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A Second Look at First Sale: An International Look at U.S. Copyright Exhausion

Alexander B. Pope

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A SECOND LOOK AT FIRST SALE: AN INTERNATIONAL LOOK AT U.S. COPYRIGHT EXHAUSTION

Alexander B. Pope*

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I. INTRODUCTION

In the fall of 2010, the United States Supreme Court heard the case of Costco Wholesale Corp. v. Omega, S.A., which brought the legality of parallel importation and the subject of international exhaustion of copyright protections before the Court. In this case, petitioner Costco proposed that the Supreme Court expressly overrule the Ninth Circuit's precedent holding the place of manufacture to be determinative as to whether the first sale doctrine can exhaust a copyright holder's right to control distribution past the point of a copyrighted good's first lawful transfer. The issue at hand before the Court was essentially whether to accept international exhaustion by applying the first sale doctrine to copyrighted goods manufactured abroad, thus effectively giving its blessing to parallel importation in the United States. The result of that hearing was inconclusive, the justices being split four to four after the recusal of Justice Kagan, giving the Ninth Circuit's national exhaustion regime new life and leaving the ultimate decision of copyright exhaustion and the fate of parallel importation in the United States unresolved.

The market for parallel imports, and by extension copyright exhaustion and the first sale doctrine, has had a profound impact on the marketplace as a whole. The sale of parallel imports alone represents a multi-billion-dollar industry. The copyright exhaustion regime in the United States is critical to numerous industries, including the market for used goods, such as video games and books, as well as the movie rental industry, and the inconclusive decision of the Supreme Court in the Omega case leaves those industries in a state of limbo. The United States International Trade Commission estimates that in 2009 approximately $497 billion worth of imported foreign-made goods were

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3 Id. at 26–29.
6 Brief for Retail Indus. Leaders Ass'n et al. as Amici Curiae Supporting Petitioner at 20 n.25, Costco Wholesale Corp. v. Omega, S.A., 131 S. Ct. 565 (2010) (No. 08-1423) ("For example, a 2008 white paper prepared for an association opposed to parallel importation estimated $58 billion annually in parallel importation activity.").
7 Id. at 10–13 (citing industry reports from members of the movie rental, book, and video game industries).
consumer goods offered for sale by retailers. While a substantial portion of those goods are imported with the authority of the copyright owner, possible liability for copyright violations remains a big concern as the full transactional history of a good is seldom known to dealers in parallel imports.

While there is no single ideal approach to the question of exhaustion, since the needs of one marketplace may differ from those of another, an analysis of the implementation of different exhaustion regimes throughout the world will show that the Ninth Circuit approach is needlessly draconian with its implementation of what amounts to a national exhaustion regime for intellectual property rights. The policy justification behind granting protection for copyrighted goods is to encourage the creation of creative works for the benefit of society by securing a reward for the effort of creating. This policy is met and satisfied upon the first sale of a copyrighted good because the creator receives his or her just reward.

The copyright exhaustion doctrine in the United States rests on the interpretation of a single phrase in Section 109(a) of the Copyright Act limiting its application solely to copies lawfully made under the Copyright Act, a phrase that could be interpreted to support either national or international exhaustion. This Note will show that, because the language of 109(a) is unclear, a balancing of the relevant justifications and factors that weigh on considerations of copyright law, particularly the benefits of public access, economic rights for copyright owners, and incentives, will help determine which strategies for copyright exhaustion would work best in the American marketplace. National exhaustion arguably goes beyond encouraging creation, expanding copyright owners’ limited monopoly to control downstream distribution of goods in a manner inconsistent with the more humble origins of copyright protection. An international exhaustion regime, on the other hand, would result in a more logical protection for copyrighted goods, better fitting our historic justifications for copyright and still providing the copyright owner with incentive to create via a limited but fair economic right. Whichever

8 Id. at 14.
9 Id. at 16–17.
12 See Abbott, supra note 10, at 5–6.
exhaustion regime is in place, caveats regarding individual kinds of goods or applications of copyrights can be enacted, which would curtail abuses of copyright aimed at expanding monopolistic powers.

II. BACKGROUND

A. DEFINING PARALLEL IMPORTS

Intellectual property rights, particularly copyrights, provide their holders with a number of negative rights, which allow one to prevent others from taking specific actions. One such negative right is an owner's right to control distribution by barring others from selling his or her copyrighted goods in the marketplace. This negative right allows a copyright holder to dictate which channels will initially be authorized to sell the copyrighted goods, or in other words, "to make the 'first sale'... on the market, to the exclusion of others." Through the application of copyright exhaustion, also known as the first sale doctrine in the United States, upon the first lawful sale of a copyrighted good in one market, the copyright owner has exhausted his or her rights and that good may then be imported into another market without requiring further consent. This process is called parallel importation since goods move into the importing market "parallel to," but not within, the distribution channels explicitly authorized by the copyright owner in that second market.

The parallel import market is also, perhaps more commonly, known as the "gray market," a term which carries some arguably unfair negative connotations. Despite the term, gray market goods are legitimately made with

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14 See Abbott, supra note 10, at 4; Carlos M. Correa, Trade Related Aspects of Intellectual Property Rights 84 (2007); see also 2 Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 8.12[A] (2010) (noting that the rationale behind the right to limit distribution is defeated when the copyright owner first consents to the distribution).

15 Abbott, supra note 10, at 8.

16 See Bobbs-Merrill Co. v. Straus, 210 U.S. 339, 350–51 (1908) (enumerating for the first time the first sale doctrine, which would later be codified by refusing to extend the "right of exclusive sale"); see also 17 U.S.C. § 109 (2006).

17 See Dan Kiselbach, Business Laws of Canada, § 5.57 (2009) (defining parallel importation in terms of "export" and "import" countries); Abbott, supra note 10, at 5; see also Mitsuok Mastushita, Thomas J. Schoenbaum, & Petros C. Mavroidis, The World Trade Organization 720 (2d ed. 2006) ("Parallel importing is the term used for importing a legally produced product from a low-priced distributor instead of buying directly from the manufacturer.").

18 Kiselbach, supra note 17, § 5.57.

19 See Weil Ceramics & Glass, Inc. v. Dash, 878 F.2d 659, 662 n.1 (3d Cir. 1989) (noting that
the authorization of the copyright holder and are not unlawful; “[p]arallel imports are not counterfeit goods.” Copyright owners and producers in general oppose parallel importation, however, because restricting the practice enables them to segment the international marketplace, which in turn enables them to customize their approach to each market through practices like price discrimination. Consumers and retailers, on the other hand, generally favor the legality of parallel importation as it often results in lower prices and easier access to goods. This conflict between the intellectual property right owner and the consumer is what drives much of the debate over the validity of parallel importation.

B. EXHAUSTION OF RIGHTS

The principle of intellectual property rights exhaustion is the legal basis on which parallel importation works, in essence “exhausting” the intellectual property rights owner’s right to control further distribution upon that first lawful sale. The moment of an authorized sale between a copyright owner and another individual is said to be the moment when the policy concerns over sufficiently motivating persons to create expressive works “give[] way to the policy opposing restraints of trade and restraints on alienation.” The copyright owner receives a reward for his or her labor at the point of first sale; any further downstream control of distribution would arguably be exerting an ownership right over the material object itself and not simply ownership of the copyright. Because the policy concerns that give impetus to the right of distribution are met once the copyright owner gets the benefit of that first sale, the term “gray market” “unfairly implies a nefarious undertaking by the importer,” and that while parallel import is perhaps the better term, gray market is more common; K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 285 (1988) (defining gray market in the context of trademark law).

