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### Wag the Dog: Using Incidental Intellectual Property Rights to Block Parallel Imports

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# WAG THE DOG: USING INCIDENTAL INTELLECTUAL PROPERTY RIGHTS TO BLOCK PARALLEL IMPORTS

Mary LaFrance\*

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*Federal law grants owners of intellectual property rights different degrees of control over parallel imports depending on the nature of their exclusive rights. While trademark owners enjoy strong control over unauthorized imports bearing their marks, their protection is less comprehensive than that granted to owners of copyrights and patents. To broaden their rights, some trademark owners have incorporated copyrighted material into their products or packaging, enabling them to block otherwise lawful imports in contravention of the policies underlying trademark law. A 2013 Supreme Court decision has significantly narrowed the importation ban of copyright law, but there may be pressure to reinstate it. In the meantime, trademark owners could resort to design patents to achieve their goals.*

*Trademark owners have employed the same copyright strategy abroad, in countries with similar asymmetries in their intellectual property regimes. In Canada and South Africa, courts have considered but ultimately rejected judicial remedies that would restrict the use of copyright law to override trademark law. Australia and Singapore have addressed the problem through parallel import legislation which disregards the copyrighted material embodied in mere “accessories” to imported goods. This legislation has already given rise to questions of interpretation.*

*If Congress chooses to restore parallel import restrictions on copyrighted works, enabling trademark owners once again to use copyright law as a mutant form of trademark law, existing doctrines such as copyright and patent misuse, de minimis use, and fair use will not offer the*

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clarity and predictability necessary for a long-term solution. Instead, a legislative response is needed. Drawing on lessons from other jurisdictions, the Author proposes amendments to the federal copyright and design patent laws which will enable the legal status of most parallel imports to be assessed despite the presence of incidental material protected by copyrights or design patents. This approach will restore the preeminence of trademark law as the proper mechanism for balancing the legitimate interests of trademark owners and consumers.

## TABLE OF CONTENTS

INTRODUCTION .....	46
I. INTELLECTUAL PROPERTY BARRIERS TO PARALLEL IMPORTS IN THE UNITED STATES .....	51
A. <i>Trademark Law</i> .....	51
B. <i>Copyright Law</i> .....	57
1. Case Law Prior to <i>Kirtsaeng</i> .....	58
2. <i>Kirtsaeng</i> .....	63
3. What is Left of Section 602(a)(1)? .....	68
4. How Will Congress Respond to <i>Kirtsaeng</i> ? .....	69
C. <i>Patent Law</i> .....	72
II. INTELLECTUAL PROPERTY BARRIERS TO PARALLEL IMPORTS UNDER FOREIGN LAWS .....	75
A. <i>Australian Legislation</i> .....	77
B. <i>Singaporean Legislation</i> .....	86
C. <i>South Africa's Failed Attempt at a Judicial Solution</i> ...	91
D. <i>Canadian Jurisprudence</i> .....	95
III. CRAFTING A DOMESTIC SOLUTION .....	103
A. <i>Application of Existing Doctrines</i> .....	104
1. Misuse .....	104
2. De Minimis Use .....	109
3. Fair Use .....	112
B. <i>Specific Legislation</i> .....	114
CONCLUSION .....	119

## INTRODUCTION

Parallel imports (also known as *gray market goods*)<sup>1</sup> are genuine trademarked goods purchased in one country and then imported into a second country for resale without the consent of the party that owns the trademark in the country of import.<sup>2</sup> Because of their lower acquisition costs, the goods are typically resold in the import country at prices lower than the prices demanded by the authorized distributors in that country. Trademark laws that regulate parallel imports attempt to strike a balance between protecting

1. *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, 45 n.1 (3d Cir. 1991).

2. 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29:46 (4th ed. 2013); *See K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 281 (1988).

the rights of trademark owners and ensuring competitive markets for consumer goods.

Parallel imports can harm domestic trademark owners in a number of ways. Trademark owners often sell their products more cheaply to overseas distributors because the trademark owner does not provide advertising and market support in those jurisdictions, or because of other differences in market or regulatory conditions.<sup>3</sup> When those cheaper goods are sold in the United States, they “free ride” on the U.S. marketing support that has been paid for by the authorized U.S. distributors whose prices they often undercut; this undermines the relationship between the trademark owner and its distributors.<sup>4</sup> The foreign goods may not have the same quality or characteristics as the domestic goods, because of differences in manufacturing, packaging, handling, or transport. These differences can harm unsuspecting consumers if the imported merchandise is inferior or has different characteristics compared to the domestic version.<sup>5</sup> If consumers are disappointed, this can also damage the reputation of the trademark owner.<sup>6</sup> In addition, harm can occur even when the products are physically identical. The purchaser of the imported good may contact the domestic trademark owner for warranty service, not realizing that the product does not have a U.S. warranty; upon learning that warranty service is not available, the customer may blame the domestic trademark owner for failing to stand behind “its” product. Due to these concerns, courts have held that, when a U.S. company purchases domestic trademark rights from a foreign company, the latter should be prevented from “evading the purpose of the transfer” by selling the trademarked goods to third parties for importation into the United States.<sup>7</sup> Finally, some intellectual property owners may set their retail prices lower in less developed countries to reflect local economic conditions, such as lower per capita incomes.<sup>8</sup> In the absence of parallel import restrictions, a seller would lose

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3. See ROSE ANN MACGILLIVRAY, *PARALLEL IMPORTATION* 19-21, 26-28 (2010) (discussing economic theory and external causes underlying territorial price discrimination); SWEDISH COMPETITION AUTH., *PARALLEL IMPORTS—EFFECTS OF THE SILHOUETTE RULING* 28-29 (1999) (factors leading to price differences include cultural and historical differences, local purchasing power, insurance systems, charges, taxes, price controls, and foreign exchange rates).

4. See SWEDISH COMPETITION AUTH., *supra* note 3, at 28-29; see also ROSS Q. PANKO, *Misuse of Copyright Misuse Doctrine?*, 4 *LANDSLIDE* 18, 19 (July/Aug. 2012).

5. INT’L TRADEMARK ASS’N, *TRADEMARK OWNER’S GUIDE TO PARALLEL IMPORTS IN THE UNITED STATES* 2-3 (2012) [hereinafter *INTA GUIDE*].

6. Stephen Stern & Wen Wu, *Parallel Importation: Damage Control*, *MANAGING INTELLECTUAL PROPERTY* (March 1, 2012), <http://www.managingip.com/Article/2987278/Parallel-importation-Damage-control.html>; see *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987); Panko, *supra* note 4, at 19.

7. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 484 (9th Cir. 1994) (quoting *Bourjois v. Katzel*, 260 U.S. 689, 691 (1923)).

8. Joan-Ramon Borrell, *Pricing and Patents of HIV/AIDS Drugs in Developing Countries*, 39 *APPLIED ECON.* 505 (2007); IRIN, *HIV and Aids: Bad News for Drug Prices in Mid-*

this ability to price discriminate.<sup>9</sup> This could force the seller to raise prices in those countries, to the detriment of their consumers.<sup>10</sup> Considerations such as these have led the United States to grant trademark owners strong protection against parallel imports of their branded goods.<sup>11</sup>

On the other hand, the absence of parallel import restrictions can benefit consumers by reducing prices.<sup>12</sup> In Australia, the elimination of parallel import restrictions on sound recordings in 1998 was immediately followed by an 8% reduction in CD prices.<sup>13</sup> A 2004 study found similar results in other countries.<sup>14</sup> Regardless of whether authorized distributors lower their own prices in order to compete, parallel imports at least offer consumers a lower-priced alternative. In Singapore, where parallel imports of genuine trademarked or copyrighted goods are unrestricted, Coca Cola prices in 2008 were 33.6% higher from domestic bottlers than from parallel importers,<sup>15</sup> CDs from authorized domestic distributors cost nearly twice as much as lawfully made CDs imported from China,<sup>16</sup> and a 2000 study showed that prices of BMW and Mercedes-Benz vehicles were 8.5% higher from authorized dealers than from parallel importers.<sup>17</sup> Unauthorized imports of genuine brand name fashions may be significantly cheaper than those sold by authorized distributors.<sup>18</sup> Similar disparities exist in the pricing of consumer elec-

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*dle-Income Countries*, THE GUARDIAN, July 22, 2011, <http://www.guardian.co.uk/global-development/2011/jul/22/hiv-aids-antiretroviral-drugs-pricing>; Tamar Lewin, *Students Find \$100 Textbooks Cost \$50, Purchased Overseas*, N.Y. TIMES (Oct. 21, 2003), <http://www.nytimes.com/2003/10/21/us/students-find-100-textbooks-cost-50-purchased-overseas.html?pagewanted=all&src=pm>.

9. Alan O. Sykes, *TRIPS, Pharmaceuticals, Developing Countries, and the DOHA "Solution"*, 3 CHI. J. INT'L. L. 47, 64 (2002).

10. *Id.*

11. See *infra* notes 37-68 and accompanying text.

12. Duncan Matthews & Viviana Munoz-Tellez, *Parallel Trade: A User's Guide*, in HANDBOOK OF BEST PRACTICES 1429 (2007), available at <http://www.iphandbook.org/handbook/ch15/p04/>; M. Hawin, *Parallel Importation of Copyright Material: A Comparative Analysis of the Position in Several Asian Countries*, 1 ASIAN L. REV. 69, 79-80 (2004).

13. AUSTR. GOV'T PRODUCTIVITY COMM'N, RESTRICTIONS ON THE PARALLEL IMPORTATION OF BOOKS app. C.1-C.3 (June 2009) available at [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0004/90265/books.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0004/90265/books.pdf).

14. Yeh-ning Chen & Ivan Png, *Parallel Imports and Music CD Prices* (Jan. 2004) (unpublished manuscript), available at [http://www.econaa.com/resources/gray\\_price.pdf](http://www.econaa.com/resources/gray_price.pdf).

15. See *Singapore Parallel Imports—A Glass of Ke Kou Ke Le Please*, MIRANDAH CONNECTING ASIA (July 2, 2008), <http://www.mirandah.com/categories/item/72-singapore-parallel-imports-a-glass-of-ke-kou-ke-le-please.html>.

16. *Id.*

17. Karamjit Kaur, *Continental Car Price Dip Likely*, THE STRAITS TIMES, May 25, 2000, available at <http://www.computerproducts.globalsources.com/TNTLIST/TRADE/TRADELAW/PARLLELS.HTM>.

18. *Parallel Imports: Hardly the Full Monti*, THE ECONOMIST, Feb. 25, 1999, available at <http://www.economist.com/node/187940>.

tronics,<sup>19</sup> and even liquor.<sup>20</sup> Consumers may be willing to tolerate minor differences in imported merchandise in order to purchase brand name goods at lower prices.<sup>21</sup> In the United States, where parallel import restrictions also apply to patented goods, prices for patented drugs have been among the highest in the world, due to both differential pricing of patented drugs and the greater availability of generic versions in some countries.<sup>22</sup> Prior to *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>23</sup> U.S. import restrictions on copyrighted works were especially noticeable in textbook prices. A 2003 article in the *New York Times* reported that college students—and even some college bookstores—were purchasing large numbers of textbooks overseas and reselling them in the United States at substantially higher prices, sometimes double their overseas purchase price.<sup>24</sup> Concern over the impact on consumers has led some countries to liberalize their parallel import restrictions through legislation.<sup>25</sup>

While the term *gray market goods* typically refers to trademarked goods, parallel import restrictions can also limit the importation of merchandise protected by copyrights or by patents. This article considers the use of copyright or patent law by trademark owners to block parallel imports that would otherwise be permitted under current interpretations of trademark law.

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19. Elise Dalley, *Parallel Imports*, CHOICE, <http://www.choice.com.au/reviews-and-tests/money/shopping-and-legal/shopping/parallel-imports.aspx> (June 19, 2012).

20. Mike Veseth, *More Bad News for Australia: Parallel Imports*, THE WINE ECONOMIST, <http://wineeconomist.com/2010/12/22/more-bad-news-for-australia-parallel-imports/> (Dec. 22, 2010).

21. SWEDISH COMPETITION AUTH., *supra* note 3, at 30.

22. Borrell, *supra* note 8, at 514; Sykes, *supra* note 9, at 47; Monali J. Bhosle & Rajesh Balkrishnan, *Drug Reimportation Practices in the United States*, 3 THERAPEUTICS & CLINICAL RISK MGMT. 41, 41-46 (March 2007); INT'L FED'N OF HEALTH PLANS, 2012 COMPARATIVE PRICE REPORT (March 26, 2013), available at <http://static.squarespace.com/static/518a3cfe4b0a77d03a62c98/t/51dfd9f9e4b0d1d8067dcde2/1373624825901/2012%20iFHP%20Price%20Report%20FINAL%20April%203.pdf>; KEITH E. MASKUS, PARALLEL IMPORTS IN PHARMACEUTICALS: IMPLICATIONS FOR COMPETITION AND PRICES IN DEVELOPING COUNTRIES: FINAL REPORT TO WORLD INTELLECTUAL PROPERTY ORGANIZATION 9 (2001), available at [http://www.wipo.int/export/sites/www/about-ip/en/studies/pdf/ssa\\_maskus\\_pi.pdf](http://www.wipo.int/export/sites/www/about-ip/en/studies/pdf/ssa_maskus_pi.pdf); Donald L. Bartlett & James B. Steele, *Why Drugs Cost So Much*, TIME (Feb. 2, 2004), available at <http://www.time.com/time/magazine/article/0,9171,993223,00.html>; Gina Kolata, *Why Drugs Cost More in U.S.*, N.Y. TIMES, May 24, 1991, available at <http://www.nytimes.com/1991/05/24/business/why-drugs-cost-more-in-us.html?pagewanted=all&src=pm>.

23. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 U.S. 1351 (2013).

24. Lewin, *supra* note 8.

25. Libby Baulch, *Recent Amendments to the Australian Copyright Act*, 33 COPYRIGHT BULL., 27 (1999) (Australia); MARK J. DAVISON ET AL., AUSTRALIAN INTELLECTUAL PROP. LAW 286-91 (2012) (Australia); Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 U. PA. J. INT'L. BUS. L. 373, 383 (1994); Hawin, *supra* note 12, at 102-06 (Singapore); MACGILLIVRAY, *supra* note 3, at 57-60; see AUSTR. GOV'T PRODUCTIVITY COMM'N, *supra* note 13, at 7.19.

The TRIPS Agreement (Agreement on Trade Related Aspects of Intellectual Property Rights) allows individual member countries to set their own policies regarding restrictions on parallel imports.<sup>26</sup> Thus, each TRIPS country is free to determine for itself the extent to which its domestic copyright, trademark, and patent owners should be able to control the importation of authorized goods that were intended for distribution exclusively in other territories.

In the United States and many other countries, trademark owners enjoy strong protection against gray market goods, but cannot exclude them completely. Where there are gaps in trademark protection, trademark owners increasingly have turned to copyright law to provide a sort of “mutant trademark” protection. In some countries, they have succeeded, while in others their early successes have prompted judicial or legislative pushback.

Prior to the *Kirtsaeng* decision,<sup>27</sup> copyright law offered U.S. copyright owners a convenient escape from the limitations of trademark law. Embedding even a small amount of copyrighted material into merchandise enabled the copyright owners to block importations of goods that could otherwise lawfully be imported into the United States. The copyright could subsist in the trademark itself, if it satisfied the originality requirements of copyright law. Alternatively, copyright could subsist in a component of the merchandise or its packaging (such as a label, instructions, user manual, warranty card, or software). This end run around the limitations of trademark law became popular with trademark owners who wished to block third parties from importing and reselling gray market goods that bore lawful trademarks but were intended for sale only outside of the United States (usually at lower prices).

While *Kirtsaeng* has curtailed this use of copyright law, at least for now, some trademark owners may be able to obtain similar benefits under patent law—especially the law of design patents. Federal law gives patent owners the right to block unauthorized imports of their patented products. While patents are more difficult and costly to obtain, and offer protection for a much shorter term than copyrights, utility patents can protect product components such as software, and design patents can protect ornamental features of products and their packaging. Although the concept of exhaustion applies to patents as well as copyrights,<sup>28</sup> thus far the federal courts have held that

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26. Agreement on Trade Related Aspects of Intellectual Property Rights art. 6, 1867 U.N.T.S. 154 [hereinafter TRIPS Agreement]; see MACGILLIVRAY, *supra* note 3, at 151 (noting that the TRIPS parties were unable to reach a consensus on parallel imports even after eight years of negotiations).

27. See *infra* notes 108-130 and accompanying text (discussing *Kirtsaeng v. John Wiley & Sons, Inc.* 133 S. Ct. 1351(2013)).

28. The Supreme Court has long recognized the exhaustion doctrine in patent law. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008). This has never been codified.

exhaustion does not limit the right of a patent owner to block parallel imports.<sup>29</sup>

Trademark owners have used copyright law to block otherwise lawful parallel imports not only in the United States, but in other countries that take similar approaches to the first sale rule and parallel imports. In several of these countries—Canada, Australia, Singapore and South Africa<sup>30</sup>—these efforts have prompted courts and legislatures to reexamine their approach to parallel imports of goods that incorporate relatively minor amounts of copyrightable expression. This article examines recent developments both in the United States and overseas, and finds in the laws of Australia and Singapore the inspiration for a legislative solution that would restore the primacy of trademark law. While it appears that trademark owners have not yet resorted to design patents as an alternative form of protection against parallel imports, this article anticipates and addresses that possibility as well.

Part I describes the treatment of parallel imports under trademark, copyright, and patent law in the United States, focusing on trademark owners' use of copyright protection for minor components of products or packaging in order to block imports that are otherwise permissible under trademark law. Part II examines how several foreign countries have addressed this question. Part III draws lessons from these jurisdictions for the United States and proposes a legislative solution.

## I. INTELLECTUAL PROPERTY BARRIERS TO PARALLEL IMPORTS IN THE UNITED STATES

### A. *Trademark Law*

Under the first sale rule of trademark law, also known as the exhaustion rule, the resale of genuine trademarked goods does not generally constitute infringement.<sup>31</sup> Trademarked goods are genuine, rather than counterfeit, if they are made under the authority of the trademark owner, including any licensees. In general, trademark law does not prohibit the sale of goods bearing authorized trademarks, even if the trademark owner does not consent to the sale.<sup>32</sup> Goods which are resold as new (as opposed to used or reconditioned goods), however, are not “genuine” for purposes of the first sale rule if they are “materially different” from goods sold under the trademark

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29. *Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1366 (Fed. Cir. 2010); *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1095 (Fed. Cir. 2001).

30. *See infra* notes 174-2309 and accompanying text (discussing legal responses in those countries).

31. *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 590 (5th Cir. 1993).

32. *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 671 (1989).



owner's authority.<sup>33</sup> The purpose of the material differences test is "to determine whether the allegedly infringing products are likely to injure the goodwill developed by the trademark owner in the trademarked goods."<sup>34</sup> When the products sold by the alleged infringer are materially different but bear identical trademarks, "consumers are likely to be confused about the quality and nature of the trademarked goods."<sup>35</sup> Such material differences "are likely to affect consumers' perceptions of the desirability of the owner's goods," leading to tarnishment of the "commercial magnetism" of the trademark, thus injuring the trademark owner.<sup>36</sup>

The Lanham Act provides strong protection against parallel imports, although it does not exclude all unauthorized imports of trademarked goods. Four provisions allow trademark owners to prohibit importation and distribution of licensed goods if there is a likelihood of consumer confusion. These are: Section 32(1),<sup>37</sup> allowing civil actions for infringement of registered marks; Section 43(a),<sup>38</sup> allowing civil actions for infringement of unregistered marks; Section 43(b),<sup>39</sup> allowing civil actions to enjoin importation of any goods likely to infringe or dilute registered or unregistered trademarks;<sup>40</sup> and Section 42,<sup>41</sup> which authorizes U.S. Customs and Border Protection (CBP) to prevent the importation of goods that infringe registered or unregistered trademarks.

Most courts find a likelihood of confusion whenever the imported goods are materially different from goods authorized for domestic sale under the same trademark.<sup>42</sup> In determining whether goods are materially different for

33. See, e.g., *Beltronics USA Inc. v. Midwest Inventory Distrib. LLC*, 562 F.3d 1067, 1072 (10th Cir. 2009); *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 73 (2d Cir. 1987).

34. *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 303 (3d Cir. 1998) (citing *Weil Ceramics*, 878 F.2d at 671).

35. *Id.* (citing *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992)).

36. *Id.* (citing *Weil Ceramics*, 878 F.2d at 671; *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1302 (5th Cir. 1997); *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942)).

37. 15 U.S.C. § 1114(1) (2012).

38. *Id.* § 1125(a).

39. *Id.* § 1125(b).

40. Regulations under Section 43(b) allow infringing imports to be seized and forfeited. 19 C.F.R. § 11.13 (2013).

41. 15 U.S.C. § 1124. A claim for dilution allows the owner of a famous trademark to sue a defendant that uses the mark in a way that weakens the distinctiveness or tarnishes the reputation of the famous mark, even if there is no likelihood of confusion as to origin. *Id.* § 1125(c). Parallel import cases generally have not involved dilution claims.

42. *Zino DavidoffSA v. CVS Corp.*, 571 F.3d 238, 246 (2d Cir. 2009); *Bourdeau Bros. v. Int'l Trade Comm'n*, 444 F.3d 1317, 1324 (Fed. Cir. 2006); *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA*, 112 F.3d 1296, 1301-02 (5th Cir. 1997); *Lever Bros. Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993); *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992); *Lever Bros. Co. v. United States*, 877 F.2d 101, 111 (D.C. Cir. 1989); *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816

this purpose, courts have held that even “subtle differences” are enough because there is a “low threshold of materiality.”<sup>43</sup> Material differences have been broadly interpreted to include: different warranties,<sup>44</sup> Cabbage Patch dolls with Spanish language birth certificates and adoption papers,<sup>45</sup> different soap ingredients,<sup>46</sup> TIC TACS with a different size and different calorie counts,<sup>47</sup> chocolates with different shapes,<sup>48</sup> quality control differences,<sup>49</sup> packaging or labeling differences,<sup>50</sup> or different advertising participation or marketing methods.<sup>51</sup> According to several courts, the use of packaging that identifies the country of origin does not mitigate the likelihood of confusion arising from these material differences.<sup>52</sup> Courts do not always agree, however, on whether particular differences are material.<sup>53</sup>

Courts have also held that Sections 32 and 43(a) cannot be invoked to block importation of goods manufactured by a corporate affiliate of the U.S.

F.2d 68, 73 (2d Cir. 1987); *Phillip Morris, Inc. v. Cigarettes for Less*, 69 F. Supp. 2d 1181, 1189 (N.D. Cal. 1999), *aff'd*, 215 F.3d 1333 (9th Cir. 2000); *Phillip Morris, Inc. v. Allen Distributions, Inc.*, 48 F. Supp.2d 844, 850-52 (S.D. Ind. 1999).

43. *Societe des Produits Nestle*, 982 F.2d at 641; accord, *Zino Davidoff*, 571 F.3d at 243, 246 (“In the context of gray-market goods, . . . we apply a low threshold of materiality, requiring no more than a slight difference which consumers would likely deem relevant when considering a purchase of the product.”).

44. *Societe des Produits Nestle*, 982 F.2d at 639 n.7.

45. *Original Appalachian Artworks, Inc.*, 816 F.2d at 73.

46. *Lever Bros. Co.*, 877 F.2d at 103, 108; *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951, 952 (S.D. Fla. 1986).

47. *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, 1243, 1247 (D.N.J.), *aff'd in part, rev'd in part*, 935 F.2d 1281 (3rd Cir. 1991) (reversing only on the issue of attorney fees).

48. *Societe des Produits Nestle*, 982 F.2d at 643.

49. *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 302 (3d Cir. 1998) (gray market goods); *Davidoff & Cie, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1302 n.5 (11th Cir. 2001) (non-imported goods); *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 5 (2d Cir. 1996) (nonimported goods); *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 106 (4th Cir. 1991) (nonimported goods); *El Greco Leather Prods. Co. v. Shoe World, Inc.*, 806 F.2d 392, 394 (2d Cir. 1986) (gray market goods); *Adolph Coors Co. v. A. Genderson & Sons, Inc.*, 486 F. Supp. 131, 133 (D. Colo. 1980) (nonimported goods).

50. *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 243, 246 (2d Cir. 2009) (removal of UPC codes from product packaging of gray market goods); *Shell Oil*, 928 F.2d at 106; *Davidoff & Cie*, 263 F.3d at 1299; *John Paul Mitchell Sys. v. Pete-N-Larry's, Inc.*, 862 F. Supp. 1020, 1027 (W.D.N.Y. 1994); *PepsiCo, Inc. v. Nostalgia Prods. Corp.*, No. 90 C 7024, 1990 U.S. Dist. LEXIS 18990, at \*4 (N.D. Ill. Dec. 20, 1990); *El Greco*, 806 F.2d at 394; *Adolph Coors*, 486 F. Supp. at 133.

51. *Nostalgia Prods.*, 1990 U.S. Dist. LEXIS 18990, at \*4; *PepsiCo, Inc. v. Giraud, No. 87-01887(JP)*, 1988 U.S. Dist. LEXIS 12864, at \*7-8 (D.P.R. Mar. 14, 1988).

52. *Societe des Produits Nestle*, 982 F.2d at 643; *Ferrero U.S.A.*, 753 F. Supp. at 1243, *aff'd*, 935 F.2d 1281.

53. *See Graham Webb Int'l Ltd. v. Emporium Drug Mart, Inc.*, 916 F. Supp. 909, 910 (E.D. Ark. 1995) (removal of batch codes from hair care products was not a material difference where it did not significantly affect overall appearance of product, and thus would not materially affect consumer decision to purchase); *John Paul Mitchell Systems v. Randall's Food Markets, Inc.*, 17 S.W.3d 721, 721 (Tex. Ct. App. 2000) (similar).

trademark owner (for example, a foreign subsidiary),<sup>54</sup> because the corporate affiliation ensures that the domestic trademark owner had sufficient quality control over the imported goods.<sup>55</sup>

Trademark owners enjoy additional protection under Section 42 of the Lanham Act, which authorizes the CBP to block the importation of goods that “copy or simulate” either a registered trademark or the trade name of a domestic manufacturer even if unregistered.<sup>56</sup> A mark may be found to “copy or simulate” another mark even if it is not counterfeit.<sup>57</sup> Section 42 does not, however, bar parallel imports of genuine goods unless they are materially different from those authorized for domestic sale.<sup>58</sup>

CBP will block importation of trademarked goods under Section 42 only if the trademark owner applies for protection and demonstrates that the goods are physically and materially different from the goods authorized for domestic sale.<sup>59</sup> The importer can overcome this rule and import the goods, however, by affixing a prominent disclaimer that states: “This product is not a product authorized by the United States trademark owner for importation

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54. NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1510 (9th Cir. 1987).

