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Cases of Note — Copyright Infringement

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Copyright Infringement — Right to Distribute — First Sale Doctrine

by **Anne F. Jennings**

Quality King Distributors, Inc. v. L'Anza Research International, Inc. Supreme Court of the United States (March 9, 1998). 1998 WL 96265 (U.S. Cal).

In what has been described as a “gray market case,” the **United States Supreme Court** handed down an opinion on March 9, 1998, which reversed an earlier finding by the **Ninth Circuit** and held that the “first sale doctrine, under which owner of particular copy is entitled, without authority of copyright owner, to sell or otherwise dispose of possession of that copy, is applicable to imported copies.”

The Court, resolving a Circuit split on the issue, rejected the respondent’s argument, which was supported by the Solicitor General, that the First Sale Doctrine is limited by section 602(A) of The Copyright Act, which forbids importation into the United States without the owner’s permission copies that have been acquired abroad (66 USLW 1533, March 10, 1998).

L’Anza Research International, Respondent, is the manufacturer of copyrighted hair care products which it sells exclusively to distributors who have agreed to resell within limited geographic areas and only to authorized retailers. One of L’Anza’s United Kingdom distributors sold several tons of L’Anza products, affixed with copyrighted labels, to a distributor in Malta which subsequently sold the goods to petitioner, **Quality King**. Petitioner then imported the goods back into this country without L’Anza’s permission and resold them at discounted prices to unauthorized retailers. L’Anza subsequently filed suit alleging that petitioner’s actions violated its “exclusive rights under the Copyright Act of 1976 (Act), 17 U.S.C. sections 106, 501, and 602, to reproduce and distribute the copyrighted material in the United States.” The District Court rejected Quality King’s “first sale” defense under section 109(a) and entered summary judgment for L’Anza. Concluding that section 602(a), which gives copyright owners the right to prohibit the unauthorized importation of copies, would be “meaningless” if section 109(a) provided a defense, the **Ninth Circuit Court of Appeals** affirmed the lower court ruling.

This is an unusual case because L’Anza did not claim that anyone made unauthorized copies of its copyrighted labels. Rather, it was only interested “in protecting

the integrity of its method of marketing the products to which the labels are affixed.” In its complaint, L’Anza alleged that the importation and subsequent distribution of those products bearing copyrighted labels violated L’Anza’s exclusive rights to reproduce and distribute the copyrighted material in the United States. The District Court’s rejection of petitioner’s defense was based on the “first sale” doctrine recognized by section 109 and entered summary judgment in favor of L’Anza. Based largely on its conclusion that section 602 would be “mean-

ingless” if section 109 provided a defense in a case of this kind, the **Court of Appeals** affirmed. 98 F.3d 1109, 1114 (C.A.9 1996). **Quality King** petitioned the **Supreme Court** and, because the decision created a conflict with the **Third Circuit**, (see *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (1988)), certiorari was granted. **Justice Stevens** delivered the Court’s unanimous opinion.

The first sale doctrine was first endorsed by the Supreme Court in a case involving a claim by a publisher that the resale of its books at discounted prices infringed its copyright on the books. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 28 S.Ct. 722, 52 L.Ed. 1086 (1908). In that case, the publisher had inserted a notice in its books that any retail sale at a price under \$1.00 would

constitute an infringement of its copyright. The defendants, who owned **Macy’s** department store, disregarded the notice and sold the books at a lower price without **Bobbs-Merrill’s** consent. The Court therein held that the exclusive statutory right to “vend” applied only to the first sale of the copyrighted work.

The statute in force when *Bobbs-Merrill* was decided provided that the copyright owner had the exclusive right to “vend” the copyrighted work. Congress subsequently codified the holding in *Bobbs-Merrill* that the exclusive right to “vend” was limited to first sales of the work. Under the 1976 Act, the comparable exclusive right granted in 17 U.S.C. section 106(3) is the right “to distribute copies ... by sale or other transfer of ownership.”

The *Bobbs-Merrill* opinion emphasized the critical distinction between statutory rights and contract rights. In this case, L’Anza relied on the terms of its contracts with its domestic distributors to limit their sales to authorized retail outlets. Because the basic holding in *Bobbs-Merrill* is now codified in section 109(a) of the Act, and because those domestic distributors are owners of the products that they purchased from L’Anza (the labels of which were “lawfully made under this title”), L’Anza “does not, and could not, claim that the statute would enable L’Anza to treat unauthorized resales by its domestic distributors as an infringement of its exclusive right to distribute copies of its labels.”

L’Anza does claim, however, that contractual provisions are inadequate to protect it from the actions of foreign distributors who may resell L’Anza’s products to American vendors unable to buy from L’Anza’s domestic distributors, and that section 602(a) of the Act, properly construed, prohibits such unauthorized competition.

The most relevant portion of section 602(a) provides: “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 ...”.

