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Parallel Importation of Copyrighted Phonorecords

William C. Tyson*
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International entrepreneurs face obstacles and opportunities not always shared by their domestic counterparts. Economic trends such as interest rate differentials and currency fluctuations can produce tremendous gains or significant losses, and an uncertain legal environment can have similar consequences. International entrepreneurs that trade in copyrighted materials, particularly phonorecords, confront this latter problem because the current United States copyright laws are ambiguous about the propriety of their activity.¹

An example of a record’s typical international commerce route illustrates the legal difficulties faced by an international trader.² X, an American manufacturer, acquires the domestic and foreign copyrights in a sound recording and licenses Y, a corporation located in east Asia, to produce and distribute identical records in the eastern hemisphere. Y sells the records to Z, a record distributor in Y’s marketing area. Z sells to T, an American importer who sells the records in the United States, in direct competition with the American copyright owner, X, often at a price considerably lower than that sought by X.

In the terminology of intellectual property law, T is a parallel importer, and the records are parallel imports.³ Under the Copy-

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² In this article the common term “record” will be used instead of the statutory term “phonorecord.” A record is a material object that embodies a sound recording. 17 U.S.C. § 101. A sound recording is a work consisting of a series of sounds, musical or spoken, protected by copyright. Id. Congress first extended copyright protection to sound recordings in 1971 to be effective February 15, 1972. Pub. L. No. 92-140, 85 Stat. 437 (1971) (codified as amended in scattered sections of 17 U.S.C.). The statute is not retroactive. Id. § 3. As a result, records produced before the effective date are not protected by copyright. This policy is continued in the Copyright Act, 17 U.S.C. § 301(c).

³ T is also considered a parallel importer if it imports goods purchased from a foreign manufacturer-licensor, B, in competition with B’s American licensee, A. This is the
right Act, a parallel importer's status depends primarily on the interpretation of section 106(3) and its interrelationship with other provisions that incorporate it by reference. Section 106(3) grants the exclusive right to distribute records to the copyright owner. Section 602(a) provides that importation "without the authority of the owner of the copyright . . . of copies or phonorecords acquired outside the United States is an infringement of the exclusive right to distribute . . . under Section 106[(3)]." Under this provision, T potentially is a copyright infringer, because T acquired records outside the United States and imported them apparently without the authorization of X, the copyright owner. Under this interpretation, this activity would therefore infringe X's exclusive distribution privilege.

The exclusive distribution privilege, however, is subject to exceptions and limitations. For instance, section 109(a), which embodies what is commonly called the first sale doctrine, provides a defense to charges of infringement of a copyright owner's distribution privilege. Section 109(a) states that, section 106(3) notwithstanding, a person who owns a phonorecord "is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that . . . phonorecord." Therefore, in a parallel importation situation, the application of section 109(a) produces a result diametrically opposite from that mandated by the literal terms of section 602(a). In the typical situation, T lawfully possesses the records purchased from Z, the distributor, and thus may dispose of them in any way it wishes. Under a plain reading of 109(a), therefore, T is not an infringer of X's distribution privileges.

When two statutory provisions, such as sections 602(a) and 109(a), clearly conflict, courts attempt to harmonize them by examining their legislative histories and purposes to determine whether narrow interpretations can reconcile them. The procedure is especially appropriate when the same statute contains the conflicting provisions because presumably Congress did not intend to enact conflicting provisions in a single piece of legislation. If harmonization is not possible, courts must decide which provision will control.

This article suggests how a court should apply these doctrines to resolve the apparent conflict between sections 109(a) and 602(a). An


4 Section 106 states, in pertinent part:
Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do . . . any of the following:

(3) to distribute copies of phonorecords of the copyrighted work by sale or other transfer of ownership . . .


6 Erlenbaugh v. United States, 409 U.S. 239, 244 (1972).
examination of the legislative histories of sections 109(a) and 602(a) of the Copyright Act is necessary to determine whether a clear purpose for each section emerges. Part I shows that the origins of section 109(a) are clear. Part II demonstrates that the legislative history of section 602(a), however, does not provide an authoritative discussion of its actual purpose.

In Part III the law concerning parallel importation of products protected by other intellectual property rights—trademarks and patents—is examined to assist in interpreting section 602(a). In Part IV the status of parallel importation in other jurisdictions, particularly other common law jurisdictions and the European Economic Community, is reviewed. Although the law in these jurisdictions does not have a direct bearing on the meaning of section 602(a), it provides valuable insights into judicial methods and general concerns in the parallel importation area. In Part V three cases that considered parallel importation of copyrighted materials are analyzed. Finally, Part VI concludes that in certain situations sections 109(a) and 602(a) can be harmonized—in a way that precludes a finding of copyright infringement—without thwarting Congress' intent in enacting section 602(a).

I. The First Sale Doctrine and Section 109(a)

Acquisition of a copyright confers upon its owner five exclusive privileges: reproduction, preparation of derivative works, distribution, public performance, and public display.7 The owner of a copyright in a sound recording, however, possesses only the first three of these privileges.8 The copyright owner may transfer his rights in any manner except by nonexclusive license and may limit the transfers in territory or duration.9 In addition, because copyright privileges are severable, the owner may transfer any one of the underlying privileges while retaining the others.10 For example, the copyright owner may sell the right to reproduce a work but not the right to distribute the copies.11

The first sale doctrine, which imposes a limit on the distribution privilege, first arose as a matter of statutory construction rather than as a statutory enactment. In Bobbs-Merrill Co. v. Strauss12 plaintiff book publisher charged defendant retailer with copyright infringe-

7 17 U.S.C. § 106(1)-(5).
8 Id. § 114(a).
9 Id. §§ 101, 201(d)(1). Section 201(d)(1) of the Copyright Act allows the owner to transfer a copyright. Section 101 defines "transfer" as any conveyance "whether or not it is limited in time or place of effect, but not including a nonexclusive license."
10 Id. § 201(d)(2).
12 210 U.S. 339 (1908).
ment after defendant resold copies of the book for less than the price marked on the book cover. The Supreme Court carefully sought a result that would neither confer "privileges not intended to be conferred" nor "deprive those entitled to their benefit of the rights Congress intended to grant." 13 The Court concluded that Congress did not intend to grant a copyright holder exclusive distribution rights over resales. 14

Congress codified the Bobbs-Merrill rule in section 27 of the 1909 Act by explicitly distinguishing between the intangible copyright and the material copies embodying the protected work. Congress separated a transfer of the material object from a transfer of the copyright and emphasized that "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." 15 The legislative history reinforces the broad scope of the statutory terms: "It would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of the copyright after said proprietor has made the first sale." 16

Cases arising under the 1909 Act have refined the doctrine of Bobbs-Merrill and section 27. In Blazon, Inc. v. Deluxe Games Corp. 17 the district court not only applied the first sale doctrine but also examined the rule's rationale. The court suggested that the distribution privilege serves as a complement to the reproduction privilege. What the copyright owner has sole authority to make, it must have sole authority to sell; but once the copyright owner makes the first sale, the distribution privilege no longer is necessary. The policy against restraint of trade, temporarily submerged by the competing requirements of the copyright law, resurfaces to restrict the copyright owner's control over the subsequent trade in the copies.

