

## Using Incidental Copyrights to Block Parallel Imports: A Comparative Perspective

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*In many countries, owners of intellectual property rights enjoy different degrees of control over parallel imports depending on the nature of their exclusive rights. While trademark owners enjoy strong protection, it is often less comprehensive than that granted to owners of copyrights and patents. To broaden their rights, some trademark owners have incorporated copyrighted material into their products or packaging, enabling them to block otherwise lawful imports in contravention of the policies underlying trademark law.*

*In Canada and South Africa, courts have explored judicial solutions to this conflict, with little success. Australia and Singapore have addressed the problem through specific legislation, which has already given rise to questions of interpretation. Recent legislation in Canada has altered the status quo, but it has yet to be interpreted by the courts. In the United States, the Supreme Court recently ruled in favour of international exhaustion, but Congress may overturn this through legislation.*

*Drawing on lessons from each of these jurisdictions, the author proposes a legislative solution which will enable the legal status of most parallel imports to be assessed without regard to the presence of merely incidental material protected by copyrights or design patents. This approach will restore the pre-eminence of trademark law as the proper mechanism for balancing the legitimate interests of trademark owners and consumers.*

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*Dans plusieurs pays, les titulaires de droits de propriété intellectuelle bénéficient de différents degrés de contrôle sur les importations parallèles selon la nature de leurs droits exclusifs. Bien que les titulaires de marque de commerce profitent d'une grande protection, celle-ci est bien moins étendue en ce qui concerne les titulaires de droits d'auteur ou de brevets. Pour étendre leurs droits, certains titulaires de marques de commerce ont incorporé du matériel de droit d'auteur dans leurs produits ou leur emballage qui leur permettent de bloquer des*

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*importations autrement légales, contrairement aux règles sous-jacentes à la législation portant sur les marques de commerce.*

*Au Canada et en Afrique du Sud, les tribunaux ont exploré des solutions juridiques pour régler ce problème, mais sans grand succès. L'Australie et Singapour ont abordé le problème au moyen de lois, lesquelles ont déjà soulevé des questions d'interprétation. Une loi récente au Canada a changé le statu quo, mais elle reste encore à être interprétée par les tribunaux. Aux États-Unis, la Cour suprême a récemment rendu une décision en faveur de l'épuisement international des droits, mais le Congrès pourrait l'invalidier au moyen d'une loi.*

*En tirant des leçons de la situation de chaque pays, l'auteure propose une solution législative qui permettra l'évaluation du statut juridique de la plupart des importations parallèles sans égard à la présence de matériels accessoires protégés par droits d'auteurs ou brevets. Cette approche redonnerait la prépondérance aux lois relatives aux marques de commerce en tant que mécanisme adéquat pour équilibrer les intérêts légitimes des titulaires et des consommateurs des marques de commerce.*

## 1. INTRODUCTION

As illustrated by the *Euro-Excellence* decision in Canada, copyright law can give trademark owners a powerful weapon to block the importation of otherwise-lawful trademarked goods. However, when this strategy succeeds, it allows trademark owners to undermine the goal of trademark law to encourage free competition while preventing consumer deception. While courts have generally interpreted the existing copyright statutes in favor of copyright owners, their interpretations have been consistent with the statutory language. In most cases, this means that the solution to this overuse of copyright law must come from the legislatures.

In the United States, however, the Supreme Court's 2013 decision in *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>1</sup> has disrupted the pattern of decisions favoring copyright owners. *Kirtsaeng* interpreted the first sale rule of federal copyright law as mandating a rule of international exhaustion. In the coming months, the copyright industries are likely to pressure Congress to restore their protection against parallel imports.

## 2. COPYRIGHT AS QUASI-TRADEMARK PROTECTION

Parallel imports (also known as "gray market goods")<sup>2</sup> are genuine trademarked goods purchased in one country and then imported into a second country for resale without the consent of the party that owns the trademark in the country of import.<sup>3</sup> Because of their lower acquisition costs, the goods are typically resold in the import country at prices lower than the prices demanded by the authorized dis-

<sup>1</sup> 133 S.Ct. 1351, 185 L.Ed.2d 392 (March 19, 2013).

<sup>2</sup> *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, n.1, 21 U.S.P.Q.2d 1215, n.1 (3d Cir. 1991).

<sup>3</sup> See *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 100 L. Ed. 2d 313, 108 S. Ct. 1811, 1899, 6 U.S.P.Q.2d 1897, 1899 (1988); 5 McCarthy on Trademarks and Unfair Competition §29:46 (4th ed.) (hereinafter McCarthy).



tributors in that country. Trademark laws that regulate parallel imports attempt to strike a balance between protecting the rights of trademark owners and ensuring competitive markets for consumer goods. Where the imported goods are genuine rather than counterfeit, and they do not differ materially from the goods authorized for domestic sale, trademark laws typically permit their importation on the ground that consumers are not being deceived, and are likely to benefit from the resulting price competition.

Because trademark law does not prevent all parallel imports, trademark owners in many countries have turned to copyright law in order to prevent the importation and domestic resale of genuine goods which they manufactured only for sale overseas. In the United States, embedding even a small amount of copyrighted material into merchandise or its packaging has enabled a domestic copyright owner to block the importation of otherwise lawful goods. In some cases, copyright can subsist in the trademark itself. Even if the trademark is not itself eligible for copyright protection, copyright may subsist in a component of the merchandise or its packaging, such as a label, ornamental design feature, instruction book, user manual, warranty card, or software. This end-run around the limitations of trademark law has become popular with domestic trademark owners who wish to block third parties from importing and reselling parallel imports that bear lawful trademarks but were intended only for overseas distribution.

While this use of copyright law undermines domestic trademark policy, and arguably constitutes a misuse of copyright, both trademark and copyright owners will understandably object to any efforts to restrict this use of copyright law. In addition, participants in the negotiations for the Trans-Pacific Partnership Agreement (TPP) — including the United States and, more recently, Canada — have obligated themselves to protect the exclusive importation rights of copyright owners. According to the most recent leaked draft of the TPP, Article 4(2) provides:

Each Party shall provide to authors, performers, and producers of phonograms the right to authorize or prohibit the importation into that Party's territory of copies of the work, performance, or phonogram made without authorization, *or made outside that Party's territory with the authorization of the author, performer, or producer of the phonogram.*<sup>4</sup>

The United States, where the copyright industries are especially influential, is one of the TPP's strongest backers, and has included similar importation provisions in recent Free Trade Agreements.<sup>5</sup>

While copyright law has been asserted as a basis for blocking parallel imports in many countries, this article focuses on developments in Canada, the United States, Australia, Singapore and South Africa. Both Australia and Singapore have responded to the use of copyright as a trademark gap-filler by enacting statutory exemptions for copyrighted "accessories" that are imported along with non-infringing articles. In Canada and South Africa, courts have considered arguments for creating similar exemptions through judicial action, but have ultimately concluded that

<sup>4</sup> Trans-Pacific Partnership Agreement (TPP), Draft (Feb. 10, 2011) (hereinafter "TPP Draft"), Art. 4(2) (emphasis added).

<sup>5</sup> U.S.-Jordan Free Trade Agreement, Art. 4(11) (Oct. 24, 2000); U.S.-Morocco Free Trade Agreement, Art. 15.5(2) (June 15, 2004).

the question must be resolved through legislation. While Canada's *Copyright Modernization Act of 2012* does not expressly address this issue, its codification, for the first time, of the principle of copyright exhaustion may undermine the success of the gap-filling strategy and, if so, may conflict with the TPP. This article examines these varying approaches to the overlap of trademark and copyright law in the context of parallel imports.

### 3. LEGISLATIVE SOLUTIONS IN AUSTRALIA AND SINGAPORE

Both Australia and Singapore have adopted legislation limiting the use of copyright law to block otherwise lawful parallel imports. While these statutes raise interpretative issues of their own, they offer useful guidance for crafting a legislative solution in the United States or Canada.