55. *Id.* at 1510.

56. There is an exception for goods that accompany a person entering the United States, if they are for his or her personal use. 15 U.S.C. § 1124 (2012); 19 U.S.C. § 1526(d) (2012). To obtain the benefits of Section 42, the trademark owner must record the trademark or trade name with the CBP. 19 C.F.R. §§ 133.0-133.15 (2013).

57. Under CBP regulations, a mark may “copy or simulate” another mark if it “so resemble[s] a recorded mark or name as to be likely to cause the public to associate the copying or simulating mark or name with the recorded mark or name.” 19 C.F.R. § 133.22(a). In contrast, a counterfeit mark is “a spurious mark which is identical with, or substantially indistinguishable from, a registered mark.” 15 U.S.C. § 1127. The degree of resemblance must be higher for a mark to be considered counterfeit. Thus, Section 42 can block the importation of materially different goods bearing either identical or confusingly similar marks.

58. In the 1980s, two circuits held that Section 42 does not apply to parallel imports; because these are genuine goods authorized to display the trademark, they do not “copy or simulate” the trademark. *See Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 660 (3d Cir. 1989); *Olympus Corp. v. United States*, 792 F.2d 315, 315 (2d Cir. 1986); 5 MCCARTHY, *supra* note 2, § 29:50. In the 1990s, however, the D.C. Circuit and the First Circuit both held that parallel imports bearing noncounterfeit marks may still violate Section 42 if they are materially different from the goods that are authorized for sale under the same mark. *Lever Bros. Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993) (“[P]hysically, materially different goods”); *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 639 (1st Cir. 1992) (“[P]hysical or like material differences”). The D.C. Circuit held that Section 42 bars importation of “physically, materially different goods” even if they were made by a corporate affiliate of the U.S. trademark owner. *Lever Bros.*, 981 F.2d at 1338.

59. This rule, developed in response to *Lever Bros.*, is codified in the CBP regulations at 19 C.F.R. §§ 133.2-133.27. Under these regulations, physical and material differences may include: (1) composition; (2) formulation, product construction, structure, or composite product components; (3) performance and/or operational characteristics; (4) differences resulting from legal or regulatory requirements, certification, etc.; and (5) “Other distinguishing and explicitly defined factors that would likely result in consumer deception or confusion[.]” *Id.* § 133.2(e).

and is physically and materially different from the authorized product.”<sup>60</sup> The disclaimer must be “designed to remain on the product until the first point of sale to a retail customer in the United States.”<sup>61</sup> Some trademark owners may find the labeling remedy unsatisfactory, however, because the labeled goods can still be sold to consumers, and if the trademark owner brings an infringement action under Sections 32 or 43(a), it is difficult to predict whether and to what extent a court could find that the label weighs against the likelihood of consumer confusion.<sup>62</sup>

In addition to the Lanham Act provisions, Section 526 of the 1930 Tariff Act<sup>63</sup> plays a role in blocking parallel imports of trademarked goods. Section 526 prevents importation of genuine goods bearing a *registered* trademark that is owned by a *U.S. person* without that person’s written consent.<sup>64</sup> Section 526 applies even if the goods are identical (meaning that there are no material differences), and even if there is no likelihood of confusion. Unlike the Lanham Act, however, Section 526 applies only to goods manufactured outside the United States. It does not apply when the U.S. person owning the registered mark also owns the mark in the country of manufacture or has a corporate affiliation with the foreign manufacturer.<sup>65</sup> It also does not apply to registered trademarks owned by foreign persons.<sup>66</sup> The narrow scope of Section 526 arises from its historical purpose: Congress sought to protect domestic companies that purchase US trademark rights from a foreign manufacturer from the possibility that the foreign manufacturer’s identical goods—bearing the identical trademark—would find their way into the U.S. market.<sup>67</sup> To benefit from Section 526, however, trademark owners must make a significant effort to assist the CBP in recognizing unauthorized imports and anticipating their port of entry.<sup>68</sup>

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60. *Id.* § 133.23(b); *see also* INTA GUIDE, *supra* note 5, at 3, 4.

61. 19 C.F.R. § 133.23(b).

62. INTA GUIDE, *supra* note 5, at 5.

63. 19 U.S.C. § 1526 (2012).

64. Under the Lanham Act provisions, Section 526(a), it is “unlawful to import into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States,” if the trademark is properly registered, unless the owner of the registration provides written consent. *See* Vittoria N. Am. LLC v. Euro-Asia Imports, Inc., 278 F.3d 1076, 1082 (10th Cir. 2001); Ahava (USA), Inc. v. J.W.G., Ltd., 250 F. Supp. 2d 366, 370 (S.D.N.Y. 2003). Section 526(b) subjects such merchandise to seizure and forfeiture. Section 526(c) provides that any person dealing in such merchandise may be enjoined from doing so or may be required to export or destroy the merchandise or remove the trademark; and subjects the vendor to liability for the same damages and profits as in an action for trademark infringement.

65. *K Mart Corp. v. Cartier*, 486 U.S. 281, 292-93 (1988); *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 664, 673 (3d Cir. 1989); 19 C.F.R. § 133.23(a)(2).

66. 19 U.S.C. § 1526(a); 19 C.F.R. § 133.23(a).

67. *K Mart Corp.*, 486 U.S. at 287-88.

68. INTA GUIDE, *supra* note 5, at 14-19.

While these provisions give trademark owners powerful tools to prevent the unauthorized importation and sale of gray market goods, there are still gaps in protection. Many, though not all, involve goods that are not materially different from the goods authorized for domestic sale. For example:

1. Domestically made goods intended for foreign sale can be purchased overseas and reimported if they are not materially different from the goods sold under that same trademark in the United States.<sup>69</sup>
2. Goods manufactured abroad by the U.S. trademark owner can be imported if they are not materially different from the goods sold under that same trademark in the United States.<sup>70</sup>
3. Goods manufactured abroad by a corporate affiliate of a U.S. trademark owner can be imported if they are not materially different from the goods sold under that same trademark in the United States.<sup>71</sup>
4. Goods manufactured abroad under a license to use an unregistered mark can be imported if the goods are not materially different from the goods sold under that mark in the United States.<sup>72</sup>
5. Goods manufactured abroad by a foreign entity that owns the U.S. trademark can be imported if the goods are not materially different from the goods authorized for sale in the United States.<sup>73</sup>

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69. *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138-39 (1998).

70. In *Omega S.A. v. Costco Wholesale Corp.*, 2004 WL 5794234 (C.D. Cal. Oct. 8, 2004), Omega manufactured its Seamaster watches in Switzerland, and distributed them throughout the world, including the United States. At no point in the litigation did Omega assert that the watches intended for distribution in the United States were materially different from those intended for foreign distribution, nor did Omega assert any trademark infringement claims against the unauthorized importer.

71. *K Mart Corp.*, 486 U.S. at 294 (stating that wholly owned subsidiary of foreign manufacturer cannot invoke Section 526 of the Tariff Act to prevent third parties from importing the foreign parent company's trademarked goods); *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987) (stating that wholly owned subsidiary of foreign manufacturer cannot invoke Sections 32 and 43 of the Lanham Act to prevent third party from importing parent company's product).

72. See *supra* notes 29-34, 42-52 and accompanying text. In contrast, if the mark is federally registered, Section 526 allows the owner of the mark to block the importation of goods made by a foreign licensee even if they are not materially different. See *supra* notes 63-64.

73. See *supra* notes 66-67 and accompanying text. Neither the foreign owner of a U.S. trademark, nor its exclusive U.S. licensee, can use Section 526 to block genuine goods manufactured abroad even if they were intended exclusively for foreign markets, unless the goods are materially different from those authorized for sale in the United States.

6. Goods manufactured abroad can be imported without the domestic trademark owner's consent even if they are physically and materially different from domestically authorized goods if they bear the disclaimer specified in 19 C.F.R. § 133.23.<sup>74</sup>

### B. Copyright Law

Because trademark owners in the United States cannot exclude all parallel imports under trademark law, some have turned to copyright law in an effort to expand their rights. If a product, its label, or its packaging incorporates any materials protected by a federal copyright, the owner or exclusive licensee of the copyright has the exclusive right to import<sup>75</sup> and distribute those materials to the public in the United States.<sup>76</sup>

It is not difficult to incorporate copyrighted materials into noncopyrightable goods. In addition to the copyrightable elements in packaging, labels, tags, instructions, and owner's manuals, copyrightable designs can be embedded in the products themselves so that the importer or domestic reseller cannot avoid copyright infringement by simply removing or covering up the copyrighted tag or label. Copyright may also attach to the shape or overall appearance of a product, provided that (1) it possesses a minimal degree of originality,<sup>77</sup> and (2) that the artistic element is physically or conceptually separable from the utilitarian function of the article.<sup>78</sup> A candy maker can therefore assert federal copyright protection for the shape of a candy bar if it is more original than the ubiquitous rectangle or cylinder shape, and if the shape does not have an inseparable utilitarian component (such as making the candy bar easier to hold or to break into pieces). Finally, many consumer products include copyrighted software. Even if software is not strictly necessary to the functioning of a consumer product, adding even a small software component will give the trademark owner another method for blocking imports. Complex products such as automobiles, office equipment, computers, and kitchen appliances will often contain a significant software component that could be invoked to block unauthorized imports. For example, copy-

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74. See *supra* notes 60-61 and accompanying text.

75. 17 U.S.C. § 602(a)(1) (2012).

76. *Id.* § 106(3).

77. *Lamps Plus, Inc. v. Seattle Lighting Fixture Co.*, 345 F.3d 1140, 1146-47 (9th Cir. 2003).

78. *Brandir Int'l, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142, 1143 (2d Cir. 1987).

rightable software is embedded in modern office printers,<sup>79</sup> garage door openers,<sup>80</sup> and coffee makers.<sup>81</sup>

Both the distribution and importation rights are limited by the first sale rule of Section 109(a), however, under which the copyright owner has the right to control the first public distribution of a particular copy, but cannot control subsequent resales of that same copy. Specifically, Section 109(a) provides:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of that copy or phonorecord.<sup>82</sup>

### 1. Case Law Prior to *Kirtsaeng*

Prior to *Kirtsaeng*,<sup>83</sup> U.S. copyright owners had succeeded in using Section 602(a) of federal copyright law<sup>84</sup> to block the importation and domestic resale of copies of their work that were manufactured outside of the United States.<sup>85</sup> Section 602(a) provides, in relevant part:

Importation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106.<sup>86</sup>

Several courts had held that this language empowered copyright owners to block importation and domestic sale of foreign-made copies even when

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79. Lexmark Int'l, Inc. v. Static Control Components, Inc., 387 F.3d 522, 546 (6th Cir. 2004).

80. Chamberlain Grp., Inc. v. Skylink Techs., Inc., 381 F.3d 1178, 1183 (Fed. Cir. 2004).

81. Salton, Inc. v. Philips Domestic Appliances & Person Care B.V., 391 F.3d 871, 874 (7th Cir. 2004).

82. 17 U.S.C. § 106(3) (2012).

83. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

84. 17 U.S.C. § 602(a).

85. See *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991) (records); *Microsoft Corp. v. Cietdirect.com LLC*, 2008 WL 3162535 (S.D. Fla. Aug. 5, 2008) (software); *UMG Recordings, Inc. v. Norwalk Distribs., Inc.*, 2003 WL 22722410 (C.D. Cal. Mar. 13, 2003) (records); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575 (D.N.J. 1987) (records); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 976-77 (N.D. Cal. 1986) (books); *Columbia Broad. Sys. v. Scorpio Music Distrib.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983) (records), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984); *Nintendo of Am., Inc. v. Elcon Indus.*, 564 F. Supp. 937 (E.D. Mich. 1982) (videogames).

86. 17 U.S.C. § 602(a)(1).

those copies were made in full compliance with the copyright laws in their country of manufacture.<sup>87</sup>

Trademark owners believed that they, too, could take advantage of this rule in order to block the importation and resale of genuine (that is, noncounterfeit) goods that cannot be prohibited under federal trademark law.<sup>88</sup> They sought to accomplish this by relying on the copyrightable components of their products or packaging in order to restrict the sale of those goods to foreign markets<sup>89</sup>—sometimes embedding a copyrightable element specifically for this purpose.<sup>90</sup>

The use of copyrights as quasi-trademarks to block parallel imports gained steam after the Supreme Court's 1998 decision in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*<sup>91</sup> In that case, a California manufacturer of hair care products (L'anza) had sold its products both in the United States and overseas. L'anza provided advertising and marketing support to its distributors in the United States, but not overseas. L'anza's products were priced 35–40% higher in the United States than in foreign territories. To maintain these higher prices, L'anza authorized its domestic distributors to sell only within specific territories and only to a limited range of authorized retailers, such as beauty salons and hair care collages; they could not sell to drug stores or supermarkets that also carried lower-priced

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87. See *BMG Music*, 952 F.2d at 319 (foreign-made records); *UMG Recordings*, 2003 WL 22722410 at \*4 (records made in Canada); *T.B. Harms*, 655 F. Supp. at 1577 (records made by New Zealand licensee); *Hearst*, 639 F. Supp. at 972 (books published in the United Kingdom); *Columbia Broad.*, 569 F. Supp. at 47 (records made by Philippines licensee); *Nintendo*, 564 F. Supp. at 940 (videogames produced by Japan licensee).

88. INTA GUIDE, *supra* note 5, at 20-21 (recommending this strategy).

89. This device met with mixed results, with most courts focusing on where the copyrighted components were made and first sold. See, e.g., *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998) (first sale rule permitted reimportation of U.S.-made hair care products with copyrighted labels); *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008) (importing Swiss-made watches engraved with copyrighted designs infringed copyright), *aff'd by equally divided court*, 131 S. Ct. 565 (2010); *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143, 1150 (9th Cir. 1996) (foreign-made diapers in copyrighted packaging could be resold domestically only because copyright owner had authorized the first sale in the United States); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 479 (9th Cir. 1994) (importing French-made perfume with copyrighted labels infringed copyright even though it was permissible under Section 526 and the Lanham Act); *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988) (first sale rule permitted reimportation of U.S.-made hair care products with copyrighted labels); *Swatch S.A. v. New City, Inc.*, 454 F. Supp. 2d 1245 (S.D. Fla. 2006) (importing foreign-made watches with copyrighted designs infringed copyright); *Lingo Corp. v. Topix, Inc.*, 2003 WL 223454 (S.D.N.Y. Jan. 31, 2003) (expressing doubt whether first sale rule permits importation of translator devices accompanied by copyrighted product literature and packaging); *Summit Tech. Inc. v. High-Line Med. Instr. Co.*, 922 F. Supp. 299, 312 (C.D. Cal. 1996) (first sale rule permitted reimportation of US-made laser system incorporating copyrighted software).

90. *Omega S.A. v. Costco Wholesale Corp.*, 2011 WL 8492716, at \*1 (C.D. Cal. Nov. 9, 2011).

91. See *Quality King*, 523 U.S. at 153.



competing goods. L'anza's distributor in the United Kingdom sold a large quantity of the products to a Malta distributor, however, who then sold them to a third party that imported them into the United States and sold them to unauthorized domestic retailers. L'anza sued for copyright infringement, arguing that the importation and sale of the hair care products infringed the copyright in the labels that were affixed to the products, thus violating L'anza's exclusive distribution right under Section 106 and its exclusive importation right under Section 602(a). Quality King argued, however, that the importation and resale were noninfringing under the first sale rule. The Supreme Court agreed, reasoning as follows: Section 602(a) allows the copyright owner to block importation not only of pirated copies but also of copies that were lawfully made in their country of origin.<sup>92</sup> The importation right, however, is merely a special application of the broader public distribution right of Section 106(3). This conclusion follows from Section 602(a)(1), which expressly states that unauthorized importation "is an infringement of the exclusive right to distribute copies or phonorecords under Section 106."<sup>93</sup> In addition, the Court believed that, as a practical matter, importation almost always involves a transfer of ownership:

Strictly speaking, an importer could, of course, carry merchandise from one country to another without surrendering custody of it. In a typical commercial transaction, however, the shipper transfers "possession, custody, control and title to the products" to a different person, and L'anza assumes that petitioner's importation of the L'anza shipments included such a transfer. An ordinary interpretation of the statement that a person is entitled "to sell or otherwise dispose of the possession" of an item surely includes the right to ship it to another person in another country.<sup>94</sup>

Because Section 109(a) applies to the distribution right, the Court concluded, it must also apply to the importation right.<sup>95</sup> Therefore, if a lawfully made copy meets the requirements of the first sale rule, then the owner of that copy is free to import it into the United States and to resell it there.<sup>96</sup> Because the labels in question had been lawfully made in the United States, the first sale rule applied.<sup>97</sup> In dicta, however, the Court strongly implied that the same rule would not apply to foreign-made copies, because these were "lawfully made" not under the United States Copyright Act, but instead,

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92. *Id.* at 148.

93. 17 U.S.C. § 602(a)(1) (2012).

94. *Quality King*, 523 U.S. at 152.

95. *Id.* at 145.

96. *Id.*

97. *See id.* at 148.

under the law of some other country.”<sup>98</sup> The Court believed that Section 602(a)(1) allowed publishers to protect their domestic markets against unauthorized imports.<sup>99</sup>

Many courts and commentators understood *Quality King* to preclude application of copyright’s first sale rule to goods manufactured outside of the United States.<sup>100</sup> Under this approach, the U.S. copyright owner could prevent importation of copies that were lawfully made overseas, and could also prevent any subsequent domestic sales of those copies, even after consenting to their importation. Thus, the purchaser of a lawfully imported foreign-made copy would infringe copyright simply by selling that copy on the secondhand market. This interpretation was widely criticized for giving U.S. copyright owners more control over copies made abroad than over domestically made copies, thus encouraging them to shift their manufacturing overseas in order to prohibit secondhand sales and maintain high prices through decreased competition.<sup>101</sup>

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98. *Id.* at 147. The phrase “this title” in Section 109(a) must refer to Title 17 of the U.S. Code, which is where Section 109(a) and the rest of the federal copyright laws are codified.

99. Even in the absence of a market allocation agreement between, for example, a publisher of the United States edition and a publisher of the British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

*Id.* at 148 (footnotes omitted).

The Court bolstered this conclusion by noting that the Register of Copyrights’ 1961 Report to Congress had suggested extending the import ban to nonpirated copies in order to help publishers protect their exclusive domestic distribution rights:

When arrangements are made for both a U.S. edition and a foreign edition of the same work, the publishers frequently agree to divide the international markets. The foreign publisher agrees not to sell his edition in the United States, and the U.S. publisher agrees not to sell his edition in certain foreign countries. It has been suggested that the import ban on piratical copies should be extended to bar the importation of the foreign edition in contravention of such an agreement.

*Quality King*, 523 U.S. at 147 (quoting Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 87th Cong., 1st Sess., 125-126 (H.R. Judiciary Comm. Print 1961)).

Justice Ginsburg’s concurrence appeared to agree with the majority’s dicta: “I join the Court’s opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.” *Id.* at 154 (Ginsburg, J., concurring).

100. See, e.g., *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988-90 (9th Cir. 2008); *Pearson Educ., Inc. v. Kumar*, 721 F. Supp. 2d 166, 176-78 (S.D.N.Y. 2010).

101. See *Denbicare U.S.A., Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir. 1996).

In a heroic effort—which was ultimately doomed—the Ninth Circuit responded to this concern by modifying the rule derived from *Quality King*. In *Denbicare U.S.A., Inc. v. Toys R Us, Inc.*,<sup>102</sup> the Ninth Circuit held that once a U.S. copyright owner has consented to the first domestic sale of its foreign-made copies, the first sale rule permits subsequent resales of those copies.<sup>103</sup> While this interpretation would still permit domestic copyright owners to control imports of foreign-made copies, it would not enable them to abolish the secondhand domestic market for those copies. Thus, it would not give copyright owners an incentive to shift their manufacturing overseas. While this gloss on the rule of *Quality King* served the public interest far better than the broader prohibition applied by other courts, the language of the copyright statutes did not support it,<sup>104</sup> and no other circuit adopted it.

Capitalizing on *Quality King*, watchmaker Omega applied a copyrighted globe design to the back of its Swiss made Seamaster watches in order to prevent their unauthorized importation and domestic resale. Omega began using this copyrighted design on the advice of its legal department, and under pressure from its authorized retailers, for the specific purpose of blocking parallel imports.<sup>105</sup> In *Costco Wholesale Corp. v. Omega, S.A.*,<sup>106</sup> an evenly divided Supreme Court upheld the Ninth Circuit's decision in favor of Omega.<sup>107</sup>

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102. *Id.* at 1150.

103. The *Denbicare* court derived this rule from language in its previous decision in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994). The defendant in that case asked the Ninth Circuit to hold that the first sale rule applied to lawfully made foreign copies, and to overturn its contrary precedent, *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991). The *Parfums Givenchy* court declined to do so. 38 F.3d at 482. In what is arguably dicta, the court noted that foreign made copies should be covered by the first sale rule once the U.S. copyright owner had authorized their domestic sale, but that these circumstances were not present in the case at hand. *Id.* at 481, 482 n.8. The Ninth Circuit adopted this rule on public policy grounds, to avoid giving copyright owners more control over their foreign-made copies than over their domestically-made copies, a discrepancy which would give them an incentive to manufacture their goods overseas. *Id.* at 482 n.8.

104. Specifically, nothing in the language of Sections 106(3), 602(a), or 109(a) supports drawing a distinction between imported copies first sold domestically with the copyright owner's consent and those first sold domestically without such consent. See 17 U.S.C. §§ 106(3), 602(a), 109(a) (2012).

105. *Omega S.A. v. Costco Wholesale Corp.*, 2011 WL 8492716, at \*1 (C.D. Cal. Nov. 9, 2011).

106. *Omega S.A. v. Costco Wholesale Corp.*, 131 S. Ct. 565 (2010) (per curiam) (*aff'g* *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008)) (Justice Kagan was recused).

107. *Costco*, 541 F.3d at 990. Because the copyright owner had not consented to the sale of these specific watches in the United States, the Ninth Circuit did not have occasion to apply the unique gloss on the first sale rule that it developed in *Parfums Givenchy* and *Denbicare*.

## 2. Kirtsaeng

The Court finally resolved the application of the first sale rule to foreign-made copies in *Kirtsaeng v. John Wiley & Sons, Inc.*<sup>108</sup> The petitioner in *Kirtsaeng* imported and sold copyrighted books that had been manufactured outside the United States with the publisher's consent. The publisher initially prevailed in its infringement suit, because both the district court and the Second Circuit held that the first sale rule did not apply to copies manufactured outside of the United States.<sup>109</sup>

The Supreme Court reversed, holding by a vote of 6–3 that the first sale of a lawfully made copy of a work exhausts the copyright owner's exclusive importation and distribution rights with respect to that copy, regardless of where the copy was made. The Court relied in part on *Quality King's* holding that, because the Section 602 importation right is subsumed within the Section 106(3) public distribution right, the first sale rule applies to importation as well as public distribution. It also, however, repudiated as “pure dictum” *Quality King's* statement that the first sale rule did not apply to lawfully made foreign copies. Although Section 109(a), by its own terms, applies only to copies “lawfully made under this title,” the *Kirtsaeng* Court concluded that Congress did not intend this phrase to exclude lawful copies made outside the United States. It based this conclusion on the language and legislative history of Section 109, the common law origins of the first sale rule, and public policy considerations.

### a. Statutory Language

Parsing the phrase “lawfully made under this title” word by word, the majority was unconvinced that “under” implies any geographic limitations.<sup>110</sup> The Court noted that the same phrase also appears in other Title 17 provisions where a geographic interpretation would be highly problematic.<sup>111</sup> These include the public display right under Section 109(c), the right to publicly perform or display arcade games under Section 109(e), and the right to show audiovisual works during classroom instruction under Section 110(1). The Court added that a similar phrase appears in Section 106, which describes the rights of the “owner of copyright under this title.”<sup>112</sup> The Court

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108. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355-56 (2013).

109. See *Kirtsaeng v. John Wiley & Sons, Inc.*, 654 F.3d 210, 216 (2d Cir. 2011), *rev'd*, 133 S. Ct. 1351 (2013). The Second Circuit went on to apply its *Kirtsaeng* decision in *Pearson Education, Inc. v. Kumar*, 721 F. Supp. 2d 166 (S.D.N.Y. 2010), *aff'd, sub nom. Pearson Education, Inc. v. Yadav*, 452 F. App'x. 11 (2d Cir. 2011), *pet. for cert. filed*, No. 11-1343 (May 3, 2012). The district court in *Pearson* held that the first sale rule did not apply to foreign-made copies that were imported and then sold to U.S. purchasers through the Internet, and the Second Circuit affirmed on the strength of its own decision in *Kirtsaeng*.

110. *Kirtsaeng*, 133 S. Ct. at 1358.

111. *Id.* at 1362.

112. *Id.*

flatly rejected the Ninth Circuit's gloss on Section 109 in *Denbicare*—which held that the first sale rule applies to foreign-made copies only after the first authorized sale in the United States—because nothing in the statutory language supports that interpretation.<sup>113</sup>

The Court's arguments are not equally persuasive. With respect to the right to publicly perform or display arcade games under Section 109(e), and the right to perform audiovisual works in the classroom under Section 110(1), Congress might indeed have intended to limit these privileges to uses that involve domestically made copies. The copies used in these situations are always "copies" in the dictionary sense—they are not the original fixation of the works. Therefore, in these contexts a geographic interpretation of "lawfully made under this title" does not produce an absurd result—only a protectionist one.

The Court's Section 106 argument is even less persuasive. The phrase at issue in Section 109—"lawfully made under this title"—is completely different from the phrase used in Section 106—"the owner of copyright under this title." The latter does not concern itself with the lawfulness of a tangible copy, but with standing to sue for infringement. Only the owner of the U.S. copyright in a work has the right to enforce the exclusive rights enumerated in Section 106; thus, even if a person is considered the owner of a work under foreign law, if that person's ownership claim is not also recognized "under" federal copyright law, then the person has no standing to sue under Section 106.<sup>114</sup> Therefore, contrary to the Court's analysis, giving a geographic meaning to "lawfully made under this title" has no impact whatsoever on the meaning of Section 106.

In contrast, Section 109(c) provides by far the strongest argument for a nongeographic interpretation of "under this title." Section 109(c) allows the owner of a copy "lawfully made under this title" to display that copy to members of the public who are present in the same location as the copy (thus allowing artwork to be displayed in a museum or gallery, but not over the Internet or on television, for example).<sup>115</sup> As the Court noted, it is highly

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113. *Id.* at 1360.