20 KISELBACH, supra note 17, § 5.57. See also 2 NIMMER & NIMMER, supra note 14, § 8.12[A], § 8.12[B]6 (noting that the right to control distribution only loses its original purpose when copies have not been unlawfully reproduced and are not truly piratical goods).

21 ABBOTT, supra note 10, at 5, 7. For further discussion of price discrimination, see infra Part II.C.

22 ABBOTT, supra note 10, at 6.

23 See id. at 6–9 (describing the relative proponents’ positions regarding the different exhaustion regimes, as well as the possible ramifications of national and international exhaustion for consumers and producers).

24 Id. at 4.


26 2 id. § 8.12[A].

27 18 AM. JUR. 2D Copyright and Literary Property § 100 (2010).
the owner's rights with regard to distribution are exhausted and the copyrighted
good is let loose to flow down the stream of commerce unhindered.\textsuperscript{28}

While exhaustion is common to all countries, the full scope of each nation's
application of the exhaustion doctrine can vary greatly.\textsuperscript{29} This variation
between different exhaustion regimes generally takes one of three forms,
defined primarily for their "distinct geographic concepts of exhaustion and
parallel importation: national, regional and international."\textsuperscript{30} The national
exhaustion regime holds that the only kind of authorized sale that actually
exhausts an intellectual property owner's rights is one that occurs domestically,
within the borders of that nation; this effectively bars parallel importation in its
entirety.\textsuperscript{31} National exhaustion, the more common choice of developed nations
that favor strong intellectual property rights traditions,\textsuperscript{32} allows the intellectual
property rights of a single good to be exhausted in country \textit{A} yet remain in full
force in country \textit{B}.\textsuperscript{33} The regional exhaustion regime takes the same basic
stance as its national exhaustion counterpart, specifically limiting the geographic
area in which an authorized sale exhausts rights, but does so over a larger region
set out under the regime rather than a single nation's borders. The European
Union, for example, currently employs a regional exhaustion regime that
extends to the borders of all of its member nations.\textsuperscript{34}

The international exhaustion regime is the broadest of the three and holds
that the first authorized sale of a good carrying an intellectual property right
exhausts that right regardless of where in the world a transfer takes place.\textsuperscript{35}
International exhaustion is the more common approach of developing nations
and, under it, parallel importation cannot be blocked at all.\textsuperscript{36}

\textsuperscript{28} Id.
\textsuperscript{29} \textit{ABBOTT}, supra note 10, at 4–5.
\textsuperscript{30} Id. at 5.
\textsuperscript{31} Id.
\textsuperscript{32} Vincent Chiappetta, \textit{The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR
Exhaustion and a Few Other Things}, 21 MICH. J. INT'L L. 333, 369 (2000); see also Frederick M.
Abbott, \textit{Public Policy and Global Technological Integration: An Introduction}, 72 CHI.-KENT L. REV. 345,
345–46 (1996) (acknowledging the influence of intellectual property owners in developed nations
pursuing increased protection for their rights on instigating TRIPS).
\textsuperscript{33} See James B. Kobak, Jr., \textit{Exhaustion of Intellectual Property Rights and International Trade}, 5 GLOBAL
ECON. J. 1, 1 (2005), http://www.bepress.com/gej/vol5/iss1/5/ (discussing the application of
patent exhaustion in a national regime).
\textsuperscript{34} \textit{ABBOTT}, supra note 10, at 5.
\textsuperscript{35} Id.
\textsuperscript{36} See Chiappetta, supra note 32, at 337 (noting that the failure to agree on the topic of
exhaustion during TRIPS negotiations represented the "last stand" for developing nations to
prevent the TRIPS agreement from creating an international marketplace that unfairly favored
The fact that a nation can choose whichever exhaustion regime it wishes and can have different approaches for different kinds of intellectual property rights to address different policy concerns creates much room for uncertain interactions between nations. While a nation may have sufficiently decided the topic of patent exhaustion, for example, trademark exhaustion or copyright exhaustion may be as of yet unaddressed. Additionally, while a nation may have decided on a particular regime for copyright exhaustion, the potential remains for different types of goods to be treated differently under that regime.

C. PRICE DISCRIMINATION

Price discrimination is the natural result of employing a national or regional exhaustion regime for copyright protection in which a copyright owner has protections, and subsequently market control, that allow the owner to prevent customers from taking advantage of price deferentials via arbitrage. Such a copyright holder is able to prevent products sold in one market from entering another without express authorization, effectively segmenting the market for those goods geographically. Once markets are segmented, the copyright owner can charge different prices for the same product from market to market, or make changes to the product itself in order to either better match the needs of consumers or to maximize profit on a case by case basis. Proponents of parallel importation generally argue that it empowers consumers by permitting them to circumvent market controls, thereby giving them the benefit of lower prices, and that price discrimination has an overall negative impact on markets in developing countries. Opponents of arbitrage, however, claim price

more developed nations).

37 See ABBOTT, supra note 10, at 5 (“In principle, a country may adopt an international exhaustion policy for patents, a regional exhaustion policy for trademarks, and a national exhaustion policy for copyrights.”).

38 See infra Part II.F.6 (discussing Australia’s general policy of international exhaustion for copyrighted goods that nevertheless calls for national exhaustion when dealing with certain kinds of goods).


40 ABBOTT, supra note 10, at 5.

41 Id.

42 Id. at 6; see also Frederick M. Abbott, First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation, 1 J. INT’L ECON. L. 607, 612 (1998) (claiming consumer interest in copyrightable goods goes beyond pricing to include concerns over availability, quality, and accompanying services).

43 See ABBOTT, supra note 10, at 6 (arguing that exporting low price goods made locally in developing nations to more developed nations drives up demand, which in turn stimulates production of those goods, which are already being manufactured in developing nations because of the comparative advantage provided by cheap labor).
discrimination is instrumental in the efficient distribution of their copyrighted goods,44 as well as a vital instrument by which they can tailor their goods to meet the specific needs of certain customers while maximizing profits, thus capturing "the entire economic benefit that flows from a copyrighted work," and sufficiently incentivizing creation of copyrights.45 The debate over whether the appropriate incentive offered should be the initial reward or the entire economic benefit of the creation is one matter on which supporters of international and national exhaustion regimes generally disagree.

