Can the “Formidable Shield” Last: A Re-examination of Copyright Law as a Means to Control Uncopyrighted Gray Market Goods

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Introduction

Gray market goods created from unauthorized sales of genuine goods often result from economic incentives like price differences. The following scenario is typical for gray market goods: Product X is sold in Country A for $10 (USD) while priced at $20 (USD) in Country B. Where the price difference between Product X in Country A and B is big enough to cover all costs and still leave a profit margin, Product X is likely to be bought in Country A for $10 (USD) and transported from Country A to B for re-sale. In Country B, the copyright or trademark rights to Product X belong to Owner Co., Ltd. However, Distributor Co., Ltd., which takes advantage of the price differences, often distributes Product X without the authorization of Owner Co., Ltd. When Product X is redistributed in this manner, it becomes a gray market good—genuine yet unauthorized for sale in the country where it is finally sold to the consumer.

Apple products like the iPhone 4S have been frequently bought in Hong Kong and transported into Mainland China for re-sale by dealers who are incentivized by approximately $80 (USD) in profit per iPhone 4S purchased in Hong Kong and sold in China.¹ This trade certainly is not unique. On the contrary, gray market goods are considered to be a

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¹ Chris Chang, Parallel Importers Packing a Lot of iPhone 4S on Subway (with Video!), M.I.C. GADGET (Oct. 1, 2010, 2:31 PM), http://micgadget.com/8684/parallel-importers-packing-a-lot-of-iphone-4s-on-subway/; see also Gerry Shih & Poornima Gupta, Tough Times in the U.S.-China iPad Smuggling Game, REUTERS (Mar. 25, 2012, 10:21 PM), http://www.reuters.com/article/2012/03/26/us-apple-ipad-blackmarket-idUSBRE82O0G420120326 (discussing how individuals smuggling iPads from the U.S. to China are making less money than they used to, but some smuggling operations are still profitable).
“significant phenomenon.” Though there are no official statistics on the volume of gray market goods in the United States, gray market goods could cost rights holders billions of dollars of lost sales each year. A 2008 study found that “[i]nformation technology manufacturers are losing up to US $10 billion in profits annually to the gray market, with as much as $58 billion of technology products passing through the gray market each year.” In addition, academic and organizational studies show that gray market goods are difficult to eliminate because their relatively low prices readily attract buyers. After all, where there is profit, there is trade.

Gray market goods such as Product X directly and indirectly undermine the integrity of Owner Co., Ltd.’s business in a variety of ways, including: (1) damaging the value of Owner Co., Ltd.’s brand, which may also reduce Owner Co., Ltd.’s market share; (2) undermining Owner Co., Ltd.’s quality control scheme; (3) free-riding on the established reputation of Owner Co., Ltd.; and (4) infringing upon Owner Co., Ltd.’s proprietary rights. Therefore, intellectual property rights owners wish to protect their rights, profits and reputation. While trademark law provides one set of intellectual property rights to businesses, as Judge Barry noted in Sebastian

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3 Id.


5 See id. at 374 (analyzing the consequences of gray market goods in light of the fact that they are sold under low prices).


8 Id. at 466-67.

v. Consumer Contact, 10 “American businesses have been slow to recognize the power granted them to control the importation of gray market copyrighted works.” 11 Acknowledging that there had been some “confusion” in trademark law in stopping importation of gray market goods, Judge Barry questioned “why plaintiffs continue to rely on those uncertain [trademark] rights when the copyright law provides such a formidable shield.” 12 The past thirty-years of United States jurisprudence shows that Judge Barry’s recommendation regarding copyright enforcement has been adopted as one of the best tools to fight against gray market goods. 13 Nonetheless, as this paper will show, the use of copyright law to protect against gray market distribution of uncopyrightable goods by attaching copyrightable items to these uncopyrightable goods is an improper use of copyright law protections and should be stopped.

Currently, in the United States, it is possible for copyright owners to stop importation and distribution of unprotected trademark goods by attaching copyrighted accessories to these goods if the copyright has not been exhausted under the first sale doctrine. 14 However, this practice is ineffective in Australia because Australian law deems the copyright non-infringed in this situation. 15 Furthermore, attaching copyrighted accessories to unprotected goods has been denounced by the Supreme Court of Canada. 16 Although this practice of copyright overreach—by appending copyrightable goods to uncopyrightable goods to combat gray market goods—is possible in the United States, the following analysis will show that it is not supported by United States law under both a proper interpretation of the Copyright Act and the copyright misuse doctrine.

11 Id. at 992 (emphasis added).
12 Id. (emphasis added). Regarding the “confusion” in trademark law, Judge Barry explains: “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.” Id. at 910.
15 Copyright Act 1968 (Cth) s 44C(1) (Austl.).
The first section of this paper will discuss contemporary legal trends concerning copyright law and gray market goods as outlined in key United States and Canadian Supreme Court decisions. The second segment of this paper will elaborate upon how “formidable” \(^{17}\) copyright law actually is by exploring the limits of United States trademark and copyright law as a shield against gray market good distribution and sales. The third part of this paper discusses Australian and Canadian responses to the issue of overreaching in copyright law in relation to gray market goods. Finally, this paper will conclude by detailing why the current tolerance of copyright overreaching to control gray market goods is contrary to the Congressional intent of United States statutory law and the copyright misuse doctrine.

I. Disparate Treatment of Copyright Law to Combat Gray Market Goods

Both the United States and Canadian Supreme Courts have confronted cases where copyright law was being used to control uncopyrightable gray market goods by attaching copyrightable accessories. Notably, these Courts have reached different conclusions, and it is critical to understand their analysis of legitimate copyright law reach to better understand the implications of current legal tools available to prevent and remedy gray market good sales.

In the seminal case *Quality King Distributors v. L’anza Research International, Inc* \(^{18}\), the United States Supreme Court allowed the expansion of copyright law to protect uncopyrightable goods through the attachment of copyrightable accessories. \(^{19}\) In *Quality King*, the plaintiff L’Anza, an American manufacturer of hair care products, tried to stop Quality King’s unauthorized distribution of L’Anza hair care products in the United States. The products in question were made in the United States and exported by L’Anza specifically for sale in foreign markets. Quality King then purchased the products overseas, re-imported them into the United States, and sold them. Although the products themselves were not copyrightable, the labeling on the bottle was protected by copyright. Thus, L’Anza claimed that the importation and distribution of the hair care products with the attached copyrighted labels infringed on L’Anza’s importation and

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distribution rights.\textsuperscript{20} In other words, L’Anza tried to stop the importation and distribution of its product through its copyright monopoly over the attached labels. The California District Court and the Ninth Circuit both concluded that Quality King had infringed L’Anza’s copyright.\textsuperscript{21}

The Supreme Court did not explicitly address the issue of whether L’Anza had an enforceable copyright that could stop the distribution of the products but, instead, narrowly framed the issue to be whether Section 109 of the Copyright Act of 1976 (the “Copyright Act”), known as the “first sale doctrine,” applied to “round trip” importation (i.e. whether a copyright owner can stop distribution of a copyrighted product first made in the United States, sold abroad and then re-imported into the United States for re-sale).\textsuperscript{22} Under the first sale doctrine, discussed in detail in Part II.B, the sale of a copyrighted product, in some circumstances, terminates the copyright holder’s copyright protections with regards to that product. The Court held that the first sale doctrine precluded infringement in the L’Anza round trip importation situation, thus reversing the Ninth Circuit on this narrow ground.\textsuperscript{23}