114. *See, e.g.,* Itar-Tass Russian News Agency v. Russian Kurier, Inc., 153 F.3d 82,91 (2d Cir. 1998) (under choice of law principles, Russian law determined ownership of U.S. copyrights with respect to works created in Russia, and U.S. law determined the owner's standing to sue under Section 106); *Films by Jove, Inc. v. Berov*, 341 F. Supp. 2d 199 (E.D.N.Y. 2004) (refusing to give effect to Russian Federation's claim to own, by expropriation, U.S. distribution rights to a film). Exclusive licensees and certain joint authors also have enforceable rights under Section 106, regardless of whether they have those same rights in foreign countries. *See* *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991).

115. 17 U.S.C. § 109(c) (2012) (permitting display to "viewers present at the place where the copy is located"); *see* *Bryant v. Gordon*, 483 F. Supp. 2d 605, 613 (N.D. Ill. 2007) (Section 109(c) does not permit display on the Internet); *Video Pipeline, Inc. v. Buena Vista Home Ent't, Inc.*, 192 F. Supp. 2d 321, 334-35 (D.N.J. 2002) (quoting H.R. REP. NO. 94-1476, at 79 (1976) (§ 109(c) does not allow "transmitt[ing] . . . by any method (by closed or open circuit

unlikely that Congress intended to prevent people who purchase foreign-made artwork from displaying that artwork in the United States.<sup>116</sup>

The real culprit here may be Congress's use of the word *copy* throughout the Copyright Act to include not only reproductions but also the *original fixation* of the artwork.<sup>117</sup> Because the copyright statutes define "copy" to include the original fixation of a work as well as all subsequent reproductions of it, reading a geographic limitation into Section 109(c) would mean that the owner of an original work of art created outside the United States could not display that piece of art in a museum or other public place without the consent of the copyright owner. It is possible that Congress intended Section 106(5) to grant copyright owners the exclusive right to control public displays only of *reproductions* of their works, thus allowing purchasers of the originals an unfettered right to display their copies without even resorting to the first sale rule. Alternatively, Congress may have meant Section 109(c) as a first sale privilege for purchasers of original fixations and *domestically* made reproductions of such works, but not foreign reproductions.

The use of the word *copy* to encompass originals also afflicts Section 602(a)(1): one who purchases original works of art outside the United States should be able to import and resell the originals without running afoul of the copyright owner's exclusive importation and distribution rights. Based on the Court's analysis, the way to make sense of Sections 602(a) and 106(3) in this context is to treat these foreign-made originals as copies made "under this title" for purposes of Section 109(a). But the problem can be solved just as easily by specifying that original fixations are not *copies* for purposes of Sections 602(a)(1), 106(3), or 109(a). Although Congress did not take that route, arguably this was simply a drafting error—the same one that afflicts Sections 106(5) and 109(c). This makes the majority's statutory interpretation argument less compelling.

### *b. Legislative History*

The wording of the first sale rule in the Copyright Act of 1909 did not imply any geographical restriction:

[N]othing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.<sup>118</sup>

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television, for example, or by a computer system)"); *Brown v. McCormick*, 23 F. Supp. 2d 594, 609 (D. Md. 1998) (Section 109(c) does not allow display on television broadcast).

116. *Kirtsaeng*, 133 S. Ct. at 1362.

117. The Copyright Act defines "copies" as "material objects . . . in which a work is fixed," and adds: "The term 'copies' includes the material object . . . in which the work is first fixed." 17 U.S.C. § 101 (2012).

118. Copyright Act of 1909, § 41, 35 Stat. 1084.

Although the 1976 Act changed the rule by making it applicable only to the “owner” of a copy “lawfully made under this title,” the *Kirtsaeng* majority found no indication in the legislative history that Congress intended the 1976 provision to apply only to domestically made copies.<sup>119</sup> In the Court’s view, Congress adopted the new language simply to make clear that the rule applied (1) only to nonpirated copies, and (2) only to *owners* of copies rather than to all lawful *possessors* of copies, such as movie theaters that leased their motion picture prints.<sup>120</sup>

The 1976 Act also phased out the manufacturing clause (former Section 601), which had prohibited the importation of copies made outside of the United States and Canada; the Court cited this as further evidence that Congress did not intend Section 109 to discriminate against lawfully made foreign copies.<sup>121</sup> The manufacturing clause had a very different purpose from Section 602, however. Its purpose was to protect the U.S. printing industry by preventing American authors from outsourcing the printing of their English-language works to lower-priced foreign manufacturers.<sup>122</sup> Thus, foreign-made copies of English-language works could not be imported even with the consent of the authors, and authors that imported copies in violation of the rule forfeited their copyrights. Thus, Section 601 restricted the rights of authors, and repealing it enhanced their rights. Section 602, in contrast, enhanced the rights of authors by allowing them to control importation of their works; *Kirtsaeng*’s narrow interpretation of Section 602 restricts authors’ rights. The fact that Congress in 1976 chose to allow *authors* to import copies of their works in no way suggests that Congress also sought to allow *everyone else* to import copies without the authors’ consent.

Finally, the Court acknowledged that, during the 1960s, when the drafting of 1976 Act was in its early stages, the Register of Copyrights presented several proposals to prohibit the importation of lawful foreign-made copies, in an attempt to alleviate publishers’ concerns over “the difficulty of dividing international markets.”<sup>123</sup> None of these proposals expressly considered the impact of the first sale rule, however, even though the Authors’ League raised the issue.<sup>124</sup> Because the 1960s draft provision did not address the applicability of the first sale rule, and was abandoned in favor of the current language, the Court found this part of the legislative history unenlightening.<sup>125</sup>

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119. *Kirtsaeng*, 133 S. Ct. at 1360-62.

120. *Id.* at 1360-61.

121. *Id.*

122. H.R. REP. NO. 94-1476, at 164-66 (1976).

123. *Kirtsaeng*, 133 S. Ct. at 1369.

124. *Id.* at 1369-70.

125. *Id.*

*c. Common Law History*

Applying a familiar canon of statutory construction, the majority reasoned that Section 109 should be interpreted in a manner consistent with the first sale rule as it existed at common law prior to codification.<sup>126</sup> In the seventeenth century, the common law did not permit restrictions on the alienation of chattels.<sup>127</sup> Such restrictions, the Court observed, would be difficult to enforce as applied to “difficult-to-trace, readily moveable goods.”<sup>128</sup> Before the first sale rule was codified in the 1909 Act, the Court had applied the common law principle in *Bobbs-Merrill Co. v. Straus*,<sup>129</sup> where it refused to enforce resale restrictions contained in a notice printed in a book. The *Kirtsaeng* Court saw no hint of a geographical limitation in the history of the common law rule.<sup>130</sup> This is hardly surprising, however, because neither *Bobbs-Merrill* nor the other common law authorities cited by the Court involved imported goods. Therefore, there was no occasion for the courts to consider whether the same rule should apply to imported copies of copyrighted works. Nonetheless, the majority treated the absence of such evidence as further support for applying the first sale rule to foreign-made copies.

*d. Public Policy*

Although it focused much of its analysis on the statutory language and history of the first sale rule, the Court also emphasized the potential downstream effects of a contrary holding. If the first sale rule did not apply to foreign-made copies, the Court observed, then used bookstores, libraries, and others who sell or lend copyrighted materials would face the impossible task of identifying which of their volumes were foreign-made, and then tracking down all of those copyright owners for permission to distribute those copies.<sup>131</sup> This onerous burden would effectively shut down their operations.

Additionally, foreign-made consumer goods containing software, such as cell phones, automobiles, and computers, or accompanied by copyrighted labels, instructions, or packaging materials, would require the copyright owner’s consent for any domestic resale, even if they were manufactured, imported, and initially sold with the copyright owner’s consent. Art museums, galleries, and other public venues could not publicly display foreign-made copyrighted works of art without obtaining copyright permission because Section 109(c) would not apply.

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126. *Id.* at 1363.

127. *Id.*

128. *Id.*

129. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 339 (1908).

130. *Kirtsaeng*, 133 S. Ct. at 1363-64.

131. *Id.* at 1364-65.



Not mentioned by the Court, but also problematic, would be the impact on the fine art market if the lawful owner of a foreign-made copyrighted painting or sculpture could not import or resell the original without the consent of the artist or the artist's heirs. Alternatively, one can view the problem of original artwork through a different lens altogether—as a problem that arises from careless drafting. Even if this particular concern is set aside, however, allowing copyright owners to control all public displays and distributions of foreign-made copies would have serious consequences.

### 3. What is Left of Section 602(a)(1)?

Very little remains of Section 602(a)(1) after *Kirtsaeng*. According to the majority, the importation ban still applies to lawfully made foreign copies, but only with respect to an exceedingly narrow range of unauthorized importation activities:<sup>132</sup> (1) copies made overseas (by a foreign publisher or printer) with the consent of the U.S. copyright owner and then imported before any sale takes place; (2) copies made overseas with the consent of the U.S. copyright owner and then delivered but not sold to a wholesaler that subsequently imports them; and (3) copies imported by a licensee (such as a film distributor that leases its prints), consignee or bailee.<sup>133</sup>

It is unlikely that Congress intended Section 602(a)(1) to have so little application. As Justice Ginsburg notes in her dissent, if Congress had meant to apply the importation ban only to copies that have never been sold, Congress would not have created the exceptions in Section 602(a)(3) that expressly permit importation of copies for certain personal, governmental, or archival purposes, including library lending.<sup>134</sup>

Because of the Court's narrowing of the importation ban, only rarely will copyright owners be able to use incidental copyrights to block parallel imports. They can, however, accomplish this by structuring their foreign

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132. Justice Kagan's concurrence describes this as "a fairly esoteric set of applications." *Id.* at 1372. She also suggests that *Quality King* erred in holding that Section 109(a) limits the importation right. *Id.* at 1373.

133. *Id.* at 1368. The third scenario will apply only where the copies possessed by the licensee, consignee, or bailee have not already been the subjects of a first sale, which would seem to be a rare occurrence. It might apply, however, where a domestic publisher outsources its manufacturing activities but does not allow the foreign manufacturer to own the copies.

134. *Id.* at 1379. Justice Ginsburg would have held that (1) Section 109(a) applies only to domestically-made copies, but (2) under the common law exhaustion rule recognized in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), which predates Congress's codification of the first sale doctrine, an authorized domestic distribution of foreign-made copies exhausts the copyright owner's distribution rights with respect to those copies, without any need to invoke Section 109(a). Accordingly, if a copyright owner authorizes only a foreign distribution of its foreign-made copies, exhaustion does not apply. *Id.* at 1386-87 (Ginsburg, J., dissenting). Her effort, however, to refute what she called the majority's "parade of horrors," *id.* at 1373, depended on a combination of doctrines—implied license, fair use, and Section 602(a)(3)(C)'s limited importation right for libraries, *id.* at 1388-89 (Ginsburg, J., dissenting)—which offer little reassurance to libraries, consumers, book dealers, retailers, or museums.

manufacturing activities to fit within the confines of the newly narrowed Section 602(a)(1)—by authorizing foreign manufacturers to make the copyrightable components of their merchandise without allowing those manufacturers to actually own the copies they make. Because the manufacturers will be mere possessors but not owners, they will have no authority to sell the copies or export them to the United States. If those copies do find their way to the United States, the first sale rule will not apply, and both the importer and any subsequent domestic distributors will be liable for infringement. This situation would arise, for example, if the foreign manufacturer makes more copies than the U.S. owner chooses to import at any given time. If the foreign manufacturer were to ship those copies to the United States, this would infringe under Section 602 (in addition to probably being a breach of contract). This is a very limited scenario, however, which requires the copyright owner to forego all foreign sales. In a more typical scenario, where the copyright owner sells (or consigns) some of these copies to a foreign distributor to be sold in foreign markets, then under *Kirtsaeng* the copyright owner will lose control over further distribution, including importation and sale in the United States. Thus, any authorized sale in a foreign market will trigger the first sale rule.

#### 4. How Will Congress Respond to *Kirtsaeng*?

*Kirtsaeng*'s regime of international copyright exhaustion may be short-lived. Because the Court based its holding on statutory interpretation rather than constitutional imperatives, Congress can overturn the decision simply by amending the statute. The influential copyright-intensive industries in the United States (book publishing, software, motion pictures, sound recordings, and video games) are likely to lobby for restoration of the importation ban. Now that trademark owners have discovered the utility of copyright law in blocking parallel imports, they are likely to join the lobbying effort as well.

The Obama administration will probably support a parallel importation ban for copyrighted works. Failure to do so will be a dramatic reversal of the policy for which the United States has consistently advocated in the international arena. The United States has pressured other countries to prohibit parallel imports of copyrighted works, sometimes threatening or imposing the "Special 301 Watch List" designation as a penalty for noncompliance.<sup>135</sup> It will be ironic if the United States itself abandons the very policy which it has pressured other countries to adopt.

More recently, the United States has raised the stakes by seeking to include a parallel importation ban in the Trans-Pacific Partnership Agreement (TPP). The TPP, a multinational agreement covering a wide array of trade-

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135. See Hawin, *supra* note 12, at 79, 82, 84, 115 (noting that, with varying degrees of success, the United States has exerted such pressure on Hong Kong, Taiwan, Israel, South Africa, Peru, Venezuela, Thailand, Australia, and New Zealand).

related issues, is currently being negotiated by the United States and eleven other countries.<sup>136</sup> Although the negotiations are secret,<sup>137</sup> two working drafts of the intellectual property provisions have been leaked.<sup>138</sup> In each draft, the United States has endorsed a provision that would require members to ban parallel imports of copyrighted works:

Each Party shall provide to authors, performers, and producers of phonograms the right to authorize or prohibit the importation into that Party's territory of copies of the work, performance, or phonogram made without authorization, *or made outside that Party's territory with the authorization of the author, performer, or producer of the phonogram.*<sup>139</sup>

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136. The other countries are Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. See *Update on the 17th Round of Trans-Pacific Partnership Agreement (TPP) Negotiations*, OFFICE OF THE U.S. TRADE REPRESENTATIVE, available at <http://www.ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/round-17-peru> (last visited Oct. 14, 2013). Although the negotiations are expected to conclude in 2013, see *The United States in the Trans-Pacific Partnership*, OFFICE OF THE U.S. TRADE REPRESENTATIVE, available at <http://www.ustr.gov/about-us/press-office/fact-sheets/2011/november/united-states-trans-pacific-partnership> (last visited Oct. 14, 2013), as this article goes to press it seems doubtful that this deadline will be met.

137. See Letter from 130 Members of Congress to USTR Expressing Concern over Transparency in TPP (June 27, 2012), available at <http://publicknowledge.org/files/TPP%20Letter%20FINAL.pdf>; Sean Flynn, *Law Professors Call for Trans-Pacific Partnership (TPP) Transparency*, PROGRAM ON INFO. JUST. & INTELL. PROP. (May 9, 2012), available at <http://infojustice.org/archives/21137> (reproducing protest letter from law professors to USTR as well as USTR response); Letter to President Obama, Members of Congress, and Ambassador Michael Froman (Nov. 14, 2013), available at <http://infojustice.org/wp-content/uploads/2013/11/Law-Professors-TPP-11142013.pdf> (letter from law professors asking Obama Administration to release current official draft of TPP).

138. Trans-Pacific Partnership Agreement (Draft Aug. 30, 2013), available at <http://keionline.org/sites/default/files/Wikileaks-secret-TPP-treaty-IP-chapter.pdf> [hereinafter TPP 2013 Draft]; Trans-Pacific Partnership Agreement (Draft Feb. 10, 2011), available at <http://keionline.org/sites/default/files/tpp-10feb2011-us-text-ipr-chapter.pdf> [hereinafter TPP 2011 Draft].

139. TPP 2013 Draft, art. QQ.G.3, *supra* note 138, at 50; TPP 2011 Draft, art. 4.2, *supra* note 138, at 12. In each draft, a footnote authorizes exceptions to the general rule. See *infra* note 369. Annotations in the 2013 draft, however, indicate that the United States is the only TPP country that still endorses the ban on parallel imports of copyrighted works. Furthermore, the 2013 draft also contains a contradictory provision, endorsed by eight countries, but opposed by the United States and Australia, which affirmatively favors international exhaustion, TPP 2013 Draft, art. QQ.G.17, *supra* note 138, at 65 ("The Parties are encouraged to establish international exhaustion of rights."). It also contains a separate proposal from Canada that would allow each signatory to choose its own exhaustion rule, thus effectively making the TPP neutral on the question of international exhaustion. *Id.* ("Nothing in this Chapter shall affect the freedom of the Parties to determine whether and under what conditions the exhaustion of copyright and related rights applies.").

The United States is one of the strongest backers of the TPP, and has already included similar provisions in two current free trade agreements.<sup>140</sup> In each case, the provision expressly applies to authorized copies, and makes no mention of the concept of exhaustion or any other exception to the importation right. Thus, the United States has already committed itself to two agreements that are inconsistent with *Kirtsaeng*. The United States has already met significant resistance in its efforts to include a parallel import ban in the TPP.<sup>141</sup> Post-*Kirtsaeng*, it will likely encounter even greater difficulty persuading other countries to adopt or retain import restrictions that it has itself rejected.

Justice Kagan's concurring opinion in *Kirtsaeng*, in which Justice Alito joined, suggests one way in which Congress might restore the importation ban without triggering the parade of horrors that concerned the *Kirtsaeng* majority—by amending Section 602(a) to clarify that, unlike the exclusive distribution right, the importation ban is not limited by the first sale rule.<sup>142</sup> This would allow copyright owners to pursue infringement claims against unauthorized importers, but not against purchasers who subsequently sell or lend those imported copies within the United States.

In April 2013 the Chairman of the House Judiciary Committee announced the Committee's intent to conduct "a comprehensive review of U.S. copyright laws."<sup>143</sup> This review may include a proposal to restore the exclusive importation right. If that effort succeeds, then trademark owners will continue to add copyrightable features to their foreign-made products and packaging for the primary purpose of controlling parallel imports.

Even if *Kirtsaeng* is not legislatively overturned, copyright owners may be able to exploit an ambiguity in the opinion. The Court focused its analysis entirely on the question of whether the first sale rule was limited by the place of manufacture; it did not address the equally important question whether the first sale rule applies to copies that are made and sold under the authority of a copyright owner *other than* the U.S. copyright owner. In *Kirtsaeng*, the American publisher Wiley had established a wholly owned foreign subsidiary, John Wiley & Sons (Asia) Pte. Ltd. "to publish, print and

140. Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area, U.S.-Jordan, art. 4(11), Oct. 24, 2000, 41 I.L.M. 63 [hereinafter U.S.-Jordan Free Trade Agreement]; U.S.-Morocco Free Trade Agreement, U.S.-Morocco, art. 15.5(2), June 15, 2004, 118 Stat. 1103.

141. See *supra* note 139. A new "Negotiator's Note" attached to Article QQ.G.3 in the 2013 draft suggests that the United States may be waiving: "The US is considering the relationship between this provision and other proposals regarding the exhaustion of IP rights, as well as other TPP countries' legal regimes." TPP 2013 Draft, *supra* note 138, at 50 n.136.

142. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1372-73 (2013) (Kagan, E., concurring).

143. Press Release, United States House of Representatives, Chairman Goodlatte Announces Comprehensive Review of Copyright Law (Apr. 24, 2013) available at [http://judiciary.house.gov/news/2013/04242013\\_2.html](http://judiciary.house.gov/news/2013/04242013_2.html).

sell Wiley's English language textbooks abroad."<sup>144</sup> When the opinion states that the foreign-made copies had been "manufactured and sold with Wiley's permission,"<sup>145</sup> it implicitly conflates these two separate legal entities. Although this is consistent with the analysis of parallel imports under the Lanham Act,<sup>146</sup> the Court does not explain why it chose the same approach for copyrights.

With respect to copyrights, if the foreign entity were not wholly owned and controlled by the U.S. parent, would it still be correct to say that the parent consented to the foreign publication? As discussed in Part II below, copyright owners in Canada<sup>147</sup> and South Africa<sup>148</sup> have avoided exhaustion of their rights by splitting their domestic and foreign copyrights among different assignees. Employing a similar strategy in the United States might avoid the international exhaustion rule imposed by *Kirtsaeng*.

For example, if John Wiley & Sons had assigned its foreign copyrights to a different (and perhaps completely unrelated) legal entity, it could argue that it never consented to the foreign manufacture or sale of the textbooks that Kirtsaeng imported. Although the copies could still be described as lawfully made, the first sale rule might not apply, because the U.S. copyright owner did not itself introduce them into the stream of commerce. Owners of valuable copyrights in works such as books and software might be reluctant to assign rather than license their rights to foreign publishers. Copyrights in labels, packaging, and other minor accessories, however, tend to have a much lower value, making the decision to assign rather than license them less problematic. Therefore, the divided-copyright approach might be especially useful for the kinds of incidental copyrights that allow trademark owners to broaden their protection against parallel imports.

### C. Patent Law

In addition to copyright law, trademark owners in some cases may have recourse to patent law to obtain relief against unauthorized imports. The owner of a U.S. patent can prohibit the unauthorized importation or domestic sale of merchandise embodying the patented invention.<sup>149</sup> This rule applies to both utility patents and design patents.<sup>150</sup> While utility patents apply to useful products and processes,<sup>151</sup> design patents apply to ornamental designs that are used to decorate articles of manufacture.<sup>152</sup> A single logo—such as

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144. *Kirtsaeng*, 133 S. Ct. at 1356.

145. *Id.*

146. *See supra* note 65 and accompanying text.

147. *See infra* notes 278-279 and accompanying text.

148. *See infra* notes 257-258 and accompanying text.

149. 35 U.S.C. § 271(a) (2012).

150. *Id.* (referring to "any patented invention").

151. *Id.* § 101 (authorizing patents for "useful" inventions).

152. *Id.* § 171.

the globe design engraved on the back of Omega's Seamaster watches<sup>153</sup>—can potentially qualify for trademark, copyright, and design patent protection simultaneously.

While owners of domestic utility patents can use those patents to block unauthorized imports of articles embodying their patented inventions, utility patents are not an option for most trademark owners seeking an alternative to trademark law in preventing parallel imports. To be patentable, an invention must meet stringent standards of novelty<sup>154</sup> and must perform some useful function.<sup>155</sup> In addition, the applicant must apply for the patent in a timely manner.<sup>156</sup> Moreover, obtaining utility patents is a time-consuming and costly process.<sup>157</sup> For these reasons, utility patents will rarely provide a convenient end run around trademark law as a method of blocking parallel imports.<sup>158</sup>

For most trademark owners, design patents are a more practical option for blocking parallel imports. Because design patents protect novel ornamental designs applied to manufactured goods,<sup>159</sup> many features of product configuration and packaging will qualify for protection. Although design patents cannot protect word marks or textual elements such as instruction manuals, they can protect nonverbal features such as surface ornamentation or the decorative shape of a manufactured article, provided these are decorative rather than utilitarian. Like copyrightable material, a patentable design can be incorporated into the packaging of a product or embedded in the product itself. For example, Omega's globe design would be subject matter eligible for a design patent. The shape of the watch itself would also be eligible. The design for which the patent is obtained may also serve as a trademark if it functions as a source indicator; if not, it may simply be an ornamental design that makes the product more appealing to purchasers.<sup>160</sup> In either case, the

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153. See *supra* note 105 and accompanying text.

154. *Id.* §§ 101, 102.

155. *Id.* § 101.

156. *Id.* § 102.

157. Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW. U. L. REV. 1495, 1498 (2001) (estimating the cost at \$10,000 to \$30,000); Elizabeth Herbst Schierman, *IP Transactions: Questions to Ask Before Buying Patent-Related Rights*, 55 ADVOC. 20, 24 n.2 (Oct. 2012) (noting that cost of prosecuting patent "may easily reach \$25,000 or more").

158. Certain kinds of merchandise can easily include a patentable software component, such as computers, automobiles, office equipment, consumer electronics and appliances. If the software is only a minor component of the product, however, the cost and difficulty of obtaining patent protection would make this strategy impractical. In contrast, obtaining copyright protection for software is automatic and inexpensive.

159. 35 U.S.C. § 171; *Gorham Mfg. Co. v. White*, 81 U.S. 511, 525-26 (1871) (noting that the purpose of design patents is to encourage manufacturers to make utilitarian articles more attractive).

160. Copyright and trademark laws may also protect patented designs. See *Wal-Mart Stores, Inc. v. Samara Bros., Inc.*, 529 U.S. 205, 214 (2000); *Pioneer Hi-Bred Int'l, Inc. v. J.E.M. Ag Supply, Inc.*, 200 F.3d 1374, 1378 (Fed. Cir. 2000).

owner of the design patent can bring a patent infringement claim<sup>161</sup> to block what would otherwise be lawful importation under trademark or copyright laws. Although the concept of exhaustion applies to patents as well as copyrights,<sup>162</sup> thus far the federal courts have held that exhaustion does not limit the right of a patent owner to block parallel imports.<sup>163</sup>

Compared to copyright protection, design patent protection is more expensive to obtain,<sup>164</sup> requires novelty and nonobviousness rather than mere originality,<sup>165</sup> involves a lengthy application process,<sup>166</sup> and offers a much shorter term of protection.<sup>167</sup> Because designs that have already been in use for a year or more are ineligible for patent protection,<sup>168</sup> trademark owners seeking to use design patent protection against parallel imports will have to develop new designs if they have not already patented their existing designs, and they will have to periodically refresh those designs and submit new applications. Thus, while copyright law prior to *Kirtsaeng* provided a more convenient and economical end run around trademark law limitations, as

161. 35 U.S.C. § 271(a).

162. See *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008) (noting that in patent law, the Supreme Court has long recognized the exhaustion doctrine. It has, however, never been codified).

163. *Ninestar Tech. Co. v. Int'l Trade Comm'n*, 667 F.3d 1373, 1378-79 (Fed. Cir. 2012), *cert. denied*, 133 S. Ct. 1656 (Mar. 25, 2013); *Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010); *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1105 (Fed. Cir. 2001). But see *Multimedia Patent Trust v. Apple*, 2012 WL 6863471 at \*5 (S.D. Cal. Nov. 9, 2012) (distinguishing *Ninestar* as involving direct foreign sales by patentee, and holding that exhaustion did not apply to goods sold abroad by licensee pursuant to unconditional worldwide license from patentee).

