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## **Corporate Strategies, First Sale Rules, and Copyright Misuse: Waiting for Answers from *Kirstsaeng v. Wiley* and *Omega v. Costco (II)***

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2013

## Corporate Strategies, First Sale Rules, and Copyright Misuse: Waiting for Answers from *Kirstsaeng v. Wiley* and *Omega v. Costco* (II)

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**Corporate Strategies, First Sale Rules, and Copyright Misuse:  
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*Irene Calboli*



# Corporate Strategies, First Sale Rules, and Copyright Misuse: Waiting for Answers from *Kirstsaeng v. Wiley* and *Omega v. Costco (II)*

By Irene Calboli\*

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## I. INTRODUCTION

In this Essay, I continue my previous analysis of the first sale rule (or principle of exhaustion) in intellectual property law in the context of international trade.<sup>1</sup> In

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\* Professor of Law, Marquette University Law School; Visiting Professor, Faculty of Law, National University of Singapore. This Essay has benefitted from comments and conversations with many colleagues. In particular, I thank Margaret Chon, John Cross, Christine Haight Farley, Eric Goldman, Leah Chan Grinvald, Paul Heald, Steven Hetcher, Mary LaFrance, Marshall Leaffer, Edward Lee, Jacqueline Lipton, Pierre-Emmanuel Moyse, Ng-Loy Wee Loon, Elisabeth Ng Siew Kuan, Burton Ong, Lisa Ramsey, Mary Wong, and Peter Yu. I also thank Heather Stutz for research assistance. This Essay summarizes my preliminary considerations on this topic and draws from research on a larger project on parallel imports and misuse of intellectual property rights that I will continue over the next year. A follow up Chapter on the issues addressed in this Essay will also be published in *DISTRIBUTION AND INTELLECTUAL PROPERTY*, Thémis, forthcoming 2014 (Pierre-Emanuel Moyse ed.). The views expressed in this Essay, and any mistakes, remain my own.

<sup>1</sup> In previous works I have analyzed, in details, the first sale rule in trademark and copyright law. In this Essay, I compare the two different rules in light of the current development in the case law in the United States. See, e.g., Irene Calboli, *An American Tale: The Unclear Application of the First Sale Rule in United States Copyright Law (and Its Impact on International Trade)*, in *INTELLECTUAL PROPERTY AT THE CROSSROADS OF TRADE* 67 (Jan Rosen ed., 2013) [hereinafter Calboli, *First Sale in Copyright Law*]; Irene Calboli, *Market Integration and (the Limits of) the First Sale Rule in North American and European Trademark Law*, 51 *SANTA CLARA L. REV.* 1241 (2011) [hereinafter Calboli, *First Sale Rule in Trademark*

particular, I highlight the differences between the first sale rules in trademark and copyright law—in particular, international first sale in trademark law and national first sale (at least to date) in copyright law—and criticize the corporate trend to invoke copyright protection for incidental product features of otherwise functional and uncopyrightable products in order to restrict the importation of gray market (genuine) products into the United States. During the past decade, corporations have increasingly turned to copyright law to protect the designs used in their labels, logos, products packaging, and so forth.<sup>2</sup> However, I elaborate in this Essay that this trend is frequently finalized at leveraging the copyright protection on these designs to encompass the entire products to which these designs are affixed, and in turn circumvent the rule of trademark law (international first sale) by blocking the importation of gray market products under the more business-friendly rule of national copyright first sale.

Hence, I argue in this Essay that this opportunistic exploitation of copyright protection in the context of the international trade of consumer products directly undermines the policy objectives both of copyright and trademark law.<sup>3</sup> Copyright and trademark law generally follow different rules—for the acquisition, enforcement, and limitation of the exclusive rights that are granted under their respective regimes—and find their justification in different policy objectives. Copyright protection stems from the Intellectual Property Clause of the Constitution, which grants Congress the authority “to promote the Progress of Science and the Useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>4</sup> In contrast, trademark law derives its authority from the Commerce Clause and trademark protection focuses primarily on guaranteeing fairness in competition by preventing consumer confusion and by protecting the goodwill established by a mark in the marketplace.<sup>5</sup> Accordingly, claims of copyright protection for incidental product features of otherwise functional products inevitably distort the traditional objectives of both copyright and trademark protection. Ultimately, these claims aim primarily at leveraging copyright protection to control product distribution in the international market. In this Essay I advocate, in particular, that these claims are an opportunistic exploitation of copyright protection, and that the courts should expressly define and prohibit these claims as a type of copyright misuse.<sup>6</sup>

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Law]; Irene Calboli, *Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues*, 6 MARQ. INTEL. PROP. L. REV. 47 (2002).

