Gray Days Ahead?: The Impact of Quality King Distributors, Inc. v. L'Anza Research International, Inc.

William Richelieu
Gray Days Ahead?: The Impact of Quality King Distributors, Inc. v. L’Anza Research International, Inc.

I. INTRODUCTION

A major problem facing United States manufacturers engaged in international trade is the development of a “gray market” in their products. A British marketing magazine recently provided an illustration of the practical issues surrounding “gray market” retail channels for its main players—multinational manufacturers, such as Nike, and retailers, such as the British supermarket chain Tesco.

Nike is scouring the US for the source of the £8m worth of merchandise which found its way onto Tesco shelves last weekend. But it knows that it can do little, or nothing, even if it finds the illegitimate supplier.

The official route of distribution should be as follows: Nike’s shoes are manufactured in Asia, while its shirts are made in the US. Both product ranges are gathered at US wholesale points, and then sold through registered retail outlets.

Nike’s internal investigators believe they have narrowed the search down to an unlicenced wholesaler, based in the US, who bought the stock from individual registered retailers.

The wholesaler then sold it on to Tesco through the “[gray] market”—a virtual wholesaler where unofficial sellers supply buyers who have previously been refused supply. Tesco, which is selling some of the goods for less than half the official retail price, admits it bought from an anonymous US wholesaler.

It is the latest in a string of fashion brands, including Levi’s, Adidas and Calvin Klein, which Tesco has bought from the [gray] market. Internally they are known as WIGIGs (when it goes it goes) and Tesco is planning more.

“There are more products in the pipeline,” admits a Tesco spokesman. “We want to go forward with this, keep applying pressure to selected distribution. We want customers to know about the issues involved. We only use one supplier to

[minimize] the counterfeit risk. I would imagine £8m worth was all the supplier had. With Levi's we bought as much as we could and it wasn't enough. We don't want to let our customers down."

The “gray market” for U.S. manufacturers consists of unauthorized distribution channels through which products intended for sale in overseas markets are re-imported to the United States. This unauthorized re-importation of goods bearing United States copyright or trademarks is also termed “parallel importation.” By contrast, “piracy” or the “black market” involves the unauthorized manufacture of products.

Industries that are particularly impacted by gray market distribution include designer clothing and accessories, books and publishing, computer hardware and...
software, audio and video recording, pharmaceutical products, fragrances and cosmetics, heavy equipment, chemicals, electronics, watches and jewelry, toys, sporting goods, automotive and machine parts, and tools.

The public argument over the costs and benefits of the gray market centers on the interests of the average consumer. However, the legal issue presented by the efforts of manufacturers to combat the gray market is focused on the scope of manufacturers' rights to control the distribution of their copyrighted products and materials. The Supreme Court recently addressed this legal issue in *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*

Part II of this Comment discusses the roots of the gray market, focusing on its economic drivers and its purported costs and benefits. Part III examines the development of copyright law protection in regards to the gray market and the case law interpreting the applicable sections of the 1976 Copyright Act. Part IV

---

*Buy Overseas,* THE WASHINGTON POST, March 10, 1998, at A7 ("[B]illion-dollar discounters selling a wide range of imported goods had a big stake in the case.").


A wide range of consumers goods, such as perfumes, watches, pharmaceuticals and automobiles, has been imported in large quantities by gray marketers. The entertainment and publishing industries in particular have been substantially affected by the gray market in the form of imported books, compact discs of sound recordings, videos of feature films, videogame disks and cartridges and other products.

*Id.*

14. See *infra* notes 36-47 and accompanying text.

15. This right is embodied in 17 U.S.C. § 106(3) of the Copyright Act of 1976. See *infra* notes 56-75 and accompanying text. See generally 2 DAVID A. NIMMER, NIMMER ON COPYRIGHT § 8.11[A] (1997) (stating that 17 U.S.C. § 106(3) "is a right to control the [copyrighted] work's publication"; noting that "publication" is interchangeable with "distribution").

16. 523 U.S. 135 (1998) [hereinafter *Quality King*]. Note that the lower court decisions attending to *Quality King, L'Anza Research International v. Quality King,* 1995 WL 908331 (C.D. Cal. 1995), discussed *infra* notes 109-26, and *L'Anza Research International, Inc. v. Quality King Distributors, Inc.,* 98 F.3d 1109 (9th Cir. 1996), discussed *infra* notes 127-30, are referred to as "L'Anza".

17. See *infra* notes 23-50 and accompanying text.

18. See *infra* notes 51-104 and accompanying text.
discusses the lower court decisions attending to the case. Part V analyzes the Supreme Court's decision. Part VI assesses the impact of the case for future litigation and the implications of the Court's Quality King decision for multinational businesses. Part VII concludes that the Quality King decision is likely to limit multinational businesses' use of copyright law and that self-help strategies, discussed in Part V, provide the best current course of action absent legislative changes.

II. THE GRAY MARKET (OR PARALLEL IMPORTATION)

A. The Problem and Roots of the Gray Market

The growth of the domestic gray market or parallel importation can be seen as a phenomenon directly tied to the efforts of United States businesses to achieve worldwide distribution of their products. Gray market goods are a significant concern for U.S. multinational manufacturers because such goods undermine their ability to control the distribution and, therefore, the overall marketing of their products. To understand why this is the case, it is necessary to examine the mechanics of the gray market.

1. Growth of the Gray Market

Growth of the international gray market is driven by a myriad of factors. Essentially, the gray market develops from the ability of third-party distributors, retailers or other purchasers to exploit arbitrage opportunities between the market in which they purchase legally produced products (a "foreign" market) and the

---

19. See infra notes 105-25 and accompanying text.
20. See infra notes 126-64 and accompanying text.
21. See infra notes 165-229 and accompanying text.
22. See infra notes 230-33 and accompanying text.
23. See generally Wiese, supra note 1 ("The homogenization of customer demand around the world, the lowering of trade barriers, and the emergence of international competitors all contribute to the pressure on companies to market truly global products ... such global products are often threatened by gray markets ... ").
   [Control over distribution] can be especially critical for, say, a movie producer, who may wish to release a film at different times in the United States and overseas. If a distributor in another country ships the film or book, or any other product back to the United States ahead of its planned release date, it could destroy the producer's marketing plan in this country.
   Id. at A6; Bruce Rubenstein, Gray Goods Market Protected By Supreme Court Decision: Copyrights Do Not Protect Manufacturers, CORPORATE LEGAL TIMES, July 1998, at 30.
   We arrange concert tours and buy advertising to raise public awareness of the artist, and all of it is timed to coincide with the new release. What if a European distributor floods the domestic market with the CD in the middle of the promotion? It cuts the legs from under our efforts.
   Id. at 30 (quoting an attorney at Time Warner Inc.).
market in which they sell those products (the United States or the domestic market). Such arbitrage opportunities are driven by variations in exchange rates between foreign currencies and the U.S. dollar, the availability of largely undifferentiated global products sold by multinational companies at different prices in different markets and the ability of advanced telecommunications equipment to provide extensive information on price differences.

The mechanics of the gray market can be illustrated by an example of a product, say compact discs, available in Mexico for a fraction of the price it is sold at in the United States. This cost difference can be arbitrated by buying the disc in Mexico, shipping it over the border and selling it in competition with the higher priced versions offered by the authorized music sellers. Thus, there is a clear economic incentive to engage in this manner of importation as long as the cost of shipping and handling a product does not exceed the difference in the markets’ respective sale prices.

25. See Lucy J. Minehan, The Gray Market: A Call For Greater Protection of Consumers & Trademark Owners, 12 U. Pa. J. Int’l Bus. L. 457 (1991). The gray marketer is an “arbitrageur” who takes advantage of a price difference between two markets by buying in the market where prices are lower and selling in the market where prices are higher. The market thrives on the unauthorized distributor’s ability to sell the goods at prices considerably lower than those charged by the authorized distributor. Id. at 457 (quoting Porzellan Fabrik v. Action Industries, Inc., 589 F. Supp. 763, 764 n.1 (S.D.N.Y. 1984); see also Wiese, supra note 1 (“Gray market goods typically are international products with unique brand names, high international price differentials and low cost for arbitrage.”).

26. See Mohr, supra note 3, at 561 (attributing the “explosion” of the 1980’s gray market to the strength of the U.S. dollar); see also Wiese, supra note 1 (stating that changes in exchange rates facilitate the creation of gray markets); James P. Donohue, The Use of Copyright Law to Prevent the Importation of “Genuine Goods”, 11 N.C.J. Int’l L. & Com. REG. 183, 184 (1986) (noting the effects of exchange rates and imports); Perl, supra note 1, at 645 (recognizing a link between exchange rates and international trading); Feingold, supra note 5, at 121-22 (detailing how gray market imports of audio recordings are affected by a strong U.S. dollar).

27. See Donohue, supra note 26, at 184; see also Cyr, supra note 4, at 83 (noting that manufacturers sell goods of varying quality and price in order to anticipate different buyers’ tastes and disposable income); see also Wiese, supra note 1, at 1 (noting that the homogenization of consumer demand around the world, the lowering of trade barriers and the emergence of international competition pressure companies to market the same products globally; also noting that companies price differentiate between different markets because of differences in local purchasing power and local competition).

28. Wiese, supra note 1; see also Donohue, supra note 26, at 184.

29. The difference being a product of a strong U.S. dollar exchange rate with the peso and the likelihood that U.S. manufacturers are selling discs at lower prices in the Mexican market. See Gerber & Bender, supra note 13, at C19.

30. See id.

31. See id.
2. The Damage

The economic cost of the gray market to U.S. multinational manufacturers has been estimated to be in the billions of dollars. This cost is derived from two sources. First, it represents lost sales for U.S. multinationals to unauthorized domestic distributors who are able to sell products at lower prices. Second, the lower-priced gray market goods precipitate intra-brand competition with the properly distributed domestic goods, forcing U.S. multinational to lower prices on the authorized goods. This intra-brand competition, which reflects U.S. multinationals’ loss of control over the domestic distribution of their products, translates into a lowering of profit margins.