164. The cost of obtaining a design patent is typically \$2,500 to \$3,000. See Jeff John Roberts, *Here Come the Design Patents: New Law Boosts Rights in Shapes, Designs*, GIGAOM (Dec. 27, 2012, 7:38 AM), <http://gigaom.com/2012/12/27/here-come-the-design-patents-new-law-boosts-rights-in-shapes-designs/>; see also Travis L. Manfredi, *Sans Protection: Typeface Design and Copyright in the Twenty-First Century*, 45 U.S.F. L. REV. 841, 862 (2011) (noting high cost of design patents compared to copyright protection). The only cost of copyright protection is the one-time registration fee (currently \$35 to \$65); registration is optional but confers significant benefits, including the right to sue for infringement.

165. 35 U.S.C. § 171 (noting that, with some exceptions, the general requirements of patent law apply equally to design patents). The novelty and nonobviousness requirements require the design to be significantly different from pre-existing designs. *Id.* § 102 (novelty); *id.* § 103 (nonobviousness).

166. They are, however, significantly easier to obtain, and less costly, than utility patents. See Perry J. Saidman, *The Crisis in the Law of Designs*, 89 J. PAT. & TRADEMARK OFF. SOC'Y 301, 332 (2007) (comparing cost of design and utility patents).

167. 35 U.S.C. § 173 (currently, design patents have a 14-year term); Patent Law Treaties Implementation Act of 2012, Pub. L. No. 112-211, 126 Stat. 1527 (for applications filed on or after December 18, 2013, the term will be extended to 15 years); 17 U.S.C. § 302(a), (c) (noting that under the Copyright Act of 1976, the term of protection is the life of the author plus 70 years or, for works made for hire and certain other works, the lesser of 95 years from publication or 120 years from creation).

168. 35 U.S.C. §§ 102(a)(1), (b)(1)(A).

long as *Kirtsaeng* remains the law, some trademark owners may turn to design patents as an alternative.

Recent developments in design patent law have increased the likelihood that trademark owners will adopt this strategy. A series of court decisions has made it easier for design patent owners to win infringement suits.<sup>169</sup> In the Patent Law Treaties Implementation Act,<sup>170</sup> which takes effect on December 18, 2013, Congress made design patents more attractive and cost-effective. The new law permits design patent applicants (1) to file a single international application to seek design patents in multiple countries, (2) to include up to 100 designs in a single international application, and (3) to recover damages for infringements that occurred while the patent application was still pending.<sup>171</sup> The law also increases the term of design patent protection from fourteen to fifteen years.<sup>172</sup>

## II. INTELLECTUAL PROPERTY BARRIERS TO PARALLEL IMPORTS UNDER FOREIGN LAWS

The United States is not alone in wrestling with the questions of whether, how, and to what extent intellectual property laws should be used to limit parallel imports. While many countries permit a wide range of parallel imports, most impose at least some restrictions.<sup>173</sup>

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169. *Crocs, Inc. v. Int'l Trade Comm'n*, 598 F.3d 1294 (Fed. Cir. 2010) (under ordinary observer test, court must consider "overall effect" of patented design, rather than a detailed verbal description); *Egyptian Goddess, Inc. v. Swisa, Inc.*, 543 F.3d 665 (Fed. Cir. 2008) (en banc) (eliminating "point of novelty" test for infringement, and holding that the sole test is whether ordinary observer would believe designs were the same). Apple's successful infringement suit against Samsung, see *Apple, Inc. v. Samsung Electronics Co.*, No. 11-CV-01846 (N.D. Cal. 2012), which resulted from Apple's aggressive design patent strategy, see Christopher Carani, *Apple v. Samsung: Design Patents Take Center Stage*, 5 LANDSLIDE (Jan./Feb. 2013), available at [http://www.americanbar.org/publications/landslide/2012\\_13/january\\_february/apple\\_v\\_samsung\\_design\\_patents\\_take\\_center\\_stage.html](http://www.americanbar.org/publications/landslide/2012_13/january_february/apple_v_samsung_design_patents_take_center_stage.html) (noting dramatic increase in Apple's design patent applications from 2006 to 2007), will prompt many businesses to increase their use of design patents.

170. Patent Law Treaties Implementation Act of 2012, Pub. L. No. 112-211, 126 Stat. 1532 (signed into law December 19, 2012).

171. See Vera Suarez & Alan N. Herda, *The Patent Law Treaties Implementation Act of 2012*, LEXOLOGY (June 4, 2013), <http://www.lexology.com/library/detail.aspx?g=ea3bf090-7fc1-471e-8e79-d0d95dd111e6> (describing these provisions).

172. 35 U.S.C. § 173 (currently, design patents have a 14-year term); Patent Law Treaties Implementation Act of 2012, Pub. L. No. 112-211, 126 Stat. 1527 (for applications filed on or after December 18, 2013, the term will be extended to 15 years).

173. Singapore has lifted nearly all restrictions on parallel imports of lawfully-made copyrighted goods. See *infra* notes 239-241 and accompanying text. Taiwan permits parallel imports of patented inventions and trademarked goods, but treats unauthorized importation of copyrighted works as infringement. Yuan-Chen (Jessica) Chiang, *Parallel Importation of Copyright Products in Taiwan: A Struggle with International Trade Policy*, 13 J. WORLD INTELL. PROP. 744 (2010). Canada's trademark law permits parallel imports, but its copyright laws are stricter. See *infra* notes 270-274 and accompanying text.



The European Union (EU) prohibits members from restricting imports from other countries in the European Economic Area (EEA), but requires them to block parallel imports from outside the EEA.<sup>174</sup> EU members are therefore prohibited from adopting a policy of international exhaustion with respect to goods that are first sold outside the EEA.<sup>175</sup> This rule applies to trademarks,<sup>176</sup> copyrights,<sup>177</sup> and design rights (which are similar to design patents).<sup>178</sup> With respect to patents, exhaustion applies within the European Union,<sup>179</sup> but the question of international exhaustion is left to individual EU members.<sup>180</sup> Because the European Union has harmonized the parallel importation rules governing the different intellectual property regimes to such a great extent, the problem of trademark owners using copyright or design patents as an end run around trademark law has not arisen.<sup>181</sup>

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174. *Preventing Parallel Imports Under Trademark Law*, LADAS & PERRY LLP, <http://www.ladas.com/IPProperty/GrayMarket/GrayMa02.html> (last visited July 14, 2013).

175. Council Regulation 40/94, art. 31(1), 1993 O.J. (L 11) 1 (EC) (applying same exhaustion rule to Community trade marks); First Council Directive 89/104/EEC, to Approximate the Laws of the Member States Relating to Trade Marks, 1988 O.J. (L 40) 1, 7 (requiring EU members to adopt rule of regional exhaustion); Case C-355/96, *Silhouette Int'l Schmied v. Hartlauer Handelsgesellschaft*, 1988 E.C.R. I-4799 (Directive does not allow members to adopt international exhaustion rules); Case C-173/98, *Sebago Inc. and Ancienne Maison Dubois et Fils, SA v. GB Unic, SA.*, 2 C.M.L.R. 1317 (1999) (similar).

176. See *supra* note 175.

177. Directive 2001/29, of the EU Parliament and of the Council of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, art. 28, 2001 O.J. (L 167) 1 (copyrights in general); Council Directive 91/250/EEC, of 14 May 1991 on the Legal Protection of Computer Programs, art. 4(c), 1991 O.J. (L 122) 1 (computer software); Case T-198/98, *Micro Leader Bus. v. Comm'n*, 1999 E.C.R. II-3989 (applying Directive 91/250/EEC); Case C-51/75, *EMI Records v. CBS*, 1976 E.C.R. 811.

178. Directive 98/71/EC, of the European Parliament and of the Council of 13 October 1998 on the Legal Protections of Designs, art. 15, 1998 O.J. (L 289) 1 (EC) (designs in general); Council Regulation 6/2002, of 12 December 2001 on Community Designs, art. 21, 2001 O.J. (L 3) 1 (EC) (Community Designs).

179. *Merck Canada, Inc. v. Sigma Pharm. plc*, [2012] EWPCC 18 (patentee could sue for infringement where drug was imported into United Kingdom from Poland where drug was not patent eligible in Poland before its accession into European Union); Case 187/80, *Merck & Co. v. Stephar BV & Petrus Stephanus Exler*, 1981 E.C.R. 2063 (1981) (exhaustion within European Union); Cases C-267/95 and 268/95 *Merck & Co. v. Primecrown Ltd.* [1996] E.C.R. I-6285 (similar).

180. *Generics (UK) Ltd. v. Smith Kline and French Labs. Ltd.*, 1992 E.C.R. I-5335, at para. 17 (noting that while Articles 30 and 36 prohibit restrictions on trade within the EU, each member country can decide for itself whether to permit importation of patented goods from outside the EU).

181. Japan, too, has had no occasion to address the end run scenario. Trademarks are subject to international exhaustion, provided the goods are genuine. See *Osaka Chiho Saiban-sho* [Osaka Dist. Ct.] Feb. 27, 1970, 234 HANREI TAIMUZU [HANTA] 57 (Japan); *Tokyo Chiho Saiban-sho* [Tokyo Dist. Ct.] Dec. 7, 1984, 1141 HANREI JIHÔ [HANJI] 143, 201 (Japan). International exhaustion also applies to copyrighted works, with the exception of motion pictures. Copyright Act, Arts. 26, 26-2 (Japan). With respect to patents, the law is less clear, but international exhaustion appears to be the general rule, except where the Japanese patentee gives notice to its foreign purchasers that importation is prohibited. *BBS Kraftfahrzeugtechnik AG*

The problem has, however, presented itself in several other countries that resemble the United States in applying inconsistent exhaustion rules to copyrights and trademarks. In recent years, the question has squarely presented itself in Australia, Singapore, South Africa, and Canada. In these countries, courts and legislatures have had to consider whether trademark owners should be permitted to use copyright law to block parallel imports that would otherwise be permitted under trademark law. Examining their attempts to resolve the issue can be instructive for the United States and other countries that intend to retain different exhaustion rules for different intellectual property regimes.

Of the four countries examined here, both Australia and Singapore have adopted legislation limiting such uses of copyright law, but they have also liberalized their approach to parallel imports of copyrighted works to a degree that, prior to *Kirtsaeng*, would have been politically unthinkable in the United States.<sup>182</sup> A court in South Africa attempted through judicial interpretation to limit the use of copyright law as mutant trademark law, but its decision was overturned on appeal.<sup>183</sup> Canada's highest court narrowly rejected an attempt to carve out a similar exemption in Canadian copyright law. Each of these developments may serve as useful guidance for crafting a legislative solution in the United States.

### A. Australian Legislation

Australian trademark law offers trademark owners limited protection against parallel imports of genuine goods. Under the law of unfair competition, a trademark owner can block the importation of materially different goods.<sup>184</sup> In the absence of material differences, however, the importation of genuine trademarked goods is generally permitted.<sup>185</sup> Although case law under the Trade Mark Act of 1955 was not entirely consistent, the Australian courts eventually settled on a rule of international exhaustion for genuine

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v. Racimex Japan KK (July 1, 1997), Heisei, (1995) (o) No. 1998, Hanrei Jiho 1612-3, 29 IIC 331, 334 (1998) (the "Aluminum Wheels" case). See Tessensohn & Yamamoto, *The Big Aluminum Wheel Dust Up – International Exhaustion of Rights in Japan*, 20 EUR. INTELL. PROP. REV. 228, 228 (1998). See generally Kazunori Kurusu, *Thoughts on Parallel Importation in Japan: Patented Products, Genuine Products Bearing Trademarks and Copies of a Copyrighted Work*, KURUSU PATENT LAW OFFICE (Nov. 2, 1999), [http://homepage2.nifty.com/kurusu-patent/information\\_parallel\\_importation\\_e.htm](http://homepage2.nifty.com/kurusu-patent/information_parallel_importation_e.htm).

182. See *infra* notes 205-215, 242-254 and accompanying text.

183. See *infra* notes 257-268 and accompanying text.

184. See *Competition and Consumer Act 2010* (Cth), sch 2 § 18 (Austl.); *Star Micronics (Pty.) Ltd. v. Five Star Computers (Pty.) Ltd.* (1991) 22 IPR 473 (Austl.) (printers were materially different because they used the wrong voltage for Australia); see also *DAVISON ET AL.*, *supra* note 25, at 161-62.

185. *Polo/Ralph Lauren Co. v. Ziliani Holdings (Pty.) Ltd.*, [2008] FCAFC 195, ¶ 5 (Austl.) (citing *Champagne Heidsieck et Cie Monopole Societe Anonyme v. Buxton* [1930] 1 Ch 662 (Austl.); *Atari Inc. v. Fairstar Elecs. (Pty.) Ltd.* (1982) 50 ALR 274 (Austl.).

trademarked goods.<sup>186</sup> Thus, Australia offers slightly less protection to trademark owners than does the United States.<sup>187</sup>

The 1995 amendments to Australian trademark law continue to limit the ability of trademark owners to block parallel imports. Section 123 of the 1995 Trade Marks Act eliminates liability for trademark infringement whenever the owner of the registered mark in Australia has consented to the use of that mark on the goods in question.<sup>188</sup> Courts interpreting Section 123, however, have added a judicial gloss on the concept of consent. If the trademark owner conditions its consent on a requirement that the licensee dis-

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186. In the first parallel import case arising under the 1955 Act, *Atari Inc. v. Dick Smith Elecs. (Pty.) Ltd.* (1980) 33 ALR 20, 21 (Austl.), the defendant imported and sold genuine Atari products it had purchased from a foreign distributor that was not authorized to distribute the merchandise in Australia. Reluctant to resolve the infringement question on the merits, the court granted Atari an interlocutory injunction based largely on the balance of hardships, and the parties eventually settled. *Atari Inc. v. Fairstar Elecs.* (1982) 50 ALR 274, 275-76 (Austl.) (noting the settlement). Two years later, however, the Federal Court of Australia addressed nearly identical facts in *Atari Inc.*, 50 ALR 274 and ruled in favor of the importer. The court relied on English precedent, *Champagne Heidsieck*, 1 Ch 330, which held that the fundamental purpose of trademark protection was to allow the owner of the mark to prevent others from selling someone else's goods under the same mark, and that no infringement occurred when the goods sold under the mark were indeed the goods of the trademark owner. *Champagne Heidsieck*, 1 Ch at 341. The Federal Court noted that this interpretation was necessary in order to preserve the right of consumers to resell genuine trademarked merchandise they had purchased through lawful channels. See also *DAVISON ET AL.*, *supra* note 25, at 157.

187. One difference is that, in the United States, Section 526 of the Tariff Act allows U.S. owners of registered trademarks to block imports of genuine goods manufactured by non-affiliates. See *supra* notes 63-68 and accompanying text.

188. *Trade Marks Act 1995*, (Cth) s 123 (Austl.); see, e.g., *Sporte Leisure Pty. Ltd. v. Paul's Int'l (Pty.) Ltd. (No. 3)*, [2010] FCA 1162, ¶ 24 (Austl.) ("By virtue of s 123 of the Act the respondents will not have infringed the . . . trade marks by importing or supplying goods to which the trade marks were applied with the [trade mark owner's] consent."); *Transport Tyre Sales (Pty.) Ltd. v. Montana Tyres Rims & Tubes (Pty.) Ltd.* [1999] FCA 329, ¶¶ 90-98 (Austl.) (importation of tires from Singapore without consent of exclusive Australian distributor was lawful because Japanese owner of Australian trademark registration had consented to their manufacture). It is unsettled whether consent by a foreign affiliate would be imputed to the domestic trademark owner. In *Brother Indus. Ltd. v. Dynamic Supplies (Pty.) Ltd.* (2007) 73 IPR 507 (Austl.), the Federal Court of Australia implied that it would not. See Joanne Martin, *Parallel Importation Law in Australia*, FB RICE (June 10, 2011), [http://www.fbrice.com.au/publication/The\\_Parallel\\_Universe.aspx](http://www.fbrice.com.au/publication/The_Parallel_Universe.aspx). Australian attorneys have advised owners of multinational trademarks to assign the Australian trademark to a domestic entity (a corporate affiliate or an independent distributor). This may eliminate the Section 123 defense when the foreign entity, and not the assignee of the Australian trademark, consents to the use of the mark on the goods that are later imported without the consent of the Australian assignee. See Stern & Wu, *supra* note 6. That this strategy works in theory was acknowledged by the Federal Court of Australia in *Transport Tyre Sales*, [1999] FCA 329, although in that case the court found no infringement because the parties failed to carry out the assignment before the defendant imported the goods. This strategy is riskier if the Australian assignee is a corporate affiliate of the foreign entity that consented to the use of the mark—as opposed to an independent distributor—because the relationship between the corporate affiliates might lead a court to treat the affiliates as a single entity which consented to the use of the mark, thus triggering the Section 123 defense. Stern & Wu, *supra* note 6.

tribute the trademarked goods only in a particular territory, and the goods are subsequently distributed outside of that territory, then, under certain circumstances, a court may find that consent is absent. According to the Federal Court of Australia (FCA),<sup>189</sup> “the registered owner would not usually be regarded as having consented to the application of the mark to goods which *the other person knows at the time he or she applies the mark* are to be supplied by him or her outside the territory.”<sup>190</sup>

The key factor, therefore, is whether the person who applied the mark to the goods knew that they would be distributed in violation of the territorial limitations of the license.<sup>191</sup> Absent such knowledge, importation of the goods into Australia does not infringe the trademark. Accordingly, despite the judicial narrowing of the concept of consent, it appears that Australian courts will not find trademark infringement where the trademarked goods are initially sold in the proper territory but subsequently find their way to Australia. Thus, even after the 1995 legislation, the owners of Australian trademarks do not have full control over the unauthorized importation of genuine goods. As in the United States, this gap in protection against parallel imports led trademark owners to seek remedies outside of trademark law.

In the 1980s, Australian trademark owners began to pursue copyright infringement as an alternative avenue of relief. Under Australian copyright law, the unauthorized importation of copyrighted works (even if lawfully made overseas) can give rise to infringement liability,<sup>192</sup> as can the public display or distribution of those imported copies.<sup>193</sup> Several industries took

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189. The FCA is roughly comparable to a federal district court in the United States.

190. *Sporte Leisure*, [2010] FCA 1162, ¶ 78 (emphasis added); see also *id.* ¶ 90 (noting that court would have found consent “but for the fact that the goods were manufactured . . . for sale outside [the authorized territory]”). On appeal, the Full Court of the FCA agreed, noting that the licensee who placed the mark on goods which it intended to distribute in unauthorized territories “stood in no different position to a third party applying the . . . marks who had no license agreement” with the trademark owner. *Paul’s Retail Pty. Ltd. v. Sporte Leisure Pty. Ltd.* [2012] FCAFC 51, ¶ 70 (Austl.).

191. The same reasoning could apply if the manufacturer produced more units than the trademark owner authorized. See DAVISON ET AL., *supra* note 25, at 161.

192. *Australia Copyright Act 1968* (Cth) s 37.

193. *Id.* s 38. Although Australia today exempts some categories of copyrighted works from these restrictions, see *infra* notes 202-212 and accompanying text, the standards for infringement liability remain the same. In contrast to the United States, infringing distribution and importation are not strict liability causes of action in Australia. Under both Sections 37 and 38, infringement arises only if the defendant knew or “ought reasonably to have known” that the article was infringing. *Id.* ss 37(1), 38(1). In the case of imported copies, the knowledge requirement is satisfied if the defendant knew or should have known that the article would be infringing had it been made in Australia by the importer. Thus, even a copy that was lawfully manufactured outside of Australia can be infringing if (as will almost always be true in a case of unauthorized importation) the importer lacked authority to manufacture it in Australia.

advantage of these rules to block parallel imports of genuine goods, including the liquor, footwear, and sunglasses industries.<sup>194</sup>

In 1986, the Supreme Court of New South Wales<sup>195</sup> upheld this use of copyright law, holding in *R & A Bailey & Co. Ltd. v. Boccaccio Pty Ltd.*<sup>196</sup> that “the right of exclusive use conferred . . . upon the registered proprietor” of a trademark “only operates to prevent the sale in Australia of goods which are not the proprietor’s but which are marked with the proprietor’s mark.”<sup>197</sup> Accordingly, where the trademark owner placed its mark on bottles of Bailey’s Irish Cream liqueur that were made in Ireland but intended for sale in Holland, the unauthorized importation and sale of those bottles in Australia did not infringe the Australian trademark.<sup>198</sup> As a result, the trademark owner invoked its rights under copyright law. Because various aspects of the label were protected by copyright law, the Supreme Court of New South Wales held that importing the bottles bearing those labels infringed the plaintiff’s copyright: “[A] person who has both a trade mark and a copyright is generally entitled to protection against both.”<sup>199</sup>

Shortly after *Bailey* was decided, Australia’s Copyright Law Review Committee recommended legislation that would partially overturn *Bailey* by prohibiting the use of copyright law to block the importation of noncopyrightable merchandise.<sup>200</sup> The Committee’s Report stated:

The Committee is strongly of opinion that distributors of goods should not be able to control the market for their products by resorting to the subterfuge of devising a label or a package in which copyright will subsist. The purpose of copyright is to protect articles that are truly copyright articles such as books, sound recordings or films. This purpose is achieved by conferring on authors of works and makers of subject matter a bundle of exclusive rights entitling them to restrain conduct antipathetical to their incorporeal property and to sue for damages where such conduct has already been committed. If the simple expedient of affixing or attaching a label in which copyright subsists to any goods at all entitles the owner of the goods to exclude others from marketing similar goods, the sooner the practice is stopped the better it will be. However imaginatively labelled

194. *Polo/Ralph Lauren Co. v. Ziliani Holdings (Pty.) Ltd.* [2008] FCA 49, ¶ 56 (Austl.).

195. This is the highest court in the territory of New South Wales, but its decisions can be appealed to the High Court of Australia. Thus, this court is analogous to a state supreme court in the United States.

196. *R & A Bailey & Co. Ltd. v. Boccaccio (Pty.) Ltd.* (1986) 84 FLR 232 (Austl.).

197. *Id.* at 239.

198. *Id.* at 233-34, 239. This reasoning was consistent with earlier judicial interpretations.

199. *Id.* at 243 (citing *Tavener Rutledge Ltd v. Specters Ltd.* [1959] RPC 83 and *Ogden Indus. (Pty.) Ltd v Kis (Austl.) (Pty.) Ltd* (1982) 2 NSWLR 283, 300).

200. *Polo/Ralph Lauren Co.*, [2008] FCA 49, ¶ 53; Stern & Wu, *supra* note 6.

or packaged a bottle of liquor may be, the product is liquor. The same may be said of cigarettes, perfume and cosmetics.<sup>201</sup>

Although this recommendation led to no immediate changes, in the ensuing years Australia liberalized its parallel import policies for many classes of copyrightable goods in an effort to increase availability and reduce consumer prices.<sup>202</sup> Import restrictions on books were loosened, though not eliminated, in 1991.<sup>203</sup> Import restrictions on sound recordings were eliminated in 1998.<sup>204</sup> In 2003, the law was further liberalized to permit parallel imports of books, journals and music in electronic formats, as well as computer software.<sup>205</sup> In each case, the permissive policies have applied only to noninfringing copies.

When the import restrictions on sound recordings were eliminated in 1998, the owners of sound recording copyrights faced competition from cheaper parallel imports. Because commercial CDs include copyrightable elements other than recorded music—such as cover art and liner notes—copyright owners might have been able to continue blocking parallel imports of CDs by asserting infringement of these other copyrightable components. Australia's Parliament sought to prevent this, and at the same time to put an end to the strategy that succeeded in the *Bailey* case—the use of copyrighted labels to restrict parallel imports of uncopyrightable goods.<sup>206</sup>

The Parliament accomplished both of these goals by adding Section 44C to the Copyright Act.<sup>207</sup> Section 44C provides that the importation or sale of an imported article<sup>208</sup> does not infringe the copyright in any content appear-

201. *Polo/Ralph Lauren*, [2008] FCA 49, ¶ 53 (quoting COPYRIGHT LAW REVIEW COMMITTEE, THE IMPORTATION PROVISIONS OF THE COPYRIGHT ACT 1968 224 (1988)).

202. See DAVISON ET AL., *supra* note 25, at 287-91.

203. *Copyright Amendment Act 1991* (Austl.) (adding ss 44A, 112A); see Austl. Gov't Productivity Comm'n, *supra* note 13, at 60-61; DAVISON ET AL., *supra* note 25, at 287.

204. *Copyright Amendment Act (No. 2) 1998* (Austl.) (amending Section 10(1) and adding Sections 10AA, 44D, 112D, and 130A). A copy of a sound recording is noninfringing if it was made (1) without infringement in the country of manufacture, (2) in a country where it is not protected by copyright, or (3) with the consent of the party that owns the copyright in the country where the recording was made. *Copyright Act 1968* (Cth), s 10AA (Austl.). The defendant has the burden of proving that the copies are noninfringing. *Id.* s 130A.

205. *The Copyright (Parallel Importation) Act 2003* (Austl.) (adding ss 44F and 112DA). As in the case of sound recordings, the defendant has the burden of proving that the copies are noninfringing. *Copyright Act 1968* (Cth), s 130B-C (Austl.).

206. *Polo/Ralph Lauren*, [2008] FCA 49, at ¶¶ 52-54.

207. *Copyright Amendment Act (No. 1) 1998* (Austl.) (amending s 10(1) and adding ss 44C and 112C); see *Preventing Parallel Imports Under Other Legal Theories*, *supra* note 174 (noting that the 1998 amendments took effect in 2000).

208. The Copyright Act does not provide a general-purpose definition of the term "article." Section 38, which prohibits distribution of infringing articles, states that an article "includes a reproduction or copy of a work or other subject-matter, being a reproduction or copy in electronic form." *Australia Copyright Act 1968* (Cth) s 38(3). Section 115, which authorizes injunctive relief in cases of electronic commercial infringement, includes the same language. *Id.* s 115 (7), (8). It is not clear whether Parliament intended these statements to be definitions

ing in an “accessory” to the article, provided that the accessory is itself non-infringing.<sup>209</sup> To be noninfringing, the copyrighted content in the accessory must have been reproduced in a Berne or WTO country with the consent of the person owning the copyright *in that country*.<sup>210</sup> The current statute<sup>211</sup> defines “accessory” to include labels, packaging, containers, instructions, warranties or other information “provided with” the article, as well as instructional sound recordings or films “provided with” the article.<sup>212</sup> Had Section 44C been in effect at the time of the *Bailey* case, the plaintiff could not have used the copyright in its label to prevent the importation of its product.

In interpreting Section 44C, a significant challenge facing the Australian courts has been the meaning of “accessory.” Although the FCA has issued only two opinions interpreting this language, together they highlight the difficulty of distinguishing true accessories from integral product features on the one hand, and insufficiently related items on the other. Accordingly, they reveal the potential for additional interpretive challenges in the future.

