B7.

<sup>134</sup> *Foley Bros. v. Filardo*, 336 U.S. 281, 285 (1949); *see* William S. Dodge, *Understanding the Presumption Against Extraterritoriality*, 16 BERKELEY J. INT’L L. 85, 85 (1998) (explaining the limited situations in which both courts and Congress apply domestic laws extraterritorially).

(1) Congress does not seek to violate international laws through extraterritorial application;<sup>135</sup> and (2) Congress generally legislates to solve domestic problems, not foreign ones.<sup>136</sup> There are, however, certain areas of law in which U.S. courts have been willing to apply domestic law abroad, including: anti-trust actions,<sup>137</sup> employment and labor law,<sup>138</sup> patents,<sup>139</sup> and trademarks.<sup>140</sup>

The Supreme Court's more recent jurisprudence has established three situations in which the presumption may be overcome where:<sup>141</sup> (1) Congress provides explicit statutory language that the provision apply extraterritorially,<sup>142</sup> (2) the conduct abroad has an effect domestically,<sup>143</sup> and (3) the conduct occurs in the United States.<sup>144</sup> Thus, the presumption against extraterritoriality is the chief problem related to recognizing a first sale that occurs abroad.<sup>145</sup>

## II. ANALYSIS

This section examines how libraries can continue to grow their catalogs and serve their constituents. Part A will apply the "under this title" formulation adopted by the *Omega* court in a first sale context. Part B will analyze the pragmatic effectiveness of exceptions granted specifically to libraries in the Copyright Act. Part C will look to a possible fair use defense for lending materials if the first sale doctrine does not apply.

Throughout this section, the following hypothetical will be used in applying and analyzing various legal schema: a U.S. publisher has outsourced the printing of its latest bestseller, *Pigritude: A Story of Love, Loss, and Lethargy*, to a European

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<sup>135</sup> *Murray v. Schooner Charming Betsy*, 6 U.S. 64, 118 (1804) (noting that "an act of Congress ought never to be construed to violate the law of nations if any other possible construction remains"); see Dodge, *supra* note 134, at 112.

<sup>136</sup> See Dodge, *supra* note 134, at 112.

<sup>137</sup> *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 583 n.6 (1986) ("The Sherman Act does reach conduct outside our borders, but only when the conduct has an effect on American commerce."); see also Dodge, *supra* note 134, at 87 (noting that the Sherman Act has proved to be a prominent exception to the presumption against extraterritoriality).

<sup>138</sup> See *Kollias v. D & G Marine Maint.*, 29 F.3d 67, 75 (2d Cir. 1994) (acknowledging, but not applying, the presumption against extraterritoriality to the Longshore and Harbor Workers' Compensation Act); but cf. *EEOC v. Arabian Am. Oil Co.*, 499 U.S. 244, 259 (1991) (holding that Title VII lacked specific statutory language that would enable it to apply extraterritorially).

<sup>139</sup> See *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007) (recognizing an exception to the presumption against extraterritoriality under patent law when various components or one component made specifically for the patented product are shipped from the U.S. abroad where the actual infringement occurs).

<sup>140</sup> *Steele v. Bulova Watch Co.*, 344 U.S. 280, 291 (1952) (holding that Congress granted broad enough authority under the Lanham Act to apply extraterritorially so long as so doing would not encumber other nations' laws).

<sup>141</sup> See generally Susan S. Murphy, *Copyright Protection, "the New Economy" and the Presumption Against the Extraterritorial Application of United States Copyright Law: What Should Congress Do?*, 33 CONN. L. REV. 1401, 1439–40 (2001) (arguing that if the Sherman Act can apply to acts wholly outside the U.S., then the Copyright Act should as well).

<sup>142</sup> *Morrison v. Nat'l Austl. Bank Ltd.*, 130 S. Ct. 2869, 2882 (2010).

<sup>143</sup> *Env'tl. Def. Fund v. Massey*, 986 F.2d 528, 531 (D.C. Cir. 1993).

<sup>144</sup> *Id.*

<sup>145</sup> See *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 987–88 (9th Cir. 2008).

printing company. Several hundred copies of the work make their way, without the authorization of the publishing house, to a European bookseller. A public library in the U.S. then purchased ten copies of the work<sup>146</sup> from this bookseller, which it then lends to its patrons.