<sup>2</sup> For a description (and different positions) on this practice, see Teresa Scassa, *Using Copyright to Prevent Parallel Importation: A Comment on Kraft Canada, Inc. v. Euro Excellence*, 85 CAN. BAR REV. 409, 410 (2006) (critically advocating against the practice of using copyright protection to prevent the importation of otherwise legitimate gray market products). Professor Scassa quotes Wee W. Webster, *Restraining the Gray Marketer: Policy and Practice*, 4 C.I.P.R. 211, 225 (1988) (supporting the same practice). *Id.* at 410, n.4. For an early analysis of this practice, see also Donna K. Hintz, *Battling Gray Market Goods With Copyright Law*, 57 ALB. L. REV. 1187, 1212-13 (1994) (underscoring the difficulties in interpreting the first sale rule provisions in the Copyright Act and advocating for a legislative amendment clarifying that copyright owners can prevent the importation of copyrighted gray market products).

<sup>3</sup> See *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516, 521 (9th Cir. 1997) (highlighting the “public policy embodied in the grant of a copyright.”).

<sup>4</sup> U.S. Const., art. I, § 8, cl. 8.

<sup>5</sup> *Trade-Mark Cases*, 100 U.S. 82, 94–96 (1879); see also William M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 265–66 (1987) (“Trademark law . . . can be best explained on the hypothesis that the law is trying to promote economic efficiency.”).

<sup>6</sup> Generally, on the doctrine of copyright misuse, see *Assessment Tech. of Wisconsin, L.L.C. v.*

The remainder of this Essay proceeds as follows. In Part II, I provide a brief overview of the differences between the first sale rules in trademark and copyright law. In Part III, I criticize the growing practice of corporations leveraging copyright protection for incidental features of otherwise uncopyrightable products in order to invoke the principle of national first sale in copyright law for products in their entirety to prevent the importation of gray market products. In particular, I argue that this practice amounts to copyright misuse, as it has been recently recognized by part of the judiciary, and I call upon the courts to consistently embrace this line of reasoning and curtail this misuse of copyright protection by corporations. In Part IV, I evaluate the possible outcomes of *Kirtsaeng v. John Wiley & Sons*,<sup>7</sup> which is currently pending in the Supreme Court on the territorial extent of the copyright first sale rule, and *Omega v. Costco Wholesale*,<sup>8</sup> which is currently pending before the Ninth Circuit on the issue of gray market products and copyright misuse. I specifically advocate that the Ninth Circuit finds that Omega misused copyright law when it claimed copyright protection for a small design engraved on the back of its watches to prevent the unauthorized importation of these watches into the United States. In this part, I also call upon Congress to consider a legislative amendment to the text of the Copyright Act to formally prohibit the leveraging of copyright protection for incidental product features in the context of international trade, following the examples of other common law jurisdictions. Still, I conclude, in the immediate future the responsibility remains with the courts—the Ninth Circuit in first instance—to prevent corporations from opportunistically exploiting overlapping copyrights and trademarks and blocking, in turn, the importation of legitimate gray market products to the detriment of consumers, market competition, and the general equilibrium of the intellectual property system.

## II. THE (STILL DIFFERENT) FIRST SALE RULES IN TRADEMARK AND COPYRIGHT LAW

Traditionally, intellectual property first sale rules developed as judicial doctrines or originated as statutory provisions to balance the exclusive rights granted to businesses, inventors, and creators in their products and works, with the rights of retailers, consumers, and second-hand dealers to freely resell or dispose of these products and works after having lawfully acquired them in the market.<sup>9</sup> However, intellectual property owners frequently attempt to bypass these rules—with contractual provisions or otherwise—as these rules directly limit their ability to control product distribution (and

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Wiredata, Inc., 350 F.3d 640 (7th Cir. 2003); Alcatel USA, Inc. v. DGI Tech., Inc., 166 F.3d 772 (5th Cir. 1999); Practice Mgmt. Info. Corp. v. Am. Med. Ass'n, 121 F.3d 516 (9th Cir. 1997); Lasercomb Am., Inc. v. Reynolds, 911 F.2d 970 (4th Cir. 1990). In 2011, the District Court for the Eastern District of California ruled that Omega's attempt to leverage copyright protection on an insignia engraved on the back of Omegas' watches was copyright misuse. See *Omega S.A. v. Costco Wholesale Corp.*, 2011 U.S. Dist. LEXIS 155893 (E.D. Cal. Nov. 9, 2011). In this Essay, I specifically advocate that the Ninth Circuit affirm the decision of the lower court in this case. See *infra* Part IV.

<sup>7</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 654 F.3d 210 (2d Cir. 2011), *cert. granted*, 132 S. Ct. 1905, (U.S. Apr. 16, 2012) (No. 11-697).

<sup>8</sup> *Omega S.A. v. Costco Wholesale Corp.*, No. 11-57137 (9th Cir. July 25, 2012).

