1-1-1990

The Use of Copyright Law to Block the Importation of Gray-Market Goods: The Black and White of It All

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Recommended Citation
Available at: https://digitalcommons.lmu.edu/lr/vol23/iss2/5
THE USE OF COPYRIGHT LAW TO BLOCK THE IMPORTATION OF GRAY-MARKET GOODS:
THE BLACK AND WHITE OF IT ALL

I. INTRODUCTION

Suppose that a domestic manufacturer of popular beauty items has invested significant amounts of money in advertising a product and setting up exclusively authorized domestic distributorships to carry its product line. Suppose further that this manufacturer has trademarked the product's name, intending to protect the goodwill associated with the product. Assume additionally that the domestic manufacturer has copyrighted the product's labeling instructions to discourage imitators from copying its packaging and consequently cutting into the manufacturer's profits.

Strong domestic sales may soon convince the domestic manufacturer to market the product overseas through authorized foreign distributors or foreign licensed manufacturers. For various economic reasons, the domestic manufacturer may set the retail sales price of the product abroad lower than the retail price of identical goods sold domestically through authorized domestic distributorships. Furthermore, rapid currency fluctuations may result in the cost of goods abroad becoming relatively lower than the cost of identical goods purchased in the United States. These events may result in price differentials which create an

1. The purpose of a trademark is "to designate the goods as the product of a particular trader and to protect his good will against the sale of another's product as his." United Drug Co. v. Theodore Rectanus Co., 248 U.S. 90, 97 (1918). By trademarking the product name, the supplier hopes to prevent competitors from copying the product's name and thereby profiting from the well-founded reputation developed by the supplier. See generally J. Gilson, Trademark Protection and Practice § 1.03 (1989); 3A R. Callmann, The Law of Unfair Competition, Trade Marks and Monopolies 21.06 (4th ed. 1983).

2. That is, assume that the supplier is the owner of a United States copyright in all the copyrightable features of the goods in question. See 17 U.S.C. § 102 (1982) for a general description of the prerequisites to copyrightability.

3. Hereinafter, authorized foreign distributors and foreign licensed manufacturers will collectively be referred to as "foreign suppliers."


5. Hereinafter, the term "authorized domestic distributors" will include those domestic distributors authorized to sell, manufacture or license the copyrighted article.

6. See Supnik, The Bell and Howell: Mamiya Case—Where Now Parallel Imports?, 74 Trademark Rep. 1, 2-3 n.7 (1983) (gray-market importers benefit from currency fluctuations); Bender & Gerber, In Wake of the High Court Decision, the Gray Market Gets Grayer,
incentive for independent third parties to purchase products abroad and, in turn, import them back into the United States for resale.\(^7\) Such third-party importers typically incur lower overhead costs than competing authorized distributors, for they rarely service the warranties accompanying the goods,\(^8\) and freely profit from the advertising provided by domestic suppliers.\(^9\) Consequently, these third-party importers profit by reselling the imported goods in the United States at a lower price than products sold through authorized channels.\(^10\) This scenario\(^11\) illustrates the problem of gray-market goods, a multi-billion dollar industry in the United States today.\(^12\)

Gray-market goods, or "parallel imports," are genuine products possessing a brand name protected by a trademark or copyright.\(^13\) These goods are typically sold, or licensed to be sold, by domestic suppliers\(^14\) under sales contracts or licensing agreements restricting their resale to a specific geographic market, usually overseas.\(^15\) Instead, however, these goods are imported back into the United States for resale, generally against the wishes of domestic suppliers.\(^16\) Although domestic suppliers

\[\text{Nat'l L. J., Sept. 19, 1988, at 15, col. 1 (noting that the gray market "is very much a creature of the fluctuating dollar").}\]

\[\text{7. Bender & Gerber, supra note 6, at 15 (When favorable prices exist for goods sold abroad, relative to the price of domestically available goods, market incentive is generated for gray-market importation. Sufficiently high price differentials which exceed tariff, freight, and related importation charges increase this incentive).}\]


\[\text{9. Id.}\]


\[\text{11. This scenario is based in part on the facts of Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 664 F. Supp. 909 (D.N.J. 1987), vacated, 847 F.2d 1093 (3d Cir. 1988).}\]

\[\text{12. See Boyer, The Assault on the Right to Buy Cheap Imports, FORTUNE, Jan. 7, 1985, at 89 (estimating that in 1984 gray-market importation accounted for approximately $6 billion in domestic retail sales); Goodgame, Inside the Gray Market, TIME, Oct. 28, 1985, at 76 (suggesting that gray-market imports account for about $5.5 billion in domestic retail sales annually); Westerman, The $7 Billion Gray Market: Where it Stops, Nobody Knows, Bus. WEEK, Apr. 15, 1985, at 86 (estimating that domestic gray-market sales amount to $7 billion annually).}\]


\[\text{14. Hereinafter, references to "domestic suppliers" will encompass both domestic manufacturers and authorized domestic distributors, collectively.}\]

\[\text{15. See, e.g., Bainton & Smith, supra note 4, at 303-04. See also generally M. NIMMER & D. NIMMER, NIMMER ON COPYRIGHT § 10 (1989).}\]

of trademarked and copyrighted articles denounce the lack of protection against such gray-market pirates, proponents of free trade applaud the parallel importer’s efforts to offer consumers the option of purchasing such articles at competitively lower prices. Gray-market importation places entrepreneurial suppliers in a serious dilemma: How can profits be maximized, both domestically and abroad, while still enabling the supplier to retain control over the distribution and supply of its product in both markets?

This Comment explores and defines the extent of protection that the Copyright Act of 1976 provides against the unauthorized importation of gray-market goods. First, this Comment presents a general discussion of potential avenues of protection currently available to domestic suppliers. Second, this Comment examines pertinent provisions of the Copyright Act of 1976 and its legislative history to ascertain the degree of importation protection intended by Congress. Third, this Comment analyzes current case law and its application. The hypothetical situation posed is then analyzed in light of the foregoing, to determine what guidance the Copyright Act provides to domestic suppliers who copyright their products and then seek to prohibit the gray-market importation of their goods. Finally, this Comment suggests possible solutions to clarify ambiguities in certain importation provisions of the current Copyright Act.

II. PROTECTION AGAINST GRAY-MARKET GOODS

Three potential avenues of protection are generally available to do-
mestic suppliers: contractual agreements, trademark protection, and copyright protection.

A. Contractual Arrangements Prohibiting Imports

Under a licensing arrangement, a domestic supplier could contractually grant an individual or other entity the right to produce a copyrighted article, while simultaneously placing territorial restrictions on the article's resale.\(^2\) Thus, through a contractual license, the domestic supplier can expect to achieve a certain degree of control over the distribution of the article both in the domestic and international markets.\(^2\)

Yet, such arrangements are problematic, because the domestic supplier generally cannot enforce a territorial resale restriction against a non-contracting party\(^2\) and must also be wary of possible antitrust complications.\(^2\) To enforce contractual territorial restrictions against non-privy third parties, domestic suppliers must typically establish that the holder of gray-market goods possessed actual knowledge of existing contractual territorial limitations between the original licensee and licensor.\(^2\) Since actual knowledge of such contractual limitations may be difficult to establish,\(^2\) contractual licensing arrangements are usually an ineffective form of protection for domestic suppliers.\(^2\)

B. Trademark Protection Against Unauthorized Imports

In addition to contractual licensing arrangements, the domestic supplier may seek protection against gray-market importation by using a trademark in connection with its product.\(^2\) By obtaining federal registration of the mark, the domestic supplier can rely on certain provisions

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20. See, e.g., Bainton & Smith, supra note 4, at 303-04. See also generally M. Nimmer & D. Nimmer, supra note 15, § 10.02 [B][4].


24. Johnson & Johnson, Inc. v. DAL Int'l Trading, 798 F.2d 100, 103-04 (3d Cir. 1986). Actual knowledge of territorial restrictions is required because all purchasers, even those possessing voidable title to property, retain the power to convey good title to subsequent good faith purchasers for value in the distribution chain. See U.C.C. § 2-403(1) (1978).

