3-1-1999


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Recommended Citation
Available at: http://digitalcommons.lmu.edu/elr/vol19/iss3/3
NOTES & COMMENTS

SHOPPING THE GRAY MARKET: THE AFTERMATH OF THE SUPREME COURT'S DECISION IN QUALITY KING DISTRIBUTORS, INC. V. L'ANZA RESEARCH INTERNATIONAL, INC.

I. INTRODUCTION

Gray marketing\(^1\) causes billions of dollars in lost sales to United States companies.\(^2\) The following hypothetical illuminates the increasing problem of gray marketing. Suppose Sony manufactures and sells movies recorded on Digital Video Discs ("DVDs"). These copyrighted DVDs are sold both domestically and internationally. The DVDs are sold at a lower price internationally due to reduced marketing expenditures and different currency exchange rates. A local distributor buys the DVDs and imports them into the U.S. for sale outside the domestic chain of distribution. If Sony brought a suit against the distributor, Sony would not prevail given the U.S. Supreme Court's recent decision in Quality King Distributors, Inc. v. L'anza Research International, Inc.\(^3\)

Many companies face the problem of gray marketing. Gray marketing causes financial losses,\(^4\) as well as loss of good will with both authorized retailers\(^5\) and consumers.\(^6\) Given the detrimental effect of gray

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4. See Lawrence M. Friedman, Business and Legal Strategies for Combating Grey-Market Imports, INT'L. LAW. 27 (1998). An authorized retailer has to compete with its own product which is being sold at a lower price by the gray market importer. Id. at 28. Gray market importers are able to reduce their expenses because they benefit from the authorized retailer's marketing and advertising. Id.

5. Friedman, supra note 4, at 28. First, the company may require an authorized retailer to train the sales and service personnel. Id. Furthermore, the authorized retailer has to pay for the opportunity to be an exclusive retailer of a particular product. On the other hand, gray market importers do not have this obligation, yet they are still able to sell the company's product. Id. Thus, authorized retailers are unable to receive the benefit of their contract with the company. Id.

6. Id. at 29. A company loses goodwill when a consumer brings in a gray market product for warranty service. Under these circumstances, a company has a simple choice—either provide
marketing, companies have attempted to protect themselves under various legal theories. In particular, companies have used copyright law to protect themselves because it grants a copyright owner exclusive distribution and importation rights, respectively found in sections 106 and 602 of the 1976 Copyright Act. Copyright law appears to protect companies. However, gray marketers defend their actions under the first sale doctrine, section 109(a) of the Copyright Act.

The difficulty of preventing gray marketing stems from the interplay of section 109(a) and section 602. Courts have struggled with interpreting these sections, resulting in a split between the Third and Ninth Circuits. The Supreme Court resolved the split in *Quality King Distributors, Inc. v. L’anza Research International, Inc.*

This Note argues that the Supreme Court’s holding in *L’anza* fails to prevent gray marketing. Part II discusses the relevant sections of the 1976 Copyright Act. Part II also analyzes the split between the Third and Ninth Circuits over the interplay of sections 109(a) and 602. Part III examines the decision in *L’anza*, concluding that the Court applied a narrow interpretation of copyright law. Part IV discusses the failure of trademark, tort, and contract law, to prevent gray marketing. Part V proposes that the most effective method to prevent gray marketing is copyright law. This Part recommends that Congress should re-draft section 602 of the Copyright Act to prevent the sale of gray market goods. Lastly, Part VI concludes that amending copyright law would protect companies from the detrimental impact of gray marketing.

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service or refuse service. However, the consequences of this choice are grave, as it places the company in a dilemma. For example, if the company services the good, they will be incurring an unforeseen expense and they will be losing money. *Id.; see, e.g., United States v. Eighty-Three Rolex Watches, 992 F.2d 508 (5th Cir. 1993).* If the company does not service the good, consumer loyalty is eroded and the company’s reputation is tarnished. *Id; see Original Appalachian Artworks, Inc. v. Granada Elecs., Inc., 816 F.2d 68 (2d Cir. 1987).*

10. *Id*
II. BACKGROUND OF RELEVANT LAW

A. Copyright Act of 1976

1. Section 106: Exclusive Rights

The Copyright Act gives authors exclusive rights to their inventive works. Section 106 delineates the exclusive rights an author possesses. For example, the copyright owner is granted the exclusive right to reproduce, adapt, distribute, perform, and display the copyrighted work. Section 106 rights enable authors to have a limited monopoly over their work.

However, these exclusive rights are "neither unlimited nor primarily designed to provide a special private benefit." Instead, these rights are intended to promote the progress of society. Thus, a tension exists between "the interests of authors... in the control and exploitation of their writings... and society's competing interest in the free flow of ideas, information and commerce..." Congress has limited these exclusive rights in sections 107 through 120 to balance these competing interests.

The exclusive right most relevant to gray marketing is the distribution right found in section 106(3). Under this section, copyright owners have the exclusive right to distribute copies of a copyrighted work by selling, giving away, renting, or lending any embodiment of their work. Furthermore, copyright owners may authorize others to distribute their

14. The Copyright Act was created pursuant to Congress's power in Article I, section 8 of the U.S. Constitution. U.S. Const. Art. I, § 8, cl. 8. Article I, section 8 provides that Congress shall have the power "[t]o promote the Progress of Science and the useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."


16. Id. Section 106 states in pertinent part:

Subject to sections 107 through 120, the owner of a copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.


18. See id.

19. Id.


21. See id. § 106(3).
work. For example, Lucasfilm Ltd. owns the copyright to *Star Wars: Episode I-The Phantom Menace*, but it can grant Twentieth Century Fox the right to distribute the movie. Thus, Twentieth Century Fox can determine which theaters will show the upcoming movie.

2. Section 109: The First Sale Doctrine—The Meaning of “lawfully made under this title”

Section 109(a) is commonly referred to as the first sale doctrine. The first sale doctrine allows an owner of a copy of copyrighted work to distribute it if the work was “lawfully made under this title.” However, the courts have grappled with the meaning of the phrase, “lawfully made under this title.”

Some courts have interpreted this phrase “lawfully made under this title” as necessitating that goods be lawfully made “in the United States.” Thus, a company that imports foreign-made goods cannot raise the first sale doctrine defense because it only applies to domestically-made goods. The rationale behind this interpretation is that the scope of protection under the Copyright Act is limited to the confines of the U.S. unless expressly stated otherwise.