A. “Under This Title” Means Not on the Shelf

Under the *Omega* court’s holding the phrase “lawfully under this title” found in section 109(a) requires that the good bearing the copyright have been physically created within the confines of the U.S. in order for the first sale doctrine to apply.<sup>147</sup> Thus, in the hypothetical above, the copies of the novel physically printed by the in Europe would not be subject to the first sale doctrine unless and until the U.S. publisher authorized importation.<sup>148</sup> As such, when the library imported the book from the European bookseller, they violated the publisher’s distribution rights pursuant to section 602(a).

The *Omega* court was leery to apply U.S. copyright law extraterritorially by recognizing an international first sale.<sup>149</sup> While there is a long-standing presumption against the extraterritorial application of domestic law,<sup>150</sup> Professor Goldstein posits that recognizing exhaustion rights is not the same thing as pursuing an infringement action abroad.<sup>151</sup> He maintains that the territorial presumption is more closely related to choice of law concerns, rather than geography.<sup>152</sup> For instance, a U.S. federal court has subject matter jurisdiction to adjudicate a case involving foreign conduct so long as it applies applicable foreign law to the case.<sup>153</sup> Such adjudicatory power is necessary under the multilateral and trade-related intellectual property treaties, because each member nation has the duty to recognize and enforce the rights of other members in a manner no worse than their own citizens would enjoy.<sup>154</sup>

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<sup>146</sup> It should be noted that the following analysis would be equally true of two copies of a DVD for archival purposes, which precludes the possibility of lending a film physically manufactured abroad by a library; see 17 U.S.C. § 602(a)(3)(C) (2006).

<sup>147</sup> 17 U.S.C. § 109(a); *Omega*, 541 F.3d at 986.

<sup>148</sup> Brief for Respondent at 30, *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) (No. 08-1423) 2010 U.S. S. Ct. Briefs LEXIS 1364, at \*35.

<sup>149</sup> *Omega*, 541 F.3d at 986–87.

<sup>150</sup> See GOLDSTEIN, *supra* note 88, § 3.1.1 (noting that the idea dates as far back as the seventeenth-century Dutch scholar Ulrich Huber); LEWINSKI, *supra* note 91, § 1.07 (noting that the territoriality principle stems from the relations of sovereign feudal lords acting as benefactors to artists in their realm, which would not extend beyond their controlled area).

<sup>151</sup> GOLDSTEIN, *supra* note 88, § 3.1.2.

<sup>152</sup> *Id.*

<sup>153</sup> See *Armstrong v. Virgin Records*, 91 F. Supp.2d 628, 637 (S.D.N.Y. 2000) (noting that “there is no principled reason to bar, in absolute fashion, copyright claims brought under foreign law for lack of subject matter jurisdiction”); *New Name, Inc. v. Walt Disney Co.*, No. CV-07-5034 PA, 2007 U.S. Dist. LEXIS 97855 at 14–5 (C.D. Ca. Dec. 3 2007) (holding that so long as applying foreign law would not call into question the legislative or governmental actions of a foreign sovereign, a court has subject matter jurisdiction to adjudicate a case under foreign law).

<sup>154</sup> See GOLDSTEIN, *supra* note 88, § 3.2; Michael A. Ugolini, *Gray-Market Goods Under the Agreement Trade-Related Aspects of Intellectual Property Rights*, 12 TRANSNAT’L L 451, 454 (1999).



### 1. *The Copyright Act Does not Provide for Extraterritorial Application*

The Supreme Court has held that where Congress has included specific language providing for the extraterritorial application of U.S. law, it will enforce the statute.<sup>155</sup> The Copyright Act does not include the word “extraterritorial” or any of its derivations within its 350 pages. Courts, however, have applied statutes extraterritorially where the regulated conduct was frequently related to international individuals and locations if the statute lacked specific language approving of extraterritorial application.<sup>156</sup> Section 602 deals specifically with international matters, in that it regulates the importation and exportation of goods bearing U.S. copyrights.<sup>157</sup> This section, however, is only one portion of an entire title and no other sections deal specifically with international issues.<sup>158</sup> While an argument can be made that section 602 should apply extraterritorially, given its relation to international conduct, courts<sup>159</sup> and scholars<sup>160</sup> have been firm in rejecting the possibility.<sup>161</sup> With the adoption of multilateral copyright treaties, both courts and Congress will rely upon the laws and judicial systems of other nations to enforce U.S. copyrights abroad.<sup>162</sup>

### 2. *Would Not Recognizing Extraterritorial Applications of the Copyright Act Produce Adverse Effects Domestically?*

The Supreme Court has also recognized an exception to the presumption against extraterritoriality where, absent explicit congressional intent, the effect of non-enforcement would create undesirable consequences domestically.<sup>163</sup> An adverse effect of importing copyrighted materials could be felt by U.S. commerce in two ways:

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<sup>155</sup> See *Smith v. United States*, 507 U.S. 197, 204 (1993) (declining to enforce the Federal Tort Claims Act because of a lack of explicit congressional language to apply U.S. law extraterritorially); *Maurais v. Snyder*, No. 00-2133, 2000 U.S. Dist. LEXIS 13818, at \*9 (E.D. Pa. Sep. 14, 2000) (declining to apply the Employee Retirement Income Security Act extraterritorially in absence of any specific congressional language espousing such an application of the statute).

