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# Why the Supreme Court Said Yes to the First Sale Doctrine in *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*

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**WHY THE SUPREME COURT SAID YES TO THE FIRST SALE DOCTRINE IN *QUALITY KING DISTRIBUTORS, INC. V. L'ANZA RESEARCH INTERNATIONAL, INC.***

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**I. INTRODUCTION**

In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*,<sup>1</sup> the Supreme Court held that a copyright owner's right to bar imports is restricted by the first sale doctrine.<sup>2</sup> The first sale doctrine prohibits copyright owners, who consented to the sale of a copy, from conditioning the sale or other disposition of that copy.<sup>3</sup> The *Quality King* holding, which resolved a split between the Third Circuit and the Ninth Circuit, marks the first time that the Supreme Court has reviewed a Section 602(a) copyright importation case.

This case focuses on a copyright infringement claim brought by L'anza Research International against Quality King Distributors pursuant to 17 U.S.C. § 602(a).<sup>4</sup> The dispute at issue involves the interrelationship between Sections 602, 106 and 109 of the 1976 Copyright Act. The relevant portion of Section

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<sup>1</sup> 523 U.S. 135 (1998).

<sup>2</sup> *See id.*

<sup>3</sup> The first sale doctrine is embodied in Section 109(a) of the 1976 Copyright Act, which states as follows: "Notwithstanding the provisions of Sec. 106(3), i.e., the distribution right, 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 the possession of that copy or phonorecord."

<sup>4</sup> *See L'anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1111 (9th Cir. 1996).

602 prohibits the unauthorized importation into the United States of copies of a work acquired outside the United States.<sup>5</sup> Section 106(3)<sup>6</sup> grants the copyright owner exclusive rights to distribute copies of the copyrighted work through any transfer of ownership. However, these distribution rights are subject to Sections 107 through 118 of the 1976 Copyright Act.<sup>7</sup> Thus, the first sale doctrine, which is embodied in Section 109(a), expressly limits the distribution rights granted to the copyright owner.<sup>8</sup> The interplay of these three sections of the 1976 Copyright Act underlies the basis of the Supreme Court's decision.

This note will analyze the Supreme Court's *Quality King* decision and its implication for the future of copyright law. Part II discusses the factual background and procedural history surrounding the case. Part III examines the relevant statutory language and its legislative intent. Part IV provides a look at the Ninth Circuit decision in *L'anza Research International, Inc. v. Quality King Distributors, Inc.* as well as examines the conflicting approach taken in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.* Part V examines and supports the Supreme Court's interpretation of the Copyright Act in *Quality King*. Part VI provides an analysis and critique of the *Quality King* decision in light of prior caselaw. Part VII concludes with a look at the rationale behind *Quality King* and some of the alternatives remaining for copyright owners to combat the gray market after the decision.

## II. FACTUAL BACKGROUND AND PROCEDURAL HISTORY

Respondent L'anza Research International, Inc. is a California manufacturer and distributor of copyrighted hair care products.<sup>9</sup> L'anza's business involves "manufacturing and selling shampoos, conditioners, and other hair care products."<sup>10</sup> L'anza sells its hair care products exclusively to United States distributors who have agreed to sell L'anza's products only to

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<sup>5</sup> 17 U.S.C. § 602(a) (1994) provides as follows: "Importation into the United States, without the authority of the owner of a 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, actionable under section 501."

<sup>6</sup> 17 U.S.C. § 106(3) (1994) provides as follows: "The owner of copyright under this title has the exclusive rights to do and to authorize any of the following: . . . (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending."

<sup>7</sup> See 17 U.S.C. § 106 (1994).

<sup>8</sup> See, e.g., H.R. REP. NO. 94-1476, at 79 (1979) ("Section 109(a) restates and confirms" the first sale doctrine embodied by prior case law.); S. REP. NO. 94-473, at 71 (1975).

<sup>9</sup> See *L'anza*, 98 F.3d at 1111.

<sup>10</sup> *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998).

authorized retailers such as beauty salons and professional hair care colleges.<sup>11</sup> This requirement is necessary to maintain L'anza's reputation for high quality products and to take advantage of L'anza's extensive advertising and promotional activities in the United States.<sup>12</sup>

In foreign markets, L'anza sells its hair care products through "master distributors."<sup>13</sup> Since L'anza is not engaged in extensive promotional and training activities outside of the United States, these "master distributors" pay 35 to 40% less than domestic distributors for L'anza's products.<sup>14</sup> Additionally, these overseas distributors must promote and market the products themselves.<sup>15</sup> In this regard, it is important to note that L'anza has never authorized the importation into the United States of any of its products that were sold abroad.<sup>16</sup>

Between 1992 and 1993, L'anza's United Kingdom distributor sold three shipments of L'anza's products to a distributor in Malta.<sup>17</sup> Each shipment of L'anza's product was affixed with copyrighted labels.<sup>18</sup> Although it is uncertain who was the initial purchaser of the goods, it is clear that L'anza initially manufactured the goods and then sold to a distributor outside the United States.<sup>19</sup>

There is also uncertainty as to who was the actual importer of L'anza's goods. However, it is undisputed that Quality King bought the three shipments of L'anza's products from the distributor in Malta.<sup>20</sup> Subsequently, Quality King imported and resold L'anza's goods without L'anza's authorization.<sup>21</sup>

L'anza filed a complaint against Quality King and several other defendants<sup>22</sup> for violating Sections 106, 501, and 602 of the 1976 Copyright

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<sup>11</sup> See *Quality King*, 523 U.S. at 138 (American public is unwilling to pay higher price for quality products sold alongside less expensive and lower quality products that are carried by supermarkets and drug stores).