A first disposition, therefore, deprives the copyright owner of any copyright law protection in a case concerning trade in the copyrighted articles. In Straus & Straus v. American Publishers' Association 18 the Supreme Court concluded, on the authority of Bobbs-Merrill, that an agreement among publishers to restrain trade in copyrighted books violated the antitrust laws and treated as if the books had

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13 Id. at 346.
14 The Bobbs-Merrill Court stated:

"To add to the right of exclusive sale the authority to control all future retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute, and, in our view, extend its operation, by construction, beyond its meaning, when interpreted with a view to ascertaining the legislative intent in its enactment."

Id. at 351.
18 231 U.S. 222, 236 (1913).
never been copyrighted. Similarly, in *Interstate Circuit, Inc. v. United States* defendants conceded "that the [antitrust] conspiracy charge is established if the distributors agreed among themselves to impose the restrictions upon subsequent-run distributors."  

Other courts have followed a similar, though not identical, track. In *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.* defendant was the third party in a chain of purchasers. Plaintiff manufacturer accused defendant of violating the terms of an agreement that plaintiff had with the wholesaler regarding distribution of certain records as a promotional device. The court ruled that defendant could not be bound by the contract, despite knowledge of the terms of the agreement. The court further held that the first sale doctrine shielded defendant from copyright liability. According to the court, "[t]he ultimate question under the 'first sale' doctrine is whether or not there has been such a disposition of the copyrighted article that it may be fairly said that the copyright proprietor has received its reward for its use." Once the copyright owner reaps a profit from the disposition of copies of a work, the distribution privilege lapses as to those copies.

A landmark case on the first sale doctrine is *United States v. Wells*, which considered whether a license can constitute a first sale. In *Wells* the Government charged Wells with criminal infringement of a copyright after he had acquired and resold copies of a copyrighted aerial map. The evidence showed that Wells had procured the maps from licensees of the copyright owner. Although the licensees had been authorized to produce copies of the map only for their own use and not for resale, the court acquitted Wells because "there had been no showing that the copies of the aerial maps were not published by the lawful licensees of the copyright proprietor or that title to the copies was retained at all times by the copyright proprietor." The court suggested that the appropriate remedy for the wrong was a breach of contract action by the copyright owner against the licensees because the copyright statute did not apply.

In 1976 Congress enacted section 109(a), intending to recodify the first sale doctrine, "which had been established by the court deci-
sions and Section 27 of the present law [the 1909 Act]." The provision specifically grants to "the owner of a particular \ldots phonorecord lawfully acquired under this title" the right to "sell or otherwise dispose of the possession" of that record without the consent of the copyright owner. Thus, the only limits to the first sale doctrine within the express terms of the provision are that the person in possession of the record must be an owner, and the record may not be piratical i.e., that it must have been acquired in a lawful manner.

II. The Legislative History of Section 602(a)

The Copyright Act contains three prohibitions on importation. The first prohibition, contained in section 601, prohibits the importation of the "copies of a work" manufactured abroad, and often is referred to as the "manufacturing clause." This section has its roots in a nineteenth century statute that protected the fledgling American printing trade. During subsequent reconsiderations of the manufacturing clause, Congress considered legislation similar to the current section 602. These proposals appeared to have been a palliative to domestic publishing concerns, and they received no comment in an authoritative history of the manufacturing clause and never aroused much congressional support.

A second importation prohibition, section 602(b), outlaws the importation of "piratical" records—records whose manufacture "would have constituted infringement if this title [the Copyright Act] had been applicable." The section further provides that the United States Customs Service may not prevent the importation of lawfully manufactured records. Thus, the government bars the importation of piratical, but not parallel, imports.

Section 602(a) is the third importation prohibition. It contains two ambiguities that confuse the impact of the first sale doctrine. The section prohibits importation "without the authority of the owner of copyright under this title." This phrase may mean that only the express consent of the copyright owner may waive the privilege of freedom from foreign competition guaranteed by the rest of the section. The section, however, may merely grant to the copyright owner the same privileges in international trade that are granted in the statute. Under this reading, section 602(a) privileges

28 H.R. 11476, 67th Cong., 2d Sess. 6 (1922) ("[D]uring the existence of the American copyright in any book the importation into the United States of any copies thereof shall be, and is hereby, prohibited, except with the consent of the proprietor of the American copyright."). This proposal is similar to the current § 602(a).
29 M. McCANNON, supra note 27.
would be coextensive with domestic copyright privileges (and the “authority” granted to the copyright owner thereunder), which are limited to the first disposition of a copy or record.

The second ambiguity in section 602(a) is the assertion that the importer infringes “the exclusive right to distribute phonorecords under section 106, actionable under section 501 [civil remedies].” Under one reading, Congress may have incorporated section 602(a) into section 106, implying that the copyright owner has complete control over the distribution of records in the import trade of the United States. Another interpretation is that the reference to section 106 is a limitation rather than an addition: Congress did not make parallel importation a separate infringement but conditioned a finding of infringement on the copyright owner’s possession of distribution rights, which are limited by the first sale doctrine.

These ambiguities may be resolved by solving one problem: does the first sale doctrine apply when the first disposition occurs abroad? If so, section 109(a) limits the effect of section 602(a). If the doctrine does not apply, section 602(a) exposes the parallel importer to damages for infringement, apparently without any viable copyright law defense. The history of section 602(a) provides little guidance for solving this problem.

