Copyright Law and Parallel Imports by Paul D. Supnik

(Previously electronically published at lawyers.com)

Definition

The term parallel imports refers to goods containing copyrightable material or bearing trademarks imported from outside of the United States. These goods are usually imported because the particular version or style is either unavailable here or the cost of the imported goods is lower. Lower costs may be the result of fluctuations in currencies, or simply due to the structure of distribution imposed by the manufacturer. Parallel imports are generally imported without actual authorization from the proprietor of the copyrights or trademarks.

However, the rights holder of either the copyrights or trademarks had, in some manner, authorized the initial reproduction and sale. The U.S. Supreme Court has recently decided a case involving parallel imports in the copyright context, although the imports involved would not normally be thought of as warranting copyright protection. The goods were hair care products that contained a label bearing copyrightable subject matter.

The Copyright Law provides the right to exclude others from using any one of a bundle of exclusive rights. The primary rights provided by Section 106 of the Copyright Act are the right to exclude others from (1) reproducing the copyrighted work, (2) preparing derivative works, (3) distributing copies of a work, (4) performing a work publicly and (5) publicly displaying a copyrighted work. The particular right under the Copyright Laws that is of interest in connection with parallel imports is the third right of exclusion: the distribution right.

Distribution

The distribution right has limitations. Once a physical copy of a work has been lawfully distributed under the copyright law, the right for further distribution or the right to exclude further distribution is limited by the First Sale Doctrine.

Once the copyright owner has parted with the copy of a work, the purchaser can then lawfully distribute that physical copy without further authorization from the copyright holder. The first sale doctrine was at one time judge-made law. It was approved by the U.S. Supreme Court back in 1908, in a decision holding that the resale of a book could not be stopped by the copyright proprietor. (The concept also exists abroad and it is known as the doctrine of "exhaustion" in Europe.)

Following Section 106, and beginning with Section 107 are a number of exceptions to the exclusive rights of the copyright proprietor. In the 1976 Copyright Act, the first sale doctrine became Section 109(a), which states:

> "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. . . ."

Importation

Can a copyright holder prevent the importation of copies lawfully purchased abroad despite the first sale doctrine? Section 602 of the Copyright Act prohibits infringing importation of copies or phonorecords. The question is: what is the effect of importation of so called authorized works in relationship to the First Sale Doctrine, Section 109(a), in view of section 602.

In the past, the issue has been dealt with by several Federal Courts of Appeal. The Ninth Circuit Court of Appeals in BMG v. Perez held that the importation of phonorecords, which were lawfully purchased in Mexico, nevertheless violated U.S. Copyright Law when they were imported into the United States. The Ninth Circuit pointed out that since copyrights are territorial, U.S. Copyright Law is not applicable outside of the United States and thus, first sale had not occurred in Mexico. The Third Circuit Court of Appeals in Sebastian Int' l, Inc. v. Consumer Contacts (PTY) Ltd. had adopted a seemingly

contrary position permitting the importation of hair care products having labels with copyrightable material.

In the case of Quality King Distributors, Inc. v. L'Anza Research International, Inc., the U.S. Supreme Court has recently given at least a partial answer to this question by reviewing a Ninth Circuit decision barring parallel imports. The case involved the importation of hair salon products that had labels containing copyrightable subject matter affixed to the packaging. Therefore, the subject of the importation was really the hair care products, and not the copyrightable subject matter. The labels appeared to be used as a way to assure the manufacturer that its products--destined for Malta at a considerably lower price point than sold in U.S. salons--would not find their way back to the United States.

In effect, the copyrightable subject matter on labels was used as a way to attempt to prevent parallel importation of the hair care products into the United States. The U.S. Supreme Court held that the importation clause of the Copyright Law could not prevent the importation of these goods in view of the first sale doctrine expressed in Section 109(a) of the Copyright Act.

The manufacturers had sought to control the manner of distribution of the goods because they were destined for high priced salon sales (as opposed to lower priced retail sales) in the United States. From the Manufacturers perspective, the trademark laws had not been effective because they tended to be fuzzy. Consumer protectionism, at times, tended to favor parallel imports where the public was not in any significant way being deceived. The goods, if they were genuine, might be permitted to be imported based upon the difficult-to-reconcile parallel imports trademark cases.

The Copyright Laws seemed to provide a clearer demarcation as to infringement. However, the Supreme Court has seemingly taken the position that the Copyright Laws may not be used in this manner to prevent parallel imports. It appears that the Supreme Court was probably trying to say that the distributor could not use Copyright Laws as a method of controlling markets and distribution channels by the

expedient of a label containing copyrightable subject matter.

Particularly noted in the concurring opinion of the Supreme Court's decision is the fact that the goods were originally manufactured in the United States, then shipped out of the United States and then re-imported. The significance is that the copyright distribution right had already been exhausted by the act of distribution from the United States. The decision might have different had the work originally been completely manufactured or made outside of the United States. The entertainment industry had been watching this case with interest. Allegedly, the In conclusion, the result of the decision was not surprising. Nothing in the opinion prevents the barring of piratical copies. This was not the subject of the proceeding. The Ninth Circuit, which includes the Southern California entertainment industry, took the position that the importation clause prevails and that the goods could not be imported. The Supreme Court took a strict view of the First Sale Doctrine. This was easy to do since the goods had originated from the United States, and the Court could readily reach the conclusion that the rights were exhausted. As a result, other than to send a message to manufacturers that they should not be too cavalier in using the trick of a label on a product in connection with the copyright system, the decision was not so startling. The copyright system may have other, more important tasks: to protect rather than to squander its power over control of manufacturers' international marketing schemes.

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