U.S. manufacturers contend that there are additional costs connected to gray market competition beyond lost sales. Consumers may initially not receive warranty protection for gray market goods sold through unauthorized distributors. For the sake of maintaining customer goodwill, manufacturers and authorized domestic distributors are likely to provide warranty protection anyway. Of course, providing such warranty protection further cuts into profit margins. Multinational manufacturers and authorized domestic distributors also contend that gray market goods present risks to consumers in the form of inferior or unsafe products.

32. See generally Michael, supra note 4, at 24 (noting that some estimates put gray market sales at $10 billion annually); see also Perl, supra note 1 (noting that gray market sales are a multibillion dollar business); Gerber & Bender, supra note 13, at C19 (recognizing the billion dollar value of the gray market); J. Thomas Warlick IV, Of Blue Light Specials & Gray Market Goods: The Perpetuation of the Parallel Importation Controversy, 39 EMORY L.J. 347, 350 (1990) (estimating that gray market imports were $10 billion in 1985); Biskupic, supra note 6 (noting that the gray market is a multibillion dollar industry); Desiree French, Ruling Seen As Boon to Consumer: Gray Market Purchases Saved Customers Estimated $3 to $4 Billion, THE BOSTON GLOBE, June 1, 1988, at G3 (noting that the practice of selling gray market merchandise reached an estimated $6 to $12 billion annually); Tode, supra note 6, at 10 (“Diversion already costs the professional hair care industry more than $80 million in sales yearly, according to estimates by industry sources.”).

33. See Cyr, supra note 4, at 83.

34. See Hintz, supra note 4, at 1188-89 (“The controversy over gray market goods centers on whether manufacturers should have to compete against imports of their own products.”).

35. See Feingold, supra note 5, at 116.

36. See generally infra notes 37-44 and accompanying text.

37. See Hintz, supra note 4, at 1189 (noting that a disadvantage to gray market goods is their lack of warranties); see also Perl, supra note 1, at 646 (stating that gray market importers rarely provide warranties for the goods they sell).

38. See Minehan, supra note 25, at 459 (explaining that manufacturers, in order to maintain goodwill with their customers, often provide warranty service for gray market goods).

39. Manufacturers and authorized distributors assert that gray market importers derive a portion of their price advantage or differential from not having to provide warranty service on the products they sell. See Minehan, supra note 25, at 458. Such importers purportedly also receive a price advantage by “free riding” the advertising and marketing activities of manufacturers and authorized distributors. See Hintz, supra note 4, at 1189. See generally Perl, supra note 1, at 646 (noting that because gray market sellers do not service the warranties of their goods, they incur less overhead costs than authorized sellers).
goods or products with user documentation written in other languages. The gray market is also believed to damage the image and reputation of U.S. multinational manufacturers' products, largely because of the problems discussed above. Further, the economic pressure provided by unauthorized distribution can strain manufacturers' relationships with their authorized distributors. Manufacturers and authorized distributors contend that the costs of the gray market stifle the incentive to innovate and this, alarmingly, will eventually lead to business closures and a loss of domestic jobs for United States workers.

3. The Brighter Side of "Gray"

By contrast, supporters of gray market importation argue that the alternative distribution channel benefits domestic consumers by lowering prices, providing greater availability of products, and curtailing, if not preventing, price discrimination by manufacturers. Proponents also suggest that manufacturers contribute to gray markets by off-loading products into gray channels or by forcing overseas agents to order more products than they can sell. Manufacturers then use the

40. See Mohr, supra note 3, at 562-63 (noting that authorized U.S. distributors argue that there are discrepancies between the quality of authorized goods and gray market goods); see also Hintz, supra note 4, at 1189 (noting that gray market goods often fail to meet U.S. safety and labeling requirements).
41. See Hintz, supra note 4, at 1189.
42. See generally id. "It is also asserted that [multinational manufacturers] suffer goodwill damage when unwary consumers blame them for subpar gray market products due to the imports' lack of quality control or absence of warranties." See id.; see also supra notes 32-41 and accompanying text.
43. See Hintz, supra note 4, at 1189; see also Wiese, supra note 1 (detailing how the cannibalization of a product by gray market goods damages the image of the product's manufacturer, the product's authorized distributor, and hurts relationships with customers).
44. See Cyr, supra note 4, at 83.
45. See id.; see also supra note 44 and accompanying text; Mohr, supra note 3, at 563. Gray market retailers assert that manufacturers, in effect, "hold the key to their own release . . . because they have the power to equalize prices in different markets." Id.
46. See Cyr, supra note 4, at 83.
47. See id.; see also supra note 44 and accompanying text; Mohr, supra note 3, at 563. Gray market retailers assert that manufacturers, in effect, "hold the key to their own release . . . " because they have the power to equalize prices in different markets. Id.
48. See Newland, O'Sullivan & Baird, supra note 2, at 29-31. A perfume industry expert reported that "[i]n some cases, manufacturers sell through the back door to [gray] marketers. It means more bottles are sold, which means more cash. It's a nice way to off-load a lot of product." Id.
49. See id.
50. When a [gray] market row flares up it enables the perfume makers to talk up, at no promotional cost, the values of their luxury products: to state how much they spend on point-of-sale training, on research on quality control and marketing. 'Manufacturers quite enjoy this publicity. It's a free chance to point out why they are quality products.' Id. (quoting a perfume industry expert).
“controversy” over the gray market as a way to insidiously promote, at no or little cost, the superiority of their products.  

III. SEARCHING FOR GRAY MARKET PROTECTION WITH COPYRIGHT LAW

U.S. multinational manufacturers, given the serious repercussions they associate with gray market imports, have sought protection of their domestic distribution channels through the legal system. Since the mid-1980's, U.S. manufacturers have gradually turned to provisions in copyright law barring the importation of goods without the consent of the copyright holder to block the flow of gray market goods into the United States from foreign markets.

The utilization of copyright law was prompted, to a large degree, by the position of the Executive Branch and the Supreme Court regarding the use of trademark law to block gray market imports. Further, the relative ease with which products or parts of products, such as labeling, logos, and instructions, can be copyrighted, gave manufacturers and their legal representatives what appeared to be an easy and effective means of legal protection against gray market products.

50. See id.

Perfume companies sustain the [gray] market by dictating [to] local agents the amount of perfume they can sell and at what price. When agents fail to sell the entire stock they are likely to sell it to a wholesaler in another country where they can get a better price, often capitalizing on the exchange rate.

Id.

51. See generally Mohr, supra note 3, at 564 (noting that firms opposing gray market importation have attempted to use theories arising out of sales, trademark and copyright law).

52. See Perl, supra note 1, at 649-50 (“As a supplement to contract and trademark protection, some United States manufacturers and suppliers have turned to copyright law to protect against gray-market good importation.”).

53. The use of United States trademark law for gray market protection was undermined by Customs Service regulations propagated under 19 U.S.C. § 526(a) of the Tariff Act of 1930 upheld by the Supreme Court. See K MART v. Cartier, 486 U.S. 281 (1987). Under the K MART decision and the Customs Service regulations, the Customs Service will permit the unauthorized importation of goods where the foreign and U.S. trademark or trade name are owned by the same person or business entity or where the foreign and domestic trademark or trade name owners are parent and subsidiary companies or subject to common ownership. See 19 C.F.R. § 133.21 (1993). Thus, the primary source of gray market goods, foreign subsidiaries or affiliates of U.S. companies, will not necessarily be blocked by trademark law. See generally Hintz, supra note 4, at 1190 n.17, 1191; Mohr, supra note 3, at 563, 563 n.12, 564 n.13.

54. 17 U.S.C. § 102 states that copyright protection extends to “original works of authorship fixed in any tangible medium of expression . . . .” See 17 U.S.C. § 102(a) (1994). The statute explicitly extends copyright protection to literary works, musical works, dramatic works, pantomimes and choreographic works, pictorial, graphic, and sculptural works, audiovisual works (including motion pictures), and sound recordings. See 17 U.S.C. § 102(a)(1)-(8). As such, merchandise labels, logos, packaging and other trade dress elements can be copyrighted. See DAVID BENDER & DAVID GERBER, Gray Markets And Parallel Importation: Protectionism vs. Free, 81-82 (1986). In addition, copyright law enables copyright owners to impound infringing goods. See id. at 274-77.

55. See discussion infra Part VLB-C.1-5.
A. The 1976 Copyright Act

The Copyright Act of 1976\(^{56}\) ("1976 Copyright Act") was the product of a fifteen-year legislative effort to update the federal copyright law from its last revision in 1909.\(^ {57} \) The 1976 Copyright Act codified the exclusive rights of copyright owners in 17 U.S.C. § 106,\(^ {58} \) with the right of distribution codified at 17 U.S.C. § 106(3) critical to the issue at hand.\(^ {59} \) The 1976 Copyright Act also codified certain limitations on these exclusive rights, including that of the "first sale doctrine" in 17 U.S.C. § 109\(^ {60} \) and appeared to provide

---


57. See Perl, supra note 1, at 656.


Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

1. to reproduce the copyrighted work in copies or phonorecords;
2. to prepare derivative works based upon the copyrighted work;
3. to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
4. in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
5. in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
6. in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

Id.

59. See discussion infra Part III.A-C.

60. The limitations on the exclusive rights of a copyright owner are set out in 17 U.S.C. §§ 107-120. Section 109 states:

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on

(1) the date of publication in the Federal Register of the notice of intent filed with the Copyright Office under section 104A(d)(2)(A), or
(2) the date of receipt of actual notice served under section 104A(d)(2)(B), whichever occurs first.