<sup>12</sup> See *id.* at 138-39.

<sup>13</sup> See *id.* at 139.

<sup>14</sup> See *id.*

<sup>15</sup> See *id.*

<sup>16</sup> See *id.*

<sup>17</sup> See *id.*

<sup>18</sup> See *id.*

<sup>19</sup> See *id.* ("The record does not establish whether the initial purchaser was the distributor in the United Kingdom or the distributor in Malta, or whether title passed when the goods were delivered to the carrier or when they arrived to their destination.")

<sup>20</sup> See *id.*

<sup>21</sup> See *id.*

<sup>22</sup> See *id.* The other defendants referred to retailers who purchased L'anza's products from Quality King and were selling them. The claims against these retailers were settled and a default judgment was entered against the Malta distributor.

Act.<sup>23</sup> L'anza alleged that Quality King and the other defendants imported L'anza's copyrighted products without authorization.<sup>24</sup> Quality King denied the allegations and sought protection through the first sale doctrine of 17 U.S.C. § 109(a) and the unclean hands doctrine.<sup>25</sup> The district court denied Quality King's arguments and granted summary judgment in favor of L'anza.<sup>26</sup>

The Court of Appeals for the Ninth Circuit affirmed the district court's holding.<sup>27</sup> The court relied on the proposition "that § 602(a) would be rendered meaningless if § 109(a) were found to supersede the prohibition on importation in this case."<sup>28</sup> Because the Ninth Circuit's decision was in conflict with the approach taken by the Third Circuit in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*,<sup>29</sup> the Supreme Court granted certiorari to resolve the conflict.

### III. HISTORY AND INTENT BEHIND SECTIONS 106(3), 109(A) AND 602(A) OF THE 1976 COPYRIGHT ACT

The First Congress enacted the first copyright law of the United States in 1790.<sup>30</sup> It was enacted "[t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."<sup>31</sup> These rights are limited, however, and are not to be used so as to provide special benefits.<sup>32</sup> Rather, they are intended to "motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has

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<sup>23</sup> See *id.* at 139-40.

<sup>24</sup> See *L'anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1112 (9th Cir. 1996).

<sup>25</sup> See *id.*

<sup>26</sup> See *id.*

<sup>27</sup> See *id.* at 1114.

<sup>28</sup> *Id.*

<sup>29</sup> 847 F.2d 1093 (3d Cir. 1988).

<sup>30</sup> See H.R. REP. NO. 94-1476, at 1 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5660.

<sup>31</sup> See *id.* (quoting U.S. CONST. art. I, § 8).

<sup>32</sup> See *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 429 (1984); see also H.R. REP. NO. 60-2222, at 7 (1909) (Copyright legislation was not enacted by Congress based on a "natural right that an author has in his writings, . . . but upon the ground that the welfare of the public will be served and progress of science useful arts will be promoted by securing to authors for limited periods the exclusive rights to their writings.").

expired.”<sup>33</sup> The primary effect of copyright law is thus to encourage artistic creativity for the benefit of the public good.<sup>34</sup>

From its very beginning, copyright law has developed through significant achievements and changes in technology.<sup>35</sup> Because of this extensive technological advancement, copyright law is highly unstable.<sup>36</sup> As a result, copyright statutes have continuously been amended.<sup>37</sup> A majority of these amendments have involved a balancing of the copyright owners’ interests in controlling their works with the public interest in the ideas, information and commerce provided by the copyright.<sup>38</sup> “Ultimately, the copyright law regards financial reward to the owner as a secondary consideration.”<sup>39</sup> This proposition is essential in properly understanding the circumstances surrounding the Supreme Court’s analysis and decision in *Quality King*.

As technology has developed, Congress has been responsible for enacting copyright legislation to keep up to date with the rapid changes.<sup>40</sup> Prior to the enactment of the Copyright Act of 1976, discussions concerning a revision of the copyright law lasted over twenty years.<sup>41</sup> These discussions involved major studies as well as included input by representatives of various interested parties.<sup>42</sup> Of particular note to *Quality King*, the revision hearings revealed the copyright owners’ concerns in protecting their copyrights from unauthorized piratical copies, as well as from copies that were made by licensees outside the United States.<sup>43</sup> The statutory material and legislative

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<sup>33</sup> *Sony*, 464 U.S. at 429; *see also* *United States v. Paramount Pictures*, 334 U.S. 131, 158 (1948) (“The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.”); *see also* *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1095 (3d Cir. 1988).

<sup>34</sup> *See* *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (“The sole interest of the United States and the primary object in conferring monopoly lie in the general benefits derived by the public from the labors of authors.”).

<sup>35</sup> *See* *Sony*, 464 U.S. at 430; *see also* H.R. REP. NO. 94-1476, at 1 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5660 (Since the first copyright law of the United States was enacted in 1790, “significant changes in technology have affected the operation of the copyright law.”).

<sup>36</sup> *See* Neil Weinstock Netanel, *Asserting Copyright’s Democratic Principles in the Global Arena*, 51 VAND. L. REV. 217, 225 (1998).