Other courts have interpreted the language to mean goods “made in compliance with the Copyright Act.” Therefore, under this interpretation, the manufacturing location is not important and the first sale doctrine is a broader defense. These courts rely heavily on a 1976 House of Representatives Committee Report explaining that while reselling a counterfeited phonorecord constitutes copyright infringement, no infringement occurs when selling a phonorecord made under the

22. *Id.*
26. *Id.* Section 109(a) states, “Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.” *Id.* (emphasis added).
27. *Id.*
compulsory licensing provision in section 115. For example, if a company does not comply with the requirements set forth in the Copyright Act, the first sale doctrine is not a defense.

The first sale doctrine codified a common law principle limiting the alienation of personal property. For instance, when authorized copies of a book are sold, the purchaser becomes the "owner" of the copy, and the previous copyright owner’s control over the copy terminates. Hence, the copyright owner in this example can no longer control the books’ resale price. From a copyright policy standpoint, once authors have distributed copies of their work, the policy favoring a copyright monopoly for authors yields to the policy opposing restraints of trade and alienation.

3. Section 602: Importation Right—Is It Distinct from the Distribution Right?

The importation right of section 602 is important to prevent gray marketing. Congress enacted section 602(a) to provide copyright holders with greater remedies for unauthorized importation. This section makes the unauthorized importation of copies acquired outside the U.S. an infringement of the exclusive distribution right.

31. H.R. REP. NO. 94-1476, at 79 (1976). Normally, for an individual to use a copyrighted work, the individual has to obtain a license from the copyright owner. See MARSHALL A. LEAFER, UNDERSTANDING COPYRIGHT LAW § 8.3, at 223 (2d ed. 1995). However, section 115 provides for five instances where the prospective user can obtain a compulsory license under which the individual can use the work without the copyright owner’s permission. Id. The compulsory license is valid so long as the licensee complies with the statutory procedure and pays the established royalties. Id.


33. See generally Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908) (discussing the origins and rationale for the codification of the first sale doctrine).


37. 17 U.S.C. § 602(a). Section 602(a) states in part:

Importation into the United States, without the authority of the owner of the copyright under this title, 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 section 501.

Id. (emphasis added).
Courts have struggled with categorizing the importation right. Under the statute, the unauthorized importation is an infringement of the "exclusive right to distribute copies or phonorecords under section 106 . . . ." Courts differ on whether the importation right is distinct from or a specific example of the distribution right. Proper interpretation is critical because it determines the applicability of the first sale doctrine which only limits the distribution right. If the importation right is distinct from the distribution right, then the first sale doctrine would not apply.

Similar to the distribution right found in section 106(3), the importation right is also limited. Although Congress intended section 602(a) to provide a general rule categorizing unauthorized importation as an infringement, it also enumerated three specific exceptions. The importation right is not invoked if the copyrighted work was imported for 1) governmental use, 2) non-profit use, or 3) private use of one copy by an individual. For example, if an individual traveling abroad purchased and imported one videotape of *The Truman Show* into the U. S., Paramount Pictures would be barred from taking action. However, if the individual imported 10,000 copies, Paramount Pictures would have a copyright infringement claim under section 602(a).

The legislative intent behind section 602(a) defined the scope of the importation right. Congress enacted the section in order to make importation of both pirated and lawfully made goods acts of infringement. Moreover, Congress intended section 602 to apply when distribution of lawfully made copies infringes upon a copyright owner's exclusive rights.

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38. Id.


40. 17 U.S.C. § 602(a)(1)-(3). The three exceptions enumerated by Congress are as follows:

1. importation . . . under the authority or for the use of [a governmental body], but not including [material] for use in schools, or copies of an audiovisual work imported for [any] purpose[] other than archival use;

2. importation for the private use of the importer [of] . . . no more than one copy or phonorecord of [a] . . . work at a time, [or of articles in the personal baggage of travelers from abroad]; or

3. importation by . . . [nonprofit] organization[s] operated for scholarly, educational, or religious purposes [of] . . . no more than one copy of an audiovisual work solely for . . . archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes . . . .

Id.

41. Id.


44. Id.
Whether copies of the work were pirated or made in accordance with the Copyright Act, the copyright owner has an infringement claim against an unauthorized importer.

**B. Interplay of Sections 109(a) and 602(a) in Gray Marketing Cases**

1. The Third Circuit: The First Sale Doctrine Applies to the Importation Right

   a. At the District Court Level, the First Sale Doctrine Is Inapplicable to the Importation Right

   *Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc.*\(^{45}\) was the first case to consider the interplay of the importation right found in section 602(a) and the first sale doctrine found in section 109. CBS-Sony, a corporation jointly owned by CBS and Sony, licensed Vicor Music Corporation to manufacture and sell certain records exclusively in the Philippines.\(^{46}\) The sound recording copyrights were owned by CBS.\(^{47}\) Vicor sold numerous records to Rainbow Music, Inc. ("Rainbow Music"), a Philippine export company.\(^{48}\) Rainbow Music subsequently sold the records in question to International Traders, a Nevada import corporation.\(^{49}\) International Traders sold these records to Scorpio Music who, in turn, sold these records in the United States.\(^{50}\) In response, CBS brought a copyright infringement claim against Scorpio pursuant to section 602.\(^{51}\)

   Scorpio first argued that section 602 was inapplicable because International Traders and not Scorpio imported the records into the U.S. without the authorization of CBS.\(^{52}\) However, the court did not address whether Scorpio was an importer.\(^{53}\) The court stated that, under the copyright law, "a suit for infringement is analogous to other tort actions and infringers are jointly and severally liable; hence the plaintiff [CBS] need sue only such participants as it sees fit."\(^{54}\) Furthermore, the court

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46. *Id.*
47. *Id.*
48. *Id.*
49. *Id.*
50. *Id.*
51. *Scorpio Music Distribrs.*, 569 F. Supp. at 47; *see supra* note 37.
53. *Id.*
54. *Id.* (quoting Costello Publ'g Co. v. Rotelle, 670 F.2d 1035, 1043 (D.C. Cir. 1981)).
stated that "[i]ntent is not a necessary element of infringement, and the copyright holder may proceed against any member of the chain of distribution."  