<sup>156</sup> See, e.g., *United States v. Roca-Suarez*, 30 Fed. Appx. 723, 726 (9th Cir. 2002) (holding that a federal drug-trafficking statute has extraterritorial application).

<sup>157</sup> See GOLDSTEIN, *supra* note 88, § 3.2.

<sup>158</sup> *But see* Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (discussing the implementation of additional rights under U.S. copyright law to conform to the international convention’s standards).

<sup>159</sup> *Cont’l Ore Co. v. Union Carbide & Carbon Corp.*, 370 U.S. 690, 704–05 (1962).

<sup>160</sup> See 4 NIMMER, *supra* note 64, § 17.02 (“For the most part, acts of infringement that occur outside of the jurisdiction of the United States are not actionable under the United States Copyright Act. It is for this reason that copyright laws do not have any extraterritorial operation.”).

<sup>161</sup> See generally Dodge, *supra* note 134, at 124.

<sup>162</sup> See 4 NIMMER, *supra* note 64, § 17.04[D][1].

<sup>163</sup> See also *Steele v. Bulova Watch Co.*, 344 U.S. 280, 287 (1952) (noting, in a trademark infringement case, that even though the infringing conduct occurred abroad, the adverse effects were seen in the U.S. market, which allowed for the extraterritorial application of trademark law); *Laker Airways v. Sabena Belgian World Airlines*, 731 F.2d 909, 925 (D.C. Cir. 1984) (noting that an adverse effect on U.S. commerce is required for the extraterritorial application of the Sherman and Clayton Acts).

(1) through the importation of piratical copies;<sup>164</sup> and (2) through the parallel importation of gray market goods.<sup>165</sup> In both cases the copyright holder suffers an adverse economic impact, but the piratical copies preclude any profit, while gray market goods only lessen the profit to that seen in other foreign markets.<sup>166</sup> Analogous cases have allowed extraterritorial application when adverse impact was deemed to be “substantial” in Lanham Act cases.<sup>167</sup> Courts have repeatedly denied any extraterritorial application of copyright law specifically, declining to examine the aforementioned exceptions.<sup>168</sup> Thus, although copyright holders may clamor for protection against international infringement,<sup>169</sup> courts have not and likely will not grant such relief.<sup>170</sup>

### 3. *Is there Domestic Conduct Involved?*

Courts have also applied U.S. law extraterritorially where domestic conduct is embroiled in international infringement.<sup>171</sup> Congress amended section 602 to include exportation of copyrighted goods in addition to those imported without the authorization of the copyright holder.<sup>172</sup> As such, an unauthorized exportation of a good bearing a U.S. copyright would involve domestic conduct and would likely allow for the extraterritorial application of the Copyright Act. Libraries, however, would not likely benefit from this as they function more as purchasers and collectors, as opposed to exporters.<sup>173</sup> Museums, and in limited instances when libraries lend materials abroad, could invoke this section. Yet, doing so would only allow for the infringement prosecution of those abroad as well.<sup>174</sup>

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<sup>164</sup> See Hintz, *supra* note 119, at 1194 (noting that Customs is only permitted to prohibit the importation of piratical copies”).

<sup>165</sup> *Id.* at 1189 (noting that each sale of a gray market good represents an economic loss).

<sup>166</sup> See Mohr, *supra* note 110, at 572.

<sup>167</sup> *Atl. Richfield Co. v. Arco Globus Int’l Co.*, 150 F.3d 189, 193 (2d Cir. 1998) (noting that even if the U.S. market is impacted, the case did not involve any “essential” domestic activity necessary for the furtherance of the infringing acts abroad).

<sup>168</sup> See *Subafilms, Ltd. v. Mgm-Pathe Commc’ns. Co.*, 24 F.3d 1088, 1097 (9th Cir. 1994) (noting that the adoption of provisions in accordance with the Berne Convention served only to strengthen independent national intellectual property laws and not to allow for the extraterritorial application thereof).