*Quality King* establishes a problematic precedent for copyright law overreach as the case deals with infringement of the copyrighted labels but the Court does not directly address whether the sale of the uncopyrighted core product was an infringement of L’Anza’s intellectual property rights.\textsuperscript{24} By reversing the Ninth Circuit only on the narrow ground of the application of the first sale doctrine to round trip importation, the result of this holding is essentially the extension, as a general rule, of copyright protection to include both copyrighted materials (such as the product labels) and

\begin{itemize}
  \item \textsuperscript{20} Id. at 138-40.
  \item \textsuperscript{21} Id.
  \item \textsuperscript{22} Id. The first sale doctrine is that “once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” Id. at 152.
  \item \textsuperscript{23} Id. at 143-44. The court ultimately held that under first sale doctrine, Quality King was the lawful owners of hair care products having the copyrighted labels, and thus did not engage in copyright infringement by importing and reselling products without L’Anza’s authority.
  \item \textsuperscript{24} See Quality King Distribs., Inc. v. L’anza Research Int’l Inc., 523 U.S. 135, 153 (1998) (discussing how the court’s role was to correctly interpret the applicable statues with regard to importation and not to discuss the intellectual property policy behind L’Anza’s arguments).
\end{itemize}
uncopyrighted materials (such as the bottles and the product inside the bottles), simply because the uncopyrighted products have a copyrighted label attached to them. Because the Court might have overlooked the problem of copyright law extension to uncopyrighted goods in making its decision, the Court has opened a door for intellectual property owners to fight against gray market uncopyrighted goods by attaching copyrighted accessories.

Conversely, the Canadian Supreme Court has denounced the adoption of copyright law as a means to control the importation of gray market goods where the copyrighted items were only accessories in Kraft Canada Inc. v. Euro Excellence Inc. Importantly, this case presents facts that are very similar to those adjudicated in Quality King. The Canadian copyright owner, Kraft Canada Inc. (“KCI”), tried to stop sales and distribution of genuine Kraft chocolate bars in Canada by Euro-Excellence (“EE”). The chocolate bars that EE wished to sell in Canada had been purchased from Kraft Foods Schweiz AG (“KFS”) and Kraft Foods Belgium SA (“KFB”) in Europe. In order for KCI to proceed in court under copyright law, KFS and KFB both registered copyrights on their logos and scripts in 2002, the exclusive rights to which were subsequently assigned exclusively to KCI through a licensing agreement. Based on the rights obtained, KCI demanded that EE cease any further sales and distribution of products to which those copyrighted logos and scripts were attached. Upon EE’s refusal, KCI filed a suit for copyright infringement on the grounds that the distribution of products to which copyrighted logos and scripts were attached violated its copyright.

25 See id. at 140.


27 [2007] 3 S.C.R. 20 (Can.).

28 Id. at paras. 60-63 (Bastarache, J., concurring).


30 Scassa, supra note 31, at 411-12.

31 Id. at 412.

In a seven-to-two split decision, the Canadian Supreme Court ruled against KCI.\(^{33}\) The majority decision was further divided. Justices Binnie, Deschamps and Rothstein held that secondary infringement (by importing for sale or distribution copies of KFS and KFB’s copyrighted works into Canada) under Section 27(2)(e) of the Copyright Act of Canada was not established because secondary infringement requires there to be a primary infringement, and the licensors (KFB and KFS), who were the hypothetical infringers in this case, cannot infringe their own respective copyrights.\(^{34}\) Justice Fish expressed doubt about “whether the law governing the protection of intellectual property rights in Canada can be transformed in this way into an instrument of trade control not contemplated by the Copyright Act,” as KCI sought to do.\(^{35}\) Justices Bastarache, LeBel and Charron directly pointed out that the “merely incidental presence of the copyrighted works on the wrappers of the chocolate bars does not bring the chocolate bars within the protections offered by the Copyright Act.”\(^{36}\) In other words, copyright law as a means to control gray market goods should be limited to goods with non-incidental copyrightable elements. After all, there is a substantial difference between copyrighted books and movies and copyrighted logos or pictures affixed to the wrappers of uncopied products.

As these case studies clearly show, the United States and Canadian Supreme Courts have taken conflicting positions concerning the extent to which copyright law should apply to gray market goods. Following the United States Supreme Court’s holding in Quality King, using copyright law to control uncopied gray market goods by attaching copyrighted accessories is a lawful practice in the United States.\(^{37}\) Nonetheless, as the concerns raised by the Canadian Supreme Court underscore, this overreaching use of copyright law goes against the spirit of the Copyright Act.

\(^{33}\) Id. at para. 51 (majority opinion).

\(^{34}\) Id. at paras. 19, 50.

\(^{35}\) Id. at para. 56 (Fish, J., concurring).

\(^{36}\) Id. at para. 57 (Bastarache, J., concurring).

\(^{37}\) See, e.g., Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 983 (9th Cir. 2008) (foreign-made watches with a copyrighted design engraved on their underside are subject to protection under United States copyright law).
II. Controlling Gray Market Goods: United States Trademark and Copyright Law

A. Trademark Law Protections Against Gray Market Goods

As the United States and Canadian Supreme Court cases indicate, there is an urgent need to control gray market goods, even if the extent to which copyright law should be used to protect uncopyrighted goods is disputed. United States trademark law is an important tool to help intellectual property rights owners protect themselves against the damages of gray market goods. For instance, the Lanham Act grants trademark owners the exclusive right to import and distribute trademarked goods.\(^{38}\) In particular, the United States Supreme Court’s decision in *K-Mart Corp. v. Cartier, Inc.* \(^{39}\) established that a trademark holder has the right to enlist the United States Customs Service’s\(^{40}\) assistance in barring the unauthorized importation of trademarked goods under the Lanham Act.\(^{41}\) Furthermore, according to Section 1526 of the Tariff Act of 1930 (“Tariff Act”), it is unlawful to import foreign-manufactured trademarked goods into the United States without the written authorization of the trademark owner of the importing country.\(^{42}\)

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\(^{38}\) 15 U.S.C §§ 1125(b), 1114(1), 1124 (2006).


\(^{42}\) 19 U.S.C. § 1526(a) (2011). The law reads:

> [I]t 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.
Unfortunately, the Lanham Act and subsequent case law interpreting the Act do not protect all trademark holders. Under United States trademark law, a company may be granted a trademark that essentially functions as a monopoly on distribution of the trademarked products.\(^{43}\) However, 19 CFR § 133.23(d) provides a “safe harbor” for any third party to legally distribute trademarked goods without the authorization of the trademark holder in particular circumstances.\(^{44}\) Section 133.23(d)(1) states that when the trademark of the unauthorized product is owned by a foreign company that is a parent or subsidiary of the United States owner or is subject to common control or ownership with the United States owner, these unauthorized products can be distributed without the trademark owner’s authorization.\(^{45}\) Section 133.23(d)(2) differs from Section 133.23(d)(1) to the extent that there is only one trademark owner. Section 133.23(d)(2) details that when (1) the unauthorized products are first sold by a parent or subsidiary of the United States owner or are subject to common control or ownership of the United States owner, and (2) the unauthorized products are not physically and materially different, such unauthorized products can be distributed without the trademark owner’s authorization.\(^{46}\) Section 133.23(d)(3) outlines the “label” rule.\(^{47}\) Pursuant to


\(^{44}\) 19 C.F.R. § 133.23(d) (2011) states that “Gray market goods subject to the restrictions of this section shall be detained for 30 days from the date on which the goods are presented for Customs examination, to permit the importer to establish that any of the following exceptions” in § 133.23(d)(1)-(3) are applicable. Sections 133.23(d)(1)-(3) read:

(1) The trademark or trade name was applied under the authority of a foreign trademark or trade name owner who is the same as the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner; and/or

(2) For goods bearing a genuine mark applied under the authority of the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner, that the merchandise as imported is not physically and materially different, as described in §133.2(e), from articles authorized by the U.S. owner for importation or sale in the United States; or

(3) Where goods are detained for violation of §133.23(a)(3), as physically and materially different from the articles authorized by the U.S. trademark owner for importation or sale in the U.S., a label in compliance with §133.23(b) is applied to the goods.