Scorpio also relied on section 109(a), the first sale doctrine, which limits the copyright owner's distribution rights in section 106(3). Scorpio argued that the sale of phonorecords to Rainbow Music constituted the first sale. Thus, CBS's rights regarding the phonorecords were extinguished after that sale. The court rejected the first sale argument because of the statutory language of section 109(a). Specifically, the court based its decision on the phrase "lawfully made under this title." The court explained that this phrase grants first sale protection to a third party purchaser of goods legally manufactured and sold in the U.S. Because the phonorecords were manufactured and sold in the Philippines, the court concluded that Scorpio could not raise a first sale defense. Moreover, the court reasoned that the scope of the Copyright Act's protection is limited to the confines of the U.S. unless it is expressly stated otherwise. The court denied Scorpio's first sale defense because CBS's goods were manufactured and sold outside the U.S.; the court held that the first sale doctrine did not apply to these goods.

Furthermore, the court dismissed Scorpio's argument that the first sale doctrine supercedes the copyright owner's importation rights in section 602. The court reasoned that if section 109(a) applied to section 602, a loophole is created whereby third party purchasers could circumvent section 602 by purchasing goods from an importer rather than buying and importing the goods themselves. Because the purchaser did not buy the goods directly from the manufacturer, the purchaser, who is the owner under section 109(a), would be able to import the goods into the U.S. Such an outcome is contrary to a copyright owner's right to control the number of copies available to the public. The court was unwilling to alter Congress's intent to prevent unauthorized importation. The court ultimately rejected Scorpio's interpretation of sections 109(a) and 602

55. Id. at 48-49 (quoting Costello, 670 F.2d at 1044).
56. Id. at 49.
57. Id.
60. Id.
61. See id. at 49-50.
63. Id. at 48-49.
64. Id. at 49.
because to construe the first sale doctrine to supercede the importation right renders the right meaningless.\textsuperscript{65}

b. At the Appellate Level, the First Sale Doctrine Applies to the Importation Right

The Third Circuit revisited the interplay of sections 109 and 602 in \textit{Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.}\textsuperscript{66} In \textit{Sebastian}, the Third Circuit distinguished \textit{Scorpio}, and limited the decision to situations where copyrighted works are both manufactured and sold in a foreign country.\textsuperscript{67}

Sebastian International ("Sebastian") manufactures and markets hair care products.\textsuperscript{68} Sebastian's product labels were copyrighted for their textual and artistic content.\textsuperscript{69} The defendant, Consumer Contacts, agreed to distribute Sebastian's goods exclusively in South Africa.\textsuperscript{70} However, after Sebastian sent Consumer Contacts the goods, Consumer Contacts reshipped the goods back into the U.S. to Fabric, Ltd. ("Fabric").\textsuperscript{71}

Initially, Sebastian pursued a breach of contract action against Consumer Contacts and sought a preliminary injunction preventing distribution of the products.\textsuperscript{72} Sebastian then amended the complaint to allege copyright infringement, and also sought a preliminary injunction under this theory.\textsuperscript{73} The district court granted a preliminary injunction against Fabric pursuant to the Copyright Act.\textsuperscript{74}

At the district court level, Fabric argued that Sebastian's copyright was invalid for several reasons.\textsuperscript{75} The district court disagreed, however,

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\textsuperscript{65} \textit{Scorpio Music Distribns.,} 569 F. Supp. at 49–50.  
\textsuperscript{66} 847 F.2d 1093 (3d Cir. 1988).  
\textsuperscript{67} Id. at 1098.  
\textsuperscript{68} Id. at 1094.  
\textsuperscript{69} Id.  
\textsuperscript{70} Id. at 1094.  
\textsuperscript{71} Id.  
\textsuperscript{72} Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1094–95. The district court granted a temporary restraining order pending a hearing. \textit{Id.} at 1095.  
\textsuperscript{73} Id. at 1095. The court lifted the temporary restraining order because Fabric did not know about the exclusive distribution agreement between Sebastian and Consumer Contacts. \textit{Id.; see} Part V.B.2 for the requisite showing in a breach of contract claim.  
\textsuperscript{74} Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1094 (3d Cir. 1988).  
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holding that Sebastian's copyright for its labels was valid. Fabric also argued that section 602 was inapplicable since the goods were manufactured in the U.S. The court examined the language of section 602, and determined that the statute only required that the goods be “acquired outside the United States.” Thus, the court concluded that the place of manufacture was irrelevant when determining the applicability of section 602.

Fabric also raised the first sale doctrine as a defense. The district court ruled that the first sale doctrine was inapplicable to the importation right. However, on appeal the Third Circuit vacated the preliminary injunction, holding the first sale doctrine applies to the importation right.

Unlike the district court, the Third Circuit interpreted the importation right as a specific example of the distribution right. The Third Circuit stated that the importation right is part of the distribution right, and concluded that the importation right is subject to the first sale doctrine. The appellate court relied on the legislative intent of the Copyright Act to justify its interpretation. The legislative intent indicates that generally, a
copyright provides the incentive to disclose an author's work. However, the author is granted a limited monopoly over the disposition of the creative works. The court held that it would be contrary to the first sale doctrine to allow a copyright owner to sell the goods and be able to prevent its importation. The Third Circuit concluded that once Sebastian sold its goods to Consumer Contacts, Sebastian received its reward for the goods, and could no longer control the disposition of the goods. Therefore, Sebastian could not prevent Consumer Contacts from importing the goods into the U.S.

2. The Ninth Circuit: The First Sale Doctrine Does Not Apply to the Importation of Goods

The Ninth Circuit addressed the interplay of sections 109(a) and 602 in Parfums Givenchy, Inc. v. Drug Emporium, Inc. Unlike the Sebastian court, the Parfums Givenchy court held that the first sale doctrine was not a defense to unauthorized importation, unless the copyrighted goods were sold in the U.S. This case dealt with perfume sold in copyrighted packaging. A French company produced and imported the perfume into the United States for exclusive distribution and sale by Givenchy USA, Parfums Givenchy's United States subsidiary. Third parties then

88. Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1096–97 (3d Cir. 1988). The principle behind the Copyright Act is to promote and encourage creative activity and to allow the public access to these works. See Sony Corp. of Am., 464 U.S. at 429. A copyright holder's reward is a monopoly on certain privileges. Id. This monopoly is, however, limited to a certain time period. Id.
90. See id. at 1099.
91. Id.
92. Id.
93. 38 F.3d 477 (9th Cir. 1994).
94. Id. at 481.
96. Parfums Givenchy v. Drug Emporium, Inc., 38 F.3d 477, 479 (9th Cir. 1994).
imported the perfume into the U.S. without the authorization of Parfums Givenchy or Givenchy USA. Drug Emporium purchased the perfume from these third party importers and sold the perfume in its retail stores. Givenchy USA brought suit against Drug Emporium alleging copyright infringement from the sale of a perfume in a copyrighted box. The district court permanently enjoined Drug Emporium from selling the perfume in the U.S.