<sup>9</sup> See, e.g., Calboli, *First Sale Rule in Trademark Law*, *supra* note 1, at 1250-51 (tracing the origin of the first sale rule in trademark law); Calboli, *First Sale Rule in Copyright Law*, *supra* note 1, at 71-72 (tracing the origin of the first sale rule in copyright law); see also John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187, 1187-88 (2011).

pricing strategies) in the aftermarket.<sup>10</sup> In particular, strong disputes have defined the application of first sale rules in the context of international trade.<sup>11</sup> Intellectual property owners generally engage in different pricing strategies across countries based on the circumstances of each country (competition in the national market, average income, and so forth). As a result, they oppose the international arbitrage of their products (usually from low-cost to high-cost countries) by gray marketers (unauthorized importers). National governments, in turn, follow different positions on the issue—permitting or blocking the importation of gray market products—based on the economic and public policy interests of the specific jurisdictions.<sup>12</sup> Developed countries usually tend to oppose the importation of gray market products into their countries while developing countries generally favor it.<sup>13</sup>

Precisely because of the diverging national interests among the various members on the World Trade Organization (WTO), Article 6 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)<sup>14</sup> states that nothing in the Agreement can “be used to address the issue of the exhaustion of intellectual property rights.”<sup>15</sup> Lacking a common international standard, WTO members’ approaches to first sale rules thus follow one of three systems, which may also vary depending on the subject matter at issue (patents, trademarks, and copyright).<sup>16</sup> First, under *national* first sale (or *national* exhaustion), national rights are exhausted only after the products have been distributed for sale in the national market, and intellectual property owners can oppose gray market products from outside the national market. Second, under *international* first sale (or *international* exhaustion), national rights are exhausted regardless of where the products have been distributed for sale in the world, and intellectual property owners cannot prevent gray market products in the national market. Third, under *regional* first sale (or *regional* exhaustion), national rights are exhausted after the products have been distributed for sale in a specific region (like the European Union) and intellectual

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<sup>10</sup> The corporate opposition to gray market products is well summarized in the position adopted by the International Trademark Association (INTA) in 2007. See *Position Paper on Parallel Imports* INT’L TRADEMARK ASS’N (July 2007), available at <http://www.inta.org/Advocacy/Documents/INTAParallelImports2007.pdf>.

<sup>11</sup> The academic literature in this area is extensive. See, e.g. Herman Cohen Jehoram, *Prohibition of Parallel Imports Through Intellectual Property Rights*, 30 INT’L REV. OF INTELL. PROP. & COMPETITION L. [IIC] 495 (1999) (Ger.); Christopher Heath, *Parallel Imports and International Trade*, 28 IIC 623 (1997) (Ger.); Herman Cohen Jehoram, *International Exhaustion versus Importation Right: A Murky Area of Intellectual Property Law*, 4 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT, INTERNATIONALER TEIL [GRUIT.] 280 (1996) (Ger.).

<sup>12</sup> See Jerome H. Reichman, *Intellectual Property in International Trade: Opportunities and Risks of a GATT Connection*, 22 VAND. J. TRANSNAT’L L. 747, 769-96 (1989); Frederick M. Abbott, *Parallel Importation: Economic and Social Welfare Dimensions*, INT’L INST. SUSTAINABLE DEV., 5 (June 2007), [http://www.iisd.org/pdf/2007/parallel\\_importation.pdf](http://www.iisd.org/pdf/2007/parallel_importation.pdf); see also Vincent Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion, and a Few Other Things*, 21 MICH. J. INT’L L. 333 (2000).

<sup>13</sup> See S.K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade—Article 6 of the TRIPS Agreements*, 29 IIC 534, 536 (1998) (Ger.).

<sup>14</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 33 I.L.M. 83 (1994) [hereinafter TRIPS].

<sup>15</sup> *Id.* art. 6. See Verma, *supra* note 13 at 539.

<sup>16</sup> For a detailed explanation of the different approaches on intellectual property first sale rules, see Calboli, *First Sale Rule in Trademark Law*, *supra* note 1, at 1250-51.

property owners cannot oppose the further circulation of the products within that region. However, owners can oppose gray market products from outside the region.

Similar to other developed countries, the United States follows a system of national first sale with respect to patent law and patented products.<sup>17</sup> However, the United States follows a system of international first sale with respect to trademark law and trademarked products, while its position with respect to copyright first sale is less clear. Courts and scholars disagree over whether the Copyright Act establishes a system of national or international first sale, even though the majority of the courts have favored an interpretation of the statute as establishing a system of national first sale.<sup>18</sup>

The United States' position on trademark first sale derives from the traditional premise that trademarks are not protected as property per se, but exclusively as indicators of commercial origin and symbols of business goodwill. Based on this premise, the importation of gray market goods is allowed as long as consumers are not confused as to the origin and quality of the marked products.<sup>19</sup> The public policy objective of this rule rests on the position that the public should be allowed to benefit from the lower prices and increased competition resulting from non-confusing gray market products, and trademark owners should not rely on trademark rights to partition the international market (despite the profit losses that this may entail for trademark owners).<sup>20</sup> In particular, trademark law permits the importation of gray market goods when "both the foreign and the U.S. trademark or trade name are owned by the same person or business entity."<sup>21</sup> To avoid strategic assignments between affiliated companies to circumvent this rule, the concept of "same ownership" includes "parent and subsidiary companies or [companies] otherwise subject to common ownership or control."<sup>22</sup> As an exception to this general rule, trademark owners can block gray market products when these products, despite being genuine and first offered for sale by the same trademark owners abroad, are "materially different" from the goods that trademark owners are selling in the domestic market.<sup>23</sup> This exception was originally developed in the *Lever Brothers* cases<sup>24</sup> and is

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<sup>17</sup> Even though the Patent Act does not explicitly limit the first sale rule to national sale, courts have consistently found that international sale does not exhaust patent rights. *See Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005) (noting that "[t]he patentee's authorization of an international first sale does not affect exhaustion of that patentee's rights in the United States" and that "foreign sales can never occur under a United States patent because the United States patent system does not provide for extraterritorial effect."). This Essay does not address a detailed analysis of the United States' approach to the first sale rule in patent law.

