Is There a Foreign "Right" of Price Discrimination Under United States Copyright Law? An Examination of the First-Sale Doctrine as Applied to Gray-Market Goods

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IS THERE A FOREIGN "RIGHT" OF PRICE DISCRIMINATION UNDER UNITED STATES COPYRIGHT LAW?

AN EXAMINATION OF THE FIRST-SALE DOCTRINE AS APPLIED TO GRAY-MARKET GOODS

I. INTRODUCTION

The Copyright Act grants the owner of a copyright a limited ability to control the distribution of actual copies of a protected work.\(^1\) This right in of itself is somewhat unusual, because unlike the other rights under copyright distribution alone does not entail any act of copying.\(^2\) The purpose of this right is to "protect a copyright owner's ability to control the terms on which her product enters the market by providing a remedy against anyone who distributes copies of her work without permission."\(^3\) By controlling this integral step in the release of an artist or inventor's work, the theory is that the originator receives a small level of insulation, allowing her to dictate the terms of how her work arrives into the stream of commerce, while also generating incentive for her to originate and release more works.\(^4\) Ultimately, the scheme fosters the United States' desire "[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[.]"\(^5\)

On the surface, the law which creates (and also limits) the distribution right is fairly clear. Under the "first-sale" doctrine, the owner possesses a limited distribution right, which exhausts as

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4. Id. at 8-155.
soon as the copyright owner willfully introduces her work to the world by sale or devise. 6 Once the copy is relinquished, the new owner can do just about anything with the copy other than create duplicates or make derivatives of that work. 7 This strikes a fluid and logical balance between transacting parties: the work’s creator receives the benefit of controlling how her work reaches the public, but the public gets to enjoy the work, sell it, give it away, recycle it, or dispose of it at whim. As a result, general welfare is increased with a new toy, song, or machine; yet, the originator’s rights are extended such that incentive exists to create additional works. 8 The trouble in this cycle arises when we step across borders into international commerce, foreign manufacturing, importation of goods, and foreign distribution rights under U.S. copyright law. In this ever-expanding field many unresolved questions have emerged, resulting in much confusion over the limitations of the right of distribution to foreign manufactured copies.

The U.S. recognizes foreign copyrights under existing treaty arrangements with participating countries, therefore, a foreign inventor or author may seek relief from copyright infringement under U.S. law. 9 Accordingly, one would expect that the Copyright Act applies equally to actions brought by foreign manufacturers as it does in lawsuits involving domestic firms. Yet, this is not the case. Under the current law, where a good bearing a valid U.S. copyright is imported from a foreign manufacturer, even when the good is lawfully sold by the manufacturer abroad, the first-sale doctrine does not apply. 10 As a result, foreign manufacturers have had success in copyright actions against parties that obtained their goods lawfully only to resell those goods to consumers in the U.S., when a domestic

7. ld.
manufacturing company would fail in a similar lawsuit. This article will argue that given the nature of the limited right of distribution under copyright and the alternatives that foreign manufacturers have in controlling the stream of gray goods through trademark, tariffs, contract, and licensing, courts should extend the first-sale doctrine to goods manufactured and sold abroad, because this comports with the purpose of the Copyright Act’s limited distribution right.

Section II addresses the various legal and practical concerns surrounding this particular area in the law. The discussion will cover the Copyright Act’s “first sale” doctrine and how it connects to the market phenomena of arbitrage, price discrimination, gray market goods, and trademark law. Section III discusses the subject case of this note, Pearson Education v. Liu, which considers a current application of the “first sale” doctrine as between a foreign-based plaintiff and a domestic defendant. Section IV analyzes this case and provides the argument that the first-sale doctrine should apply to goods manufactured and sold abroad. Section V addresses some alternate remedies available to foreign plaintiffs outside the Copyright Act.

II. BACKGROUND

A. The Limited Right of Distribution under the Copyright Act’s “First Sale” Doctrine

Section 106(3) of the Copyright Act of 1976 gives the owner of a copyright the exclusive right “to distribute copies or phonorecords of the copyrighted work to the public by sale or

13. The Copyright Act defines phonorecords as “material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term ‘phonorecords’ includes the material object in which the sounds are first fixed.” 17 U.S.C. § 101 (2006).
other transfer of ownership, or by rental, lease, or lending.”

Distribution rights, however, are not infinite and are limited by the provisions of sections 107 through 120. Section 109(a), often referred to as the “first sale” doctrine, limits section 106(3) by establishing that “the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”

The effect of this limitation is that the copyright owner’s exclusive distribution rights no longer have effect upon “anyone who owns ‘a particular copy or phonorecord lawfully made under this title’ and who wishes to transfer it to someone else or to destroy it.” In other words, once title passes lawfully from the copyright owner to another party, the copyright owner can no longer dictate the terms of distribution on that particular copy, and the new title holder can sell or dispose if it however they so choose.

The Supreme Court explained the reasoning behind this limitation in Bobbs-Merrill Co. v. Straus. The idea is that the copyright conferred upon an author does not include a right to control all future sales of the copyrighted work, because this “would give a right not included in the terms of the statute, and . . . extend [the Act’s] operation, by construction, beyond its meaning . . .”

In Bobbs-Merrill, the plaintiff was a book publisher who had inserted a notice in its books stipulating that any retail sale at a price under $1 would constitute a copyright infringement. The defendant retailer, who had ignored the notice, lowered the price

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16. For example, see Quality King Distrb, 523 U.S. 135 (discussing the doctrine).
19. Id.
21. Id. at 351.
22. Id. at 341.
without the plaintiff’s consent and resold the books.\textsuperscript{23} The court explained that the plaintiff’s right to “vend”\textsuperscript{24} applied only to the first sale of the copyrighted work to the retailer, because the owner’s copyright did “not create the right to impose, by notice . . . a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.”\textsuperscript{25}

This decision, in effect, made a critical distinction between the rights afforded under copyright and those rights that may be obtained by other means, such as contract.\textsuperscript{26} Namely, a copyright owner cannot bind a party to terms of resale of a lawfully purchased copy by virtue of its copyright, because this would unduly extend to the plaintiff a benefit that a copyright does not create.\textsuperscript{27} Once a party has lawfully obtained title over a copy, it can dictate the terms of resale, even though it cannot create new copies (duplicates) or publish new or derivative editions of the work.\textsuperscript{28} Thus, the distribution right is different from the other rights granted to a copyright owner,\textsuperscript{29} because the limitation on the right of first distribution or publication, takes into consideration the balance between an author’s monopoly over her work and a policy opposing restraints of trade and on alienation.\textsuperscript{30} The allowance of the right provides protection of the owner’s ability to “control the terms on which her work enters the market by providing a remedy against persons who distribute copies of her