In 1955 Congress began the laborious process of copyright revision, which culminated in the Copyright Act of 1976. As part of this effort, Congress authorized the Copyright Office of the Library of Congress to undertake a series of studies on various aspects of copyright law that were especially ripe for revision. These efforts produced the influential Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law (Register’s Report).30

The Copyright Office initially counseled against a parallel import provision in any new copyright legislation. The Register’s Report noted that parallel import problems arise when copyright owners license publication or manufacture of their works abroad and include in the license agreement a provision dividing the world market between the foreign and domestic parties. The Register’s Report continued:

We assume, without considering the antitrust questions involved, that agreements to divide international markets for copyrighted works are valid and enforceable contracts between the parties. But we do not believe that the prohibition against imports of piratical copies should be extended to authorized copies covered by an agreement of this sort. To do so would impose a territorial restriction in a private contract upon third parties with no knowledge of the agreement. And even as between the parties, Customs does not

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seem to be an appropriate agency for the enforcement of private contracts.\textsuperscript{31}

Following release of the Register's Report, the Copyright Office held meetings with copyright experts to discuss its proposals. The panel sharply attacked the Copyright Office's recommendations on parallel imports, supporting its position by positing a case in which the foreign licensee sells an authorized copy or record within the designated market, which eventually becomes an American import. One panelist concluded, "Now it's all right to say, 'Commence a lawsuit for breach of contract.' But this is expensive, burdensome, and, for the most part, ineffective."\textsuperscript{32} Another panelist was more pessimistic: "There is just no possibility of any contract remedy under these circumstances, but, as far as I am concerned, it is clearly infringement of the copyright of the United States proprietor."\textsuperscript{33}

The panel members felt that the importation for sale in the United States infringes a privilege of the United States licensor, because the licensor retains exclusive distribution rights in the United States.\textsuperscript{34} This view appears to be the origin of section 602(a)'s mention of the copyright owner's distribution privilege under section 106.

Following these discussions, the Copyright Office acquiesced in the matter of parallel imports, but did not explain the reasons for its change. The 1964 Preliminary Draft for Revised United States Copyright Law contained two alternative parallel import sections. Each provided that "[i]mportation into the United States of copies or records of a work for the purpose of distribution to the public shall, if such articles are imported without the authority of the owner of the exclusive right to distribute copies or records under this title, constitute an infringement of copyright actionable under Section 35 [civil remedies]."\textsuperscript{35} The sections differed in the duties conferred upon customs officials, but neither section authorized seizure of parallel imports.

\textsuperscript{31} Id. at 126.


\textsuperscript{33} Id. at 213 (statement of Sidney A. Diamond, Landon Records).

\textsuperscript{34} \textit{Staff of House Comm. on Copyright Revision, 88th Cong., 2d Sess., Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law} 260 (Comm. Print 1964) (submission of the American Book Publishers Council, Inc.) [hereinafter cited as \textit{Staff Report}]. Whether the conclusion follows from the premise is unclear. The argument assumes that because copyright protection is territorially divisible, privileges in one territory are immune to events elsewhere. As a matter of copyright theory, the proposition is doubtful.

The question of applying the first sale doctrine to the parallel import provision again arose in the discussions concerning the 1964 draft. A proposed hypothetical concerned a German licensee who sells copies or records to a German jobber who seeks to export the purchase to the United States. Mr. Goldman of the Copyright Office responded:

I would suppose that the whole answer depends on whether the distribution that would take place in the United States would itself constitute an infringement of copyright. When you apply this rule about the effect of the first sale of a copy exhausting the right to control the further distribution of that copy, your question would be whether this represents a sale of a copy that does exhaust the right.

This could vary from one situation to another, I guess. I should guess, for example, that if a book publisher transports copies to a wholesaler, this is not yet the kind of transaction that exhausts the right to control disposition. Mr. Goldman did not indicate why this transaction would not exhaust the distribution privilege. His comment strongly suggests, however, that some type of transaction abroad will satisfy the first sale doctrine, contrary to the suggestion of the panelists that territorial distribution privileges are completely separate.

In its 1965 Supplementary Report the Copyright Office officially recommended that Congress enact a parallel importation prohibition. The Supplementary Report suggested that the prohibition provide that, even if the copies or phonorecords were made lawfully, their distribution in the United States would violate the exclusive rights of the United States copyright owner. The Office noted that, under the proposed provision, importation from a foreign manufacturer licensed to distribute only in a particular market would violate the prohibition.
The Supplementary Report ended the thorough consideration of the parallel import provision. Congress enacted the parallel importation provision proposed by the Copyright Office without expanding on the language of the statute in its reports. The legislative history of section 602(a) is, therefore, of uncertain value, because an unofficial panel provides most of the debate. Even the conclusions of the Copyright Office provide little insight, given Mr. Goldman's reluctance to express a firm opinion about the effect of a first foreign sale on subsequent parallel imports.40

The panel discussions, however, provide insight into the problem that section 602(a) is designed to confront. The Copyright Office placed a parallel import provision in the 1964 draft to alleviate the fear of the panelists that foreign licensees could breach with impunity the territorial restrictions in their agreements with American copyright owners. In this respect, section 602(a) is a copyright-law substitute for a breach of contract action. A United States copyright holder must show that the foreign manufacturer breached the license agreement to benefit from section 602(a). Otherwise, the manufacturer and subsequent purchasers act with the authority of the copyright owner, whose exclusive distribution privilege does not prohibit their activity.

III. Parallel Imports Under Trademark and Patent Law

Because the history of section 602(a) does not disclose an unequivocal congressional purpose, guidance from analogous legal areas is crucial to interpret the section. In this Part, judicial treatment of the equivalents of section 602(a) in United States trademark and patent law is considered.

A. Trademarks

Examination of trademark law provides guidance in interpreting section 602(a). Section 526 of the Tariff Act of 193041 prohibits the hinges on the limited distribution privilege and is not an absolute right to ban imports. The Office also offered no official opinion as to whether the authorized foreign distribution implies a consent on the part of the copyright owner to importation.

40 Another clue as to the effect of the first sale doctrine on § 602(a) arose during the final panel discussions. One panelist raised the question whether a compulsory license provision applies abroad. A compulsory license provision allows an artist to use a copyrighted musical work upon the payment of a royalty. A common example is the use of the song "Happy Birthday to You" on television or in films. The compulsory license rule is, therefore, a limitation on the copyright owner's privileges. Mr. Goldman opined that a foreign manufacturer may reap the benefits of this rule: "If there is no exclusive owner of the right to distribute in the United States, and there is no such right being violated, I guess [the parallel importation provision] has no application." SUPPLEMENTARY REPORT, supra note 37 (statement of A. A. Goldman, Copyright Office). This provides further, albeit secondary, evidence that the limitations on § 106(3) apply to limit the scope of § 602(a).

importation of goods manufactured abroad that bear the registered trademark of a United States citizen. Section 42 of the Lanham Act, a similar provision, prohibits the importation of goods bearing trademarks that "copy or simulate" registered trademarks. Thus, section 526 is the parallel importation prohibition and has been the subject of parallel importation litigation.