25. See, e.g., 3 A. Corbin, supra note 22, § 538.

26. See generally Kelly, supra note 21, at 248.

27. See supra note 1 for a description of the purpose of trademarks.
of the Tariff Act of 1930\textsuperscript{28} and the Lanham Act\textsuperscript{29} to prevent the importation of gray-market goods. Nevertheless, gray-market importers seem to have succeeded in severely restricting the supplier's power to control the importation of articles bearing legitimate trademarks.\textsuperscript{30} For example, when trademarks are applied to domestically manufactured goods under the authority of the United States trademark owner, any future unauthorized importation of the goods cannot be prevented by the trademark owner.\textsuperscript{31}

C. Copyright Protection: Statement of the Problem

As a supplement to contract and trademark protection, some United States manufacturers and suppliers have turned to copyright law to pro-

\begin{itemize}
  \item \textsuperscript{28} See, e.g., 19 U.S.C. § 1526 (1982). Section 1526 provides in pertinent part:
    \begin{itemize}
      \item (a) Importation prohibited.
    \end{itemize}
    Except as [otherwise provided . . . ], it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears 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.
    \end{itemize}

\begin{itemize}
  \item \textsuperscript{29} See, e.g., 15 U.S.C. § 1124 (1988). Section 1124 provides in pertinent part:
    \begin{itemize}
      \item [N]o article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacturer, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country . . . or which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States . . .
    \end{itemize}

\begin{itemize}
  \item \textsuperscript{30} See Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 664 F. Supp. 909, 910 (D.N.J. 1987), vacated, 847 F.2d 1093 (3d Cir. 1988). In Sebastian the court noted that "a trademark owner cannot with impunity rely on its mark given the wide split of authority as to what protection the Lanham Act provides against the importation of gray market goods." \textit{Id.} (citations omitted).
  \item \textsuperscript{31} Although 11 U.S.C. section 1526 grants trademark owners the ability to block the importation of "merchandise of foreign manufacture," the statute does not apply to domestically-manufactured merchandise. \textit{See} 11 U.S.C. § 1526 (1988). Furthermore, while 15 U.S.C. section 1124 prohibits importation of merchandise "which shall copy or simulate" registered domestic trademarks, the statute does not apply to merchandise trademarked under the authority of the United States trademark owner. \textit{See} 15 U.S.C. § 1124 (1988).
\end{itemize}

The recent decision of \textit{K-Mart Corp. v. Cartier, Inc.}, however, suggests that a United States trademark owner may prevent the importation of trademarked goods produced by an independent foreign manufacturer under the United States trademark holder's authorization. 108 S. Ct. 1811, 1818-19 (1988). \textit{See also} Bender & Gerber, \textit{supra} note 6, at 15-16, cols. 2-4 (analysis of \textit{K-Mart} decision's ramifications with respect to gray-market good importation).
tect against gray-market-good importation. Under the Copyright Act of 1976, certain elements of a product, specifically, its printed labeling instructions, may be protected by copyright. Assuming the supplier obtains a copyright in its goods, the supplier, as the United States copyright owner, may then resort to certain provisions of the Copyright Act for protection against gray-market imports. Specifically, copyright owners have successfully relied on the protection of section 602(a) of the Copyright Act, which appears to grant substantial control to the copyright owner to restrict unauthorized imports. Section 602(a) provides in pertinent part that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies and phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords." Thus, copies of a work acquired abroad cannot be imported without the authority of the copyright owner.

In response to domestic suppliers' successful assertions of importation right restrictions under section 602(a), gray-market importers have sought shelter under section 109(a). Section 109(a) provides that "[n]otwithstanding 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." The copyright owner therefore cannot restrict the sale or other disposition of the possession of the physical embodiment of the copyrighted work by an owner of a "lawfully made" copy.

For example, when a person purchases a copy of a book authored and copyrighted by Stephen King, the ownership of the physical embodiment of the book, including its pages, binding, and jacket, may be freely...
transferred to a third party under the provisions of section 109(a).\textsuperscript{41} This infringement defense, commonly referred to as the "first-sale doctrine," was first enunciated by the Supreme Court of the United States in \textit{Bobbs-Merrill Co. v. Straus}.\textsuperscript{42} The first-sale doctrine recited in section 109(a) generally codifies Congress' apparent agreement with the traditional judicial disdain for restraints on alienation.\textsuperscript{43} Although section 109(a) yields this possible defense to infringement claims, the copyright owner nevertheless retains other controls over the copyrighted work after resale, including the exclusive right to reproduce the work.\textsuperscript{44}

In sum, from the plain language of section 602(a), it appears that copyright owners can prevent importers from importing goods that have been "acquired outside the United States."\textsuperscript{45} Yet, once the goods have undergone a first sale, section 109(a) seems to simultaneously protect the importer, granting the importer the right to then freely "sell or otherwise dispose of the possession" of the goods.\textsuperscript{46} Thus, sections 602(a) and 109(a) appear to conflict when copyrighted goods sought to be imported have undergone a first sale.

Unlike trademark statutes and regulations which have been extensively and decisively analyzed,\textsuperscript{47} the copyright provisions invoked by suppliers and gray-market importers have not undergone intensive judicial scrutiny. In fact, few appellate courts have yet commented on the problem in any detail.\textsuperscript{48} Hence, several ambiguous and conflicting dis-

\textsuperscript{41.} Id.

\textsuperscript{42.} 210 U.S. 339, 350-51 (1908). The legislative origin of the term "first sale" dates back to 1909, when the House of Representatives explained that "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale." H.R. REP. No. 222, 60th Cong., 2d Sess. 19 (1909) (emphasis added).


\textsuperscript{44.} \textit{Id.} at § 106. The Copyright Act of 1976 expressly grants a copyright owner five exclusive rights pertaining to copyrighted works: (1) the right to reproduce the copyrighted work; (2) the right to prepare derivative works based upon the copyrighted work; (3) the right to distribute the copyrighted work to the public; (4) the right to publicly perform the copyrighted work; and, (5) the right to publicly display the copyrighted work. \textit{Id.}

\textsuperscript{45.} \textit{Id.} at § 602.

\textsuperscript{46.} \textit{Id.} at § 109(a). The courts have not clarified whether the restrictions on importation under section 602(a) are the same as, or essentially equivalent to, those restrictions on disposing of the possession of a copy which are prohibited under section 109(a).


strict court opinions are the only guidelines available to domestic suppliers and gray-market importers of copyrighted goods.49

III. COPYRIGHT LAW EXPLORED: GENERAL HISTORY OF THE IMPORTATION RESTRICTION PROVISIONS

A. Introduction

The importation provisions affecting copyright owners are contained within the statutory rights enumerated in the Copyright Act.50 Congress' power to enact the Copyright Act is authorized by Article I, section eight, clause eight of the United States Constitution, which provides that "Congress shall have the power to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive rights to their discoveries."51 In interpreting this language, the Supreme Court of the United States stated that the principal purpose of copyright law is to advance public welfare by rewarding the talent of authors with a limited monopoly over their works.52 Thus, the second factor, rewarding authors, is merely a means to the primary end of advancing the public welfare.53

Providing authors with control over the distribution of their copyrighted works is but one method of rewarding their talent.54 To fully understand the scope of protection granted to copyright owners to prevent the unlawful importation of their works, the language and meaning of the current Copyright Act must be reviewed. Furthermore, the language of corresponding provisions in prior acts must be explored in order to derive a complete understanding of the scope of protection intended.

B. The Importation Restrictions Under the 1891 and 1909 Acts

1. The importation restrictions under the 1891 Act

The first importation restrictions on unauthorized copies, namely, those manufactured without the authorization of the copyright owner,
were enacted as early as 1790. Later, the Act of 1891 included a general provision detailing prohibited acts which constituted infringement. Section 4964 of the 1891 Act provided in relevant part:

Every person who . . . shall . . . without the consent of the proprietor of the copyright . . . publish, dramatize, translate, or import, or knowing the same to be so printed, published, dramatized, translated, or imported, shall sell or expose to sale any copy of such book, shall forfeit every copy thereof to such proprietor, and shall also forfeit and pay such damages as may be recovered in a civil action . . . .

Thus, on its face, section 4964 of the 1891 Act appeared to prohibit the act of importing copyrighted books without the consent of the copyright owner. Yet it is not known whether this prohibition applied to copyrighted books that were subject to a first sale. Accordingly, it is uncertain whether under the 1891 Act a copyright owner could prevent the importation of a copyrighted book once it had already been sold.

Although there is little definitive case law interpreting the importation provision language of the 1891 Act, the court of appeals' decision in Bobbs-Merrill Co. v. Straus suggested in dicta that the importation provision of section 4964 of the 1891 Act did not add an additional right which could be infringed after a first sale had occurred. In Bobbs-Merrill, the court denied a copyright owner's request to control the resale price of his book, "The Castaway," by forcing all subsequent vendors to

55. The first Copyright Act, the Copyright Act of 1790, ch. 15, 1 Stat. 124, provided:

That if any other person . . . shall print, reprint, publish, or import, or cause to be printed, reprinted, published or imported from any foreign kingdom . . . any copy or copies of such map, chart, book or books without the consent of the author or proprietor thereof . . . then such offender or offenders shall forfeit all and every copy . . . and every such offender and offenders shall also forfeit and pay the sum of fifty cents for every sheet . . . .


The 1891 Copyright Act also included a book publishers' protection provision, which prohibited the importation of copies of works even if the work was made under the authority of the copyright owner. The United States Customs Service was empowered to seize such copies, unless the copies were manufactured in the United States or manufactured abroad utilizing type sets from the United States. Id., reprinted in E. BRYLAWSKI & A. GOLDMAN, supra at 52.

57. But see Bobbs-Merrill Co. v. Straus, 147 F. 15 (2d Cir. 1906) (copyright owner was denied request to control resale price of his book, by forcing all subsequent vendors to sell book at predetermined price), aff'd, 210 U.S. 339 (1908).

58. 147 F. 15 (2d Cir. 1906), aff'd, 210 U.S. 339 (1908).