\textsuperscript{23} Id. at 341-42.
\textsuperscript{24} This case was decided in 1908, and at that time the applicable statute read, in pertinent part, “that copyright owners had “the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing, and vending,”” their copyrighted works. \textit{Quality King}, 523 U.S. at 141 n.5 (quoting Copyright Act of 1891, ch. 565, § 4952, 26 Stat. 1106, 1107 (1891) (current version at 17 U.S.C. § 106) (emphasis added)).
\textsuperscript{25} \textit{Bobbs-Merrill}, 210 U.S. at 350.
\textsuperscript{26} See \textit{Quality King}, 523 U.S. at 143. See also H.R. Rep. No. 94-1476, \textit{reprinted} in 1976 U.S.C.C.A.N. 5659 (explaining that future dispositions of copyrighted items once sold can still be limited by the use of an express contract between the buyer and seller, but that actions for copyright infringement are unavailable under section 109’s limitation after the first sale).
\textsuperscript{27} \textit{Bobbs-Merrill}, 210 U.S. at 350.
\textsuperscript{28} Id.
\textsuperscript{29} See 17 U.S.C. § 106(1)-(6) for rights to control reproduction, derivatives, performances, public displays, and audio transmissions.
\textsuperscript{30} Nimmer & Nimmer, supra note 3, § 8.12[A], at 8-155.
work without permission” but allows the public free access to a created work once its title has passed from the original copyright holder by sale or gift.\(^3\)\

**B. Price Discrimination and Arbitrage in the Context of Copyright**

Once the author of a copyright decides that the time has come for her work to enter the marketplace, she may wish to employ certain sales strategies to maximize her profitability by engaging in price differentiation between certain markets. This practice, known as price discrimination, is a phenomenon that occurs when a vendor/seller differentiates sales of the same item based on different market demands and other specific regional conditions.\(^3\)\(^2\) For example, if a college student attending school in Chicago wants to drive home to New York for Thanksgiving, she will expect that gas prices at each stop will differ, even if she decides to stop only one brand of gas stations, say Station X. The price differences the student encounters will reflect the general wealth of the population in the surrounding area, varied market demand, and well as competition from other gas stations. Thus, in pricing its gas differently by region, Station X can optimize profits depending on where it sells.\(^3\)\(^3\) Price discrimination can also occur based on timing strategies, such as those employed in the release of Hollywood movies. Consumers are willing to pay a range of different prices to see the same movie based on: the time it is released in theaters; its subsequent release at a video store; and its lowering price as the movie becomes an older retail item.\(^3\)\(^4\)

Price discrimination, however, does not work unless three conditions are present.\(^3\)\(^5\) First, the seller must have power within

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35. *Id.* at 3-4; *see also* Ongchin, *supra* note 33, at 228-29 (discussing a
the market such that there are no equivalent substitutes that consumers can purchase at lower prices.\(^{36}\) Second, the seller must be able to differentiate between its customers, so it knows who is willing to pay more.\(^{37}\) Last, the seller must be able to limit "arbitrage."\(^{38}\) Arbitrage occurs when a customer buys in one place at lower cost (location A) and then resells somewhere else at a higher cost (location B), effectively pitting the seller’s own goods against one another and defeating the seller’s ability to extract a higher price from consumers at location B.\(^{39}\) Under copyright, goods often have a copyrightable element in the form of an affixed label, manual, or content of a CD, book, or film.\(^{40}\) As such, there exists a limited right to control distribution under the Copyright Act.\(^{41}\)

Nevertheless, the ability for someone to engage in arbitrage is not usually illegal under copyright, because once a person purchases a lawful copy, he can resell or dispose of the property at whim under the first-sale doctrine.\(^{42}\) Thus, a seller can only benefit from the principles of price discrimination—at least within the context of copyright—by finding solutions to limit arbitrageurs from purchasing in one location and reselling their copyrighted product in a different region where the price of the good is higher.\(^{43}\)

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\(^{36}\) Fisher, \textit{supra} note 8, at 3-4.

\(^{37}\) Id.

\(^{38}\) Id.

\(^{39}\) Id.

\(^{40}\) See, e.g., \textit{Omega S.A.}, 541 F.3d at 983-84 (where the copyright component was an Omega logo on the backside of the watches in question); \textit{Pearson Educ.}, 656 F. Supp. 2d at, 408 (where the goods were textbooks containing a wealth of copyrighted material); \textit{Quality King}, 523 U.S. at 140 (noting how unusual it is for gray market cases to arise under copyright, because there is no "claim that anyone has made unauthorized copies").

\(^{41}\) 17 U.S.C. §106.

\(^{42}\) See \textit{Bobbs-Merrill}, 210 U.S. at 351; \textit{see also} 17 U.S.C. §109(a).

\(^{43}\) Fisher, \textit{supra} note 8, at 3-4.
C. International Importation of Gray Market Goods and International Arbitrage

On an international scale, the principles of price discrimination and arbitrage are also applicable, but are complicated through the parallel importation of "gray market" goods.⁴⁴ Companies engaging in international commerce commonly sell the same products at one price in their own country, but then sell the same items at a higher or lower price in other countries to account for differing demands and consumer spending propensities.⁴⁵ This in turn creates incentive for arbitrageurs to purchase a good abroad at a low price and then sell the same good in the U.S. at a mark-up, but below the price of that good as priced by the original vendor.⁴⁶ These imported goods, known as "gray market" goods, are not pirated copies but rather are legally obtained goods that are imported into the United States without the consent of the copyright owner.⁴⁷ When an arbitrageur imports a cheaper gray market good into a different market where the same good is more expensive, a vendor’s ability to engage in price discrimination is frustrated, because the products directly compete with one another and rational consumers will generally purchase the cheaper copy.⁴⁸

D. Gray Market Issues that Arise under the First Sale Doctrine

Application of the first-sale doctrine serves as an affirmative

⁴⁴. See Ryan L. Vinelli, Note, Bringing Down the Walls: How Technology is Being Used to Thwart Parallel Importers Amid the International Confusion Concerning the Exhaustion of Rights, 17 CARDOZO J. INT’L & COMP. L. 135, 141-42 (2009) (noting that: “[i]n order for price discrimination to be effective, the seller must be able to control the output and price of his or her product, the target markets must be segregated from each other, and the initial purchasers must be prohibited from reselling.”).


⁴⁶. Vinelli, supra note 44, at 144.

⁴⁷. See Quality King, 523 U.S. at 153 (citing K Mart Corp v. Cartier, Inc., 486 U.S. 281 (1988), which defined gray market goods in terms of trademark law, but which also applies to Copyright).

⁴⁸. See Fisher, supra note 8, at 5 (discussing the requirements to engage in effective price discrimination).
defense to a copyright action challenging the unauthorized redistribution of a lawfully purchased copy. The doctrine is relatively straightforward when a U.S. copyrighted work's first sale has occurred in the United States and title has clearly passed to a party other than the original copyright owner. Under those circumstances, the distribution rights of the original copyright owner are effectively exhausted.