Drug Emporium appealed the decision, and argued that the first sale doctrine supersedes the importation right codified in section 602(a). The Ninth Circuit disagreed, concluding that the first sale doctrine did not apply to the importation right. In reaching this conclusion, the Ninth Circuit relied on BMG Music v. Perez.

In BMG Music, the defendant, Perez, purchased copyrighted sound recordings manufactured abroad and imported them into the U.S. for sale in retail outlets. Perez raised the first sale doctrine as a defense to an infringement of section 602. The Ninth Circuit held that the first sale doctrine did not apply to section 602 because the words "'lawfully made under this title' in section 109(a) grant[ed] first sale protection only to copies legally made and sold in the United States." Thus, the first sale defense was inapplicable because the copyrighted sound recordings were manufactured and purchased abroad.

Also, similar to the Scorpio court, the court in BMG Music explained that using the first sale doctrine as a defense to unauthorized importation would "render section 602 virtually meaningless." The court also stated that a contrary rule would eliminate a copyright owner's right to distribute

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97. Id.
98. Id.
99. Id.
100. Id. at 479.
101. Id. at 480–81. Drug Emporium contends that a lawful sale of copyrighted goods outside of the U.S. would terminate a copyright owners exclusive right to import and distribute the goods in the U.S. Id. at 481. Drug Emporium supports this interpretation of the first sale doctrine and the importation by drawing a parallel to the interplay of the distribution right found in section 106(3) and the first sale doctrine. Id. In this situation, a lawful domestic sale of domestically-made goods terminates the copyright owner's exclusive distribution rights. Id.
103. 952 F.2d 318 (9th Cir. 1991).
104. See id. at 319.
106. See id.
107. Id. (citing Scorpio Music Distribrs., 569 F. Supp. at 49).
works manufactured abroad, a right clearly protected by section 602. 108 Given that the material facts in Parfums Givenchy paralleled those in BMG Music, the Ninth Circuit held that Drug Emporium had infringed Parfums Givenchy’s copyright, and affirmed the district court’s decision. 109 Thus, Parfums Givenchy could prevent Drug Emporium from importing its products.

III. QUALITY KING DISTRIBS., INC. V. L’ANZA RESEARCH INT’L, INC.

A. Background

L’anza Research International, Inc. (‘‘L’anza’’) is a California corporation that manufactures and sells hair care products. 110 The company sells these products both domestically and internationally. 111 The hair care product labels are copyrighted. 112 Domestically, L’anza sells these goods to licensed distributors who resell the goods in a limited area to authorized retailers. 113 L’anza structured its distribution network in this manner because it found that the American public is willing to pay high prices for high quality products sold only in exclusive retail stores. 114 The company markets its products with extensive advertising and retailer training. 115

However, L’anza does not engage in comparable advertising or promotions in foreign markets. 116 The company is able to sell its products to foreign distributors at a price thirty-five to forty percent lower than it charges American distributors. 117 In 1992 and 1993, L’anza’s United Kingdom distributor sold three shipments to a Maltese distributor. 118 These positions were discussed in the Ninth Circuit’s decision in Parfums Givenchy v. Drug Emporium, Inc., 38 F.3d 477, 479 (9th Cir. 1994).

108. See id.
109. See Parfums Givenchy v. Drug Emporium, Inc., 38 F.3d 477, 479 (9th Cir. 1994).
111. See L’anza, 118 S. Ct. at 1127.
112. Id. The copyrighted labels that are the subject of the suit include: Super Quatre, Multi-Mist, Lavenda, Biotane, Vitro, Remede, Curls & Color Moisturing Treatment, Curls & Color Moisturing Shampoo, Re-Balance Leave-In Conditioner, Re-Balance Shampoo Plus, and Re-Balance Styling Foam; see L’anza Research Int’l, Inc. v. Quality King Distribs., Inc., 98 F.3d 1109, 1112 (9th Cir. 1996).
113. L’anza, 118 S. Ct. at 1127. L’anza sold its hair care products to barber shops, beauty salons and professional hair care colleges. Id.
114. Id.
115. See id. L’anza extensively advertised its products in trade magazines and at point of sale. Id.
116. Id.
117. Id.
118. See id.
shipments were then imported back into the U.S. Quality King Distributors, Inc. ("Quality King") purchased these shipments and sold them to unauthorized retailers, who sold the goods at reduced prices.

L'anza alleged that Quality King had infringed L'anza's copyright under sections 602, 106, and 501. However, Quality King argued that it did not infringe upon L'anza's copyright. Under the first sale doctrine, Quality King alleged that it was the "owner" of the goods and could freely dispose of them without L'anza's permission.

The district court rejected Quality King's first sale defense under section 109(a) and entered summary judgement for L'anza. The court of appeals affirmed the decision, concluding "§ 602 would be 'meaningless' if § 109[(a)] provided a defense . . . ." The Supreme Court granted certiorari because this decision conflicted with the Third Circuit decision in Sebastian.

B. The Supreme Court's Holding: Interplay Between § 602 and § 109(a)

The Supreme Court reversed the lower court's decision and found in favor of Quality King. The Supreme Court held that the first sale doctrine, section 109(a), was applicable to the importation right found in section 602(a). Therefore, Quality King could sell L'anza's products lawfully to whomever it wished, without committing copyright infringement.

L'anza argued that section 602(a) protected against unauthorized competition in the U.S. by foreign distributors. L'anza contended that
the express language of section 602(a) allows it to prevent Quality King from importing its goods. Furthermore, L'anza argued that the importation right is only limited by the exceptions set forth in section 602(a).

The Court examined section 602(a) to determine whether it explicitly prohibited unauthorized importation of copyrighted goods.\textsuperscript{132} Under section 602(a), the unauthorized importation of copyrighted goods is "an infringement of the exclusive right to distribute copies . . . . under section 106."\textsuperscript{133} The Court determined that section 602(a) did not categorically prohibit the unauthorized importation of copyrighted materials.\textsuperscript{134} Rather, the Court found that the importation right is a limited right given the statutory language "under section 106."\textsuperscript{135} Accordingly, like the distribution right found in section 106, the importation right is subject to the limitations set out in sections 107 through 120.\textsuperscript{136} The Court implicitly concluded that the two rights were not distinct. Therefore it determined that the first sale doctrine of section 109(a) applied to the importation right.