59. Id. at 26.
sell the book at a predetermined price. This appellate court decision was later upheld by the Supreme Court in an opinion that became the foundation of the so-called "first-sale" doctrine now codified in section 109(a) of the Copyright Act. However, in denying the plaintiff's request to control the resale price, the appellate court also noted that:

Counsel for complainant contends . . . there may be infringements of the copyright law by a seller of a book lawfully printed or lawfully imported. While there are some obiter dicta which would seem to support this contention, we can find no decision to that effect. On the contrary, . . . the protection against multiplication of copies and the incidents thereof constitute the only protection afforded by the statute.

That comment suggests that there could not be copyright infringement by importation after the copy had been created or multiplied. When hearings were held to change the 1891 Act, one panelist noted that importation of copyrighted articles manufactured abroad under licenses issued to third parties could not be prevented under the 1891 Act. This panelist echoed the identical concerns noted by some domestic suppliers today—namely, that the United States copyright owner is harmed when articles (in this instance books) manufactured under a license and intended for resale abroad were instead imported, thereby reducing normally higher domestic royalty rates.

Thus, comments and case law suggest that the primary problems under the 1891 Act were that copyright owners possessed no power to exclude copies that were either made under the authorization of the copyright owner or were subject to a valid first sale.

2. Importation restrictions under the 1909 Act

The Copyright Act of 1909 did little to change the language of the importation provisions of the 1891 Act. Unfortunately, under the 1909

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60. Id. at 28.
63. Bobbs-Merrill, 147 F. at 21 (emphasis added).
65. Id.
66. Id.
67. See Bobbs-Merrill, 210 U.S. at 350.
68. The 1909 Act contained a provision similar to section 4964 of the 1891 Act. The 1909 Act provided that: "The importation into the United States of any article bearing a false
Act, as with the 1891 Act, there are practically no determinative judicial interpretations of the scope of importation rights granted to copyright owners.69

One of the few cases to discuss the issue of importation violations of copyright under the 1909 Act was *Ebeling & Reuss, Inc. v. Raff.*70 In *Ebeling,* a copyright owner of designs for chinaware authorized their manufacture and sale in Czechoslovakia.71 To prevent copies of the work from being imported to the United States from Czechoslovakia, the copyright owner filed an action against the defendant importer asserting a violation of the importation provision of the 1909 Copyright Act.72 Unfortunately, the court never decided whether the importation of authorized copies against the wishes of the domestic copyright owner rendered the copies "piratical" and consequently subject to the importation restrictions of the 1909 Act. Instead, the court dismissed the copyright owner’s action for failure to deposit the article with the Copyright Office before commencing an action for infringement.73

Thus, the “importation rights” under the 1891 and 1909 Acts appear quite narrow. They did not restrict the importation of articles that were either first sold or manufactured under the authority of the copyright owner.74 Hence, it seems unlikely that copyright owners today can rely on early legislative history or case law to support their position that the first-sale doctrine is not applicable to the importation provisions.

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71. *Id.* at 367.

72. *Id.* at 368.

73. *Id.*

C. Importation Rights Under the 1976 Copyright Act

The Copyright Act of 1976 marked the culmination of efforts originating in 1955, when Congress appropriated funds for a series of thirty-five studies analyzing the problems of the 1909 Act. These efforts yielded the influential Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law which critiqued the 1909 Act and prominently influenced the drafting of the new 1976 Act. After more than fifteen additional years of hearings, revisions, and compromises, the new Copyright Act of 1976 was enacted by Congress and signed by President Gerald Ford in late 1976.

1. The importation rights and the first-sale doctrine

The Copyright Act of 1976 grants copyright owners several exclusive rights, including the right to control the distribution of copyrighted articles, under section 106(3), and the right to restrict imports under section 602(a). Yet since these rights must always be measured and limited by their ultimate impact on the public welfare, they are not absolute. Specifically, Congress included section 109(a) as part of the new Act to limit the copyright owner's distribution right, as enumerated in...
section 106(3). 84

Section 109(a) codifies what is commonly referred to as the "first-sale doctrine." 85 The first-sale doctrine extinguishes the copyright owner's section 106(3) distribution rights in a particular copyrighted article once ownership has been transferred under the copyright owner's authority. 86 This provision serves the dual purpose of discouraging restrictions on property transfers, as well as protecting innocent third-party buyers who may be unaware of prior sales restrictions imposed by the copyright owner. 87

Similarly, with respect to gray-market goods, current debate focuses on whether the first-sale doctrine, section 109(a), also acts to restrict the copyright owner's section 602 importation right. 88 If section 109(a) does limit the section 602 importation right, as well as the section 106(3) distribution right, then gray-market importation of goods purchased after having undergone a valid first sale cannot be prevented. Such an interpretation obviously promotes gray-market importation. Alternatively, the section 602(a) importation right may be a separate, independent right which remains intact, regardless of whether a first sale has occurred. This latter interpretation would clearly preclude gray-market importation in all cases where the copyright owner objects to the importation.

As a starting point to understanding the resolution of this possible conflict, the legislative history of the 1976 Copyright Act, and particularly of section 602 must be examined.

2. Importation rights under the 1976 Act

Section 602 deals with two classes of imported goods. Subsection (b) of section 602 deals with the situation where the imported goods are "piratical," i.e., made without the authorization of the copyright owner. 89 In such instances, the goods can always be prevented entry into the United States. 90 Subsection (a) deals with the situation where the goods have been made with the authorization of the copyright owner, but

85. 17 U.S.C. § 109(a) (1982). The legislative origin of the term "first sale" dates back to H.R. Rep. No. 222, 60th Cong., 2d Sess. 19 (1909), which explained that "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale." Id. (emphasis added).
86. Id.
88. See, e.g., Bender & Gerber, supra note 6, at 15.
90. Id.
have been acquired outside the United States, and are not authorized for importation by the copyright owner.\textsuperscript{91}

The House Report accompanying the final legislation of the 1976 Act states that under section 602(a), "unauthorized importation is an infringement merely if the copies or phonorecords have been acquired outside the United States."\textsuperscript{92} That comment suggests that the determinative factor for preventing importation of copyrighted goods under section 602(a) rests solely upon ascertaining their site of acquisition. That is, while the site of manufacture may be irrelevant, the acquisition site is paramount. During the course of legislative hearings and studies, section 602(a) and the general problem of restricting authorized or unauthorized copies was often discussed.\textsuperscript{93} But these hearings appear to have only superficially examined the specific conflict between sections 109(a) and 602(a).\textsuperscript{94}

\textbf{a. the beginning of the 1976 Act—the first report by the register of copyrights and the first hearings involving the newly proposed Act}

When commissioned by Congress in 1955, the Copyright Office drafted the Report of the Register of Copyrights\textsuperscript{95} which discussed the issue of placing copyright-importation restrictions on authorized copies made abroad.\textsuperscript{96} The Report noted,

\begin{itemize}
  \item \textsuperscript{91} \textit{Id.} § 602(a). If the goods are classified under section 602(b) (piratical copies), then the United States Customs Service has the authority to block their entry. \textit{Id.} However, if the goods are classified under section 602(a), then the United States Customs Service has no authority to prevent their entry, yet their entry can constitute infringement under the Copyright Act. \textit{Id.} Section 602 is most hotly debated and contested, for gray-market importers can find themselves defending infringement actions in cases where the goods in question have either: (1) been produced abroad by a licensee of the United States copyright owner for distribution in the United States; (2) been produced abroad by a licensee of the United States copyright owner for distribution abroad; (3) been sold abroad with the intention of restricting distribution abroad; or finally, (4) been sold in the United States with the intention of distribution abroad. \textit{Id.}


  \item \textsuperscript{93} See STAFF OF HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 2ND SESS., COPYRIGHT LAW REVISION, (PART 4): FURTHER DISCUSSIONS AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW 210-12 (testimonies of Irwin Karp and Abe Goldman).


  \item \textsuperscript{95} REPORT OF THE REGISTER OF COPYRIGHTS, \textit{supra} note 77.

  \item \textsuperscript{96} \textit{Id.} at 119-26.
\end{itemize}
[Some countries, including the United Kingdom, bar importation in this situation, apparently on the ground that, even though the copies were authorized, their sale in violation of a territorial limitation would be an infringement of the copyright. In the United States, there is no clear decision as to whether the sale of authorized copies beyond a territorial limitation is an infringement. But the import ban on piratical copies does not seem to apply to authorized copies.]

Thus, it appears that, at least initially, the newly proposed importation provision was not intended to restrict the importation of copies made under the authorization of the copyright owner. The comment from the Report of the Register of Copyrights suggests that the importation provisions of the 1909 Act were enforced in a manner similar to current section 602(b); namely, imported piratical goods could always be denied entry into the United States by the copyright owner. Yet in cases where a copy of a particular work was made with the authorization of the copyright owner, the copyright owner lost the right to restrict the importation of that copy, regardless of where it was made, or where it was purchased.

After the initial Report of the Register of Copyrights, the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Committee on the Judiciary commenced revisionary hearings in 1961. Several witnesses testifying before the House Subcommittee mentioned the scope and ramifications of the newly proposed section on importation restrictions. Most of the witnesses proposed that the importation restrictions be expanded to encompass even those copies made with the authorization of the copyright owner. Horace S. Manges of the American Book

97. Id. at 126 (emphasis added). A later study agreed with the findings of the Register of Copyrights, noting that to extend the import ban to authorized copies "would impose the territorial restrictions in a private contract upon third persons with no knowledge of the agreement." M. McCANNON & B. RUDD, THE MANUFACTURING CLAUSE OF THE U.S. COPYRIGHT LAW, Copyright Office, Study No. 35 at 40-41 (1963).