<sup>18</sup> *See generally* Calboli, *First Sale Rule in Copyright Law*, *supra* note 1, at 71-73 (highlighting the current disputes over the territorial extent of the application of section 109(a) of the Copyright Act).

<sup>19</sup> The U.S. Tariff Act prohibits the importation of a product that "bears a trademark owned by a citizen of . . . the United States and is registered in the U.S. Patent and Trademark Office." *See* Tariff Act of 1930, 19 U.S.C. § 1526(a) (2006). The Lanham Act bars the importation of goods with a mark that will "copy or simulate" a registered trademark. Lanham Act, 15 U.S.C. § 1124 (2006).

<sup>20</sup> *See, e.g.,* *Sebastian Int'l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074-75 (9th Cir. 1995) (underscoring that "the consumer gets exactly what the consumer bargains for, the genuine product of the particular producer").

<sup>21</sup> *KMart Corp. v. Cartier, Inc.*, 486 U.S. 281, 289 (1988).

<sup>22</sup> *Id.* at 288 (indicating that the protection afforded by the Tariff Act 19 U.S.C. § 1526(a) is exclusively for domestic U.S. trademark owners that have no corporate affiliation with the foreign manufacturer).

<sup>23</sup> *See* J. Thomas MCCARTHY, 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION 10, § 29:50-51.75.

<sup>24</sup> *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993) (the court stated that when a mark is applied to physically different goods, the mark is not "genuine" and the affiliation between the producers



based upon the consideration that consumers could be confused as to the actual quality of the marked products if two products with identical appearance are sold in the United States under the same marks but are of different quality. Still, under the revised Customs Service Regulations, gray marketers can lawfully import materially different products into the national territory as long as they properly label the products to alert consumers about their different quality.<sup>25</sup> The policy behind the Customs Service Regulations' limitation to the *Lever Brother* rule rests again on the fact that, as long as consumers are not confused as a result of the different quality of products, consumers should benefit from the lower prices and the increased competition that gray market products may bring into the United States market.

Conversely, the United States' position with respect to the first sale rule in copyright law is unsettled and clarification is currently awaited from the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons*.<sup>26</sup> Originally, the first sale rule was first developed by the Supreme Court in *Bobbs-Merrill v. Straus*,<sup>27</sup> and was later codified in the 1909 Copyright Act, under which "the exclusive right to 'vend' was limited to the first sales of the work."<sup>28</sup> The 1976 Copyright Act confirmed the first sale rule in section 109(a), which states that the owners of copyrighted works "lawfully made under this title" are entitled "to sell or otherwise dispose of the possession of that [work]" without the "authority of the copyright owner."<sup>29</sup> However, Congress did not clarify the territorial extent of section 109(a). Still, the majority of the courts (and copyright owners) generally supported the view that section 109(a) applies only to domestic and not international sale.<sup>30</sup> Courts derived this position from the combined interpretation of section 109(a) and section 602(a)(1) of the Copyright Act, which provides that the "[i]mportation into the United States" of a copyrighted work acquired outside the United States "without the authority of the [copyright] owner" is "an infringement of the exclusive right [of] distribut[ion]."<sup>31</sup> Only a minority of courts, most notably the Third Circuit, agreed that section 109(a) limits the importation right in section 602(a)(1) and

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does not reduce the resulting likelihood of consumer confusion.); *Lever Bros. Co. v. United States*, 877 F.2d 101 (D.C. Cir. 1989); *see also Société Des Produits Nestlé, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 639 (1st Cir. 1992).

<sup>25</sup> 19 C.F.R. § 133.23(b) (2012) ("Goods determined by the Customs Service to be physically and materially different . . . shall not be detained . . . where the merchandise or its packaging bears a conspicuous and legible label . . ." that indicates that "[t]his product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized products."); *see also* Mark S. Sommers & Louis J. Levy, *US Customs Amends Gray Market Import Rule*, 117 TRADEMARK WORLD 32, 33 (1999).

<sup>26</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 654 F.3d 210 (2d Cir. 2011), *cert. granted*, 132 S. Ct. 1905, (U.S. Apr. 16, 2012) (No. 11-697).

<sup>27</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

<sup>28</sup> *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 141-42 (1998) ("Congress subsequently codified our holding in *Bobbs-Merrill* that the exclusive right to 'vend' was limited to first sales of the work.").

<sup>29</sup> The Copyright Act, 17 USC § 109(a) (2008).

<sup>30</sup> *See, e.g., Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994); *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991).