\(^{45}\) 19 C.F.R. § 133.23(d)(1) (2011).

\(^{46}\) 19 C.F.R. § 133.23(d)(2) (2011).

\(^{47}\) 19 C.F.R. § 133.23(d)(3) (2011).
this rule, the importation and subsequent sale of otherwise unauthorized goods is allowed when a label is applied to the goods so that customers can identify the source of the goods and distinguish them from authorized United States goods in compliance with Section 133.23(b).48

Simply put, the “safe harbor” exceptions created by Section 133.23(d) make it difficult for trademark owners to fight against the distribution of gray market goods using trademark law.

B. Copyright Law Protections Against Gray Market Goods

As a result of the gaps that exist in trademark law, intellectual property owners attempt to find protection under alternative legal mechanisms. Copyright law is the legal mechanism to which intellectual property owners most commonly turn when attempting to preserve their interests. However, like trademark law, the protections offered to rights holders by United States copyright law are also limited in terms of controlling gray market goods. Specifically, copyright law faces a statutory interpretation problem regarding the extent to which Section 109 of the Copyright Act,49 which introduces the first sale doctrine, applies to copyrighted goods.

Under the United States Copyright Act, Section 106(3)50 sets out the exclusive right to distribute,51 and Section 602 grants the copyright owner

48 19 CFR § 133.23(b) (2011). This section reads:

Goods determined by the Customs Service to be physically and materially different under the procedures of this part, bearing a genuine mark applied under the authority of the U.S. owner, a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control with the U.S. owner (see §§133.2(d) and 133.12(d) of this part), shall not be detained under the provisions of paragraph (c) of this section where the merchandise or its packaging bears a conspicuous and legible label designed to remain on the product until the first point of sale to a retail consumer in the United States stating that: “This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.” The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container. Other information designed to dispel consumer confusion may also be added.


the exclusive right to import his or her goods into the United States. Yet, these fundamentals of copyright law are qualified by the first sale doctrine presented in Section 109 of the Copyright Act, which reads, “[T]he 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.” In other words, distributors can use the first sale doctrine to sell or distribute copyrighted goods without the authorization of the copyright holder because the copyright holder’s rights over distribution or importation were “exhausted” (i.e., terminated) when the rights owner first sold the copyrighted items.

Significantly, the first sale doctrine does not apply in every circumstance. Rather, it applies only when the good is “lawfully made under this title” (i.e. “lawfully made under” the Copyright Act). Thus, the place of manufacture and place of first sale of goods determine the applicability of Section 109.

Four basic scenarios for the application of Section 109 exist and the law is not settled in all these scenarios. Scenario A is where the copyrighted product is manufactured and first sold in the United States. Scenario B is where the copyrighted product is made in the United States and first sold abroad. Scenario C is where the copyrighted product is produced abroad and first sold in the United States. Finally, Scenario D is where the copyrighted product is both manufactured and first sold abroad. The following table represents how the first sale doctrine in Section 109 applies in these four scenarios, which will be explained in greater detail below:

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54 Quality King Distribs., Inc. v. L’anza Research Int’l Inc., 523 U.S. 135, 152 (1998) (When the first sale doctrine applies, the owner has “exhausted his exclusive statutory right to control its distribution.”); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 480 (9th Cir. 1994) (“[U]nder the “first sale” doctrine . . . a sale of a ‘lawfully made’ copy terminates the copyright holder’s authority to interfere with subsequent sales or distribution of that particular copy.”).

It is important to analyze gray market goods in the context of these four Section 109 scenarios to obtain a clearer picture of the potential role of copyright law in controlling gray market goods. First, courts have traditionally read “lawfully made under this title”\textsuperscript{60} to mean “made and sold in the United States” under Scenario A.\textsuperscript{61} Therefore, where the goods were both manufactured and first sold in the United States, the first sale doctrine is an applicable defense for the distribution of copyrighted goods without the authorization of the copyright holder. However, the first sale doctrine does not provide any special protections to gray market goods because Scenario A goods would not create sufficient price differences between products to generate an economic incentive for gray market goods.\textsuperscript{62} More importantly, under Scenario A, since the copyright owner’s right to distribute and right to import are exhausted due to the application of the first sale doctrine, copyright law would not help right-holders to control gray

\begin{tabular}{|c|c|c|c|}
  \hline
  Scenario & Made & First Sold & $\mathsection{109}$ Apply or Not \\
  \hline
  A & United States & United States & Yes (settled)\textsuperscript{56} \\
  \hline
  B & United States & Abroad & Yes (settled)\textsuperscript{57} \\
  \hline
  C & Abroad & United States & Yes (unsettled)\textsuperscript{58} \\
  \hline
  D & Abroad & Abroad & No (unsettled)\textsuperscript{59} \\
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\end{tabular}

\textsuperscript{56} See, \textit{e.g.}, BMG Music, Inc. v. Perez, 952 F.2d 318, 319 (9th Cir. 1991).

\textsuperscript{57} Quality King Distrbs., Inc. v. L’anza Research Int’l Inc., 523 U.S. 135, 139-40, 144-45 (1998).

\textsuperscript{58} Denbicare U.S.A. Inc. v. Toys “R” Us, Inc., 84 F.3d 1143, 1149-50 (9th Cir. 1996).

\textsuperscript{59} Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 990 (9th Cir. 2008), \textit{aff’d by an equally divided court}, 131 S.Ct. 565 (2010).

\textsuperscript{60} 17 U.S.C \mathsection{109(a) (2006).

\textsuperscript{61} See, \textit{e.g.}, BMG Music, Inc. v. Perez, 952 F.2d 318, 319 (9th Cir. 1991).

market goods. In other words, copyright law under Scenario A cannot fill the gap of trademark law.

Under Scenario B, where the goods were manufactured in the United States and first sold abroad, courts have reached conflicting interpretations on the interplay among Sections 106(3), 109 and 602 of the Copyright Act. The Quality King decision has attempted to clarify copyright protections concerning Scenario B goods that are manufactured in the United States, first sold abroad, and then imported back into the United States. The Supreme Court settled the issue by holding that the first sale doctrine is applicable to round trip importation. Thus, since the first sale doctrine applies and the copyright owner’s right to import and right to distribute would be exhausted, copyright law cannot function as a defense to control gray market goods. In this scenario, copyright law is again unable to fill the gap of trademark law to control gray market goods.