#### (a) Australia

Unless the goods are materially different, Australia generally permits the unauthorized importation of lawfully-made trademarked goods.<sup>6</sup> During the 1980s, Australian trademark owners succeeded in using copyright law as an alternative avenue of relief. In *R & A Bailey & Co. Ltd. v. Boccaccio Pty Ltd.*,<sup>7</sup> the Supreme Court of New South Wales held that while importing bottles of genuine Bailey's Irish Cream was not a trademark infringement, it did infringe the rights of the party that owned the copyright in the labels.

After the *Bailey* decision, Australia's Copyright Law Review Committee recommended amending the copyright law to prohibit the use of copyright law to block the importation of non-copyrightable merchandise. The Committee's Report stated:

The Committee is strongly of opinion that distributors of goods should not be able to control the market for their products by resorting to the subterfuge of devising a label or a package in which copyright will subsist. The purpose of copyright is to protect articles which are truly copyright articles such as books, sound recordings or films. . . . If the simple expedient of affixing or attaching a label in which copyright subsists to any goods at all entitles the owner of the goods to exclude others from marketing similar goods, the sooner the practice is stopped the better it will be. However imaginatively labelled or packaged a bottle of liquor may be, the product is liquor. The same may be said of cigarettes, perfume and cosmetics.<sup>8</sup>

Although this recommendation led to no immediate changes, in the ensuing years Australia sought to reduce consumer prices by liberalizing its parallel import policies for many classes of copyrightable goods.<sup>9</sup> When the import restrictions on sound recordings were eliminated in 1998, the owners of sound recording copy-

<sup>6</sup> See, e.g., *Atari Inc. v. Fairstar Elecs.*, 50 A.L.R. 274 (F.C.A. 1982).

<sup>7</sup> 84 F.L.R. 232, 4 N.S.W.L.R. 701 (1986).

<sup>8</sup> Copyright Law Review Committee, *The Importation Provisions of the Copyright Act 1968* (AGPS, Canberra, 1988), at 224, quoted at *Polo/Lauren Co. LP v. Ziliani Holdings Pty Ltd.*, [2008] F.C.A. 49, 75 I.P.R. 143, para. 53.

<sup>9</sup> See *Copyright Amendment Act 1991* (assented to Dec. 23, 1991) (books); *Copyright Amendment Act (No. 2) 1998* (assented to July 30, 1998) (sound recordings); *Copyright*



rights faced competition from cheaper parallel imports. Because commercial CDs include copyrightable elements other than recorded music — such as cover art and liner notes — copyright owners might have been able to continue blocking parallel imports of CDs by asserting infringement of these other copyrightable components. Australia’s Parliament sought to prevent this — and at the same time to put an end to the strategy that succeeded in the *Bailey* case — by adding section 44C to the *Copyright Act*.<sup>10</sup>

Section 44C provides that the importation or sale of an imported article<sup>11</sup> does not infringe the copyright in any non-infringing “accessory.” To be non-infringing, the copyrighted content in the accessory must have been reproduced in a Berne or WTO country with the consent of the person owning the copyright *in that country*.<sup>12</sup> The statute defines “accessory” to include labels, packaging, containers, instructions, warranties or other information “provided with” the article, as well as instructional sound recordings or films “provided with” the article.<sup>13</sup> Had section 44C been in effect at the time of the *Bailey* case, the plaintiff could not have used the copyright in its label to prevent the importation of its product.

In interpreting section 44C, a significant challenge facing the Australian courts has been the meaning of “accessory.” The Federal Court of Australia (FCA) has issued only two opinions interpreting this language. Nonetheless, they reveal the potential for additional interpretive challenges in the future.

The first, and most significant case interpreting section 44C, was the 2008 case of *Polo/Lauren Company LP v. Ziliani Holdings Pty Ltd*.<sup>14</sup> The FCA held that the polo player logo that was woven into the plaintiff’s shirts was a label, and therefore an accessory.<sup>15</sup> Accordingly, the plaintiff could not use the copyright in the logo to block importation of genuine Polo/Lauren shirts purchased outside of Australia.

Although the definition of “accessory” included “a label . . . incorporated into the surface of . . . the article,” the court considered whether the embroidered polo player logo was a label or a decorative feature.<sup>16</sup> The court adopted a broad defini-

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(*Parallel Importation*) Act 2003 (assented to Apr. 15, 2003) (books, journals and music in electronic formats, and computer software).

<sup>10</sup> *Copyright Amendment Act (No. 1) 1998* (assented to July 30, 1998) (amending §10(1) and adding §§44C and 112C).

<sup>11</sup> While §44C does not define the term “article,” it has a specialized definition in two other sections of the *Copyright Act*. Section 38, which prohibits distribution of infringing articles, defines an article as “a reproduction or copy of a work or other subject matter, being a reproduction or copy in electronic form.” *Copyright Act 1968* (Cth) §38(3). Section 115, which authorizes injunctive relief in cases of electronic commercial infringement, uses the same definition. *Id.* §115 (7), (8). However, courts interpreting §44C have not applied this definition, and the *Copyright Act* does not provide a general-purpose definition of the term.

<sup>12</sup> *Id.* §10(1).

<sup>13</sup> *Id.*

<sup>14</sup> 75 I.P.R. 143, [2008] F.C.A. 49 (Fed. Ct. 2008).

<sup>15</sup> *Id.* at para. 64.

<sup>16</sup> *Id.* at para. 44.

tion of the term “label,” to include its usage as a synonym for “brand name, trade mark and the name by which a design or fashion house . . . is generally known.”<sup>17</sup> To determine whether the polo player image was a label or some other component of the product, the court applied a functionality test:

The definition of an “accessory” in s 10(1) recognises a distinction between the article as a functional item of commerce, and a subsidiary constituent part of the article such as a label embroidered on to it. The embroidered component is functionally accessorial to the article’s use. The function which an accessory, as described in pars (a)–(d) of the definition of “accessory” in s 10(1), performs is incidental to the use of the article as an item of commerce. The article can be used for its intended purpose regardless of whether the s 10 “accessory” is present on it or as part of it. The Parliament intended that a non-infringing accessory, as defined in s 10(1), could be embroidered into an article even though, had the non-infringing accessory been sold by itself without the article, the owner of copyright in it would have been entitled to protection in Australia under the *Copyright Act*.<sup>18</sup>

The court concluded that, even if the polo player logo was aesthetically pleasing, it functioned primarily as a label because it informed consumers of the “provenance” of the merchandise:

The embroidered polo player logo is not primarily a decorative feature, although it can be attractive to the eye in some of its manifestations. The polo player logo will usually remain covered by the wearer’s outer clothing when it appears on the hem of an item of underwear. . . . This may not always be the case, but this positioning of the polo player logo suggests that, at least on such a garment, its function is primarily to signify the manufacturer’s identity, ie to act as a label.<sup>19</sup>

Three years later, in *QS Holdings SARL v. Paul’s Retail Pty Ltd.*,<sup>20</sup> a defendant had imported and sold both genuine and counterfeit apparel bearing the plaintiffs’ registered trademarks. In addition to trademark claims, several plaintiffs also raised claims of copyright infringement based on the graphic designs on the clothing as well as images of the clothing reproduced in the defendant’s sales brochures. With respect to the graphic designs on the non-counterfeit clothing, the Federal Court held that the unauthorized importation infringed the rights of the Australian copyright owners.<sup>21</sup> The defendants did not attempt to raise a defense under section 44C, presumably because they were unlikely to convince the court that the graphic designs on these garments were “accessories” rather than ornamental features of the products. Although the defendants did invoke section 44C with respect to the marketing brochures that reproduced the copyrighted designs,<sup>22</sup> the court ruled that section 44C did not apply because, *inter alia*, the brochures were not “accessories.”

<sup>17</sup> *Id.* at para. 51.

<sup>18</sup> *Id.* at para. 58.

<sup>19</sup> *Id.* at para. 63.

<sup>20</sup> 92 I.P.R. 460, [2011] F.C.A. 853 (Fed. Ct. 2011).