98. See supra notes 64-68 and accompanying text for a discussion of the importation restrictions under the 1909 Act.

99. REPORT OF THE REGISTER OF COPYRIGHTS, supra note 77, at 126.


102. Id. (testimonies of Horace S. Manges of American Book Publishers Council, Sidney A.
Publishers Council justified this request by noting that traditionally available causes of action in contract against third-party importers were expensive and ineffective.\textsuperscript{103} He strongly urged that the new importation provision should grant copyright owners the right to restrict the importation of copies, irrespective of whether they were authorized or "piratical."\textsuperscript{104} Nevertheless, Barbara Ringer of the Copyright Office confirmed that her office opposed extending the importation provisions to restrict authorized copies, and urged that such restrictions be enforced through private contracts.\textsuperscript{105}

\textit{b. the first draft of the Act as reviewed in the 1963 hearings}

Soon after the 1961 hearings, the first language of the proposed Copyright Act was drafted, based on the Report of the Register of Copyrights and the panel hearings.\textsuperscript{106} In contrast to the suggestion of the Report of the Register of Copyrights, the first draft appeared to provide broad importation protection.\textsuperscript{107} First, the new provisions specified that even the importation of authorized copies could be barred by the copy-

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\textsuperscript{104} Id. Horace S. Manges of the American Book Publishers Council suggested that the definition of "piratical copies" be expanded to include the case of authorized copies imported without the consent of the United States copyright owner. Id. at 213. Furthermore, Sidney Diamond of London Records reaffirmed the problems suggested by Mr. Manges, and echoed the identical sentiment, seeking to change the definition of "piratical copy." Id. Both individuals were concerned with the encroachment of foreign licensees into the United States market without the consent of the United States copyright owner. Id. Additional comments submitted by the American Book Publishers Council and American Textbook Publishers Institute also supported the notion of changing the definition of "piratical copies" to include any works "produced or imported" without the authority of the copyright owner. Id. at 232 (emphasis added).

\textsuperscript{105} Id. at 193-94.

\textsuperscript{106} STAFF OF HOUSE COMM. ON THE JUDICIARY, 88TH CONG., 2D SESS., COPYRIGHT LAW REVISION, (PART 3): PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW AND DISCUSSIONS AND COMMENTS ON THE DRAFT, 257 (Comm. Print 1964). There were two alternatives presented for section 602 (then section 44). They differed only in the role that customs would play in controlling the entry of authorized copies. Both alternatives included the same first subsection, which read:

\textbf{IMPORTATION OF INFRINGING COPIES OR RECORDS}

(a) Importation into the United States of copies or records of a work for the purpose of distribution to the public shall, if such articles are imported without the authority of the owner of the exclusive right to distribute copies or records under this title, constitutes an infringement of copyright actionable under section 35.

\textit{Id.}

\textsuperscript{107} See \textit{id.}
right owner. Hence, unlike the 1909 Act, there was no requirement that the copies be "piratical," or made without the copyright owner's authority. Second, there was no requirement specifying that the copies had to be acquired abroad, unlike the final adopted version of section 602(a). Therefore, it is possible that the proposed provision would have applied to copies made or sold anywhere, regardless of whether a first sale had occurred.

The House Subcommittee investigated the importation clause in more detail later in 1963. At one point, Sydney Kaye of Broadcast Music, Inc. confirmed that the new importation provisions under consideration granted greater protection to copyright owners. Kaye stated that "[p]iratical copies" has been defined, even under the present section 106, as meaning a work which is both illegally produced and imported. It does not apply to works legally produced in Europe, and the present statute does.

In a later exchange between Irwin Karp of the Authors League of America, and Abe Goldman of the Copyright Office, Karp attempted to locate the limits of the language of the new section. Goldman reiterated that the new provision did not require that the copies be made without authorization, only that they be imported without permission of the copyright owner. Nevertheless, when asked by Karp whether a foreign sale would qualify as a "first sale" for purposes of terminating the importation right, Goldman immediately began a "distribution" right analysis under section 106(3), as illustrated by the following exchange:

GOLDMAN: I would suppose that the whole answer depends

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108. Id. at 257.
113. Id. at 210-12.
114. Id. at 205-06 (emphasis added). Moreover, Abe Goldman of the Copyright Office also concurred with Kaye's observation. Id. at 206. Later the same day, Horace Manges of the Joint Copyright Committee of the American Book Publishers Council and the American Text Book Publishers Institute expressed his opinion that the new section did not require unauthorized manufacture, but rather only unauthorized importation. Id. at 209-10 (emphasis added).
115. Id. at 210-12 (testimony of Irwin Karp).
116. Id. at 210 (testimony of Abe Goldman).
117. Id. at 211 (testimony of Abe Goldman).
on whether the distribution that would take place in the United States would itself constitute an infringement of copyright. When you apply this rule about the effect of the first sale of a copy exhausting the right to control the further distribution of that copy, your question would be whether this represents a sale of the copy that does exhaust the right.

KARP: You are right, Abe.118

On the one hand, Goldman's comment suggests that the sole importance of the importation provision was to protect distribution rights under section 106(3).119 Hence, Goldman implied that the importation right was indirectly restricted by the first-sale doctrine, through section 109's effect on the 106(3) distribution right. However, Goldman may have thought that infringement of the importation provision required that the subsequent act of distribution also be infringing. That is not the case with the current section 602(a), however, which equates the mere act of importation with infringement.120

c. the hearings in 1964-1965 and the revised draft of the Act

Committee hearings held later in 1964 did nothing to clarify the text of the importation provisions.121 In 1965, the Supplementary Register's Report of the Copyright Office was published.122 This study detailed the revisions made to the first draft of the Copyright Act.123 The revised importation provision proposed in the Supplementary Report does not appear to have altered the language of the first draft.124 The comments in the Supplementary Report also suggest that the importation clause was intended to protect the United States copyright owner by preventing the importation of unauthorized copies.125

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118. Id. (testimonies of Abe Goldman and Irwin Karp).
119. Id. (testimony of Abe Goldman).
120. See 17 U.S.C. § 602(a) (1982). Section 602(a) provides in relevant part: "Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement . . . ." Id.
123. Id.
124. Id. at 292-93.
125. Id. at xxvi.
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report, however, the 1965 report did not mention the exhaustion of the importation right by a first sale in the United States or elsewhere.

In late 1965, the committee held further hearings to review the revised draft of the Copyright Act. Addressing the committee by a pre-written letter, Robert T. Jordan of the Council on Library Resources protested the broad scope of import protection bestowed on copyright owners. Jordan specifically objected to using the Copyright Act to enforce territorial resale restrictions on lawfully purchased copies.

By the time the text of the proposed Copyright Act reached the House of Representatives in 1966, the importation provision had been revised significantly. The new language required that the importation restriction apply only to copies acquired abroad. This language remained in subsequent versions of section 602 considered by Congress, and is the version that was ultimately enacted.

The House Report states that the section was amended in light of the criticism surrounding the scope of protection granted by the initial version of section 602. However, it is uncertain which criticism sparked the amendment and how it was addressed by the new language.

Whatever the case, the new section was narrowed to require that the goods must be "acquired abroad" as a prerequisite for the copyright owner preventing their importation.

d. analysis of the 1976 Act: sections 109 and 602

To understand the intent of the importation provisions in the 1976 Copyright Act, it is essential to keep in mind the primary concerns of various parties testifying before the House Subcommittee during the legislative hearings. In particular, copyright owners were unhappy with the narrow importation protection granted under the 1891 and 1909 Acts. The earlier Acts did not permit the exclusion of copyrighted works if they were manufactured abroad under the authorization of the copyright

127. Id. at 464-68 (statement of Robert T. Jordan of the Council on Library Resources).
128. Id. at 468 (statement of Robert T. Jordan of the Council on Library Resources).
130. Id. Under section 602(a) of the 1965 bill, "unauthorized importation is an infringement merely if the copies or phonorecords have been acquired abroad." Id.
134. See supra notes 55-67 and accompanying text for a description of the narrow importation protection granted by the 1891 Act. See supra notes 68-74 for a description of the narrow protection granted by the 1909 Act.
Hence, the copyright owners hoped to extend the importation rights to include even those copies made with authorization.\textsuperscript{136} The Copyright Office also appears to have been acutely aware of the copyright owners' desire to exclude the entry of copies made abroad under the authorization of the copyright owner into the United States.\textsuperscript{137} However, there was some resistance towards using the copyright laws as a method of enforcing private contractual territorial agreements.\textsuperscript{138} Therefore, the Copyright Office initially recommended against the inclusion of provisions that would have placed the burden on the United States Customs Service to determine whether copies manufactured under the copyright owner's authorization were also imported with the copyright owner's authority.\textsuperscript{139}

Witnesses for publishing companies argued against the narrow protection of the prior acts.\textsuperscript{140} These witnesses proposed that the definition of "piratical" copies be extended to include authorized manufactured copies.\textsuperscript{141} Their efforts appear to have paid off—the current language of section 602 is applicable to all copies, even those made with the authorization of the copyright owner abroad.\textsuperscript{142} However, it is not clear whether they intended to encompass those copies that had also been subject to a first sale abroad, or even if they meant to include authorized manufactured copies made in the United States. Therefore, while the panelists were deciding the scope of the applicability of the new importation provision, they were not necessarily defining the scope of the first-sale defense under section 109(a). The only relevant discussion between witnesses Karp and Goldman suggests that they were concerned about the first-sale doctrine, yet they never came to a definite conclusion regarding its scope.\textsuperscript{143}

Hence, associated with the concept of restricting authorized copies is the inseparable complication of possible valid "first sales" to innocent third parties and importers. This point was apparently overlooked by most of the panelists and the legislative commentaries. Furthermore,
cause the panelists did not expressly consider this factor, it is virtually impossible to determine whether they intended for the importation right to extend to articles subject to a valid first sale.