The first and most significant case interpreting Section 44C was the 2008 case of *Polo/Lauren Co. LP v. Ziliani Holdings Pty Ltd.*<sup>213</sup> The FCA held that the polo player logo that was woven into the plaintiff’s shirts was a label, and therefore an accessory.<sup>214</sup> Accordingly, the plaintiff could not use the copyright in the logo to block importation of genuine Polo/Lauren shirts purchased outside of Australia.

Although the definition of “accessory” included “a label . . . incorporated into the surface of . . . the article,” the court considered whether the embroidered polo player logo was a label or a decorative feature.<sup>215</sup> The court adopted a broad definition of the term “label,” to include its usage as a

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(in which case “article” would be limited to digital copies) or merely to clarify that the term “article” includes digital copies as well as other tangible items. The opinions in *Polo/Ralph Lauren*, [2008] FCAFC 195 (Austl.) and *QS Holdings SARL v. Paul’s Retail (Pty.) Ltd.*, [2011] FCA 853 (Austl.), clearly assume the latter. Although a “work” is defined as “a literary, dramatic, musical or artistic work,” *Australia Copyright Act 1968* (Cth) s 10 (Austl.), the phrase “work or other subject matter” in Section 38 implies that an article can be a copy of something other than a copyrightable work. The Full Court opinion in *Polo/Lauren* notes that the parties did not dispute that articles of clothing can be “articles” within the meaning of Section 44C, see *Polo/Ralph Lauren*, [2008] FCAFC 195 at ¶ 12. In addition, limiting the definition of “articles” to copies of copyrightable works would fail to overrule *Bailey*.

209. *Australia Copyright Act 1968* (Cth) s 10(1) (Austl.) (defining “non-infringing accessory”).

210. *Id.*

211. The definition of “accessory” was expanded in 2003 to permit parallel imports of books, journals, and music in electronic formats as well as software. *Copyright Amendment (Parallel Importation) Bill 2003* (Cth) sch 1 (Austl.); see *supra* note 205 and accompanying text.

212. *Id.* s 10(1) (defining “accessory”).

213. *Polo/Ralph Lauren Co. v. Ziliani Holdings (Pty.) Ltd.* [2008] FCA 49 (Austl.). The FCA opinion was upheld by the Full Court. *Polo/Ralph Lauren*, [2008] FCAFC 195.

214. *Polo/Lauren Co.*, [2008] FCA, at ¶ 64.

215. *Id.* ¶¶ 43, 62-64.

synonym for “brand name, trade mark and the name by which a design or fashion house . . . is generally known.”<sup>216</sup> To determine whether the polo player image was a label or some other component of the product, the court applied a functionality test:

The definition of an “accessory” in s 10(1) recognises a distinction between the article as a functional item of commerce, and a subsidiary constituent part of the article such as a label embroidered on to it. The embroidered component is functionally accessorial to the article’s use. The function which an accessory, as described in pars (a)–(d) of the definition of “accessory” in s 10(1), performs is incidental to the use of the article as an item of commerce. The article can be used for its intended purpose regardless of whether the s 10 “accessory” is present on it or as part of it. The Parliament intended that a noninfringing accessory, as defined in s 10(1), could be embroidered into an article even though, had the noninfringing accessory been sold by itself without the article, the owner of copyright in it would have been entitled to protection in Australia under the *Copyright Act*.<sup>217</sup>

The court concluded that, even if the polo player logo was aesthetically pleasing, it functioned primarily as a label because it informed consumers of the “provenance” of the merchandise:

The embroidered polo player logo is not primarily a decorative feature, although it can be attractive to the eye in some of its manifestations. The polo player logo will usually remain covered by the wearer’s outer clothing when it appears on the hem of an item of underwear . . . . This may not always be the case, but this positioning of the polo player logo suggests that, at least on such a garment, its function is primarily to signify the manufacturer’s identity, ie to act as a label.<sup>218</sup>

Three years later, in *QS Holdings SARL v. Paul’s Retail Pty Ltd.*,<sup>219</sup> a defendant had imported and sold both genuine and counterfeit apparel bearing the plaintiffs’ registered trademarks. With respect to the counterfeit goods, the court granted the plaintiffs’ motion for summary judgment of trademark infringement.<sup>220</sup> In addition to the trademark claims, however,

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216. *Id.* ¶ 51. On appeal, the Full Court noted that this passage does not reject other common applications of the term “label,” such as swing tags and other physical labels. *Polo/Lauren Co.*, [2008] FCA 853, ¶¶ 13–15. It also rejected the argument that the embroidered logo was conceptually inseparable from the garment itself. *Id.* ¶ 22.

217. *Polo/Lauren Co.*, [2008] FCA 49, ¶ 58.

218. *Id.* ¶ 63.

219. *QS Holdings SARL v. Paul’s Retail (Pty.) Ltd.*, [2011] FCA 853 (Austl.).

220. *Id.* ¶ 37.



several plaintiffs also raised claims of copyright infringement, based on the graphic designs on the clothing as well as images of the clothing reproduced in the defendant's sales brochures. Some, but not all, of the copyrighted designs were reproduced on clothing made outside of Australia without the consent of the Australian copyright owners.<sup>221</sup> Even with respect to the clothing that bore authorized reproductions, the Federal Court held that the defendant would still be liable for copyright infringement if it imported and sold the clothing without the consent of the Australian copyright owners.<sup>222</sup> The defendants did not attempt to raise a defense under Section 44C, presumably because they were unlikely to convince the court that the graphic designs on these garments were "accessories" rather than decorative features integral to the products themselves.

As for the marketing brochures that reproduced the copyrighted designs, several of the defendants attempted to invoke Section 44C.<sup>223</sup> The court, however, found Section 44C inapplicable because, among other things, the brochures were not *accessories* under Section 44C. An accessory, the court held, must have "some physical relationship" with the merchandise to which it relates.<sup>224</sup> Accordingly, the plaintiff could use copyright law to prevent importation and distribution of the clothing as well as the brochures.<sup>225</sup>

Both of the copyrightable items in *QS Holdings* were ineligible for the Section 44C exemption—the graphics on the shirt because (presumably) they were *not separate enough* to be an accessory, and the brochures because they were *too* separate to be an accessory. Future courts may find themselves searching for the happy medium of separateness necessary for an item to qualify as an accessory. Why is it that the logo woven into the *Polo/Lauren* shirt was an accessory, and the graphics on the *QS Holdings* shirts were not? Under the functionality test adopted in *Polo/Lauren*, the graphics on the *QS Holdings* shirts arguably played an important role in the functioning of the shirt, by making it more attractive, rather than merely communicating the provenance of the garment.<sup>226</sup> Under this test, the graphics were not accessories.

However, some designs that serve a trademark function can also contribute to the aesthetic appeal of the product incorporating them. How will the Australian courts address such dual-function designs under the functionality test? The concept of what is an accessory is likely to continue to force Aus-

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221. *Id.* ¶¶ 83, 96.

222. *Id.* ¶ 92.

223. *Id.* ¶ 119.

224. *Id.* ¶ 124. The court's second reason was that Section 44C applies only to accessories that are imported, and there was no indication that the brochures had been imported. *Id.*

225. *Id.*

226. This analysis echoes the treatment of product configuration trade dress in U.S. trademark law. *See, e.g.,* Wal-mart Stores, Inc. v. Samara Bros., Inc., 529 U.S. 205, 213-14 (2000) (decorative features of apparel could not be protected as trade dress absent secondary meaning).

tralian courts to make difficult line-drawing judgments. It is also likely to encourage trademark owners to avoid the “accessory” classification by incorporating copyrightable designs more fully into their merchandise, rather than limiting it to labels, regardless of whether the design also functions as a trademark.

The success of this strategy, however, will be limited by Sections 75 and 77 of Australian copyright law. Section 77 expressly permits the unauthorized reproduction of copyrightable three-dimensional designs in products, once those designs have been lawfully embodied in products offered for sale or hire, if the designs are either (1) not eligible for registration under Australia’s industrial design statute,<sup>227</sup> or (2) if eligible, have not been so registered.<sup>228</sup> Once a design has been registered, under Section 75 it is no longer eligible for copyright protection.<sup>229</sup> The purpose of these rules is to eliminate the overlap between copyright and industrial design protection with respect to three-dimensional designs.<sup>230</sup> As a result, only two-dimensional designs are eligible for dual protection under both copyright and trademark law.<sup>231</sup>

Consider, for example, a candy maker that manufactures chocolate bars in artistic shapes. Regardless of whether these designs are distinctive enough to qualify as trademarks, they may be sufficiently original to enjoy copyright protection. Can the Australian copyright owner control importation of the chocolate bars that incorporate the copyrightable design? In this scenario, the design is probably too integrated into the product to qualify for the “accessory” exception that permitted unauthorized importation in *Polo/ Lauren*.

Nonetheless, Australian copyright still permits importation on these facts, because, in effect, it denies copyright protection to the design element. Because Section 77 permits the unauthorized reproduction of unregistered three-dimensional designs on merchandise, the copyright owner in the above example cannot use Sections 37 and 38 to prevent the importation and distribution of the chocolate bars embodying the copyrighted design. By their own terms, Sections 37 and 38 apply only if manufacturing the candy in Australia would infringe copyright, and Section 77 makes clear that this would not be the case.<sup>232</sup>

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227. *Designs Act 2003* (Austl.).

228. *Australia Copyright Act 1968* (Cth) s 77(2)-(3).

229. *Id.* s 75.

230. *Polo/Ralph Lauren Co. v. Ziliani Holdings (Pty.) Ltd.*, [2008] FCAFC 195, ¶¶ 48-50, 52-53 (Austl.). Industrial design protection under Australian law is somewhat similar to design patent protection under United States law. However, under U.S. law it is possible for the same design to enjoy both copyright and design patent protection, whether it is two- or three-dimensional. See *In re Yardley*, 493 F.2d 1389, 1393 (C.C.P.A. 1974).

231. *Id.* ¶¶ 49, 57.

232. In *Polo/Lauren*, the Full Court of the FCA considered whether the embroidered polo player design satisfied the requirements of Section 77. To qualify, the design would have to be “embodied” in the clothing rather than a mere label, and it would have to be three-dimensional. *Id.* ¶¶ 48-57. Because the Court concluded that the design was merely a label, it was not

Thus, just as *Kirtsaeng* may prompt U.S. trademark owners to make greater use of design patents as a means to exclude unauthorized imports, Section 44C may induce Australian trademark owners to pursue industrial design registrations as an alternative to copyright and trademark protection.<sup>233</sup>

### B. Singaporean Legislation

Singapore's trademark law is relatively permissive with respect to parallel imports. It expressly permits the importation of goods which have been released into the market anywhere in the world with the express or implied consent of the owner of the Singapore trademark registration, even if that consent is conditional—for example, if it is conditioned on distributing the goods only within a specified territory.<sup>234</sup> In contrast, if a party that owned the trademark outside of Singapore authorized the foreign sales, then the goods are not considered genuine, and the Singapore trademark owner can block their importation.<sup>235</sup> If, however, the Singapore trademark owner and the foreign trademark owner are related entities, then, depending on the nature of their relationship, the Singapore trademark owner may be deemed to have implicitly consented to the use of the mark, in which case importation is permitted.<sup>236</sup> Trademark exhaustion does not apply, and thus parallel imports can be blocked, where the product in question has been altered after its

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sufficiently embodied in the garment to satisfy Section 77. *Id.* ¶ 57. Because Section 77 did not apply, the Court found it unnecessary to determine whether the raised stitching of the design made it three-dimensional. *Id.*

233. In Australia, industrial design registrations are available only for new designs, with one exception: They are also available for copyrighted designs, regardless of novelty, as long as the designs have not previously been applied to products. *Designs Act 2003* ss 15(1), 18 (Austl.). If renewed, the registration provides 10 years of exclusive rights. *Id.* s 46(1).

234. Trade Marks Act § 29(1) (Sing.); see Burton Ong, *IPRs and Competition Law in Singapore, in THE INTERFACE BETWEEN INTELLECTUAL PROPERTY RIGHTS AND COMPETITION POLICY* 399 (Steven J. Anderman ed., 2007).

235. Ong, *supra* note 234, at 399.

236. Burton Ong draws this conclusion from *Pan-West (Pte) Ltd. v. Grand Bigwin (Pte) Ltd.*, [2003] SGHC 250 (Sing.) (implicitly endorsing the reasoning of the United Kingdom court in *Revlon Inc. v. Cripps & Lee Ltd.*, [1980] FSR 85), and *Hup Huat Food Industries (S) Pte Ltd. v. Liang Chiang Heng*, [2003] SGHC 244 (Sing.). Ong, *supra* note 234, at 400, 421 n.97. The same principle was applied in a passing off case, *Sin Heak Hin Pte Ltd. & Anor v. Yuasa Battery Singapore Pte Ltd.* [1995] 3 SLR 590 (Sing.), where Yuasa brand batteries made in China were imported to Singapore without the consent of the owner of Yuasa Singapore, in breach of the licensing agreement between Yuasa Japan (the parent of Yuasa Singapore) and the Chinese manufacturer. When the domestic distributor published circulars characterizing the imported batteries as imitations, the importer brought claims of defamation and slander of goods, and the defendant counterclaimed for passing off. The court ruled in the plaintiff's favor, holding that, absent proof that the batteries had been made without the consent of Yuasa Japan, they were genuine goods, and were therefore entitled to bear the Yuasa mark even when imported into Singapore. See *Copyright Law and Parallel Imports*, TAN LENG CHEO & PARTNERS (Aug. 28, 2001), available at [http://www.accountlaw-tax.com.sg/Web-site\\_tlc/ws-parallel%20import.htm](http://www.accountlaw-tax.com.sg/Web-site_tlc/ws-parallel%20import.htm).

initial release into the market and the use of the mark on the altered goods dilutes the mark's distinctive character.<sup>237</sup>

Prior to 1994, it was unclear whether the importation of copyrighted works that were lawfully made in their country of manufacture required the consent of the Singapore copyright owner.<sup>238</sup> In 1994, however, the copyright law was amended in favor of parallel imports, by allowing importation of copies that were made with the consent of the person who owned the copyright in the country where the copies were made, even if that same person did not own the copyright in Singapore.<sup>239</sup> The same amendment also provides that the existence of consent is determined without regard to any "conditions as to the sale, distribution or other dealings in the article after its making."<sup>240</sup> Thus, even if the owner of a copyright in India consented to the copying and distribution of that work only in India, that consent would enable those copies to be imported into Singapore despite the objections of the Singapore copyright owner.<sup>241</sup>

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237. Trade Marks Act § 29(2) (Sing.). This rule resulted from a 2004 amendment. See Ong, *supra* note 234, at 420-21 n.93.

238. Copyright Act §§ 32, 25(2) (Sing.); see Teresa Hangchi, *Singapore, in* COMPARATIVE LAW YEARBOOK OF INTERNATIONAL BUSINESS: SPECIAL ISSUE 289 (Dennis Campbell & Susan Cotter eds. 1997); Ong, *supra* note 234, at 384; George Sze Shun Wei, *Parallel Imports and Intellectual Property Rights in Singapore*, 2 SING. ACAD. L.J. 286, 303-06 (1990).

239. Copyright Act §§ 32, 25(3) (Sing.); see Hangchi, *supra* note 238, at 289. If there is no copyright owner in the country of manufacture (that is, if the work is not protected by copyright in that country), then the consent of the Singapore copyright owner is required. Copyright Act § 25(3)(b) (Sing.); Hawin, *supra* note 12, at 97-98. The 1994 legislation overruled a 1993 decision of the Singapore High Court, *Public Prosecutor v. Teo Ai Nee*, 1993 SLR LEXIS 476, that had allowed a copyright owner to block parallel imports of nonpirated copies, a ruling which had enabled copyright owners to block parallel imports by assigning their Singapore copyrights to a Singapore entity. See Hawin, *supra* note 12, at 97-98; Ng-Loy Wee Loon, *Singapore, in* BALANCING COPYRIGHT—A SURVEY OF NATIONAL APPROACHES 840, 840 n.40 (Reto M. Hilty & Sylvie Nérisson eds., 2012); Ong, *supra* note 234, at 384, 416 n.45; George Sze Shun Wei, *The Law of Copyrights in Singapore* §§ 8.199-8.211 (2000). In *Remus Innovation & Anor v. Hong Boon Siong & Ors*, 1994 SLR LEXIS 621 (Sing.), the amended law prevented a manufacturer from blocking parallel imports of automobile exhaust systems that were made with the Singapore copyright owner's consent and obtained from an authorized distributor in the United Kingdom. The plaintiff had asserted that the importers infringed the copyright in certain drawings of the exhaust systems. See *Copyright Law and Parallel Imports, supra* note 236; Hawin, *supra* note 12, at 97; *Singapore – Parallel Imports of Genuine Products Allowed*, LADAS & PARRY LLP (Nov. 1995), available at [http://www.ladas.com/BULLETINS/1995/1195Bulletin/Singapore\\_ParallelImports.html](http://www.ladas.com/BULLETINS/1995/1195Bulletin/Singapore_ParallelImports.html) (citing the case as *Remus Innovations v. Jeep Chee*). Importation of copyrighted goods for commercial purposes without the consent of the Singapore copyright owner infringes only if the importer "knows, or ought reasonably to know, that the making of the article was carried out without the consent of the owner of the copyright." Copyright Act §§ 32, 104 (Sing.). The same standard determines liability for selling or otherwise commercially distributing the imported goods. *Id.* §§ 33, 105.

240. Copyright Act § 25(4) (Sing.); Hawin, *supra* note 12, at 97-98.

241. See Ong, *supra* note 234, at 385.

Singapore's copyright law also includes a provision similar to Australia's "accessories" provision.<sup>242</sup> Section 40A of the Singapore Copyright Act provides that the importation and distribution of an "accessory" does not infringe a copyright when the accessory is imported along with a noninfringing article.<sup>243</sup> The Singapore statute defines "accessories" to include labels, packaging, containers, leaflets, pamphlets, certificates, warranties, brochures, and "written instructions or other information" that are incidental to the article, as well as instructional sound recordings and films that are incidental to the article.<sup>244</sup>

Section 40A, however, differs from its Australian counterpart in several respects, and affords weaker protection against parallel imports. First, whereas the Australian statute specifies that the accessory must have been made with the consent of the party that owns the copyright in the country of manufacture,<sup>245</sup> Section 40A contains no such requirement. In fact, it is silent on the question whether the accessory itself must be noninfringing. Thus, it appears that accessories such as labels and brochures can be imported and sold with the noninfringing articles they accompany even if the accessories themselves are pirated copies.

In a second point of departure, Section 40A defines "accessory" more narrowly than the Australian statute. Specifically, an "accessory" does *not* include:

- (i) a copy of a work that is incorporated into the surface of the article and is a permanent part of the article;

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242. *Australia Copyright Act 1968* (Cth) ss 10(1), 10AD, 44C, discussed *supra* at notes 207-212 and accompanying text.

243. Copyright Act § 40A (Sing.) provides:

Accessories to imported articles 40A. (1) The copyright in a work embodied in an accessory to an article is not infringed by a person who, without the licence of the owner of the copyright, imports the article into Singapore for a purpose mentioned in section 32 (a), (b) or (c) unless the article is an infringing copy.

(2) The operation of this Act in relation to a work embodied in an article shall not be affected by the operation of this section in relation to a work embodied in an accessory to the article.

(3) If an article is imported into Singapore for a purpose mentioned in section 32 (a), (b) or (c) and the importation is not, by reason of this section, an infringement of the copyright in a work embodied in an accessory to the article, the use of the accessory with the article for any such purpose shall not be an infringement of the copyright in the work, and section 33 shall not apply to the accessory.

*See also* Hangchi, *supra* note 238, at 290; Ong, *supra* note 234, at 385.

244. Copyright Act § 7(1), 116A (Sing.).

245. *Australia Copyright Act 1968* (Cth) ss 44C(1)-(2) (exempting only "non-infringing accessories"); s 10(1) (defining "non-infringing accessory"). The country of manufacture must also be a member of the Berne Convention or a WTO member with TRIPS-compliant copyright laws. *Id.*

- (ii) a copy of a work that cannot be separated from the article without rendering the article unsuitable for its ordinary use; [or]
- (iii) a manual sold with computer software for use in connection with that software[.]<sup>246</sup>

The purpose of these exceptions is unclear. They do not allow copyright owners to block all parallel importation of these three embodiments of copyrighted works. Because Singapore allows importation of *all* copyrighted works provided that the copies were made with the consent of the copyright owner in the country of manufacture, these three nonaccessories, if nonpirated, would still be importable under that general rule.

Perhaps the true impact of these exclusions derives from Section 40A's failure to expressly require that imported accessories be noninfringing. Section 40A(1) states that:

The copyright in a work embodied in an accessory to an article is not infringed by a person who, without the licence of the owner of the copyright, imports the article into Singapore for a purpose mentioned in section 32 (a), (b) or (c) *unless the article is an infringing copy*.<sup>247</sup>

Based on this language, an accessory attached to a noninfringing article can be imported under Section 40A, *even if the accessory is infringing*. In contrast, if an item (such as surface ornamentation) does not meet the statutory definition of an accessory, then the Section 40A exemption does not apply. Instead, the general rules of Sections 32 and 25—requiring the copyright owner's consent for importation—will apply. This means that the three copyrighted items excluded from the “accessory” definition cannot be imported unless they were made under a license from the copyright owner in the country where the copies were made.<sup>248</sup>

In the case of the first two exceptions, the accessory is so physically integral to the article itself that it would make little sense to apply different rules to the article and the accessory. The rationale for the third exception—manuals for software—is less clear. These manuals are not physically integrated into the software they accompany. On the other hand, significant intellectual effort goes into creating (and translating) a software manual, in contrast to the more perfunctory user manuals that typically accompany other consumer products.<sup>249</sup> This suggests that they deserve a level of copy-

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246. Copyright Act § 7(1) (Sing.).

247. *Id.* § 40A(1).

248. Alternatively, if there is no copyright owner in the country of manufacture, then the consent of the Singapore copyright owner would be required. *See supra* note 242.

249. “Good manuals are a scarce commodity—expensive to produce, difficult to maintain, the province of experts.” *How to Write Software User Manuals*, TUFFLEY COMPUTER

right protection comparable to that of books and other substantial creative works. The information contained in the manuals may also be essential to the purchaser's ability to understand and use the software; if so, then user manuals contribute significant value to the software they accompany. Thus, while they are not physically integral to the software, they may be viewed as functionally integral.

Subjecting these three categories to the generally applicable rules for importing copyrighted works is itself unremarkable. What is remarkable, however, is that the items that *do* qualify as accessories are apparently exempt from the general rule for parallel imports, and thus can be imported *even if they are pirated*. Such a result would be impossible under the Australian statute, which permits importation only of "noninfringing" accessories.<sup>250</sup> It is unclear why Singapore's lawmakers chose to allow the importation of infringing accessories. It was probably not a drafting error; when the lawmakers created three exceptions to the definition of an accessory, they must have intended to give those exceptions some legal effect. If this was a deliberate choice, then it suggests that the legislature did not believe that infringing accessories cause significant harm to copyright owners. By withholding a copyright remedy for infringing accessories, the legislature reduced the potential for nuisance litigation that would interfere with lawful importation of trademarked goods, while excluding from copyright protection a narrow category of works that typically lack significant creative or intellectual content.<sup>251</sup>

As was the case in Australia, Singapore's decision to prevent the use of copyright law to block otherwise lawful imports of genuine trademarked goods took place in the context of a broader decision to liberalize import restrictions on copyrighted works. Even in a country that maintains import restrictions, however, a specific exemption for accessories may be politically feasible and economically sound. The exemption can be successful if it permits the country to effectuate its trademark policies without interference from copyright owners asserting infringement of works with minimal crea-

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SERVICES, <http://tuffley.com/tcs20000.htm> (last visited Oct. 2, 2013). "The user manual for software is almost as important as the software itself." C.D. Crowder, *How to Write a User Manual for Software*, eHow, [http://www.ehow.com/how\\_4827020\\_write-user-manual-software.html](http://www.ehow.com/how_4827020_write-user-manual-software.html) (last visited Oct. 2, 2013).

250. *Australia Copyright Act 1968* (Cth) s 44C (1). See *supra* text accompanying notes 209-210.

251. In the United States, works such as labels and instructions are typically viewed as having "thin" copyrights, warranting a lower degree of copyright protection. See, e.g., *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharms., Inc.*, 211 F.3d 21, 29 n.5 (2d Cir. 2000) ("the danger lurking in copyright protection for labels is that the tail threatens to wag the dog—proprieters at times seize on copyright protection for the label in order to leverage their thin copyright protection over the text . . . on the label into a monopoly on the typically uncopyrightable product to which it is attached.") (internal quotation marks and citation omitted).

tive or intellectual content. Singapore's statute offers a second possible model for such legislation.

Nonetheless, in permitting the importation of pirated accessories, Singapore's approach goes further than necessary to prevent copyright claims from interfering with trademark policy. As a result, this approach may be politically unacceptable in countries with strong copyright laws, such as the United States. A well-drafted accessories statute should be able to eliminate litigation over trivial amounts of copyrighted material without endorsing copyright piracy.

### C. South Africa's Failed Attempt at a Judicial Solution

In contrast to the laws of Australia and Singapore, courts in South Africa have held that the unauthorized importation of goods is not trademark infringement as long as the mark was applied to the goods with the consent of the trademark owner,<sup>252</sup> unless the goods have been materially altered since they were manufactured.<sup>253</sup> Accordingly, some trademark owners have turned to copyright law for additional remedies against gray market goods. Unlike Australia and Singapore, South Africa has not enacted any legislation to curb this practice. As a result, trademark owners have successfully used copyright law to achieve their goals by assigning the relevant copyrights to South African assignees. In *Frank & Hirsch (Pty) Ltd. v A Roopanand*

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252. Trade Marks Act 194 of 1993 § 34(2)(d) (S. Afr.); see *Protective Mining & Indus. Equip. Sys.(Pty.) Ltd. v. Audiolens (Cape) (Pty.) Ltd.*, 1987 (2) SA 173 (A) (S. Afr.) (holding that Pentax trademark was not infringed where genuine Pentax cameras were purchased abroad and imported into South Africa, because there was no consumer confusion as to source). Attempts to use the common law of unfair competition to block parallel imports have also failed. See, e.g., *Taylor & Horne (Pty.) Ltd. v. Dentall (Pty.) Ltd.*, 1991 (1) SA 412 (AD) (S. Afr.) (exclusive South African distributor could not block parallel imports of genuine goods). In 2007, in an effort to curtail parallel imports, South Africa's Department of Trade and Industry issued a Notice requiring distributors of parallel imports to disclose to purchasers that they are not authorized distributors, and that authorized distributors are not obligated to honor the trademark owner's warranties and after-sales service. See Angela van den Berg, *When Things Are Not Always Black and White: Grey Goods*, ADAMS & ADAMS (Feb. 12, 2007), [http://www.adamsadams.com/index.php/media\\_centre/news/article/when\\_things\\_are\\_not\\_always\\_black\\_and\\_white\\_grey\\_goods/](http://www.adamsadams.com/index.php/media_centre/news/article/when_things_are_not_always_black_and_white_grey_goods/). Failure to comply with this requirement will violate Section 12(6) of the Consumer Affairs (Unfair Business Practices) Act of 1988 (S. Afr.). Ryan Tucker, *South Africa: A New Solution to the Problem of Parallel Imports*, INTA BULLETIN (May 15, 2007), available at <http://www.inta.org/INTABulletin/Pages/SOUTHAFRICANewSolutiontotheProblemofParallelImports.aspx>. Subject only to this constraint, parallel importation of trademarked goods is still permitted.