<sup>21</sup> *Id.* at para. 92.

<sup>22</sup> *Id.* at para. 119.



In the court's view, an accessory must have "some physical relationship" with the merchandise to which it relates.<sup>23</sup>

Both of the copyrightable items in *QS Holdings* were ineligible for the section 44C exemption — the graphics on the shirt because (presumably) they were *not separate enough* to be an accessory, and the brochures because they were *too* separate to be an accessory. Future courts may find themselves searching for the happy medium of separateness necessary for an item to qualify as an accessory. Why is it that the logo woven into the *Polo/Lauren* shirt was an accessory, and the graphics on the *QS Holdings* shirts were not? Under the functionality test adopted in *Polo/Lauren*, the graphics on the *QS Holdings* shirts arguably played an important role in the functioning of the shirt, by making it more attractive, rather than communicating the provenance of the garment. Under this test, then, they were not accessories. However, some designs that serve a trademark function can also contribute to the aesthetic appeal of the product incorporating them. How will the Australian courts address such dual-function designs under the functionality test? The concept of what is an accessory is likely to continue to force Australian courts to make difficult line-drawing judgments. It is also likely to encourage trademark owners to avoid the "accessory" classification by incorporating copyrightable designs more fully into their merchandise, rather than limiting it to labels, regardless of whether the design also functions as a trademark.

### (b) Singapore

Singapore's trademark law is especially liberal with respect to parallel imports, permitting the importation of unaltered goods which have been released into the market anywhere in the world with the express or implied consent of the owner of the Singapore trademark registration, even if that consent is conditional (*e.g.*, conditioned on distributing the goods only within a specified territory).<sup>24</sup>

Prior to 1994, it was unclear whether the importation of copyrighted works that were lawfully made in their country of manufacture required the consent of the Singapore copyright owner.<sup>25</sup> In 1994, however, the copyright law was amended in favour of parallel imports, by allowing importation of copies that were made with the consent of the person who owned the copyright in the country where the copies were made, even if that same person did not own the copyright in Singapore.<sup>26</sup> The same amendment also provides that the existence of consent is determined without

<sup>23</sup> *Id.* at para. 124.

<sup>24</sup> Singapore *Trademark Act*, §§29(1)-(2). See Burton Ong, *IPRs and Competition Law in Singapore*, in Steven J. Anderman, ed., *The Interface Between Intellectual Property Rights and Competition Policy* 399 (2007).

<sup>25</sup> Singapore *Copyright Act* §§32, 25(2).

<sup>26</sup> Singapore *Copyright Act* §§32, 25(3). If there is no copyright owner in the country of manufacture (that is, if the work is not protected by copyright in that country), then the consent of the Singapore copyright owner is required. *Id.* §25(3). In *Remus Innovation & Anor v. Hong Boon Siong & Ors*, 1995-2 S.L.R. 148, 1994 S.L.R. LEXIS 621, the amended law prevented a manufacturer from blocking parallel imports of automobile exhaust systems that were made with the Singapore copyright owner's consent and obtained from an authorized distributor in the United Kingdom. The plaintiff had as-

regard to any “conditions as to the sale, distribution or other dealings in the article after its making.”<sup>27</sup> Thus, even if the owner of a copyright in India consented to the copying and distribution of that work only in India, that consent would enable those copies to be imported into Singapore despite the objections of the Singapore copyright owner.<sup>28</sup>

Singapore’s copyright law also includes a provision modeled on Australia’s “accessories” exemption.<sup>29</sup> Section 40A of the Singapore *Copyright Act* provides that the importation and distribution of an “accessory” does not infringe a copyright when the accessory is imported along with a non-infringing article.<sup>30</sup> The Singapore statute defines “accessories” to include labels, packaging, containers, leaflets, pamphlets, certificates, warranties, brochures, “written instructions or other information” that are incidental to the article, as well as instructional sound recordings and films that are incidental to the article.<sup>31</sup>

However, in several respects section 40A departs from its Australian counterpart. First, whereas the Australian statute specifies that the accessory must have been made with the consent of the party that owns the copyright in the country of manufacture,<sup>32</sup> section 40A contains no such requirement. In fact, it is silent on the question whether the accessory itself must be non-infringing.

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sented that the importers infringed the copyright in certain drawings of the exhaust systems.

<sup>27</sup> Singapore *Copyright Act* §25(4).

<sup>28</sup> See Ong, *supra* note 24, at 385.

<sup>29</sup> Australia *Copyright Act* §44C.

<sup>30</sup> Singapore *Copyright Act* §40A provides:

(1) Accessories to imported articles 40A — The copyright in a work embodied in an accessory to an article is not infringed by a person who, without the licence of the owner of the copyright, imports the article into Singapore for a purpose mentioned in section 32 (a), (b) or (c) unless the article is an infringing copy.

(2) The operation of this Act in relation to a work embodied in an article shall not be affected by the operation of this section in relation to a work embodied in an accessory to the article.

(3) If an article is imported into Singapore for a purpose mentioned in section 32 (a), (b) or (c) and the importation is not, by reason of this section, an infringement of the copyright in a work embodied in an accessory to the article, the use of the accessory with the article for any such purpose shall not be an infringement of the copyright in the work, and section 33 shall not apply to the accessory.

<sup>31</sup> Singapore *Copyright Act* §§7(1), 116A.

<sup>32</sup> Australia *Copyright Act 1968* (Cth) §44C(1)-(2) (exempting only “non-infringing accessories”), §10(1) (defining “non-infringing accessory”). The country of manufacture must also be a member of the Berne Convention or a WTO member with TRIPS-compliant copyright laws. *Id.*



In a second point of departure, section 40A defines “accessory” more narrowly than the Australian statute. Specifically, an “accessory” does *not* include:

- (i) a copy of a work that is incorporated into the surface of the article and is a permanent part of the article;
- (ii) a copy of a work that cannot be separated from the article without rendering the article unsuitable for its ordinary use; [or]
- (iii) a manual sold with computer software for use in connection with that software[.]<sup>33</sup>

If the purpose of these exclusions is to allow copyright owners to block parallel imports of these three embodiments of copyrighted works, it is not clear that they accomplish this. Because Singapore allows importation of *all* copyrighted works provided that the copies were made with the consent of the copyright owner in the country of manufacture, these three non-accessories, if non-pirated, would still be importable under that general rule.

Perhaps the true impact of these exclusions derives from section 40A’s failure to expressly require that imported accessories be non-infringing. Section 40A(1) states that:

The copyright in a work embodied in an accessory to an article is not infringed by a person who, without the licence of the owner of the copyright, imports the article into Singapore for a purpose mentioned in section 32 (a), (b) or (c) *unless the article is an infringing copy*.<sup>34</sup>

If this language means what it says, then an accessory attached to a non-infringing article can be imported under section 40A, *even if the accessory is infringing*. Therefore, if an item does not meet the statutory definition of an accessory, then the section 40A exemption does not apply, and the general rules of sections 32 and 25 — requiring the copyright owner’s consent to the copying — would apply. This means that the three copyrighted items excluded from the “accessory” definition cannot be imported unless they were made under license from the copyright owner in the country where the copies were made. In the case of the first two exceptions, the accessory is so integral to the article itself that it would make little sense to apply different rules to the article and the accessory. The rationale for the third exception is less clear.

Subjecting these three categories to the generally applicable rules for importing copyrighted works is itself unremarkable. What is remarkable, however, is that the items which *do* qualify as accessories are apparently exempt from the general rule for parallel imports, and thus can be imported even if they are pirated. Such a result would be impossible under the Australian statute, which permits importation only of “non-infringing” accessories. It is unclear whether, or why, Singapore’s lawmakers intended this result. If it was merely a drafting error, it is difficult to understand why the lawmakers bothered to create three exceptions to the definition of an accessory, since those exceptions would have no legal effect. If it was a deliberate choice, it suggests that the legislature does not believe that infringing accessories cause significant harm to copyright owners.

<sup>33</sup> Singapore *Copyright Act* §7(1).