Concluding that section 109(a) limited the importation right in section 602(a), the Court applied section 109(a) to section 602(a).\textsuperscript{137} The Court determined that the purchaser becomes the lawful owner of the good\textsuperscript{138} "[a]fter the first sale of a copyrighted item . . . ."\textsuperscript{139} As a result, an owner, such as Quality King, may sell or distribute the good "without the authority of the copyright owner . . . ."\textsuperscript{140} Moreover, the Court noted that because the distribution right under section 602(a) did not include resales by lawful owners, "the literal text of § 602(a) [wa]s simply inapplicable to both domestic and foreign owners of L'anza's products who decide to import them and resell them in the United States."\textsuperscript{141}

Nevertheless, L'anza argued that the importation right in section 602(a) was not subject to the first sale doctrine.\textsuperscript{142} L'anza contended that section 602(a) would be deemed superfluous if it was limited by section 109(a).\textsuperscript{143} L'anza justified this argument by examining the scope of section 602. Because section 602(b) prohibits the importation of unauthorized

\textsuperscript{132} See id. at 1130–31.
\textsuperscript{133} 17 U.S.C. § 602(a) (1994).
\textsuperscript{134} See L'anza, 118 S. Ct. at 1130.
\textsuperscript{135} Id.
\textsuperscript{136} Id.
\textsuperscript{137} See id.
\textsuperscript{138} See id.
\textsuperscript{139} Id.
\textsuperscript{141} L'anza, 118 S. Ct. at 1130.
\textsuperscript{142} See id.
\textsuperscript{143} Id. at 1131.
copies, section 602(a) should prohibit the importation of "lawfully made" copies to avoid redundancies in the Act. Moreover, because section 602(a) covers goods that were "lawfully made" by the copyright owner, the section would be deemed superfluous because importation almost always implies a first sale.

The Court rejected L’anza’s argument for three reasons. First, if section 602(a) only addressed unauthorized copies, it would provide the copyright holder a private remedy against the importer, while 602(b) would allow the Customs Service to enforce the law. Second, the first sale doctrine is only available to an "owner" of a lawfully made copy, and it would not provide a defense to a section 602(a) action against a non-owner. Third, section 602(a) does not apply to unauthorized or lawfully made copies, but rather applies only to copies that were lawfully made under the law of a foreign country.

Furthermore, L’anza unsuccessfully argued that the distribution right under section 106(3) and the importation right under 602(a) are distinct because section 501 refers to violations of these sections separately. The Court found that this argument had some credence, but that it was weakened by specific statutory language in section 602(a). First, in section 602(a), the phrase "infringement of the exclusive right to distribute . . . under section 106" identifies unauthorized importation as a "species of section 106 violations . . . ." Second, if section 602(a) was intended to be a separate right from section 106, section 602(a) would not be subject to the limitations set out in sections 107 through 120. The Court also stated that if section 602(a) was a separate right, any importation of works bearing a U.S. copyright would be banned. The Court decided this ban would lead to an unreasonable result and conflict with Congressional intent.

144. Id.
145. Id
146. See id.
147. L’anza, 118 S. Ct. at 1131.
148. See id.
149. See id. at 1132.
150. 17 U.S.C. § 501(a); see supra note 123.
151. See L’anza, 118 S. Ct. at 1132.
152. See id. at 1132–33.
154. L’anza, 118 S. Ct. at 1132.
155. See id. at 1133.
156. See id.
157. See id.
The Court also addressed the Solicitor General's argument that the word "importation" in section 602(a) describes an act that is not covered by section 109(a). If the importation right was not subject to the first sale doctrine, L'anza could prevent Quality King from importing its goods. The Court was not persuaded by this argument.

In section 109(a), a subsequent owner is allowed "to sell or otherwise dispose of the possession ..." The Court concluded that "[a]n ordinary interpretation of [this] statement ... [would] surely include[ ] the right to ship [a copyrighted good] to another person in another country."

Finally, the Court stated that governmental policy regarding gray marketing and international trade agreements are irrelevant to the statutory interpretation of the Copyright Act. Thus, the Court reversed the Ninth Circuit decision and ruled in Quality King's favor.

IV. ANALYSIS OF THE L'ANZA DECISION

A. The Court Narrowly Interprets the Statutory Language of § 602(a)

The Supreme Court in L'anza narrowly interpreted the statutory language of section 602(a). First, the Court concluded that the importation right was subject to the first sale doctrine because the statute provides that unauthorized importation is "an infringement of the exclusive right to distribute copies ... under section 106 ... ." The Court reasoned that the presence of this phrase subjects section 602(a) to the limitations of section 106, which are set forth in sections 107 through 120. The Court

158. The Solicitor General supported L'anza's argument that the first sale doctrine should not apply to the importation right. Id.
159. See id.
160. L'anza, 118 S. Ct. at 1133.
162. L'anza, 118 S. Ct. at 1134.
163. See id. "[T]he Executive Branch of the Government has entered into at least five international trade agreements that are apparently intended to protect domestic copyright owners from the unauthorized importation of copies of their [goods] sold in those [foreign countries]." Id. The following countries have entered into these agreements: Cambodia, Trinidad, Tobago, Jamaica, Ecuador, and Sri Lanka. See id. at 1134 n.30. This Note, however, will not analyze the ramifications of the Court's decision not to consider international trade agreements. For a discussion of international agreements and copyright law, see Esti Miller, NAFTA: Protector of National Intellectual Property Rights or Blueprint for Globalization? The Effect of NAFTA on the First Sale Doctrine in Copyright Law, 16 LOY. L.A. ENT. L.J. 475 (1995).
164. L'anza, 118 S. Ct. at 1130.
165. Id.; see supra Part II.A for a further discussion of the ramifications of the first sale doctrine applying to the importation right.
focused on section 109(a) which states that once a copyright owner sells his good, purchasers may dispose of these goods as they see fit. 166

Arguably, the terms "under section 106" qualify the phrase "exclusive right to distribute" because, under section 106(3), a copy can be distributed by "sale or other transfer of ownership, or by rental, lease or lending..." 167 This interpretation would further congressional intent to prevent the "unauthorized importation of goods that were lawfully made." 168 Congress intended section 602(a) to provide an additional right to copyright owners. If the importation right did not provide additional protection beyond the distribution right, then Congress did not need to enact section 602.