The similarity between sections 526 and 602(a) provides fertile ground for comparison. Examination of section 526 litigation, which is more prevalent than litigation under section 602(a) because of the forty-six-year difference in their ages, reveals the complexities of parallel importation. Indeed, the litigants in a recent parallel importation case relied heavily on an analogy between the two provisions.43

A perplexing question that has arisen under section 526 is whether the provision bars importation of genuine articles, such as articles bearing a genuine trademark lawfully attached by the manufacturer—a "nonpiratical trademark." In cases involving section 526, the foreign manufacturer's American licensee generally objects to the imports. A line of cases prior to the enactment of sections 526 and 42 held that American trademark proprietors could not bar importation of genuine goods.44 Passage of the predecessor to section 42 did not change this result because trademarks affixed to genuine goods do not "copy or simulate" the American mark.45

Congress passed section 526 in response to the Second Circuit Court of Appeals opinion in A. Bourjois & Co. v. Katzel.46 In Katzel the assignee of the right to use a French firm's trademark in the United States sued a parallel importer of goods manufactured by the French firm and bearing its trademark. In line with prior holdings, the court ruled for defendant, because the goods were the genuine product of the French trademark owner.

Although Congress passed section 526 while Katzel was pending in the Supreme Court, Justice Holmes did not mention the section in his opinion for a unanimous Court. The Court ruled that defendant had infringed plaintiff's mark because, by public understanding, the trademark indicated that the goods originated from plaintiff and not defendant.47 Katzel, therefore, involved classic infringement and not

45 Id. at 782.
46 275 F. 539 (2d Cir. 1921), rev'd, 260 U.S. 689 (1923).
47 Katzel, 260 U.S. at 692.
parallel importation. Although the opinion did not mention the predecessors of sections 526 and 42, the case falls within the scope of section 42, which covers the importation of infringing trademarks, rather than within the parallel importation restrictions.48

Because the Supreme Court declined to apply section 526 in *Katzel*, the section’s precise scope remained unclear. Commentators and courts alike have found significant Congress’ specific reaction to the court of appeals opinion in *Katzel*, which held that importation of genuine merchandise could never infringe a trademark.49 In this light, “the purpose of the section was to protect American purchasers of foreign owned trademarks from fraud and breaches of contract by the vendors of such marks.”50 This protection apparently was the sole purpose of section 526.51

Commentators on section 526, like the Copyright Office panelists, have noted that breach of contract actions against foreigners inherently are difficult, and sometimes impossible, if the manufacturer deals exclusively with foreign parties who may be unaware of the American license.52 Thus, sections 526 and 602(a) have remarkably similar histories.

Courts, too, have considered the scope of section 526. The court in *United States v. Guerlain, Inc.*53 narrowly construed section 526, limiting it to its historic purpose “despite the absence of specific language to that effect in the legislation.”54 The Government charged that defendants had misused section 526 and thereby violated the antitrust laws by blocking importation of merchandise produced by manufacturers abroad who had close economic ties to defendants. “In view of the litigated history of the issue involved and of the legislative history of the section,”55 including Congress’ passage of section 526 solely to protect the rights of American trademark licensees, the court ruled for the Government. Since the party invoking section 526 needed no contract remedy substitute (because


51 62 Cong. Rec. 11,603 (1922) (remarks of Sen. Sutherland).


54 *Guerlain*, 155 F. Supp. at 80.

55 *Id.*
the two parties to the contract had close economic ties), the court ruled that the antitrust laws prevented use of the prohibition.

The court in Bell & Howell: Mamiya Co. v. Masel Supply Co. severely criticized the Guerlain opinion. The Mamiya court relied squarely on the words of section 526 and argued that Congress intended to overrule the entire line of cases leading up to Katzel. The Mamiya court also believed that Katzel controlled Guerlain, because the Guerlain defendants had built substantial goodwill under their trademark in the United States. This argument, however, addresses the question of trademark infringement and not parallel importation.

Recently, a court distinguished Mamiya from Guerlain and applied the rationale of the latter. Guerlain's authority is unclear, however, because it was vacated. Moreover, the court admittedly ignored the language of the statute in an attempt to effectuate congressional intent. The Mamiya court, however, misconstrued the legislative history when it suggested that Congress was concerned with anything but the immediate situation in Katzel. Congress passed section 526 at the final hour after limited debate, and other courts whose decisions were controlling in the Mamiya case have stated that "if the reversal of the [appellate court's] decision by the Supreme Court in [Katzel] had occurred prior to the date of the Tariff Act the provisions in question would not have been enacted at all."58

The histories and purposes of sections 526 and 602(a) are similar. Congress intended each section as a remedy for an otherwise irremediable breach of contract by a foreign producer that is suffered by a domestic intellectual property holder. Guerlain demonstrates that courts will interpret parallel importation provisions consistent with their purposes and will not extend the remedy to situations that arise outside the scope of the provisions. As an antitrust prosecution, Guerlain emphatically illustrates that parallel importation provisions are not a means by which domestic concerns can exert greater control over international competition than their property rights allow.

The relationship between the foreign and domestic manufacturers determines the antitrust consequences of reliance upon section 526. Similarly, the first sale doctrine in copyright law is the boundary between monopolistic conduct protected by copyright and impermissible restraint of trade.59 Like section 526, section 602(a) is

59 Note, Copyright Reform and the Author's Right To "'End"': The Case of the Unpaid Manufacturer, 10 Ind. L. Rev. 507, 514 (1977).
designed to protect against irremediable breaches of contract. Once the copyright owner has "received its reward for its use," by first sale or license, section 602(a)'s remedy is no longer necessary.

B. Patents

Patent law, like trademark law, provides some guidance in interpreting section 602(a). Before Congress had codified a prohibition against parallel importation of a product covered by an American patent, the Supreme Court had developed such a rule in *Boesch v. Graff*, an infringement suit. Plaintiffs owned the American and German patents in certain types of laboratory burners. Defendants purchased the burners from a German producer who was entitled to sell them under German patent law. The Court concluded that "purchasers from the German source could not [by virtue of the purchase from him] be thereby authorized to sell articles in the United States in defiance of the rights of the patentees under a United States patent." This fact pattern rarely arises in modern litigation.