<sup>34</sup> *Id.* §40A(1).

As was the case in Australia, Singapore's decision to prevent the use of copyright law to block otherwise lawful imports of genuine trademarked goods took place in the context of a broader decision to liberalize import restrictions on copyrighted works. Even in a country that maintains import restrictions, however, a specific exemption for accessories may be politically feasible and economically sound. Singapore's statute offers a second possible model for such legislation.

#### 4. ATTEMPTS TO CRAFT A JUDICIAL SOLUTION

Courts in the United States, Canada and South Africa have considered arguments for a judicially-created exception to the copyright owner's exclusive importation right. In Canada and South Africa, they have ultimately concluded that the question should be left to the legislature. Thus far, the law in South Africa remains unchanged. In Canada, the 2012 enactment of section 3(1)(j) may alter the analysis, but much depends on how courts resolve the ambiguities of that statute. However, the situation in the United States changed dramatically in 2013 when the Supreme Court held in *Kirtsaeng v. John Wiley & Sons, Inc.*<sup>35</sup> that federal copyright law incorporates the principle of international exhaustion.

##### (a) United States

Since 1998, United States trademark owners had relied on the Supreme Court's analysis in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*<sup>36</sup> in asserting their right to prevent the importation and domestic resale of genuine goods that incorporate foreign-made copyrightable components, no matter how trivial. *Quality King* applied the first sale rule in holding that copyright law did not preclude the unauthorized importation of merchandise bearing copyrighted labels that were lawfully made in the United States.<sup>37</sup> The court strongly implied, however, that the outcome would be different if the labels had been foreign-made, because the first sale rule did not apply to copies made outside of the United States.<sup>38</sup> Although subsequent courts treated this interpretation as binding law,<sup>39</sup> it was widely criticized for giving United States copyright owners more control over copies made abroad than over domestically made copies, thus encouraging them to shift their manufacturing operations overseas.<sup>40</sup>

<sup>35</sup> 133 S.Ct. 1351, 185 L.Ed.2d 392 (March 19, 2013).

<sup>36</sup> 523 U.S. 135 (1998).

<sup>37</sup> *Id.* at 145. The first sale rule appears in 17 U.S.C. §109(a).

<sup>38</sup> *Id.* at 147-48.

<sup>39</sup> See, e.g., *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988-90 (9th Cir. 2008); *Pearson Educ., Inc. v. Kumar*, 721 F.Supp.2d 166, 176-78 (S.D.N.Y. 2010).

<sup>40</sup> See, e.g., Paul Goldstein, Copyright, §5.6.1.2.a. The Ninth Circuit responded to this concern in *Denbicare U.S.A., Inc. v. Toys R Us, Inc.*, 84 F.3d 1143, 1150 (9th Cir. 1996), holding that once a United States copyright owner has consented to the first domestic sale of its foreign-made copies, the first sale rule permits subsequent resales. No other courts adopted this approach, and the Supreme Court ultimately rejected it in *Kirtsaeng*.



Ten years after *Quality King*, watchmaker Omega successfully invoked copyright law to prevent the unauthorized importation and domestic sale of genuine Omega watches manufactured in Switzerland. In *Costco Wholesale Corp. v. Omega, S.A.*,<sup>41</sup> Omega relied on its copyright in the “Omega Globe Design” that was engraved on the back of each watch. Omega began using this copyrighted design on the advice of its legal department, and under pressure from its authorized retailers, for the specific purpose of blocking parallel imports.<sup>42</sup> The Ninth Circuit held that the first sale rule did not permit the importation of watches bearing the copyrighted design because those copies, while made with the consent of the United States copyright owner, were neither made in the United States nor sold in the United States with the copyright owner’s consent.<sup>43</sup> Because the Supreme Court affirmed the Ninth Circuit’s decision by a 4-4 vote, the court failed to resolve the question whether foreign-made copies can ever be imported under the first sale rule.<sup>44</sup>

In *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>45</sup> the Supreme Court held, by a vote of 6-3, that the first sale of a lawfully made copy of a work negates the copyright owner’s exclusive importation and distribution rights with respect to that copy, regardless of whether the copy was made in the United States or abroad. The court relied in part on its statutory analysis in *Quality King*, where it held that, because the §602 importation right is subsumed within the §106(3) public distribution right, the first sale rule applies to importation as well as public distribution. Although the first sale rule applies only to copies “lawfully made under this title,” *Kirtsaeng* concluded that Congress did not intend this phrase to discriminate against lawful copies made outside the United States. While focusing much of its analysis on the statutory language and history of the first sale rule, the court also emphasized the potential downstream effects of a contrary holding. If the first sale rule did not apply to foreign-made copies, the court observed, then used book stores, libraries, and others who sell or lend copyrighted materials would have to determine where their copies were made, and would need permission to sell or lend any copies that might have originated outside the United States.

<sup>41</sup> 131 S.Ct. 565 (2010).

<sup>42</sup> *Costco*, 2011 W.L. 8492716 at \*1 (C.D. Cal. Nov. 9, 2011).

<sup>43</sup> *Costco*, 541 F.3d 982, 990 (9th Cir. 2008). Because the copyright owner had not consented to the sale of these specific watches in the United States, the Ninth Circuit did not have the occasion to apply the first sale interpretation that it applied in *Denbicare*.

<sup>44</sup> The vote was 4-4 because Justice Kagan was recused. On remand from the Ninth Circuit, the Central District of California held that Omega still could not prevail in its copyright infringement claim because it had engaged in copyright misuse. When Omega applied the copyrighted design to its uncopyrightable watches for the purpose of blocking their importation and resale, “Omega misused its copyright of the Omega Globe Design by leveraging its limited monopoly in being able to control the importation of that design to control the importation of its Seamaster watches.” 2011 W.L. 8492716 at \*2 (C.D. Cal. Nov. 9, 2011). Under Ninth Circuit law, the copyright misuse defense “prevents copyright holders from leveraging their limited monopoly to allow them to control areas outside of their monopoly.” *Id.* at \*1 (quoting *A & M Records, Inc., v. Napster, Inc.*, 239 F.3d 1004, 1026 (9th Cir.2001)).

<sup>45</sup> 133 S.Ct. 1351, 185 L.Ed.2d 392 (March 19, 2013).

It remains to be seen how long this new rule of international copyright exhaustion will survive. Because the court's opinion is merely a matter of statutory interpretation, Congress can change the law simply by amending the statute. The influential copyright-intensive industries in the United States are likely to lobby for at least a partial restoration of the importation ban. The Obama Administration is likely to support such efforts, because failure to restore the importation ban will place the United States in violation of its prospective commitments under the TPP as well as its existing commitments under recent Free Trade Agreements.<sup>46</sup>

Justice Elena Kagan's concurring opinion, in which Justice Alito joined, suggests one way in which Congress can reinstate the importation ban without triggering the parade of horrors that concerned the *Kirtsaeng* majority — by amending §602 to clarify that the importation ban is not limited by the first sale rule.<sup>47</sup> This would allow copyright owners to pursue infringement claims against unauthorized importers, but not against purchasers who subsequently sell or lend those imported copies within the United States.

If Congress reinstates the importation ban, then United States trademark owners will continue to add copyrightable features to their products and packaging for the primary purpose of controlling parallel imports. In addition to the copyrightable elements in packaging, labels, tags, instructions and owner's manuals, copyrightable designs can be embedded in the products themselves (like Omega's engraved design) so that the importer or domestic reseller cannot avoid copyright infringement by simply removing or covering up the tag or label that contains the copyrighted material. Copyright may also attach to the shape or overall appearance of a product, provided that (1) it possesses a minimal degree of originality,<sup>48</sup> and (2) that the artistic element is physically or conceptually separable from the utilitarian function of the article.<sup>49</sup> A candy maker can therefore assert federal copyright protection for the shape of a candy bar if it is more original than the ubiquitous rectangle or cylinder shape, and if the shape does not have an inseparable utilitarian component (such as making the candy bar easier to hold or to break into pieces). Finally, products that contain software also have a copyrightable component. Even if software is not strictly necessary to the functioning of a consumer product, adding even a small software component will give the trademark owner another method for blocking imports. Complex products such as automobiles, office equipment, computers, and large appliances will almost always contain a significant software component that can be invoked to block unauthorized imports.