<sup>169</sup> See, e.g., Jan D’Alessandro, *A Trade-Based Response to Intellectual Property Piracy: A Comprehensive Plan to Aid the Motion Picture Industry*, 76 GEO. L.R. 417, 425–26 (1987) (describing the shortfallings of international copyright protection for the US film industry).

<sup>170</sup> See *Subafilms*, 24 F.3d at 1095 (“[W]e are unwilling to overturn over eighty years of consistent jurisprudence on the extraterritorial reach of the copyright laws without further guidance from Congress.”).

<sup>171</sup> See *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 441 (2007) (recognizing an exception to the presumption against extraterritoriality under patent law when various components or one component made specifically for the patented product are shipped from the U.S. abroad where the actual infringement occurs); see also 4 NIMMER, *supra* note 64, § 17.02 (noting possible liability for copyright infringement where only a portion of the conduct takes place domestically).

<sup>172</sup> The Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, 122 Stat. 4256, 4260.

<sup>173</sup> See Law Library Amici, *supra* note 13, at 14.

<sup>174</sup> See 4 NIMMER, *supra* note 64, §17.02.

#### 4. Recognizing Foreign Sales Would Not Render Section 602 Moot

The *Omega* court also voiced concern over whether recognizing international transactions as exhausting rights would render section 602 moot.<sup>175</sup> The *Scorpio* court further noted that in order for the U.S. to combat gray market imports the first sale doctrine cannot apply to section 602, otherwise a party could easily circumvent the prohibition by making a straw deal overseas, thereby triggering the first sale doctrine.<sup>176</sup> On the other hand, denying recognition of a lawful extraterritorial sale as triggering the first sale doctrine would allow U.S. firms to outsource their manufacturing thereby preventing any unauthorized importations, no matter how many lawful transactions occur abroad.<sup>177</sup> Thus, libraries would never be sure of the legality of any purchase from a foreign vendor; even if that item had been bought and sold a dozen times internationally, the U.S. copyright owner could still assert a claim under section 602.<sup>178</sup>

Recognizing a lawful transaction overseas as a first sale would not render section 602 moot, because the statute requires the authorization of the copyright holder, which is subsequently extinguished by a first sale; i.e., a copyright owner can only assert control over a goods to which they still rights that have not been exhausted through any of the provisions of sections 107 through 122. The provision would still apply to any copyrighted goods over which the copyright owner still retains an interest, including: goods manufactured but not sold, goods not used in accordance with a licensing agreement, and piratical copies.<sup>179</sup>

#### B. Statutory Exceptions Do Not Provide Sufficient Protection to Libraries.

The two aforementioned exceptions afforded to libraries by Congress through the Copyright Act, sections 108 and 602(a)(3)(C), allow libraries to engage in what would otherwise be infringement. The real problem facing libraries involves a tough decision under the *Omega* court's reading of the first sale doctrine: either a library must expend a great deal more resources through transaction costs<sup>180</sup> in ascertaining the place of manufacture for any copyrightable good of which it purchases five copies

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<sup>175</sup> *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 986 (9th Cir. 2008) (“[T]he application of § 109(a) after foreign sales would render § 602 virtually meaningless as a tool against the unauthorized importation of nonpiratical copies because importation is almost always preceded by at least one lawful sale . . .”).

<sup>176</sup> *CBS, Inc. v. Scorpio Music Distrib.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983).

<sup>177</sup> *Law Library Amici*, *supra* note 13, at 30–31.

<sup>178</sup> *Id.* at 10–11.

<sup>179</sup> *Davis v. Blige*, 505 F.3d 90, 99–100 (2d Cir. 2007) (explaining the two broad categories of licenses granted in copyrighted works); *see also Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1116 (9th Cir. 2010) (holding that violating a software licensing agreement constitutes copyright infringement).

<sup>180</sup> *See Amicus Brief for George A. Akerlof et al. in Support of Petitioners at 22, Eldred v. Ashcroft*, 537 U.S. 186 (2003) (No. 01-618), 2002 U.S. S. Ct. Briefs 267, at \*22–23 (listing various related transaction costs to copyright clearance).

or more,<sup>181</sup> or it must continue to do business as it has previously under the increased likelihood of litigation.<sup>182</sup>

Neither option is appealing. A library would swim in safer waters by strictly adhering to the exception stated in section 602(a)(3)(C) by only purchasing one copy of an audiovisual work and no more than five copies of other works.<sup>183</sup> Yet this is an impracticable solution with multiple copies often being required to service the needs of patrons.<sup>184</sup>

A library could also make copies of current volumes in its catalog, but only to the extent that the materials would not be available commercially.<sup>185</sup> This exception, however, is moot.<sup>186</sup> If a library needs more copies than the patron demand will be high, indicating a market demand and likely commercial availability. If, however, patron demand is low, then the library likely does not require additional copies, whether they are commercially available or not. With these available options, it is clear that libraries need a better option in order to continue to grow their collections and to serve their communities.