The application of the first sale doctrine to Scenario C goods that were manufactured abroad but first sold in the United States has been left to the discretion of circuit courts. In this context, the Ninth Circuit cases are among the most influential circuit cases concerning copyright law and gray market goods. The Ninth Circuit’s interpretation of Section 109 is set out clearly in BMG Music Inc. v. Perez, where the court limited the scope of Section 109 to the traditional definition of goods “made and sold in the U.S.” Later, Givenchy, Inc v. Drug Emporium, Inc. and Denbicare U.S.A., Inc. v. Toys “R” Us, Inc. adopted an exception to the traditional

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63 Chen, supra note 13, at 578-84.
65 Id. at 154 (Ginsburg, J., concurring) (“[W]e do not today resolve cases in which the allegedly infringing imports were manufactured abroad.”).
66 William K. Ford, Judging Expertise in Copyright Law, 14 J. INTELL. PROP. L. 1, 41-42 (“[T]he Second and Ninth Circuits, along with the Supreme Court and the Southern District of New York, are the most influential courts in the development of copyright law. Together, these four courts account for at least two-thirds of the principal cases in every casebook.”).
67 BMG Music, Inc. v. Perez, 952 F.2d 318 (9th Cir. 1991).
68 Id. at 319.
69 Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 482 (9th Cir. 1994).
70 Denbicare U.S.A. Inc. v. Toys R Us, Inc., 84 F.3d 1143, 1149-50 (9th Cir. 1996).
rule that the first sale doctrine only applied to copyrighted goods made and sold in the United States, finding that goods produced abroad were subject to the first sale doctrine so long as an authorized first sale occurred in the United States.\textsuperscript{71} In particular, these courts reasoned that if the first sale doctrine were deemed inapplicable to goods manufactured abroad, even if they were imported into the United States for their first sale with the authority of the copyright holder, “such a result would be untenable, and that nothing in the legislative history or text of Section 602 supports such an interpretation” that would give greater copyright protection to foreign-made copies than to their domestically made counterparts.\textsuperscript{72} Therefore, in Scenario C, copyright law cannot fill the gap in trademark law for right-holders to control gray market goods because the exclusive right to distribute has been exhausted upon application of the first sale doctrine under Section 109 of the Copyright Act. However, the Ninth Circuit’s approach to the first sale doctrine has not been examined by the United States Supreme Court or addressed by Congress, so the law surrounding Scenario C goods remains unsettled.

Finally, Scenario D, where the copyrighted product is both manufactured and first sold abroad, has been addressed in the recent Ninth Circuit Omega S.A. v. Costco Wholesale Corp. case.\textsuperscript{73} Omega involved a situation where the copyright owner of the Omega watch design sued Costco for infringing the owner’s distribution and importation rights under Section 106(3) and Section 602(a) of the Copyright Act.\textsuperscript{74} The watches at issue were genuine but unauthorized “Omega Globe Design” watches manufactured abroad and initially sold abroad.\textsuperscript{75} Costco raised the first sale doctrine as a defense.\textsuperscript{76} The court held that the first sale doctrine was

\textsuperscript{71} Denbicare U.S.A. Inc. v. Toys “R” Us, Inc., 84 F.3d 1143, 1149-50 (9th Cir. 1996); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 482 n.8 (9th Cir. 1994).

\textsuperscript{72} Parfums Givenchy, 38 F.3d at 482 n.8. The court’s concern was that if the first sale doctrine were inapplicable to foreign manufactured goods, the foreign manufactured goods “would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States.” Id.

\textsuperscript{73} Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 983 (9th Cir. 2008), aff’d by an equally divided court, 131 S. Ct. 565 (2010).

\textsuperscript{74} Id.

\textsuperscript{75} Id. at 983-84.

\textsuperscript{76} Id. at 984.
unavailable as a defense, and that Costco was liable for its unauthorized importation and sale of copyrighted Omega watches. More generally, the court held that when the good in question is manufactured abroad and initially sold abroad, the first sale doctrine does not apply. At the Supreme Court, the Ninth Circuit’s decision was affirmed without an opinion by an equally divided Court. Under this scenario, since the first sale doctrine does not apply, the right to distribute has not been exhausted and copyright law can be used to stop the importation and distribution of gray market goods, thereby filling the gap in trademark law. Importantly, similar to Scenario C detailed above, goods made and initially sold abroad under Scenario D have not been directly addressed by a Supreme Court opinion or Congress; thus, Scenario D is unsettled.

Pursuant to the reasoning of the Ninth Circuit, and until the Supreme Court issues an opinion on a case relating to gray market goods that are made and first sold abroad, copyright law can fill the gaps in trademark law that currently fail to protect right-holders from gray market goods, as described in Scenario D. Nonetheless, despite the critical role copyright law can play in deterring gray market goods where trademark law fails to protect goods, copyright law can only be used when the goods are subject to copyright protection.

For the purposes of this discussion, goods in international trade can be categorized into two types. Type I goods are expressly subject to copyright law, while Type II goods are not by themselves subject to copyright law but may be made subject to copyright protections by affixing a copyrighted item, such as a label, to them. Type I goods are products that are directly subject to protection by copyright law. Type I goods are “original works of authorship fixed in any tangible medium of expression” that are protected under the Copyright Act. For example, music, computer games, movies, paintings, books, and even logos and scripts on wrappers

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77 Id. at 990.

78 See id. at 985-90.


80 The court in Omega noted that its decision was “not irreconcilable” with Quality King because Quality King “did not address the effect of § 109(a) on claims involving authorized importation of copies made abroad.” Id. at 987.

qualify as Type I goods. Conversely, Type II goods constitute all non-copyrightable items, including tangible goods such as toys, cosmetics, and snacks that are not copyrightable.

Copyright law grants the owners of Type I goods a limited monopoly to control the flow of the Type I goods. This means that a copyright holder’s exclusive right to import and distribute is limited to Type I goods. However, attaching Type I goods to Type II goods when the Type I goods only make up an incidental portion of the whole good should not result in an exclusive control of the import and distribution of the whole good. This scenario creates an extreme overreach of copyright law. Although the United States currently permits this copyright overreach, Canada and Australia have realized the potential problems arising from such extensive copyright law expansion in international commercial law and have fashioned statutory remedies and case law precedent to address this issue.

III. Australian and Canadian Responses to Copyright Overreach

A. Australia’s Statutory Solution to Copyright Overreach in the Context of Gray Market Goods

Prior to 1998, the Australian Copyright Act of 1968 (“Australian Copyright Act”) did not set out whether copyright owners can control the distribution of uncopyrighted gray market goods with attached copyrighted accessories if the right to distribute was not exhausted.

In 1998, however, Australian copyright law was amended following the *R & A Bailey & Co. Ltd. v Boccacio Pty Ltd.* case, where the court allowed the use of copyright law to stop the importation of Type II gray

\[\text{\textsuperscript{82}}Id.\ These \ goods \ are \ listed \ as \ examples \ of \ “original \ works \ of \ authorship \ fixed \ in \ tangible \ medium \ of \ expression” \ under \ \S \ 102(a)(1)-(8) \ of \ the \ Copyright \ Act. \ Id.\]

\[\text{\textsuperscript{83}}For \ example, \ utilitarian \ aspects \ of \ three-dimensional \ articles \ are \ not \ copyrightable. \ Even \ if \ a \ three-dimensional \ article \ has \ both \ aesthetic \ and \ functional \ considerations, \ the \ article \ is \ not \ copyrightable \ if \ the \ artistic \ aspects \ of \ a \ work \ cannot \ be \ said \ to \ be \ “conceptually \ separable \ from \ the \ utilitarian \ elements.” \ Brandir \ Int'l, \ Inc. \ v. \ Cascade \ Pac. \ Lumber \ Co., \ 834 \ F.2d \ 1142, \ 1145 \ (2d \ Cir. \ 1987).\]

\[\text{\textsuperscript{84}}See \ Copyright \ Act \ 1968 \ (Cth) \ (Jan. \ 22, \ 1998), \ amended \ by \ Copyright \ Amendment \ Act \ (No. \ 1) \ 1998 \ (Cth), \ and \ Copyright \ Amendment \ Act \ (No. \ 2) \ 1998 \ (Cth) \ (Austl.).\]

\[\text{\textsuperscript{85}}R \ & \ A \ Bailey \ & \ Co. \ Ltd. \ v \ Boccacio \ Pty \ Ltd. \ (NSW) \ (1986), \ 84 \ FLR \ 232 \ (Supreme \ Court) \ (Austl.).\]
market goods by attaching a Type I copyrighted accessory.\textsuperscript{86} The Australian legislature did a cost-benefit analysis and decided, as described by one commentator, that “the benefits to the consumers flowing from parallel importation, such as lower prices and increased consumer choice, outweigh any potential harm caused to the manufacturer.”\textsuperscript{87} The 1998 amendments, which were given assent on July 30, 1998,\textsuperscript{88} discharged any potential liability for importation and distribution of a copyrighted “bundle” of Type I and Type II goods when the copyrighted item is an “accessory.”\textsuperscript{89} An accessory is defined as:

(a) a label affixed to, displayed on, incorporated into the surface of, or accompanying, the article;

(b) the packaging or container in which the article is packaged or contained;

(c) a label affixed to, displayed on, incorporated into the surface of, or accompanying, the packaging or container in which the article is packaged or contained;

(d) a written instruction, warranty or other information provided with the article; [or]

(e) a record embodying an instructional sound recording or a copy of an instructional cinematograph film, provided with the article.\textsuperscript{90}

As the Australian Copyright Act’s 1998 amendments illustrate, Australia has expressly denied the extension of copyright law to Type II

\textsuperscript{86} Id. at 233, 244.


\textsuperscript{88} Copyright Amendment Act (No. 1) 1998 (Cth) (Austl.); Copyright Amendment Act (No. 2) 1998 (Cth) (Austl.).

\textsuperscript{89} \textit{Copyright Act} 1968 (Cth) s 44C(1). The section reads: “The copyright in a work a copy of which is, or is on, or embodied in, a non-infringing accessory to an article is not infringed by importing the accessory with the article.” This section, however, was not considered to be in force until the end of 18 months after the day on which this act received the assent. \textit{Copyright Amendment Act (No. 1) 1998 (Cth) (Austl.).} This section was listed as in force in the February 2, 2000 published compilation of the Copyright Act.

\textsuperscript{90} \textit{Copyright Act} 1968 (Cth) s 10 (Austl.).
goods that merely have a Type I copyrighted accessory attached as a bundle.\textsuperscript{91} Australia’s cost-benefit analysis of gray market good distribution and copyright protections firmly supports limitations on copyright law application to Type II goods, and this analysis should be applied in the United States when considering legislative measures concerning gray market goods.\textsuperscript{92}

**B. The Canadian Supreme Court’s Efforts to Solve the Copyright Overreach in the Context of Gray Market Goods**

Similar to the Australian legislature, the Canadian Supreme Court openly denounced the use of copyright law to control the flow of uncopyrighted gray market goods possessing copyrighted accessories in the above-referenced \textit{Kraft} case.\textsuperscript{93} The majority decision delivered by Justices Binnie, Deschamps and Rothstein focused upon secondary infringement analysis under Section 27(2)(e) of the Copyright Act of Canada,\textsuperscript{94} but the concurring opinions clearly denounced the use of copyrighted accessories to control uncopyrighted goods.

In particular, Justice Fish noted that “the sole purpose of [Kraft Belgium and Kraft Schwiz] registering the copyright . . . was to mount the very attack upon [Euro-Excellence] which is currently before the court” and expressed doubt about “whether the law governing the protection of intellectual property rights in Canada can be transformed in this way into an instrument of trade control not contemplated by the Copyright Act.”\textsuperscript{95} Furthermore, Justice Bastarache postulated that the “Copyright Act . . . [is] about the protection of copyrighted works, not about the importation and sale of consumer goods in general.”\textsuperscript{96} Through statutory interpretation of Section 27(2)(e)\textsuperscript{97} of the Canadian Copyright Act, Justice Bastarache

\textsuperscript{91} \textit{Id.}, s 44C(1).

\textsuperscript{92} \textit{See generally} Howie, supra note 89.

\textsuperscript{93} \textit{See} Euro-Excellence, Inc. v. Kraft Canada, Inc. [2007] 3 S.C.R. 20 (Can.).

\textsuperscript{94} \textit{Id.} at paras. 14-25.

\textsuperscript{95} \textit{Id.} at paras. 55, 56 (quoting Kraft Canada Inc. v. Euro Excellence Inc., [2004] 4 F.C.R. 410 (Can.)).

\textsuperscript{96} \textit{Id.} at para. 57.

\textsuperscript{97} Copyright Act, R.S.C. 1985, c. C-42. Section 27(2) reads:
concluded that “[t]he merely incidental presence of the copyrighted works on the wrappers of the chocolate bars does not bring the chocolate bars within the protections offered by the Copyright Act.” 98

Justice Bastarache adopted a three-step approach to reach this conclusion, analyzing: (1) the purpose of the Canadian Copyright Act; (2) the purpose of Section 27(2) of the Canadian Copyright Act; and (3) the correct interpretation of Section 27(2)(e) of the Canadian Copyright Act. 99 Under the first step, Justice Bastarache noted that the rights of copyright owners have a “limited nature” determined by originality and the treatment of fair dealing. 100 Therefore, “copyright protection is limited to protection of legitimate economic interests which are the result of an exercise of skill and judgment, and that protection must not be extended beyond its proper limits.” 101 To understand the limit of copyright law, it is necessary to acknowledge the “basic and necessary distinctions between different forms of intellectual property and their legal and economic functions.” 102

In analyzing the purpose of the Canadian Copyright Act, Justice Bastarache noted the distinction between copyright and trademark law. Justice Bastarache states that the different forms of intellectual property protection “suggest that each form of protection relies on some core normative notion which must ground the economic interest claimed.” 103 Specifically, trademark law protects market share in commercial goods and the distinctiveness of a product’s marketing, while “copyright protects the

It is an infringement of copyright for any person to
(a) sell or rent out,
(b) distribute to such an extent as to affect prejudicially the owner of the copyright,
(c) by way of trade distribute, expose or offer for sale or rental, or exhibit in public,
(d) possess for the purpose of doing anything referred to in paragraphs (a) to (c), or
(e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c), a copy of a work, sound recording or fixation of a performer’s performance or of a communication signal that the person knows or should have known infringes copyright or would infringe copyright if it had been made in Canada by the person who made it.

99 Id. at paras. 76-95.
100 Id. at para. 76.
101 Id. at para. 79.
economic gains resulting from an exercise of skill and judgment."\(^{104}\) Importantly, “[i]f trademark law does not protect market share in a particular situation, the law of copyright should not be used to provide that protection, if that requires contorting copyright outside its normal sphere of operation.”\(^{105}\)

After determining that the purpose of copyright law restricts its application outside of its usual context of skill and judgment, Justice Bastarache analyzed the purpose of Section 27(2) of the Canadian Copyright Act. Because copyright law exists to protect only legitimate copyright owners’ interests, in the context of gray market goods, Section 27(2) restricts copyright protections such that if a copyrighted work is attached to other consumer goods, “the economic gains associated with the sale of the consumer good must not be mistakenly viewed as the legitimate economic interests of the copyright holder.”\(^{106}\) As a result, gray market goods are not subject to the protections of Section 27(2). Indeed, Justice Bastarache argued that “to allow s. 27(2) to protect all interests . . . would upset the copyright balance.”\(^{107}\)