(b)(1)(A) Notwithstanding the provisions of subsection (a), unless authorized by the owners of copyright in the sound recording or the owner of copyright in a computer program
(including any tape, disk, or other medium embodying such program), and in the case of a sound recording in the musical works embodied therein, neither the owner of a particular phonorecord nor any person in possession of a particular copy of a computer program (including any tape, disk, or other medium embodying such program), may, for the purposes of direct or indirect commercial advantage, dispose of, or authorize the disposal of, the possession of that phonorecord or computer program (including any tape, disk, or other medium embodying such program) by rental, lease, or lending, or by any other act or practice in the nature of rental, lease, or lending. Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution. The transfer of possession of a lawfully made copy of a computer program by a nonprofit educational institution to another nonprofit educational institution or to faculty, staff, and students does not constitute rental, lease, or lending for direct or indirect commercial purposes under this subsection.

(B) This subsection does not apply to-
(i) a computer program which is embodied in a machine or product and which cannot be copied during the ordinary operation or use of the machine or product; or
(ii) a computer program embodied in or used in conjunction with a limited purpose computer that is designed for playing video games and may be designed for other purposes.

(C) Nothing in this subsection affects any provision of chapter 9 of this title.

(2)(A) Nothing in this subsection shall apply to the lending of a computer program for nonprofit purposes by a nonprofit library, if each copy of a computer program which is lent by such library has affixed to the packaging containing the program a warning of copyright in accordance with requirements that the Register of Copyrights shall prescribe by regulation.

(B) Not later than three years after the date of the enactment of the Computer Software Rental Amendments Act of 1990, and at such times thereafter as the Register of Copyrights considers appropriate, the Register of Copyrights, after consultation with representatives of copyright owners and librarians, shall submit to the Congress a report stating whether this paragraph has achieved its intended purpose of maintaining the integrity of the copyright system while providing nonprofit libraries the capability to fulfill their function. Such report shall advise the Congress as to any information or recommendations that the Register of Copyrights considers necessary to carry out the purposes of this subsection.

(3) Nothing in this subsection shall affect any provision of the antitrust laws. For purposes of the preceding sentence, 'antitrust laws' has the meaning given that term in the first section of the Clayton Act and includes section 5 of the Federal Trade Commission Act to the extent that section relates to unfair methods of competition.

(4) Any person who distributes a phonorecord or a copy of a computer program (including any tape, disk, or other medium embodying such program) in violation of paragraph (1) is an infringer of copyright under section 501 of this title and is subject to the remedies set forth in sections 502, 503, 504, 505, and 509. Such violation shall not be a criminal offense under section 506 or cause such person to be subject to the criminal penalties set forth in section 2319 of title 18.

(c) Notwithstanding the provisions of section 106(5), the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy publicly, either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located.

(d) The privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.

(e) Notwithstanding the provisions of sections 106(4) and 106(5), in the case of an electronic audiovisual game intended for use in coin-operated equipment, the owner of a particular copy of such a game lawfully made under this title, is entitled, without the authority of the copyright owner of the game, to publicly perform or display that game in coin-operated equipment, except that this subsection shall not apply to any work of authorship embodied in the
copyright owners the right to limit the importation of copyrighted goods in 17 U.S.C. § 602.\textsuperscript{61}

1. Section 602(a)—The Importation Right

As enacted, the importation right codified at 17 U.S.C. § 602(a) strongly suggests that copyright law is an effective means of curbing gray goods.\textsuperscript{62} To wit, it states, "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 is an infringement of the exclusive right

\begin{itemize}
\item audiovisual game if the copyright owner of the electronic audiovisual game is not also the copy owner of the work of authorship.
\item 61. 17 U.S.C. § 602 (1994). Section 602 states:
\begin{enumerate}
\item 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 is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. This subsection does not apply to-
\begin{enumerate}
\item importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
\item importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or
\item importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to not more than one copy of an audiovisual work solely for its archival purposes, an no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).
\end{enumerate}
\end{enumerate}
\item In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if the title had been applicable, their importation is prohibited. In a case where the copies or phonorecords were lawfully made, the United States Customs Service has no authority to prevent their importation unless the provisions of section 601 are applicable. In either case, the Secretary of the Treasury is authorized to prescribe, by regulation, a procedure under which any person claiming an interest in the copyright in a particular work may, upon payment of a specified fee, be entitled to notification by the Customs Service of the importation of articles that appear to be copies or phonorecords of the work.
\end{itemize}

\textit{Id.}

62. \textit{See generally} Feingold, \textit{supra} note 5, at 152-53 (concluding in 1984 that 17 U.S.C. § 602's importation right provides copyright owners with a broad level of protection against gray goods); Mohr, \textit{supra} note 3, at 566 ("Copyright law appears to present a much more effective sword [against gray market imports]").
to distribute copies or phonorecords under section 106 . . . ." 63 Given that gray goods come from outside of the U.S. and are imported without permission, manufacturers holding copyrights to their products, or to some aspect of their products’ packaging, would seem to derive a solid measure of legal protection from 17 U.S.C. § 602(a). 64

2. Section 109–The First Sale Doctrine

However, the 1976 Copyright Act as passed by Congress contained an internal conflict between the exclusive right to bar imports of copyrighted works under 17 U.S.C. § 602(a) and the limitations to the exclusive rights of a copyright holder contained in 17 U.S.C. §§ 107 through 120. 65 That is, if the importation right codified in 17 U.S.C. § 602(a) is an extension of the copyright holder’s exclusive rights provided in 17 U.S.C. § 106, is it similarly circumscribed by the first sale doctrine? 66 If so, a copyright holder should lose 17 U.S.C. § 602(a)’s importation right, and the concomitant control over the distribution of his work provided by the importation right, after the “first sale” of that work. 67

The first sale doctrine is rooted in the turn of the century Supreme Court case Bobbs-Merrill Co. v. Straus, 68 where the Court held that once a valid first sale of a copy of a copyrighted work occurred, the copyright owner could no longer control the distribution of that copy. 69 The adoption of 17 U.S.C. § 109 in the 1976 Copyright Act is essentially a legislative validation of the doctrine. 70 Indeed, the House of Representative's report on the Act states “[a]s section 109 makes clear, however, the copyright owner’s rights under section 106(3) cease with respect to a particular copy or phonorecord once he has parted with ownership of it.” 71

B. The Statutory–Legislative Muddle

The legislative history of the 1976 Copyright Act is virtually silent as to whether the importation right was in any way curtailed or superseded by the first

---

63. See supra note 61 and accompanying text.
64. See generally Hintz, supra note 4, at 1191-92 (discussing the ease of securing copyright protection with product labels and that § 602(a) establishes a copyright violation for the wrongful importation of copies).
65. See, e.g., Feingold, supra note 5, at 152 (“The interplay between section 106(3), . . . section 602(a), . . . and section 109(a) . . . is an example of statutory conflict not foreseen [sic] by the drafters.”).
66. See 17 U.S.C. §§ 106-120; see also supra text and accompanying notes 58, 60-61. See generally Perl, supra note 1, at 657 (introducing the conflict between the two sections and the implications arising from its resolution).
67. See generally Perl, supra note 1, at 657; supra note 65 and accompanying text.
68. 210 U.S. 339 (1908). The case involved an attempt by a book publisher to enforce a minimum retail price on a book which a wholesaler, who had legally purchased the book, was selling to a department store for less. See id. at 341-42.
69. See Mohr, supra note 3, at 605 (asserting that the Court’s holding in Bobbs-Merrill followed the common law’s antipathy to restrictions on the alienation of property).
70. See id.
sale doctrine. The 1964 revisions of the 1909 Copyright Act appeared to bar any importation of goods not authorized by the copyright owner. Following hearings and further revisions, the scope of the import protection was circumscribed by the requirement that the imported goods be "acquired abroad".

Despite the modifications made to the importation right during the extensive legislative process and congressional hearings, the drafters of and commentators to the 1976 Copyright Act did not assess the potential effect of the first sale doctrine. Without legislative consideration of the statutory conflict between the provisions, the courts, seized with suits by copyright owners, were left without much guidance regarding which provisions governed in a particular situation.

C. Case Law on the Conflict Between § 109(a) and § 602(a)

Although the contradiction embedded in the 1976 Copyright Act between the importation right and the first sale doctrine became effective in 1979, the first reported legal challenge between the two provisions, Columbia Broadcasting System v. Scorpio Music Distributors, did not arise until 1983. In Scorpio, the plaintiff sued a U.S. music distributor for copyright infringement pursuant to 17 U.S.C. § 602(a) where the distributor purchased records originally produced by a

72. See Perl, supra note 1, at 665 (stating that the "[l]egislative history does not provide sufficient guidance to clarify the relationship between sections 109(a) and 602(a)"). See generally Cyr, supra note 4, at 88 (stating that "Congressional intent regarding the effect of the older first sale doctrine on the newer importation right is equivocal"); Mohr, supra note 3, at 602-03 (stating that "[n]one of the 1965 revisions touch directly on the conflict with the first sale doctrine").

73. See Perl, supra note 1, at 660 n.106 (citing STAFF OF HOUSE COMMITTEE ON THE JUDICIARY, 88TH CONGRESS, 2d Sess., COPYRIGHT LAW REVISION, (PART 3): PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW & DISCUSSION & COMMENT ON THE DRAFT 257 (Comm. Print 1964)).

74. See Perl, supra note 1, at 663-64. Perl intimated that some of the pressure to moderate the earlier language of the proposed import restriction right came from the U.S. Copyright Office which was concerned about the potential use of a restriction to enforce "private territorial contracts." Id. at 664.

75. See id. at 664.

76. See generally id. at 665 (noting that the scope of the importation right was "unclear, given the somewhat ambiguous comments, questions and hypotheticals espoused in the legislative history attending section 109(a)").