253. See *Television Radio Ctr (Pty.) Ltd v. Sony Kabushki Kaisha t/a Sony Corp.* 1987 (2) SA 1 (SCA) at 16 (S. Afr.) (holding that Sony trademark was infringed where Sony video recorders purchased in Europe were imported into South Africa, because the products ceased to be "genuine" once the importer altered their tuners to pick up South African broadcasts).



*Brothers (Pty) Ltd.*,<sup>254</sup> this practice was upheld by one of South Africa's highest courts.

The defendant in *Frank & Hirsch* acquired genuine TDK brand tapes (manufactured in Japan) from a distributor in Singapore, and imported them into South Africa without the consent of Frank & Hirsch (F&H), the exclusive authorized distributor of TDK tapes in South Africa. The court dismissed F&H's claim of trademark infringement, holding that there was no consumer deception, and thus no infringement, because the goods were genuine.<sup>255</sup> The plaintiffs then obtained an assignment from TDK of its South Africa copyrights in the "get up and trade dress" (that is, the appearance) of the TDK tapes and their packaging materials (not including the TDK trademarks),<sup>256</sup> as well as a printed cardboard insert, and brought an infringement claim under Section 23(2) of the South African Copyright Act.<sup>257</sup>

South Africa's copyright law does not expressly permit the importation of copyrightable "accessories" that accompany noninfringing goods. Despite this, the lower court (referred to as the *Court a quo*) applied a similar concept, holding that any copyrightable works that were incorporated into the appearance and packaging of the tapes had merged into the products and therefore ceased to be copies of copyrightable works.<sup>258</sup> In essence, the cop-

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254. *Frank & Hirsch (Pty.) Ltd. v Roopanand Bros. (Pty.) Ltd.* 1993 (4) SA 1 (SCA) (S. Afr.). The Supreme Court's appellate division, today known as the Supreme Court of Appeal, is the nation's second highest court. It is below the Constitutional Court.

255. *Frank & Hirsch (Pty.) Ltd. v A Roopanand Bros.* 1987 (3) SA 165(D & CLD) at 187-90 (S. Afr.).

256. *Frank & Hirsch* 1993 (4) SA at 7. Frank & Hirsch did not claim to own the copyrights in the TDK trademarks. *Id.* at 26.

257. Section 23 provides, in relevant part:

23. Infringement.

(1) Copyright shall be infringed by any person, not being the owner of the copyright, who, without the licence of such owner, does or causes any other person to do, in the Republic, any act which the owner has the exclusive rights to do or to authorize. (2) Without derogating from the generality of subsection (1), copyright shall be infringed by any person who, without the licence of the owner of the copyright and at a time when copyright subsists in a work -

(a) imports an article into the Republic for a purpose other than for his private and domestic use; (b) sells, lets, or by way of trade offers or exposes for sale or hire in the Republic any article; [or] (c) distributes in the Republic any article for the purposes of trade, or for any other purpose, to such an extent that the owner of the copyright in question is prejudicially affected . . . if to his knowledge the making of that article constituted an infringement of that copyright or would have constituted such an infringement if the article had been made in the Republic.

Copyright Act 98 of 1978 § 23 (S. Afr.). The current version of Section 23(2) is similar in all relevant respects. See Copyright Act 98 of 1978 § 23 (BSRSA 2012) (S. Afr.).

258. *Frank & Hirsch (Pty.) Ltd. v A Roopanand Bros. (Pty.) Ltd.* 1991 (3) SA 240 (D & CLD) at 245-46 (S. Afr.).

right in the accessories was extinguished when they were attached to un-copyrightable goods:

The physical reproductions of the artistic or literary works comprising the get-up were indeed accessory to the principal things, i.e. the cassette tapes and by *accessio* or *specificatio*<sup>259</sup> became part of the cassette tapes, the articles in question.<sup>260</sup>

Based on this reasoning, the lower court held that the importation of the TDK tapes was noninfringing.<sup>261</sup>

The Supreme Court reversed. It rejected the merger analysis,<sup>262</sup> and held that (1) the packaging and cardboard inserts included copyrightable artistic works,<sup>263</sup> and (2) the assignee of the South African copyright was entitled to prevent their importation and resale.<sup>264</sup>

The lower court had attempted to introduce, as a matter of statutory interpretation, an exception to the copyright laws that was somewhat analogous to, but arguably broader than, the exception for accessories that Australia adopted through legislation. The Supreme Court rejected this interpretation because (1) it would effectively terminate a copyright in a manner inconsistent with the termination provisions of the copyright statutes, and (2) its potential scope was too broad:

It seems to be an inescapable consequence of the decision of the Court a quo that wherever the physical reproduction of a work in which A has the copyright becomes part of a "principal thing" (which itself is either not the subject-matter of copyright or over which A has no copyright) A loses his copyright and can have no claim for its infringement. If this were so, the protection afforded to an author by the copyright law would be nullified in a number of important instances. Thus, for example, an artist who painted an original artistic work would, presumably, not be entitled to sue under either part of sec. 23 if a reproduction of that painting were used without permission as a dust-cover for, or an illustration in, a book of which someone else was the author. Similarly, a writer or poet would have no claim against a publisher who unauthorizedly

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259. Both concepts derive from ancient Roman property law. Under *accessio*, the ownership of an accessory to an object belonged to the owner of the object. For example, if a building was constructed on a person's land, the building belonged to the landowner. Under *specificatio*, the ownership of an object could change when the object (a block of marble, for example) was transformed into something different (a sculpture).

260. *Id.* at 246.

261. *Id.* at 246.

262. *Frank & Hirsch*, 1993 (4) SA at 290.

263. *Id.* at 288.

264. *Id.* at 292.

included his short story in a collection of short stories or his poem in an anthology of poetry.<sup>265</sup>

The Supreme Court was untroubled by the possibility that trivial amounts of copyrightable material could prevent the importation of utilitarian objects such as auto parts.<sup>266</sup>

The lower court may indeed have gone too far in suggesting that the copyright in the accessory simply disappeared because it "merged" into the uncopyrighted article that it accompanied. Unlike Australia's statute, which requires that the accessory itself be noninfringing, the lower court's analysis in *Frank & Hirsch* could be read as eliminating all copyright protection for the accessory. Perhaps the Supreme Court read the lower court's opinion too broadly; the lower court may have meant to apply its "merger" analysis only where the accessory itself was noninfringing. Imposing that condition would answer the Supreme Court's concern that authors and artists would have no infringement claim against someone who used their copyrighted work in an accessory without their consent. It would also have created a judicial exception that closely paralleled the Australian statute. Nonetheless, the Supreme Court's broad interpretation of the lower court's merger analysis led it to squarely reject that approach, opening the door for trademark owners to wield copyright law as a broad weapon against parallel imports.

A contemporaneous commentator noted that the principle of *Frank & Hirsch* could "be adapted so as to prevent parallel importation of equipment and all sorts of goods by relying on copyright in labels, get-up, instruction books and the like" and that while "restraining the importation and dealing in peripheral items does not necessarily mean that trading in the substantive items can be prevented . . . in many cases it is not a commercial proposition to trade in the substantive items if they cannot be accompanied by the peripheral items in which copyright subsists."<sup>267</sup>

Since the *Frank & Hirsch* decision, South African trademark owners have brought successful claims of copyright infringement against gray market importers of hi-fi equipment, watches and other products, relying on the copyright in the design drawings on which these three-dimensional articles

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265. *Id.* at 290-91.

266. *Id.* at 291-92. The Court cited English and Australian case law to support its analysis. *Id.* at 288, 291 (citing *Tavener Rutledge Ltd. v. Specters Ltd.*, [1959] R.P.C. 83 (U.K.); *Moffat & Paige Ltd. v. George Gill & Sons Ltd.*, [1902] 86 L.T. 465 (U.K.); *R & A Bailey & Co. Ltd. v. Boccaccio (Pty.) Ltd.*, (1986) 84 FLR 232, 239 (Austl.)). It also noted, however, that under South Africa's copyright law knowledge is a prerequisite to liability for infringing importation and distribution of copyrighted material. *Id.* at 289 (citing Copyright Act 98 of 1978 § 23 (S. Afr.)). Thus, an importer of utilitarian goods in South Africa would not be liable for infringing the copyright in an accessory unless it knew that the accessory was copyrighted and infringing. This would not be true in the United States, where copyright liability for infringing importation or distribution does not depend on the defendant's knowledge.

267. Owen H. Dean, *South Africa—Copyright: Parallel Importation of Artistic Works*, 4 ENT. L.R. 99, 101 (1993).

were based.<sup>268</sup> While the lower court had the foresight to predict this consequence, South Africa's copyright laws simply did not provide it, or the Supreme Court, with the legal tools they needed to distinguish between substantial copyrightable works and mere accessories.

#### D. Canadian Jurisprudence

Canada's approach to parallel imports combines weak trademark laws with strong copyright protection, which creates a "perfect storm" that has encouraged trademark owners to use copyright law to block parallel imports of noncopyrightable merchandise. While recent legislation may reduce these opportunities, much will still be left to court interpretation.

Because Canada's trademark law is grounded in the traditional common law concept of passing off,<sup>269</sup> it does not provide an exclusive importation right. In the absence of deliberate deception, trademark owners cannot use trademark or unfair competition law to block the importation and sale of goods that were manufactured overseas either by the Canadian trademark owner or by one of its affiliates or licensees.<sup>270</sup> Even where the goods differ in quality, proper labeling may preclude liability.<sup>271</sup> Thus, Canada provides especially weak protection against parallel imports of trademarked goods.

By contrast, Canada grants copyright owners the exclusive right to import copies of their works for the purpose of sale or other commercial exploitation.<sup>272</sup> In general, an imported copy infringes if it was made without the consent of the Canadian copyright owner.<sup>273</sup> Thus, by assigning the copyright in a work to different assignees in different countries, the Canadian copyright owner can prevent the importation of foreign-made copies even if they are not pirated.<sup>274</sup> The stark contrast between Canada's importation

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268. Owen Dean, *South Africa: The South African Position on Parallel Importing*, SPOOR & FISHER (Apr. 1, 2001), <http://www.spoor.com/home/index.php?ipkArticleID=217>; see Coenraad Visser, *Importing Grey Goods into South Africa*, 1 JUTA'S BUS. L. 187, 187 (1993).

269. See, e.g., *Consumers Dist. Co. Ltd. v. Seiko Time Can.*, [1984] 1 S.C.R. 583 (Can.) (absent deliberate passing off, authorized retailer could not prevent importer from selling genuine Seiko watches even if not covered by Canada warranty); Trade-Marks Act, R.S.C. 1985, c-T-13 s 7 (Can.) (prohibiting passing off, misrepresentation, and acts likely to cause confusion between one person's wares and those of another).

270. See *Consumers Dist. Co. Ltd. v. Seiko Time Can.*, [1984] 1 S.C.R. 583 (Can.); *Sony du Can. Ltée v. Impact Électronique* (1991), 39 C.P.R. (3d) 414 (Que. S.C.); *Sony du Can. Ltée v. Multitronic Stéréo Inc.* (1991), 42 C.P.R. (3d) 53 (Can. Que C.A.); *Nestlé Enters. Ltd. v. Edan Food Sales Inc.* [1991] 1 F.C. 182 (Can.); *Sharp Elecs. of Can. Ltd. v. Cont'l Elec. Info. Inc.* (1988), 23 C.P.R. (3d) 330 (B.C.S.C.); see also Teresa Scassa, *Using Copyright Law to Prevent Parallel Importation: A Comment on Kraft Canada, Inc. v. Euro-Excellence, Inc.*, 85 CAN. B. R. 409 (2006).

271. *Nestlé Enters. Ltd.*, [1991] 1 F.C. at 189-90.

272. Copyright Act § 27(2) (Can.).

273. *Id.*

274. A slight variation on these rules applies specifically to books. The importation of copyrighted books requires the consent of the Canadian copyright owner whenever there is an exclusive distributor in Canada, even if the foreign copies were lawfully made by the Canadian

rules for trademarks and copyrights has encouraged trademark owners to resort to copyright law in order to reduce competition from imported goods. In the most notable case to date, *Kraft Canada Inc. v. Euro-Excellence Inc.*,<sup>275</sup> Canada's highest court approved this strategy, but in a very splintered opinion.

The defendant, Canadian distributor Euro-Excellence, bought authentic Toblerone and Cote d'Or chocolate products from a source in Europe and imported the chocolates into Canada. In addition to Canadian trademark registrations for TOBLERONE and COTE D'OR, Kraft also had valid copyright registrations for several features of the product labels. Adopting the same reasoning that the Australian courts used in *R & A Bailey & Co. Ltd v. Boccaccio Pty Ltd.*,<sup>276</sup> which was legislatively overruled by Australia's Parliament,<sup>277</sup> the trial court held that importing chocolates with these copyrighted labels without the consent of the Canadian copyright owner infringed

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copyright owner. Copyright Act §§ 27.1(1), (3) (Can.). For a detailed discussion of the rationale underlying the parallel import rules for books, see CAN. HERITAGE, *THE ROLE OF THE BOOK IMPORTATION REGULATIONS IN CANADA'S MARKET FOR BOOKS* (Apr. 2012). Unlike the general import ban, the import ban for lawfully made books is not limited to foreign copies that were lawful due to expired copyrights, ineligible subject matter, compulsory licenses, or the consent of a foreign copyright owner. With respect to books, even if the Canadian copyright owner also owns the foreign copyright, and consents to the foreign manufacture, the unauthorized importation of those copies would still infringe because the importer would have infringed if it had made the copies in Canada. The importation rule for books, however, is more liberal than the general importation rule in one respect: The importation of books can infringe only if it conflicts with the rights of an exclusive distributor. Copyright Act § 27.1(3) (Can.). Furthermore, infringement claims based on infringing importation or domestic distribution of imported books can be brought only against defendants that received notice of the exclusive distribution arrangement before the infringement occurred. *Id.* §§ 27.1(3), (5).

There is one exception to the special importation right with respect to books. The statutory definition of "books" expressly excludes any "instruction or repair manual that accompanies a product or that is supplied as an accessory to a service." *Id.* § 2. As a result, manuals are subject to the general importation rule rather than the more stringent importation rule for books. If the manuals are copied overseas with the consent of the Canadian copyright owner, then they can be imported without the copyright owner's consent. If, however, the Canadian and foreign copyrights are owned by different parties, then the Canadian copyright owner can prevent the importation. In contrast to the rule governing books, the importers of user manuals can be sued for infringement even if there is no exclusive distribution arrangement. The rationale for the stricter book importation rules—protecting Canada's publishing industry—simply does not apply to user manuals. See CANADIAN HERITAGE, *supra* note 274, at 4. Thus, the exemption for manuals only exempts them from the special rule for books; it does not exempt them from the import ban entirely, and thus it does not create an "accessory" exemption for user manuals.

275. *Euro-Excellence Inc. v. Kraft Can. Inc.*, [2007] S.C.R. 20 (Can.).

276. See *supra* notes 188-202 and accompanying text.

277. See *supra* notes 209-215 and accompanying text.

Kraft's Canadian copyrights.<sup>278</sup> The Federal Court of Appeal (FCA) upheld the finding of infringement.<sup>279</sup>

Kraft had based its infringement claim on Section 27(2)(e) of the Copyright Act, under which a copyright owner can prevent the importation of any copy that would infringe "if it had been made in Canada by the person who made it," provided that the purpose of the importation is commercial distribution or exhibition, or any distribution that would prejudice the copyright owner.<sup>280</sup> Where the Canadian and foreign copyrights are owned by different parties, the unauthorized importation of foreign-made copies will infringe if the foreign copyright owner has no right to make copies in Canada. In contrast, if the Canadian copyright owner directly authorized the foreign copies, then importation does not infringe, because making those copies in Canada would not infringe.<sup>281</sup>

The *Euro-Excellence* appeal left the Supreme Court deeply divided.<sup>282</sup> Five of the nine justices held that the labels were copyright infringement.<sup>283</sup> Four justices argued that they should be treated as noninfringing because the presence of copyrighted material on the candy wrappers was "merely incidental" to the product.<sup>284</sup> These justices would have rejected Kraft's attempt to use copyright law as an end run around trademark law:

[T]he *Copyright Act* ought not only to be interpreted with an eye to the internal coherence of its own scheme; it must also not be interpreted in a fashion which is inconsistent with the *Trade-marks Act*. Trade-mark law protects market share in commercial goods; copyright protects the economic gains resulting from an exercise of skill and judgment. If trade-mark law does not protect market share in a

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278. Kraft Canada Inc. v. Euro Excellence Inc., [2004] 4 F.C.R. 410 (Can.) (Harrington, J.). The court therefore enjoined the importation of the chocolates. *Id.* In a subsequent hearing, the Federal Court clarified that Euro-Excellence could resume importing the chocolate after it covered up the copyrighted portions of the labels. Kraft Canada Inc. v. Euro Excellence Inc., [2005] F.C.R. D 52 (Can.) (Harrington, J.).

279. Kraft Canada Inc. v. Euro Excellence Inc., [2006] 3 F.C.R. 91 (Can.).

280. Copyright Act § 27(2)(e) (Can.).

281. Under this rule, the copyright owner can also block importation of copies made in countries where the work does not qualify for copyright protection, where its copyright has expired, or where a compulsory license applies.

282. Euro-Excellence Inc. v. Kraft Canada Inc., [2007] S.C.R. 20 (Can.).

283. The majority ultimately permitted the importation, but on the narrow ground that Kraft Canada was only a licensee and not the owner of the Canadian copyright. *Id.* at 22 (Binnie, Deschamps, & Rothstein JJ.). As illustrated in the *Frank & Hirsch* case in South Africa, however, a potential plaintiff can overcome this obstacle by obtaining an assignment of the copyright in the country of importation. *Frank & Hirsch (Pty.) Ltd. v A Roopchand Bros. (Pty.) Ltd.*, 1993 (4) SA 279 (SCA) (S. Afr.).

284. *Euro-Excellence Inc.*, [2007] S.C.R. 20, ¶¶ 83-95 (Bastarache, LeBel, and Charron, JJ.); see also *id.* ¶ 56 (Fish, J.) (expressing "grave doubt whether the law governing the protection of intellectual property rights in Canada can be transformed in this way into an instrument of trade control not contemplated by the Copyright Act.").

particular situation, the law of copyright should not be used to provide that protection, if that requires contorting copyright outside its normal sphere of operation. The protection offered by copyright cannot be leveraged to include protection of economic interests that are only tangentially related to the copyrighted work. . . .

Thus s. 27(2)(e) is meant to protect copyright holders from the unauthorized importation of works which are the result of their skill and judgment. It is not meant to protect manufacturers from the unauthorized importation of consumer goods on the basis of their having a copyrighted work affixed to their wrapper, this work being merely incidental to their value as consumer goods.<sup>285</sup>

These justices did not adopt a precise definition of “incidental” copyrights, and they acknowledged that the determination would not always be easy.<sup>286</sup> Instead, they suggested that what constitutes incidental content should be determined from the consumer’s perspective:

Some factors which may be useful in making such a determination could include the nature of the product, the nature of the protected work and the relationship of the work to the product. If a reasonable consumer undertaking a commercial transaction does not think that the copyrighted work is what she is buying or dealing with, it is likely that the work is merely incidental to the consumer good.

Thus, the sale of a t-shirt with a reproduction of a painting on its front may constitute the sale of the work (the painting); on the other hand, the location of a small logo on the corner of a shirt pocket would not thereby transform an otherwise plain shirt into a copyrighted work, as the logo *qua* copyrighted work would be merely incidental to the shirt being sold (and, as noted above, any value the logo has as identifying a brand would be protected by trade-mark law, rather than by copyright). To take a slightly different example, a copyrighted instruction booklet included in the box of some consumer good would, as copyrighted work, be merely incidental to the good for the purposes of s. 27(2).<sup>287</sup>

The majority rejected this analysis as unsupported by the copyright statutes.<sup>288</sup> They acknowledged Australia’s statutory exception for accessories,

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285. *Id.* ¶¶ 83-88 (Bastarache, LeBel, and Charron, JJ.).

286. *Id.* ¶ 94.

287. *Id.* ¶¶ 94-95.

288. *Id.* ¶¶ 3-13 (Binnie, Deschamps, and Rothstein, JJ.); *see also id.* ¶¶ 111-12 (McLachlin C.J. and Abella J.) (declining to limit copyright protection “based on whether the logos on the wrapper are “incidental” or whether the copyright holder has a “legitimate economic interest”).

but, like the Supreme Court of South Africa, they did not believe that such an exception should be judicially created.<sup>289</sup>

Neither the FCA nor the Supreme Court opinions in *Euro-Excellence* had occasion to consider whether copyright might subsist in the shape or appearance of the chocolates themselves.<sup>290</sup> If the authorized manufacturers of Toblerone or Cote d'Or were to use chocolate molds that produced chocolates in copyrightable shapes or embedded with copyrightable text or designs, it would be impossible for a distributor to cover over the copyrighted material, and Kraft would have an even greater ability to use copyright law to block importation of otherwise lawful goods.

If Canada had enacted an accessory exception such as those adopted in Australia and Singapore, then the copyright in the candy wrappers could not have blocked the importation of the chocolates.<sup>291</sup> In order to address more challenging scenarios where the protectable expression or design is integrated into the product configuration, the courts (or the legislature) would have to adopt a definition of accessories that, like Australia's, focuses on what the putative accessory contributes to the article.

Recent changes in Canadian copyright law, however, may affect the future status of parallel imports. At the time *Euro-Excellence* was decided, Canadian copyright owners could bring infringement claims against domestic resellers of unauthorized imports,<sup>292</sup> because the imported copies were treated as infringing. A first sale defense was not possible because, until 2012, Canada did not formally recognize a "first sale" rule.

Five years after *Euro-Excellence*, the long-delayed Copyright Modernization Act of 2012 added Section 3(1)(j) to the copyright statutes, giving copyright owners the exclusive right,

in the case of a work that is in the form of a tangible object, to sell or otherwise transfer ownership of the tangible object, as long as that ownership has never previously been transferred in or outside Canada with the authorization of the copyright owner.<sup>293</sup>

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289. *Id.* ¶ 5 (Binnie, Deschamps, and Rothstein, JJ.). The majority ultimately permitted the importation, but on the narrow ground that Kraft Canada was only a licensee and not the owner of the Canadian copyright. *Id.* ¶¶ 49-51. As illustrated in the *Frank & Hirsch* case, a potential plaintiff can overcome this obstacle by obtaining an assignment of the copyright in the country of importation.

290. The Federal Court of Appeal noted that, while the Cote d'Or elephant logo not only appeared on the candy wrapper but was also "impressed within the COTE D'OR chocolate itself," Kraft Canada asserted copyright infringement based only on the wrapper. *Kraft Can. Inc. v. Euro Excellence Inc.*, [2005] F.C.R. D 52, ¶ 4 (Can.).

291. One commentator has recommended that Canada adopt this approach. Scassa, *supra* note 270, at 418-20.

292. Scassa, *supra* note 270, at 416.

293. Copyright Modernization Act, S.C. 2012, c. 20 (Can.). At the time *Euro-Excellence* was decided, the only provision which directly conferred a public distribution right was Section 3(1), which granted authors the exclusive right to publish their unpublished works. Copy-



Although this provision recognizes an exclusive public distribution right, it simultaneously restricts that right by creating a rule of exhaustion.<sup>294</sup>

The new provision on exhaustion codifies for the first time a doctrine that has not been extensively delineated by the Canadian courts. Canada's leading case on copyright exhaustion, *Théberge v. Galerie d'Art du Petit Champlain Inc.*, establishes only that the owner of a lawful copy of a work has certain implied rights to use the work.<sup>295</sup> It will therefore be up to the courts to define the precise contours of the newly codified exhaustion rule.

In particular, it is unclear how the new exhaustion rule relates to the exclusive importation right. Does the exhaustion of the distribution right also exhaust the importation right, as in *Kirtsaeng*? And if the work has different copyright owners in Canada and abroad, does a foreign owner's authorization of a foreign transfer exhaust the distribution right in Canada, as it does in Singapore? The language of the amendment implies that exhaustion will not be triggered by unauthorized distributions, such as those which take place in countries where the work does not enjoy copyright protection or is subject to a compulsory license or other limitation on the author's exclusive rights. Beyond this, the statute leaves much room for judicial interpretation. Because Canada has recently joined the TPP negotia-

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right Act § 3(1) (Can.). Because Section 2 defined "publication" as "making copies of a work available to the public[.]" *id.* § 2.2(1)(a)(i), it is not clear why these existing provisions were considered insufficient recognition of the exclusive distribution right. The most likely possibility is that the first authorized public distribution of copies of a work extinguished the Section 3(1) publication right, because the work was no longer "unpublished." While Section 27(2) of the Copyright Act recognized the unauthorized distribution of infringing copies as a form of secondary infringement, liability required proof that the distributor knew or should have known that the copies were infringing. *See* MACGILLIVRAY, *supra* note 3, at 97-98. The new publication right will allow copyright owners to bring infringement claims against distributors of infringing copies even after the underlying work has been published, and without proof of knowledge. Because the new right is limited by a rule of exhaustion, copyright owners will not be able to prevent resales of authorized copies. Although one commentator has suggested various alarming implications of Section 3(1)(j), the statutory language does not support these interpretations. *See* Section 3(i)(j) of the New Copyright Act – Good or Bad?, MINCOV L. CORP., [http://mincovlaw.com/blog-post/section\\_3\(1\)\(j\)\\_of\\_the\\_new\\_copyright\\_act\\_-\\_good\\_or\\_bad](http://mincovlaw.com/blog-post/section_3(1)(j)_of_the_new_copyright_act_-_good_or_bad) (suggesting that the new rule requires the copyright owner's consent for resales of tangible copies, and gives the author ownership of a computer or other tangible medium that she borrows to compose her work).