The prohibition against parallel imports arises more commonly in proceedings under section 337 of the Tariff Act of 1930, which grants the International Trade Commission the authority to ban importation of infringing goods. Those harmed by the parallel imports acquired a convenient remedy. A proceeding before the International Trade Commission is in rem rather than in personam because "an exclusion order operates against goods, not parties," and therefore, provides "an adequate remedy for domestic industries against unfair methods of competition." Section 337 has a different history from section 526 but is similar in effect. Congress sought to alleviate the problems faced by American purchasers of foreign trademarks by enacting section 526. Similarly, section 337 protects American patentees from unfair use of their patented process or manufacture of their patented product abroad.

Because the only reachable parties are American importers and their customers, "[t]he owner of a patent, seeking to protect himself [was] confronted with the necessity of proceeding against individual wholesalers or retailers. The resulting multiplicity of suits imposes an impossible burden," and the "stoppage of importation of infringing articles is the only effective remedy." Thus, both sec-

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61 133 U.S. 697 (1890).
62 Id. at 703.
65 *See In re Orion Co.*, 71 F.2d 458 (C.C.P.A. 1934).
67 *In re Orion Co.*, 71 F.2d at 467 (quoting U.S. TARIFF COMM'N, 17 SUPP. TO TARIFF READJUSTMENT REPORTS ON TARIFF BILL OF 1929, at 10,667).
tions 337 and 526 are intellectual property devices intended to protect against underlying unfair practices abroad. As in the trademark area, the remaining question about these sections is what constitutes an unfair practice by the foreign user of the patent.

Patent law mirrors copyright law in many respects, including the scope of the first sale doctrine. The Supreme Court has ruled that, at least within the United States, the purchaser of a patented article from a licensee within an assigned territory may resell the article outside that area. In *Keeler v. Standard Folding Bed Co.* the Court ruled that in patent law, as well as in copyright law, "one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place."69

In this respect, *Keeler* conflicts with *Boesch*, in which defendants who purchased the burners from the German manufacturer had infringed upon plaintiff's American patent. Thus, the first sale doctrine collides with parallel importation restrictions in patents as well as in copyrights. The *Keeler* Court distinguished *Boesch*, however, by noting that in *Boesch*, "neither the patentee or [sic] any assignee had ever received any royalties or given any license to use the patented article in any part of the United States."70

On its face this conclusion suggests that patents are completely and exclusively territorial. The implicit rationale is that a patentee who licenses foreign production relinquishes privileges only in the country of manufacture, and the patentee's privileges in the United States remain intact.71 The facts of *Boesch*, however, do not support this broad reading. The German manufacturer in *Boesch* produced the burners under the patent law doctrine of prior user. He asserted his privilege to produce and sell burners by operation of German law and not from rights granted by the patentee.72 The *Boesch* Court ruled that these German patent principles could not bind an American court. The German patent doctrine, therefore, did not give the American importer the right to market the product in the United States.73 The *Keeler* Court then confirmed that, under American law,

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68 157 U.S. 659 (1895).
69 Id. at 666.
70 Id. at 665 (emphasis added).
72 133 U.S. at 701-02.
73 The *Boesch* Court stated:

The right which Hecht had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States . . . . The sale of articles in the United States under a United States patent cannot be controlled by foreign laws.

Id. at 703.
a purchase from the patentee's licensee deprives the patentee and licensee of any control over the merchandise.

At least one recent case indicates that American patentees may not claim United States patent protection if their conduct abroad exceeds the scope of their privileges. In *United States v. National Lead Co.* defendant chemical companies divided the world market in titanium by a series of interlocking licenses granted under patents issued all over the world. The court held that this plan violated the antitrust laws because the privileges acquired by the patentees under the licenses exceeded their entitlement. The court found that defendants "regulated the disposition of the products by the licensees," although the patents had been conferred by other countries. Essentially, the court held that a "first sale" anywhere in the world results in a complete loss of patent privileges under United States law.

The *National Lead* court did not suggest that the territorial licenses violate the antitrust laws. The court stated that an American patentee has no greater right to control international trade in his product than in the domestic market. Thus, *National Lead* implies that intellectual property owners who license the manufacture and distribution abroad of protected articles may not prohibit importation of the product.

### IV. Cases from Other Jurisdictions

Although the statutes of many nations prohibit in some manner the importation of copyrighted materials, comparing American and foreign treatment of parallel importation is difficult. Foreign copyright statutes differ from each other and from the American copyright statute. In addition, most foreign copyright statutes prohibit only piratical imports. Foreign decisions interpreting the local copyright statute offer some guidance, however, on how courts should construe section 602(a) and provide insights on the parallel importation problem in general.

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75 Thus, the court effectively held that the licensing agreements under foreign patents violated American antitrust laws because the privileges acquired via the licensing agreements exceeded the scope of any patent. "The system of territorial allocation . . . cannot be justified as ancillary to the grant of a license under a patent . . . . [The agreements] applied to commerce beyond the scope of any patents." *National Lead*, 63 F. Supp. at 523-24.

76 *Id.* at 524. The court cited two patent cases, *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), and *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707 (1944), that applied the first sale doctrine in a domestic context. *National Lead*, however, involved international trade, thereby indicating that, in patent law at least, the first sale doctrine attaches to dispositions abroad as well as in the United States.