<sup>37</sup> *See* *Sebastian*, 847 F.2d at 1095.

<sup>38</sup> *See id.*

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

<sup>40</sup> *See* *Sony*, 464 U.S. at 431.

<sup>41</sup> *See* *Mills Music, Inc. v. Snyder*, 469 U.S. 153, 159-61 (1985).

<sup>42</sup> *See id.*

<sup>43</sup> *See* *Tyson & Parker, Parallel Importation of Copyrighted Phonorecords*, 10 N.C. J. INT’L L. & COM. REG. 397, 402-406 (1985); *see also* Stephen W. Feingold, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U. J. INT’L L. & POL. 113, 134-137 (1984).

history of the 1976 Copyright Act provides valuable insight in understanding the interrelationship between Sections 106, 602, and 109 of the Act.

### A. Section 106

Copyright law grants owners of literary property exclusive rights in their works of original expression. Copyright protection exists in all forms of "original works of authorship fixed in any tangible medium of expression."<sup>44</sup> The copyright holder is granted five exclusive rights which are enumerated in Section 106 of the Copyright Act: 1) the right to reproduce the work; 2) the right to prepare derivative versions of the work; 3) the right to publicly distribute copies of the work; 4) the right to perform the work in public; and 5) the right to display the work in public.<sup>45</sup>

Although the owner of a copyrighted work is not granted an absolute monopoly on the work, anyone who uses the copyrighted work within the scope enumerated by Section 106 is considered an "infringer of the copyright" under Section 501.<sup>46</sup> Conversely, a person who is authorized by the copyright owner to use the work in one of the five ways enumerated in the statute is not considered an infringer of the copyright. However, the copyright owner does not lose or waive his rights by granting a right to another.<sup>47</sup>

Relevant to the issues presented in *Quality King*, Section 106(3) grants the copyright owner an exclusive right to sell, dispose, or give away any material

<sup>44</sup> 17 U.S.C. § 102(a) (1994)

<sup>45</sup> 17 U.S.C. § 106 (1994) provides:

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

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

<sup>46</sup> 17 U.S.C. § 501(a) (1994) ("Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118, or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright."); see generally *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 433 (1984); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968); *Teleprompter Corp. v. Columbia Broad. Sys., Inc.*, 415 U.S. 394 (1974); *Blazon, Inc. v. DeLuxe Game Corp.*, 268 F. Supp. 416 (S.D.N.Y. 1965); *Time, Inc. v. Bernard Geis Assoc.*, 293 F. Supp. 130 (S.D.N.Y. 1968); *Oakes v. Suelynn Corp.*, 100 Cal. Rptr. 838 (Cal. Ct. App. 1972); *Jewelers Circular Publ'g Co. v. Keystone Publ'g Co.*, 274 F. 932 (S.D.N.Y. 1921), *aff'd* 281 F. 83 (2d Cir. 1922); *Morris County Traction Co. v. Hence*, 281 F. 820 (3d Cir. 1922).

<sup>47</sup> See *Interstate Hotel Co. v. Remick Music Corp.*, 157 F.2d 744 (8th Cir. 1946).

embodiment of his copyrighted work.<sup>48</sup> This section grants the copyright owner the right of first publication<sup>49</sup> of copies of a work by sale, gift, or other form of transfer.<sup>50</sup> Therefore, distributions by unauthorized copyright holders to the public are considered to be an infringement of the copyrighted work.<sup>51</sup> It is important to remember that although the five enumerated rights granted under Section 106 should be interpreted broadly, they are still "subject to sections 107 through 120" of the Copyright Act.<sup>52</sup> Thus, Section 109 of the Copyright Act qualifies Section 106(3) by extinguishing the copyright owner's exclusive rights once he has distributed or transferred ownership of a particular copy or phonorecord.<sup>53</sup>

### B. Section 109

Although the first sale doctrine is statutory, it has "its roots in the English common law rule against restraints on alienation of property."<sup>54</sup> The doctrine was initially codified in the 1909 Copyright Act,<sup>55</sup> recodified in 1947,<sup>56</sup> and included in the 1976 Copyright Act.<sup>57</sup> The economic rationale behind the doctrine is based on determining whether or not the copyright owner has received his "reward" for the use of his work.<sup>58</sup>

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<sup>48</sup> See 17 U.S.C. § 106(3) (1994).

<sup>49</sup> " 'Publication' is the distribution of copies or phonorecords to the public by sale or other transfer of ownership, or by rental, lease or lending . . ." 17 U.S.C. § 101 (1994).

<sup>50</sup> See Act of Sept. 29, 1976, Pub. L. No. 94-553, 1976 U.S.C.C.A.N. (94 Stat.) 5675; see also *Harper & Row, Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 552 (1985) (Section 106(3) "recognizes for the first time a distinct statutory right of first publication, which had previously been an element of the common-law protections afforded unpublished works.").

<sup>51</sup> See Act of Sept. 29, 1976, Pub. L. No. 94-553, 1976 U.S.C.C.A.N. (94 Stat.) 5676.

<sup>52</sup> 17 U.S.C. § 106 (1994); see also S. REP. NO. 93-983, at 131 (1974) ("The approach of the bill is to set forth the copyright owner's exclusive rights in broad terms in section 106, and then to provide various limitations, qualifications, or exemptions in the 11 sections that follow . . . Thus, everything in section 106 . . . must be read in conjunction with those provisions.").