Moreover, if the first sale doctrine is applied to the importation right, it is difficult to reconcile the redundancies in the Court's analysis. These redundancies conflict with the rule prohibiting the interpretation of statutes to make part of them superfluous. 169 First, if the limitations of section 106 (sections 107 through 120) applied to the importation right, it was unnecessary for Congress to enumerate section 108(g)(2) 170 as a specific limitation. Second, if sections 107 through 120 were applicable to the importation right, Congress did not need to set forth the limitations in sections 602(a)(1)–(3) 171 because these limitations are very similar to the fair use exceptions in section 107. 172

168. See supra note 43.
170. 17 U.S.C. § 108(g)(2) (1994). Section 108(g)(2) states that the rights of reproduction and distribution under that section do not extend to:
[cases where the library or archive] engages in the systematic reproduction or distribution of single or multiple copies or phonorecords of material described in subsection (d): Provided, That nothing in this clause prevents a library or archives from participating in interlibrary arrangements that do not have, as their purpose or effect, that the library or archives receiving such copies or phonorecords for distribution does so in such aggregate quantities as to substitute for a subscription to or purchase of such work.
Id. (emphasis in original).
171. Id. § 602(a)(1)–(3). Section 602(a)(1)–(3) provides:
(1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
(2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or
(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival
However, the Court may have intended to construe section 602 as narrowly as possible. The Court appeared reluctant to rule in L’anza’s favor. First, Justice Stevens prefaced the case as an “unusual copyright case” because L’anza was primarily interested in protecting the integrity of its marketing methods. Perhaps, the Court suspected L’anza was attempting to use copyright law to prevent free market competition by controlling the distribution of its own goods. Second, the Court did not agree that this was a case of gray marketing because it did not fall into the definition of gray markets established in *K-mart Corp. v. Cartier, Inc.* The *L’anza* Court stated:

[w]e are not at all sure that th[e] term[ ] [gray marketing][,] appropriately describe[s] the consequences of an American manufacturer’s decision to limit its promotional efforts to the domestic market and to sell its products abroad at discounted prices that are so low that its foreign distributors can compete in the domestic market.

However, the facts of *L’anza* adequately describe a gray marketing situation. L’anza created copyrighted goods intended for a foreign market. These goods were imported back into the U.S. without L’anza’s consent. Thus, based on these facts, the Court’s hesitation to classify *L’anza* as a gray marketing case is puzzling.

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172. *Id.* § 107. The fair use doctrine is defined as a “privilege in others than the owner of a copyright to use the copyrighted material in a reasonable manner without his consent, notwithstanding the monopoly granted in the owner.” MARSHALL A. LEAFFER, UNDERSTANDING COPYRIGHT LAW § 10.2, at 318 (2d ed. 1995) (citing Rosemont Enters., Inc. v. Random House, Inc., 366 F.2d 303, 306 (2d Cir. 1966)).


174. 486 U.S. 281 (1988). The Court defines a gray market good as a foreign-manufactured good, bearing a valid U.S. trademark, that is imported back into the U.S. without the consent of the U.S. trademark holder. *Id.* at 285.

175. *L’anza*, 118 S. Ct. at 1134. The Court believed that L’anza could have avoided the consequences of competing with its own product at a lower price either “(1) by providing advertising support abroad and charging higher prices, or (2) if it was satisfied to leave the promotion of the product in foreign markets to its foreign distributors, to sell its products abroad under a different name.” *Id.* at 1134 n.29.

176. See *id.* at 1127.

177. *Id.* at 1128.
B. The Court Ignores the Legislative Intent of § 602(a)

The Court may have properly interpreted the interplay of sections 109(a) and section 602, but the narrow construction of these sections frustrates the legislative intent of section 602(a).\(^{178}\) Congress intended section 602 to apply when the distribution of lawfully-made copies would infringe upon a copyright owner’s exclusive rights. In L’anza, defendant Quality King was distributing L’anza’s lawfully-made goods, but the importation into the U.S. infringed upon L’anza’s exclusive right to control the distribution of its goods.

Furthermore, the Court’s decision undermined Congress’ legislative intent when it read the first sale doctrine into the importation rights in section 602(a). This interpretation is contrary to the 1976 House Committee Report which failed to mention the first sale doctrines application to section 602.\(^{179}\) Thus, Congress never intended the first sale doctrine to limit the importation right. Moreover, the Court’s decision creates a loophole for companies which sell illegally imported goods. For example, when a copyright owner distributes its works, the subsequent purchaser can dispose of the works in any manner it chooses. L’anza should have prevailed given Congress’s intent for section 602(a). Nonetheless, the Supreme Court decided to the contrary due to the “clarity of the text of §§ 106(3), 109(a), and 602(a).”\(^{180}\)

V. PROPOSALS TO STOP GRAY MARKETING

The Court’s decision in L’anza illustrates the inability of the existing copyright law to prevent gray marketing. Copyright owners have unsuccessfully relied upon other laws to prevent gray marketing. However, copyright may offer the best protection against gray marketing provided that statutes are redrafted to clarify Congress’s intent.

A. Trademark Law

Trademark law has failed to protect companies from gray marketing after the K Mart Corp. v. Cartier, Inc. decision.\(^{181}\) The issue considered whether the United States Custom Service regulations, 19 C.F.R. sections

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178. See supra Part II.
180. L’anza, 118 S. Ct. at 1130.
were a reasonable interpretation of section 1526. The Court held that the exceptions set forth in C.F.R. sections 133.21(c)(1) and 133.21(c)(2) were reasonable interpretations of section 1526. However, the Court plurality also held that C.F.R. section 133.21(c)(3) conflicted with the statutory language of section 1526 because it prevented a domestic trademark holder from stopping the importation of trademarked goods made by an independent foreign manufacturer authorized to use the trademark. Furthermore, the plurality held that no reasonable construction of section 1526 would allow the exception set forth in C.F.R. section 133.21(c)(3).

A trademark holder may use section 1526 to prevent an independent foreign manufacturer from importing trademarked goods. However, section 1526 does not apply to a trademark holder’s foreign parent or subsidiary company. The Court’s holding is detrimental to a domestic trademark owner who allows a foreign manufacturer to use the trademark in a foreign country because the domestic trademark owner cannot prevent the importation of these goods into the U.S. Thus, a domestic trademark owner would not be able to prevent gray marketing.