Legislative history does not provide sufficient guidance to clarify the relationship between sections 109(a) and 602(a). Still, when one considers that the intent of the drafters was to expand the scope of coverage of the importation provisions,\textsuperscript{144} the simple language of section 602(a), which restricts the importation of goods "acquired abroad," appears nonetheless to compel the conclusion that section 109(a) was \textit{not} intended to provide a first-sale defense to imported goods. Interpreting section 109(a) more broadly would effectively neutralize most, if not all, of the scope of section 602(a), a result clearly in opposition to that intended by the drafters.\textsuperscript{145}

e. \textit{Conclusion of legislative history of the importation provisions}

The Report of the Register of Copyrights apparently advised against the inclusion of importation restrictions on authorized copies.\textsuperscript{146} Despite this recommendation, subsequent comments and later drafts demonstrate that section 602 was intended to provide more protection than that granted by the 1909 Act.\textsuperscript{147} However, the scope of that protection is unclear, given the somewhat ambiguous comments, questions and hypotheticals espoused in the legislative history attending section 109(a).

\section*{IV. \textbf{Existing Case Law—Examining the Interplay Between the First-Sale Doctrine and the Importation Provision of Section 602}}

\textbf{A. Introduction}

Few appellate courts have analyzed the apparent conflict between section 109(a) and section 602(a).\textsuperscript{148} Consequently, the only guidelines available to suppliers and importers of copyrighted goods are provided in

\begin{itemize}
\item \textsuperscript{144} \textit{See supra} notes 102-04 and accompanying text.
\item \textsuperscript{145} \textit{See supra} notes 102-04 and accompanying text.
\item \textsuperscript{147} \textit{See supra} notes 126-31 and accompanying text.
\end{itemize}
several ambiguous and conflicting judicial opinions. Cases involving
the interplay between section 109(a) and section 602(a) typically arise
within the context of one of four fact patterns.

As an aid to understanding these cases, this Comment will first label
and describe these four general scenarios, and then analyze each case in
relation to its corresponding categorical placement. The first scenario
(Scenario I) involves situations where the goods are manufactured in the
United States and then first sold within the United States. The second
scenario (Scenario II) involves cases where the goods are manufactured in the United States, but first sold abroad. The third scenario (Scenario
III) includes instances where the goods are manufactured abroad and
then are first sold abroad. Finally, the fourth scenario, (Scenario IV)
involves cases where goods are manufactured abroad and then first sold within the United States. In all cases, the goods ultimately end up
abroad, and the United States copyright owner is consequently attempting to prevent the importation, and in some cases the reentry, of these
goods under section 602.

Until the recent appellate court decision in Sebastian International,
Inc. v. Consumer Contacts (PTY) Ltd., early district court opinions
appeared to be formulating an interpretation of section 602(a) which logically comported with the plain language of the statute and its accompanying legislative history. That is, the courts moved toward the idea that in those categories of cases where the goods are first sold and acquired abroad, the copyright owner is entitled to block their importation

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149. See infra notes 158-257 and accompanying text for a discussion and analysis of relevant case law.
150. See, e.g., Cosmair, Inc. v. Dynamite Enters., Inc., 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985), where the court noted that although the imported goods at issue were indeed manufactured domestically, it was unclear whether the first sale was completed within the United States. Id. at 347. Still the court analyzed the case assuming that the first sale occurred within the United States. Id.
151. See, e.g., id. at 347. The court noted that although the imported goods at issue were indeed manufactured domestically, it was unclear whether the first sale was completed within the United States. Id.
153. As of the date of this Comment's publication, a case involving a Scenario IV situation has not yet appeared.
154. In all cases, it is assumed for the sake of clarity, that the goods in question are subject to a valid United States copyright and that their manufacture and first sale occurred under the authority of the copyright owner.
155. 847 F.2d 1093 (3d Cir. 1988).
156. See supra notes 92-133 and accompanying text for a description of the legislative history of section 602 of the Copyright Act.
under section 602(a), while the importer does not obtain a section 109(a) defense.\(^\text{157}\)

**B. Columbia Broadcasting System v. Scorpio Music Distributors, Inc.**

*Columbia Broadcasting System v. Scorpio Music Distributors, Inc.*,\(^\text{158}\) the first case of relative importance addressing the interplay between section 109(a) and section 602(a), was decided in the Third Circuit.\(^\text{159}\) In *Scorpio*, CBS-Sony, a Japanese corporation, entered into an agreement with Vicor, a Philippines corporation, authorizing Vicor to manufacture and sell certain phonorecords in the Philippines.\(^\text{160}\) CBS-U.S.A., the owner of the United States copyrights in the records, consented to this venture.\(^\text{161}\) CBS-Sony severed the licensing agreement with Vicor on November 2, 1981, and granted Vicor a sixty-day period to liquidate its remaining inventory.\(^\text{162}\) Rainbow Music, Inc., another Philippines corporation, purchased some of the liquidation sale inventory from Vicor, and in turn, resold the lot to International Traders, Inc., a Nevada corporation.\(^\text{163}\) International Traders then sold these phonorecords to Scorpio Music Distributors, Inc., a Pennsylvania corporation.\(^\text{164}\) In sum, the *Scorpio* case represents Scenario III, wherein the goods were manufactured abroad and then, correspondingly, first sold abroad.

Shortly thereafter, CBS filed an action against Scorpio claiming that Scorpio had infringed CBS' copyrights by importing phonorecords in violation of section 602 of the Copyright Act.\(^\text{165}\) Scorpio in turn asserted a first-sale defense under section 109(a), claiming that the recordings were the subject of a lawful first sale from Vicor to Rainbow Music,\(^\text{166}\) thereby extinguishing CBS' importation right.\(^\text{167}\)

The court resolved this conflict by stating that Scorpio had simply not met the requirements for obtaining the protection afforded under sec-

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157. See *infra* notes 92-133 and accompanying text for a description of the legislative history of section 602 of the Copyright Act.


159. *Id.* The case was decided on August 17, 1983. *Id.*

160. *Id.* The subject matter of this action was United States copyrights to six sound recordings. *Id.*

161. *Id.*

162. *Id.* Prior to that date, on June 12, 1981, Scorpio entered into a purchase agreement with International Traders, Inc., a Nevada corporation, for several thousand phonorecords. *Id.*

163. *Id.*

164. *Id.* CBS owned the copyrights to approximately six thousand of the recordings which Scorpio ordered from International Traders. *Id.*

165. *Id.*

166. *Id.* at 49.

167. *Id.*
tion 109(a). The court reasoned that section 109(a) grants first-sale protection to third-party purchasers of "lawfully made" copies. The \textit{Scorpio} court then defined "lawfully made" as "legally manufactured and sold within the United States." The court reached this conclusion by asserting that the Copyright Act—at least section 109(a)—did not apply extraterritorially to aid the defendant's case. As it was uncontroverted that the copies were manufactured in the Philippines, the court consequently held that section 109(a) did not apply.

In dicta, however, the court also mentioned that even if \textit{Scorpio} had satisfied section 109(a)'s requirements, the outcome would not have differed. The court noted that "[c]onstruing section 109(a) as superseding the prohibition on importation set forth in the more recently enacted section 602 would render section 602 virtually meaningless." To support its reasoning, the court noted that construing section 109(a) as overriding section 602(a) would allow third-party purchasers seeking to import goods to easily circumvent section 602(a) by simply purchasing the goods indirectly. Based on this reasoning, the court held that the defendant, under these particular facts, was not entitled to first-sale protection. Therefore, CBS could prohibit the importation of the unauthorized copies under section 602(a).

Thus, according to \textit{Scorpio}, third-party purchasers of a copyrighted article may not claim a section 109(a) defense unless its purchase falls within Scenario I, such that the article is both manufactured and purchased within the United States. Moreover, the court noted that the practice of allowing United States importers to purchase recordings which were liquidated overseas, instead of dealing with licensed foreign manufacturers, would undermine section 602.