D. COPYRIGHT EXHAUSTION IN THE UNITED STATES

1. The First Sale Doctrine. The United States has set out its approach to copyright exhaustion in 17 U.S.C. § 109, the codification of the first sale doctrine,46 and thus the first sale defense, as first enumerated in Bobbs-Merrill Co. v. Straus.47 In Bobbs-Merrill, the Supreme Court restricted the "sole right to vend" to the initial sale of a copyrighted book, barring a copyright holder from setting a minimum price at which a book must be priced for resale.48 Largely in keeping with its earlier codification,49 the current iteration of the first sale doctrine appears in 17 U.S.C. § 109(a), wherein it is provided 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."50 The correct meaning of the phrase "lawfully made under this title" is the point of contention between the proponents of national exhaustion and the proponents of international exhaustion regimes under United States law.51

44 See Brief for the Motion Picture Ass'n of Am., Inc. and the Recording Indus. Ass'n of Am. as Amici Curiae Supporting Respondent at 23-29, Costco Wholesale Corp. v. Omega, S.A., 131 S. Ct. 565 (2010) (No. 08-1423) (claiming that parallel importation short circuits the carefully timed releases of copyrighted media thereby undercutting foreign box office draws and encouraging piracy).
45 Meurer, supra note 39, at 64.
46 2 NIMMER & NIMMER, supra note 14, § 8.12[B][2].
48 Id. at 351.
49 See 2 NIMMER & NIMMER, supra note 14, § 8.12[B] ("It will be seen that Section 109(a) is similar but not identical in its terms to the second clause of Section 27 of the 1909 Act, which provided that 'nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work, the possession of which has been lawfully obtained.'").
51 See infra Part II.D.2.
The difficulties of this debate between regimes can be seen in a recent ruling from the Southern District of New York, in which the court discussed the difficulties that make this "a relatively close jurisprudential question." In that case, *John Wiley & Sons, Inc. v. Kirtsaeng*, the defendant was accused of infringing copyright protections by importing textbooks, which were lawfully manufactured abroad, and reselling them through online brokers. In analyzing whether the first sale doctrine represented a valid defense to this claim of infringement, the court found that the plain language in the text of the Copyright Act is "at least ambiguous"; the structure of the Act itself does not provide a determinative conclusion; the legislative history of the pertinent sections is inconclusive; and "the policy behind the Act supports either interpretation of Section 109(a)." As the tools traditionally used to parse such a debate over the application of a statute do not seem to clearly favor either interpretation, the court ultimately had to rely on dicta found in a recent Supreme Court ruling, *Quality King Distributors, Inc. v. L’Anza Research International, Inc.*, to find that the first sale doctrine as a defense could not apply to products made under the laws of another nation. *Quality King*, as well as many of the recent developments and debates over the first sale doctrine in the United States, turns largely on the definition of the phrase "lawfully made under this title" found in Section 109(a).

2. The Interplay Between Sections 109(a) and 602(a). While Section 109(a) is a qualification on the general right of copyright holders to control the distribution of their copyrighted works, found in Section 106(3), Section 602(a) bolsters that right of distribution by additionally providing rights of control over the importation of goods. Section 602(a) provides that "[i]mportation 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 [S]ection 106."
The interplay between Sections 109(a) and 602(a) of the Copyright Act has been the subject of some litigation, beginning with Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, in which the Eastern District of Pennsylvania court gave two rationales for holding the importation of authorized copies of phonorecords manufactured in the Philippines to constitute infringement.60 First, the court held that the phrase “lawfully made under this title” in Section 109(a) could not be extended to incorporate goods manufactured abroad, concluding that the first sale doctrine can only apply when a good has been “legally manufactured and sold within the United States.”61 This holding limits the United States first sale doctrine to a distinctly national regime. Second, the court held that “[c]onstruing § 109(a) as superseding the prohibition on importation set forth in the more recently enacted § 602 would render § 602 virtually meaningless.”62

In the years leading up to Quality King,63 the Supreme Court’s first attempt to reconcile these sections, various courts came to incongruous conclusions regarding the weight that should be given to the place of manufacture and sale under Scorpio.64 The logic of the holding in Scorpio has been criticized because, with only small alterations of the facts, applying the holding would create results at odds with the plain intent of the Copyright Act.65 Despite possible logical flaws in the reasoning behind it,66 the Ninth Circuit has affirmed this

61 Id. at 49. See also 2 NIMMER & NIMMER, supra note 14, § 8.12[B][6].
62 Scorpio, 569 F. Supp. at 49.
64 2 NIMMER & NIMMER, supra note 14, § 8.12[B][6][a]. See also Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (3d Cir. 1988) (finding that the place of manufacture was irrelevant, but nonetheless holding that Section 109(a) superseded Section 602(a) when a manufacturer of goods produced domestically, exported to foreign markets through authorized channels, then imported back into the domestic market through unauthorized channels); BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991) (adopting the holding of Scorpio, which emphasized place of manufacture, in a case enjoining the importation of authorized copies manufactured abroad).
65 See 2 NIMMER & NIMMER, supra note 14, § 8.12[B][6][a] (suggesting that if a good was manufactured abroad with the authorization of the United States copyright holder, thus taking it out of the category of goods “lawfully made under this title” according to Scorpio, but the good was later imported into the domestic market via authorized channels, Section 109(a) would never be able to exhaust the copyright owner’s control, no matter how many authorized transfers took place after it reached the domestic stream of commerce).
66 See John A. Rothchild, Exhausting Extraterritoriality, 51 SANTA CLARA L. REV. 1187, 1222–23, 1228–39 (2011) (discussing the flaws in the Ninth Circuit’s precedent holding that place of manufacture is determinative for first sale purposes, but that a foreign-made good can be
interpretation of Section 109(a). The Ninth Circuit has had some concerns with the rigidity of requiring the good to be manufactured domestically and has limited its holdings in an effort to allay some of these concerns. The line of cases in the Ninth Circuit leading up to the turn of the century set the stage for the Supreme Court’s decision in Quality King, which finally explicitly addressed the interaction between Sections 109(a) and 602(a) of the Copyright Act.

3. Quality King. To resolve the split among the circuits concerning the application of Sections 109(a) and 602(a), the Supreme Court granted certiorari to a Ninth Circuit case in which a supplier of hair care products was granted an injunction blocking the importation of goods bearing copyrighted packaging that were manufactured in the United States, sold abroad at much lower prices, and then imported by third parties back into the United States. The Supreme Court held that Section 602(a) could only be used to bar importation when distribution rights under Section 106(3) were infringed. Since Section 106 stipulates that all of the rights enumerated within it are qualified by Sections 107 through 122 of the Copyright Act, a valid first sale doctrine defense under Section 109(a) would defeat a Section 602(a) claim of infringement via importation. As a limitation on copyright owners’ rights of importation, Quality King seemed to represent a step toward a broader understanding of exhaustion and a regime more like exhausted upon an authorized domestic sale, and arguing that “[t]he second rule is inconsistent with the first because the occurrence of a domestic sale does not alter the fact that the article was manufactured abroad.”

67 See BMG Music, 952 F.2d at 319 (affirming the holding of Scorpio requiring domestic manufacture for a good to be entitled to Section 109(a) exemption from Section 602(a) prohibition on importing).

68 Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 482 n.8 (9th Cir. 1994) (“[T]he strongest argument against applying BMG Music is that some of its language, applied literally to circumstances not before us in BMG Music, would lead to absurd and unintended results.”); see also Denbicire U.S.A. Inc. v. Toys “R” Us, Inc., 84 F.3d 1143, 1149–50 (9th Cir. 1996) (acknowledging the “widespread criticism” of the holding in BMG Music); L’Anza Research Int’l, Inc. v. Quality King Distribrs., Inc., 98 F.3d 1109, 1115 (9th Cir. 1996), rev’d on other grounds, 523 U.S. 135 (1998) (“While many courts, including the Ninth Circuit, have followed Scorpio, the consensus among legal scholars is that the reasoning of Scorpio is flawed.”).

69 Parfums Givenchy, 38 F.3d at 482 n.8 (“We merely follow BMG Music in holding that sales abroad of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder’s exclusive distribution rights in the United States under §§ 106 and 602(a).”).