294. According to *Balanced Copyright*, the Canadian government's official website on the new legislation, Section 3(1)(j) was intended to "enable a copyright holder to control the first sale of every copy of their work." *Questions and Answers: The Copyright Modernization Act*, BALANCED COPYRIGHT, [http://www.balancedcopyright.gc.ca/eic/site/crp-prda.nsf/eng/h\\_rp01153.html#amend](http://www.balancedcopyright.gc.ca/eic/site/crp-prda.nsf/eng/h_rp01153.html#amend) (last visited August 3, 2013).

295. *Théberge v. Galerie d'Art du Petit Champlain Inc.*, [2002] S.C.R. 336 (Can.) (stating that owner of a lawfully produced copy had the right to use that copy, including transferring the ink from poster to canvas); *see* Jeremy de Beer & Robert Tomkowicz, *Exhaustion of Intellectual Property Rights in Canada*, 25 CAN. INTELL. PROP. REV. 3, 12-13 (2009); MACGILLIVRAY, *supra* note 3, at 104 (suggesting that the *Théberge* analysis might not apply to parallel imports).

tions, it has implicitly signaled its intention to preserve the exclusive importation rights of copyright owners. Will it still be able to do so under the new exhaustion regime? Like the United States, Canada will have to find a way to reconcile the TPP position with its new principle of exhaustion.

When Section 3(1)(j) was first proposed, the government's official commentary stated that "the distribution right would no longer be operative once the first ownership of that tangible copy has been transferred with the authorization of the copyright owner, by sale or otherwise, inside or outside Canada (*i.e.*, consistent with 'international exhaustion')." <sup>296</sup> Therefore, if copyrighted items are manufactured outside of Canada and then sold "with the consent of the copyright owner," under the new rule the copyright owner will no longer have the exclusive right to "transfer ownership" of those copies.

The right to transfer *ownership* of copies, however, is not necessarily the same thing as the right to *import* copies. Even if copyright owners cannot prevent resales of lawful copies, they might still be able to prevent the importation of such copies under Section 27(2)(e). This interpretation would enable Canada to comply with the TPP. On the other hand, the fact that Section 3(1)(j) expressly states that a *foreign* transfer of ownership will exhaust the author's distribution right could imply that the importation right is also exhausted. If Section 3(1)(j) allows foreign purchasers to resell their copies in Canada, then it can be argued that it also permits them to transport those copies to Canada before doing so.

This analytical problem invites comparison to the first sale rule of the United States. <sup>297</sup> As noted earlier, <sup>298</sup> the Supreme Court held in *Quality King* <sup>299</sup> that the Section 602(a) importation right is a subset of the Section 106(3) public distribution right rather than an entirely separate right; therefore, the first sale exception to the distribution right is also an exception to the importation right. <sup>300</sup> *Kirtsaeng* reaffirmed this interpretation. <sup>301</sup> The language of Section 602(a)(1) differs from the Canadian provisions, however, because it expressly provides that unauthorized importation "is an infringe-

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296. According to Michael Geist, who posted the document on his blog, the government prepared this clause by clause commentary. Using the example of a book, the commentary states (at page 607 of the untitled document) that "once ownership of that copy of that book has been transferred by the copyright owner, wherever in the world, the right is 'exhausted' or terminated with respect to that particular copy of the book." *Behind the Scenes of Bill C-32: Govt's Clause-By-Clause Analysis Raises Constitutional Questions*, MICHAEL GEIST (Sept. 27, 2011), <http://www.michaelgeist.ca/content/view/6026/125/>.

297. 17 U.S.C. § 109(a) (2012).

298. See *supra* note 92 and accompanying text.

299. *Quality King Distrib., Inc. v. Lanza Research Int'l, Inc.*, 523 U.S. 135 (1998).

300. *Quality King*, 523 U.S. at 149-51. As noted earlier, see *supra* notes 98-99 and accompanying text, *Quality King* concluded that the first sale rule applies only to copies made in the United States, the position later rejected by *Kirtsaeng*.

301. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1368 (2013).

ment of the exclusive right to distribute . . . under section 106.”<sup>302</sup> In contrast, Canada’s copyright statutes treat the importation and distribution rights separately, and contain no language suggesting that one right is subsumed within the other.<sup>303</sup> Therefore, a court could rule that Section 3(1)(j) does not override the importation ban.

However, *Quality King* also gave a second reason for treating importation as a sale or other disposition. When goods are imported, there is usually a transfer of ownership as well: “An ordinary interpretation of the statement that a person is entitled ‘to sell or otherwise dispose of the possession’ of an item surely includes the right to ship it to another person in another country.”<sup>304</sup> Thus, even if the Canadian statutes do not expressly treat importation as a form of distribution, the *Quality King* analysis suggests that Section 3(1)(j) might permit importation for the purpose of carrying out the sale, just as *Théberge*’s analysis suggests that it might permit importation *after* the sale has taken place.

Another ambiguity in Section 3(1)(j) arises from the requirement that the previous sale or transfer that triggers exhaustion must have taken place with the “authorization of the copyright owner.” The Copyright Act does not define “copyright owner.” In the case of imported copies, this phrase could refer either to (1) the copyright owner in the country where the first transfer occurred, or (2) the Canadian copyright owner.<sup>305</sup>

If the reference is to the Canadian copyright owner, then a copyright owner can continue to prevent importation and resale of foreign-made copies if it assigns the work’s Canadian and foreign copyrights to different owners (for example, corporate affiliates or exclusive distributors). This outcome would allow Kraft to continue to block chocolate imports by assigning the Canadian copyright in the labels to one party, and the copyright in the labels in the country of manufacture to a different entity.

In contrast, if the reference is to the copyright owner in the country where the first transfer occurred, so that exhaustion is triggered even when a foreign copyright owner authorizes the sale of copies, then Section 3(1)(j) implements a much broader rule of international exhaustion. Under the broader rule, Canadian copyright owners will be able to prevent importation of lawfully made copies only when they were made in countries where the

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302. 17 U.S.C. § 602(a)(1).

303. The distribution right is addressed in Copyright Act §§ 3(1)(j), 27(1), 27(2)(b)-(c), 27.1(2) (Can.). The importation right is addressed in *id.* §§ 27(2)(e), 27.1(1).

304. *Quality King*, 523 U.S. at 1134.

305. The statutes themselves provide no clear answer. Section 27(1) implies that the phrase refers to the Canadian copyright owner: “It is an infringement of copyright for any person to do, without the consent of the owner of the copyright, anything that by this Act only the owner of the copyright has the right to do.” Copyright Act § 27(1) (Can.). In setting forth the importation rule for books, however, § 27.1 distinguishes between “the owner of the copyright . . . in the country where the copies were made” and “the owner of the copyright . . . in Canada.” *Id.* § 27.1.

work had no copyright protection or where the copying was permitted by a compulsory license.

### III. CRAFTING A DOMESTIC SOLUTION

As illustrated above, the overlap of copyright and trademark laws in a number of countries has made it difficult to enforce different parallel import policies for each intellectual property regime. In the United States prior to *Kirtsaeng*, imports that were permissible under trademark law could become impermissible if even a trivial component was protected by copyright. This state of affairs may return if Congress overturns *Kirtsaeng*, in whole or in part, in order to satisfy the copyright industries and comply with existing free trade agreements and the prospective TPP. Even if Congress leaves *Kirtsaeng* intact, some trademark owners may still be able to use incidental copyrighted components to block parallel imports by outsourcing their manufacturing while retaining title in the copies.<sup>306</sup> Others may rely on ornamental designs—such as the design Omega used on its watches—that can be protected by design patents.

If Congress leaves *Kirtsaeng* untouched, trademark law may actually provide stronger protection than copyright law against parallel imports. American publishers can merely make modest changes in their foreign editions in order to differentiate them from American editions. Given the propensity of federal courts to treat even minor variations in gray market goods as “material differences” for purposes of the Lanham Act,<sup>307</sup> a publisher might thus succeed in suing unauthorized importers and resellers of its foreign editions for infringement of its trademark even if it could not sue them for copyright infringement because of *Kirtsaeng*.

It may be time to question whether the United States should simply abandon the use of different parallel import rules for different intellectual property regimes, and instead follow the examples of the European Union and Japan by harmonizing the importation rules across regimes. Under a harmonized approach, trademark owners would no longer have an incentive to “wag the dog” by using incidental features protected by copyright or patent law in order to accomplish what trademark law cannot. Such a proposal requires a careful consideration of the policies that underlie each of these regimes. Whereas trademark law focuses primarily on protecting consumers from confusion as the source of goods, copyright and patent law provide financial incentives in the form of limited monopolies in order to encourage creative efforts. These monopolies will better reward authors and inventors by allowing them to maximize the value of their exclusive rights through control of parallel imports.

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306. See *supra* notes 132-133 and accompanying text.

307. See *supra* notes 43-51 and accompanying text.

This analysis is oversimplified, however, because trademark law also recognizes that strong trademark protection can encourage trademark owners to invest in their goodwill and police their marks against confusing uses. Likewise, giving too great a monopoly to copyright and patent owners can affect the supply and price of goods, to the detriment of the public interest. Thus, the larger question of whether parallel import rules can or should be harmonized is beyond the scope of this paper. For now, the focus should be on ensuring that each of these parallel import regimes is able to fulfill its policy goals without interference or manipulation. Whatever the outcome of this next round of copyright reform in the United States, trademark owners should not be allowed to use copyright or patent laws to create an end run around the trademark and competition policies established by the Lanham Act and the 1930 Tariff Act.<sup>308</sup> As discussed below, familiar doctrines such as fair use, implied license, and copyright or patent misuse may be helpful in some cases, but a statutory solution will be more comprehensive and more efficient, and will provide greater certainty. A narrowly tailored exception to the copyright and design patent statutes would preserve the balance of rights established under federal trademark law. The remainder of this article explores these options.

### A. Application of Existing Doctrines

Courts could intervene on a case-by-case basis by construing existing copyright and design patent laws in a manner that prevents their application to incidental uses such as labels. Three doctrines that might serve this purpose are (1) copyright (or patent) misuse, (2) *de minimis* infringement, and (3) (for copyright only) fair use. Each of these doctrines provides a less than satisfactory solution, however.

#### 1. Misuse

Courts could find that attempts to use copyright or design patent protection to block otherwise-lawful imports constitute copyright or patent mis-

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308. The Supreme Court has consistently rejected attempts to use one intellectual property regime to achieve results that undermine the policies underlying another. For example, in *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 540 U.S. 23 (2003), the Supreme Court struck down what it perceived as an attempt to create “mutant copyright law” by using the Lanham Act as an end run around federal copyright policy. *See also* *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) (holding that federal patent law preempted state law prohibiting certain methods of copying of boat hull designs); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) (holding that state law unfair competition claims for infringement of unpatentable lamp design were preempted by federal patent law); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) (similar). Lower courts have also expressed concern that plaintiffs may assert trivial copyright infringement claims in order to achieve anticompetitive goals. *See, e.g.*, *SmithKline Beecham Consumer Healthcare, L.P. v. Watson Pharm., Inc.*, 211 F.3d 21, 29(2d Cir. 2000) (dismissing drug maker’s claim that a generic competitor infringed copyright in its label).

use.<sup>309</sup> The possibility that a court will find misuse could deter overreaching by trademark owners, because such a finding renders the asserted copyright or patent unenforceable for so long as the misuse continues.<sup>310</sup>

The misuse defense generally applies where a patent or copyright owner attempts to leverage its limited monopoly to exercise control over goods or services outside the scope of that monopoly.<sup>311</sup> Early case law applied the misuse doctrine only where the patent or copyright owners had employed tying arrangements<sup>312</sup> or restrictive licensing provisions.<sup>313</sup> While Congress has restricted the scope of patent misuse by amending the patent statutes,<sup>314</sup> recent case law has confirmed the broad scope of copyright misuse. In *Assessment Technologies LLC v. Wire Data, Inc.*,<sup>315</sup> the Seventh Circuit held that a copyright owner's use of an infringement suit to secure property protection for uncopyrightable information was "an abuse of process." The Fourth Circuit has described copyright misuse broadly as the use of copyright "in a manner violative of the public policy embodied in the grant of copyright."<sup>316</sup>

In the parallel import context, when the Central District of California considered *Costco Wholesale Corp. v. Omega* on remand, it held that Omega could not prevail in its copyright infringement claim because it had engaged in copyright misuse.<sup>317</sup> Under Ninth Circuit law, the copyright misuse defense "prevents copyright holders from leveraging their limited monopoly to allow them to control areas outside of their monopoly."<sup>318</sup> When Omega applied the copyrighted design to the back of its uncopyrightable watches for the purpose of blocking their importation and resale, "Omega misused its

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309. The leading cases recognizing the misuse doctrine are *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942) (patent misuse) and *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990) (copyright misuse). *Morton Salt* involved utility patents. No case thus far has considered whether the misuse doctrine applies to design patents, but there is no reason why the same principles would not apply.

310. See *U.S. Gypsum Co. v. Nat'l Gypsum Co.*, 352 U.S. 457, 465 (1957); *Lasercomb*, 911 F.2d at 979, 979 n.22.

311. *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir. 2001).

312. In a tying arrangement, a patent or copyright owner conditions a sale or lease of goods, or the grant of an intellectual property license, on the purchase or license of other property that is not protected by the patent or copyright. Such arrangements constitute misuse if they extend the patent or copyright monopoly beyond its lawful scope. For example, the patentee in *Morton Salt* leased its patented machines only on the condition that the lessee purchase unpatented salt tablets exclusively from the patentee. *Morton Salt*, 314 U.S. at 491.

313. *Omega S.A. v. Costco Wholesale Corp.*, 2011 WL 8492716, at \*2 (C.D. Cal. Nov. 9, 2011).

314. 1988 Patent Misuse Reform Act, Pub. L. No. 100-703, 102 Stat. 4676 (adding 35 U.S.C. § 271(d)(4)-(5)).

315. *Assessment Techs. LLC v. Wire Data, Inc.*, 350 F.3d 640, 647 (7th Cir. 2003).

316. *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 978 (4th Cir. 1990).

317. *Omega*, 2011 WL 8492716 at \*2.

318. *Id.* at \*1 (quoting *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir. 2001)).

copyright of the Omega Globe Design by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its Seamaster watches.”<sup>319</sup> While the court clearly found it significant that blocking parallel imports was “one purpose” of adding the design to the watch,<sup>320</sup> it is not clear what act the court believed constituted the misuse—bringing the infringement suit, or placing the design on the watches in the first place.

The district court’s misuse analysis seems to have been strongly influenced by its belief that Omega’s purpose in embedding the copyrighted design was to achieve a degree of control over the distribution of uncopyrightable merchandise that it could not achieve through trademark law. When Omega argued that the design had other purposes as well—to promote the creativity and aesthetics of the design and to increase the value of the watch—the court largely ignored these arguments, noting only that “those aspects of the design are protected by its copyright and are not a defense to copyright misuse.”<sup>321</sup> If Omega’s paper trail had not indicated so clearly that these arguments were specious, the court might have been obliged to take them more seriously.

In a later proceeding awarding attorneys fees to Costco, the Central District of California described Omega’s infringement claim as “improperly motivated” and as “arguably unreasonable and frivolous.”<sup>322</sup> The court still did not clarify the precise act that constituted copyright misuse. Nonetheless, it asserted that Omega *should have known* that it was committing misuse:

While one segment of Omega’s claim raised issues sufficiently ambiguous to split the Supreme Court, the claim as a whole was clearly not one properly raised under copyright law. As the Supreme Court has explained, “copyright law ultimately serves the purpose of enriching the general public through access to creative works. . . .” By affixing a barely perceptible copyrighted design to the back of some of its watches, Omega did not provide—and did not seek to provide—creative works to the general public. Omega sought to exert control over its watches, control which it believed it could not otherwise exert. Thus, even though the defense of copyright misuse may not have been articulated in a way that explicitly and directly prohibited Omega’s particular actions, it should have been clear to

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319. *Id.* at \*2.

320. *Id.* For criticism of the district court’s application of the misuse doctrine, see Panko, *supra* note 4, at 22.

321. *Omega*, 2011 WL 8492716 at \*2.

322. *Omega S.A. v. Costco Wholesale Corp.*, 2012 WL 3150432, at \*1 (C.D. Cal. June 20, 2012) (citing *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994)).

Omega that its actions were not condoned or protected by copyright law.<sup>323</sup>

Other federal courts have yet to consider whether the misuse doctrine applies to the use of incidental intellectual property rights to block parallel imports.<sup>324</sup> While some might be willing to find copyright or patent misuse when presented with particularly strong evidence that the plaintiff added the copyrighted or patented component with the intent to block lawful imports, it is unlikely that this approach will solve the broader problem. In many cases, there may be little or no evidence of the reason why the text or design feature was used. If courts prove willing to find misuse on facts similar to *Costco*, companies will probably continue to use Omega's strategy while exercising greater care not to leave incriminating paper trails.

In addition, potential defendants may be reluctant to rely on the copyright misuse doctrine due to its uncertain scope. Patent and copyright misuse are judicially created doctrines, which lack precise boundaries,<sup>325</sup> and courts apply them cautiously, on a case-by-case basis.<sup>326</sup> Because misuse is an affirmative defense, the defendant bears the burden of proof.<sup>327</sup> In contrast to

323. *Id.*

324. In his minority opinion in *Euro-Excellence*, Justice Fish of the Canadian Supreme Court noted in passing the possible relevance of copyright misuse, a doctrine not yet recognized in Canada. *Euro-Excellence Inc. v. Kraft Canada Inc.*, [2007] S.C.R. 20, ¶ 98 (Can.).

325. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488, 492-93 (1942); *Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970, 976 (4th Cir. 1990). The 1988 Patent Misuse Reform Act, Pub. L. No. 100-703, 102 Stat. 4676 (codified at 35 U.S.C. § 271(d)(4)-(5)) narrowed but did not eliminate the patent misuse defense. *Lasercomb*, 911 F.2d at 976, 976 n.15. While at one time a finding of misuse was thought to require an antitrust violation, that is no longer the case. *Id.* at 977-78, 977 n.17. One commentator describes patent misuse as "an elusive doctrine," Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. HIGH TECH. L. 142, 148 (2010), and one that is "based on vague principles that overlap antitrust law," Marshall Leaffer, *Engineering Competitive Policy and Copyright Misuse*, 19 U. DAYTON L. REV. 1087, 1101 (1994). For more on the uncertain scope of patent misuse, see Vincent Chiappetta, *Living with Patents: Insights from Patent Misuse*, 15 MARQ. INTELL. PROP. L. REV. 1 (2011); Thomas F. Cotter, *Four Questionable Rationales for the Patent Misuse Doctrine*, 12 MINN. J. L. SCI. & TECH. 457 (2011). For detailed explorations of copyright misuse, see John T. Cross & Peter K. Yu, *Competition Law and Copyright Misuse*, 56 DRAKE L. REV. 427 (2008); Kathryn Judge, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901 (2004); Symposium, *Codifying Copyright's Misuse Defense*, 2007 UTAH L. REV. 573 (2007).

326. The Supreme Court has not explicitly endorsed the concept of copyright misuse, although it has recognized that certain activities by copyright owners—e.g., tying arrangements—can violate antitrust laws. *U.S. v. Loew's, Inc.*, 371 U.S. 38, 51-52 (1962). Although courts have provided general definitions of patent and copyright misuse, there is no finite list of activities that qualify. See Cross & Yu, *supra* note 325 (analyzing different approaches to copyright misuse); Robin C. Feldman, *The Insufficiency of Antitrust Analysis for Patent Misuse*, 55 HASTINGS L.J. 399, 443 (2003) (noting conflicting results produced by applying different tests courts have developed for patent misuse).

327. *Banco Popular De P.R. v. Asociación De Compositores Y Editores De Música Latinoamericana*, 678 F.3d 102, 111 (1st Cir. 2012); *Alloc, Inc. v. Int'l Trade Com'n*, 342 F.3d 1361, 1375 (Fed. Cir. 2003).



recent successes, copyright misuse claims in the past have rarely succeeded.<sup>328</sup> As is the case with the fair use defense in copyright law, the risk and uncertainty of raising a misuse defense can have a chilling effect on potential defendants; in the context of commercial activity, this chilling effect can impede competition. Without a clear sense of what constitutes a valid defense of copyright misuse, potential importers and resellers may be unwilling to undertake activities that could lead to liability.

Without clear statutory authority, courts are likely to resist classifying an entire category of copyright enforcement efforts as misuse. The decisions of the highest courts in South Africa and Canada illustrate this reluctance to carve out large nonstatutory exemptions from copyright protection, even if the policy argument is compelling.<sup>329</sup> After all, copyrightable works accompanying or embedded in uncopyrightable merchandise may serve significant purposes other than providing the basis for infringement claims against parallel imports. Aesthetic considerations aimed at enticing consumers may influence the design of copyrightable labels or packaging, or the copyrightable elements in the appearance of the product itself. Copyright may also subsist in owner's manuals, instructions as to assembly or use, or warranty information, all of which serve important informational purposes. The substantiality of copyright in a software manual, for example, is implicitly recognized in the Singapore accessories statute.<sup>330</sup> A defense of copyright misuse is unlikely to succeed in these circumstances.

Because copyright misuse is addressed on a case-by-case basis, it would be costly for individual importers and resellers to pursue this as an affirmative defense. This, combined with the uncertain outcome in any given case, will discourage them from relying on the defense, effectively allowing copyright owners to continue using copyright law to block parallel imports that are permissible under trademark law.

There is an additional problem with applying misuse in the context of parallel imports. Ordinarily, misuse ceases when the overreaching conduct ends—for example, where a company strikes the offending clause from its licensing agreements.<sup>331</sup> Only then does the copyright become enforceable again. This rule is easy to apply when misuse claims arise from contractual arrangements such as tying arrangements and price fixing; the misuse ends when the copyright owner removes the offending clause from its contracts, or stops demanding that its customers buy or license the tied goods or ser-

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328. Leaffer, *supra* note 325, at 1102.

329. See *supra* notes 268-269, 292-293 and accompanying text.

330. See *supra* note 249 and accompanying text.

331. U.S. Gypsum Co. v. Nat'l Gypsum Co., 352 U.S. 457, 465, 474 (1957); Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488, 492-93 (1942); B.B. Chem. Co. v. Ellis, 314 U.S. 495, 498 (1942); White Cap Co. v. Owens-Ill. Glass Co., 203 F.2d 694, 698 (6th Cir. 1953); Ansul Co. v. Uniroyal, Inc., 306 F. Supp. 541, 560 (S.D.N.Y. 1969), *aff'd in part & rev'd in part*, 448 F.2d 872 (2d Cir. 1971).

vices.<sup>332</sup> But it is more difficult to apply the cessation concept in the parallel import context. Which activity constitutes the misuse? Is it the trademark owner's decision to use protectable text or designs for the purpose of discouraging parallel imports? Or is it the filing of the copyright or patent infringement claim? As noted earlier, the district court in *Costco Wholesale* did not answer this question.

Yet identifying the act that constitutes misuse is essential to determining when the misuse has ended, so that the copyright can become enforceable again. In order for the misuse to cease, should the copyright (or design patent) owner execute a covenant not to sue a specific defendant? Must it stop using the protected content on its products? Must it dedicate the content to the public domain? The difficulty of applying the cessation concept in the parallel imports context suggests that the misuse concept itself is a not a good fit. In the case of design patents, the mere assertion of an infringement claim cannot, as a matter of statute, provide the basis for a misuse defense.<sup>333</sup> A strong argument can be made for applying the same rule to copyright misuse.

For these reasons, the misuse doctrine is ill suited to distinguishing legitimate copyright and design patent infringement claims from overreaching claims in the context of parallel imports. At best, it can serve as a temporary stopgap until Congress clarifies the rules for copyright exhaustion.

## 2. De Minimis Use

As an alternative to labeling an infringement claim as copyright or patent misuse, courts might reject an infringement claim on the ground that the defendant's use is de minimis. As discussed below, such an argument would almost certainly fail in the context of design patents, but it has a small prospect for success with respect to copyrights.

Although the patent law concept of de minimis use (also known as experimental use) is not well developed,<sup>334</sup> it is generally understood to be

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332. The Third Circuit declined to extend the doctrine to a copyright license that restricted criticism of the licensed work. *Video Pipeline, Inc. v. Buena Vista Home Entm't, Inc.*, 342 F.3d 191, 203-06 (3d Cir. 2003).

333. Section 271(d) provides, in relevant part:

No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:

(3) sought to enforce his patent rights against infringement or contributory infringement . . .

35 U.S.C. § 271(d) (2012).

334. See *Madey v. Duke Univ.*, 307 F.3d 1351, 1362 (Fed. Cir. 2002); *Infigen, Inc. v. Advanced Cell Tech., Inc.*, 65 F. Supp. 2d 967, 981 (W.D. Wis. 1999).

extremely narrow,<sup>335</sup> encompassing only noncommercial experimentation.<sup>336</sup> It does not apply at all to commercial activities.<sup>337</sup> Even university teaching and research is not considered *de minimis* use.<sup>338</sup> Therefore, the *de minimis* concept in patent law cannot protect those who import patented goods for the purpose of commercial distribution, even if the design protected by a patent is a relatively insignificant part of the imported product.

While the cases are not numerous, copyright infringement defendants have occasionally prevailed by invoking the *de minimis* concept.<sup>339</sup> The reason for the relative dearth of case law appears to be that if an activity is trivial enough to satisfy the legal standard for a *de minimis* copyright use, it rarely leads to litigation.<sup>340</sup> The “*de minimis*” concept in copyright law is not

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335. *Madey*, 307 F.3d at 1361; *Embrex, Inc. v. Serv. Eng'g Corp.*, 216 F.3d 1343, 1349 (Fed. Cir. 2000); *Roche Prods. v. Bolar Pharm. Co.*, 733 F.2d 858, 863 (Fed. Cir. 1984); 5-16 DONALD S. CHISUM, CHISUM ON PATENTS § 16.03[1][c] (2013), available at LexisNexis.

336. See *Whittemore v. Cutter*, 29 F. Cas. 1120, 1121 (C.C. D. Mass. 1813) (building “a machine merely for philosophical experiments” or to determine its efficacy, should not constitute infringement); 3 WILLIAM ROBINSON, THE LAW OF PATENTS FOR USEFUL INVENTIONS § 898 (1890) (“[W]here [an invention] is made or used as an experiment, whether for the gratification of scientific tastes, or for curiosity, or for amusement, the interests of the patentee are not antagonized, the sole effect being of an intellectual character in the promotion of the employer’s knowledge or the relaxation afforded to his mind.”). The experimental use exception that is codified in the patent statutes, 35 U.S.C. § 271(e), is different from the judicially created doctrine, and would not apply to parallel imports.