A. Common-Law Jurisdictions

In common-law jurisdictions, the starting point for an overview of parallel importation cases is *Interstate Parcel Express Co. v. Time-Life International*,\(^78\) decided by Australia's High Court. Time, Inc., an American corporation, licensed Time-Life International to distribute Time, Inc.'s publications outside the United States. Interstate Parcel purchased copies of Time, Inc.'s book series, "Foods of the World," from a California distributor and imported them into Australia. Time-Life sued for infringement under an Australian statute that provides that "the copyright in a . . . work is infringed by a person who, without the license of the owner of copyright, imports an article into Australia" for the purpose of resale, where "the making of the article would, if the article had been made in Australia by the importer, have constituted an infringement of the copyright."\(^79\)

In a highly criticized opinion,\(^80\) the High Court ruled for plaintiff. The court held that under this statutory scheme, the only question was whether defendant possessed an implied license to import the copies into Australia by virtue of Time, Inc.'s sale in the United States. Defendant relied on British patent cases, which held that a patentee grants an implied license to a purchaser to use or dispose of a patented article at will. The court rejected this analogy. In the court's view, because Australian patent law grants the patentees the right to control use of the product in the hands of the purchaser, an implied license is an economic necessity. Conversely, because a copyright owner has no power to control the purchaser's use of a lawfully obtained copy, implied license in the copyright area is unnecessary.\(^81\)

Canadian courts likewise have prohibited the parallel importation of copyrighted materials. In *Clarke, Irwin & Co. v. C. Cole & Co.*,\(^82\) the High Court of Ontario ruled that defendant had violated the Canadian copyright statute when it imported copies of a book from the American licensee of the Canadian copyright owner. In its opinion, the court compared two situations. In the first situation, a Canadian agent (or licensee) of the copyright owner sought to prevent importation of the copyrighted materials by the copyright owner. The court stated that the licensee could not prevent this importation

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\(^{79}\) Copyright Act, Austl. C. Acts, No. 63, § 37 (1968).


\(^{81}\) 138 C.L.R. at 542-44.

\(^{82}\) 22 D.L.R.2d 183 (Can. 1960). See also Godfrey, MacSkimming & Bacque, Ltd. v. Coles Book Stores Ltd., 40 D.L.R.3d 346 (Can. 1973) (reaffirmance of *Clarke, Irwin*). The Copyright Act, Can. Rev. Stat. ch. 55, § 17(4) (1952), states: "Copyright in a work shall also be deemed to be infringed by any person who . . . (d) imports for sale or hire into Canada any work that to his knowledge infringes copyright or would infringe copyright if it had been made within Canada."
under this circumstance, because the copies were produced by the copyright owner who would not infringe the copyright as long as it manufactured the articles in Canada.

In the second situation, the case under consideration, the court stated, on the other hand, that the Canadian copyright owner could prevent importation from a foreign licensee because the licensee could not produce the merchandise in Canada without infringing the Canadian copyright. 83

The British courts also have considered a variety of fact patterns. In *CBS Ltd. v. Charmdale Record Distributors, Ltd.* 84 the court considered a case similar to *Time-Life* but reached a different result under the Canadian/British statutory framework. The court found that CBS Ltd. could not enjoin the importation of records made by the American licensor-copyright owner, because production of records in Great Britain by the copyright owner could not constitute infringement. The court suggested that such a practice might constitute a breach of contract but not a copyright violation.

In *Polydor Ltd. v. Harlequin Ltd.* 85 the British court enjoined importation of records into England produced by a Portuguese licensee, at the insistence of the British licensee of the copyright owner. The court noted that “the making of the Portuguese records could have constituted an infringement if the records had been made in the United Kingdom without the license of the plaintiffs who hold the license as far as the United Kingdom is concerned.” 86

These cases arose under piratical and not parallel importation statutes. The primary purpose of piratical statutes is to restrict importation of articles that were made unlawfully. Clearly aberrational, the Australian statute tests whether the importer could have manufactured the product in Australia without infringing the copyright. Under this scheme, the only party effectively immune from suit by the Australian licensee is the foreign copyright owner who, by importing into Australia, probably would breach the license agreement. Therefore, all parallel imports are effectively prohibited in Australia.

In Great Britain and Canada the test is whether the manufacturer abroad could have manufactured the goods in Great Britain without infringing the British copyright. Therefore, articles produced by the copyright owner may enter these countries, but those manufactured by other licensees may not. *Charmdale* suggests that if the copyright owner actually produced the records in Britain, a suit for breach of contract might lie. The court did not consider whether


84 [1980] 2 All E.R. 807 (Ch. D.). The English statute, *Copyright Act, 1956, 4 & 5 Eliz. 2, ch. 74, § 16(2)*, is similar to the Canadian statute.

85 28 COMMON MKT. L.R. 413 (1980).

86 Id. at 415.
distribution abroad by the copyright owner of products that subsequently entered Britain would also constitute a breach of contract. The court's silence implies that importation in this situation would not constitute a breach.

The language of section 602 does not correspond with these rules. Section 602(b), concerning piratical importation, addresses a different situation from the Australian or British laws. The section assumes that the manufacturer produced the records in a context in which American law applies. Section 602(a) has no counterpart abroad because it bases a finding of infringement on the domestic copyright owner's right of distribution. The question remains whether that privilege is exhausted by a first sale abroad.

The only court to consider that question is the Australian High Court in Time-Life. The Time-Life court, however, reached its result only because it refused to analogize between patent and copyright law, given inherent differences in the powers conferred by each. In the United States the similarity between patents and copyrights is much greater, and the first sale doctrine in each area is identical. Thus, the foundation for the Time-Life court's ruling is not easily translated to the American scheme.

B. The European Economic Community (EEC)

One of the fundamental tenets of the European Economic Community is unrestricted trade between member nations. Because restrictions on parallel imports tend to fetter international trade, the EEC's Court of Justice has considered a number of parallel import problems. Its opinions are rich with material on the effects of national intellectual property rights on international commerce.

Two EEC Court of Justice cases are especially noteworthy because, viewed globally, they create a useful and detailed theory of parallel importation protection. Parke, Davis & Co. v. Probel arose from a patent infringement proceeding instituted in Holland by an American pharmaceutical company on behalf of its Dutch licensees. Parke sought to enjoin importation of pharmaceuticals into

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87 See supra text accompanying notes 59-69.

88 The highest judicial authority within the EEC is the Court of Justice of the European Community. Before the court issues a judgment, one of its members, the Advocate General, delivers an opinion explaining pertinent precedents and principles. The court then issues a sparse, conclusory judgment, almost always adopting the Advocate General's conclusions. See Herzog, The Procedure Before the Court of Justice of the European Communities, 41 Wash. L. Rev. 438, 481 (1966). The discussion by the Advocate General is therefore much more illuminating than the actual judgment of the court.


90 7 Common Mkt. L.R. 47 (1968).
Holland from Italy, which denies patent protection to drugs or to the processes by which they are made.