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168. \textit{Id.}
169. \textit{Id.}
170. \textit{Id.} The court noted that section 109(a) "grants first sale protection to the third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports such as are involved here." \textit{Id.}
171. \textit{Id.}
172. \textit{Id.} at 48-49.
173. \textit{Id.} at 49.
174. \textit{Id.}
175. \textit{Id.} Moreover, the court noted that the practice of allowing United States importers to purchase recordings which were liquidated overseas, instead of dealing with licensed foreign manufacturers, would undermine section 602. \textit{Id.}
176. \textit{Id.} at 50.
177. \textit{See also} T.B. Harms \textit{v.} Jem Records, 655 F. Supp. 1575 (D.N.J. 1987). In \textit{Harms}, a California corporation, specialized in the marketing and licensing of copyrighted musical compositions. \textit{Id.} at 1576. Harms owned the copyright to the musical composition of "Ol' Man River," registered in the United States. \textit{Id.} at 1576-77. This composition was made into a sound recording. \textit{Id.} at 1577. Copies of the phonorecord containing "Ol' Man River" were lawfully manufactured and distributed by WEA Records in New Zealand. \textit{Id.} Some of these
manufactured in the United States is void of case support, the outcome of the Scorpio case appears logical and essentially correct. That is, section 109(a) probably does not provide a defense to section 602 for first sales occurring abroad, regardless of a product's site of manufacture, or else section 602 would be rendered meaningless. 178

C. Cosmair, Inc. v. Dynamite Enterprises, Inc.

Although employing the same analysis used in Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc., 179 Cosmair, Inc. v. Dynamite Enterprises, Inc., 180 the court in the next case to examine the interplay between sections 109(a) and 602(a), departed from the dicta of Scorpio and arrived at a slightly different result. In Cosmair, the defendants imported cosmetic products that had been originally manufactured in the United States, but were intended for resale abroad. 181 When the United States copyright owner alleged copyright infringement by way of these imports, the defendant asserted a section 109(a) defense. 182 An injunction for the plaintiff was denied on the basis that if the defendant could prove that under the Uniform Commercial Code title to the goods had passed in the United States, the first-sale defense of section 109(a) would bar an action for infringement. 183 In other words, the court reasoned that section 109(a) would provide a defense in Scenario I, where the goods are manufactured and first sold in the United States, but not in Scenario II, where the goods are manufactured within the United States but first sold abroad. 184

Although Cosmair involved slightly different facts than those of Scorpio, its holding is consistent with dicta in Scorpio regarding section 109(a). The Cosmair court held that if the products were indeed manufactured and first sold in the United States, then proof of this first sale in

copies were subsequently imported and sold in the United States. Id. This importation occurred without the consent of the copyright owner, Harms. Id. The plaintiff alleged that the defendant's unauthorized importation of phonorecords containing the composition at issue violated section 602(a) of the Copyright Act of 1976. Id. The court followed the reasoning in Scorpio and granted plaintiff's motion for summary judgment, noting that section 109(a) applies only to "third party buyers of copies which have been legally manufactured and sold in the United States and not to purchasers of imports." Id. at 1583 (citing Columbia Broadcasting Sys. v. Scorpio Music Distrubs., Inc., 569 F. Supp. 47, 49 (E.D. Pa. 1983), aff'd mem., 738 F.2d 424 (3d Cir. 1984). 185

181. Id. at 345.
182. Id.
183. Id. at 346.
184. Id.
the United States could provide a defense to the importer via section 109(a), thereby limiting a plaintiff's importation right created by section 602(a).\textsuperscript{185} However, the Cosmair court's holding appears to grant somewhat more liberal protection to importers under section 109(a) than does Scorpio. Specifically, Cosmair seems to additionally grant importers 109(a) protection not only in Scenario I situations protected under Scorpio where goods are manufactured and first sold in the United States,\textsuperscript{186} but also in instances where goods are manufactured abroad, provided that they are first sold in the United States.\textsuperscript{187} In light of the absence of any reference to the place of manufacture in either section 109(a) or 602(a), the Cosmair court's conclusion seems more logical than the Scorpio holding.

D. Hearst Corp. v. Stark

Hearst Corp. v. Stark,\textsuperscript{188} like Columbia Broadcasting System v. Scorpio Music Distributors, Inc.,\textsuperscript{189} involved a Scenario II situation. In Hearst, a United States copyright owner had granted a license to a United Kingdom publisher to make and sell books in the United Kingdom.\textsuperscript{190} A wholesale purchaser of these books in the United Kingdom subsequently sold them to a United States importer.\textsuperscript{191} The domestic copyright owner brought an action to prevent the importation of the disputed books.\textsuperscript{192}

In applying section 602(a) to the facts of the case, the court held that it was a clear infringement to import books that had been lawfully acquired abroad.\textsuperscript{193} The court apparently agreed with, but ultimately did not rely upon, the broad theory announced in Scorpio that section 602(a) created rights separate from those embodied in section 106(3).\textsuperscript{194} The court prefaced its analysis by noting that:

\begin{itemize}
  \item \textsuperscript{185} Id.
  \item \textsuperscript{186} See Scorpio, 569 F. Supp. at 49.
  \item \textsuperscript{188} 639 F. Supp. 970 (N.D. Cal. 1986).
  \item \textsuperscript{190} Hearst, 639 F. Supp. at 972.
  \item \textsuperscript{191} Id. In turn, the United States importer began selling these books to United States customers. Id.
  \item \textsuperscript{192} Id. at 973. Plaintiffs contended they were the owners of the exclusive distribution rights to these books, and that the defendants should be liable for both damages and injunctive prohibition for importing these books into the United States in violation of 17 U.S.C. section 602 (1982). Id.
  \item \textsuperscript{193} Id.
  \item \textsuperscript{194} Scorpio, 569 F. Supp. at 49.
\end{itemize}
[s]ection 602 is a separate statute which was passed after section 109. Section 602 does refer to section 106, but it appears to create rights and liabilities in addition to those in section 106 . . . . It is apparent from both the language of section 602 and the intent of Congress that the purpose of section 602 was to preclude the importation of copyrighted works lawfully produced elsewhere.\textsuperscript{195}

This language implies that a first-sale defense would not be available in response to a section 602 claim. Confusingly, the court appeared to focus on the place of manufacture as a basis for denying the importer the section 109(a) defense.\textsuperscript{196} Accordingly, the \textit{Hearst} court, like \textit{Scorpio}, appears to grant the section 109(a) defense only in situations where the goods were both manufactured \textit{and} first sold within the United States.

\textbf{E. Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.}

\textit{Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.}\textsuperscript{197} is one of the most recent cases discussing the interrelationship between section 109(a) and section 602(a). In \textit{Sebastian}, the plaintiff, a California corporation which developed, manufactured, and marketed various beauty and hair care products, entered into an agreement with 3-D Marketing Services (3-D), a South African company.\textsuperscript{198} Under this agreement, 3-D agreed to distribute Sebastian’s domestically manufactured products exclusively in South Africa.\textsuperscript{199} Sebastian shipped a supply of various Sebastian products to 3-D in South Africa.\textsuperscript{200} The South African company returned the unopened merchandise to the United States for resale.\textsuperscript{201} Sebastian sought to block the reentry of the goods into the

\textsuperscript{195} \textit{Hearst}, 639 F. Supp. at 976.
\textsuperscript{196} \textit{Id.} at 977. The court made the additional curious comment that even if the first-sale doctrine had applied, it

only applies to the resale of a “particular copy” of a work. Here, defendants are importing large quantities of titles, which they acquired from wholesale distribution channels, for the purpose of multiple resales in the United States. Even if section 109 did permit booksellers to sell a particular copy of a copyrighted work, that section would not authorize the wholesale importation and redistribution of multiple copyrighted works in conflict with section 602. The singular language of section 109 contrasts with the pluralistic language of section 602, which refers to importation, copies, and distribution.

\textit{Id.} at 976. This comment has been soundly criticized by Nimmer. \textit{See} 2 M. \textit{Nimmer}, \textit{supra} note 15 \$ 8.12(B).

\textsuperscript{198} \textit{Id.} at 911.
\textsuperscript{199} \textit{Id.}
\textsuperscript{200} \textit{Id.} This shipment consisted of various Sebastian products valued at $218,467.95. \textit{Id.}
\textsuperscript{201} \textit{Id.}
United States under section 602(a). Defendant, Fabric Limited, who was in actual possession of the products, argued that since the products in question were manufactured domestically, then Fabric could assert a first-sale defense under section 109(a), provided that the goods were first sold domestically as well (Scenario I). Therefore, Fabric reasoned, the plaintiff no longer possessed the right to control the importation or resale of these parallel imports.

The United States District Court for the District of New Jersey held that if a Scenario I fact pattern existed, the copyright holder had a right to control the importation of copies, in all cases (Scenarios I-IV) regardless of where they were made and despite the occurrence of a first sale. The court departed from the narrower rulings of Columbia Broadcasting System v. Scorpio Music Distributors, Inc. and Cosmair, Inc. v. Dynamite Enterprises, Inc. and ruled that section 602(a) prohibited imports even in the presence of a section 109(a) defense.

Under the Sebastian court's holding, importers would be denied the section 109 first-sale defense in all four of the scenarios mentioned above. The court reasoned that the Copyright Act created two types of distribution rights: one involving the act of vending a copy, which is limited by the first-sale doctrine, and the other, involving the right to import a copy, which is not. The court thus held that Sebastian's right to control importation did not terminate once the goods were first sold or first manufactured. Consequently, the court granted a preliminary injunction prohibiting the defendants from importing the products which plaintiff had manufactured and first sold in the United States.