#### (b) Canada

The Supreme Court of Canada held in *Euro-Excellence Inc. v. Kraft Canada Inc.*<sup>50</sup> that the copyright in a candy wrapper enables the Canadian copyright owner

<sup>46</sup> See *supra* notes 4-5 and accompanying text.

<sup>47</sup> 185 L.Ed.2d at 418-19.

<sup>48</sup> *Lamps Plus, Inc. v. Seattle Lighting Fixture Co.*, 345 F.3d 1140, 1146-47 (9th Cir. 2003).

<sup>49</sup> *Brandir Int'l, Inc. v. Cascade Pacific Lumber Co.*, 834 F.2d 1142, 1143 (2d Cir. 1987).

<sup>50</sup> *Euro-Excellence Inc. v. Kraft Canada Inc.*, [2007] 3 S.C.R. 20, 2007 SCC 37. For commentaries on this decision, see David Vaver, *Chocolate, Copyright, Confusion: In-*



to block the importation of the candy itself.<sup>51</sup> Several justices, however, would have been willing to adopt a judicially-created exception for copyrighted content that is “merely incidental” to a product.<sup>52</sup>

These justices did not attempt a precise definition of “incidental” copyrights, and they acknowledged that the determination would not always be easy.<sup>53</sup> They suggested, however, that what constitutes an “incidental” use should be determined from the consumer’s perspective: “[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.”<sup>54</sup> Relevant factors in making this determination would include “the nature of the product, the nature of the protected work and the relationship of the work to the product.”<sup>55</sup> The justices’ examples of incidental works included an instruction booklet and “a small logo” on a shirt pocket.<sup>56</sup> In contrast, if a painting were reproduced on a T-shirt, the sale of that shirt would be treated as a sale of the copyrighted image.<sup>57</sup>

Kraft had based its infringement claim on section 27(2)(e) of the *Copyright Act*, under which a copyright owner can prevent importation of any copy that would infringe “if it had been made in Canada by the person who made it,” provided that the purpose of the importation is commercial distribution or exhibition, or any distribution that would prejudice the copyright owner.<sup>58</sup> Under this rule, the copyright owner can block importation of copies made in countries where the work does not qualify for copyright protection, where its copyright has expired, or where a compulsory license applies. Also, if the Canadian and foreign copyrights are owned by different parties, the unauthorized importation of foreign-made copies will infringe if the foreign copyright owner has no right to make copies in Canada. In contrast, if the Canadian copyright owner directly authorized the foreign copies, then importation should not infringe, because making those copies in Canada would not infringe.

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*Intellectual Property and the Supreme Court of Canada* (2008) 1 Osgoode Hall Review of Law and Policy 5; Robert Tomkowicz, Copyrighting Chocolate: *Kraft Canada v. Euro Excellence* (2007) 20 I.P.J. 399.

51 The majority ultimately permitted the importation, but on the narrow ground that Kraft Canada was only a licensee and not the owner of the Canadian copyright. *Id.* at paras. 49–51 (Binnie, Deschamps, & Rothstein JJ.). However, as illustrated in the *Frank & Hirsch* case which follows, a potential plaintiff can overcome this obstacle by obtaining an assignment of the copyright in the country of importation.

52 3 S.C.R. 20, at paras. 83–95 (Bastarache, LeBel, and Charron, JJ.); see also *id.* at para. 56 (Fish, J.) (expressing “grave doubt 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*.”)

53 *Id.* at para. 94.

54 *Id.*

55 *Id.*

56 *Id.* at para. 95.

57 *Id.*

58 *Copyright Act*, §27(2)(e).

Under section 27.1, the import ban with regard to books is stricter than the general rule in some respects, but more liberal in others.<sup>59</sup> A Canadian copyright owner can block the importation of foreign-made books even if they “were made with the consent of the owner of the copyright in the book in the country where the copies were made,”<sup>60</sup> if the *importer* (as opposed to the manufacturer, under the general rule) would have infringed by making the copies in Canada. Also, the importation of books can infringe even if it is not for commercial purposes. Thus, the importation of copyrighted books *always* requires the consent of the Canadian copyright owner. Unlike the general import ban, the import ban for books is not limited to foreign copies that were lawfully made due to expired copyrights, ineligible subject matter, compulsory licenses, or the consent of a foreign copyright owner. With respect to books, even if the Canadian copyright owner also owns the *foreign* copyright, and consents to the foreign manufacture, the unauthorized importation of those copies would still infringe because the *importer* would have infringed if it had made the copies in Canada.

However, the importation rule for books is more liberal than the general rule in one respect: the importation of books can infringe only if it conflicts with the rights of an exclusive distributor.<sup>61</sup> Furthermore, infringement claims based on infringing importation or domestic distribution of imported books can be brought only against defendants that received notice of the exclusive distribution arrangement before the infringement occurred.<sup>62</sup> The importation rules for books are further refined by regulations.<sup>63</sup>

Canada’s copyright law includes one exception to the exclusive importation right with respect to books. The statutory definition of “books” expressly excludes any “instruction or repair manual that accompanies a product or that is supplied as an accessory to a service.”<sup>64</sup> As a result, manuals are subject to the general importation rule rather than the special importation rule for books. This means that they are subject to the same rule that applied to the candy wrappers in *Euro-Excellence*. If the manuals are copied overseas with the consent of the Canadian copyright owner, then they can be imported without the copyright owner’s consent. However, if the Canadian and foreign copyrights are owned by different parties, then the Canadian copyright owner can prevent importation of the manuals. The importers can be sued for infringement even if there is no exclusive distribution arrangement. The rationale for the stricter book importation rules — protecting Canada’s publishing industry<sup>65</sup> — simply does not apply to manuals. Thus, the exemption for manuals only exempts them from the special rule for books; it does not exempt them from

<sup>59</sup> For a detailed discussion of the rationale underlying the parallel import rules for books, see Canadian Heritage, *The Role of the Book Importation Regulations in Canada’s Market for Books* (April 2012).

<sup>60</sup> *Copyright Act*, §27.1(1).

<sup>61</sup> *Id.* §27.1(3).

<sup>62</sup> *Id.* §27.1(3), (5).

<sup>63</sup> Copyright Board of Canada, Book Importation Regulations (SOR/99-324), P.C. 1999-1350 (July 28, 1999).

<sup>64</sup> *Copyright Act*, §2.

<sup>65</sup> See Canadian Heritage, *supra* note 59.



the import ban entirely, and thus it does not create an “accessory” exemption comparable to those of Australia and Singapore.

The statutory definition of “infringing” applies to copies imported in violation of the general importation right contained in section 27(2)(e) — that is, unauthorized imports of copies that would infringe if the copyist had made them in Canada. It also applies to books imported in violation of section 27.1, but it does not apply to copies of other works made with the copyright owner’s consent in the country where the copy was made. This definition allows infringement claims to be brought against domestic resellers of unauthorized imports.<sup>66</sup>

Five years after *Euro-Excellence*, the long-delayed *Copyright Modernization Act of 2012* amended the copyright statutes to give copyright owners the exclusive right,

in the case of a work that is in the form of a tangible object, to sell or otherwise transfer ownership of the tangible object, as long as that ownership has never previously been transferred in or outside Canada with the authorization of the copyright owner.<sup>67</sup>

Although this provision recognizes an exclusive public distribution right, it simultaneously restricts that right by creating a rule of exhaustion.<sup>68</sup>

At the time *Euro-Excellence* was decided, the only statutory provision which conveyed a public distribution right was section 3(1), which grants authors the exclusive right to publish their unpublished works.<sup>69</sup> Because section 2 defines “publication” as “making copies of a work available to the public,”<sup>70</sup> the law already recognized the exclusive right of authors to distribute copies of their work to the public. If section 3(1)(j) adds anything at all to the distribution right, it may extend it to ownership transfers that do not, for some reason, constitute public distributions.<sup>71</sup> However, the new provision’s express recognition of the exhaustion princi-

<sup>66</sup> Teresa Scassa, *Using Copyright Law to Prevent Parallel Importation: A Comment on Kraft Canada, Inc. v. Euro Excellence, Inc.* (2006) 85 Can. Bar Rev. 409, 416.