<sup>31</sup> The Copyright Act, 17 USC § 602(a)(1) (2008). Since section 602(1)(a) was introduced in the Copyright Act, the majority of the courts interpreted the provision as intending to bar the unauthorized importation of copyrighted products even when the products had been lawfully been made and first distributed abroad under the authorization of copyright owners. *See e.g. Parfums Givenchy*, 38 F.3d at 481.

equally applies to national and international sales.<sup>32</sup> Nonetheless, the majoritarian position on the issue may change soon as a result of the certiorari pending in front of the Supreme Court in *Kirtsaeng*.<sup>33</sup>

Not surprisingly, after the adoption of the 1976 Copyright Act, the business world (and intellectual property lawyers) realized that, compared to the international first sale rule in trademark law, the rule on national copyright first sale could provide corporations with assistance in their fight against gray market products.<sup>34</sup> Corporations thus started to seek copyright protection for their consumer products. However, since consumer products are frequently functional and accordingly uncopyrightable, corporations strategically claimed copyright protection for other (nonfunctional) parts of their products. This practice resulted in copyright registrations for incidental product features—labels, decorations on packaging, and so forth—as these incidental elements could fit more easily under the scope of copyright protection.<sup>35</sup> Corporations then relied on the copyright protection for these features to control the circulation of the entire products carrying the incidental copyrighted feature. In particular, corporations started to invoke section 602(a)(1) of the Copyright Act and claimed copyright infringement against the importation of gray market goods, which carried those copyrighted product features.<sup>36</sup> However, once litigation was brought forth, importers and distributors accused of copyright infringement challenged the conventional interpretation that the combined language of sections 109(a) and 602(a)(1) of the Copyright Act supported a system of national first sale allowing corporations to segment international markets. Instead, importers and distributors argued that in the absence of specific guidance in the Copyright Act, section 109(a) limits section 602(1)(a) and equally applies to products first sold nationally and internationally.<sup>37</sup> In other words, the provision could not be used to prevent the importation of gray market products.

In the late 1990s, in *Quality King v. L'anza*,<sup>38</sup> a case involving gray market hair care products and a claim of copyright infringement in the products' labels and instructions, the Supreme Court ruled on the issue for the first time. The Court's ruling did not clarify, but rather complicated the issue. Ultimately, the Court ruled in favor of the distributor and found that copyright in the products had been exhausted, yet it reached

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<sup>32</sup> See, e.g., *Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988) (stressing that if section 109(a) applied only to copies sold in the U.S.; copyright owners selling copies abroad would receive a purchase price and a right to limit importation, whereas copyright owners selling copies domestically would only receive the purchase price).

<sup>33</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 654 F.3d 210 (2d Cir. 2011), cert. granted, 132 S. Ct. 1905, (U.S. Apr. 16, 2012) (No. 11-697)

<sup>34</sup> See Willie Skinner, Note, *Preventing Gray Markets: Is Copyright Law the Answer?*, 26 SYRACUSE J. INT'L L. & COM. 315, 328 (1999).

<sup>35</sup> Section 101 of the Copyright Act defines "useful article" as "an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information." 17 USC § 101 (2008). "An article that is normally a part of a useful article is considered a 'useful article'." *Id.* See also *Mazer v. Stein*, 347 U.S. 201 (1954); *Lamps Plus, Inc. v. Seattle Lighting Fixture Co.*, 345 F.3d 1140, 1146–47 (9th Cir. 2003); *Superior Form Builders, Inc. v. Dan Chase Taxidermy Supply Co., Inc.*, 74 F.3d 488, 493 (4th Cir. 1996); *Brandir Int'l, Inc. v. Cascade Pac. Lumber Co.*, 834 F.2d 1142, 1146–47 (2d Cir. 1987).

<sup>36</sup> See, e.g., *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 984 (9th Cir. 2008); *L'anza Research Int'l, Inc. v. Quality King Distribs. Inc.*, 98 F.3d 1109 (9th Cir. 1996).

<sup>37</sup> See, e.g., *Sebastian Int'l*, 847 F.2d 1093.

<sup>38</sup> *Quality King Distribs. Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

this conclusion only because the products had been made and first sold in the United States, then exported abroad, and eventually re-imported into the United States (the so called “round-trip”).<sup>39</sup> Still, the Court did not take a position on whether section 109(a) could be applied to all gray market products which had been made and first distributed with the authorization of copyright owners.<sup>40</sup> Absent such important clarification, the decision seemed to confirm the previous majoritarian position that the United States follows a system of national copyright first sale, especially with respect to products first distributed abroad. Justice Ginsburg concurred with the majority precisely on this premise.<sup>41</sup> More problematically, she stated that “lawfully made under this title” meant “lawfully made in the United States,”<sup>42</sup> thus (maybe unintentionally) suggesting that section 109(a) would not apply to foreign manufactured goods even after these goods have been distributed in the United States under the authority of the copyright owners. Not surprisingly, additional litigation followed after *Quality King*. In 2010, the Supreme Court again granted certiorari in *Costco v. Omega*,<sup>43</sup> a case involving gray market watches carrying a copyrighted (minuscule) insignia. This time the products had been made and first distributed in Europe and were later imported into the United States. The Court’s decision was again disappointing. The Justices equally divided and in a nine-word *per curiam* decision,<sup>44</sup> affirmed the decision of the Ninth Circuit in favor of Omega, where the Ninth Circuit supported the interpretation that section 109(a) only applies after the products have been distributed in the United States.<sup>45</sup> Clearly aware of the pressing need to finally resolve the growing ambiguities in this area, the Supreme Court again granted certiorari in *Kirtsaeng v. John Wiley & Sons* in April 2012.<sup>46</sup> This case concerned gray market books (not incidental product features) and a decision on the case is awaited in the near future. As I elaborate in Part IV, this decision will prove crucial to clarify the territorial extent of the first sale rule in copyright law, and could possibly end the corporate game of leveraging copyright protection for incidental product features to circumvent the international first sale in trademark law.