77. 569 F. Supp. 47 (E.D. Pa. 1982). Section 602(a) alone was the subject of an earlier case, Nintendo of America, Inc. v. Elcon Industries, 564 F. Supp. 937 (E.D. Mich. 1982). In Nintendo, the court enjoined the defendant Elcon from importing circuit boards associated with the coin-operated video game "Donkey Kong" into the United States from a Japanese company licensed by the plaintiff to manufacture the boards in Japan. See id. at 943-45.
Philippine corporation licensed by the plaintiff to manufacture and sell the records in the Philippines. The defendant replied that the first sale doctrine allowed it to import and distribute the records and contended that a valid first sale occurred when the licensed Philippine manufacturer sold the records to another Philippine corporation. The court decided that the records at issue were manufactured and sold abroad, and, as a result, the first sale doctrine was not applicable. The court reasoned that the phrase “lawfully made under this title” in 17 U.S.C. § 109(a) limited the section’s protection to buyers of those copies of copyrighted items legally manufactured and sold in the United States and not to purchasers of imported copies. Therefore, as the court determined that the copies of the records were imported without plaintiff’s permission, the court held that the defendant was a copyright infringer under 17 U.S.C. § 602(a).

The court noted that construing 17 U.S.C. § 109(a) as superseding 17 U.S.C. § 602(a) would render the importation right “virtually meaningless” and allow third party purchasers of copyrighted works to circumvent it by purchasing such works indirectly. The copyright owner would then be unable to control the distribution of copies of his copyrighted material and would be forced to compete with those purchasers who were importing and distributing copies of his work without his permission.

The focus of the Scorpio court on the place of manufacture and sale of the copyrighted works to resolve the friction between 17 U.S.C. § 109(a) and 17 U.S.C. § 602(a), and its comment that the importation right would be rendered “meaningless” if superseded by the first sale doctrine, has resonated throughout the case law following in its wake.

The court in Cosmair, Inc. v. Dynamite Enterprises, Inc. refused to issue an injunction for a copyright owner to prevent the importation of certain fragrance

---

79. The second Philippine corporation, Rainbow Music, purchased the records at issue in the Philippines when Vicor Music Corporation, the company that produced the records initially, liquidated its inventory of plaintiff’s records. See id. at 47. The plaintiff precipitated the liquidation by terminating its licensing agreement with Vicor. See id. Rainbow music then proceeded to sell the records to a distributor who sold the records to the defendant Scorpio. See id.
80. As such, the court rejected the defendant’s contention that the records were sold in the U.S. between International Traders and Scorpio so that Scorpio was not an “importer” subject to 17 U.S.C. § 602(a). Id. at 48. Although the court could not conclusively determine Scorpio’s role as an importer of the records, the court reasoned that the law regarding vicarious and contributory infringement, and the undisputed fact that International Traders was an importer, made a conclusive determination unnecessary. See id. That is, the court viewed copyright infringement as a tort and, like other tortfeasors, copyright infringers can be jointly and severally liable for the infringement. See id.
81. See id. at 49.
82. See id.
83. See id. at 50.
84. See id. at 49.
85. See id.
86. See Perl, supra note 1, at 666-68 (discussing the evolution of case law after Scorpio and asserting that most courts found that 17 U.S.C. § 602(a) barred importation where the copyrighted works in question were sold and acquired abroad); see also Part VI.A. regarding the legal significance of the location of manufacture. But see infra notes 96-106 and accompanying text.
The court held that the first sale doctrine would likely operate to limit the application of the importation right under the facts and, therefore, the plaintiff had not demonstrated a likelihood of winning an action against the defendant based on 17 U.S.C. § 602(a) sufficient to support the issuing of an injunction.  

Conversely, in BMG Music v. Perez, the Ninth Circuit Court of Appeals held that the first sale doctrine would not provide a defense to a 17 U.S.C. § 602(a) infringement where the goods in question were manufactured abroad. In Parfums Givenchy, Inc. v. Drug Emporium, Inc., the court held that the availability of 17 U.S.C. § 602(a) to bar imports of goods survives until there is a valid first sale in the United States.

Perhaps the most prominent case to hold that 17 U.S.C. § 602(a)'s provisions were limited by the first sale doctrine was the Third Circuit Court of Appeals' decision in Sebastian International Inc. v. Consumer Contacts (PTY) Ltd. Notably, this case departed from the geographic distinctions employed by Scorpio, Cosmair, and their progeny. In Sebastian, the plaintiff alleged that the re-importation of hair products by the defendant, a South African corporation which had agreed to distribute the products manufactured in the United States only in South Africa, violated the plaintiff's copyright rights pursuant to 17 U.S.C. § 602(a). The defendant re-imported the containers holding the products unopened.

In its reading of the legislative history of the 1976 Copyright Act, the Sebastian court expressed uneasiness with the importance prior court decisions placed on the situs of manufacture of the products at issue. Instead, the Sebastian court focused on the entity that manufactured and sold the goods. The court reasoned that the plaintiff, as the copyright owner, had already received his due reward for the copyrighted products from their sale to the defendant for the

88. See id. at *5-*6.
89. See id. at *4. The court also questioned the validity of the plaintiff's copyright as further grounds to deny the issuance of an injunction against the defendant. See id. at *5.
90. See 952 F.2d at 319 (9th Cir. 1991); see also Hearst Corporation v. Stark, 639 F. Supp. 970, 977 (N.D. Cal. 1986) (holding that the first sale doctrine did not limit the application of 17 U.S.C. § 602(a) to bar the wholesale importation of goods manufactured abroad); T.B. Harms Co. v. Jem Records, Inc., 655 F. Supp. 1575, 1582-83 (D.N.Y. 1987) (noting that the first sale doctrine was not limited by 17 U.S.C. § 602(a)). But see discussion infra Part VI.A.
91. See 38 F.3d at 481. But see discussion infra Parts V.A-B, VI.
92. 847 F.2d 1093 (3rd Cir. 1988).
93. See id. at 1094-96. The plaintiff held a copyright on the text and artistic content of the product's labels. See id. at 1094.
94. See id.
95. The court was unsure that this was a proper distinction to draw out of the phrase "lawfully made under this title" used in 17 U.S.C. § 109(a). See id. at 1098 n.1.
96. See id. at 1095-98.
purchase price he charged. Upon the realization of its due reward, the copyright owner was not entitled to further control the distribution of the copyrighted products. To grant continued importation protection would provide the copyright owner who sold products abroad a “more [than] adequate reward” relative to a copyright owner who only distributed products domestically. In the court’s opinion, this situation was not intended by 17 U.S.C. § 602(a) and therefore, the plaintiff’s copyright was not infringed.

Consistent with its focus on the entity that manufactured and sold the copyrighted goods in question, the Sebastian court noted that the first sale doctrine would not apply to a situation where a licensee of the copyright owner manufactured copies of a copyrighted product. In this situation, the copyright owner would not have owned that particular copy, and thus would not receive its reward from the sale made by the licensee.

Scorpio, Cosmair, Sebastian, and other cases decided prior to the Ninth Circuit’s decision in the Quality King case raised a number of distinctions to resolve the tension between the two sections of the 1976 Copyright Act. The Ninth Circuit took issue with the Third Circuit’s reasoning in Sebastian and saw 17 U.S.C. § 602(a) as superseding the first sale doctrine.

IV. THE CASE & THE LOWER COURTS

A. Background and District Court Disposition

L’Anza Research International, Inc. (“L’Anza”), a hair care products manufacturer, obtained a copyright in 1994 on the instructions and labels located on its products. When L’Anza sold its products through authorized foreign distributors, it discounted the price thirty-five to forty percent below what it charged domestic distributors. L’Anza asserted that the discount was offered to offset the absence of promotion and other advertising support in foreign markets.

See id. at 1099.

See id.

See id.

See id.

See id. at 1099 n.3; see also discussion infra Part VI.B.

See id.

See generally Cyr, supra note 4, at 90-94 (discussing the case law and the legal distinctions made by the courts); Perl, supra note 4, at 665-78 (analyzing the distinctions of the Copyright Act).

See discussion infra Part IV.


See id. L’Anza asserted that the discount was offered to offset the absence of promotion and other advertising support in foreign markets. See L’Anza Research Int’l, Inc. v. Quality King Distrib., Inc., 98 F.3d 1109, 1111 (9th Cir. 1996). See also discussion infra, Part II.A (discussing how gray markets are created by price differentials).
did not authorize them to import any of its products into the United States.107

L’Anza sued Quality King, Inc. ("Quality King") in federal district court for violating L’Anza’s exclusive copyright distribution rights.108 L’Anza alleged that hair care products sold to its United Kingdom distributor109 for shipment to another distributor110 in order to sell the products in Malta, were imported to the United States in violation of the distribution agreement between the two foreign distributors.111 As such, L’Anza alleged that Quality King violated L’Anza’s copyright rights under 17 U.S.C. § 602(a) by selling products imported without L’Anza’s permission.112 Quality King countered that the first sale doctrine protected its actions.113

The district court found that L’Anza owned all rights, title and interest in its 1994 copyright registration and held that the first sale doctrine did not protect Quality King from liability for copyright infringement under 17 U.S.C. § 602(a).114 Thus, the court granted L’Anza’s motion for summary judgment, allowing L’Anza to continue with a suit against Quality King for a violation L’Anza’s copyright rights pursuant to 17 U.S.C. § 602(a).115

The district court noted that the Ninth Circuit had not decided whether the first sale doctrine applied in a 17 U.S.C. § 602(a) action in this situation, where the copyrighted goods at issue were manufactured in the United States and then sold to a foreign distributor.116 However, the court reasoned that because the products at issue were sold to a foreign distributor for foreign distribution, the sale of those products occurred outside the United States and fell within 17 U.S.C. § 602(a)’s “acquired abroad” language.117 Thus, the importation right of the 1976 Copyright Act superseded the first sale doctrine and L’Anza had the right to prohibit subsequent unauthorized importation of the products.118 The court believed that the opposite result would gut the purpose of 17 U.S.C. § 602(a).119 Further, the