70 L’Anza Research Int’l, Inc. v. Quality King Distribrs., 98 F.3d 1109, 1111–12 (9th Cir. 1996).


73 Quality King, 523 U.S. at 144.
international exhaustion. The Court's opinion does not, however, directly address the issue of a copyrighted good not manufactured and sold domestically, thus leaving room for adopting an explicitly national exhaustion regime by continuing to assert through dicta that only domestically produced goods qualify for copyright exhaustion. The Quality King dicta favoring a distinction between goods manufactured domestically and abroad has been used by proponents of national exhaustion to suggest that Section 109(a) should be read to require goods to be made domestically rather than simply in a manner consistent with the Copyright Act.

4. Costco v. Omega. The most recent Ninth Circuit case to address the first sale doctrine of copyrights features Omega, a Swiss watch manufacturer that etched a copyrighted design into certain lines of its watches and sold them to markets outside of the United States. These watches were purchased by third parties and imported into the United States where they were sold at Costco wholesale stores for more than one-third less than the suggested retail price, as well as with a warranty policy that extended well past the terms of the policy offered by Omega. The copyrighted design itself was less than one-half centimeter in diameter, was referred to as the "Omega Globe Design," and was allegedly placed on the back of the watches primarily to invoke the Copyright Act's restriction on parallel importation as an alternative to seeking trademark protection.

In the Ninth Circuit, the court held that earlier precedent in that circuit established place of manufacture as a determinative factor for application of the first sale defense and that the Supreme Court's ruling in Quality King did not change this. The court found that the Quality King decision did not directly overrule earlier Ninth Circuit precedent because the fact pattern of that

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74 See 2 NIMMER & NIMMER, supra note 14, § 8.12[B][6][c] ("At first blush, the entire way that the Court encapsulated the inquiry before it indicates that its ruling should be given a broad sweep, instead of being confined to the operative facts at play in that particular case. Under that reading, it would seem the Court has opened the door wide to gray market importations and Scorpio is dead.").

75 See id. (making a case that the Court's interpretation of 602(a), which leaves room for a good to be neither counterfeit nor "lawfully made under this title," an example of which, coming from dicta in the Quality King opinion, is a British book publisher with exclusive rights to produce copies in Britain who is unable to make copies of the book that were "lawfully made under this title").


77 Petition for Writ of Certiorari, supra note 2, at 4–6.

78 Id.

79 Id. at 5.

case dealt with the “round trip” importation of a good manufactured domestically and because it was determined that nothing in the reasoning of *Quality King* was clearly irreconcilable with the Ninth Circuit’s “general rule that [Section] 109(a) is limited to copies ‘legally made . . . in the United States.’” 81

The court further elaborated by stating that,

> [i]n short, copies covered by the phrase “lawfully made under [Title 17]” in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright. Something more is required. To us, that “something” is the making of the copies within the United States, where the Copyright Act applies. 82

This holding proved controversial, 83 however, and the Supreme Court held hearings in the fall of 2010 in an effort to settle any circuit split and clarify the meaning of Sections 109(a) and 602(a). 84 The result, however, was a four to four split among the justices, with no written opinions, which affirmed the Ninth Circuit’s earlier ruling but provided no precedential value outside of the Ninth Circuit. 85 This leaves the matter largely unresolved until another case can reach the Supreme Court or until Congress takes action to change the language of the statutes.

E. COPYRIGHT EXHAUSTION AND TRIPS

The Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), the product of the Uruguay Round Agreements, represents the most substantial move toward an international standard for intellectual property rights protections that the world has ever seen. 86 The impetus behind TRIPS has been attributed to a desire for intellectual property developers to expand protection for their intellectual property rights through international harmonization of those rights. 87 The Agreement’s preamble suggests three

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81 Id. at 987 (quoting BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991)).
82 Id. at 988.
83 See Pearson Educ., Inc. v. Liu, 656 F. Supp. 2d 407, 414 (S.D.N.Y. 2009) (“But the court has never explained how § 109(a)’s text supports a distinction based on where a first sale occurred. And the distinction it has drawn conflicts directly with *Quality King’s* holding that place of sale is irrelevant for first-sale purposes.”).
85 Id.
87 See Chiappetta, supra note 32, at 333–34 (noting the international interest in creating at least a
ideals driving negotiations in TRIPS: "a desire to promote undistorted and unimpeded free trade in intellectual products, a desire to protect 'ownership' interests in intellectual products, and a desire to avoid having such protection become a barrier to trade in related goods and services." Although, in effect the Agreement seems to primarily work toward expanding intellectual property owners' interests in their intellectual property rights.

While the TRIPS Agreement did not establish a single supranational intellectual property standard, it did ensure that nationals of foreign nations would be treated equally under each nation’s intellectual property rights laws. While the scope of the TRIPS Agreement was unprecedented, it failed to come to any kind of consensus on the matter of intellectual property rights exhaustion, opting instead merely for a statement found in Article 6 that no consensus could be reached. The text of Article 6 states that "nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

When Article 6 disclaimed any intent to regulate the matter of exhaustion of rights, it left the door open for member nations to adopt whichever regime they wished. This right to choose was confirmed expressly in the Doha Declaration on the TRIPS Agreement and Public Health, which states that "[t]he effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge . . . ." The reason for the TRIPS Agreement's avoidance of the issue of exhaustion has been attributed by scholars to several possible causes, but the implication is

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88 Id. at 343.
89 Id.
90 Hicks & Holbein, supra note 86, at 784.
91 Chiappetta, supra note 32, at 335.
93 CORREA, supra note 14, at 78–79.
95 See Chiappetta, supra note 32, at 335–37 (attributing Article 6 to a manifestation of serious instability between ideas that were at the heart of the TRIPS Agreement itself, namely the economic utility justification behind a national or international exhaustion regime, the fundamental goal of facilitating free trade, and the steadfast resistance of developing nations that may have seen the issue of exhaustion as a "last stand" against wholesale concessions that favored developed nations); Abbott, supra note 42, at 609 (describing Article 6 as a compromise resulting
clear that TRIPS anticipates and provides flexibility for member nations, such as the United States, to make decisions based on their own policy concerns in implementing exhaustion regimes.96

F. COPYRIGHT EXHAUSTION WORLDWIDE

1. European Union. The European Union (EU) employs a regional copyright exhaustion regime that ensures that upon the first valid, legally sufficient, and consented-to sale of a copyrighted good, the rights of the copyright holder are exhausted within the entire EU.97 This right has been enumerated in international agreements among the nations of the European Community.98 Perhaps the clearest declaration of this regime and its full scope over all intellectual property rights can be found in the European Economic Area Agreement (EEA Agreement), which states that contracting parties will adjust their legislation to reach at least a floor of intellectual property rights prevailing in the Community at the time.99 Additionally,

[to the extent that exhaustion is dealt with in Community measures or jurisprudence, the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law. Without prejudice to future developments of case-law, this provision shall be interpreted in accordance with the meaning established in the relevant rulings of the Court of Justice of the European Communities given prior to the signature of the Agreement.100]

The European Community, for purposes of regional exhaustion, consists of twenty-seven member nations of the EU as well as another three nations, which are not EU members but are included in the regional exhaustion regime by the
EEA Agreement. Once the owner of a copyright consents to placing that copyrighted good in the marketplace of any of the EEA Agreement nations, the copyright holder is barred from further control over the distribution of that copyrighted good throughout the European Community, but goods first sold outside of the EEA community would not exhaust these rights.

The European Community has faced some bumps along the road to establishing regional exhaustion throughout Europe, and the European Court of Justice (ECJ) has found it necessary to address attempts by member nations to implement alternative exhaustion regimes. Other nations, such as the United Kingdom, have voluntarily modified their laws from alternative exhaustion regimes to follow European Community Directives.