The situation becomes more complex, however, when an international component is thrown into the mix, especially in the context of parallel importation of gray market goods. Section 109(a) shields a defendant from liability for the resale of lawfully purchased copies, so long as the copied or phonorecords were "lawfully made under this title." What happens then, when the manufacture and/or title transfer occurs outside the borders of the United States?

Under such circumstances, another provision of the Act, section 602(a) becomes relevant. This provision states: "Importation into the United States, without the authority of the owner . . . of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under 501 . . . ."

Proper application of the law is somewhat unclear for a few

51. On an international level, the U.S. recognizes international copyrights pursuant to the Berne Convention for the Protection of Literary and Artistic Works as U.S. copyrights. The convention required that a certain minimum standard of copyright protection be recognized between member nations whereby "members give other member states' citizens the same national treatment as their own citizens." Vinelli, supra note 44, at 146.
52. 17 U.S.C. § 109(a) (emphasis added).
54. Id. Section 501, states in relevant part:

Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be.

reasons. First, the exact meaning of the “lawfully made under this title” clause in section 109(a) has been a difficult provision for courts to define in the context of foreign manufactured works. Second, sections 109(a) and 602(a) are in seemingly direct conflict. Under 602(a), a plaintiff author can bring an action under the Copyright Act against any defendant who imports a copy of her work without authority. However, under section 109(a), if the author of the work had already made a “first sale,” she can no longer claim infringement under 602(a). For these reasons, courts have struggled in applying a first-sale defense, when the copyright bearing work in question has been imported into the United States from abroad. In applying this vexing trilogy of statutes: 106(c), 109(a), and 602(a), courts have reached differing conclusions and interpretations of the law based on few scenarios that can arise. 55 A few case illustrations should suffice to demonstrate the complexity of this area of the law:

1. Scenario One: the Copies in Question are Manufactured in the U.S. by the Owner, Sold Abroad, but then Re-imported without the Consent of the Owner.

In 1998, the Supreme Court, in recognition of the conflict concerning copyright, the first sale doctrine, and gray market imports granted certiorari to decide *Quality King Distributors, Inc. v. L’anza Research International, Inc.* 56 In that case, a manufacturer of high-end hair care products from California sold both domestically and abroad with copyrighted labels affixed to his products. 57 To take full advantage of both foreign and domestic markets, the manufacturer decided to sell his products to distributors in the U.S. at one price, but shipped and sold others abroad at costs that were 35% to 40% lower than they were domestically. 58 The plaintiff brought an infringement action against defendant U.S. distribution company when the defendant purchased the plaintiff’s products abroad and then sold them in the

55. See *Quality King*, 523 U.S. 135; *Omega S.A.*, 541 F.3d 982; *Pearson Educ.*, 656 F. Supp. 2d 407.
56. *Quality King*, 523 U.S. at 140.
57. Id. at 138-39.
58. Id.
U.S. to retailers at lower prices than those than plaintiff's "authorized" retailers. Thus, the plaintiff's own products had come into direct competition with one another.

The plaintiff manufacturer claimed that the defendant violated his copyright pursuant to section 602(a), insisting that section 109(a) did not apply as a defense to a 602(a) infringement, as this would render 602(a) meaningless. The Court rejected this argument, reasoning that it was highly significant that section 602(a) specifically mentions that the importation is an infringement of the rights "under section 106." As such, the right to distribute is a limited by the provisions from section 107 to 122, which includes the first-sale doctrine under § 109(a). In addition, the Court also held that section 109(a) can apply to an imported copy, without rendering section 602(a) meaningless, because it allows actions against non-owners as well as pirated goods. The entire purpose 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." Consequently, the plaintiff had exhausted his right of distribution by selling his products abroad (which were "lawfully made under this title"), and could not seek relief under section 602(a) when defendant had re-imported his products into the U.S. for resale. Thus, post-Quality King, the first-sale doctrine is an affirmative defense to a 602(a) infringement action, where an item bearing as U.S. Copyright is re-imported into the United States. This case however, left unaddressed the issue of whether the defense applies when the good is not a re-import, but is instead manufactured and

59. Id.
60. Id. at 140. The Plaintiff reasoned that 602(a) is superfluous if it does not cover non-piratical imports only, because the Act already protects an author from piratical importers under sections 106 and 107.
61. Id. at 144.
62. Quality King, 523 U.S. at 144.
63. The term "Pirated goods" applies to those made by "a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful . . . [and] copies that were 'lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." Id. at 147.
64. Id. at 152.
65. Id. at 154.
sold abroad.  

2. Scenario Two: the Copies are Manufactured Abroad, Sold Abroad, but Imported and Sold in the U.S. without the Consent of the Owner.

In 2008, the Ninth Circuit tried to entertain the question unaddressed by the Supreme Court in Omega S.A. v. Costco Wholesale Corporation. The issue was whether the decision in Quality King overruled precedent in the Ninth Circuit, in which the “first sale” doctrine only applies to copies initially made or sold in the United States. The plaintiff was a watch company who brought a copyright infringement action under section 602(a) against a defendant wholesaler, who had obtained and sold Plaintiff’s watches, bearing a U.S.-copyrighted globe design, to consumers in California. The plaintiff, based overseas, first sold the watches to authorized foreign distributors, and then unidentified third parties eventually purchased the watches on the gray market and sold them to a New York company, which in turn sold them to the defendant, who finally sold them in California.

The Ninth Circuit distinguished Quality King, and held in favor of the foreign plaintiff watch manufacturer, insisting that current precedent in the jurisdiction, which disallowed the defense, was not “clearly irreconcilable” with the Supreme Court’s reasoning.

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66. In her concurring opinion, Justice Ginsburg noted that: “[t]his case involves a ‘round trip’ journey . . . . I join the Court’s opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.” Id. (Ginsburg, J., concurring).
67. 541 F.3d 982 (9th Cir. 2008).
68. Id. at 983.
69. Id. at 983-84.
70. Id. at 983. The court in Omega described the lineage of cases that existed in its jurisdiction in this area. See BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477 (9th Cir. 1994); and Denbicare U.S.A. Inc. v. Toys “R” Us, Inc., 84 F.3d 1143 (9th Cir. 1996). In BMG, the defendant purchased copies of the plaintiff’s copyrighted sound recordings, which were manufactured abroad, and imported them without the copyright owner’s permission before selling them to the public. BMG, 952 F.2d at 319. The court held that the “first sale” doctrine was inapplicable as a defense, because it construed the terms “lawfully made under this title” (under §109(a)) as applying to copies that were both first made and first sold in the
First, the court found it significant that in *Quality King* the goods were re-imported goods, where the copies were initially manufactured in the U.S. before being sold abroad.\textsuperscript{71} As such, the court interpreted the Supreme Court decision as equating "lawfully made under this title" with "U.S.-copyrighted works that are made domestically."\textsuperscript{72} Second, the court also expressed concern that imposing the first-sale doctrine defense against the plaintiff would violate the presumption against extraterritorial application of U.S. law.\textsuperscript{73} Given these two explanations, the court determined that

\textsuperscript{71} *Id.*. Later, in *Parfums Givenchy*, which involved similar facts, the court created an exception to *BMG* in recognition of the problem that *BMG* appeared to give foreign-made copies greater protection than those manufactured domestically. *Parfums Givenchy*, 38 F.3d at 482 n.8. As a result, the court allowed the "first sale" doctrine to apply to copies not manufactured abroad, so long as the owner authorized the first sale in the U.S. *Id.* at 481. In *Denbicare*, the court simply applied the exception from *Parfums Givenchy*, and held that the first sale defense was an affirmative defense to a claim brought by a plaintiff whose copies were produced in Hong Kong, but voluntarily sold in the U.S. *Denbicare*, 84 F.3d at 1145-46.