<sup>53</sup> See 17 U.S.C. § 106 (1994); see also *Harper & Row*, 471 U.S. at 552 (Supreme Court acknowledged special protection for the right of first publication in light of the fact that only one person can be considered the first publisher).

<sup>54</sup> H.R. REP. NO. 98-987, at 2 (1984), reprinted in 1984 U.S.C.C.A.N. 2899, 2901 ("American courts have affirmed the doctrine and distinguished between the owner's exclusive rights in the copyright and the rights of the owner of an object embodying a work that is under copyright."); see also *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 883 (E.D. Pa. 1964); Richard Colby, *The First Sale Doctrine - The Defense That Never Was?*, 32 J. COPYRIGHT SOC'Y U.S.A. 77, 89 (1984); 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT, § 8.12 (1997).

<sup>55</sup> Copyright Act, ch. 320, § 41, 35 Stat. 1084 (1909).

<sup>56</sup> Copyright Act, ch. 391, § 1, 61 Stat. 652 (1947).

<sup>57</sup> See generally 17 U.S.C. § 101 *et seq.* (1994).

<sup>58</sup> See *Burke & Van Heusen*, 233 F. Supp. at 884; see also *Sebastian Int'l Inc. v. Consumer*

The first sale doctrine attempts to limit the copyright owners' control of copies of the work once they consent to distribution.<sup>59</sup> It is only this initial distribution<sup>60</sup> which triggers the Section 109(a) termination of the distribution right.<sup>61</sup> Distribution seems to be considered the point at which "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation."<sup>62</sup>

At this point, a copyright owner's right to prevent unauthorized distribution of the work is unnecessary because the owner has already consented to sale or distribution of copies of the work.<sup>63</sup> Thus, once the owner of the copyright transfers ownership of a copy of his work, his distribution rights are limited by the first sale doctrine.<sup>64</sup> In addition, the person who acquires ownership of the particular copy may dispose of the copy by sale, rental, or any other means.<sup>65</sup> Note, however, that the particular copy or phonorecord involved in the transaction must have been lawfully made under Title 17.<sup>66</sup>

### C. Section 602

Congress added Section 602 to the 1979 Copyright Act in order to respond to the multitude of copyright holders who sought protection from the unauthorized importation of copies or what is also known as the gray market.<sup>67</sup>

Contacts (PTY) Ltd., 847 F.2d 1093, 1096 (3d Cir. 1988); *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963); *Cosmair, Inc. v. Dynamite Enters., Inc.*, No. 85-0651, 1985 WL 2209 (S.D. Fla. Apr. 9, 1985).

<sup>59</sup> See 2 NIMMER & NIMMER, *supra* note 54, § 8.12[A].

<sup>60</sup> The "distribution right under Section 106(3) includes the right to control not only the sale of copies and phonorecords, but also their disposition by rental, lease or lending." 2 NIMMER & NIMMER, *supra* note 54, § 8.12[B][1].

<sup>61</sup> See *id.* ("sale of a copy or phonorecord (or other transfer of title) will vitiate the copyright owner's power to prevent not only further sales, but also further physical disposition of such copies or phonorecords, even if such further disposition does not involve a transfer of title").

<sup>62</sup> *Id.*; see also *Blazon, Inc. v. Deluxe Game Corp.*, 268 F. Supp. 416 (S.D.N.Y. 1965).

<sup>63</sup> See 2 NIMMER & NIMMER, *supra* note 54, § 8.12[B][1].

<sup>64</sup> See Act of Sept. 11, 1984, Pub. L. No. 98-450, 1984 U.S.C.A.N. (98 Stat.) 2898.

<sup>65</sup> See Act of Sept. 29, 1976, Pub. L. No. 94-553, 1976 U.S.C.A.N. (94 Stat.) 5675; see also 2 NIMMER & NIMMER, *supra* note 54, § 8.12[B] (1997). Further support for this interpretation is found in Section 109(a)'s predecessor, Section 27 of the 1909 Act. Although Section 109(a) is not identical to Section 27, it is very similar. The second clause of Section 27 of the 1909 Act states "nothing in this title 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>66</sup> See H.R. REP. NO. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.A.N. 5659, 5693.

<sup>67</sup> See *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d at 1093, 1097 (3d Cir. 1988).

The gray market is created by the parallel importation<sup>68</sup> of foreign manufactured merchandise bearing United States trademarks into the United States.<sup>69</sup>

The problem with these imports is that even though they are made with the copyright owner's consent, they are piratical<sup>70</sup> in the sense that they could be sold at a lower price than the U.S. manufactured products.<sup>71</sup> These cheaper resales eventually undercut the prices available through authorized channels and create intraband price competition.<sup>72</sup>

Furthermore, gray markets have the potential to undermine the goodwill traditionally created by the manufacturer's extensive investment. Thus, the copyright owner will be forced to choose between increasing its own warranty costs in order to protect its rights and maintaining the goodwill of its U.S. manufacturers. In essence, these gray markets can substantially diminish the U.S. copyright owner's profit margin as well as potential royalty payments.<sup>73</sup>

Section 602 offers protection to copyright holders by providing that unauthorized importation into the United States of copies of a work is considered to be an infringement of the copyright holder's distribution right.<sup>74</sup> The legislative history of Section 602 provides support for this contention in that the House Judiciary Committee explained that Section 602 was passed to address piratical importation and importation of products lawfully produced abroad.<sup>75</sup> As *Quality King* illustrates, however, Section 602 can also be interpreted in a second way.