The ECJ has described the “essential function” of copyright law as being “to protect the moral rights in the work and ensure a reward for the creative effort.” While, logically, national exhaustion would further these goals, that would cut against the Community goal of promoting the free movement of goods through eliminating quantitative restrictions on the flow of goods. At the same time, since promotion of the free movement of goods within the European market is an important goal of the European Community’s approach to copyrights, it can be argued that allowing for international exhaustion

101 Jaime Espantaleón, Exhaustion Light in European Television, 32(1) E.I.P.R. 29, 30 n.14 (2010); see also J.A.L. Sterling, World Copyright Law § 26.04 (3d ed. 2008) (stating that Article 65(2) of the EEA Agreement mandates following Protocol 28 for not only the European Union member nations: but also the three European Free Trade Agreement member nations, Iceland, Liechtenstein, and Norway); Eirik Overland, Landmark EFTA Court Decision Restricts Parallel Imports, MANAGING INTELLECTUAL PROPERTY (Dec. 2008), http://www.managingip.com/article/2071704/Landmark-EFTA-Court-decision-restricts-parallel-imports.html (discussing the recent rulings of joined cases L’Oreal Norge AS and L’Oreal SA v. Per Aartekog AS, Smart Club AS and Nille AS, (E-9/07 and E-10/07), 2008 O.J. (C 275) 20, the EFTA court has departed from an earlier ruling finding that EEA member nations could opt for international exhaustion and has found that Norway and the other EEA nations must adopt a regime of community exhaustion).

102 Sterling, supra note 101, § 9.07.

103 1-EU International Copyright Law and Practice EU § 2[1].

104 The Copyright and Related Rights Regulations, S.I. 1996/2967, reg. 9(2) (UK) (amending British copyright law which had previously exhausted distribution rights after the first sale of a good previously distributed in the UK or elsewhere, but which now exhausts only when goods are put into circulation in the EEA).


regimes within some member nations could ultimately interfere with that objective.\(^\text{107}\)

The possibility of an international exhaustion system in the European Community was raised in a landmark case featuring a similar fact pattern to that of Omega. Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH. In that case, trademarked goods were initially placed into the stream of commerce outside of the EEA with the express understanding that they were not to be imported back into Europe, but found their way back as parallel imports nonetheless.\(^\text{108}\) In Silhouette, the ECJ found that the possibility of having a mix of exhaustion regimes in the European Community endangered the objectives of promoting free movement of goods. The court barred member nations from controlling imports between the member nations of the EEA via trademarks and granted a right to block imports of parallel goods sold initially in foreign markets.\(^\text{109}\) The Silhouette decision was extended by analogy to copyright law in the case of Micro Leader Business v. Commission, in which the possibility of an international exhaustion regime for copyrights was quashed when the ECJ found that marketing a copyrighted product outside of the European Community could not exhaust the holder’s rights within the EEA.\(^\text{110}\) This principle was reiterated when the ECJ held that European Community Directives must necessarily preclude the possibility of member nations implementing an international exhaustion regime for limiting the copyright owner’s control of distribution over goods first sold abroad.\(^\text{111}\)

2. Switzerland. Switzerland, while a member of the European Free Trade Agreement, is not a part of the EEA Agreement and is thus not obligated to adopt the EU’s regional exhaustion regime.\(^\text{112}\) Switzerland has opted, through

\(^{107}\) Silke von Lewinski, *International exhaustion of the distribution Right under EC Copyright Law?,* 27(7) E.I.P.R. 233, 235 (2005) (“Accordingly, in a situation where some Member States provide for international exhaustion and others do not, trade barriers between the Member States are maintained. Consequently, only the uniform regulation of exhaustion in all Member States can achieve the internal market and thereby justify the competence of the EC to legislate and establish the validity of the measure.”).


\(^{109}\) Id. at I-04830-32.


\(^{111}\) See id. § 26.13(3); see also Case C-479/04 Laserdisker ApS v. Kulturministeriet, 2006 E.C.R. 8089, 8134 (“Article 4(2) of Directive 2001/29 is to be interpreted as precluding national rules providing for exhaustion of the distribution right in respect of the original or copies of a work placed on the market outside the European Community by the rightholder or with his consent.”).

\(^{112}\) See Carl Bandenbacher, *Judicialization: Can the European Model Be Exported to Other Parts of the World?,* 39 TEX. INT’L L.J. 381, 397 (2004) (“The Swiss Supreme Court has stated that . . . EU law
Federal Supreme Court opinions rather than statutes, to take a multi-pronged approach to intellectual property rights exhaustion, creating a national exhaustion regime for patents and an international regime for trademarks and copyrights. In *Imprafot AG v. Nintendo Co.*, the Federal Supreme Court was tasked with interpreting Section 12 of the Swiss Copyright Act, which enumerates the exhaustion of rights for a copyright but does not define the full scope of the first sale necessary to trigger exhaustion. The issue in that case was whether Section 12 should invoke exhaustion in a scenario featuring the parallel importation of a video game bought from Nintendo of America and sold in Switzerland without the authorization of Nintendo of America. The Federal Supreme Court found that Switzerland’s international exhaustion system could not be circumvented by contractual limitations on foreign distributors as such limitations could not be invoked against third party importers, although plaintiffs may have had an unfair competition claim if such importers actively instigated a distributor to breach a contract.

3. Russia. The Russian Supreme Court Plenum gave Russian copyright law an expansive interpretation in a lengthy resolution issued in 2006. In one of the provisions introduced in this resolution, the Russian Supreme Court Plenum clearly established that exhaustion of rights would not extend extraterritorially and therefore Russian copyrights would be subject to a national exhaustion regime.

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115 Id.


117 Id.
4. Japan. Japan has generally implemented an international exhaustion regime with respect to copyrights through Article 26-2 of the Copyright Act of Japan, which covers the right to transfer ownership. Article 26-2(1) grants the exclusive right to transfer an owner’s work to the public while Article 26-2(2) calls for the exhaustion of that right upon the first sale of the work. The first sale thus transfers the work to the public by the copyright holder’s own hand or through the copyright holder’s authorization; however, no language in the statute itself requires this transfer be made within national boundaries. A major element of any exhaustion question under Japanese copyright law is whether the copy in question is a cinematographic work, as copyright holders’ rights to control distribution for this particular kind of good are not limited by any type of rights exhaustion.

5. Canada. Canadian copyright law features a national exhaustion regime in Article 27 of the Canadian Copyright Act, which establishes that an importer can be found liable for infringement. Additionally, the importation of a copyrighted good can be barred, so long as the plaintiff can show that the importer at least should have known that, if that copy had been made in Canada, its manufacture would have infringed a copyright. This statutory language clearly establishes a national copyright exhaustion regime.