<sup>67</sup> *Copyright Modernization Act*, s. 4, First Session, Forty-first Parliament, 60-61 Elizabeth II, 2011-12 (assented to June 29, 2012), adding section 3(1)(j) to the *Copyright Act*. At the time *Euro-Excellence* was decided, the only provision which conveyed a public distribution right was section 3(1), which grants authors the exclusive right to publish their unpublished works. *Copyright Act* §3(1). Because section 2 defines “publication” as “making copies of a work available to the public,” *id.* §2.2(1)(a)(i), it is not clear why these existing provisions were considered insufficient recognition of the exclusive distribution right.

<sup>68</sup> According to *Balanced Copyright*, the Canadian government’s an official website on the new legislation, section 3(1)(j) was intended to “enable a copyright holder to control the first sale of every copy of their work.” [http://www.balancedcopyright.gc.ca/eic/site/crp-prda.nsf/eng/h\\_rp01153.html#amend](http://www.balancedcopyright.gc.ca/eic/site/crp-prda.nsf/eng/h_rp01153.html#amend).

<sup>69</sup> *Copyright Act*, §3(1).

<sup>70</sup> *Id.* §2.2(1)(a)(i).

<sup>71</sup> A less plausible interpretation is that the existing distribution right applied only to copies, while section 3(1)(j) applies to any tangible embodiment of the work, including the original. However, there is no evidence that Parliament intended to draw such a distinction. Although one commentator has suggested various alarming implications of sec-

ple may be more significant, as it codifies for the first time in a doctrine that has not been extensively delineated by the Canadian courts. Canada's leading case on copyright exhaustion, *Théberge v. Galerie d'Art du Petit Champlain Inc.*,<sup>72</sup> establishes only that the owner of a lawful copy of a work has certain implied rights to use the work.<sup>73</sup> It will therefore be up to the courts to define the precise contours of the newly codified doctrine.

In particular, it is unclear how the new exhaustion rule relates to the exclusive importation right. The government's official commentary on the proposed legislation stated that, under section 3(1)(j), "the distribution right would no longer be operative once the first ownership of that tangible copy has been transferred with the authorization of the copyright owner, by sale or otherwise, inside or outside Canada (i.e., consistent with "international exhaustion")."<sup>74</sup> Therefore, if copyrighted items are manufactured outside of Canada and then sold "with the consent of the copyright owner," under the new rule the copyright owner will no longer have the exclusive right to "transfer ownership" of those copies. However, the right to transfer *ownership* of copies is not necessarily the same thing as the right to *import* copies. Even if copyright owners cannot prevent resales of lawful copies, they might still be able to prevent the importation of such copies under section 27(2)(e). On the other hand, the fact that section 3(1)(j) expressly states that a *foreign* transfer of ownership will exhaust the author's distribution right could imply that the importation right is also exhausted. If the foreign purchaser now has the right to resell the purchased copy to others, that right is meaningful *as a right under Canadian law* only if the resale takes place *in Canada*. It would be pointless to give the foreign purchaser a resale right only *outside* of Canada, because Canadian copyright law does not apply to extraterritorial distributions. If section 3(1)(j) allows foreign purchasers to resell their copies in Canada, then it can be argued that it also permits them to transport those copies to Canada before doing so.

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tion 3(1)(j), the statutory language does not support these interpretations. See Mincov Law Corporation, *Section 3(i)(j) of the new Copyright Act—Good or Bad?* [http://mincovlaw.com/blog-post/section\\_3\(1\)\(j\)\\_of\\_the\\_new\\_copyright\\_act\\_-\\_good\\_or\\_bad](http://mincovlaw.com/blog-post/section_3(1)(j)_of_the_new_copyright_act_-_good_or_bad) (suggesting that the new rule requires the copyright owner's consent for resales of tangible copies, and gives an author ownership of a computer or other tangible medium that she borrows to compose her work).

<sup>72</sup> *Théberge v. Galerie d'Art du Petit Champlain Inc.*, 2002 SCC 34, 2 S.C.R. 336 (owner of a lawfully produced copy had the right to use that copy, including transferring the ink from poster to canvas).

<sup>73</sup> See Jeremy F. DeBeer & Robert J. Tomkowicz, *Exhaustion of Intellectual Property Rights in Canada* (2009), 25 C.I.P.R. 12-13.

<sup>74</sup> According to Michael Geist, who posted the document on his blog, <http://www.michaelgeist.ca/content/view/6026/125/>, the government prepared this clause by clause commentary. Using the example of a book, the commentary states that "once ownership of that copy of that book has been transferred by the copyright owner, wherever in the world, the right is 'exhausted' or terminated with respect to that particular copy."



This issue invites comparison to the first sale rule of the United States.<sup>75</sup> In *Quality King*,<sup>76</sup> the Supreme Court held that the section 602(a) importation right<sup>77</sup> is a subset of the section 106(3) public distribution right;<sup>78</sup> therefore, the first sale exception to the distribution right is also an exception to the importation right.<sup>79</sup> It reached this conclusion largely from the statutory language, which differs from the Canadian provisions. Section 602(a)(1) provides, in relevant part:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106 . . .<sup>80</sup>

Accordingly, because the first sale rule applies to the distribution right, *Quality King* concluded that it also applies to the importation right. The court confirmed this interpretation in *Kirtsaeng*.<sup>81</sup> In contrast, Canada's copyright statutes treat the importation and distribution rights separately, and contain no language suggesting that one right is subsumed within the other.<sup>82</sup>

However, the court in *Quality King* also gave a second reason for treating importation as a sale or other disposition sufficient to trigger application of the first sale rule. Rejecting the Solicitor General's argument that importing does not always involve a sale or disposition, the court observed:

Strictly speaking, an importer could, of course, carry merchandise from one country to another without surrendering custody of it. In a typical commercial transaction, however, the shipper transfers "possession, custody, control and title to the products" to a different person, and L'anza assumes that petitioner's importation of the L'anza shipments included such a transfer. An ordinary interpretation of the statement that a person is entitled "to sell or otherwise dispose of the possession" of an item surely includes the right to ship it to another person in another country.<sup>83</sup>

Thus, even if the Canadian statutes do not expressly treat importation as a form of distribution, the *Quality King* analysis suggests that section 3(1)(j) might permit

<sup>75</sup> 17 U.S.C. §109(a).

<sup>76</sup> *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

<sup>77</sup> 17 U.S.C. §602(a).

<sup>78</sup> *Id.* §106(3).

<sup>79</sup> 523 U.S. at 149–51. As noted earlier, see *supra* text accompanying notes 36–40, *Quality King* implied that the first sale rule applies only to copies made in the United States, but *Kirtsaeng* rejected this interpretation.

<sup>80</sup> 17 U.S.C. §602(a)(1).

<sup>81</sup> 185 L.Ed.2d at 413. However, in her concurrence, Justice Kagan suggested that *Quality King* was wrongly decided. *Id.* at 418–19.

<sup>82</sup> The distribution right is addressed in §§3(1)(j), 27(1), 27(2)(b)–(c), and 27.1(2). The importation right is addressed in §§27(2)(e) and 27.1(1).

<sup>83</sup> *Quality King*, 523 U.S. at 152.

importation for the purpose of carrying out the sale, just as *Théberge*'s analysis suggests that it might permit importation *after* the sale has taken place.