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<sup>68</sup> See *K-Mart Corp. v. Cartier Inc.*, 486 U.S. 281, 285-86 (1988) ("Gray market" and the practice of "parallel importation" was used to refer to the unauthorized importation into the United States of goods manufactured abroad with a valid United States trademark); see also Feingold, *supra* note 43, at 114 (defining parallel imports as any imports in which there is an existing U.S. copyright owner).

<sup>69</sup> See *Sebastian Int'l*, 847 F.2d at 1097.

<sup>70</sup> Piracy is the practice of reproducing a work without the permission of the owner of the copyright. See Feingold, *supra* note 43, at 68.

<sup>71</sup> See *id.* at 115-16.

<sup>72</sup> See *id.* at 116.

<sup>73</sup> See *id.*; see also *K-Mart Corp.*, 486 U.S. at 295 (Brennan, J., concurring in part and dissenting in part) (stating that the parallel importation of goods manufactured abroad affixed with United States trademarks has developed into a multi-billion dollar industry).

<sup>74</sup> See 17 U.S.C. § 602(a) (1994) (providing that anyone who violates any of the exclusive rights of the copyright owner as provided by Sections 106 through 118 or of the author as provided in Section 106(a) or who imports copies or phonorecords into the United States in violation of Section 602 is infringing on the copyright or the right of the author, as the case may be).

<sup>75</sup> See H.R. REP. NO. 94-1476, at 60 (1976), reprinted in 1976 U.S.C.A.N. 5659, 5785 ("Section 602, which has nothing to do with the manufacturing requirements of section 601, deals with two separate situations: importation of 'piratical' articles (that is, copies or phonorecords made without any authorization of the copyright owner), and unauthorized importation of copies or phonorecords that were lawfully made.").

The heart of the issue in *Quality King* revolves around the interpretation of the interrelationship between Sections 602(a) and 109(a). There exists two possible ways to interpret the relationship between these sections. One such interpretation suggests that Section 602(a) grants copyright owners an additional right similar to the distribution rights granted under Section 106(3).<sup>76</sup> Under this interpretation, Section 602(a) is immunized from the first sale doctrine of Section 109(a) and thus allows copyright holders to prevent the unauthorized importation of their copyrighted works.<sup>77</sup>

On the other hand, Section 602(a) may be interpreted as an example of a distribution right that is subject to the Section 109(a) limitation.<sup>78</sup> This interpretation would prohibit the U.S. copyright holder from preventing the importation of unauthorized copies of his work that were "made abroad pursuant to a license restricting sales to a particular country."<sup>79</sup>

Because there is no legislative history or statutory language specifically addressing the interrelationship between Sections 602(a), 106(3), and 109(a), cases discussing this relationship are of utmost importance. Particularly significant is the Third Circuit's decision in *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*

#### IV. RELEVANT CASE LAW – THIRD CIRCUIT VS. NINTH CIRCUIT

*Sebastian* involved a hair care product manufacturer, Sebastian International, that brought a copyright infringement action against Consumer Contacts.<sup>80</sup> Consumer Contacts had entered into a contract with Sebastian International to buy Sebastian hair care products and sell them exclusively to salons in South Africa.<sup>81</sup> Consumer Contacts shipped the products to South Africa, but some products found their way to the United States.<sup>82</sup> The district court determined that although Section 602(a) and Section 109(a) seem to conflict, they could be harmonized.<sup>83</sup>

The circuit court determined that the situation presented in *Sebastian* involved the unauthorized importation of goods that were lawfully made.<sup>84</sup> In making its decision, the court noted both the struggle that district courts have

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<sup>76</sup> See *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1097 (3d Cir. 1988).

<sup>77</sup> See *id.*

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

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

<sup>80</sup> See *id.* at 1094.

<sup>81</sup> See *id.*

<sup>82</sup> See *id.*

<sup>83</sup> See *id.* at 1097

<sup>84</sup> See *id.*

experienced in analyzing the relationship between Sections 602(a) and 109(a) and the lack of statutory guidance.<sup>85</sup> The circuit court rejected the trial court's interpretation of the interrelationship between Sections 602(a) and 109(a) as granting the copyright holder a "distinct right" that is free from the limitations imposed by the first sale doctrine.<sup>86</sup>

Instead, the Third Circuit in *Sebastian* found that Section 602(a) is among the distribution rights granted under Section 106(3) and is therefore subject to the first sale doctrine.<sup>87</sup> The court stressed the lack of importance of determining the place of sale when deciding whether or not Section 602(a) applies.<sup>88</sup> More importantly, the court found that the copyright holder relinquished all further rights "to sell or otherwise dispose of possession of that copy" when he sold it.<sup>89</sup> The first sale doctrine prevented the copyright holder from controlling future importation of the copies where the holder already received a reward from an initial sale.<sup>90</sup> The court addressed concerns over the "gray market" as a question that should be resolved by Congress.<sup>91</sup>

The Ninth Circuit in *L'anza Research International, Inc. v. Quality King Distributors, Inc.* addressed a similar situation as the Third Circuit in *Sebastian* - unauthorized importation of lawfully made goods.<sup>92</sup> The Ninth Circuit agreed with the *Sebastian* court on the idea that the copyright holder is entitled to receive a reward for his copyright.<sup>93</sup> In addition, the *L'anza* court agreed that once the copyright holder receives his reward, he is limited in his