Applying the purpose of Section 27(2), Justice Bastarache then spoke on the correct interpretation of Section 27(2)(e) of the Canadian Copyright Act. According to Section 27(2)(e), copyright infringement occurs when a good is imported into Canada for a purpose forbidden under Sections 27(2)(a)-(c), including selling, renting or distributing a good to a prejudicial extent and distributing, exposing or offering a good for sale, rent or exhibition through trade.\(^{108}\) Therefore, when a copyrighted Type I good is an incidental attachment to the traded Type II good, protection of the entire package of goods falls outside the scope of Section 27(2) and Section 27(2)(e) cannot be invoked.\(^{109}\) However, Justice Bastarache noted that whether a copyrighted item is incidental could be decided on a case-by-case basis, taking into consideration factors like:

\(^{104}\) [2007] 3 S.C.R. 20, paras. 82-83.
\(^{105}\) Id. at para. 83.
\(^{106}\) Id. at para. 85.
\(^{107}\) Id. at para. 88.
\(^{108}\) Copyright Act, R.S.C. 1985, c. C-42, s. 27.
the nature of the product, the nature of the protected work and the relationship of the work to the product. [Also], [i]f a reasonable consumer undertaking a commercial transaction does not think that the copyrighted work is what she is buying or dealing with, it is likely that the work is merely incidental to the consumer good.\textsuperscript{110}

IV. Copyright Overreach Should Not Be Permissible Under United States Statutory Law or the Copyright Misuse Doctrine

Neither the Australian Copyright Act nor Canadian case law is binding in the United States. Nonetheless, Australia’s and Canada’s approaches to limiting copyright overreach demonstrate possible models for restricting the application of copyright law to gray market goods in the United States.

In the United States, copyright law is a “formidable shield” for intellectual property owners against the introduction of gray market goods into the market, particularly where trademark law cannot protect owners.\textsuperscript{111} For example, under current United States case law, the attachment of Type I copyrightable accessories to Type II goods that are not \textit{per se} copyrightable can extend copyright protections to the Type II goods. Although the United States Supreme Court is silent upon this specific issue, the expansion of copyright law to govern otherwise uncopyrighted Type II goods by United States circuit courts is an illegitimate use of copyright law. This illegitimate overreach of copyright law is arguably impermissible under an appropriate statutory interpretation of the United States Copyright Act and under the doctrine of copyright misuse, which provides a complete defense against copyright infringement claims.

A. Statutory Interpretation of the United States Copyright Law

Article I, Section 8, Clause 8 of the United States Constitution gives Congress the power to grant creators limited monopolies to “promote the progress of science and useful arts, by securing for limited times to authors . . . the exclusive right to their . . . writings.”\textsuperscript{112} This clause outlines the basic policy of copyright law according to the Constitution: to promote progress

\textsuperscript{110} Id. at para. 94.

\textsuperscript{111} See Ghosh, \textit{supra} note 9.

\textsuperscript{112} U.S. CONST. art. I, § 8, cl. 8.
of useful arts for the general good of the society. Absent the protection
offered by copyright law, authors and creators would lack incentives to
produce and innovate, and our marketplace of culture and ideas would
suffer.

The core concept of the Copyright Act is that a limited monopoly
will best advance innovation and enable societal growth. However, the
boundary of a monopoly is not always obvious, which leads to
interpretation problems concerning the reach of copyright law. For
example, Creator A owns the copyright to software X. Does Creator A’s
copyright mean that no other producer can create a similarly functioning
software? Does Creator A’s copyright allow him to dictate that a licensee
may use software X only in conjunction with hardware manufactured by
Creator A? In another example, Creator B owns the copyrighted data
processing software Z. Does Creator B’s copyright allow her to forbid the
data owner from disclosing data in case that disclosure will release
copyrighted information regarding software Z?

Similarly, the reach of copyright law in relation to gray market
goods raises statutory interpretation issues regarding the Copyright Act. If
Owner O holds the copyright of an accessory Type I good, does this
copyright allow Owner O to block the importation and distribution of
uncopyrighted Type II goods to which the Type I good is attached? The
outcome of this issue depends on how a United States court interprets the
text of the Copyright Act. A fundamental doctrine of statutory
interpretation that must be applied to the Copyright Act is “whether
Congress has directly spoken to the precise question . . . [and if] the intent
of Congress is clear, that is the end of the matter.” Also, as Chief Justice


114 See, e.g., Lasercorn Am., Inc. v. Reynolds, 911 F.2d 970, 972 (4th Cir. 1990).

115 See, e.g., Alcatel USA, Inc. v. DGI Techs., Inc., 166 F.3d 772, 777 (5th Cir. 1999).

116 See, e.g., Assessment Techs. of Wis., LLC v. WIREdata, Inc., 350 F.3d 640, 642 (7th Cir. 2003).


Taney pointed out in 1850, “we must . . . look to the provisions of the whole law. . . .”¹¹⁹ In other words, courts should also consider the “cardinal rule of construction . . . that a statute should be read as a harmonious whole, with its various parts being interpreted within their broader statutory context in a manner that furthers statutory purposes.”¹²⁰

Using these rules of statutory construction, a close look at the specific language of Sections 106(3) and 602(a)(1) of the Copyright Act, which outline the exclusive distribution and importation rights of a copyright holder, is essential to determine the correct interpretation of copyright law, particularly in relation to gray market goods.¹²¹ Section 106(3) reads: “[the owner of copyright under this title has the exclusive rights to do and to authorize and] . . . 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.”¹²² In addition, Section 602(a)(1) states:

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 of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.¹²³

The texts of both Section 106(3) and Section 602(a)(1) clearly specify that the right to control distribution and importation of copyrighted goods is limited to the “copies of the work.”¹²⁴ While a copyright entails exclusive distribution and importation rights, these rights should reside only where the United States Congress specifically created a monopoly. Since the legislature did not explicitly extend exclusive distribution and importation controls to uncopyrighted products that contain copyrighted accessories, a creator should not be entitled to such protections.

This statutory interpretation, in which the copyright monopoly does not extend to the uncopyrighted product, is consistent with the ultimate


¹²⁰ Kim, supra note 119, at 2.


purpose of copyright law, which is to encourage the creation and dissemination of creative works. Limiting the reach of copyright law would also help encourage the transfer of goods and promote competition; it gives consumers more choices and makes prices cheaper. Furthermore, a textual interpretation of the Copyright Act would not hurt the legitimate interest of the copyright owners as owners maintain their entitlement to protections of their copyrighted accessories. Ultimately, actions to stop importation and distribution of uncopyrighted gray market goods by attaching copyrighted accessories are inconsistent with the public interest because those actions undermine competition and diminish the consumer’s choice.

This strict textual interpretation is also consistent with the concept that different forms of intellectual property (“IP”) have different functions. As previously explained, copyright law has a distinctive functioning scope to protect “economic gains resulting from an exercise of skill and judgment,” while trademark law “protects market share in commercial goods.” Importantly, the primary purpose of controlling the importation and distribution of genuine goods is to safeguard the economic gains resulting from the market share in a certain market. The purpose is not to protect the skill and judgment of the accessories attached to those goods. Therefore, trademark law is designed to offer importation or distribution protection to rights holders, and copyright law should not step in and nullify the decisions of trademark law legislators to not offer such protection.