Another ambiguity in section 3(1)(j) arises from the requirement that the previous sale or transfer that triggers exhaustion must have taken place with the "authorization of the copyright owner." In the case of imported copies, this reference to the copyright owner could refer either to (1) the copyright owner in the country where the first transfer occurred, or (2) the Canadian copyright owner. If it refers to the latter, then a copyright owner can continue to prevent importation and resale of foreign-made copies if it assigns the work's Canadian and foreign copyrights to different owners (for example, corporate affiliates or exclusive distributors). This outcome would allow Kraft to continue to block chocolate imports by assigning the Canadian copyright in the labels to one party, and the copyright in the labels in the country of manufacture to a different entity. In contrast, if exhaustion is triggered even when a foreign copyright owner authorizes the sale of copies, then section 3(1)(j) implements a much broader rule of international exhaustion, and Canadian copyright owners will be unable to prevent importation of lawfully made copies except for copies made in countries where the work had no copyright protection or where the copying was permitted by a compulsory license.

### (c) South Africa

In South Africa, a trademark is not infringed by importing goods to which the trademark has been applied with the consent of the trademark owner,<sup>84</sup> unless the goods have been materially altered.<sup>85</sup> However, in *Frank & Hirsch (Pty) Ltd. v. A Roopanand Brothers (Pty) Ltd.*,<sup>86</sup> the exclusive South African distributor of TDK tapes acquired the copyright in the trade dress (other than the trademarks) and the printed cardboard insert, and brought a copyright infringement claim to block the unauthorized importation of the tapes.<sup>87</sup> Although the Supreme Court ultimately ruled in favour of the plaintiff, the analysis of the lower court is of interest because

<sup>84</sup> South Africa *Trademarks Act*, §34(2)(d).

<sup>85</sup> See *Television Radio Centre (Pty) Ltd v. Sony Kabushki Kaisha t/a Sony Corporation*, 1987 2 SA 994 (Sony video recorders imported from Europe were no longer "genuine" because the importer had altered their tuners to pick up South African broadcasts).

<sup>86</sup> (2 June 1993), Case No. 580/91, [1993] ZASCA 90, 1993 (4) SA 279 (AD), [1993] 2 All SA 521 (A) (Appellate Division, Supreme Court of South Africa), available at <http://www.saflii.org/za/cases/ZASCA/1993/90.html>.

<sup>87</sup> Section 23 of the South African *Copyright Act* provides:

23. Infringement. — (1) Copyright shall be infringed by any person, not being the owner of the copyright, who, without the licence of such owner, does or causes any other person to do, in the Republic, any act which the owner has the exclusive rights to do or to authorize.

(2) Without derogating from the generality of subsection (1), copyright shall be infringed by any person who, without the licence of the owner of the copyright and at a time when copyright subsists in a work —

(a) imports an article into the Republic for a purpose other than for his private and domestic use;



it rejected the copyright claim, stating, in essence, that the copyright in the accessories was extinguished when they were attached to uncopyrightable goods:<sup>88</sup>

[I]t is not an article the making of which constitutes an infringement if only the making of an accessory part of the article which has been made constituted an infringement. If the Legislature had meant to refer to such articles, it should have said so, e.g. by referring to an article or any part thereof. To hold otherwise would mean that the importer of a car which has components such as shock absorbers of another manufacturer fitted, upon which literary or artistic work is printed or painted, could be infringing copyright and be prohibited from importing the car. The remedies of the Copyright Act could not possibly have been meant to apply to such a situation. The short answer would be that the car is not an article the making of which infringed copyright. The car would not be a copy, reproduction or adaptation of the work. The reproduction work would merely be an accessory component thereof.

It seems to me that these cassette tapes are also not articles the making of which would have constituted infringement of copyright. The physical reproductions of the artistic or literary works comprising the get-up were indeed accessory to the principal things, i.e. the cassette tapes and by accessio or specificatio became part of the cassette tapes, the articles in question.<sup>89</sup>

The Supreme Court rejected this interpretation because (1) it would effectively terminate a copyright in a manner inconsistent with the termination provisions of the copyright statutes, and (2) its potential scope was too broad:

It seems to be an inescapable consequence of the decision of the Court a quo that wherever the physical reproduction of a work in which A has the copyright becomes part of a “principal thing” (which itself is either not the subject-matter of copyright or over which A has no copyright) A loses his copyright and can have no claim for its infringement . . . If this were so, the protection afforded to an author by the copyright law would be nullified in a number of important instances. Thus, for example, an artist who painted an

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(b) sells, lets, or by way of trade offers or exposes for sale or hire in the Republic any article; [or]

(c) distributes in the Republic any article for the purposes of trade, or for any other purpose, to such an extent that the owner of the copyright in question is prejudicially affected . . . if to his knowledge the making of that article constituted an infringement of that copyright or would have constituted such an infringement if the article had been made in the Republic.

*Copyright Act* No. 98 of 1978, 1978 SA Commercial Law 98. The current version of section 23(2) is similar in all relevant respects. See Butterworths Statutes of South Africa, Commercial Law, *Copyright Act* No. 98 of 1978, 1978 SA Commercial Law 98 (2012).

<sup>88</sup> *Frank & Hirsch (Pty) Ltd v. A Roopanand Brothers (Pty) Ltd*, 1991 (3) SA 240 (D & CLD).

<sup>89</sup> *Frank & Hirsch* (2 June 1993), Case No. 580/91, [1993] ZASCA 90, 1993 (4) SA 279 (AD), [1993] 2 All SA 521 (A) (Appellate Division, Supreme Court of South Africa) (quoting *Frank & Hirsch (Pty) Ltd v. A Roopanand Brothers (Pty) Ltd*, 1991 (3) SA 240 (D & CLD)).

original artistic work would, presumably, not be entitled to sue under either part of sec. 23 if a reproduction of that painting were used without permission as a dust-cover for, or an illustration in, a book of which someone else was the author. Similarly, a writer or poet would have no claim against a publisher who unauthorizedly included his short story in a collection of short stories or his poem in an anthology of poetry . . .<sup>90</sup>

The lower court's analysis may indeed have gone too far in suggesting that the copyright in the accessory simply disappeared because it "merged" into the uncopyrighted article which it accompanied. Unlike Australia's statute, which requires that the accessory itself be non-infringing, the lower court's analysis in *Frank & Hirsch* could be read as eliminating all copyright protection for the accessory. Perhaps the Supreme Court read the lower court's opinion too broadly; the lower court may have meant to apply its "merger" analysis only where the accessory itself was non-infringing. Imposing that condition would answer the Supreme Court's concern that authors and artists would have no infringement claim against someone who used their copyrighted work in an accessory without their consent. It would also have created a judicial exception that closely paralleled the Australian statute. Nonetheless, the Supreme Court's broad interpretation of the merger analysis led it to squarely reject that approach, opening the door for South African trademark owners to wield copyright law as a broad weapon against parallel imports.

A contemporaneous commentator noted that the principle of *Frank & Hirsch* could "be adapted so as to prevent parallel importation of equipment and all sorts of goods by relying on copyright in labels, get-up, instruction books and the like" and that while "restraining the importation and dealing in peripheral items does not necessarily mean that trading in the substantive items can be prevented . . . in many cases it is not a commercial proposition to trade in the substantive items if they cannot be accompanied by the peripheral items in which copyright subsists."<sup>91</sup>

Since the *Frank & Hirsch* decision, South African trademark owners have brought successful claims of copyright infringement against gray market importers of hi-fi equipment, watches and other products, relying on the copyright in the design drawings on which these three-dimensional articles were based.<sup>92</sup>

## 5. A LEGISLATIVE PROPOSAL

Lawmakers in the United States, Canada, and South Africa have the ability to specify when the intellectual property content associated with a product is so incidental to the product that it should be disregarded in the context of enforcing intellectual property rights in parallel imports. Although both Australia and Singapore adopted their legislative carve-outs for incidental uses in the context of liberalizing their overall approaches to parallel imports, there is no reason why such a carve-out

<sup>90</sup> *Frank & Hirsch* (2 June 1993), Case No. 580/91, [1993] ZASCA 90, 1993 (4) SA 279 (AD), [1993] 2 All SA 521 (A) (Appellate Division, Supreme Court of South Africa).