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<sup>85</sup> See *id.* at 1097-98; see also, e.g., *Neutrogena Corp. v. United States*, 7 U.S.P.Q. 2d (BNA) 1900 (D.S.C. 1988) (finding the first sale defense available where personal care products were manufactured in the United States, sold to third party, and then imported into the United States); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575, 1577 (D. N.J. 1987) (finding copyright infringement when phonorecords manufactured and first sold under license in New Zealand were imported into the United States); *Hearst Corp. v. Stark*, 639 F. Supp. 970 (N.D. Cal. 1986) (finding that Section 109(a) did not limit Section 602(a) where books were lawfully made in England and imported into the United States); *CBS, Inc. v. Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983) (finding copyright infringement where copies made and sold in the Philippines under license agreement were imported into the United States); *Nintendo of America, Inc. v. Elcon Indus.*, 564 F. Supp. 937 (E.D. Mich. 1982) (finding importation was prohibited where video game circuits were made and sold abroad and then sent to the United States).

<sup>86</sup> See *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1097 (3d Cir. 1988).

<sup>87</sup> See *id.*

<sup>88</sup> See *id.* at 1098.

<sup>89</sup> *Id.*

<sup>90</sup> See *id.* at 1099.

<sup>91</sup> See *id.*

<sup>92</sup> See *L'anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109 (9th Cir. 1996).

<sup>93</sup> See *id.* at 1115.

control over importation of the copy.<sup>94</sup> However, the circuit court in *L'anza* held that the first sale doctrine did not apply in this situation.<sup>95</sup>

The Ninth Circuit did not agree that the first sale provided the copyright owner his full reward.<sup>96</sup> Instead, the circuit court found that unauthorized importation caused "copyright owners to lose control over domestic distribution, thus driving prices down for goods sold through authorized channels in the U.S. market."<sup>97</sup> The circuit court also determined that Section 602(a) would be rendered meaningless if Section 109(a) provided a defense in a case like this, because a third party could circumvent the copyright owner by purchasing copies abroad.<sup>98</sup> Consequently, the *L'anza* decision created a split between the Third Circuit and the Ninth Circuit that led to the grant of certiorari in *Quality King*.

#### V. *QUALITY KING DISTRIBUTORS, INC. v. L'ANZA RESEARCH INTERNATIONAL, INC.*

The Supreme Court in *Quality King Distributors, Inc. v. L'anza Research International, Inc.* unanimously held that the copyright owner's right to prohibit the unauthorized importation of copyrighted works does not extend to the "gray market" area where the goods are manufactured in the United States.<sup>99</sup> The Supreme Court interpreted the language of Section 602(a) as defining a violation of the copyright holder's distribution right under Section 106, rather than an additional right independent of the Section 109 importation right.<sup>100</sup> Since Section 602 is considered to fall under the umbrella of Section 106, it is undoubtedly limited by the first sale doctrine of Section 109.<sup>101</sup>

The *Quality King* Court focused on the fact that Section 602 did not "categorically prohibit the unauthorized importation of copyrighted materials."<sup>102</sup> Instead, Section 602 refers to unauthorized importations under Section 106.<sup>103</sup> Since the limited right of distribution under Section 106 does not refer to "resales by lawful owners," the Supreme Court found that the clear language of Section 602(a) is plainly not applicable to situations where the owners of *L'anza's* products decide to import them and resell them in the

<sup>94</sup> See *id.*

<sup>95</sup> See *id.* at 1113.

<sup>96</sup> See *id.* at 1116.

<sup>97</sup> *Id.* at 1117.

<sup>98</sup> See *id.* at 1114.

<sup>99</sup> See *Quality King Distribs. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998).

<sup>100</sup> See *id.*

<sup>101</sup> See *id.*

<sup>102</sup> *Id.* at 144.

<sup>103</sup> See *id.*

United States.<sup>104</sup> This result remains consistent whether the owners of L'anza's products are domestic or foreign.<sup>105</sup>

L'anza argued that the proper interpretation of Section 602 is an exclusive right independent of the distribution rights granted in Section 106 because any other interpretation would render Section 602 and its exceptions<sup>106</sup> meaningless.<sup>107</sup> In support of its argument, L'anza made two textual arguments based on the Copyright Act.<sup>108</sup>

L'anza's first argument was that Section 602 and its exceptions "are superfluous if limited by the first sale doctrine."<sup>109</sup> The reason being that since Section 602(b)<sup>110</sup> already covers piratical goods, Section 602(a) must cover non-piratical goods, meaning copies that are lawfully made and sold by the copyright owner.<sup>111</sup> The Supreme Court found that Section 602(a) was not rendered superfluous because Section 602(a) provides, among other things, a

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<sup>104</sup> *Id.*

<sup>105</sup> *See id.* at 135 n.14 ("The owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad.").

<sup>106</sup> The remainder of 17 U.S.C. § 602(a) (1994) reads as follows:

This subsection does not apply to (1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use; (2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or (3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2).

<sup>107</sup> *See Quality King*, 523 U.S. at 145.

<sup>108</sup> *See id.* at 145-46.

<sup>109</sup> *Id.* at 145.