\textsuperscript{72} *Omega S.A.*, 541 F.3d at 987; see also infra text accompanying notes 93-97 (discussing the presumption against "extraterritoriality").

\textsuperscript{73} *Omega S.A.*, 541 F.3d at 989. The court also pointed to an illustration set forth in a prior Supreme Court decision, where Justice Stevens explained that:

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

*Quality King*, 523 U.S. 135, 148 (1998). The *Omega* court took this hypothetical to mean that "lawfully made under this title" refers exclusively to copies made in the U.S. *Omega*, 541 F.3d at 989.

\textsuperscript{73} *Omega*, 541 F.3d at 987. See below for a detailed explanation of the presumption (and why, for that matter, it really is not a concern).
application of current law in the jurisdiction was not "clearly irreconcilable" with the holding in Quality King. Therefore, the court disallowed the first sale defense and found in favor of the Swiss watch manufacturer on its 602(a) claim.\textsuperscript{74}

\textit{E. Gray Market Goods under Trademark law and the Tariff Act}

To complicate the matter even further, other areas of the law are also implicated in this field. Gray market goods also are also a subject of litigation under general commercial and trademark law. In 1922, Congress enacted a section of the Tariff Act to combat importation of certain gray market goods, when such goods bear trademarks that infringe on U.S. Trademark holders.\textsuperscript{75} Section 526 of the Tariff Act prohibits importing "into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States . . . ."\textsuperscript{76} In fact, accompanying regulations put forth by the Customs Service state that such goods "are subject to seizure and forfeiture as prohibited importations."\textsuperscript{77} There is an exception however, that allows such importation where there is a "common control" or common ownership between the authorized U.S. importer and the foreign manufacturer.\textsuperscript{78}

Trademark protection, unlike copyright, stems from Congress' authority to regulate commerce.\textsuperscript{79} In terms of commercial welfare and general profitability, gray market sales can harm a company's trademark and goodwill, because: (1) gray market retailers make their sales without necessarily considering the brand name or its image; (2) recourse may not exist to a purchaser of a gray good if

\textsuperscript{74} Id.
\textsuperscript{75} 19 U.S.C.A. § 1526(b) (West 2009); See ROBERT HUGHES, 4 LEGAL COMPLIANCE CHECKUPS § 28:39 (2009).
\textsuperscript{76} 19 U.S.C.A. § 1526(a). It should be noted that an exception for personal use has been added since 1978 under subsection (d).
\textsuperscript{78} 19 CFR § 133.21(c)(2) (1987).
that good breaks or does not work properly; (3) the good may differ physically because the brand owner sells a different version in different markets; and the appearance of a good in a "discount" store or the like may dilute the prestige or image of the brand. 80

The Supreme Court in K-Mart v. Cartier 81 considered the limitations on the importation of gray goods into the United States. The Court discussed three common ways in which gray good are typically imported into the U.S under trademark. In the first scenario, a domestic firm purchases from an independent foreign firm the rights to use the latter's trademark and register it as a U.S. Trademark, enabling the firm to sell foreign manufactured products in the U.S. However, the foreign firm then imports goods into the U.S. in competition with the trademarked goods. Under this scenario, the Court determined that unauthorized importer of these goods would be barred at the border, pursuant to the intent of the Tariff Act. 82 Under a second scenario, after the U.S. Trademark for goods manufactured abroad is registered by a domestic firm that is a subsidiary, parent, or the same as the foreign manufacturer, goods bearing an identical trademark as the one in the U.S. are imported. Under this scenario, a gray good is allowed as an import into the U.S. 83 Under a third scenario, a U.S. trademark holder authorizes a foreign manufacturer to use the mark, on the condition that the foreign manufacturer does not import the trademarked goods into the U.S. Under this circumstance, gray goods are invalid, and are subject to seizure. 84

Thus, the focus in these scenarios is on the relationships between the foreign manufacturer and the domestic trademark owner. Where a U.S. company owns the mark, it receives protection from gray market goods competing with its own goods. A foreign company however, is not protected unless it sells the right of its foreign mark to a U.S. company for registration in the U.S., and it must ensure that it is not "commonly owned" with the U.S. trademark holding company. 85

80. Id. at 570-71.
82. Id. at 281, 292.
83. Id.
84. Id.
85. See generally id.
Under the Lanham Act, the foreign company can also safeguard itself from gray good arbitrage is by changing the physical good itself. If a trademark holder can show that the gray good imported itself is “materially different” than the authorized goods it sells in the United States, the company can enjoin the import and seek damages under the Act. The rationale is that under these circumstances, there is a real probability of consumer confusion, because people who purchase the materially different good are apt to believe the U.S. trademark holder has authorized the differences in the product.

86. Lever Bros. v. United States, 981 F.2d 1330, 1338 (D.C. Cir. 1993). In Lever Bros., the court held that the U.S. trademark holder for soap and dish detergent lawfully could prevent the importation of similar, but not identical, products manufactured in Britain by an affiliate and then imported into the U.S. The court noted that the § 42 of the Lanham Act serves to combat deceit and consumer confusion, and when “identical trademarks have acquired different meanings in different countries, one who imports the foreign version to sell it under that trademark will . . . cause the confusion that Congress sought to avoid.” Id.