182. 19 C.F.R. §§ 133.21(c)(1)-(3) (1998). Section 133.21(a) prohibits the importation of goods into the U.S. bearing a U.S. trademark, unless the trademark holder has consented to the importation. Id. § 133.21(a). However, the Custom Service has provided for several exceptions, including the following:

1. Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
2. The foreign and domestic trademark owners are parent and subsidiary companies or are otherwise subject to common ownership or control;
3. The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.


183. 19 U.S.C. § 1526(a) (1994). Section 1526 prohibits the importation into the U.S. of any merchandise of foreign manufacture that bear a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States unless written consent of the owner of such trademark is produced at the time of making entry.

185. See id. at 294.
186. Id. at 294.
B. State Law

State law fails to protect U.S. companies from gray marketing. Companies have brought suits against gray market importers under both tort and contract law.\(^{188}\)

1. Tort Law

In *Railway Express Agency, Inc. v. Super Scale Models, Ltd.*,\(^{189}\) Railway Express Agency ("Railway") sued Super Scale Models ("Super Scale") alleging that Super Scale intentionally interfered with Railway's contract.\(^{190}\) The court held that Super Scale did not interfere with Railway's contract because Railway failed to show its contract was impaired.\(^{191}\) Railway entered into a contract with a German manufacturer of toy trains to become the exclusive distributor of these trains in the U.S.\(^{192}\) Afterwards, Super Scale purchased genuine toy trains in Europe, including those of the German manufacturer, from various model railroad dealers and imported them into the U.S.\(^{193}\) This was done without the authority of the German manufacturer.\(^{194}\)

Railway alleged that Super Scale knew that Railway was the exclusive distributor of the toy trains in the U.S., but that Super Scale nonetheless continued to import and sell the trains in competition with Railway.\(^{195}\) In order for Railway to prevail under this cause of action, Railway had to show that Super Scale had intentionally interfered with its contract and that the interference made performance of the contract more burdensome.\(^{196}\) Railway claimed that Super Scale's actions made the

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188. See infra Part V.B.1-2.
189. 934 F.2d 135 (7th Cir. 1991).
190. Id.; see RESTATEMENT (SECOND) OF TORTS § 766(A) (1979). Section 766(A) provides:
   One who intentionally and improperly interferes with the performance of a contract... between another and a third person, by preventing the other from performing the contract or causing his performance to be more expensive or burdensome, is subject to liability to the other for the pecuniary loss resulting to him.

Id.
191. See Super Scale Models, 934 F.2d at 140.
192. See id. at 136.
193. See id. at 136–37.
194. See id. at 136.
195. See id. at 137.
196. See id. at 139.
contract less profitable, but the court found that this was insufficient to hold Super Scale liable for intentional interference with Railway's contract.\textsuperscript{197}

Recovery under the tort of intentional interference with contract is difficult to obtain. First, a company has to demonstrate intent.\textsuperscript{198} However, a gray market importer is likely to argue that it did not have knowledge of an exclusive distributorship contract. Second, even if a company successfully demonstrates intent, the company must show that its contract was burdened.\textsuperscript{199} This would be difficult to demonstrate and depends on the type of goods being sold and the volume of sales. If the goods are widely sold, an importer may argue the imported goods did not greatly impact the exclusive distributor's sales. Even if sales volumes are low, gray market importers could contend that their few sales did not burden the distributor's contract but rather that market forces caused low sales.

However, an exclusive distributor would argue that each sale made by the importer had a much greater effect when the goods were sold at low volumes.\textsuperscript{200} Ultimately, the heavy burden placed on the exclusive distributor to assert intentional interference makes it difficult to prevail based upon this cause of action.

2. Contract Law

a. Breach of Contract

A company may also use contract law to prevent gray marketing. Although a breach of contract claim may be successful against an authorized distributor, most cases involve a third party who imports copyrighted goods without the authorization of the copyright owner.\textsuperscript{201} Due to lack of privity, a copyright owner lacks standing against these third parties.

\textsuperscript{197} Super Scale Models, 934 F.2d at 140. The court stated that Railway could have established injury by showing: 1) Super Scale made sales to Railway's existing clientele; 2) Super Scale sold inferior toy trains; or 3) created consumer confusion regarding the quality of the trains. \textit{Id}.

\textsuperscript{198} See \textit{id} at 139; see also Lorenz v. Dreske, 214 N.W.2d 753, 759–60 (Wis. 1974); Wisconsin Power & Light Co. v. Gerke, 121 N.W.2d 912, 915 (Wis. 1963).

\textsuperscript{199} Super Scale Models, 934 F.2d at 139.

\textsuperscript{200} For instance, if 10,000 goods are sold per year and the importer sells 3,000 of the 10,000, the importer burdens the distributor's contract by 30 percent.

Even if a copyright holder were able to contract with a foreign distributor to limit the geographic areas of resale, such contracts are difficult to enforce. The distributor can argue that it is impossible to control the actions of a subsequent purchaser. Moreover, a distributor's contract with a subsequent purchaser to limit the purchaser's resale area does not ensure that the subsequent purchaser will comply with the contract, and it places a heavy burden on the distributor to police its agreements.

Furthermore, a distributor may argue that the copyright holder has gained the benefit of its bargain from its original sale. In fact, the intent of the Copyright Act was to give an author incentive to disclose his work to the public in exchange for a limited right to control the exploitation of the work. Thus, allowing a copyright holder to explain to a bona fide purchaser how to dispose of the good extends beyond the Copyright Act’s intent.

b. Good-Faith Purchaser Doctrine

Another contract theory of recovery is premised on the good-faith purchaser doctrine. Under this doctrine, a seller with voidable title is able to transfer good title to a subsequent good-faith purchaser. However, if the subsequent purchaser lacks good faith, this purchaser acquires a voidable title and may be required to forfeit the goods to the defrauded party.