<sup>110</sup> 17 U.S.C. § 602(b) (1994) provides as follows:

In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited. In a case where the copies or phonorecords were lawfully made, the United States Customs Service has no authority to prevent their importation unless the provisions of section 601 are applicable. In either case, the Secretary of the Treasury is authorized to prescribe, by regulation, a procedure under which any person claiming an interest in the copyright in a particular work may, upon payment of a specified fee, be entitled to notification by the Customs Service of the importation of articles that appear to be copies or phonorecords of the work.

<sup>111</sup> *See Quality King*, 523 U.S. at 146.

private remedy against the importer of piratical goods not expressed in Section 602(b).<sup>112</sup>

The *Quality King* Court also stressed the importance of the fact that the first sale doctrine only protects the owner of a copy that was lawfully made, or with the copyright holder's consent.<sup>113</sup> Thus, Section 109(a) does not provide protection against "any non-owner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful."<sup>114</sup>

More importantly, however, the Supreme Court found that Section 602(a) covers a broader scope of copies that are not subject to the limitations imposed by Section 109(a).<sup>115</sup> An example is where the copies are lawfully made under the laws of another country.<sup>116</sup> Thus, despite the fact that Section 602(a) and Section 109(a) may coexist in certain situations, both sections "retain significant independent meaning" whereby Section 602(a) is not rendered superfluous.<sup>117</sup>

L'anza's second argument was that a violation of 602(a) is distinct from a violation of Section 106(3) because Section 501 refers to Section 106(3) and Section 602(a) separately in its definition of an "infringer."<sup>118</sup> The Supreme Court addressed L'anza's contention by conceding that the listing of rights in Section 501 seems to indicate that Section 602 creates a distinct right from Section 106.<sup>119</sup> The Court acknowledged that the use of the words in Section 501<sup>120</sup> "or who imports" lends support to L'anza's view of distinct rights.<sup>121</sup>

Despite the acknowledgment, the Court relied on the text of 602(a) itself to provide statutory support to the contrary.<sup>122</sup> Section 602(a) directly states that prohibited importation is a violation under Section 106.<sup>123</sup> Furthermore, under L'anza's interpretation, Section 602(a) would not be limited by the first sale doctrine, nor the rest of the sections between 107 through 120, because

<sup>112</sup> See *id.*

<sup>113</sup> See *id.* at 146-47.

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

<sup>115</sup> See *id.* at 147.

<sup>116</sup> See *id.* ("The category of copies produced lawfully under a foreign copyright was expressly identified in the deliberations that led to the enactment of the 1976 Act.")

<sup>117</sup> *Id.* at 149.

<sup>118</sup> See *id.*

<sup>119</sup> See *id.*

<sup>120</sup> 17 U.S.C. § 501(a) (1994): "Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a) or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright..."

<sup>121</sup> See *Quality King*, 523 U.S. at 149.

<sup>122</sup> See *id.*

<sup>123</sup> See *id.*

it would not be considered a Section 106 right.<sup>124</sup> The Supreme Court refused to believe that Congress intended to propose an interpretation of Section 602(a) that rendered it independent and immune to those sections.<sup>125</sup> In further support of its conclusion, the Court found that L'anza could not explain "why the words 'under section 106' appear in Section 602(a)."<sup>126</sup>

The Supreme Court concluded its analysis by acknowledging the reasoning behind a broad interpretation of the first sale doctrine.<sup>127</sup> "The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."<sup>128</sup> The Supreme Court found no support to the contrary of an unrestricted reading of the statute. Arguably, the doctrine should not be given a broad interpretation because it limits the owner's right of control.

## VI. ANALYSIS AND CRITIQUE

Although *Quality King* is a case of first impression, the Supreme Court has previously construed the Copyright Act in light of the same basic purpose and rationale exhibited in *Quality King*. One such case is *Bobbs-Merrill Co. v. Straus*,<sup>129</sup> which was cited in *Quality King*.

*Bobbs-Merrill* also involved the resale of a copyrighted work as in *Quality King*.<sup>130</sup> The publisher, Bobbs-Merrill, fixed a notice on the copyrighted book indicating that the book could not be sold for less than \$1 without its consent.<sup>131</sup> The defendants, Isidor Straus and Nathan Straus, purchased copies of the book with the intent to resell them.<sup>132</sup> Knowing the terms of the notice on each copy of the book, the defendants sold the books at a price less than \$1 without Bobbs-Merrill's consent.<sup>133</sup>

The Supreme Court noted that copyright property was under federal statutory law and was to be interpreted under the authority conferred "under article 1, § 8 of the Federal Constitution" for the promotion of "science and the useful arts."<sup>134</sup> As such, the copyright statutes should not be extended to

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<sup>124</sup> See *id.* at 150.

<sup>125</sup> See *id.* at 150-51.

<sup>126</sup> *Id.* at 149.

<sup>127</sup> See *id.* at 152.

<sup>128</sup> *Id.*

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

<sup>130</sup> See *id.* at 341-42.

<sup>131</sup> See *id.* at 341.

<sup>132</sup> See *id.* at 341-42.

<sup>133</sup> See *id.* at 342.