109. The United Kingdom distributor was Planetary Eco, Ltd. See id.
110. The second distributor was L. Intertrade, Ltd. See id.
111. See id.
112. See id. Quality King did concede that it purchased L’Anza’s products in the “ordinary course of business.” See id.
113. See id.
114. See id. at *4.
115. See id.
116. See id. at *2 (citing BMG Music v. Perez, 952 F.2d 318, 319 n.3 (9th Cir. 1991); see also supra notes 88, 90, and accompanying text.
117. See id. at *2.
118. See id.
119. See id. The court stated that the purpose of 17 U.S.C. § 602(a) was “to provide copyright owners with the right to prevent the unauthorized importation of articles acquired abroad that were initially manufactured under the copyright owner’s authority.” Id. (citing 17 U.S.C. § 602(a) (1994)).
importation of goods initially sold at lower prices abroad prevented a manufacturer from realizing the "full value" of its copyrighted goods in the domestic market, thereby undermining the copyright owner's exclusive distribution rights.\textsuperscript{120}

B. Disposition of Case in the Ninth Circuit

The Court of Appeals for the Ninth Circuit subsequently affirmed the district court’s decision.\textsuperscript{121} Noting that the Third Circuit reached an opposite conclusion in its 1988 \textit{Sebastian International}\textsuperscript{122} decision, the Ninth Circuit found the first sale doctrine did not apply in a 17 U.S.C. § 602(a) action under the facts of the case.\textsuperscript{123} The court, however, turned away from the rationale used in prior cases that the phrase "lawfully made under this title" in 17 U.S.C. § 109(a) provided protection to purchasers if the goods at issue were both manufactured and sold in the United States.\textsuperscript{124} Instead, the court predicated its decision solely on the principle that the importation right would be "meaningless" if the first sale doctrine protected the defendant in the context of the facts of the case.\textsuperscript{125}

V. ANALYSIS OF THE SUPREME COURT CASE

A. Justice Stevens’ Opinion\textsuperscript{126}

Justice Stevens noted at the outset that the case was "unusual" because L’Anza, rather than asserting that unauthorized copies of its copyrighted products were being made, was principally interested in protecting the integrity of its method of distributing and marketing products to which its copyrighted labels were affixed.\textsuperscript{127} The majority determined that the statutory language of 17 U.S.C. §§ 602(a), 106(3), and 109(a) could only be construed to mean that 17 U.S.C. § 602(a) is in fact limited by the first sale doctrine.\textsuperscript{128} Therefore, the Court reversed the prior Ninth Circuit decision and held that Quality King could use the first sale doctrine as a defense under the facts of the case.\textsuperscript{129}

\textsuperscript{120} See \textit{id.} at *3 (citing \textit{Parfums Givency, Inc. v. C&C Beauty Sales}, 832 F. Supp. 1378, 1390-91 (C.D. Cal. 1993)).
\textsuperscript{121} See \textit{L’Anza Research Int’l v. Quality King Distrib., Inc.}, 98 F.3d 1109, 1109 (9th Cir. 1996).
\textsuperscript{122} \textit{Sebastian Int’l, Inc. v. Consumer Contacts Ltd.}, 847 F.2d 1093 (3rd Cir. 1988) (holding that, where goods are manufactured in the U.S. and sold by the copyright owner, the first sale doctrine bars an action under 17 U.S.C. § 602(a) regardless of where the goods are sold).
\textsuperscript{123} See \textit{L’Anza}, 98 F.3d at 1114 (citing \textit{Sebastian Int’l}, 847 F.2d at 1098-99.
\textsuperscript{124} See \textit{discussion supra} Part III.
\textsuperscript{125} See \textit{L’Anza}, 98 F.3d at 1114.
\textsuperscript{126} The Supreme Court decision was unanimous, with Justice Ginsburg filing a concurring opinion. See \textit{Quality King Distrib., Inc. v. L’Anza Research Intern’l, Inc.}, 523 U.S. 135, 137-54 (1998).
\textsuperscript{127} See \textit{id.} at 140. See also \textit{discussion supra} Part I (discussing the difference between the gray market and piracy).
\textsuperscript{128} See \textit{Quality King}, 523 U.S. at 144-45.
\textsuperscript{129} See \textit{id.} at 153-54.
Justice Stevens' opinion began with an analysis of the importation right, finding it "significant" that 17 U.S.C. § 602(a) does not "categorically prohibit the unauthorized importation of copyrighted materials." Rather, 17 U.S.C. § 602(a) states that this importation infringes upon the copyright owner's exclusive rights under 17 U.S.C. § 106. At the same time, 17 U.S.C. § 106(3) is expressly limited by 17 U.S.C. §§ 107 through 120, and therefore, by 17 U.S.C. § 109(a).

From this construction of the statutory framework at issue, Justice Stevens asserted that the "literal text of [17 U.S.C.] § 602(a) is simply inapplicable to both domestic and foreign owners of L'Anza's products who decide to import them and resell them in the United States."

In a footnote, the Court stated that an owner of goods lawfully made under the 1976 Copyright Act was entitled to the protection of 17 U.S.C. § 109(a) even if the "first sale" occurred abroad, suggesting that the situs of the first sale is immaterial to a 17 U.S.C. § 602(a) action. Although the Court stated that any subsequent purchaser of a copyrighted good "lawfully made under this title" was an "owner" under 17 U.S.C. § 109(a) regardless of whether the seller was a domestic or foreign reseller, it did not identify the parameters of the phrase "lawfully made under this title."

The Court then considered the two counter arguments advanced by L'Anza and the one counter argument raised by the Solicitor General of the United States. L'Anza asserted that: (1) the Court's determination would render 17 U.S.C. § 602(a) and its exceptions "superfluous" and (2) 17 U.S.C. § 602(a) embodied a right that was, in fact, separate from 17 U.S.C. § 106(3), based on the language of 17 U.S.C. § 501. The Solicitor General asserted that "importation"
as used in 17 U.S.C. § 602(a) was not incorporated into the phrase “to sell or otherwise dispose of the possession of” a copy as used in 17 U.S.C. § 109(a), and therefore, the act of importation was not protected by 17 U.S.C. § 109(a). 138

The Court dismissed L’Anza’s first argument, that the importation right would be “superfluous” if it did not cover non-pirated goods imported without authorization, on three grounds. First, even if 17 U.S.C. § 602(a) applied only to piratical goods, it provides the copyright holder with a “private remedy” against the importer, whereas the enforcement of 17 U.S.C. § 602(b) is vested in the Customs Service. 139 Second, because the first sale doctrine only protects the resale of copies of copyrighted goods by “owners” of a “lawfully made copy”, it would not protect “non-owners” in a 17 U.S.C. § 602(a) action. 140 The Court classified bailees, licensees, consignees, or “one whose possession of the copy was unlawful” as “non-owners”. 141 Third, 17 U.S.C. § 602(a) applies to a “category of copies” that are neither piratical or “lawfully made under this title.” 142 To the Court that category encompasses copies that are “lawfully made” not under the United States Copyright Act “but, instead, under the law of some other country.” 143

right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.

(c) For any secondary transmission by a cable system that embodies a performance or a display of a work which is actionable as an act of infringement under subsection (c) of section 111, a television broadcast station holding a copyright or other license to transmit or perform the same version of that work shall, for purposes of subsection (b) of this section, be treated as a legal or beneficial owner if such secondary transmission occurs within the local service area of that television station.

(d) For any secondary transmission by a cable system that is actionable as an act of infringement pursuant to section 111(c)(3), the following shall also have standing to sue: (i) the primary transmitter whose transmission has been altered by the cable system; and (ii) any broadcast station within whose local service area the secondary transmission occurs.

(e) With respect to any secondary transmission that is made by a satellite carrier of a primary transmission embodying the performance or display of a work and is actionable as an act of infringement under section 119(a)(5), a network station holding a copyright or other license to transmit or perform the same version of that work shall, for purposes of subsection (b) of this section, be treated as a legal or beneficial owner if such secondary transmission occurs within the local service area of that station.

Id. 138. See Quality King, 523 U.S. at 146.

139. See id. The Court noted in an earlier footnote that the first sale doctrine would of course not protect owners of piratical copies because such copies were not “lawfully made.” See id. at 146 n.17.

140. See id. at 146-47.

141. See id. at 147.

142. See id.

143. See id. The Court looked to the deliberations surrounding the 1976 Copyright Act for 17 U.S.C. § 106(3). See id. at 147-48. In particular, it cited to an example raised by the Register of Copyrights in 1961 where the exclusive United Kingdom publisher of a book also exclusively published in the United States through a domestic publisher and attempted to import and sell books from the United Kingdom in the United States. See id. at 148. Because the United Kingdom books were lawfully
As to L’Anza’s contention that the three exceptions of 17 U.S.C. § 602(a) would be superfluous, the Court noted that the importation right provided “broader coverage” than 17 U.S.C. § 109(a) because it “encompassed copies not subject to the first sale doctrine . . . .” 144 Thus, the three exceptions “retain significant independent meaning.”145

The Court did note that 17 U.S.C. § 501’s reference to 17 U.S.C. § 106 and § 602(a) as seemingly separate and distinct grounds for determining whether one is an “infringer of copyright” gave some credence to L’Anza’s position that the importation right and 17 U.S.C. § 106(3) were distinct rights.146 However, the Court determined that 17 U.S.C. § 602(a)’s language clearly established that its provisions were a “species” of 17 U.S.C. § 106 and not a separate right.147 In contrast, the Court read 17 U.S.C. § 106A,148 which states

produced under the law of the United Kingdom, they would be “lawfully produced” goods. See id. But, they would not be a book “lawfully produced” under the United States copyright laws and thus the United Kingdom publisher could not be protected by 17 U.S.C. § 109(a) in a 17 U.S.C. § 602(a) action to prevent his importing the books. See id. at 148-49.

144. See id. at 148.
145. See id. The Court pointed out that the exceptions would protect a traveler who made an “isolated purchase of a copy of a work that could not be imported in bulk for purposes of resale,” where the work was “lawfully made” under the laws of another country. See id. at 148.
146. See id. at 149.
147. See id.