6. Australia. Australia implements a slightly different version of an exhaustion regime, blending international and national regimes by way of explicitly carving out caveats and qualifications to a copyright owner’s right to bar importation with respect to certain kinds of goods. While the importation of a copyrighted work without the permission of the copyright owner is in some circumstances, given actual or imputed knowledge, permitted, numerous qualifications exist. For example, parallel importation is allowed for books so long as they are legitimately made in another country that is a participating member of the Berne Convention or Universal Copyright

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118 Chosakukenhō [Copyright Act], Law No. 48 of 1970, art. 26-2.
119 Id. art. 26-2(1), (2).
120 Id.
121 Id. art. 26-2(1); see also Sail K. Mehra, Copyright, Control, and Comics: Japanese Battles Over Downstream Limits on Content, 56 RUTGERS L. REV. 181, 215-16 (2003) (discussing the exception to the Japanese first sale doctrine for cinematographic works that stems from the rationale that greater rights are necessary to control public exhibition).
123 Copyright Act, 1968, § 44A, 112(a)(1) (Austl.).
124 Polo/Lauren Co., LP v. Ziliani Holdings Pty Ltd (2008) 173 F.C.R. 266, 268 (Austl.) (holding that importation of Polo Ralph Lauren shirts was not infringement of the copyrighted polo player logo on the shirts as they were “accessories” which do not give the holder a right to bar importation of the article to which they are affixed).
Parallel importation is barred, however, when a book is first published within Australia's borders or if a book initially published abroad is also published in Australia within thirty days. Even then, the right to bar importation is heavily qualified as the copyright owner may still be barred from preventing importation if a party places an order for a reasonable number of copies of that book with the copyright owner or licensee in Australia and either the ordering party is not notified within seven days that the order will be filled within ninety days or ninety days have passed already and the order remains unfilled.

In addition to limitations on books, other traditional copyrights feature similar limits on the right to control importation; among them are limitations on items such as software, periodicals, and sheet music in electronic format. Copyright owners may not prevent the import of parallel copies of these goods if they were not infringing any copyright laws in the country in which they were produced at the time they were produced. The right of copyright owners to bar parallel importation of sound recordings features another host of qualifications, which state that importation cannot be blocked if at the time and place the sound recording was made, the copyright owner had consented to the production. Where the copy of the sound recording is subject to an Australian copyright, that copy must additionally have been made legitimately within the laws of the country in which it was produced, if that country is a participating member of the Berne Convention or of the World Trade Organization. These statutes show that while rights to block parallel importation exist, they are not allowed to block public access or to result in unreasonable price increases for consumers.

125 Copyright Act, 1968, § 44A (Austl.); see also 1 PAUL E. GELLER, EDS., INT'L COPYRIGHT LAW AND PRACTICE AUS § 8(1)(c)(i)(C) (2010) [hereinafter ICLP AUS].
126 Copyright Act, 1968, § 44A (Austl.); see also ICLP AUS, supra note 125, § 8(1)(c)(i)(C).
127 Copyright Act, 1968, § 44A (Austl.); see also ICLP AUS, supra note 125, § 8(1)(c)(i)(C).
128 Copyright Amendment (Parallel Importation) Act, 2003, no. 34 (Austl.); see also ICLP AUS, supra note 125, § 8(1)(c)(i)(C).
129 Copyright Act, 1968, § 10AB (amended by Copyright Amendment (Parallel Importation) Act, 2003, no. 34, § 8); ICLP AUS, supra note 125, § 8(1)(c)(i)(C).
130 Copyright Act, 1968, § 10AA(1) (amended by Copyright Amendment Act (No. 2), 1998, no. 105, § 3).
131 See id. § 10AA(2)–(3) (stipulating in subsection 10AA(3)(b) that if the country of production is a member of the WTO, it must have also enacted laws making it compliant with the TRIPS Agreement).
132 See ICLP AUS, supra note 125, § 8(1)(b)(iii).
Another important wrinkle in Australian copyright law limits the right to control distribution of goods featuring “accessory” copyrights since the copyright “in a work a copy of which is, or is on, or [is] embodied in a non-infringing accessory to an article is not infringed by importing the accessory with the article.”133 “Accessory” is defined in the Australian Copyright Act as, among other things, “a label affixed to, displayed on, incorporated into the surface of, or accompanying, the article,” packaging, or a label affixed to the packaging.134 These statutes were interpreted in a recent case that found the Polo Ralph Lauren polo player logo affixed to parallel import shirts was legally an accessory and therefore not a valid basis for barring importation.135 The Federal Court of Australia found that “[t]he effect of these provisions is that importation of an article bearing a label does not infringe any copyright in the label.”136

Most of these allowances for parallel imports, creating what amounts to a limited international regime, have been implemented in the last few decades. Now, there are signs that Australia may be moving even further in the direction of international exhaustion.137 The Australian Productivity Commission recently undertook a review of the current provisions in Australian law regarding the parallel importation of books and suggested that copyright owners’ rights to block importation should be further curtailed, citing among other reasons that blocking parallel imports was driving up consumer prices, causing consumers to bear most of the costs of these restrictions while authors and publishers received most of the benefits.138 The recommendation of the Commission was to repeal the currently existing limitations on international exhaustion of books under Australian copyright law.139

7. Singapore. Singapore generally utilizes an international exhaustion regime for intellectual property rights.140 The Copyright Act of Singapore was amended to clarify this stance favoring international exhaustion, stating that parallel importers would not be held liable for infringement if the article to be imported “was made with the consent of the person owning the copyright in the country of manufacture” or if the article was made pursuant to a license of

133 Copyright Act, 1968, § 44C (Austl.).
134 Id. § 10(1).
136 Id. at 270.
138 Id.
139 Id.
140 1-8 Intellectual Property Protection in Asia, § 8.100.
the copyright owner in the place of manufacture, regardless of any conditions placed on that license as to sale or distribution.141 Put simply, "if parallel imports are made in the country of manufacture with the consent of the copyright owner, the Singapore copyright owner cannot prevent a third party from importing into Singapore such imports."142

III. ANALYSIS

A. THREE GENERAL APPROACHES TO ESTABLISHING AN EXHAUSTION REGIME REGARDING INTELLECTUAL PROPERTY RIGHTS

1. "One Rule Fits All" Theory of Exhaustion. Some nations apply a broad approach, treating all varieties of intellectual property rights the same regarding exhaustion, finding that whichever regime they choose should apply to copyrights, trademarks, and patents equally. While the simplicity of a bright line rule may be appealing, such an approach needlessly ignores the fundamental differences between the justifications and goals of different kinds of intellectual property rights.143 Taking American law as an example, the justification for patent and copyright law is stated in Article I, Section 8 of the United States Constitution, which provides Congress with the power "to promote the Progress of Science and useful Arts."144 Trademark law, on the other hand, is more clearly focused on serving economic purposes, as is evidenced by the fact that it finds its constitutional basis in the Commerce Clause.145 The very different origins and developments of the various intellectual property rights in American law mean there is no inherent reason to group them all together. As such, the exhaustion regime for trademarks should not be a determinative factor for deciding the exhaustion regime for copyrights or vice versa. Each area of law should be given its own analysis. For this reason, the approach of regimes such as Russia and the European Union, which treat all kinds of intellectual property the same with regard to exhaustion,146 can be appropriate only if each type of intellectual property has been considered individually and given proper scrutiny.

141 Singapore Copyright Act of 1987, ch. 63, §§ 31–33.
142 1-8 Intellectual Property Protection in Asia § 8.81.
143 See Abbott, supra note 32, at 353 (discussing the different functions different intellectual property rights serve).
144 U.S. CONST. art. I, § 8, cl. 9; see also CJS Copyright § 2 (2007).
145 1-1 GILSON ON TRADEMARKS § 1.04 (2011).
146 See discussion supra Parts II.F.1, 2.
2. Determining Exhaustion Based on Kind of Intellectual Property. Due diligence requires that when determining the exhaustion rights for any intellectual property regime, one must analyze the costs and benefits of exhaustion for that type of intellectual property individually. Since different forms of intellectual property serve different functions, intellectual property rights may not be treated as equivalents in determining the appropriate scope of those rights, especially with regard to a public welfare analysis. As an example, copyright law traditionally concerns rewarding and encouraging artistic creativity while trademark and patent law generally deal with more economic applications. Additionally, the fundamental framework of a copyright regime is either one of "copyrights," which typically places the focus on protecting the work that is the result of a creative endeavor, or one of "author's rights," which typically places the focus on protecting the author as the creator. The United States utilizes the copyright approach while some European nations, such as France, and those that these nations have historically influenced have focused on author's rights. Still other nations, such as Japan, implement a composite system borrowing from both.