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<sup>39</sup> *Id.* at 139, 153–54.

<sup>40</sup> See generally Calboli, *First Sale Rule in Copyright Law*, *supra* note 1, at 79 (summarizing the decision and highlighting that the “Supreme Court’s decision fell short of addressing the territorial extent of the first sale rule in copyright law”).

<sup>41</sup> See *Quality King*, 523 U.S. at 153 (Ginsburg, J., concurring) (Justice Ginsburg underscored that she was only joining the majority in recognizing that the decision was not resolving “cases in which the allegedly infringing imports were manufactured abroad.”).

<sup>42</sup> *Id.* (Ginsburg J., concurring) (citing WILLIAM F. PATRY, *COPYRIGHT LAW AND PRACTICE* 166–70 (1997 SUPP.) and 10 PAUL GOLDSTEIN, *COPYRIGHT* § 16.0, 16:1–16:2 (2d ed. 1998)).

<sup>43</sup> *Costco Wholesale Corp. v. Omega, S.A.* 131 S. Ct. 565 (2010) (Justice Kagan recused herself due to her previous role as solicitor general).

<sup>44</sup> *Id.*

<sup>45</sup> See *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 989 (9th Cir. 2008) (citing *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 (9th Cir. 1994) and *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1150 (9th Cir. 1996)); see also Samuel Brooks, Note, *Battling Gray Markets Through Copyright Law: Omega SA v. Costco Wholesale Corporation*, 2010 BYU L. REV. 19 (2010).

<sup>46</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 654 F.3d 210 (2d Cir. 2011), *cert. granted*, 132 S. Ct. 1905, (U.S. Apr. 16, 2012) (No. 11-697).

### III. LEVERAGING COPYRIGHT PROTECTION FOR INCIDENTAL PRODUCT FEATURES TO PREVENT THE IMPORTATION OF GRAY MARKET PRODUCTS: LEGITIMATE GAME OR COPYRIGHT MISUSE?

The exploitation of one type of intellectual property right to expand rights under other types of rights is not a new phenomenon in the business world. Intellectual property owners frequently attempt to exploit overlapping intellectual property rights: for example, overlapping patent and trademark protection, or patent and copyright protection. Hence, courts have generally rejected this practice as a breach in the political equilibrium of the intellectual property system.<sup>47</sup> However, courts have not sufficiently addressed to date—or have confusingly addressed—the problems arising from the exploitation of copyright protection in the context of the international trade of commercial products and intellectual property first sale rules. To a certain extent, courts have directly avoided entering the debate on this issue, which is certainly a difficult issue, but is one that ought to be resolved. For example, even though the Supreme Court noticed in *Quality King* that the case was “unusual” insofar as it concerned “the integrity of . . . methods of marketing”<sup>48</sup> for shampoos rather than more traditional copyrighted works, the Court steered away from addressing the fact that L’anza was leveraging copyright protection for incidental product features—the product labels—to prevent the importation of the entire shampoo bottles.<sup>49</sup> Furthermore, in its non-decision in *Costco* the Court did not address the fact that Omega had affixed a minuscule insignia to its watches as an exclusive measure to block gray market watches.<sup>50</sup> Similarly, the lower courts that have decided cases in this respect have never questioned plaintiffs about the legitimacy of applying copyright protection to questionable “works,” nor have they challenged plaintiffs’ strategies of using copyright protection to control international product distribution.<sup>51</sup> Appropriate judicial guidance is thus urgently needed, and the time has come for the judiciary to step into this debate and properly address the boundaries between copyright and trademark protection in the context of international trade.

As I highlighted in the Introduction, the public policy objectives that justify copyright and trademark protection in the United States (and elsewhere) hinge on two separate concepts that do not overlap in purpose—and as a result copyright and trademark law follow different rules on requirements, duration, infringement, and limitations and exceptions. Copyright law protects works of authorship to reward authors and enrich society with their work. However, the works belong to the public domain once the copyright has expired.<sup>52</sup> In contrast, trademark law protects distinctive signs that are used in the course of trade to signal commercial origin, sponsorship, or affiliation, but

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<sup>47</sup> See, e.g., *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003); *Traffix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); *Baker v. Selden*, 101 U.S. 105 (1880).

<sup>48</sup> *Quality King Distribs, Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 140 (1998).