On appeal, however, the court of appeals vacated the preliminary

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202. Id. Plaintiff alleged that it possessed registered copyrights for the text appearing on two of the imported products, WET and Shpritz Forte. Id. Furthermore, plaintiff claimed that it never authorized any of the defendants to import or distribute its products within the United States. Id.

203. Defendant Consumer Contacts (PTY) Ltd., was doing business as 3-D Marketing Services, Hiltextan Ltd., Fabric Limited, Quality King Manufacturing, Inc. and Quality King Distributors, Inc. Id. at 909.

204. Id. at 913.

205. Id.

206. Id. at 920.


210. See supra notes 150-54 and accompanying text.

211. Sebastian, 664 F. Supp. at 920.

212. Id. at 921.

213. Id. at 922.
injunction against further importation.\textsuperscript{214} The appellate court noted that while the interplay between section 602(a) and section 109(a) may be interpreted in two ways, "neither is conclusively supported by the statutory language or legislative history."\textsuperscript{215} The court of appeals agreed with the district court's view that the place of sale is not the critical factor in determining whether a section 109(a) defense can be used in a section 602(a) importation case.\textsuperscript{216} But the court used this reasoning to completely reverse the district court's finding of infringement. In essence, the appellate court held that a first sale occurring \textit{anywhere} was sufficient to create a section 109(a) defense against a claim of infringement by way of importation under section 602(a).\textsuperscript{217} Through such reasoning, the court of appeals effectively emasculated section 602 by denying importation protection in all scenarios, regardless of the site of manufacture or first sale.\textsuperscript{218}

The appellate court noted that "once transfer of ownership has canceled the distribution right to a copy, the right does not survive so as to be infringed by importation."\textsuperscript{219} Thus, the court held that since a valid first sale had occurred, section 109(a) precluded a finding of infringement under section 602(a).\textsuperscript{220}

Notably, the court's opinion also explicitly directs Congress to clarify this area of law.\textsuperscript{221} The court stated, "We think that the controversy over 'gray-market' goods, or 'parallel importing,' should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly."\textsuperscript{222}

\textbf{F. Neutrogena Corp. v. United States}

Approximately one month before the Third Circuit's reversal of the district court opinion in \textit{Sebastian International, Inc. v. Consumer Con-}

\begin{itemize}
\item \textsuperscript{214} Sebastian Int'l, Inc., v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1099 (3d Cir. 1988).
\item \textsuperscript{215} Id. at 1096.
\item \textsuperscript{216} Id. at 1099.
\item \textsuperscript{217} Id.
\item \textsuperscript{218} In addition to expressly holding that the place of sale was irrelevant to a section 109(a) defense, the \textit{Sebastian} court also strongly intimated that the place of manufacture was equally irrelevant. Id. at 1098 n.1. The court noted that "[w]hen Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern." Id.
\item \textsuperscript{219} Id. at 1098.
\item \textsuperscript{220} Id. at 1099.
\item \textsuperscript{221} Id.
\item \textsuperscript{222} Id.
\end{itemize}
tacts (PTY) Ltd.,\textsuperscript{223} Neutrogena Corp. v. United States\textsuperscript{224} was decided. This case involved facts similar to those of Sebastian. In Neutrogena, plaintiff, Neutrogena Corporation, shipped goods manufactured in the United States to one of its distributors in Hong Kong, Koba International Ltd.\textsuperscript{225} After receiving the shipment in Hong Kong, Koba sold the product to a third party, who in turn, sold the product to defendant Federal Airport Services Transport (FAST).\textsuperscript{226} The product was then shipped back to the United States,\textsuperscript{227} hence presenting either a Scenario I pattern, or a Scenario II pattern, whereby the goods were manufactured in the United States and then \textit{first sold} either in the United States or abroad.\textsuperscript{228}

Neutrogena sought to obtain a preliminary restraining order to enjoin FAST from importing its product into the United States in alleged violation of the United States copyright laws.\textsuperscript{229} Although the Neutrogena court alluded to the lower court holding in Sebastian, the Neutrogena court was not persuaded and did not adopt that reasoning.\textsuperscript{230}

The Neutrogena court, like the courts in Columbia Broadcasting System v. Scorpio Music Distributors, Inc.\textsuperscript{231} and Cosmair, Inc. v. Dynamite Enterprises, Inc.,\textsuperscript{232} emphasized that the site of manufacture and the site of sale act as crucial factors in determining whether section 109(a) applies.\textsuperscript{233} The court noted that as the goods were manufactured in the United States, if the first sale occurred in the United States as well, the first-sale defense would thus be available.\textsuperscript{234} Accordingly, as it could not be concluded that the plaintiff would likely prevail on its claim that defendant had violated section 602, the plaintiff’s request for a preliminary injunction was denied.\textsuperscript{235}

\textsuperscript{223} 847 F.2d 1093 (3d Cir. 1988).
\textsuperscript{224} 7 U.S.P.Q.2d (BNA) 1900 (D.S.C. 1988).
\textsuperscript{225} \textit{Id.} at 1901.
\textsuperscript{226} \textit{Id.}
\textsuperscript{227} \textit{Id.}
\textsuperscript{228} Although the location of the first sale was not definitively ascertained, the court denied plaintiff Neutrogena Corporation’s motion for preliminary injunctive relief. \textit{Id.} at 1904. The court reasoned that the defendant could assert a section 109(a) defense, provided that the goods were subject to a valid first sale within the United States. \textit{Id.} at 1903. Thus the plaintiff’s motion was denied, as the court was unable to assume that plaintiff was likely to prevail on its claim that defendant violated section 602. \textit{Id.}
\textsuperscript{229} \textit{Id.}
\textsuperscript{230} \textit{Id.} at 1903.
\textsuperscript{233} Neutrogena, 7 U.S.P.Q.2d (BNA) at 1903.
\textsuperscript{234} \textit{Id.}
\textsuperscript{235} \textit{Id.}
V. ANALYSIS OF CURRENT CASE LAW: EXPLORING THE CONFLICT BETWEEN SECTIONS 109 AND 602

Due to divided case law and ambiguous legislative history, the guidelines outlining importation protection given to copyright owners are hazy at best. Some clarification of the type of importation protection available to copyright owners can be gleaned from an understanding of the intended purpose of the importation provisions, and careful differentiation of the holdings of the relevant case law based on the four factual scenarios described above.236

Unfortunately, only one case, Sebastian International, Inc., v. Consumer Contacts (PTY) Ltd.,237 extensively addresses the interaction of sections 109(a) and 602(a). The district court in Sebastian rejected all arguments espousing that either the place of manufacture or the place of first sale was important under the importation provision, section 602(a), or the first-sale doctrine codified in section 109(a).238 In dismissing such arguments, the Sebastian district court rejected the Columbia Broadcasting System v. Scorpio Music Distributors, Inc.239 court's opinion that an infringer could only claim the section 109(a) defense when the copy was "lawfully made" in the United States and first sold domestically.240 While the Sebastian district court may have been correct in its criticism of the former point, its conclusions are overreaching with regard to copies first sold in the United States. Under its interpretation, the importation of goods can be blocked by the copyright owner in all four factual scenarios, even in the case of a first sale in the United States.241

The legislative history contains no clear commentary upon which to base such a broad interpretation. The Sebastian district court's creative attempt to blunt the effect of the first-sale doctrine by suggesting that the importation clause does not restrict the sale of copies, but is merely a territorial "copy multiplication prevention" statute, lays unsupported by prior case law. Furthermore, since the copy was created in the United States, the copyright owner has probably implicitly waived any "multi-

236. See supra notes 135-39 and accompanying text.
238. Id. at 916.
240. Sebastian, 664 F. Supp. at 916. In contrast, the Scorpio court instructed that the first-sale doctrine does not apply to sales outside the United States claiming that "[t]he protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states." Scorpio, 569 F. Supp. at 49.
application" right with respect to that copy.\textsuperscript{242} Finally, there are few fears that the copyright owner has not been adequately compensated for his work, since in many instances the copy has been sold at the United States royalty rate, not a reduced foreign rate.\textsuperscript{243}

While attempting to remedy the overbroad holding of the \textit{Sebastian} district court, the Third Circuit in \textit{Sebastian} overreacted to the lower court's liberal interpretation of the importation provision.\textsuperscript{244} The appellate court endorsed the speculative assumption of the district court, namely, that the location of a first sale is irrelevant;\textsuperscript{245} however, while the district court stated that the location of a first sale has no effect on the applicability of section 602(a),\textsuperscript{246} the appellate court stated that the location of a first sale has no effect on the applicability of section 109(a).\textsuperscript{247} Both holdings are erroneous for different reasons. The \textit{Sebastian} district court's holding is questionable, for it contradicts express language of section 602(a) which expressly restricts only goods acquired abroad.\textsuperscript{248} The \textit{Sebastian} appellate court's reasoning is equally erroneous because it renders section 602(a) completely ineffectual in all of the four fact patterns discussed above.\textsuperscript{249}