While globalization of intellectual property rights has its benefits, the various components of each nation's regime will differ depending on the ultimate goals and justifications of the regime, and this variation is often significant enough to necessitate, at times, the creation of different rules for different nations. There is no inherently correct answer to the question of exhaustion of rights with regard to copyrights; each nation should come to a conclusion regarding copyright exhaustion by balancing whichever factors it deems most important. This proposition can be supported by looking to the TRIPS

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147 See Abbott, supra note 32, at 353 ("[i]t is important to note that different forms of intellectual property serve different functions, and that in a process of public welfare analysis not all [intellectual property rights] issues may be treated as equivalents.").
148 Id.
149 STERLING, supra note 101, § 1.15, at 17–19.
150 Id. at 19.
151 Id. at 17.
152 See ENYINNA S. NWAUCHE, A DEVELOPMENT ORIENTED INTELLECTUAL PROPERTY REGIME FOR AFRICA 13–14 (presented at the 11th General Assembly of the Council for the Development of Social Science Research for Africa (CODESRIA), Maputo Mozambique arguing that interests of developing African nations would be best served by implementation of international exhaustion for intellectual property rights, particularly patents).
153 See ABBOTT, supra note 10, at 5 ("In principle, a country may adopt an international exhaustion policy for patents, a regional exhaustion policy for trademarks, and a national exhaustion policy for copyrights. In fact, governments do 'mix' exhaustion policies based on different policy considerations.").
Agreement, which ultimately left the choice of exhaustion up to the discretion of the individual member nations.\textsuperscript{154}

3. Determining Exhaustion Based on Kind of Good. The third and most specific approach to defining the scope of a nation's exhaustion policy is to subdivide the issue based not only on the kind of intellectual property, but also on the kind of good or article in which the property right is found.\textsuperscript{155} Australia implements this kind of approach and does so largely to accommodate the nature of their copyright laws, which primarily support the rights of authors in traditional copyright goods, like books, while opposing the "subterfuge" of placing a copyright in a package or label solely for the purpose of protecting a good that is only incidentally related to the copyright.\textsuperscript{156} This approach has the obvious flaw of injecting complexity into the already elaborate rules of a copyright regime, but it also allows legislatures to hone in on the actual intent behind giving copyrights in the first place.

B. THE APPROPRIATE APPROACH FOR THE UNITED STATES

1. Factors Important to Copyright in the United States. Analyzing the relative costs and benefits of any copyright exhaustion regime means balancing the interests of the public at large in the creative work against the copyright owner's limited monopoly interests.\textsuperscript{157} Since the constitutional basis for U.S. copyright law is to seek the promotion of "the Progress of Science and useful Arts,"\textsuperscript{158} copyright is first and foremost a means to ensure that there is enough incentive for the creative to create.\textsuperscript{159} To encourage this, Congress has the authority to give authors a reward in the form of control over the sale and commercial use

\textsuperscript{154} TRIPS Agreement, \textit{supra} note 92, art. 6.
\textsuperscript{155} See \textit{supra} Part II.F.6 (discussing the different limitations placed on the right of copyright owners to bar parallel imports in Australia).
\textsuperscript{156} See \textit{Polo/Lauren Co. LP v. Ziliani Holdings Pty Ltd} (2008) 173 F.C.R. 266, 271 (quoting from the Copyright Law Review Committee, which was responding to an earlier ruling finding a copyright owner able to prevent parallel importation of liquor where the bottles' labels were copyrighted. The Committee also said, "[t]he purpose of copyright is to protect articles which are truly copyright articles such as books, sound recordings or films.").
\textsuperscript{157} See \textit{ABBOTT, supra} note 10, at 7–9 (discussing the conflict between public access to the lowest possible prices through arbitrage and the intellectual property right owner's interest in extracting the most economic benefit possible through practices such as price discrimination).
\textsuperscript{158} U.S. CONST. art. 1, § 8, cl. 8.
\textsuperscript{159} See \textit{Goldstein v. California}, 412 U.S. 546, 555 (1973) ("As employed, the terms 'to promote' are synonymous with the words 'to stimulate,' 'to encourage,' or 'to induce.' "), \textit{superseded by statute on other grounds}, Sonny Bono Copyright Term Extension Act, Pub. L. No. 105-298, 112 Stat. 2827 (1998).
of copies of their works. In *Bobbs-Merrill*, however, the Supreme Court established that these economic rights were not unlimited. The limited nature of copyrights, and in general our wariness of monopolistic intellectual property rights, was built into the constitutional grant itself when the Framers explicitly restricted the right to a “limited time[.]” As such, the reward given to the creators of works is not a special, private, and economic benefit to the copyright owner, but instead is primarily designed to motivate creative activity for the benefit of public access to their creations and the free flow of those ideas. Subsequently, under American copyright law, the reward to copyright owners is a secondary, although still important, “consideration as compared with the benefit to the public.”

Within the specific context of the exhaustion debate, the interest of public consumers in having access to the lowest possible prices for legitimate goods through free movement in the marketplace is placed opposite the interest of copyright owners in obtaining the full economic benefit from their investment. Through a “just reward” approach to copyrights all of these factors can be addressed to some extent. The just reward approach has been ensconced in Supreme Court copyright rulings dating back to *Bobbs-Merrill*. The approach has also been expressed in dicta in the Second Circuit’s opinion for *Platt & Munk Co. v. Republic Graphics* where the court stated that even an involuntary transfer could effectively exhaust the rights of a copyright owner, so long as it could fairly be said that the copyright owner received his or her reward for the use of the article, or in other words a just reward. A just reward approach ensures that the copyright owner receives compensation for the effort exerted in creating the article in question, but it also means that this reward should stop with the first transfer. The copyright owner would bear

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160 *Id.*
162 U.S. CONST. art. 1, § 8, cl. 8.
163 Sony Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984), superseded by statute on other grounds, Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2860 (1998); see also *Fox Film Corp. v. Doyal*, 286 U.S. 123, 127 (1932) (“The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors.”).
165 See *ABBOTT*, *supra* note 10, at 7–8.
166 See 210 U.S. at 351 (finding that by selling copies of its books at a price satisfactory to it, the copyright owner has exercised the right to vend granted to incentivize the creation of works and further control was inappropriate).
168 See 2 *NIMMER & NIMMER*, *supra* note 14, § 8.12[A] (arguing that the underlying rationale for the distribution right disappears after the first consented to act of distribution).
the burden of ensuring that the initial transfer was for a value he deems sufficient to reward his industry and creativity. Because it would provide both the necessary incentive to create and ensure public access to the creative works by limiting monopolistic controls over those works, the just reward approach is an effective and workable way of handling the exhaustion of copyrights.