### *C. Fair Use Is Not a Fair Option.*

If libraries can no longer rely upon the first sale doctrine as a means by which to lend books, they may be subject to infringement actions, in which the only plausible defense would be fair use.<sup>187</sup> Under the statutory framework, the first factor examines the purpose and use of the infringing conduct.<sup>188</sup> Because the library is lending a book for education, or even just for personal edification, courts would likely hold that the library's use is educational in nature, which would support a finding of the use as fair.<sup>189</sup> Next, courts examine the nature of the infringed work.<sup>190</sup> Here, in

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<sup>181</sup> See 17 U.S.C. § 602(a)(3)(C) (2006); see also Hal R. Varian, *Copyrights That No One Knows About Don't Help Anyone*, N.Y. TIMES, May 31, 2007, at C3 (discussing transactional costs involved in copyright clearance attempts).

<sup>182</sup> Gasaway, *supra* note 4, at 777.

<sup>183</sup> 17 U.S.C. § 602(a)(3)(C).

<sup>184</sup> Anne Bartow, *Electrifying Copyright Norms and Making Cyberspace More Like a Book*, 48 VILL. L. REV. 13, 76 (2003) (noting that libraries often order multiple copies of works when they anticipate a high patron demand for a particular title).

<sup>185</sup> See *Eldred v. Ascroft*, 537 U.S. 186, 252 (2003) (Stevens, J. dissenting) ("What database proprietor can rely on so limited an exemption—particularly when the phrase "reasonable investigation" is so open-ended and particularly if the database has commercial, as well as non-commercial, aspects?"); *Hoteling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 199, 204 (4th Cir. 1997) (noting that the Copyright Act, in limited circumstances, allows libraries to replicate works).

<sup>186</sup> See *Eldred*, 537 U.S. at 252 (Stevens, J. dissenting).

<sup>187</sup> *But see* LEON E. SELTZER, EXEMPTIONS AND FAIR USE IN COPYRIGHT 175 (1978) ("Clause (2) of subsection (f) makes clear that this exemption of the library or archives does not extend to the person using such equipment or requesting such copy if the use exceeds fair use.") (quoting H. REP. NO. 94-1476 (1976)).

<sup>188</sup> 17 U.S.C. § 107(1).

<sup>189</sup> *Sallinger v. Random House, Inc.*, 811 F.2d 90, 96 (2d Cir. 1987) (noting that the use of unpublished letters for a biography weighs in favor of the infringer due to the scholarly application).

<sup>190</sup> 17 U.S.C. § 107(2).

spite of the anti-discrimination principle,<sup>191</sup> courts would likely find the novel to be worthier of protection against infringement than the emblem at issue in the *Omega* case.<sup>192</sup> As the rights and motivations of authors square well with the purposes of copyright protection, courts would likely weigh this factor against the library for lending the novel.<sup>193</sup> The third statutory factor looks to the amount of the infringed work appropriated by the infringer.<sup>194</sup> As the library is lending the entire work, a court will likely weigh this factor against the library as well.<sup>195</sup> Finally, courts look to actual and potential adverse market impact resulting from the infringement.<sup>196</sup> Here, the library would be removing commercially viable works from the market to which its patrons would have free access, because of which the court would likely find an adverse market impact.<sup>197</sup> Furthermore, every time a patron checked out a copy of the book in question the copyright holder would suffer a lost sale.<sup>198</sup>

In looking to non-statutory factors in asserting a fair use defense, courts would not likely find that the intent of the library to be nefarious.<sup>199</sup> In the hypothetical, the library purchased a copy manufactured under the authority of the publisher. The copy was procured from a legitimate bookseller. On the other hand, lending, which constitutes distribution, would not be held to be transformative because the underlying work is not changed in any way.<sup>200</sup> Given the lack of satisfactory possibilities for libraries augmenting their collections and lending their current volumes, a change in the law is needed to secure libraries' place at the forefront of our democratic society. In light of the strong presumption against the extraterritorial application of U.S. law, attacking the problem from an international angle provides the most direct and reasonable solution.

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<sup>191</sup> See *Bleistein v. Donaldson Lithographic Co.*, 188 U.S. 239, 251 (1903).