The court ruled that Holland may, consistent with EEC principles, forbid the importation of drugs from Italy. Limiting the opinion to this question, the Advocate General noted that the Italian imports could render Parke, Davis' Dutch patents useless: "Indeed, there would not remain much of the legal monopoly of exploitation which is to guarantee to the inventor a chance of fair remuneration, for the non-patent-holders could without difficulty supply the whole Common Market from a country in which no patent existed . . . ." 92

The Court of Justice reached a different result when faced with a pure parallel imports problem in Deutsche Grammophon Gesellschaft GmbH. v. Metro-sB-Grossmarkte GmbH & Co. 93 Deutsche Grammophon (DG) owned 99.5 percent of a French subsidiary, Polydor S.A. Paris. Polydor had the authority to manufacture and distribute records in which DG had the copyright. Polydor, however, resold records manufactured by DG in Germany to a Swiss wholesaler that sold the records to a German retailer. The German retailer then offered the records at a price substantially lower than DG requested.

The German court ruled for DG, holding that the transfer from DG to Polydor was not an exhaustion of DG’s distribution right because the two companies were related economically. It further ruled that according to the principles of territoriality, the foreign sale did not exhaust DG’s distribution privilege in Germany. It stated that copyright "is the outcome of the idea of granting the creator of a work exclusive rights for a certain country." 95

While the decision of the German court was under review by the Court of Justice, the Advocate General, urging reversal, opined that the territoriality principle applies only to a nation’s independent conferral of copyright privileges, and thus, nations that give domestic legal effect to events occurring abroad do not abridge the doctrine. The Advocate General concluded that any other reading of the territoriality principle would be too broad, because it would grant the intellectual property owner greater protection than necessary, at the expense of unrestricted trade. 96 Therefore, any prohibi-
tion against parallel imports in *Deutsche Grammophon* could violate the competition rules of the Community.

Although it is difficult to use foreign cases as a model for construing American statutes, the EEC cases are consistent with the American scheme. First, the EEC views its exhaustion doctrine as a necessary limitation on copyright privileges, as do the American courts, which have developed a similar first sale doctrine. Second, both the EEC and the American courts view the first sale doctrine as a border between the monopolistic copyright privileges necessary to reward authors for their works and the fundamental policy of unstrained trade among the states within their respective jurisdictions. Once the author reaps the reward, regardless of where it occurs, the monopoly of the copyright statute lapses.

The European cases also comport with a fair reading of section 602(a). If the copyright owner authorizes distribution when it licenses abroad, it cannot complain when the stream of commerce flows back in the domestic market. Any import prohibition would hamper free trade. The copyright owner has no legitimate complaint, since it receives its reward from the licensee, and thereby exhausts its monopolistic distribution privilege. Any further prohibition on imports is unnecessary to protect the copyright.

V. Cases on Parallel Imports of Copyrighted Materials

An examination of the three United States cases dealing with the parallel importation of copyrighted materials also provides guidance as to the proper interpretation of section 602(a). Prior to the passage of the Copyright Act, the only case to raise the issue of the propriety of parallel importation of copyrighted materials was *United States v. Addison-Wesley Publishing Co.* In *Addison-Wesley* a consent decree halted a government antitrust prosecution against publishers who had arranged with their British counterparts for exclusive copyright licenses in the United States. An antitrust problem arose when the publishers collectively restricted American firms from parallel importing British publications for which the Americans had licenses.

In view of this situation there is in fact much to be said for the view that since the bounds of the territoriality principle are so uncertain it does not form part of the substance of the protection. In any event this applies to the particular problem of the present proceedings, i.e., a situation in which, as the Oberlandesgericht has held, a legal person connected with the holder of the rights has marketed the goods in question abroad. Here it should be decisive that the purpose of the industrial protection rights was fulfilled when the goods were first marketed, since it was possible to use the monopolistic opportunity for gain.

*Id.* at 648-49 (emphasis added). Had Polydor not been a subsidiary of DG, the sale from DG to Polydor would have led to a different result in the German courts. *Id.* at 642.


98 This is the lesson of *National Lead*, discussed *supra* text accompanying notes 74-76.

99 See *United States v. Wells*, discussed *supra* text accompanying notes 29-25.

100 1976-2 Trade Cas. (CCH) ¶ 61,225 (S.D.N.Y. Nov. 24, 1976).
The decree is without precedential value but provides an excellent view of parallel imports before the enactment of the Copyright Act. It illustrates, however, how the parties involved perceived the law prior to the Copyright Act. The publishing companies agreed not to restrict "any purchaser of a lawfully published Book from importing or exporting such Book to or from the United States."  

Moreover, the decree stated that the publishers could exercise their copyrights to the full extent of the law, "provided that no foreign copyright law or other foreign statutory right may be used by any defendant to exclude or restrict the importation or resale in the United States of a lawfully published Book." The law prior to the Copyright Act, therefore, was much like patent law, because the Addison-Wesley result mirrors National Lead.

CBS v. Scorpio Music Distributors, which arose after Congress passed the Copyright Act, essentially is a classic parallel importation case. Plaintiff CBS owned the copyrights on the records involved. CBS-Sony, Inc., a Japanese corporation, had the authority to license the manufacture of CBS records in the Philippines. Vicor Music Corporation, the Philippine licensee, sold the records to Rainbow Music, Inc., a Philippine record distributor. International Traders, Inc., a United States importer, purchased the records from Rainbow Music and sold them to Scorpio Music Distributors in the United States pursuant to a prior agreement. The court held that Scorpio was a contributory infringer along with International Traders. Therefore, Scorpio was held severally liable for all of the allegedly infringing events, including the importation of the records. Thus, a dispute existed between the copyright owner and the parallel importer.

Scorpio conceded that the records came from outside the United States and without the express authorization of CBS, thus satisfying the two predicates for infringement liability under section 602(a). Scorpio's principal argument was that section 602(a) must be read narrowly in light of section 109(a).

The Scorpio court rejected this argument and, satisfied that section 602(a) applied, hinged its result on a narrow reading of the first sale doctrine. The court supported this conclusion on two grounds. The court focused on the section 109(a) requirement that the copies protected by the first sale doctrine must be "lawfully made under this title," which, according to the court, means made in the United States. The court reasoned, in the alternative, that if Scorpio prevailed, importers could bypass section 602(a) merely by purchasing

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101 Id. at 70,642.
102 Id.
IMPORTATION OF PHONORECORDS

records indirectly. Neither of these contentions stands up under serious scrutiny.

In support of its first rationale that "lawfully made under this title" means made in the United States, the Scorpio court asserted that "the protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states." This assertion clearly is incorrect. Courts have held that a vast number of statutes that do not specifically so provide, apply to conduct abroad. For example, in Steele v. Bulova Watch Co., an intellectual property case, Bulova sought to enjoin Steele's use of the "Bulova" trademark on watches manufactured in Mexico. The Steele Court announced a rule that conflicts with the rule relied upon in Scorpio, holding that United States law governed Steele's conduct even though Congress did not expressly give the trademark statute extraterritorial application.