87. Id. For example, in Appalachian Artworks, Inc. v. Granada Elecs., 816 F.2d 68 (2nd Cir. 1987), the Second Circuit granted an injunction to the owner of the United States trademark for Cabbage Patch Kids dolls against the importation of Cabbage Patch Kids dolls manufactured in Spain for the Spanish market. Although the Spanish dolls looked very similar to the domestic ones, the Spanish dolls lacked certain features (in particular, the ability to be "adopted" by the owner) that had sparked consumer interest and sales in the United States. The court held that the domestic trademark owner was entitled to an injunction because the domestic trademark owner's goodwill was injured by consumer association of its mark with the less desirable Spanish dolls. Id. at 73. Similarly, in Societe des Produit Nestle, S.A. v. Casa Helvetia, Inc., 982 F.2d 633 (1st Cir. 1992), the First Circuit granted an injunction to the owner of the United States trademark for Italian-made Perugina chocolates against the parallel importation of Venezuelan-made Perugina chocolates. The court catalogued a series of differences between the Venezuelan imports and the products sold by the trademark owner, including differences in the composition of the chocolate, the packaging, the price, and the conditions under which the chocolates were transported and stored. The court held that the differences were likely to result in consumer confusion and that the trademark owner was entitled to injunctive relief. Id. at 644.
"FIRST-SALE" & FOREIGN GOODS

F. The Presumption against Extraterritoriality

A final concern in this area of the law is the presumption against extraterritorial application of U.S. law to a foreign company. In both Omega and Quality King the courts expressed concern over this particular issue. As a general axiom, the presumption against extraterritoriality prohibits U.S. courts from regulating foreign conduct under the Copyright Act; thus, if an infringement of copyright occurs abroad, courts are expected to refrain from imposing U.S. jurisdiction over the matter. However, it becomes more difficult to apply the presumption when conduct related to infringement occurs both domestically and abroad. The Ninth Circuit in Subafilms. Ltd. v. MGM-Pathe Communications Co. applied the presumption when all of the acts of infringement occurred abroad but authorization to engage in the foreign conduct came from within the U.S. On the other hand, GB Marketing USA, Inc. v. Gerolsteiner Brunnen GmbH & Co., refused to apply the presumption when a foreign company shipped infringing goods to the U.S.

III. SUBJECT OPINION: PEARSON EDUCATION, INC. V. LIU

In Pearson Education, a similar scenario arose to that in Omega; however, the court in the former applied a different stream of logic than that of the Ninth Circuit.

88. In her concurring opinion in Quality King, Justice Ginsburg noted that the court did not “today resolve cases in which the allegedly infringing imports were manufactured abroad.” She then cited two treatises discussing the limitation on extraterritorial application of the Copyright Act. Quality King, 523 U.S. at 154 (Ginsburg J., concurring) (citing W. Patry, Copyright Law and Practice 166-170 (1997 Supp.); and P. Goldstein, Copyright § 16.0, pp. 16:1-16:2 (2d ed. 1998)). The court in Omega expressed a similar concern. Omega, 541 F.3d at 987-88.

89. GOLDSTEIN, supra note 9, at 18:5-18:6.
90. Subafilms. Ltd. v. MGM-Pathe Commc’ns Co., 24 F.3d 1088 (9th Cir. 1994).
91. Id. at 1089
93. Id. at 773.
A. Facts and Procedural History

This case came before the United States District Court for the Southern District of New York on the defendants’ motion to dismiss, alleging that the first sale doctrine created an affirmative defense to the plaintiffs’ infringement claims under 602(a). The plaintiffs were a London-based textbook publisher, who sold both in the U.S. and abroad. The U.S. versions were of higher quality, printed with glossy hardcover bindings, and contained supplemental materials such as CD-ROMs or passwords to restricted websites. The foreign editions, on the other hand, had thinner paper, fewer ink colors, lower-quality photographs, and different hard-cover and jacket designs. The publishers initiated the action when defendants began purchasing the foreign editions, importing them, and selling them to U.S. customers. The publishers sought injunctive relief, damages, and attorney’s fees. The defendants argued that their actions were shielded by the “first sale” doctrine, given that they had made authorized purchases of the copies they later sold.

At issue for the court was whether the lawful purchase by unauthorized importation and sale of the foreign manufactured copies violated the foreign U.S. copyright owner’s exclusive distribution rights under 602(a).

B. The Court’s Analysis

Although the court hinted at possibly allowing the first-sale doctrine as a defense, it ultimately concluded that under Quality King the defense was unavailable. In examining the plain language of the Act, the court found that two requirements must be satisfied for the first sale doctrine to apply. First, the person

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95. Id. at 408.
96. Id.
97. Id.
98. Id.
99. Id.
101. Id.
102. Id. at 416.
claiming the defense must hold lawful title to the work. Second, the copy must be “lawfully made under this title.” 103

Because the first requirement was not at issue, the court turned to the second criteria and attempted to define the “lawfully made under this title” provision. Looking to the Third Circuit, 104 the court determined that this provision has nothing to do with the location of manufacture, but rather with the “scope of the rights created by the Act” regardless of where the copy is made. 105 Under this logic, the court determined that the copies in question could, under the scope of the Act, be considered lawfully made under U.S. Copyright title. 106 After the court examined the purpose of the first-sale doctrine, which was to prevent unreasonable restraints on trade and alienation and discussed the negative economic ramifications of not extending the doctrine to gray market imports, 107 the court determined that “nothing in § 109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies manufactured in the United States.” 108

Nevertheless, the court turned its attention to “unanimous dicta” from Quality King, and reviewed the following hypothetical employed by the Supreme Court:

If the author of the work gave the exclusive United States distribution rights –enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition . . . presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale

103. Id. at 412.
106. Id. at 415.
107. The court explained that “[g]ranting a copyright holder the unlimited power to control commercial transactions involving copies of her work creates high transaction costs regardless of where the copy is manufactured; indeed, the transaction costs of negotiating the terms of future sales will almost certainly be higher when a copy is manufactured abroad.” Id. at 413 (emphasis in original).
108. Id. at 415.
doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under §602(a) (or, for that matter, to an action under §106(3), if there was a distribution of the copies).109

The *Pearson Education* court took this hypothetical to suggest that the first-sale defense does not apply where "books manufactured by a foreign publisher for sale abroad are imported into, and distributed within, this country without the consent of the U.S. copyright holder."110 In literally following the hypothetical, it concluded that under *Quality King* "the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad."111 Accordingly, it held in favor of the plaintiff textbook publishers, disallowed the first sale defense, and denied the motion to dismiss.112

IV. ANALYSIS

The *Pearson Education* decision to disallow the first sale doctrine defense is problematic, and creates an imbalanced application of the first sale doctrine based on location of manufacture. Not only does the holding conflict with general copyright principles, but also creates added protections for those who manufacture and sell abroad. Ultimately, the decision gives foreign manufacturers an unwarranted level of insulation, allowing them to engage in price discrimination where domestic manufacturers cannot. As a result, U.S. consumers are denied access to purchase goods at a competitive price and U.S. companies are subject to lawsuits from unexpected places.113 In view of these consequences, courts should allow the first sale defense in these cases. Where a first sale occurs, the right of distribution should exhaust.