<sup>192</sup> See *Leval*, *supra* note 33, at 1116–17 (“[T]he great American novel, a report prepared as a duty of employment, a shopping list, or a loan shark’s note on a debtor’s door saying “Pay me by Friday or I’ll break your goddamn arms” are all protected by the copyright.”).

<sup>193</sup> *Nash v. CBS, Inc.*, 899 F.2d 1537, 1542 (7th Cir. 1990) (noting that compilations of historical fact or underlying analytical frameworks are not subject to copyright protection, whereas the creative expression used to promulgate such ideas are subject to such protection).

<sup>194</sup> 17 U.S.C. § 107(3).

<sup>195</sup> *Triangle Publ’n, Inc. v. Knight-Rider Newspapers, Inc.*, 626 F.2d 1171, 1177 (5th Cir. 1980) (holding that copying only the covers of various TV Guides did not weigh in the plaintiff’s favor, because the defendant did not copy the entire work, *i.e.*, articles and television listings).

<sup>196</sup> 17 U.S.C. § 107(4).

<sup>197</sup> *Cf. Hotaling v. Church of Jesus Christ of Latter Day Saints*, 118 F.3d 199, 203 (4th Cir. 1997) (noting that each time a library lent a work without authorization, it would constitute a separate act of infringement).

<sup>198</sup> See GOLDSTEIN, *supra* note 88, § 5.4.1.1 (A)(iii) (“A handful of countries . . . have adopted one or another form of public lending right aimed at giving authors, and in some cases publishers, a right of remuneration for library borrowing even though no money changes hands at the library counter.”).

<sup>199</sup> See *Hotaling*, 118 F.3d at 203.

<sup>200</sup> See *New Era Publ’n Int’l v. Henry Holt and Co.*, 873 F.2d 576, 583 (2d Cir. 1989) (questioning whether the fair use defense allows a biography to include a large amount of quotations from the subject’s copyrighted works without his or her authorization).

### III. PROPOSAL

This section asserts that the solution to the quandaries of libraries as well as gray-market goods, is to amend article 6 of TRIPS by adopting an international exhaustion scheme to be implemented by the signatories. Part A will provide recommended language for the emendation to article 6. Part B will examine the economic implications of recognizing international exhaustion. Part C will suggest how U.S. could comply with the international exhaustion requirement emendation through the Copyright Act.

#### *A. Recommended Emendation to TRIPS*

TRIPS has not established exhaustion rules for signatories.<sup>201</sup> Article 6 of TRIPS currently states: “[f]or the purposes of dispute settlement under this Agreement, subject to the provisions of articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”<sup>202</sup> This comment proposes that article 6 be reformulated as follows:

Members shall, subject to the provisions of Article 8 of this agreement, implement, through whatever means their respective governing bodies deem fit, measures recognizing international exhaustion of intellectual property rights where a good, manufactured or produced with the authorization of the right holder, is sold, transferred, or assigned as defined by each member’s respective laws, irrespective of where the sale, transfer or assignment occurs. The substantive effect of this article will require that whatever intellectual property rights were once held by the original owner be extinguished upon a valid transfer, sale or assignment, including, but not limited to: importation, exportation, and any subsequent sales, transfers or assignments.

Under the proposed emendation to article 6, owners of intellectual property rights will still be able to license the use of goods bearing or related to their protected rights.<sup>203</sup> Wherever a sale, transfer or assignment occurs, however, any rights previously held by the owner will exhaust.<sup>204</sup> Also, by subjecting the emendation to the provisions of article 8, members will still be able to engage in price discrimination as related to issues of public health, welfare or other compelling societal concerns.<sup>205</sup> Thus, parallel imports of goods produced under the

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<sup>201</sup> TRIPS, *supra* note 92, at art. 6.

<sup>202</sup> *Id.*

<sup>203</sup> See *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1116 (9th Cir. 2010).

<sup>204</sup> Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPs, International IPR Exhaustion and a Few Other Things*, 21 MICH. J. INT’L L. 333, 341 (2000) (“[A] rule of international exhaustion treats a first sale in any jurisdiction as automatically “exhausting” the holder’s parallel [intellectual property rights] in all the other jurisdictions. Under this approach, a product may move freely anywhere in the worldwide market following any first sale.”).