The court in Scorpio erred in focusing on the words in section 109(a), "under this title," rather than on the entire phrase, "lawfully made under this title." By implication, Congress intended to exclude records "unlawfully" made under the copyright laws from the purview of section 109(a). Thus, the owner of records produced without the copyright owner's consent may not dispose of them free of copyright liability. In international trade, the infringing records are piratical and, under section 602(b), may not be imported. Thus, notwithstanding section 602(a), importers may not claim the protection of the first sale doctrine if the records were manufactured by a foreign infringer, no matter how many intermediaries stand between the infringer and the importer. This construction gives meaning to the entire statutory phrase rather than to a few words and is consistent with the language of section 109(a).

Moreover, CBS' view on the scope of the copyright title is erroneous. To support its argument that the first sale doctrine is limited to domestic sales, CBS pointed to the section of the House Report accompanying the Copyright Act, which states that the revisions in the duration of copyright protection were designed to place United States law in line with that of other countries. Reliance on this
section confuses territorial legislative jurisdiction, which was the concern in Steele, with the territorial principle of copyrights. The latter holds that each state grants separate copyright protection within its borders. The territoriality principle does not necessarily mean, however, that events abroad have no impact on domestic copyright infringement liability.

The court's alternative rationale for its holding—that reading the first sale doctrine into section 602(a) "would render section 602(a) virtually meaningless"—is conclusory. The court feared that importers could "circumvent the statute, in every instance, by simply buying the records indirectly." Yet, domestic consumers similarly circumvent a copyright owner's distribution privilege every time they purchase from a retailer rather than a publisher.

The purpose of the first sale doctrine is to limit the copyright holder's ability to control the stream of commerce in the work. The argument that the application of the rule would impose this limit—that the rule therefore should not apply—circumvents the purpose of the doctrine. The court concluded that a ruling for Scorpio "would undermine the purpose of the statute." The court never considered the purpose of section 602(a) and therefore left unresolved the issue raised by Scorpio's principal argument.

M.S.R. Imports, Inc. v. R.E. Greenspan Co., which also arose after the passage of the Copyright Act, is a paradigmatic section 602(a) case. Plaintiff engaged a Taiwanese manufacturer to produce certain copyrighted miniatures of old-fashioned carts and wagons. The Taiwanese manufacturer had no authority to change the articles in any way or to distribute the wagon. Defendant purchased copies of the wagons from Taiwanese intermediaries and imported them into the United States.

The court eschewed a detailed discussion of section 602(a), apparently because it felt that the effect of the section was obvious: "The testimony in this case makes it clear that the Greenspan company did not manufacture the accused infringing works but, rather, purchased them from an exporter in Taiwan. Nonetheless, a seller and importer of an infringing work is liable for his acts of infringement." Evidently, the word "his" refers to the exporter/foreign licensee. Thus, the court viewed section 602(a) as a substitute for an
underlying wrong and held the importer responsible for the infringement or breach of contract by the foreign exporter.

In *M.S.R. Imports* the manufacturer had no distribution privilege. The question remains whether the limitations, included in a license that allows distribution within a limited area, accompany the articles into the hands of successive purchasers. In a purely domestic situation the answer is that the purchaser is free of any contractual limitations. The panelists in the Copyright Office discussion requested section 602(a) only as a remedy against importation by purchasers of products protected by American copyright manufactured abroad who wrongfully export with impunity. Application of section 602(a) to any other situation would elevate the provision to a complete ban on trade in copyrighted works. Neither section 602(a) nor other available evidence suggests that such a result is appropriate. The copyright law does not protect copyright owners from domestic competition in their works after sale and should not do so when the competition comes from abroad.

Copyright owners are far from powerless even under this reading of section 602(a). They can license foreign manufacture while retaining distribution rights, thereby reaping the benefits of foreign manufacture without exposing themselves to the danger of parallel imports. In this situation, as *M.S.R. Imports* demonstrates, section 602(a), by any reading, protects the copyright owner. Also, copyright owners can exact higher royalties in exchange for the distribution license, and thus stifle competition from cheaper foreign exports, or at least reap a greater reward for the expense that foreign competition will generate. Once the copyright owner has taken advantage of the copyright monopoly, however, the rights secured by the copyright laws, including the remedy of section 602(a), lapse entirely.

VI. Conclusion

Review of the applicable and analogous law indicates that Congress included section 602(a) in the United States copyright laws for one fundamental reason: United States copyright owners were facing contractual problems overseas that were impossible or expensive to remedy. Section 602 addresses this problem by severing foreign licensees, according to their own agreements, from the United States market. In this way, Congress eliminated the incentive to engage in an unfair trade practice.

Accordingly, under this interpretation, which allows sections 109(a) and 602(a) to operate in harmony, a breach of the license agreement is a necessary predicate to a section 602(a) violation. Applying this interpretation to the case presented at the outset of this discussion, Y, the foreign manufacturer, has not breached its license
agreement by the sale of records to Z, the distributor. Therefore, Z may dispose of the records by a sale to T, the parallel importer. Only if the initial sale from Y to Z violated the license would T's subsequent importation of the records into the United States fall within the scope of section 602(a) and outside the scope of section 109(a).

This interpretation leads to the same result whether one distributor or many stand between Y and T. A potential problem arises, however, if Y sells to T directly with no intermediaries. Conceptually, the result should not be altered. First, the American copyright owner faces competition from parallel imports no matter how many intermediaries purchase and resell the records. Second, the place of purchase is still within Y's marketing area. Finally, a contrary result may violate the American antitrust laws.116 Yet, a legal difference exists when a parallel importer purchases the goods directly, because if the purchase is deemed a breach of contract—a breach of the license agreement between X, the copyright owner, and Y, the foreign manufacturer—section 602(a) applies, and the importer is an infringer. This breach—if it is a breach—is precisely the circumstance addressed by section 602(a) because the American copyright owner has no other available cause of action. It is unclear, however, whether the purchase is a per se violation of the license agreement. The license agreement would have to bar explicitly the transaction for a violation to exist. This question requires thoughtful consideration if the situation arises.

Clearly, parallel importers must proceed with caution. Nonetheless, in the usual case where no license has been breached, section 602(a) does not apply.

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