As this analysis of copyright statutory interpretation demonstrates, using copyrighted accessories to gain distribution and importation protection for uncopyrighted Type II goods is an impermissible overreach of copyright law. However, as a practical matter, unless the United States Supreme Court sets a clear precedent rejecting the extension of copyright law to uncopyrighted goods with copyrighted accessories, it is risky and possibly costly for distributors to rely on such an analysis of statutory interpretation as a defense once a dispute is brought before a court. For example, in the Kraft case, Justice Bastarache reasoned against the use of copyright law to control uncopyrightable goods through incidental attached

125 Cross & Yu, supra note 115, at 429.


127 See id. (reasoning that copyright law is meant to protect the copyright holder who exercises her own skill and judgment, not the tangentially-related economic interest of a person who attaches a copyrighted work to her property).
copyrighted items based on his interpretation of the statute.\textsuperscript{128} However, Justice Rothstein, writing for the majority, viewed such statutory interpretation as the introduction of “a concept of legitimate interests to read down rights afforded by the Copyright Act,” and the introduction of a new equitable doctrine or an attempt to substitute one’s own policy preference in place of those of Parliament.\textsuperscript{129} This case illustrates that the statutory interpretation argument against copyright overreach in the area of gray area goods is possible, but it is risky and uncertain.

\textbf{B. The Copyright Misuse Doctrine}

Congress grants copyright owners the exclusive right to reproduce their protected works, prepare derivative works, and distribute copies of, perform and publicly display their works.\textsuperscript{130} However, the Copyright Act only addresses copyright owners’ rights, not their behavior in protecting those rights, so the issue of whether a copyright owner’s actions are reasonable or overreaching is not addressed until a case is presented in court. A statute simply cannot provide appropriate rules to regulate all conduct of copyright owners to protect their rights. Even the Supreme Court has recognized that attempting to define the “outer limits” of a legal doctrine is sometimes “fruitless, for each case must turn on its own facts”\textsuperscript{131} and the reasonableness of copyright owners’ conduct in enforcing their rights must be determined on a case-by-case basis.

Despite the difficulties inherent in providing regulatory rules to govern copyright holder conduct through statute, the monopoly created by copyright law should be limited because “what is needed for . . . progress is a subtle blend of competition and monopoly, with more emphasis in general on the former than the latter . . . .”\textsuperscript{132} Empirical studies have revealed that absent regulations or other limitations on how copyright owners can protect their rights, there exist many wide-ranging examples of overprotective

\textsuperscript{128} Id. at para. 57 (Bastarache, J., concurring).

\textsuperscript{129} Id. at paras. 3, 7, 8 (majority opinion).


\textsuperscript{131} Berman v. Parker, 348 U.S. 26, 32 (1954) (noting that attempting to define the entirety of the police power is a “fruitless” endeavor and mentioning that it is not possible to create a complete definition in the abstract).

behavior with regard to copyrights.\textsuperscript{133} For example, music companies contractually forbid secondary users from dealing with competitors.\textsuperscript{134} Importantly, we can expect many secondary users to abide by restrictive terms that limit freedom to contract with competitors when those terms are required by music companies who have high bargaining power over the secondary users.

In light of the possible abuses of copyright protection enforcement by copyright owners, it is useful to consider IP misuse doctrines as potential methods to limit copyright monopolies to reasonable protective behaviors. IP misuse doctrines are equitable defenses to IP infringement claims that are derived from the equitable unclean hands doctrine.\textsuperscript{135} Under the doctrine of unclean hands, “courts will deny an otherwise meritorious claim where the claimant has acted so improperly that the need to punish the claimant’s wrongful behavior outweighs the need to punish the defendant’s allegedly unlawful conduct.”\textsuperscript{136}

The patent misuse doctrine is the first and only IP misuse doctrine acknowledged by the Supreme Court of the United States to provide equitable remedies.\textsuperscript{137} The patent misuse doctrine was set up as precedent in the Supreme Court case Morton Salt Co. v. G.S. Suppiger Co.,\textsuperscript{138} where the

\textsuperscript{133} Victoria Smith Ekstrand, \textit{Protecting the Public Policy Rationale of Copyright: Reconsidering Copyright Misuse}, 11 COMM. L. & POL’Y 565, 565-66 (2006) (citing a joint research project by the Electronic Frontier Foundation and a number of law schools on the “chilling effect” caused by aggressive copyright holders, and other behavior such as clickwrap and user agreements asking users not to use public domain information).

\textsuperscript{134} \textit{Id.} at 566.


\textsuperscript{137} 37 AM. JUR. 3d \textit{Proof of Facts} § 8 (2011) (“[T]he ‘misuse’ doctrine has been expanded [from patents] to cover other forms of intellectual property, such as copyrights and trademarks. The Supreme Court has not expressly recognized copyright and trademark misuse, but has strongly suggested their validity as defenses.”) (citations omitted); \textit{see also} George Carr, \textit{Copyright Misuse: An Overview}, 21 INTELL. PROP. LITIG. (A.B.A. Sec. of Litig.), No. 4, Summer 2010, at 1 (stating that the Supreme Court of the United States has yet to address the copyright misuse doctrine).

The patent owner was denied a remedy for patent infringement because the patent owner tied the sale of patented goods with the sale of non-patented goods.\footnote{Id. at 491, 493-94.} The Court determined that the issue was based on “whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article.”\footnote{Id. at 490.} The Court noted that the patent owner was “making use of its patent monopoly to restrain competition in the marketing of unpatented articles . . . and is aiding in the creation of a limited monopoly in the [unpatented articles].”\footnote{Id. at 491.} Such use of a patent to secure a monopoly not granted by patent law is forbidden and “contrary to public policy.”\footnote{Id. at 492 (“[Public policy] equally forbids the use of the patent to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.”).} In addition, use of a patent to secure a monopoly that is against public policy as a restraint of trade is equally impermissible under equitable principles.\footnote{Id. at 492-93.} Rather, the limited monopoly granted to patent owners by the United States Constitution “excludes from it all that is not embraced in the invention” for public policy reasons.\footnote{Morton Salt, 314 U.S. at 492.} The Court concluded that “[i]t is a principle of general application that courts . . . may appropriately withhold their aid where the plaintiff is using the right asserted contrary to the public interest,”\footnote{Id.} thereby affirming the patent misuse doctrine. Although \textit{Illinois Tool Works Inc. v. Independent Ink}\footnote{547 U.S. 28 (2006).} later modified \textit{Morton Salt} with respect to specific elements of patent misuse that must be affirmatively proven, rather than being presumed,\footnote{Id. at 37-43 (holding that patent misuse requires proof that the patent holder has market power in the patented product and that this market power cannot be presumed as was done in \textit{Morton Salt}).} the basic principles in \textit{Morton Salt} remain valid in the law of patent misuse. For example, the Federal Circuit has recently re-articulated these principles
as: “the patentee may exploit his patent but may not use it to acquire a monopoly not embraced in the patent.”

Similar to the patent misuse doctrine, the copyright misuse doctrine is an appropriate legal defense that can be used to limit the improper exercise of a copyright owner’s monopoly power. Applying the Supreme Court’s reasoning in *Morton Salt*, it is inappropriate to allow copyright owners to expand copyright protections to uncopyrighted goods simply by attaching copyrighted accessories. Significantly, this extension of copyright protection has the effect of limiting competition by creating a monopoly over uncopyrighted goods that have copyrighted articles attached to them. Such attempts to eliminate competition also limit consumer choices and, therefore, are contrary to public policy. In addition, if a court grants the copyright owner relief in this circumstance, the court would be acknowledging a monopoly that was not provided for by the legislature when the gray market goods to which copyrighted accessories are attached are not themselves copyrightable. The copyright misuse doctrine would effectively deny the copyright owner’s request for relief for infringement of a copyrighted accessory attached to an uncopyrighted good when this constitutes copyright misuse under *Morton Salt*’s public policy reasoning.