<sup>205</sup> TRIPS, *supra* note 92, at art. 8 (“Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the

authorization of intellectual property rights holders will be allowed, reducing costs in policing borders for gray market goods and facilitating efficient international trade.<sup>206</sup>

### *B. Economic Impact of Recognizing International Exhaustion*

Under trade theory, consumers will benefit from lower market prices where trade facilitates goods produced at the lowest marginal cost.<sup>207</sup> However, when goods require extensive research, development or creativity, intellectual property rights provide incentives that allow these goods to be sold further above the marginal cost.<sup>208</sup>

Nations draft their intellectual property laws in order to achieve varying costs and benefits stemming from imports and exports.<sup>209</sup> Countries with a wealth of protectable intellectual property tend to have stronger protections as an incentive to further drive creativity, while those countries that produce less intellectual property goods tend to have lower levels of protection to keep more money in the country.<sup>210</sup> Similarly, countries will come to differing policy conclusions as to whether the costs of a higher priced market for consumers are balanced by other social considerations, such as providing affordable pharmaceuticals to developing nations.<sup>211</sup> By implementing an international exhaustion paradigm as discussed above, consumers

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public interest in sectors of vital importance to their socio-economic and technological development, provided that such measures are consistent with the provisions of this Agreement.”).

<sup>206</sup> See Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 143 (2001) (noting that enforcing a prohibition on gray market goods increases the costs for producers as well as governments).

<sup>207</sup> John H. Barton, *Global Trade Issues in the New Millennium: The Economics of TRIPs: International Trade in Information-Intensive Products*, 33 GEO. WASH. INT’L L. REV. 473, 474–75 (2001) (“In general economic trade theory, we think of trade as equalizing prices near the world’s lowest available marginal cost, which benefits the world’s consumers in the form of lower prices.”).

<sup>208</sup> *Id.* at 475 (“For [information-intensive products], however, market prices are necessarily significantly different from marginal cost. Intellectual property protection exists precisely to maintain that difference, as an incentive for innovation and creativity.”).

<sup>209</sup> *Id.* at 487–88 (noting that national exhaustion favors domestic producers at the expense of domestic consumers while international exhaustion favors arbitrage and free trade at the expense of producers).

<sup>210</sup> Chiappetta, *supra* note 204, at 384.

The prevailing economic approach to resolving the exhaustion debate poses the issue fundamentally as a comparison between global market returns from common market and IPR primacy . . . . In contrast, IPR primacy places the emphasis on maximizing overall wealth creation through proper application of incentives to creation, avoiding consumer confusion and encouraging sharing of controlled information.

*Id.*

<sup>211</sup> *Id.* at 363 (“Encouraging the especially high investment necessary in certain industries (for example, pharmaceuticals) may require levels of potential return only available through international market segmentation, while other, less resource intensive activities may not.”).

will see market prices closer to marginal cost<sup>212</sup> and rent-seeking and transaction costs will be lowered,<sup>213</sup> thereby facilitating international trade.<sup>214</sup>

A strong argument can be made that price discrimination can serve legitimate and efficient ends, e.g., providing lower cost pharmaceuticals to developing nations, whereby producers enjoy a higher profit margin in domestic markets, while foreign consumers receive necessary goods at a price much closer to marginal cost.<sup>215</sup> At the same time, however, these benefits enjoyed by the producers and foreign consumers are funded by domestic consumers as an export subsidy.<sup>216</sup> While domestic consumers are not likely to vociferously object to subsidizing pharmaceuticals to underdeveloped nations, they are, however, more likely to take issue with subsidizing Hollywood features or other more fungible goods bearing copyrights.<sup>217</sup> Thus, by recognizing international exhaustion of intellectual property rights domestic consumers will no longer subsidize the exports of domestic producers and will have access to markets where prices are closer to marginal costs.<sup>218</sup>

### *C. Amending the U.S. Copyright Act to Comply with the Proposed Amendment to TRIPS*

As members are free to implement the provisions of TRIPS as their respective legislatures deem fit, the U.S. would have to amend the Copyright Act to recognize international exhaustion.<sup>219</sup> Currently, section 602(a) states, in pertinent part:

(2) Importation or exportation of infringing items. Importation into the United States or exportation from the United States, without the authority of the owner of copyright under this title, of copies or phonorecords, the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable, is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under sections 501 and 506.<sup>220</sup>

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<sup>212</sup> Chiapetta, *supra* note 204, at 357.

<sup>213</sup> Meurer, *supra* note 206, at 143 (“Gray market enforcement activity creates obvious rent-seeking costs. Those costs include monitoring and litigation by copyright owners, enforcement activity by the Customs Service, and litigation costs by defendants.”).

<sup>214</sup> See Chiapetta, *supra* note 204, at 379–82 (discussing various normative preferences found in international intellectual property law).