<sup>134</sup> *Id.* at 346.

grant privileges where Congress did not intend, or withhold benefits where Congress did intend.<sup>135</sup> It was upon this background that the Supreme Court held that the statutory and exclusive right of a copyright owner to multiply and sell his work only applied to the first sale of his copyrighted production.<sup>136</sup> As in *Quality King*, the Supreme Court acknowledged the importance of protecting the copyright owner's rights in his work, but refused to extend the protection to resales by lawful future purchasers of the work.<sup>137</sup>

Further support for the rationale used in *Quality King* can be found in *Sony Corp. of America v. Universal Studios, Inc.*<sup>138</sup> The Supreme Court in *Sony* found that there was no copyright infringement of television program copyright owners where manufacturers of home videotape recorders sold their equipment to the general public.<sup>139</sup>

Once again, the Supreme Court acknowledged that copyright law was derived from the Constitution, and that "it is Congress that has been assigned the task of defining the scope of the limited monopoly that should be granted to authors or to inventors in order to give the public appropriate access to their work product."<sup>140</sup> As reiterated in *Quality King*, the Supreme Court stressed the importance of the judiciary's refusal to expand the copyright owners' protections under the copyright statute without "explicit legislative guidance."<sup>141</sup> Additionally, the Court clarified that where there is ambiguity in the statutory text of copyright law, it is essential to understand the underlying balance between the encouragement and reward of creative work, and the competing public interest in securing the availability of "literature, music, and the other arts" for the public.<sup>142</sup>

## VII. CONCLUSION

Although copyright law attempts to reward the copyright owner for his particular work, the ultimate effect of copyright law is "to stimulate artistic creativity for the general public good."<sup>143</sup> The statutory protection granted copyright owners under Title 17 has never granted complete control over all

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<sup>135</sup> See *id.*

<sup>136</sup> See *id.* at 351-52.

<sup>137</sup> See *id.* at 350.

<sup>138</sup> *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417 (1984).

<sup>139</sup> See *id.*

<sup>140</sup> *Id.* at 429.

<sup>141</sup> *Id.* at 431.

<sup>142</sup> See *id.* at 431-32.

<sup>143</sup> *Id.* at 432.

uses of the copyrighted work.<sup>144</sup> It is for Congress to determine extensions of these protections where ambiguity exists.<sup>145</sup>

The gray market has a definite impact on copyright owners, but not all of these effects are negative. Those in favor of parallel importation have argued that gray markets benefit consumers by lowering prices, widening distribution, and negating price discrimination between markets. Thus, gray markets unquestionably can have a positive effect. But given the negative effects as discussed earlier, the real question as to why the Supreme Court limited copyright holders' redress against gray market goods still remains.

The intention of copyright law is of utmost importance in a case such as *Quality King* where the statutory language and legislative material is lacking. Although the copyright owner's interest in receiving his reward is essential, the history of copyright law has stressed that even more important is the dissemination of the artistic and creative product to the public. As mentioned above, the Supreme Court acknowledged this policy consideration in *Sony*.

As to the effects of the gray market on a copyright owners' reward, such reward is arguably satisfied from the purchase price received from the first sale of a particular copy. Once the owner makes that first sale, the policy towards distribution to the public gives way. If a copyright owner is so concerned about the effects of the gray market and reaching maximum profits, he still has a number of alternatives remaining after *Quality King*. First of all, the owner should consider minimizing the extent to which he is underselling the product. Flatter pricing eliminates the profit available to a third party from reimporting the product and the retailer's opportunity to undercut the domestic price.<sup>146</sup> Nothing in the language of copyright law requires the copyright owner to receive the maximum profit he can charge for his copyrighted work.

Another solution available to the copyright holder is that he can change the name or the label of his package; the products would then be considered substitutes of the domestic products and not the real thing.<sup>147</sup> The copyright owner may also consider manufacturing abroad, since the holding of *Quality King* does not extend to unauthorized importation of products manufactured abroad.<sup>148</sup> Moreover, the copyright owner may try to limit foreign distributors through contractual provisions.<sup>149</sup> This provides redress in case of breach of

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<sup>144</sup> See *id.*

<sup>145</sup> See *id.* at 431.

<sup>146</sup> See Robert W. Clarida, *How to Stop Parallel Imports Despite Quality King Ruling*, INTELL. PROP. STRATEGIST, May 1998, at 1.

<sup>147</sup> See *id.*

<sup>148</sup> See *id.*

<sup>149</sup> See *id.*

contract.<sup>150</sup> However, such an agreement may have enforcement problems as well as jurisdictional issues if not agreed to beforehand.<sup>151</sup>

Although these alternatives do not resolve the gray market problem, it is not for the judiciary to decide these issues. The interrelationship between Sections 106(3), 109(a), and 602(a) involves a problem that was not foreseeable by the drafters of the 1976 Copyright Act. The Supreme Court in *Quality King* did not attempt to solve the gray market problem or its policy considerations, but only followed its duty to interpret the Copyright Act and its intention. The Supreme Court said yes to the first sale doctrine instead of granting copyright owners monopolistic control over the distribution of their works once they received value for it. If the owners' remaining alternatives to combat the gray market are deemed egregious, it is for Congress to redefine the scope of the owners' limited monopoly. In this regard, "[t]he judiciary's reluctance to expand the protections afforded by the copyright without explicit legislative guidance is a recurring theme."<sup>152</sup>

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<sup>150</sup>      *See id.*

<sup>151</sup>      *See id.*

<sup>152</sup>      *Sony Corp. of America v. Universal Studios, Inc.*, 464 U.S. 417, 431 (1984).