337. *Spray Refrigeration Co. v. Sea Spray Fishing, Inc.*, 322 F.2d 34, 36 (9th Cir. 1963); 15-6 CHISUM, *supra* note 335, § 16.03[1][c]; see 3 ROBINSON, *supra* note 336, § 898 (noting that sales and other commercial uses of a patent are always infringements).

338. *Madey*, 307 F.3d at 1362; 15-6 CHISUM, *supra* note 335, E404 16.03[1][c].

339. Those cases include: *Newton v. Diamond*, 388 F.3d 1189, 1192 (9th Cir. 2004) (affirming district court’s finding that amount of musical composition copied was quantitatively and qualitatively so small that audience “would not discern [the plaintiff’s] hand as composer”); *Gordon v. Nextel Commc’ns.*, 345 F.3d 922, 924-25 (6th Cir. 2003) (affirming district court’s finding of *de minimis* use where plaintiff’s work appeared for only a few seconds in a film and was out of focus); *Sandoval v. New Line Cinema Corp.*, 147 F.3d 215, 218 (2d Cir. 1998) (holding plaintiff’s photographs not visible in sufficient detail for average lay observer to discern either subject matter or style); *Computer Ass’n. Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693, 715 (2d Cir. 1992) (citing *Warner Bros., Inc. v. American Broadcasting Cos.*, 720 F.2d 231, 242 (2d Cir. 1983) in finding no infringement even though “a few” elements of plaintiff’s software had been copied); See *v. Durang*, 711 F.2d 141, 143 (9th Cir. 1983) (finding similarities between plays not sufficient to establish substantial similarity); *MiTek Holdings v. Arce Eng’g Co.*, 864 F. Supp. 1568, 1584 (S.D. Fla. 1994) (holding that the elements copied from plaintiff’s software were *de minimis*), *aff’d*, 89 F.3d 1548, 1560 (11th Cir. 1996); *Apple Computer, Inc. v. Microsoft Corp.*, 821 F. Supp. 616, 623-24 (N.D. Cal. 1993) (holding that copying of four protectable elements from plaintiff’s software was *de minimis*), *aff’d in part*, 35 F.3d 1435 (9th Cir. 1994). See generally 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.01 (2013); *Id.* § 13.03[A][2]; *Id.* §§ 8.01, 13.03[A][2]. In a much-criticized decision, the Sixth Circuit held that the *de minimis* defense does not apply at all to the infringement of sound recordings. *Bridgeport Music, Inc. v. Dimension Films*, 410 F.3d 792 (6th Cir. 2005).

340. See *Ringgold v. Black Entm’t Television*, 126 F.3d 70, 74 (2d Cir. 1997) (“Understandably, fact patterns are rarely litigated illustrating this use of the phrase, for, as Judge Leval has observed, such circumstances would usually involve ‘[q]uestions that never need to

an affirmative defense. Instead, it reflects a determination that the defendant's use of the work was so minimal that there is no substantial similarity as a matter of law, and thus no *prima facie* case of infringement.<sup>341</sup>

The de minimis concept in copyright law is normally limited to cases where the defendant exploits only a small portion of a copyrighted work,<sup>342</sup> or where the work is only minimally observable.<sup>343</sup> Although other courts have not adopted his perspective, Judge Leval has advocated for a broader concept of de minimis use:

Parents in Central Park photograph their children perched on Jose de Creft's Alice in Wonderland sculpture. We record television programs aired while we are out, so as to watch them at a more convenient hour. Waiters at a restaurant sing "Happy Birthday" at a patron's table. When we do such things, it is not that we are breaking the law but unlikely to be sued given the high cost of litigation. Because of the de minimis doctrine, in trivial instances of copying, we are in fact not breaking the law. If a copyright owner were to sue the makers of trivial copies, judgment would be for the defendants. The case would be dismissed because trivial copying is not an infringement.<sup>344</sup>

In addition, the copyright cases finding de minimis use involved infringement by copying, whereas parallel importation cases involve infringement by public distribution because the copies themselves were lawfully made. Thus, it would take a significant reconception of de minimis infringement to apply it to situations such as parallel importation, where the copyrighted work (e.g., a logo, label, or instruction manual) has been used in its entirety, and where the unauthorized distribution involves large numbers of copies. Courts would have to focus not on the amount of material copied, or the brevity with which it can be perceived, or the number of copies distrib-

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be answered.'") (quoting Pierre N. Leval, *Nimmer Lecture: Fair Use Rescued*, 44 UCLA L. REV. 1449, 1457 (1997)).

341. *Situation Mgmt. Sys., Inc. v. ASP Consulting LLC*, 560 F.3d 53, 59 (1st Cir. 2009); *Peter Letterese & Assocs. v. World Inst. of Scientology Enters.*, 533 F.3d 1287, 1306-07 (11th Cir. 2008); *Newton v. Diamond*, 388 F.3d 1189, 1192-93 (9th Cir. 2004); *Gordon v. Nextel Commc'ns.*, 345 F.3d 922, 924 (6th Cir. 2003); *Ringgold*, 126 F.3d at 74-75.

342. *E.g.*, *Warner Bros. Inc. v. American Broad. Cos.*, 720 F.2d 231, 242 (2d Cir. 1983); *Jackson v. Washington Monthly Co.*, 481 F. Supp. 647, 650 (D.D.C. 1979); *Alexandria Drafting Co. v. Amsterdam*, 43 U.S.P.Q. 2d (BNA) 1247, 1254 (E.D. Pa. 1997); *see also Situation Mgmt.* 560 F.3d at 59, 59 n.2 (acknowledging doctrine but finding it inapplicable to the copying at issue).

343. *E.g.*, *Ringgold*, 126 F.3d at 75-77 (finding substantial similarity where a poster on the set of a television program was clearly visible for 4-5 seconds in one segment, and for a total of 26-27 seconds in 9 segments, but acknowledging that a visual work might be "filmed at such a distance and so out of focus that a typical program viewer would not discern any decorative effect.").

344. *Davis v. The Gap, Inc.*, 246 F.3d 152, 173 (2d Cir. 2001).

uted—since all of these factors would favor the plaintiff—but on the value of the copied material in comparison to the value of the uncopyrighted merchandise incorporating the copyrighted material.

Yet this runs counter to the Supreme Court's admonition that "a taking may not be excused merely because it is insubstantial with respect to the *infringing* work."<sup>345</sup> Courts might also consider the degree of harm suffered by the copyright owner. But in evaluating this harm courts would have to consider only the harm arising from the distribution of the copyrighted material, not the harm arising from the distribution of the trademarked merchandise. It is conceivable that courts could develop a multifactor approach that would take account of the relative values of the copyrighted material and the uncopyrighted merchandise, and the harm to the copyright owner arising *solely* from the distribution of the copyrighted material. Expert opinions would no doubt play a significant role in assessing values and the degree of harm.

Like the copyright misuse approach, a *de minimis* approach that relies on a balancing test could lead to costly litigation, and might not provide enough predictability for risk-averse importers and distributors.

For these reasons, the *de minimis* doctrines in patent and copyright law will, in their current formulations, be difficult to apply to a commercial activity involving large-scale importation and public distribution. As discussed in Part III.B below, however, the broader concept of a *de minimis* use may be helpful in creating a statutory exception for accessories.

### 3. Fair Use

In copyright law, a use that is too substantial to be *de minimis* may nevertheless be a fair use.<sup>346</sup> Because the Supreme Court views fair use as an affirmative defense,<sup>347</sup> the defendant bears the burden of proof.<sup>348</sup> Fair use always requires a fact-specific case-by-case analysis.<sup>349</sup> Because a fair use defense is costly<sup>350</sup> and the prospects of success are difficult to predict,<sup>351</sup> it

345. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 565 (1985) (citing *Sheldon v. Metro-Goldwyn Pictures Corp.*, 81 F.2d 49, 56 (2d Cir. 1936) (Hand, J.) ("[N]o plagiarist can excuse the wrong by showing how much of his work he did not pirate.")).

346. 17 U.S.C. § 107 (2012) (establishing the elements of fair use); *Peter Letterese*, 533 F.3d at 1314 n.30; *Ringgold*, 126 F.3d at 80 (noting that copying which is too substantial to be *de minimis* may still qualify as fair use). To date, the most definitive analysis of the elements of fair use is in *Campbell v. Acuff-Rose Music*, 510 114 S. Ct. 1164 (1994).

347. *Campbell*, 114 S. Ct. at 1177; *Harper & Row*, 471 U.S. at 561.

348. *Campbell*, 114 S. Ct. at 1177; *Monge v. Maya Magazines, Inc.*, 688 F.3d 1164, 1170 (9th Cir. 2012).

349. *Harper & Row*, 471 U.S. at 595 n.19.

350. A fair use defense can cost hundreds of thousands of dollars. Lawrence Lessig, *Copyrighting the President*, WIRED (Aug. 2004), <http://www.wired.com/wired/archive/12.08/view.html?pg=5>.

351. Two cases with similar facts can have opposite outcomes. Compare *Ringgold* 126 F.3d 70 (holding artwork in background of television show was not fair use), with *Jackson v.*

is not likely to provide a viable solution to the problem of incidental use. In addition, there is no fair use counterpart in patent law.

A brief look at the statutory fair use factors<sup>352</sup> reveals that the unauthorized importation and resale of merchandise that incorporates copyrighted material is unlikely to fare well under the fair use analysis, even where the copyrighted material is a minor component of the merchandise:

The *purpose and character of the use* is commercial and nontransformative. The importer seeks commercial gain, and does not alter the work or provide any new creative works to the public. Importation for resale does not involve any of the preferred activities specifically listed in Section 107's preamble—criticism, comment, news reporting, teaching, scholarship, or research.<sup>353</sup> Nor does it constitute personal use.

The *nature of the copyrighted work* will vary considerably depending on the individual case. Works such as ingredients lists, instructions, warranty information, and simple logos may have weak copyrights, because they contain little creative expression or are predominantly factual.<sup>354</sup> Other works, however, may be considered closer to the core of copyrightable expression, and thus deserving of greater protection.<sup>355</sup> The latter category could encompass decorative packaging designs or elaborate logos. Because of the wide spectrum of possibilities, this factor could lead to widely varying outcomes, depending on the creativity of the incidental content. In addition, even if a copyrightable work is highly creative, the value that *a single copy* of that work contributes to the imported article that it accompanies might be trivial relative to the total value of the imported article. For example, a computer may be packaged in a cardboard box with a colorful design. While the design may be highly creative, and its copyright might be valuable, the value of the attractive cardboard box is trivial compared to the value of the computer. Indeed, the consumer will probably discard the box.

The *amount taken* in a parallel importation case is the entire work. Although this is not necessarily fatal to a fair use defense, it makes a finding of fair use unlikely absent a strong showing under several of the other factors.<sup>356</sup>

The *effect on the market* for the copyrighted work is one of market substitution. When the copyrighted items are imported, their resale will displace

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Warner Bros., Inc., 993 F. Supp. 585 (E.D. Mich. 1997) (holding that artwork in background of motion picture was fair use).

352. The statutory fair use factors are: (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. 17 U.S.C. § 107 (2012).

353. *Id.* § 107.

354. *Campbell*, 510 U.S. at 586.

355. *Id.*

356. *Kelly v. Ariba Soft Corp.*, 336 F.3d 811, 820 (9th Cir. 2003).

sales of copies that were made with the consent of the domestic copyright owner. This displacement effect normally militates against fair use.<sup>357</sup>

Thus, in almost any case involving unauthorized importation of copyrighted works, three of the four fair use factors will favor the copyright owner, and the fourth—the nature of the copyrighted work—will vary with the facts. Even where the fourth factor favors the unauthorized importer, it is unlikely to overcome the strong showing that the copyright owner makes under the other three factors.

For these reasons, the fair use doctrine is unlikely to prevent trademark owners from using copyright law to block parallel imports.

### B. *Specific Legislation*

Because existing legal doctrines are ill-suited to distinguishing between substantial and incidental uses of copyrighted and patented material in parallel imports, a better solution is to adopt legislation that exempts incidental uses of intellectual property from the otherwise-applicable import restrictions imposed by copyright and patent law. In place of expensive case-by-case adjudication that strains the meaning of established legal concepts, Congress can specify when the intellectual content associated with a product is so incidental to the product that it should be disregarded in the context of enforcing intellectual property rights in parallel imports.

Although both Australia and Singapore adopted their legislative carve-outs for incidental uses in the context of liberalizing their overall approaches to parallel imports, there is no reason why such a carve-out could not be created independently, while otherwise preserving the importation rights of copyright and design patent owners. A narrowly tailored statutory exception would restore the balance of rights established under trademark law and the Tariff Act, without injecting uncertainty into the application of copyright and patent laws, and without distorting the meaning of existing exceptions. As illustrated by the Australian cases, a statutory exemption for incidental uses will not eliminate all questions of statutory interpretation. The range of uncertainty, however, will be much narrower than the uncertainty created by applying the concepts of copyright and patent misuse, *de minimis* infringement, or fair use.

While the carve-outs in Singapore and Australia apply only in the context of copyright laws, it may be appropriate to draft a comparable exception to design patent laws.<sup>358</sup> Like a copyright, a patented design may or may not represent a significant part of the value of a product. Where the design patent protects only a logo on the surface of the product or its packaging, the

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357. *Campbell*, 510 U.S. at 588.

358. Unless and until there is evidence that trademark owners are leveraging utility patents to enhance their trademark rights—which is likely to be a rare occurrence—there is no need to enact a comparable carve-out in this area.

ornamental aspect of this design will typically represent only a small part of the value of the utilitarian article. In other cases, a patented design may be an essential feature because it significantly affects the aesthetic appeal of the product or makes the product aesthetically compatible with the context in which it is used. For example, aesthetic design is crucial to the value of exterior motor vehicle components such as doors, bumpers, seats, steering wheels, stick shifts, mirrors, fenders, or grills, because it is important for replacement parts to match the rest of the vehicle's design.<sup>359</sup> In the case of products where it is not essential to match the design of existing components, some aesthetic features are more important to consumers than others. The color and shape of a coffee maker is likely to be more important than the color and shape of the manufacturer's logo.

Import exceptions for incidental copyrights and patented designs may lead manufacturers to integrate their trademarks more fully into their products or packaging—like Coke bottles and Toblerone bars—so that they can make the case that the trademark as a copyrighted or patented design is an important part of the value to consumers. In some cases, this may be true, because the appearance of a product may be more important than its functionality. Even if the feature itself is not easy to integrate, other ornamental features can be physically integrated into the product. In such cases, the import exception may not be appropriate, and the trademark owner should prevail. As a business strategy, “exploding” the trademark to encompass a large part of the product design will succeed only if consumers find the resulting design appealing, and only if the design remains nonfunctional in the trademark sense. In addition, the design should remain separable from the utilitarian features of the product, so that it retains its intellectual property protection under trademark, copyright, and design patent laws.<sup>360</sup>

Drawing on the Australian and Singaporean models, a statutory exception for incidental uses of copyright or design patents should include a non-exhaustive list of the types of uses that should be exempt from restrictions on importation and subsequent distribution. This will eliminate much of the

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359. Because design patents enable original equipment manufacturers to monopolize the market for automotive replacement parts, thus increasing the cost to consumers, proposed legislation would reduce the duration of design patents for auto parts from fourteen (soon to be fifteen) years to two-and-a-half years. *See* Promoting Automotive Repair Trade and Sales (PARTS) Act, H.R. 1663 & S.780, 113th Cong., 1st Sess. (introduced April 23, 2013).

360. *See* 15 U.S.C. § 1052 (e)(5) (2012) (barring trademark registration for functional features); 17 U.S.C. § 101 (2012) (definition of useful articles); *TraFFix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001) (holding that features of product design that were the subject of an expired utility patent are presumed functional and therefore cannot be protected by trademark law); *Avia Group Int'l, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557, 1563 (Fed. Cir. 1988) (stating that feature that is primarily functional is not eligible for design patent); *Brandir Int'l, Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142, 1143 (2d Cir. 1987) (stating that applying Section 101 to deny copyright protection where utilitarian aspects of useful article were inseparable from artistic aspects).



uncertainty that would arise under a more general statutory test for “incidental uses.” Concern over such uncertainty troubled the Canadian Supreme Court in *Euro-Excellence*.<sup>361</sup> As illustrated by the Australian case law, however, relying entirely on a list of examples may force courts to engage in difficult line drawing and strained interpretation in an effort to fit unanticipated uses under one of the delineated categories.<sup>362</sup> Therefore, in addition to a specific list of examples, the exception should include a catch-all exception for other incidental uses. While necessarily uncertain in scope, a catch-all exception will serve as an important gap filler for the occasional incidental use that falls outside of the delineated categories.

With no analogous case law or statutory schemes to provide guidance in this context, defining incidental uses is a novel undertaking. One promising approach, however, is to consider how much value the patented or copyrighted feature contributes to the overall commercial value of the individual article.<sup>363</sup> Where the contribution is insubstantial, then the presence of the protected content should not preclude importation and sale of the article. Where the patented or copyrighted feature also functions as a trademark, the value of the feature should be calculated *without regard to the value of the goodwill that it represents*. Because the plaintiff’s claim is not for trademark infringement, but for copyright or design patent infringement, any reputational value adhering to the subject matter is irrelevant. If the feature in question is copyrighted text, or an audiovisual or sound recording, it should be valued according to its informational, artistic, or entertainment value. If the feature is an ornamental design protected by copyright or design patent law, it should be valued according to its ornamental value.

There is no established test for determining when the content protected by copyright or a design patent represents an insubstantial portion of the value of the article that embodies it. This determination, however, involves a straightforward factual assessment of market values rather than a complex balancing analysis such as fair use. Although the value of a copyright or design patent as an intellectual property right may be substantial, the value of the *right* does not reveal how much value a single *copy* of the protected content contributes to the article that incorporates it.<sup>364</sup> Once the inquiry is focused on the value of a single copy of the protected work, the value of that copy can be measured against the value of the merchandise it accompanies. The ratio of values will in some cases make it easy to determine whether the protected content is incidental to the total value. To use the earlier example,

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361. *Euro-Excellence Inc. v. Kraft Canada Inc.*, [2007] 3 S.C.R. 20, 29 (Can.).

362. *See supra* notes 216-229 and accompanying text (discussing *Polo/Lauren* and *QS Holdings*).

363. *Euro-Excellence Inc.*, [2007] S.C.R. at 67.

364. For example, the copyright in a motion picture may be worth millions of dollars, but the value of a single DVD embodying the motion picture is likely to be less than twenty dollars.

a new computer is probably worth a great deal more than the decorative box it arrives in. Therefore, the box involves an “incidental use” of copyright, while the copyrighted software included with the computer probably contributes substantial value to the computer. The copyright in the box would be incidental, while the copyright in the software may not be.

To take a different example, a single copy of a motion picture contributes significantly more to the value of the DVD embodying it than a single copy of a label contributes to the value of the household appliance to which it is affixed. In the case of design patents, the patented shape of an exterior replacement part for an automobile may be the most significant factor in a consumer’s purchasing decision; in that case, the patented feature makes a substantial contribution to the value of the article. The shape of a bottle of window cleaner, however, even if protected by a design patent, is unlikely in most cases to contribute significantly to the value of the product, assuming that its trademark value is ignored. While the value contributed by the copyrighted or patented feature may be easy to assess in these cases, in closer cases expert testimony may be required. In the case of a chocolate bar, for example, a particularly appealing design (especially a novel one) might contribute more to the product’s consumer appeal than the flavor of the chocolate itself. One rarely buys a chocolate Easter bunny for its flavor.

By combining enumerated categories with a catch-all provision focused on relative value, the exclusive importation rights of copyright and design patent owners can be amended to incorporate an exception for accessories. Drawing on the Australian model, the statute can treat certain items, such as labels, as accessories *per se*. Unlike both the Australian and Singaporean models, the catch-all provision would allow courts to consider, on a case-by-case basis, certain incidental uses that fall outside of the *per se* category. Combining these ideas into a single statute, the proposed statutory exception for copyrights would provide:

Where a copyrighted work is incorporated in an accessory to an article, the copyright embodied in the accessory is not infringed by importing the accessory with the article, or by the domestic distribution of the imported accessory with the imported article, provided that the accessory was made with the consent of the copyright owner in the country where it was made.<sup>365</sup>

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365. Alternatively, this proviso could be expanded to include any accessories the making of which did not constitute an infringement in the country where they were made, even if the copyright owner did not consent. This would encompass accessories made in countries where the copyright had already expired, where the work did not qualify for copyright protection, or where the copying was otherwise permitted by law. If this approach is adopted, it should apply only if the country of manufacture adheres to the Berne Convention (Art. 5) or the TRIPS Agreement (Art. 3(1)), two international agreements that impose minimum standards of copyright protection and require nondiscriminatory treatment of all works from signatory countries.

For purposes of this section, an accessory is

- (1) A label affixed to, displayed on, incorporated into the surface of, or accompanying, the article;
- (2) The packaging or container in which the article is packaged or contained;
- (3) A label affixed to, displayed on, incorporated into the surface of, or accompanying, the packaging or container in which the article is packaged or contained,
- (4) A written instruction, a warranty, or other information provided with the article;
- (5) A phonorecord embodying an instructional sound recording provided with the article;
- (6) A copy of an instructional audiovisual work provided with the article; or
- (7) Any other feature of the article, its packaging or its container, or any accompanying object, that contributes an insubstantial part of the value of the combination, apart from the trademark value of the feature.

With minor modification, this language works equally well for design patents.<sup>366</sup>

An importation exception along these lines would not cause the United States to violate any of its obligations under multilateral international trade or intellectual property agreements, which are agnostic on the question of international exhaustion.<sup>367</sup> Such a carve-out is permitted even under the proposed TPP provision that would require countries to block parallel im-

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366. The exempting statute for design patents would read:

Where an ornamental design that is the subject of a design patent under section 171 is incorporated in an accessory to an article, the patented design embodied by the accessory is not infringed by importing the accessory with the article, or by the domestic distribution of the imported accessory with the imported article, provided that the accessory was made with the consent of the owner of the design patent or corresponding right in the country where it was made.

The reference to a “corresponding right” recognizes that some countries may protect designs not with design patents but with industrial design registrations, copyrights, or other mechanisms.

The design patent exemption would employ the same definition of “accessory” as the copyright exemption. And, as in the case of copyrights, the consent proviso could be expanded to encompass unauthorized copying in countries where the design patent had expired, where the design did not qualify for protection, or where the copying was permitted by law, as long as the country of manufacture was a TRIPS signatory.

367. Relevant agreements include the Berne Convention for the Protection of Literary and Artistic Works, the TRIPS Agreement, the WIPO Copyright Treaty, and the Paris Convention for the Protection of Industrial Property.

ports of copyrighted works. As noted earlier,<sup>368</sup> provisions in the 2011 and 2013 drafts of the TPP would require signatories to give copyright owners the right to block parallel imports. A footnote, however, clarifies the scope of this requirement:

With respect to copies of works and phonograms that have been placed on the market by the relevant right holder, the obligations described in Article [4.2/QQ.G.3] apply only to books, journals, sheet music, sound recordings and audio and visual works (i.e., categories of products in which the value of the copyrighted material represents substantially all of the value of the product). Notwithstanding the foregoing, each Party may provide the protection described in Article [4.2/QQ.G.3] to a broader range of goods.<sup>369</sup>

Thus, even if the United States succeeds in persuading other TPP countries to give copyright owners the right to block imports of foreign-made copies of their works, those countries will still be allowed to exempt products in which the copyrighted component does not represent “substantially all the value” of the product. This leaves ample room for the proposed exception for accessories, including the catch-all provision for features that contribute an “insubstantial part of the value” of the imported merchandise.

#### CONCLUSION

In regulating parallel imports of trademarked goods, trademark law attempts to strike a balance between the interests of trademark owners and the interests of consumers. By resorting to copyright law to block otherwise lawful imports of genuine goods, trademark owners have succeeded in avoiding the limitations imposed by trademark law, and have created a kind of mutant trademark law. When used in this manner, copyright law does little to “promote the progress of science,”<sup>370</sup> and suppresses competition instead. This scenario has been played out in countries around the world. Their judicial and legislative responses, though imperfect, have provided a valuable learning opportunity.

In the United States, *Kirtsaeng* has changed the landscape of parallel import law for copyright owners by ushering in a regime of international copyright exhaustion. Whether this change will be permanent remains to be

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368. See *supra* note 139 and accompanying text.

369. TPP 2013 Draft, *supra* note 138, at 50 n. 135 ; TPP 2011 Draft, *supra* note 138, at 12 n.11. The same language appears in a side letter to the U.S.-Morocco Free Trade Agreement. Letter from Minister Taib Fassi Fihri to Ambassador Zoellick (June 15, 2004) available at [http://www.ustr.gov/sites/default/files/uploads/agreements/fta/morocco/asset\\_upload\\_file717\\_3850.pdf](http://www.ustr.gov/sites/default/files/uploads/agreements/fta/morocco/asset_upload_file717_3850.pdf). However, no such language accompanies the U.S.-Jordan Free Trade Agreement. Both of these agreements include the general proviso that authors be allowed to block parallel imports of copyrighted works. See *supra* note 140.

370. U.S. CONST., art. I, § 8, cl. 8.

seen. Copyright owners may pressure Congress to overturn international exhaustion regime, and the executive branch may support these efforts. Copyright owners may test the scope of the Court's holding by assigning their domestic and foreign copyrights to separate entities. Trademark owners may also find that patent law—especially the law of design patents—offers an alternative way to combat parallel imports.

If copyright and patent laws continue to offer trademark owners a type of mutant trademark protection against parallel imports, then more monopolistic forms of protection will replace trademark law's balancing of the interests of trademark owners and consumers. By studying the statutory and judicial responses to similar developments in other countries, it is possible to develop a legislative proposal to prevent this encroachment into trademark law.

The legislation proposed in this article builds on the lessons derived from these jurisdictions. By eliminating the expense and uncertainty that would arise from case-by-case adjudication under existing doctrines such as misuse, de minimis use, and fair use, none of which are well-suited to this application, it gives clearer guidance to importers, distributors, and intellectual property owners, while conserving judicial resources. It allows Congress to maintain different parallel import regimes for copyrights, trademarks, and design patents, allowing each of these regimes to be adjusted independently as circumstances warrant, and it prevents trademark owners from substituting one regime for another by adding trivial content to their unprotected goods. This approach will restore the preeminence of trademark law as the proper mechanism for balancing the legitimate interests of trademark owners and consumers.