<sup>215</sup> See *id.* at 344; *but see* Meurer, *supra* note 206, at 148 n.391 (noting that consumer may not be as willing to subsidize Canadian or American drug costs).

<sup>216</sup> Meurer, *supra* note 206, at 144.

<sup>217</sup> *Id.* at 144 (noting that American consumers would not support subsidizing domestic software, music or movie industries).

<sup>218</sup> Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 U. PA. J. INT’L BUS. L. 373, 426–27 (1994) (“Since gray marketing costs are borne almost exclusively by domestic firms, it would be more equitable to place the burden of preventing gray markets on those firms than on society as a whole.”).

<sup>219</sup> TRIPS, *supra* note 92, at art. 1.

<sup>220</sup> 17 U.S.C. § 602(a) (2006).



The above statute is limited by the first sale doctrine which currently reads as follows: “[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonograph lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”<sup>221</sup>

This comment proposes that section 602 be amended by deleting section (a). Furthermore, section 101 shall be amended to include the following: “For a work to have been made “under this title,” the copyright holder must have authorized the manufacture, reproduction, display, performance, or distribution of the work, irrespective of the location at which the work was manufactured, reproduced, displayed, performed or distributed.”

Thus, the statute will allow for parallel imports of copyrighted works, so long as the copyright holder has authorized the goods or works to be created and sold. Once the goods or works enter into the stream of commerce, however, section 109 will preclude the copyright holder from exercising control over the goods.<sup>222</sup> Furthermore, by requiring the authorization of the reproduction of manufacture by the copyright holder section 602, as amended, will still provide a cause of action sounding in infringement pursuant to section 501 for any piratical or otherwise unauthorized copyrighted goods that are imported, or exported pursuant to section 602(b).<sup>223</sup>

Opponents of international exhaustion will argue that the adoption of such a system will thwart the very goals of copyright; i.e., by reducing economic incentives for producers, fewer works will be created. This criticism, however, looks only toward one side of the scale upon which copyright law is configured. By striking a compromise between the availability of works to the public and the economic incentives for creating works, copyright law seeks a permissible balance between producers and consumers. Granting legal authority to discriminate across international markets for identical goods reduces the availability of works to domestic consumers, which in turn does not foster the development of new works in an ever-evolving exchange of ideas.

Policy decisions such as this one always benefit one group at the expense of another. Under the current scheme domestic producers reap the benefits paid out of the pocket of domestic consumers. By adopting an international exhaustion system, the balance would only tip the other way: consumers would be able to obtain goods at a value closer to its marginal cost and producers would still be able to effectively market their goods and recoup research costs. Thus, producers would see a drastic reduction in gray-market goods because consumers across different markets would pay the same price, which would eliminate any incentive to trade in gray-market goods.

Furthermore, such a system would have little to no effect on emerging digital technologies. Books for e-readers and music for cell phones and digital music players are and will continue to be distributed through licensing agreements. Under either

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<sup>221</sup> *Id.* § 109(a).

<sup>222</sup> See *Quality King Distrib., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998) (“The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.”).

<sup>223</sup> See 17 U.S.C. § 602(b).

the domestic or international exhaustion system, licensing agreements are beyond the scope of the question of exhaustion.<sup>224</sup>

#### IV. CONCLUSION

This comment has examined the ramifications of interpreting U.S. Copyright law so as to combat gray-market goods at the expense of libraries. The use of copyrights for deterring gray market goods is at odds with the foundational principles of copyright law: attaching a copyrightable label to a fungible good in no way promotes the progress of the arts and sciences. Furthermore, by narrowly interpreting the first sale doctrine as the *Omega* court did, libraries, museums, and schools are at risk for copyright infringement actions, where previously no such liability was plausible. While the proposed emendation would improve the efficiency of international trade and eliminate most, if not all, export subsidies for domestic consumers, the true import of the recommended emendation to TRIPS lies in the international trade of ideas, which is best facilitated by libraries and those for whom such resources are essential. Upon hearing of a plan for spreading free libraries, James Madison wrote that “[a] tree of useful knowledge planted in every neighbourhood would help to make a paradise, as that of forbidden use occasioned the loss of one.”<sup>225</sup> While the *Omega* holding may have sent libraries east of Eden, the recommendations made herein may bring them back.

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<sup>224</sup> See *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1116 (9th Cir. 2010) (holding the first sale doctrine inapplicable to software licensing agreements).

<sup>225</sup> Letter from James Madison to Caleb Atwater (April 1823), in 3 THE JAMES MADISON LETTERS, 1816–1828, at 317 (J.B. Lippincott & Co. 1865).