The biggest challenge to a defendant’s successful application of the copyright misuse doctrine as a defense to copyright owner overreach, however, is that neither the Supreme Court nor Congress has recognized the existence of this defense. Nonetheless, the public policies behind patent and copyright law, and the similar nature of the laws themselves warrant the application of a copyright misuse defense for infringement cases that parallel current patent misuse doctrine defenses. Notably, the Supreme Court in *Princo Corp. v. Int'l Trade Comm'n*, 616 F.3d 1318, 1327 (Fed. Cir. 2010) (en banc) (stating, based on *Morton Salt* and various other Supreme Court cases, that this is the general rule of patent misuse established by the Supreme Court) (internal quotations omitted) (emphasis added). The Federal Circuit also reiterated that in *Morton Salt*, “[t]he Supreme Court held that the patent was unenforceable on the ground that the patentee had unlawfully used the patent ‘to secure an exclusive right or limited monopoly not granted by the Patent Office and which it is contrary to public policy to grant.’” *Id.* (quoting *Morton Salt*, 314 U.S. at 492 (1942)).

*Thomas F. Cotter, Misuse, 44 Hous. L. Rev. 901 (2007).*

*See Morton Salt, 314 U.S. at 490.*

*Scher, supra* note 138, at 89.
Court acknowledges that the public policy underlying copyright law is the same as the policy underlying patent law.\textsuperscript{152}

As a result, even though the Supreme Court has not officially recognized the copyright misuse doctrine, various circuit courts have adopted the doctrine as a complete defense against copyright infringement. One of the most cited cases that applied this doctrine is the Fourth Circuit case \textit{Lasercomb America, Inc. v. Reynolds}.\textsuperscript{153} In \textit{Lasercomb}, the court found that a term in a standard licensing agreement forbidding the licensee from creating a competing product was a violation of the public policy underlying copyright law and rendered the licensor’s copyright unenforceable.\textsuperscript{154} In addressing the existence of the copyright misuse doctrine, the court declared that “[w]e are persuaded . . . that a misuse of copyright defense is inherent in the law of copyright just as a misuse of patent defense is inherent in patent law.”\textsuperscript{155} The court reached this conclusion based on the “similarity of the policies underlying patent and copyright [law],” which is to “increase the store of human knowledge and arts by rewarding inventors and authors with the exclusive rights to their works for a limited time.”\textsuperscript{156} The court emphasized that such “granted monopoly power does not extend to property not covered by the patent or copyright.”\textsuperscript{157}

Since the Fourth Circuit’s decision in \textit{Lasercomb}, several other circuits have adopted the copyright misuse doctrine. For example, the copyright misuse defense has been applied by: the Fifth Circuit in \textit{Alcatel USA, Inc. v. DGI Technologies, Inc.};\textsuperscript{158} the Ninth Circuit in \textit{Practice

\textsuperscript{152} Mazer v. Stein, 347 U.S. 201, 219 (1953) (“The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in ‘Science and useful Arts.’”). Emphasizing the phrase “patents and copyrights” in this quote, the Fourth Circuit has opined that Supreme Court has “equated the public policies of copyright and patent.” Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970, 975 (4th Cir. 1990).

\textsuperscript{153} 911 F.2d 970 (4th Cir. 1990).

\textsuperscript{154} \textit{Id.} at 971-72, 979.

\textsuperscript{155} \textit{Id.} at 973.

\textsuperscript{156} \textit{Id.} at 976.

\textsuperscript{157} \textit{Id.}

\textsuperscript{158} 166 F.3d 772, 773 (5th Cir. 1999).
The copyright misuse doctrine’s “elevated profile can be attributed to society’s increased dependence on licensing agreements.” In particular, the typical application of the copyright misuse defense involves situations where there exists: (1) blanket licensing of copyrighted works; (2) licensing agreements with anticompetitive clauses; (3) refusal to license content; and (4) tying practices. However, the copyright misuse doctrine has great potential for broader applications, particularly in today’s digital information society. As a result, scholars believe that the copyright misuse doctrine, which is already being applied in several circuits, will be established as an accepted defense in a variety of future copyright infringement claims, barring copyright owners’ claims when the owners have misused their limited monopoly in violation of the public policy concerns embodied in copyright law. In fact, the recent Omega v. Costco Wholesale case shows that copyright law may be heading in this direction. In September 2011, the Eastern District of California granted Costco summary judgment against Omega’s infringement claim on the ground of patent misuse. Recall that

159 121 F.3d 516, 520-21 (9th Cir. 1995).
160 342 F.3d 195, 206 (3rd Cir. 2003).
161 350 F.3d 640, 647 (7th Cir. 2003).
163 Id.
164 Ekstrand, supra note 135, at 568.
165 Id. at 568-69.
Omega had been attempting to use the copyrighted engravings to stop the importation of its watches. The district court found that one of the purposes of the copyrighted Omega design “was to control the importation and sale of its watches containing the design, as the watches could not be copyrighted.” Under this circumstance, the court concluded that “Omega misused its copyright . . . by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its … watches.” Importantly, the court set forth an expansive interpretation of copyright misuse, reasoning that although misuse had been limited to situations involving antitrust tying agreements and restrictive licensing agreements, “this is not to say that copyright misuse could not exist in other situations” in view of cases such as Lasercomb, which suggests a “broad rule for copyright misuse” based on public policy.

This is particularly significant for gray market goods, where copyright owners are overextending their rights by attempting to control the importation and distribution of uncopyrighted Type II goods through the attachment of Type I copyrighted goods, thereby greatly undermining the public policy goals of copyright law. In this context, the copyright misuse doctrine can provide an important balance between the Constitutional goal of ensuring that creators are compensated for their skill and judgment and are incentivized to innovate, while limiting copyright monopolies that hinder lawful and productive competition.

Conclusion

The incentives for intellectual property right owners to combat gray market goods are strong. As this paper reveals that, while trademark law intentionally leaves certain trademark owners’ rights unprotected against gray market goods, intellectual property owners are taking advantage of the overlap between trademark law and copyright law. Intellectual property owners are using current copyright law loopholes to extend their copyright protections against gray market goods pursuant to the United States

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168 Id. at 1-2.
169 Id. at 3.
170 Id.
171 Id.
172 See Scher, supra note 138, at 105-06.
Supreme Court *Quality King* case. In particular, copyright owners are attaching copyrighted accessories to uncopyrighted goods in an effort to expand their protection rights over otherwise uncopyrightable Type II products.

As this paper shows, the current overreaching effect of copyright law qua *Quality King* is illegitimate. Canada and Australia are well ahead of the United States in terms of clearly limiting the application of copyright law to uncopyrighted goods and should be emulated. Furthermore, copyright overreach is not justified under United States copyright law based on statutory interpretation of the Copyright Act and application of the copyright misuse doctrine. To date, neither the Supreme Court of the United States nor Congress has addressed the issue of inappropriate copyright law expansion, but these institutions should take action to prevent the misuse of copyright law against gray market goods.

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173 *See* Quality King Distribrs., Inc. v. L'anza Research Int'l. Inc., 523 U.S. 135, 153 (1998) (Ginsburg, J., concurring) (remarking that the majority opinion did not rule on whether the first sale doctrine exhausts the copyright holder’s rights for imports manufactured abroad).

174 *See, e.g.*, Euro-Excellence Inc. v. Kraft Canada Inc., [2007] 3 S.C.R. 20, para. 57 (Bastarache, J., concurring) (“merely incidental presence of the copyrighted works on the wrappers of the chocolate bars does not bring the chocolate bars within the protections offered by the *Copyright Act*”) (Can.); *Copyright Act* 1968 (Cth) s 44C(1) (“The copyright in a work a copy of which is, or is on, or embodied in, a non-infringing accessory to an article is not infringed by importing the accessory with the article.”) (Austl.).