<sup>49</sup> See *id.*

<sup>50</sup> See *Costco Wholesale Corp. v Omega, S.A.*, 131 S. Ct. 565 (2010).

<sup>51</sup> For example, the Ninth Circuit did not raise this issue when it decided the same cases that were later decided by the Supreme Court. See, e.g., *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008); *L’anza Research Int’l, Inc. v. Quality King Distribs. Inc.*, 98 F.3d 1109 (9th Cir. 1996).

<sup>52</sup> See discussion *supra* Introduction and Part II.

only within the limits of consumer confusion and misappropriation of business goodwill.<sup>53</sup> Accordingly, copyright law does not authorize businesses to use to copyright norms to circumvent trademark law and control the international distribution and further circulation of genuine uncopyrightable products against the rule of international trademark first sale. Moreover, copyright law does not authorize businesses to invoke copyright protection for incidental features (decorations of the product packaging, labels, product instructions or warranty terms, and so forth) of products that are uncopyrightable because they constitute useful articles,<sup>54</sup> especially when businesses leverage this protection to protect the entire product. As recently ruled also by the District Court for the Eastern District of California in *Omega v. Costco* in the remand of the case following the Supreme Court's non-decision in *Costco v. Omega*, this practice should not be permitted as it clearly represents an anomaly within the intellectual property system. Instead, this practice should be explicitly prohibited as a misuse of copyright law and policy.

United States courts developed the doctrine of copyright misuse as an equitable defense against abusive claims of copyright infringement in the 1990s.<sup>55</sup> This doctrine is modeled primarily after the doctrine of patent misuse, which traces back to the 1942 Supreme Court decision in *Morton Salt Co. v. G.S. Suppinger*.<sup>56</sup> In this case, the Court found that patent holders misused their patent rights by engaging in overreaching "tying" practices while selling their patented products. The Court held that such overextension of exclusive rights should not be permitted and should result in rendering patent rights unenforceable until the misuses had ceased, including withholding remedies for patent infringement or breach of a license agreement involving the patent.<sup>57</sup> However, it was not until 1990, almost fifty years after *Morton Salt*, that the doctrine of misuse was successfully invoked in the area of copyright law by an alleged copyright infringer in *Lasercomb Am., Inc. v. Reynolds*.<sup>58</sup> In this case, the Fourth Circuit agreed with the defendant that the plaintiff had misused its copyright when it forbade defendant from creating competing software products through an abusive licensing agreement. Since *Lasercomb*, the doctrine of copyright misuse has been successfully applied by other courts.<sup>59</sup> In particular, the Ninth and the Fifth Circuits have recognized this doctrine as a valid affirmative defense against claims of copyright infringement.<sup>60</sup> Generally, courts have found copyright misuse primarily in two instances: (1) when a copyright holder uses rights granted under the Copyright Act in a manner that violates federal antitrust law or in

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<sup>53</sup> See *id.*

<sup>54</sup> See discussion *supra* Part II.

<sup>55</sup> *Omega S.A. v. Costco Wholesale Corp.*, No. 04-05443 (C.D. Cal. Nov. 9, 2011).

<sup>56</sup> *Morton Salt Co. v. G.S. Suppinger Co.*, 314 U.S. 488 (1942).

<sup>57</sup> See *id.* at 492 (quoting U.S. Const., art. I, § 8, cl. § 8). See also 6 DONALD S. CHISUM, CHISUM ON PATENTS, § 19:04 (2003).

<sup>58</sup> 911 F.2d 970 (4th Cir. 1990).

<sup>59</sup> Generally, for a detailed reconstruction of the development of the judicial doctrine of copyright misuse, see Kathryn Judge, *Rethinking Copyright Misuse*, 57 STAN. L. REV. 901 (2004).

<sup>60</sup> See *Alcatel USA, Inc. v. DGI Tech., Inc.*, 166 F.3d 772 (5th Cir. 1999); *Practice Mgmt. Info. Corp. v. Am. Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997). See also *Assessment Tech. of WI, L.L.C. v. Wiredata, Inc.*, 350 F.3d 640, 646-47 (7th Cir. 2003) (warning that if AT would "[t]ry by contract or otherwise to prevent the municipalities from revealing their own data, especially when . . . the complete data are unavailable anywhere else, might constitute copyright misuse.").

a deliberately anti-competitive manner,<sup>61</sup> and (2) when copyright holders attempt to extend their copyright beyond the scope of the exclusive rights granted by Congress in a manner that violates the public policy embodied in copyright law, including by “leveraging their limited monopoly to allow them to control areas outside their monopoly.”<sup>62</sup>

¶¶ Under these parameters, the doctrine of copyright misuse can certainly be applied with respect to the practice of leveraging copyright protection for incidental product features to restrict redistribution of products in their entirety. Undoubtedly, this practice directly conflicts with the prohibition written into copyright law to protect functional devices (which are generally protected under patent law). Similarly, this practice also conflicts with trademark law’s procompetitive policy of allowing the resale of lawfully purchased consumer goods.<sup>63</sup> Courts in the United States have repeatedly held that “the right of a producer to control distribution of its trademarked product does not extend beyond the first sale of the product.”<sup>64</sup> This rule was designed to benefit the public once trademark owners realized the commercial value of their marks with the first sale of their goods in the market, regardless of whether the first sale took place within or outside the United States. In addition to the courts, Congress and the Customs Services recognize this position and have enacted provisions that allow the resale of trademarked goods after their first sale.<sup>65</sup> Accordingly, attempts to circumvent these rules and, ultimately, the underlying policy objectives of these rules directly amounts to “leveraging [the] limited [copyright] monopoly to allow [businesses] to control areas outside their monopoly.”<sup>66</sup> Thus, courts should clearly define and prohibit these attempts as copyright misuse.