109. *Id* at 415, citing *Quality King*, 523 U.S. at 148.
110. *Id.* at 416.
112. *Id.*
113. *See Omega*, 541 F.3d at 983-984.
"FIRST-SALE" & FOREIGN GOODS

A. "Lawfully Made Under this Title"

The first-sale doctrine applies to copyrighted works that are "lawfully made" under the Copyright Act. As seen in both the subject opinion and background cases, this phrase has been interpreted in few different ways, resulting in alternate judicial approaches in analyzing gray market imports under copyright. On the one hand, the Ninth Circuit in Omega held that a good needs to be manufactured in the U.S. or at least sold in the U.S., in order for the first sale defense to apply. On the other hand, the court in Pearson Education focused more on the "scope of the rights created by the Act," regardless of where the copy is made. Unfortunately, this emphasis on location of manufacture makes little sense under copyright. Rights that are not manifest in tangible goods, but only embodied within them should not arise based on the location of manufacture or sale of a particular good.

In fact, section 202 of the Copyright Act states specifically that: “[o]wnership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.” The rights under the Act do not apply to material goods per se, but instead to the right to control reproduction, derivatives, performances, public displays, audio transmissions, and first distribution. Therefore, the reasoning of the court in Pearson Education, which generally adheres much more closely to this non-physical “scope of rights” principle,

Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

115. Omega, 541 F.3d at 989.
117. Id. at 416.
118. 17 U.S.C. § 202 (emphasis added). This section continues on to say:

Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

Id.
despite its ultimate adherence to Supreme Court dicta, should be the standard.

The right of distribution under copyright does not stem from the goods themselves, but instead it flows from the bundle of rights that the Act provides to creative persons as incentive to continue in their creative endeavors. The limitation on the right, embodied in the first-sale doctrine, strikes the appropriate balance: it allows a certain amount of protection over an originator's work but tempers that right against a policy opposing restraint of free trade and alienation. As the Pearson Education court stated: "nothing in section 109(a) or the history, purposes, and policies of the first-sale doctrine, limits the doctrine to copies manufactured in the United States." This shift in focus to a lawful right under the Act stems from the location of manufacture creates an imbalanced application of the first sale doctrine, and unfairly favors foreign manufacturers to whom the doctrine does not apply.

B. Foreign Manufacturers' Additional Right under Copyright: the "Right" of Price Discrimination

With textbook sales, the goods at issue in Pearson Education, price discrimination was possible because the seller could charge domestic and foreign buyers different prices based on the different values buyers placed on the goods. Textbooks in the U.S. cost twice as much as they do in England, because the schools in the U.S. require their students to purchase them, whereas in England textbook purchase is optional. As a result, the publisher in Pearson Education tailored its product to its British market by selling a cheaper, less glossy version without supplements, as a way to meet the inferior market demands. In the U.S., the publisher was able to sell a more expensive product, knowing that more students would be required to purchase the textbooks.

120. U.S. Const., art. I, §8, cl. 8.
121. NIMMER & NIMMER, supra note 3, at 8-155.
123. See Ongchin, supra note 33, at 229.
124. Fisher, supra note 8, at 7.
126. Id.
is because price discrimination works where the three conditions are present: (1) the seller has power within the market such that there are no equivalent substitutes that consumers can instead purchase at lower prices; (2) the seller can limit "arbitrage"; and (3) the seller can differentiate between its customers, so it knows who is willing to pay more. 127 So long as all three prongs are met, the seller can differentiate between markets and turn a larger profit. 128 In *Pearson Education*, however, the second prong was foiled so that when the defendant arbitrageur took advantage of the low foreign price and re-sold in the U.S, the vendor's ability to discriminate was diminished. 129 As a result, the publisher initiated the litigation, and was able to rely on U.S. copyright to enforce the perimeters under which price discrimination was initially possible.

The success of the plaintiff in this case is troubling. In essence, the *Pearson* publisher was able to use U.S. copyright law and to create an additional right that firms manufacturing in the U.S. cannot similarly enjoy. Under the first-sale doctrine, once a domestic firm places its goods in the stream of commerce through a sale, its rights to further control distribution or resale of its goods are exhausted. 130 Under *Pearson Education* and presumably *Quality King* as well, the first-sale doctrine does not apply to a foreign manufactured product. As a consequence, a firm that continues to manufacture its goods abroad and also makes its first sale abroad can create for itself the added right to insulate price discrimination practices by initiating an action in copyright. On the other hand, a firm that manufactures or sells domestically must contend with the market forces that limit its ability to discriminate in pricing. This divide is hardly equitable.

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128. *Id.*
129. See *Pearson Educ.*, 656 F. Supp. 2d at 408.
C. The Unwarranted Additional "Right" Stems from Judicial Apprehension of Unjustifiable Extraterritorial Application of U.S. Copyright Law

A possible explanation for the inequitable application of the first-sale doctrine stems from the fact that courts have commonly operated with underlying concern for fear of violating the presumption against extraterritoriality. Under this presumption, if an infringement of copyright occurs abroad, courts are expected to refrain from imposing U.S. jurisdiction over the matter. The presumption against extraterritoriality, however, does not seem to logically follow with regard to the situations presented in Quality King, Omega, and Pearson Education. In fact, courts should abandon discussions related to extraterritoriality in this field altogether. First, the "infringement" in these cases occurs in the United States, which renders U.S. law entirely applicable. Second, the principles defining the United States' recognition of foreign copyrights strongly suggests that since the law unfairly grants foreigners extended rights, the first sale doctrine should serve as a defense to 602(a) gray market imports.

Courts need only look to the predominant theories underlying U.S. recognition of foreign copyrights in the first place. Under the Berne Convention, the Universal Copyright Convention, and the TRIPs Agreement, abiding parties, including the United States, follow the principle of "national treatment," defined as a "basic principle of most of the international conventions relating to copyright ... according to which the owners of such rights shall enjoy ... in Contracting States other than the country of origin, the same rights as are enjoyed by nationals of the country where protection is claimed." Furthermore, these "same rights" are limited by the principle of reciprocity, which provides that the "obligation of a member state does not extend

132. See Quality King, 523 U.S. at 154 (Ginsburg J., concurring); see also Omega, 541 F.3d at 987-88.
133. GOLDSTEIN, supra note 9, at 18:5-18:6.
134. Id. at 18:16.
135. Id. at 18:16 (citing World Intellectual Property Organization, Glossary of Terms of the Law of Copyright and Neighboring Rights 165 (1980) (emphasis added)).
... with the consequence that foreign nationals may receive better treatment for their works than will nationals of the country in which they seek protection. As a consequence, when the goal is to grant the same reciprocal rights in the interest of fairness and quid pro quo, it seems illogical to extend additional price discrimination privileges to companies that manufacture abroad. When a foreign manufacturing firm files suit in the U.S. under U.S. Copyright law, the principles of national treatment and reciprocity call for an equal application of U.S. law. In other words, if there is a first sale, the right of distribution should exhaust, no matter where the copy is manufactured and sold.