Under the \textit{Sebastian} appellate court's holding, the only application of section 602(a) would be in the narrow cases where the overseas manufacturer did not first sell the goods to a third party, but simply tried to import them directly into the United States. Yet this is precisely the type of scenario that the parties could have regulated via a contractual agreement licensing the manufacture of the copies.\textsuperscript{250}

\begin{footnotes}
\textsuperscript{243} See generally \textit{Sebastian}, 847 F.2d at 1099 ("\textit{W}ith respect to future distribution of those copies in this country, clearly the copyright owner already has received its reward through its purchase price.").
\textsuperscript{244} \textit{Sebastian}, 847 F.2d at 1099.
\textsuperscript{245} \textit{Id.} at 1099.
\textsuperscript{246} \textit{Sebastian}, 664 F. Supp. at 920.
\textsuperscript{247} \textit{Sebastian}, 847 F.2d at 1099.
\textsuperscript{248} See 17 U.S.C. § 602(a) (1982). \textit{See also \textit{Sebastian}, 664 F. Supp. at 920}. The district court held that copyright owners may block the importation of their goods under section 602 regardless of where the products were first sold or manufactured. \textit{Id.} However, section 602(a) of the Copyright Act only expressly restricts the importation of those goods "acquired outside the United States." 17 U.S.C. § 602(a) (1982).
\textsuperscript{249} \textit{Sebastian}, 847 F.2d at 1099. The circuit court held that a first sale under section 109(a) \textit{always} extinguishes the copyright owner's rights to control future importation under § 602(a), regardless of the cite of manufacture or first sale. \textit{Id.} This is not in accordance with the mandate of § 602(a) which grants the copyright owner the right to block the importation of copyrighted goods, provided they are "acquired outside the United States." 17 U.S.C. § 602(a) (1982).
\textsuperscript{250} The extreme holding of the \textit{Sebastian} appellate court has recently been extended by a
It is clear from the legislative history that the importation provision was intended to reach third persons who could not be affected by contractual remedies. Since the statute prevents the entry of articles "acquired abroad," the legislation obviously contemplated the manufacture and sale of copyrighted items abroad. To argue that section 602(a) was only intended to cover items that were manufactured and then directly imported is to ignore the intent of Congress. Under such a narrow interpretation, the overseas licensee could "manufacture" a section 109(a) defense by simply selling the manufactured goods to a "strawman" third party for importation and resale in the United States. Absent the ability to divest overseas third-party buyers of a section 109(a) first-sale defense, section 602(a) is essentially devoid of all effect. Consequently, a section 109(a) first-sale defense could not possibly apply where the goods are first sold abroad. On the other hand, in instances where the goods are subject to a domestic first sale, section 109(a) would appear to grant the importer a complete defense.

Both Sebastian courts thus are incorrect. The opinions in Cosmair, Inc. v. Dynamite Enterprises, Inc. and Neutrogena Corp. v. United States state that section 109(a) can only provide a first-sale defense to the section 602(a) importation right if the goods have first been sold in the United States. These courts appear better aligned with the intent of the drafters of the Copyright Act. As noted above, these drafters sought to expand the scope of protection granted to copyright owners against unauthorized imports under section 602(a), while simultaneously seeking to safeguard authorized domestic purchasers under section 109(a).

The Copyright Office's suggestion to limit importation protection was not

Virginia district court's opinion in Red Baron v. Taito America, 9 U.S.P.Q.2d (BNA) 1901 (E.D. Va.), rev'd on other grounds, 11 U.S.P.Q.2d (BNA) 1548 (1989). In that case, the United States copyright owner, Taito America, was denied summary judgment against an importer, Red Baron, in an action to block the importation of arcade-game circuit boards which contained copyrighted audiovisual images. Id. at 1904. Citing the appellate court decision in Sebastian, the court denied Taito America's claim for copyright infringement, stating that the place of sale is irrelevant for purposes of sections 109 and 602. Id. To hold otherwise, the Red Baron court noted, would grant greater copyright protection to those foreign companies manufacturing and selling goods abroad, than it would to domestic companies. Id. Although Red Baron was reversed on appeal, its reversal was based on other grounds, and the appellate court did not address the conflict between sections 109 and 602. Red Baron, 11 U.S.P.Q.2d (BNA) at 1553.

251. See supra notes 101-04 and accompanying text.
253. See supra notes 101-04 and accompanying text.
256. See supra notes 102-05 and accompanying text.
followed—instead, the language of section 602(a) was drafted to prevent the entry of all goods “acquired abroad.”

Thus, under section 602(a), the copyright owner can subdivide resale markets, manufacture products abroad, and still be able to restrict importations of the "authorized" copies when they are acquired abroad. Since a copy can only be acquired domestically or abroad, the plain meaning of section 602(a) would appear to preclude a section 109(a) defense when the copies are acquired abroad by an accused importer.

VI. PROPOSAL

Gray-market goods are substantially impacting the domestic marketplace. United States suppliers are consequently losing both profits and the ability to develop foreign markets. The ineffective protection of contractual arrangements and trademark law have left suppliers with few avenues of recourse against gray-market importation. Yet it is also clear that the 1976 Copyright Act provides no panacea to those seeking to block the importation of gray-market goods.

The recent appellate decision in Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd. has provided importers with significant protection under section 109(a). Yet the appellate court's holding appears erroneous in light of the broader freedom from section 109(a) defenses intended by the drafters of section 602(a). The language of section 602(a) requiring that the copy must be acquired abroad, apparently also restricts the section 109(a) defense to domestic first sales. While the language of section 602(a) addressed the earlier criticism of the limited power of copyright owners to restrict the importation of authorized copies, it also incorporated only part of the limitation of the first-sale doctrine by requiring that section 602(a) could never apply unless acquisition of the copies occurred abroad. Therefore, if a copy is first acquired in the United States, then section 602(a) does not apply, and a

258. See Auerbach, supra note 10, at L1, col. 1. It has been estimated that one in four Seiko watches is sold through gray-market dealers. Id. at L1, col. 4. Furthermore, $190 million of the $1.1 billion in total imports of photographic equipment is sold through gray-market dealers as well. Id. Charles of the Ritz, which markets French perfumes supplied by Yves St. Laurent in the United States, estimates that the number of unauthorized stores carrying its French perfumes is seven times greater than its 1,300 licensed dealers. Id. at L1, col. 3.
259. See supra notes 20-31 and accompanying text.
260. See supra notes 32-49 for a description of the conflict regarding the scope of protection yielded by the Copyright Act of 1976.
262. Id. at 1099.
first-sale defense can be made under section 109(a). Congress should accordingly preserve the interests of the drafters of the Copyright Act

264 and amend either section 602(a) or section 109(a), specifying that the first-sale doctrine acts to restrict the copyright owner's importation rights when the first sale is made domestically. Such an amendment would comport with the holdings of such cases as Cosmair, Inc. v. Dynamite Enterprises, Inc., 265 and Neutrogena Corp. v. United States. 266 Indeed, those opinions are most closely aligned with the intended scope of section 602(a). 267 Alternatively, the Supreme Court should attempt to define the scope of the first-sale defense, and the general problems of the extraterritorial effect of the copyright laws.

Many copyright owners must meanwhile continue to sell copyrighted articles at reduced rates in certain geographical areas. What can they do to prevent the reentry of these copies to compete against the United States distribution chains? For copyright owners apprehensive of the reentry of articles that were sold primarily for distribution abroad, contract provisions drafted with the Uniform Commercial Code in mind can provide that the passing of title for the goods occur overseas. 268 Then, under the current reasoning of the majority of the cases, except the Sebastian appellate court, a first sale abroad will not protect a subsequent defendant who imports in violation of section 602(a).

At a minimum, the current section 602(a) appears to protect the United States copyright owner from articles made abroad that were also first sold abroad; 269 at most, it protects the United States copyright owner even when the article is first made and first sold in the United States. 270 Yet until Congress or the Supreme Court clarifies the 1976 Copyright Act and specifies the precise intersection between sections

264. See supra notes 50-147 and accompanying text for a description of the evolution of the Copyright Act of 1976 and the interests of its drafters.


267. See supra notes 134-47 and accompanying text.

268. See Uniform Commercial Code § 2-403(1) (1987). That section states, in relevant part that "[a] person with voidable title has the power to transfer a good title to a good faith purchaser for value." Id.

269. See Columbia Broadcasting Sys. v. Scorpio Music Distrib., Inc., 569 F. Supp. 47 (E.D. Pa. 1983), aff'd mem., 738 F.2d 424 (3d Cir. 1984) (holding that section 109(a) only grants first-sale protection to third-party buyers of copies that have been legally manufactured and sold within United States). See also Cosmair, 226 U.S.P.Q. (BNA) at 346 (holding that section 109(a) first-sale doctrine only grants first-sale protection to third-party buyers of copies of goods legally manufactured and sold within United States, notwithstanding existence of section 602).

109(a) and 602(a), domestic suppliers are left in a state of limbo—with only a gray area of the law to halt the importation of gray-market goods.

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* The author wishes to thank Professor Lionel S. Sobel for his assistance. This Comment is dedicated to John Nicholas, for his inspiration, encouragement, and words of wisdom.