In theory, the good-faith purchase doctrine would seem to prevent gray marketing. However, as illustrated in Johnson & Johnson Products, Inc. v. DAL International Trading Co., this doctrine fails to do so. In that case, Johnson & Johnson Products ("J&J") alleged that DAL International Trading ("DAL") fraudulently induced J&J to sell

203. The good-faith purchaser doctrine is codified in U.C.C. sections 2-403(1) and 2-103. U.C.C. section 2-403(1) provides in part: "[a] purchaser of goods acquires all title which his transferor had or had power to transfer . . . . A person with voidable title has power to transfer a good title to a good faith purchaser for value." U.C.C. § 2-403(1) (1990).
204. An example of voidable title includes title acquired by fraud.
205. Johnson & Johnson Prods., Inc. v. DAL Int'l Trading Co., 798 F.2d 100, 102 (3d. Cir. 1986).
206. U.C.C. §2-103(1)(b) defines "good faith." "Good faith" means honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade." Id.
207. See Johnson & Johnson Prods., 798 F.2d at 102.
208. See id. at 100.
toothbrushes and baby products. Specifically, J&J alleged that DAL fraudulently misrepresented their intent to only distribute J&J products in Poland. Instead, once DAL acquired the goods, they subsequently diverted these goods to Quality King in the U.S.

The district court granted a preliminary injunction in favor of J&J. The court predicted that J&J would prevail on the merits because Quality King was not a good faith purchaser under Uniform Commercial Code section 2-403(1). Although Quality King lacked knowledge of the fraud perpetrated by DAL, the court nevertheless concluded that the gray market transaction between the parties was “conducted under ‘suspicious circumstances’” that should have alerted Quality King so as to make some inquiries into the chain of title.

However, the Third Circuit vacated the preliminary injunction. The Third Circuit held that the district court erred in its decision. The district court should have inquired into whether Quality King subjectively knew or suspected that there was a flaw in the title. The district court incorrectly examined whether Quality King had a duty to inquire into the chain of title. The Third Circuit stated that the purpose of the good faith doctrine is to “allow[] people safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous possessors in the chain of distribution.” Because the Third Circuit was interpreting state law, the court had to apply the law of the forum state, New Jersey. After reviewing New Jersey law, the court held that the state’s law did not require a purchaser of gray market goods to investigate whether a defect in title existed.

The Johnson & Johnson case reveals flaws in the good faith purchaser doctrine. Under this theory, a distributor who agrees to restrict
the geographic area of its distribution and subsequently distributes such goods outside of that area would not be breaching the good faith purchaser doctrine. Although the copyright owner would have a breach of contract claim against the distributor, the copyright owner would not have a cause of action against a subsequent purchaser. The subsequent purchaser has a defense under the good faith purchaser doctrine. Furthermore, because the good faith purchaser doctrine is a state cause of action, federal courts are faced with an Erie Doctrine issue. Thus, state law interpretation of the good faith purchaser doctrine will effect the disposition of the case.

C. The 1976 Copyright Act

Under an interpretation broader than the one utilized by the Court in L’anza, the Copyright Act is a good vehicle for preventing parallel importation. First, like tort defendants, copyright infringers are subject to joint and several liability. Hence, a copyright owner can choose which infringer to sue. Second, a copyright infringement claim can be sustained despite the alleged infringers’ lack of actual knowledge regarding their infringing conduct. Therefore, an infringer is not insulated from liability for lack of knowledge. Third, a copyright holder may proceed against any individual without showing intent.

However, due to the Supreme Court’s narrow interpretation of sections 109(a) and 602, current copyright law does not completely protect companies against gray marketing. Nevertheless, Congress can overcome these shortcomings. First, Congress should re-draft section 602(a) to eliminate the possibility of reading section 109(a) into section

220. See id. at 103 n.2.
221. See id.
222. Erie R.R. Co., 304 U.S. at 64. The Erie doctrine becomes an issue when a federal court adjudicates a state law claim pursuant to the court’s exercise of diversity or supplemental jurisdiction. Under the Erie doctrine, in the absence of applicable federal law, the court must apply the law that a court of the forum state would apply. See Allan Ides, The Supreme Court and the Law to Be Applied in Diversity Cases: A Critical Guide to the Development and Application of the Erie Doctrine and Related Problems, 163 F.R.D. 19 (1995).
224. See id.
226. Id. If the infringer shows no actual knowledge of copyright infringement, the best result the infringer receives is a reduction in damages. See 17 U.S.C. § 504(c)(2) (1998).
228. See supra Part III.
602(a) through the language "under section 106." Congress should change the language of section 602(a) to read:

Importation into the United States, without the authority of the owner of the copyright under this title, 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 as described in section 106(3), actionable under section 501.

This language simply qualifies the exclusive distribution rights that section 602(a) was intended to protect. More importantly, the first sale doctrine would not be applicable, and section 602 would only be subject to the limitations enumerated in this same section.

Nevertheless, if Congress does not amend section 602(a), a broader interpretation of the section could also prevent gray marketing. If the importation right is considered a right separate from the distribution right, then the importation right would not be subject to the limitations set forth in sections 107 through 120, including section 109(a). The language of section 501 makes this interpretation possible because it describes infringement of the importation and distribution in the alternative. Moreover, these rights can be construed to be distinct because they are addressed in different chapters of the Copyright Act. If the importation right was a species of the distribution right, then the importation right should have been added to section 106.

However, this reading of section 602 hinges on the interpretation of the language in section 602 that describes infringement importation right as a violation of the distribution right. As the L'anza decision demonstrates, it is difficult to persuasively argue that these rights are distinct. Although the legislative intent can support the distinction between the importation and distribution rights, it is difficult to trump the unequivocal language of section 602.

Thus, the most effective way of preventing gray marketing under copyright law is to amend section 602. This solution clarifies the ambiguities present in the section and averts different interpretations by the courts. By amending section 602, Congress can send a clear signal as to their intent regarding unauthorized importation of copyrighted goods.

230. Id.
231. Id. § 501.
232. The distribution right is found in Chapter 1 of the Copyright Act while the importation right is found in Chapter 6.
VI. CONCLUSION

Companies like Sony are in a precarious position after L’anza. Like trademark, tort, and contract law, copyright law currently fails to effectively prevent gray marketing. However, copyright law may be the best equipped body of law to prevent gray marketing. To adequately address gray marketing, Congress should redraft section 602 of the Copyright Act which will protect companies from the financial ravages of the gray market.

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* This Note is dedicated to my parents, sister, and Grandma for their endless love, support, and encouragement. I would like to thank Professor F. Jay Dougherty for his insightful suggestions in the development of this Note. In addition, I would like to thank the editors and staff of the Loyola of Los Angeles Entertainment Law Journal for their diligence. In particular, I would like to thank Lynn Reynolds Hartel, Erika Paulsrude, Devon McGranahan, Michael Acain, Jane Lee, and Farnoush Nassi for their insightful comments and dedication.