It is significant that this provision does not categorically prohibit the unauthorized importation of copyrighted materials. In-

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stead, it provides that such importation is an infringement of the exclusive right to distribute copies "under section 106." Like the exclusive right to "vend" that was construed in *Bobbs-Merrill*, the exclusive right to distribute is a limited right.

L'Anza presented two arguments based on the text of the Copyright Act: (1) that section 602(a), and particularly its three exceptions, are superfluous if limited by the first sale doctrine; and, (2) that the text of section 501 defining an "infringer" refers separately to violations of section 106, on the one hand, and to imports in violation of section 602.

Justice Stevens based his analysis "on the interplay of four sections of the statute: section 106(3), which gives copyright holders the exclusive right to distribute copies; section 109(a), which permits the owner of a copy to sell the copy; section 602(a), which states that it is an infringement of the exclusive rights granted by section 106 to import into the United States a copy acquired outside the country; and section 501, which defines a copyright "infringer" as anyone who violates the exclusive rights of a copyright owner granted under section 106 or who imports a copy into the United States in violation of section 602" (66 USLW 1533). Those sections are reproduced in the adjacent sidebar.

The Court found that section 602(a) "does not categorically prohibit the unauthorized importation of copyrighted materials." Instead, it provides that such importation is an infringement of the exclusive right to distribute copies "under section 106."

The exclusive right to distribute is limited, therefore, by section 109(a), which permits the owner of a lawfully made copy to sell that copy "[n]otwithstanding the provisions of section 106(3)." After the first sale of a copyrighted item "lawfully made under this title," any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an "owner" of that item. Further, "since section 602(a) merely provides that unauthorized importation is an infringement of an exclusive right 'under section 106,' and since that limited right does not encompass resales by lawful owners, the literal text of section 602(a) is simply inapplicable to both domestic and foreign owners of [the manufacturer's] products who decide to import them and resell them in the United States," the Court said.

The Court rejected L'Anza's argument that section 602(a) and its exceptions are superfluous if limited by the first sale doctrine stating that this argument ignored the words "under section 106" in section 602(a). It also rejected the argument that because section 501(a) defines an infringer as "one who violates ... section 106 ... or who imports ... in violation of section 602," a violation of the latter type is distinct from one of the former and thus not subject to section 109(a). According to the Court, this argument ignored the fact that section 602 violations are a species of section 106 violations, which are subject to section 109(a)'s limitations.

The Solicitor General, appearing as "a Friend of the Court" on behalf of L'Anza, argued that "importation" describes an act not protected by section 109(a)'s authorization to a subsequent owner "to sell or otherwise dispose of the possession of" a copy. The Court called this a "cramped" reading of Section 109(a) at odds with the section's necessarily broad reach.

SIDEBAR

17 U.S.C.A. Section 106. Exclusive rights in copyrighted works. Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

17 U.S.C.A. Section 109. Limitations on exclusive rights. Effect of transfer of particular copy or phonorecord. (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. Notwithstanding the preceding sentence, copies or phonorecords of works subject to restored copyright under section 104A that are manufactured before the date of restoration of copyright or, with respect to reliance parties, before publication or service of notice under section 104A(e), may be sold or otherwise disposed of without the authorization of the owner of the restored copyright for purposes of direct or indirect commercial advantage only during the 12-month period beginning on — (1) the date of the publication in the **Federal Register** of the notice of intent filed with the **Copyright Office** under section 104A(d)(2)(A), or (2) the date of the receipt of actual notice served under section 104A(d)(2)(B), whichever occurs first.

17 U.S.C.A. Section 602. Infringing importation of copies or phonorecords. (a) 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. This subsection does not apply to — (1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use; (2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or (3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2). (b) In a case where the making of the copies or phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited. In a case where the copies or phonorecords were lawfully made, the United States Customs Service has no authority to prevent their importation unless the provisions of section 601 are applicable. In either case, the Secretary of the Treasury is authorized to prescribe, by regulation, a procedure under which any person claiming an interest in the copyright in a particular work may, upon payment of a specified fee, be entitled to notification by the Customs Service of the importation of articles that appear to be copies or phonorecords of the work.

17 U.S.C.A. Section 501. Infringement of copyright. (Only included relevant subsections.) (a) Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. For purposes of this chapter (other than section 506), any reference to copyright shall be deemed to include the rights conferred by section 106A(a). As used in this subsection, the term "anyone" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his or her official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity. (b) The legal or beneficial owner of an exclusive right under a copyright is entitled, subject to the requirements of section 411, to institute an action for any infringement of that particular right committed while he or she is the owner of it. The court may require such owner to serve written notice of the action with a copy of the complaint upon any person shown, by the records of the Copyright Office or otherwise, to have or claim an interest in the copyright, and shall require that such notice be served upon any person whose interest is likely to be affected by a decision in the case. The court may require the joinder, and shall permit the intervention, of any person having or claiming an interest in the copyright.