Moreover, section 104 of the Copyright Act specifically states that:

No right or interest in a work eligible for protection under this title may be claimed by virtue of, or in reliance upon, the provisions of the Berne Convention, or the adherence of the United States thereto. Any rights in a work eligible for protection under this title that derive from this title, other Federal or State statutes, or the common law, shall not be expanded or reduced by virtue of, or in reliance upon, the provisions of the Berne Convention, or the adherence of the United States thereto.

The provision suggests that the United States membership in the Berne Convention and other international treaties does not stem from a desire to extend additional benefits to foreign manufacturers. Instead, U.S. involvement tends to favor a reciprocal approach in extending protections of the Copyright Act to foreign manufacturers. With this in mind, it makes little sense to deny equal application of the first-sale doctrine defense, based on whether a sale occurs domestically or abroad.

136. Id. at 18:17.
137. 17 U.S.C. § 104(c) (emphasis added).
D. Negative Impact of the Unequal Application of the First Sale Doctrine

This additional “right” of price discrimination under copyright for foreign manufacturers has negative consequences. If “the scope or duration of an intellectual property right ‘over-compensates’ for the cost of innovation, then the exercise of such rights could sufficiently restrict or distort competition and trade.”\(^1\)\(^3\)\(^8\) In order to further the goal of promoting the progress of science and the arts, certainly a level of protection is essential to give incentive to creative persons as well as businesses. However, one of the key functions of the first-sale doctrine is to balance the rights of copyright owners and consumers—it “should not be understood as a limitation on rights, but as an essential legal doctrine for the construction of competitive markets driven by intellectual property.”\(^1\)\(^3\)\(^9\)

As the court in *Pearson Education* noted, economics justify extending the first-sale doctrine whenever an initial sale takes place.\(^1\)\(^4\)\(^0\) The main reason for this principle is that the added protection granted to a company who manufactures abroad creates incentives for U.S. companies to also go and manufacture their own goods abroad, rather than in the U.S. In turn, this adds to transaction costs that are then levied from consumers.\(^1\)\(^4\)\(^1\)

This negative incentive runs contrary to the general norm that “intellectual property should be shaped to maximize social

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140. *Pearson Educ.*, 656 F. Supp. 2d at 413.
141. *Id.; see also* Saravia, supra note 139, at 409 (illustrating, by way of a hypothetical, a situation where a recording company has two CD manufacturing plants: one in San Diego, California, and the other just across the border in northern Mexico, only a few miles away. In such a situation, the company would benefit from an additional distribution privilege were it to sell CDs manufactured in Mexico to its customers in San Diego, which would give it a chance to exact a higher price from consumers, because of their limited ability to further alienate their purchase.).
welfare.'" Where manufacturing costs go up strictly to preserve foreign companies' price discrimination practices, social welfare is diminished because those costs must be absorbed by consumers. Price discrimination as a tool for profit; therefore, it must be limited by market forces and not by artificial judicial protections. This is only fair practice. For instance, in Omega, the defendant Costco purchased in good faith a shipment of watches from a New York company only to find out when they were sued, that these watches had been obtained on the gray market from a company all the way in Switzerland. But how was Costco to avoid subjecting itself to suit? Was it supposed to verify all prior sale transactions involving these watches before selling them to its customers? This would be an outrageous requirement to avoid a lawsuit, and an outright restraint on trade and alienation. As the court noted in Pearson Education, "a prohibition against selling books manufactured in China is just as much a restraint on trade and alienation as a prohibition against selling books manufactured in Chicago." Furthermore, there are alternate ways for foreign manufacturers to protect the integrity of their products other than in copyright.

V. ALTERNATE REMEDIES

The success of foreign manufacturing plaintiffs in these cases is particularly bothersome given the range of alternate remedies available under other legal theories. A variety of claims exist under trademark, the tariff act, contracts, and licensing.

A. Alternatives in Trademark and the Tariff Act

Rather than retaining the ability to engage in price discrimination through copyright, foreign manufacturers can rely on trademark law. An action under this theory shifts the focus more appropriately onto the goods themselves. Trademark law

142. Fisher, supra note 8, at 21.
145. Id.
focuses on protecting businesses from "consumer confusion" based on the nature of the product itself, rather than some copyrightable component contained within.\textsuperscript{146}

There are two ways for foreign manufacturers to accomplish this. First, they can follow the Supreme Court decision in \textit{K Mart v. Cartier}, which held that the Tariff Act allows foreign manufacturers to sell the rights of its foreign mark to a U.S. company for registration of Trademark in the U.S. and ensure that it is not "commonly owned" with the U.S. trademark holding company.\textsuperscript{147} Section 526 of the Tariff Act prohibits importing "into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States . . . ".\textsuperscript{148} Such goods "are subject to seizure and forfeiture as prohibited importations."\textsuperscript{149} A foreign firm could restrict the import of gray goods into its U.S. market, so long as it not subject to "common control" with the authorized U.S. importer.\textsuperscript{150} Under this type of scenario, the foreign manufacturer benefits because there is assurance that its goods will not be subjects of a gray market. In addition, U.S. companies also profit, because the foreign manufacturer pays them to have the mark registered under the U.S. company's name. U.S. consumers also benefit because there is an incentive for the U.S. company to uphold the quality of the product bearing the trademark it has endorsed through purchase, and there is recourse if the good breaks or does not work properly.\textsuperscript{151}

The second alternative exists under the Lanham Act. If a trademark holder can show that the gray good imported itself is "materially different" than the authorized goods it sells in the United States, the company can enjoin the import and seek damages under the Act if it has a registered trademark in the

\begin{itemize}
\item\textsuperscript{146} \textit{Lever Bros.}, 981 F.2d at 1338.
\item\textsuperscript{147} \textit{K Mart}, 486 U.S. at 292.
\item\textsuperscript{148} 19 U.S.C.A §1526(a). It should be noted that an exception for personal use has been added since 1978 under subsection (d).
\item\textsuperscript{149} 19 CFR § 133.21(b) (1987). \textit{See also K Mart}, 486 U.S. at 288 (1988).
\item\textsuperscript{150} 19 CFR § 133.21(c)(2).
\item\textsuperscript{151} \textit{See Mohr}, \textit{supra} note 79, at 570-71 (discussing how commercial welfare and general profitability are harmed by gray market imports).
\end{itemize}
U.S. To accomplish this, a foreign firm can register Trademark through a domestic firm that is a subsidiary, parent, or the same as the foreign manufacturer. Then, the company need only differentiate its product in the U.S. with the ones that it sells abroad.

There are a number of cases that already support this option. In Appalachian Artworks, Inc., the Second Circuit granted an injunction to the owner of the United States trademark for “Cabbage Patch Kids” to stop the importation of Cabbage Patch Kids dolls manufactured in Spain for the Spanish market. Similarly, in Societe des Produit Nestle, the First Circuit granted an injunction to the owner of the United States trademark for Italian-made Perugina chocolates against the parallel importation of Venezuelan-made Perugina chocolates.