(a) Rights of attribution and integrity.—Subject to section 107 and independent of the exclusive rights provided in section 106, the author of a work of visual art—
(1) shall have the right—
(A) to claim authorship of that work, and
(B) to prevent the use of his or her name as the author of any work of visual art which he or she did not create;
(2) shall have the right to prevent the use of his or her name as the author of the work if visual art in the event of a distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation; and
(3) subject to the limitations set forth in section 113(d), shall have the right—
(A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and
(B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.
(b) Scope and exercise of rights.—Only the author of a work of visual art has the rights conferred by subsection (a) in that work, whether or not the author is the copyright owner. The authors of a joint work of visual art are coowners of the rights conferred in subsection (a) in that work.
(c) Exceptions.—(1) The modification of a work of visual art which is a result of the passage of time or the inherent nature of the materials is not a distortion, mutilation, or other modification described in subsection (a)(3)(A).
(2) The modification of a work of visual art which is the result of conservation, or of the public presentation, including lighting and placement, of the work is not a destruction, distortion,
that it is “independent of the exclusive right provided in 17 U.S.C. § 106,” as
describing an independent right in a manner that 17 U.S.C. § 602(a) did not.\footnote{149}

Further, the Court noted that if the importation right was independent of 17
U.S.C. § 106, it would not be limited by the “fair use” exception to a copyright
owner’s exclusive rights codified at 17 U.S.C. § 107\footnote{150} or any of the other

(3) The rights described in paragraphs (1) and (2) of subsection (a) shall not apply to any
reproduction, depiction, portrayal, or other use of a work in, upon, or in any connection with
any item described in subparagraph (A) or (B) of the definition of “work of visual art” in
section 101, and any such reproduction, depiction, portrayal, or other use of a work is not a
destruction, distortion, mutilation, or other modification described in paragraph (3) of
subsection (a).

(d) Duration of rights.—(1) With respect to works of visual art created on or after the effective
date set forth in section 610(a) of the Visual Artists Rights Act of 1990, the rights conferred
by subsection (a) shall endure for a term consisting of the life of the author.
(2) With respect to works of visual art created before the effective date set forth in section
610(a) of the Visual Artists Rights Act of 1990, but title to which has not, as of such effective
date, been transferred from the author, the rights conferred by subsection (a) shall be
coeextensive with, and shall expire at the same time as, the rights conferred by section 106.
(3) In the case of a joint work prepared by two or more authors, the rights conferred by
subsection (a) shall endure for a term consisting of the life of the last surviving author.
(4) All terms of the rights conferred by subsection (a) run to the end of the calendar year in
which they would otherwise expire.

(e) Transfer and waiver.—(1) The rights conferred by subsection (a) may not be transferred, but
those rights may be waived if the author expressly agrees to such waiver in a written
instrument signed by the author. Such instrument shall specifically identify the work, and uses
of that work, to which the waiver applies, and the waiver shall apply only to the work and the
uses so identified. In the case of a joint work prepared by two or more authors, a waiver of
rights under this paragraph made by one such author waives such rights for all such authors.
(2) Ownership of the rights conferred by subsection (a) with respect to a work of visual art is
distinct from ownership of any copy of that work, or of a copyright or any exclusive right
under a copyright in that work. Transfer of ownership of any copy of a work of visual art, or
of a copyright or any exclusive right under a copyright, shall not constitute a waiver of the
rights conferred by subsection (a). Except as may otherwise be agreed by the author in a
written instrument signed by the author, a waiver of the rights conferred by subsection (a) with
respect to a work of visual art shall not constitute a transfer of ownership of any copy of that
work, or of ownership of a copyright or of any exclusive right under a copyright in that work.

\footnote{149} \textit{See} \textit{Quality King}, 523 U.S. at 149.
\footnote{150} \textit{See id.} at 150 (citing to 17 U.S.C. § 107 (1994)). Section 107 states:

\begin{quote}
Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work,
including such use by reproduction in copies or phonorecords or by any other means specified
by that section, for purposes such as criticism, comment, news reporting, teaching (including
multiple copies for classroom use), scholarship, or research, is not an infringement of
copyright. In determining whether the use made of a work in any particular case is a fair use
the factors to be considered shall include--

(1) the purpose and character of the use, including whether such use is of a commercial nature
or is for nonprofit educational purposes;
(2) the nature of the copyrighted work;
(3) the amount and substantiality of the portion used in relation to the copyrighted work as
a whole; and
(4) the effect of the use upon the potential market for or value of the copyrighted work.
\end{quote}
The Impact of Quality King Distributors, Inc.

PEPPERDINE LAW REVIEW

limitations to 17 U.S.C. § 106. This would create a situation where it would be unlawful for a publisher of scholarly works to import copies of publications that contained references to copyrighted American works or goods. The Court reasoned that such a result would be contrary to congressional intent.

In addition, the Court rejected the Solicitor General's contention that the act of importation was not a "sale or disposal of a copy" under 17 U.S.C. § 109(a). The Court asserted that importation typically involves a shipper transferring "possession, custody, control and title" of the products imported to another person. The Court felt that the right to ship products to a person in another country was encompassed by an "ordinary interpretation" of 17 U.S.C. § 109(a)'s granting of the right of an "owner" of a copy of a copyrighted work to "sell or otherwise dispose of the possession" of the copy.

Further, the Court asserted that the Solicitor General's reading of 17 U.S.C. § 109(a) was contrary to the "necessarily broad reach of [17 U.S.C.] § 109(a)." The Court then stated, "[t]he 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."

In concluding his opinion, Justice Stevens acknowledged the widespread debate over the gray market, but indicated that he did not feel the term applied where an American manufacturer had decided to purposely sell its products abroad at a lower price. Suggesting a certain disapproval of L'Anza's business strategy, the Court stated that "whether or not [the Court thought] it would be wise policy to provide statutory protection for such price discrimination is not a matter that is


152. See Quality King, 523 U.S. at 150-51. The Court cited book reviews of American books by a British newspaper as an example of such a work that might be barred. See id.

153. See id. at 151. The Court felt it was appropriate to take into consideration the impact of denying the application of the fair use doctrine embodied in 17 U.S.C. § 107 because of the stated purpose of the provisions of the Copyright Act of 1976 to uphold Article I, § 8 of the Constitution and promote the "progress of the 'useful Arts.'" Id. Rather derisively, the Court also noted the primary function of the Copyright Act is to protect original work, rather than "ordinary commercial products that use copyrighted material as a marketing aid." Id.

154. Id. at 151-52.

155. See id.

156. See id. at 152.

157. See id.

158. Id.

159. Id.
relevant to our duty to interpret the text of the [1976] Copyright Act." 160 Finally, the Court believed it was irrelevant that the Executive Branch had entered into five international trade agreements to protect domestic copyright holders from unauthorized importation. 161

B. Justice Ginsburg's Concurring Opinion

Justice Ginsburg, in a brief concurrence, was clear to mention that the case was one involving a "round-trip" flow of copyrighted items; 162 that is, the products in question were sent from the United States abroad and reintroduced to the domestic market. 163 She noted that she joined the majority only in so far as the Court's decision did not "today resolve cases in which the allegedly infringing imports are manufactured abroad." 164

VI. IMPACT OF CASE

Many observers portrayed the Supreme Court's decision in Quality King as a victory for retailers, distributors and major discounters over domestic manufacturers. 165 As expected, those supportive of retailing and consumer groups invariably paint the effect of the decision as heralding benefits for the average consumer. 166 Commentators identifying with manufacturers gloomily predict that the decision will cause companies to pull back from international sales 167 or that manufacturers

160. See id. In fact, the Court suggested that L'Anza could have turned to "self-help" actions such as "(1) by providing advertising support abroad and charging higher prices [to their distributors], or (2) if it was satisfied to leave the promotion of the product in foreign markets to its foreign distributors, to sell its products abroad under a different name." Id. n.29. See discussion of self-help strategies infra Part VI.B-C.
161. See Quality King, 523 U.S. at 154. The Court noted that the Senate had ratified none of the five treaties and that the agreements "shed no light on the proper interpretation of a statute" enacted in 1976. Id. The treaties were made with Cambodia, Trinidad and Tobago, Jamaica, Ecuador, and Sri Lanka. See id. n.30. See also infra note 172 and accompanying text.
162. See Quality King, 523 U.S. at 154 (Ginsburg, J., concurring).
163. See id. (Ginsburg, J., concurring).
164. See id. (Ginsburg, J., concurring). Justice Ginsburg cited to legal commentaries asserting that the provisions of the Copyright Act of 1976 do not have extra-territorial application and that copyrighted material falls within the purview of 17 U.S.C. § 109(a) if it is "lawfully made under this title." See id. at 154.
166. See BEE NEWS SERVICES, "Gray Market" Preserved By Court's Ruling, SACRAMENTO BEE, March 10, 1998, at E1. "[The ruling] allows distributors and retailers to take advantage of the lower prices manufacturers offer overseas. It will result in lower prices here [in the United States]." Id. (quoting a lawyer for the National Association of Chain Drug Stores).
167. L'Anza's CEO stated that his corporation would scale back its international growth plans and predicted that other firms would follow suit. See also Tode, supra note 6, at 10; supra note 166 and accompanying text. See generally Robert W. Clarida, US Supreme Court Removes Bar to Parallel Imports: Quality King Decision May Force Major Changes in Business Practices, INTELL. PROP.
may move manufacturing, and therefore jobs, outside of the country.\textsuperscript{168} Despite the intense legal, academic, and public arguments waged prior to the decision, the Court's decision was a textualistic application of the provisions of the 1976 Copyright Act.\textsuperscript{169} Indeed, the Court negatively regarded L'Anza's attempts to utilize copyright law to preserve control over its products.\textsuperscript{170} In addition, the Court was not impressed that the Executive Branch had entered into five international trade agreements which sought to protect U.S. copyright owners from the unauthorized importation of their products from the other countries.\textsuperscript{171}

A. Location, Location, Location

Though the Court's decision appears to severely undercut the use of the 1976 Copyright Act to block gray market importation, one particularly potent issue arising from the decision is the extent to which the situs of manufacture may still be determinative in a gray goods copyright case.\textsuperscript{168} A note in Justice Stevens' opinion clearly indicated that the mere fact that the first sale occurred outside of the


\textsuperscript{169}  See generally Goldberg & Bernstein, supra note 168, at 3. The "U.S. Supreme Court (Stevens, J.) unanimously settled a thorny question of statutory interpretation . . . . Given the "clarity" of the "unambiguous" statutory text, the Court gave short shrift to the policy arguments advanced by L'Anza and its amici, including the Solicitor General . . . ." Id.; see also Nixon, Hardgrave, Devons & Doyle LLP, Summary of Quality King Distributors v. L'Anza Research International, Inc., 1998 U.S. Lexis 1606, Mar. 19, 1998 <http://nhdd.com/hot/wh42.htm> (noting that the "[d]ecision is predictably strict in statutory construction and dismissive of policy and legislative history arguments").