<sup>91</sup> Owen H. Dean, *South Africa — Copyright: Parallel Importation of Artistic Works*, Entertainment Law Review, vol. 4, no. 5, E99-101 (1993).

<sup>92</sup> Owen Dean, *South Africa: The South African Position on Parallel Importing*, available at <http://www.mondaq.com/article.asp?articleid=11258> (26 April 2001); see also Coenrad Visser, *Importing Grey Goods into South Africa*, 1 Juta's Bus. L. 187 (1993).



could not be created independently, while otherwise preserving the importation rights of copyright owners. A narrowly tailored statutory exception would restore the balance of rights established under trademark law. While such an exception is clearly needed in South Africa, its necessity in Canada will depend on how broadly courts interpret the new exhaustion rule of section 3(i)(j). In the United States, the need for this exception will depend on the extent to which Congress overrules *Kirtsaeng*.

Importation exceptions for incidental copyrights may lead manufacturers to integrate their trademarks more fully into their designs — like Coke bottles and Toblerone bars — so that they can make the case that the trademark as a copyrightable design is an important part of the value to consumers. In some cases, this may be true, because the appearance of a product may be more important than its functionality. In such cases, the importation exception should not apply, and the trademark owner should prevail. As a business strategy, “exploding” the trademark to encompass a large part of the product design will succeed only if consumers find the resulting design appealing, and only if the design is nonfunctional in the trademark sense<sup>93</sup> and has artistic features separable from its utilitarian features so as to retain its copyright protection.<sup>94</sup>

Drawing on the Australian and Singaporean models, a statutory exception for incidental uses of copyrighted works should include a non-exhaustive list of the types of items that should be exempt from restrictions on importation and subsequent distribution such as labels, tags, packaging, instructions, manuals, and warranty cards. This will eliminate much of the uncertainty that would arise under a more general statutory test for “incidental uses.” Concern over such uncertainty troubled the Canadian Supreme Court in *Euro-Excellence*.<sup>95</sup> As illustrated by the Australian case law, however, relying entirely on a list of examples may force courts to engage in difficult line-drawing and strained interpretation in an effort to fit unanticipated uses under one of the delineated categories. Therefore, in addition to a specific list of examples, the exception should include a catch-all exception for other incidental uses. While necessarily uncertain in scope, a catch-all exception will serve as an important gap-filler for the occasional incidental use that falls outside of the delineated categories.

With no analogous case law or statutory schemes to provide guidance in this context, defining incidental uses is a novel undertaking. However, one promising approach is to consider how much value the copyrighted feature contributes to the overall commercial value of the individual article.<sup>96</sup> Where the contribution is in-

<sup>93</sup> See 15 U.S.C. §1052(e)(5) (barring trademark registration for functional features); *Traffix Devices, Inc. v. Marketing Displays, Inc.*, 532 U.S. 23 (2001) (features of product design that were the subject of an expired utility patent are presumed functional and therefore cannot be protected by trademark law).

<sup>94</sup> See 17 U.S.C. §101 (definition of useful articles); *Brandir Int'l, Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142 (2d Cir. 1987) (applying §101 to deny copyright protection where utilitarian aspects of useful article were inseparable from artistic aspects).

<sup>95</sup> *Euro-Excellence*, 3 S.C.R. 20, at para. 6 (Binnie, Deschamps, and Rothstein JJ.).

<sup>96</sup> This is similar to the approach suggested by Justice Bastarache in his minority opinion in *Euro-Excellence*, 3 S.C.R. 20, at paras. 94-95 (Bastarache, LeBel, and Charron JJ.).

substantial, then the presence of the protected content should not preclude importation and sale of the article. Where the copyrighted feature also functions as a trademark, the value of the feature should be calculated *without regard to the value of the goodwill that it represents*. Because the plaintiff's claim is not for trademark infringement, but for copyright infringement, any reputational value adhering to the subject matter is irrelevant. If the feature in question is copyrighted text, or an audiovisual or sound recording, it should be valued according to its informational, artistic, or entertainment value.

There is no established test for determining when the content protected by copyright represents an insubstantial portion of the value of the article that embodies it. However, this determination involves a factual assessment rather than a complex balancing analysis such as fair use. Although the value of a copyright as an intellectual property right may be substantial, the value of the *right* does not reveal how much value a single *copy* of the protected content contributes to the article that incorporates it.<sup>97</sup> Once the inquiry is focused on the value of a single copy of the protected work, the value of that copy can be measured against the value of the merchandise it accompanies. The ratio of values will, in some cases, make it easy to determine whether the protected content is incidental to the total value. For example, a single copy of a motion picture contributes significantly more to the value of the DVD embodying it than a single copy of a label contributes to the value of the household appliance to which it is affixed. While the value contributed by the copyrighted feature may be easy to assess in these cases, in closer cases expert testimony may be required. In the case of a chocolate bar, for example, an especially appealing design might contribute more to the product's consumer appeal than the flavour of the chocolate itself.

By combining enumerated categories with a catch-all provision focused on relative value, the exclusive importation rights of copyright owners can be amended to incorporate an exception for accessories. Drawing on the Australian model, the statute can treat certain items, such as labels, as accessories *per se*. Unlike both the Australian and Singaporean models, the catch-all provision would allow courts to consider, on a case-by-case basis, certain incidental uses that fall outside of the *per se* category.

Adopting an importation exception along these lines would not cause a country to violate its obligations under the Berne Convention, the TRIPs agreement, or the WIPO Copyright Treaty, all of which are agnostic on the question of international exhaustion. Indeed, such a carve-out is expressly permitted by the latest draft of the TPP, even as it requires stricter protection against parallel imports of several categories of copyrighted works. As noted earlier, Article 4(2) of the October 2011 draft of the TPP requires signatories to give copyright owners the right to block parallel imports.<sup>98</sup> However, a footnote clarifies the scope of this requirement:

With respect to copies of works and phonograms that have been placed on the market by the relevant right holder, the obligations described in Article

<sup>97</sup> For example, the copyright in a motion picture may be worth thousands or millions of dollars, but the value of a single DVD embodying the motion picture is likely to be less than twenty dollars.

<sup>98</sup> See *supra* note 4 and accompanying text.



[4.2] apply only to books, journals, sheet music, sound recordings and audio and visual works (i.e., categories of products in which the value of the copyrighted material represents substantially all of the value of the product). Notwithstanding the foregoing, each Party may provide the protection described in Article [4.2] to a broader range of goods.<sup>99</sup>

Thus, while signatory countries are free to give copyright owners the right to block imports of all foreign-made copies of their works, they are also free to exclude products in which the copyrighted component does not represent “substantially all the value” of the product. This leaves ample room for the proposed exception for accessories, including the catch-all provision for features that contribute an “insubstantial part of the value” of the imported merchandise.

## 6. CONCLUSION

In regulating parallel imports of trademarked goods, trademark law attempts to strike a balance between the interests of trademark owners and the interests of consumers. By resorting to copyright law to block otherwise lawful imports of genuine goods, trademark owners have succeeded in avoiding the limitations imposed by trademark law, and have created a kind of mutant trademark law. This scenario has been played out in countries around the world. Their judicial and legislative responses, though imperfect, have provided a valuable learning opportunity.

The legislative response proposed in this article builds on that opportunity. It provides guidance to importers, distributors, and intellectual property owners, allows lawmakers to impose different parallel import regimes for copyrights and trademarks, and prevents trademark owners from substituting one regime for another by adding trivial content to their unprotected goods. In countries which have not adopted full international exhaustion for copyrights, this approach will restore the preeminence of trademark law as the proper mechanism for balancing the legitimate interests of trademark owners and consumers.

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<sup>99</sup> TPP Draft, *supra* note 4, at n. 11. The same language appears in a side letter to the U.S.-Morocco Free Trade Agreement, available at <http://www.ustr.gov/trade-agreements/free-trade-agreements/morocco-fta>. See *supra* note 5.

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