In Pearson Education, there was a likely remedy under trademark law. In the complaint, the plaintiff requested relief from trademark infringement because the company had registered its mark by way of affiliate companies in the U.S. The court did not address the trademark claim however, because the copyright claim was sufficient to withstand the motion to dismiss, which was the only ruling at hand. Nevertheless, this lends credence to the notion that a copyright claim is unnecessary under such circumstances. Indeed, the courts found that the textbooks at issue were plainly identified as materially different on the facts: the U.S. versions were of higher quality, printed with glossy hardcover bindings, and often containing supplemental materials such as CD-ROMs or passwords to restricted websites. The foreign editions, on the other hand, had thinner paper, fewer ink colors, lower-quality photographs, and different hardcover and jacket designs. Therefore, in cases such as Pearson Education, in which the foreign manufacturer can easily make it products “materially
different,” there is no particular need to withhold the first-sale defense, because a remedy exists under trademark, and application of the Copyright Act is misplaced.

Of course, one might argue that a foreign plaintiff should not be required to alter its product in order to preserve a legal remedy for unauthorized import into a foreign nation. For instance, a company like Pearson may not want to alter the look of its textbooks even though it still wants to exact differing prices between its various markets. This is particularly true in cases of goods embodying more expressive material, such as films, music, or novels. But the plaintiff’s hand is not being forced here. The idea is that a foreign seller simply cannot expect to enjoy added price discrimination rights under U.S. copyright simply because it wants to differentiate between its markets. The ability to preserve a claim under trademark by altering its good is simply a strategy it can employ for its own benefit. And, in the case of expressive works, the tangible medium that contains the expressive material is usually capable of physical alteration as well. A CD, DVD, or novel cover, for example, can easily be altered without any effect on the expressive material contained within.

B. Alternatives in Contract and Licensing

The congressional reports that accompany section 109(a) and the “first sale” doctrine provision, state that the first sale doctrine “does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between the buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.”\[160\] Through the use of contract, a seller can “monitor the distribution chain and punish distributors who cooperate with gray market arbitrageurs.”\[161\] In


\[161\] Ongchin, supra note 33, at 248 (citing Robert W. Clarida, Fighting the Gray Market: How to Stop Parallel Imports Despite the Quality King Ruling, 4.8 Intell. Prop. Strategist 1 (May 1998)). See also 2 Paul Goldstein, Goldstein on Copyright § 7.6.1, at 7:131 (2005) (If a copyright owner wishes to control
the case of textbooks, a publisher can establish contractual terms with foreign distributors, whereby the distributors would be in breach of an agreement were they to sell to U.S. school bookstores or student groups.\textsuperscript{162} This way, the foreign publisher could bring an action against a foreign distributor as a breach of contract action, rather than attempting to invoke the U.S. Copyright Act.

There are a few hurdles with this option, however, because the "textbook publisher would have to convince the foreign distributor to agree to be subject to U.S. laws and jurisdiction if a contract breach occurs."\textsuperscript{163} Also, it would be difficult to convince the foreign distributor to agree to restrictive contractual terms.\textsuperscript{164} There is also a privity of contract concern, because it may be difficult to persuade someone to buy a product attached with resale restrictions.\textsuperscript{165} Nevertheless, a carefully crafted contract could protect a foreign manufacturer, or at least create an actionable remedy where the contract was in breach.

Another alternative is for companies to get creative with licensing agreements, which addresses the privity of contract concern. For example, many software companies are able to retain ownership over certain aspects of the software that they sell, in order to circumvent the applicability of the first sale doctrine. In Davidson & Associates, Inc. v. Internet Gateway, a video game software company had an online component to its games, where users could play against one another on-line.\textsuperscript{166} In order to play online, customers had to agree to an end user license agreement ("EULA") as well as the company’s terms of use ("TOU").\textsuperscript{167} After the defendant organization created an alternate on-line avenue for gamers using the plaintiff company’s games, the plaintiff brought suit under the Copyright Act.\textsuperscript{168} The court held

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future sales, she can lease or rent copies of her work rather than selling them, or, if copies are sold, contractually limit their distribution, consistent with provisions of antitrust laws).
\end{flushleft}
that the EULA and the TOU were enforceable and granted injunctive relief for the plaintiff, because customers explicitly agreed to the terms.\textsuperscript{169}

This type of arrangement may be difficult to apply to all commodities; however, in the case of \textit{Pearson Education} it is conceivable that the company could have relied on similar devices. For instance, the publisher could have included certain essential features and information from the textbooks on-line, where a user would then need to access the on-line material and agree to an EULA or a TOU license agreement. Consequently, the publisher could maintain some level of ownership over the books, as well as a privity of contract with its buyers, thus allowing it to bring an action where there is a breach of the licensing agreement. In the modern day of wireless reading devices, perhaps such an alternative is not wholly impracticable. In any case, the contract and licensing approaches are much more appropriate than actions in copyright infringement to protect the commercial aspects of distribution.

\textbf{VI. Conclusion}

\textit{Pearson Education} illustrates the inappropriateness of copyright in this area of the law. The right of distribution afforded to copyright holders is limited, and an extended ability for foreign manufacturers to engage in price discrimination creates unnecessary confusion in the law. Regrettably, while the court in \textit{Pearson Education} spent the majority of the opinion explaining why a first-sale defense \textit{should} apply against the foreign company, it ultimately did not allow a first-sale defense, because the language of the controlling case \textit{Quality King}, contained certain "dicta" contravening its use.\textsuperscript{170}

The district court's reluctance to impose the first sale doctrine defense is problematic. Not only are U.S. consumers denied access to purchase goods for as good a deal as possible, but U.S. companies are subject to lawsuits from unexpected places.\textsuperscript{171} In today's modern economy, where markets have expanded and

\textsuperscript{169} \textit{Id.} at 1187.

\textsuperscript{170} \textit{Pearson Educ.}, 656 F. Supp. 2d at 415-16.

\textsuperscript{171} \textit{See Omega}, 541 F.3d at 983-84.
become connected globally through the Internet, the limited scope of the first-sale doctrine as applied in Pearson Education is counter-progressive. The importation of lawfully purchased foreign goods can offer consumers better and cheaper options that reflect "the principles of globalization and free trade." Remedies do exist for foreign manufacturers by way of contract, licensing, as well as trademark and the Tariff Act. In sum, the ability to engage in price discrimination should be limited by the remedies afforded under those doctrines. Foreign manufacturers should not be granted added rights under U.S. copyright that domestic manufacturers do not enjoy, because there is no right to engage in price discrimination under the Copyright Act. Where a first sale occurs, wherever that may be, the right of distribution should be exhausted.

Michael Stockalper

172. See Vinelli, supra note 44, at 172.