\textsuperscript{170}  See supra notes 159-61 and accompanying text.

\textsuperscript{171}  See supra note 161 and accompanying text.

\textsuperscript{172}  See Goldberg & Bernstein, supra note 168, at 3 ("The holding does not apply to goods manufactured abroad.") (emphasis in original).
United States does not provide grounds to a copyright owner for a 17 U.S.C. § 602(a) action.\textsuperscript{173}

But, Justice Stevens also noted that 17 U.S.C. § 602(a) would bar the importation of copies that were lawfully made under the law of a foreign country.\textsuperscript{174} Further, Justice Ginsburg's concurrence implied that goods manufactured abroad and imported into the United States without the authorization of a U.S. copyright owner may still be subject to a 17 U.S.C. § 602(a) action.\textsuperscript{175}

Some legal observers believe that the majority opinion and Justice Ginsburg's concurrence provide manufacturers with a solid legal basis to block copyrighted goods manufactured outside the United States.\textsuperscript{176} Logically, these observers assert that this will cause copyright owners to shift manufacturing overseas for protection against gray market importation.\textsuperscript{177}

The impact of Justice Stevens' opinion and Justice Ginsburg's concurrence is far from clear.\textsuperscript{178} In many ways, Justice Stevens' reasoning echoes that of the Scorpio court\textsuperscript{179} that the phrase "lawfully made under this title" in 17 U.S.C. § 109 excluded foreign-manufactured goods from the scope of the first sale doctrine and placed them within the ambit of 17 U.S.C. § 602(a).\textsuperscript{180}

But the trend in lower court decisions regarding the conflict between the first sale doctrine and the importation right was a clear rejection of the Scorpio court's reasoning.\textsuperscript{181} Indeed, the Ninth Circuit's decision in L'Anza expressly rejected the idea that the statutory conflict between first sale doctrine and the importation right could be resolved on geographic distinctions.\textsuperscript{182} In reaching this determination, the

\textsuperscript{174} See id. at 148; see also supra note 143 and accompanying text.
\textsuperscript{175} See Quality King, 523 U.S. at 154; see also discussion of Scorpio and other prior case law supra Part III; Goldberg & Bernstein, supra note 168, at 11. "As both Justice Stevens and Justice Ginsburg indicate, the importation of goods made outside the U.S. could perhaps be barred under § 602(a) notwithstanding L'Anza, since such goods would not be "lawfully made under this title" under § 109." Id.
\textsuperscript{176} See, e.g., supra note 172 and accompanying text; BEE NEWS SERVICES, "Gray Market Preserved By Court's Ruling, SACRAMENTO BEE, Mar. 10, 1998, at E1 (stating that "the ruling applied only to American-made imports, not to goods manufactured abroad" and that Justice Ginsburg's concurrence in this regard suggested "that a different legal analysis would apply and that manufacturers would be on firmer ground in defending their copyright on foreign-made products.").
\textsuperscript{177} See, e.g., Bob Van Voris, Gray Goods Decision Roils Companies: Manufacturers Look For New Ways to Protect Their Products, NAT'L. L.J., Mar. 23, 1998, at B1 (stating that Justice Ginsburg's brief concurrence gave "manufacturers some hope for relief" and that "[a] company thus might be able to protect itself against gray-market competition by moving its manufacturing overseas.").
\textsuperscript{178} See, e.g., Goldberg & Bernstein, supra note 168, at 3 ("The consequence[s] of the . . . ruling are difficult to foresee . . .").
\textsuperscript{179} See discussion of Scorpio supra notes 73-83 and accompanying text.
\textsuperscript{180} See discussion supra Part III.
\textsuperscript{181} See discussion supra Part III.
\textsuperscript{182} See L'Anza, 98 F.3d at 1114 ("[W]e emphasize that our holding does not depend upon the words 'lawfully made under this title' in § 109(a), which have been interpreted by this and other courts to grant first sale protection only to copies legally made and sold in the United States.").
Ninth Circuit rejected the reasoning applied to two past cases as well as the reasoning of the *Scorpio* court. In particular, the Ninth Circuit appeared concerned that a blanket application of 17 U.S.C. § 602 to foreign-manufactured goods would grant the copyright owner too much protection. That is, the copyright holder would have the ability to control such goods even after a legitimate sale and distribution to the United States on the basis that they were goods not "lawfully made under" the 1976 Copyright Act. As such, the Ninth Circuit based its holding almost exclusively on the contention that 17 U.S.C. § 602(a) would be rendered meaningless if 17 U.S.C. § 109(a) was construed to supersede it.

The Third Circuit in *Sebastian* was the only other circuit court to consider the conflict within the 1976 Copyright Act. The *Sebastian* court was clearly uncomfortable with the idea that the place of manufacture was relevant to the determination of whether the first sale doctrine superseded the importation right of 17 U.S.C. § 602(a). Whether copyright owners will be able to use the importation right to block copyrighted works manufactured abroad will likely depend on whether Justice Stevens' opinion, in conjunction with Justice Ginsburg's concurrence, sway lower courts to reverse the current trend in the case law in this area.

---

183. See id.; see also supra notes 87-91 and accompanying text (noting the holdings in *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1998), and *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994)).

184. See id. The Court also rejected *T.B. Harms v. Jem Records, Inc.*, 655 F. Supp. 1575 (D.N.J. 1987), insofar as that decision followed the reasoning in *Scorpio* that the location of manufacture was determinative. See supra note 90 and accompanying text.

185. See id. The Ninth Circuit essentially reiterated a concern it raised in *Parfums Givenchy*, 38 F.3d at 482 n.8 ("[A blanket application of 17 U.S.C. § 602(a)] would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control of the distribution over foreign-manufactured copies even after the copies have been lawfully sold in the United States.").

186. See supra note 185.


188. See *Sebastian Intern., Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3rd Cir. 1988).

189. See id. at 1098 n.1. We confess some uneasiness with this construction of "lawfully made" [referring to the construction made by *Scorpio* and its progeny] because it does not fit comfortably within the scheme of the [1976] Copyright Act. When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern. Furthermore, we note that it is trademark law that emphasizes the source of origin; copyright law focuses instead on originality of authorship. Id.

190. The legislative deliberations attending to the importation right undercut the argument that the situs of manufacture would alter the balance between 17 U.S.C. § 602(a) and the first sale doctrine following the Court's ruling in *Quality King*. See H.R. REP. NO. 94-1476, available at 1976 WL 14045 ("Section 602 . . . which has nothing to do with the manufacturing requirements of section 601 . . . .");
B. Licensees & Bailees

Justice Stevens stated that 17 U.S.C. § 602(a) retained an independent effect where an infringer is a licensee, bailee, consignee or is otherwise a non-owner for purposes of the first sale doctrine.9 As such, manufacturers may still have the ability to block the unauthorized importation of copyrighted products pursuant to 17 U.S.C. § 602(a) if those products can be sourced to a non-owner who is violating the terms of his agreement with a manufacturer.10 This follows from the inability of non-owners to claim the protections of the first sale defense embodied in 17 U.S.C. § 109.11

The sourcing of products to uncooperative licensees and other non-owners to bring a 17 U.S.C. § 602(a) action clearly compels manufacturers to undertake a measure of “self-help” to affirmatively protect their copyrighted products.12 Indeed, the Court’s decision reflects a bias toward forcing manufacturers into such action, rather than permitting reliance on current copyright law.13 As such, the remainder of this note shall address certain business strategies manufacturers may

---

9. See also Perl, supra note 1, at 658 (asserting that a comment in the House Report accompanying the 1976 Copyright Act “suggests that the determinative factor for preventing the importation of copyrighted goods under section 602(a) rests solely upon ascertaining their site of acquisition. That is, while the site of manufacture may be irrelevant, the acquisition site is paramount.”) (emphasis in original). But see Quality King, 523 U.S. at 145 n.14 (Stevens, J., dissenting) (noting that the “owner of goods lawfully made under the [1976 Copyright] Act is entitled to the protection of the first sale doctrine... even if the first sale occurred abroad”).

10. See supra notes 140-41 and accompanying text.

11. See generally Clarida, supra note 167, at 24 (discussing the potential use of licensing agreements by multinational manufacturers).

12. See id. at 24 (noting that the software industry “licenses” their products to customers rather than selling them, thereby removing them from the scope of the first sale doctrine). Even if 17 U.S.C. § 602(a) were not available to an attempted resale, for example if the good is not acquired abroad, the manufacturer would have privity of contract with each possessor of a copy and could avail itself to contractual remedies. See id. But see discussion infra Part VI.C.5.

13. See Clarida, supra note 167, at 24 (stating that “it will be up to manufacturers themselves to take steps to circumvent Quality King, or to at least mitigate the economic damage which parallel imports may cause in the US market”).