2. Nations Disagree on the Balancing of Factors to Justify Exhaustion Regimes. As each nation engages in its own balancing test to determine which regime to select, the non-exhaustive list of factors above will be weighted differently depending on the position of each nation. A straightforward analysis typically seen in developing nations usually finds that international exhaustion both at home and abroad most directly benefits their citizens by alleviating some of the hazards that come along with a developing nation's growing pains. In particular, when other nations allow parallel imports, distributors in the developing nations are able to export goods that generally sell for less than the goods obtained through authorized channels because the cost of labor is lower. Lower prices mean higher demand, which in turn necessitates a greater supply; greater supply amounts to more work for the cheap labor found in developing nations. Access to goods like patented medicines is also a great concern to developing nations, but an analysis of the exhaustion of patents, especially with regard to pharmaceuticals, is beyond the scope of this Note. For these reasons and a host of others that revolve around the ability of a free flowing global market to provide greater access to the necessities and luxuries that developing nations lack, commentators with the welfare of such developing nations in mind have recommended employing an international exhaustion regime.

While copyrights are said to exist to protect the moral rights of authors and ensure a reward for their effort, in the European Union the most prominent concern expressed in case law and legislation is the free movement of goods within the community. While international exhaustion certainly supports the free movement of goods, the European Union focuses on the community

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169 See Abbott, supra note 10, at 6 (discussing a variety of ways in which parallel imports can help consumers).
170 See id. (discussing some comparative advantages that developing nations may have and how cheaper production can result in lower prices and higher demand).
171 Id.; see also Abbott, supra note 42, at 619–21 (arguing that studies suggesting that international exhaustion in developing nations would lead to higher prices in developing nations ignore the positive impact international exhaustion has on manufacturers and distributors in those nations).
172 Nwauche, supra note 152, at 14.
173 See supra Part II.F.1.
alone, not the global marketplace. This approach emphasizes protecting the economic interests of intellectual property owners, a stance taken by many developed nations that are home to the great majority of intellectual property rights owners in the world. A community exhaustion regime, like the one in the European Union, places the focus on economic interests and places the interests of the local copyright owners at the forefront.

Central to Australia’s regime, which provides for international exhaustion with regard to specific kinds of goods, is the idea that the right to bar parallel importation of copyrighted articles should not unduly interfere with public access to traditional kinds of copyrighted goods and should not permit copyrights that are mere accessories to the article itself to prevent public access. This approach clearly places the benefit of the public at the forefront, while still affording protection to authors when parallel importation does not benefit public access. Because it values traditional protections for copyright owners while still placing the public interest at the forefront, a system similar to Australia’s would work well in the United States.

3. The Approach Most Compatible with Traditional American Copyright Policies. Given the emphasis that American courts and legislators have placed on providing for public access and the free flow of goods over purely economic rights, a national exhaustion regime like the one proposed by the Ninth Circuit in its Omega ruling is not a good fit for United States copyright law. Such a regime would place too much focus on maximizing the economic value of copyrights and would cut against the United States’ historic distaste for expanding monopolistic property rights. A community exhaustion approach like the one in the European Union would also be inappropriate, as it, in effect, would leave the United States with the same problems present in a national regime, only having extended the borders. Moving the relevant borders from the edge of the nation to the edge of a community would still allow price discrimination that restricts public access and provides the copyright owners with more than their just rewards.

An international exhaustion regime more accurately reflects the policy concerns of United States copyright law, as it places consideration of the public benefit before that of the copyright owner. Should United States legislators decide an international approach is best, they need not commit to a sweeping international exhaustion regime for all intellectual property rights. The United

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174 See supra Part II.F.1.
175 See Chiappetta, supra note 32, at 372 (arguing that TRIPS was a successful attempt by developed nations to frustrate free trade thus increasing protection for intellectual property creators).
176 See supra Part II.F.6.
177 See supra Part III.B.2.
States, as a developed nation, has every opportunity to perform an individualized analysis of each category of intellectual property rights to determine whether the justifications and policies behind each right justify international exhaustion in the same way those policies justify international exhaustion for copyrights. Whether trademarks or patents should be subject to such a regime is an analysis beyond the scope of this Note. Copyright owners have economic rights, to be sure, but a just reward approach, which limits economic rights to solely what is necessary to give enough incentive to create, answers the need for providing incentives, leaves control of the initial pricing and therefore the just reward itself in the hands of the copyright owner, and still champions public access to the goods themselves.

If a national or community exhaustion approach were to be taken, however, the United States could still choose to specify and qualify exhaustion principles with regard to individual kinds of goods. Australia has taken a similar approach, affording protection against parallel imports for traditionally copyrighted goods like books and sound recordings but restricting the application of copyrights regarding other applications like packaging and labels. Australian copyright law is thus able to avoid a system that would permit copyright owners to gain heightened control of the market, hampering the free flow of goods by applying copyright protection to goods that would not have been afforded copyright protection in their own right. By differentiating based on the good in question and the realities of the copyright’s relevance to the good, Australian copyright law has been able to strike a balance between the economic rights of traditional copyrights as well as the public’s ability to access those works. Such an approach, if applied in the United States, would fit well with the focus United States copyright law places on ensuring the public benefit of copyrights, would still protect copyright owners’ rights in more traditional kinds of goods, and would provide a sufficient just reward for the copyright owner received upon the first sale of that good, be it locally or abroad.

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See supra Part II.B.

See supra Part III.A.1.

See Polo/Lauren Co. LP v. Ziliani Holdings Pty Ltd (2008) 173 F.C.R. 266, 276 (Austl.) (finding that the copyright in the polo player logo affixed to shirts could not serve to provide a right to bar parallel importations because it was merely an “accessory” to the article itself).

Id. at 273 (quoting an explanatory memorandum accompanying the Copyright Amendment Bill 1997).
IV. CONCLUSION

While prominent international agreements like TRIPS have made great strides towards the globalization of intellectual property rights, they have been frustratingly silent on the issue of exhaustion. There is a tremendous degree of flexibility in the variety of intellectual property rights exhaustion regimes available to a nation. This leaves individual nations with a great amount of leeway to adopt an exhaustion regime that is best for their own interests. No two nations will weigh the relevant factors for the creation, enforcement, and ramifications of their own copyright system in exactly the same way and therefore there will be a great deal of variety across the international landscape.

Because of the potential for that critical phrase “lawfully made under this title” to be interpreted either in favor of making place of manufacture a relevant determinative factor or in favor of dismissing the distinction entirely from copyright exhaustion law, weighing the factors most important to United States copyright law helps inform that decision. The United States has a history of limiting the monopoly rights of copyright owners and has traditionally held public interests to be the focus of copyright law, as opposed to the economic interests of the copyright holder. As such, the best approach to exhaustion for the United States is an international exhaustion regime.

Even should the United States opt for a national regime, the opportunity remains for future legislation to create specific qualifications to a copyright owner’s right to bar parallel imports, such as the ones found in Australia, which prevent the use of an “accessory” to the good as being the sole basis of a bar to parallel importation. Even in a national exhaustion regime, allowing copyright owners to use copyrights in a purely economic manner, to the detriment of public access to the articles in question, would be too incongruous with the justifications laid out for our copyright system and should not be permitted.

With the split decision by the Supreme Court in the Omega case leaving the matter of exhaustion as undecided as it was before, the best bet for resolution of this important matter is congressional action. At the very least, Congress should address the application of copyrights to works that are merely incidental to or an accessory to the good as a whole when used to bar parallel importation, a situation like the one in Omega, and Congress should restrict such abuse of copyrights.