14. See, e.g., Quality King, 523 U.S. at 153 n.29; discussion supra note 159 and accompanying text. Indeed, to effectively pursue potential remedies under 17 U.S.C. § 602 against non-owners, manufacturers need to take steps that facilitate effective monitoring of licensees and other non-owners of their products. See discussion infra Part VI.C.5. For suggestions regarding an effective worldwide licensing program, see Kathryn L. Barrat and Sara B. Goldstein, Global Enforcement, in HOW TO DRAFT, NEGOTIATE AND ENFORCE LICENSING AGREEMENTS, at 73 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series Order No. G4-4010 (1997)). Suggestions include developing a database of licensees and territories to track what product or products should or should not be in a particular country, requiring licensees use special labeling to distinguish their goods geographically, placing special security devices such as magnetic tape, special threads or holographic labels on products and drafting provisions into the licensing agreement requiring the licensee to report instance of gray goods sales in their territory or including liquidated damages clauses for breaches of geographic based license agreements. See id. at 75-81. See also discussion infra notes 196-225 and accompanying text.
employ to reduce the growth of gray market goods.196

C. Self-Help Strategies

1. Better Market Segmentation

Manufacturers who have or who are contemplating a distribution of products abroad should make an effort to “produce goods for foreign distribution to different specifications” than those produced for domestic distribution.197 Suggested actions include using visibly different labeling, product color, or ingredients.198 In effect, manufacturers should become more attuned to different foreign tastes and preferences and custom design products and services for each foreign segment.199

Such segmentation may help to frustrate gray market importers from sourcing products from one country or geographic area to another.200 This is largely because customers in a particular global segment may be reluctant to buy products that have different features or services than similar goods that are better tailored to their tastes.201

Concomitant to an intense market segmentation strategy is the empowerment of local managers to identify market segments as opposed to simply distributing homogeneous products from a central source.202 Such empowerment, should also include local control of pricing balanced by centralized coordination to limit possible arbitrage opportunities.203

196. Though the analysis which follows is segmented into categories, the suggestions should be viewed as comprising a comprehensive approach for manufacturers who have or who are contemplating a global distribution of product.


198. See id. Mr. Friedman contends that employing such differences may assist trademark owners in bringing trademark infringement cases. See id. at 49-50; see also Clarida, supra note 167, at 24. In addition to altering products for different markets, the author suggests that manufacturers limit the availability of service or warranty coverage for low-cost consumer products to help minimize price differentials. See id.


200. See id. at 325.

201. See id.

202. See Wiese, supra note 1, at 31.

203. See id. Some centralization is also important to ensure that local activities do benefit the copyright owner’s organization as a whole. See id.
2. Price Flexibly

As gray markets feed by price differences, manufacturers should develop effective pricing strategies for different markets. A proactive approach to pricing becomes more necessary the less a manufacturer is able to differentiate its product for different markets around the globe.

Some commentators suggest multinational manufacturers price all products in dollar terms. Such pricing will eliminate price differentials with U.S. products. However, with many of the world’s currencies recently sinking relative to the U.S. dollar, this strategy may be detrimental to manufacturers’ abilities to sell product in certain foreign markets.

Another pricing strategy directed at heading off gray market importation is to selectively offer discounts to important domestic customers or market segments to offset a price reduction in another area or country. However, such a strategy “may be viewed as an endorsement of the quality of the gray market goods if consistently applied.”

A third strategy is to set a range for price fluctuations in particular markets and let local conditions dictate where the price falls within the range.

3. Information Systems

Whether manufacturers can carry out an effective market segmentation program is contingent on securing good information about their markets. Clearly, manufacturers need information about local tastes and pricing conditions to make strategic segmentation and pricing decisions. But, to ensure that its products are reaching their intended markets, a manufacturer needs an information system that will effectively source or identify where its products are purchased.

---

204. See generally Wiese, supra note 1, at 31 (“The pervasiveness of gray markets and their threat to profitability highlight the significance of pricing decisions.”). See also discussion supra Part II.A.
205. See Wiese, supra note 1, at 31.
206. See Lansing, supra note 198, at 324.
207. See id.
208. See Lucentini, supra note 165, at 1A (noting that gray market vendors will take advantage of the current Asian currency slumps to import goods from Asia).
209. See Lansing, supra note 198, at 324.
210. See id. The authors note that an alternative approach is to generally discount prices to offset currency fluctuations. See id. However, this strategy entails a risk that customers will perceive the discounts as being permanent and turn away from the manufacturer’s products if it raises them at a later date. See id.
211. See Wiese, supra note 1, at 31.
212. See Lansing, supra note 198, at 325. The authors note that traditional sources of such information such as salespersons and distributors may be unreliable. See id.
213. See id. at 325 (“To determine whether [a product and service] differentiation strategy is succeeding, timely information is vital.”).
214. See id. (“[T]he company must carefully devise information systems to acquire necessary data on gray markets.”).
In particular, manufacturers need to be able to identify or source where unauthorized imports may be coming from.\footnote{215}{See id. at 324; Friedman, supra note 196, at 49.}

Some commentators advocate the use of lot numbers on the packaging of products to assist with the sourcing of products.\footnote{216}{See Friedman, supra note 196, at 49-50.} However, gray marketers often tamper with or erase batch codes and disrupt other efforts by manufacturers to track the distribution of their products.\footnote{217}{See Lucentini, supra note 165, at 1A. The author notes that when manufacturers have placed batch codes underneath products, gray-market distributors have inserted syringes to erase them. See id. Also, where manufacturers have used batch or lot codes that are unreadable except through laser or chemical processes, distributors tamper with the package to wipe them out. See id. Finally, some gray marketers resort to adding codes themselves. See id.}

One strategy to minimize the potential for tampering is for manufacturers to incorporate liquidated damages clauses in contracts with distributors.\footnote{218}{See Friedman, supra note 196, at 50.} Such clauses would kick in when products sold to the distributors are sold outside of a limited geographic region of distributorship.\footnote{219}{See Lansing, supra note 198, at 325.} By negotiating such a clause into a distributorship agreement, a distributor may pressure its customers from diverting goods outside the distributor’s particular region.\footnote{220}{See id.; Friedman, supra note 196, at 49-50.}

Another method of tracking the distribution of products is through warranty registration cards.\footnote{221}{See Lansing, supra note 198, at 325.} By encoding warranty registration cards to identify the original distributors, U.S. manufacturers should be able to determine if products are being sold in the correct markets.\footnote{222}{See id. at 52; Lucentini, supra note 165, at 1A.}

4. Monitor Distribution Compliance

The primary purpose of establishing a good tracking system within an overall information system is to be able to take decisive action against distributors who do not adhere to their distributorship agreements.\footnote{223}{See id. at 52; Lucentini, supra note 165, at 1A.} Such action may involve legal action\footnote{224}{See id. at 52; Lucentini, supra note 165, at 1A.}—e.g., to enforce a liquidated damages clause—as well as the outright termination of distributor relationships.\footnote{225}{See Lansing, supra 198, at 325.}
5. Separating Copyright and Product

A somewhat theoretical strategy is for multinational manufacturers to "manufacture (i.e., print) the copyrighted material overseas while still manufacturing the underlying product in the United States."[226]

D. Congressional Support

Finally, many observers believe that manufacturers should lobby Congress to pass new legislation to assist with closing off the gray market.[227] Indeed, the Sebastian court advocated congressional action to address the conflict between the first sale doctrine and 17 U.S.C. § 602(a).[228]

To some extent, government action over gray market goods may be in the works as the U.S. Customs Bureau is considering requiring gray market vendors to label products to notify customers when the products are "physically and materially different" from similar-looking product intended for U.S. distribution.[229] This type of regulation mimics regulations imposed in states like New York and California.[230]

VII. CONCLUSION

The Quality King decision has clearly limited the usefulness of 17 U.S.C. § 602(a) as a tool to prevent gray market importation.[231] Though an argument can be made that the Court's decision permits the use of copyright law to block gray market goods manufactured abroad, prior lower court decisions in this area cast significant doubt that such a use of the 1976 Copyright Act would be successful.[232] Multinational manufacturers should consider taking proactive self-help actions to

227. See Lansing, supra note 198, at 326. The authors also noted that congressional support is needed to overcome antitrust issues related to the tight control of distributors that they advocate manufacturers adopt. See id.
228. See Sebastian, 847 F.2d 1093, 1099 (3rd Cir. 1988) ("We think that the controversy over gray market goods or parallel importing should be resolved directly on its merits by Congress . . . .").
229. See Lucentini, supra note 165, at 1A. The Bureau was accepting comments until May 26, 1998. See id.
230. See N.Y. GEN. BUS. LAW § 218-aa (McKinney 1997); CAL. CIV. CODE § 1797.86 (West 1996); see also Friedman, supra note 196, at 48-49 (suggesting that such state consumer protection laws be utilized by individual customers to limit problems associated with gray market goods, such as the absence of warranty protection).
231. See supra notes 165-73 and accompanying text.
232. See supra notes 174-89 and accompanying text (discussing Justice Ginsburg and Justice Stevens' opinions regarding the application of 17 U.S.C. § 602 to gray market goods manufactured outside the United States and the trend in lower courts to reject the place of manufacture as a significant factor with regard to 17 U.S.C. § 602).
counter the negative effects wrought by gray market imports. That is, of course, if such manufacturers are unsuccessful at a political-legislative level to strengthen laws against gray market importation. The question of which path, self-help or political-legislative action, multinational manufacturers will take and which one will provide the greatest benefit to the average consumer will likely be resolved in the near future.

WILLIAM RICHELIEU

233. See supra notes 195-225 and accompanying text (discussing a variety of self-help strategies, including the use of licensee and bailee relationships in distributing product).

234. See supra notes 226-29 and accompanying text (discussing the potential support in Congress or other governmental branches for greater legislative protection against gray market imports).