¶¶ To the contrary, should the judiciary continue to avoid entering the debate, intellectual property owners will continue to exploit copyright protection for incidental aspects of otherwise functional products, which could result in dire consequences for market competition. Undoubtedly, some occasional overlaps in the exercise of intellectual property rights are unavoidable in the business world. However, such a recurring and systematic exploitation of the differences in the first sale rules in copyright and trademark law should be prohibited, as this practice goes explicitly against the traditional balance between the interests of intellectual property owners and the public interest. In particular, courts should deny copyright protection to businesses claiming protection for incidental features of their products, as this practice creates a system that inequitably favors intellectual property owners over the public. Intellectual property owners are overprotected by a dual copyright and trademark protection in the same product. As a result, they are overcompensated with a double reward with respect to them, whereas the public needs to pay a double price to intellectual property owners for acquiring and using these products. Should the courts not address this conflict, corporations will continue to invoke copyright protection for labels, logos, and other insignias, even though these product features are far from constituting works promoting

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<sup>61</sup> See Judge, *supra* note 60, at 903 n.4 (quoting *In Re Napster, Inc. Copyright Litig.*, 191 F. Supp.2d 1087, 1103 (N.D. Cal. 2002) as the case providing “one of the most thorough summaries available of the doctrine’s history and current status”).

<sup>62</sup> *Id.* at 904.

<sup>63</sup> See discussion *supra* Part II.

<sup>64</sup> *Sebastian Int’l, Inc. v. Longs Drug Stores Corp.*, 53 F.3d 1073, 1074 (9th Cir. 1995).

<sup>65</sup> See discussion *supra* Part II.

<sup>66</sup> *Practice Mgmt. Info. Corp. v. Am. Med. Ass’n*, 121 F.3d 516 (9th Cir. 1997).

“the progress of ... arts by securing for limited times to authors ... the exclusive right to their respective writings”, to which the Constitution refers to lay out the justification of copyright protection.<sup>67</sup> Ultimately, copyright law will become (or simply continue to be) a tool for corporations to promote their business models and marketing strategies—areas that have traditionally been regulated under the rule of trademark law and unfair competition law.<sup>68</sup> Most relevant, corporations will continue to segment international markets with impunity to the detriment of consumers.

¶16

This situation is not what Congress envisioned when it enacted the Copyright Act and other intellectual property legislation. Attempts to exploit overlapping protections are quite common in the business world, but eventually these business stratagems will not survive the scrutiny of the courts. Already, in 1880 in *Baker v. Selden*,<sup>69</sup> the Supreme Court rejected the notion that copyright protection could apply to functional systems which could be protected, instead, by patents. More recently, in 1989 in *Bonito Boats, Inc. v. Thunder Crafts Boats, Inc.*<sup>70</sup> and again in 2001 in *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*,<sup>71</sup> the Court repeated the position that unpatented useful items (or useful items for which a patent has expired) cannot and should not be further protected under the rule of trademark or copyright law. In 2003, the Supreme Court also began to tackle the issue of overlapping copyright and trademark protection and urged courts to police the boundaries between copyright and trademark law in order to prevent the misuse and overextension of intellectual property rights.<sup>72</sup> Although this case did not address the issue of copyright misuse, the Court clearly opposed the opportunistic gaming of copyright and trademark protection to satisfy private corporate interests against the public policy objectives pursued by different intellectual property rights.<sup>73</sup> Following this line of reasoning, courts (and possibly Congress) should resolve the problems that overlapping copyright and trademark protection may cause in the context of international trade and gray market goods. Courts should explicitly prohibit as copyright misuse the practice of leveraging copyright protection for incidental product features to block gray market goods. The Supreme Court (and possibly Congress) should also clarify, once and for all, the interpretation of sections 109(a) and 602(1)(a) of the Copyright Act and the territorial extent—national or international—of the rule of copyright first sale.

#### IV. WAITING FOR ANSWERS: COULD THE DECISIONS IN *KIRTSAENG V. JOHN WILEY & SONS* AND *OMEGA V. COSTCO (II)* CALL THE CORPORATE GAME OVER?

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As I have indicated in Part III, judicial guidance on the relationship between the enforcement of intellectual property rights and international trade could soon be provided by the Supreme Court’s decision in *Kirtsaeng v. John Wiley & Sons*,<sup>74</sup> and the Ninth’s

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<sup>67</sup> U.S. Const., art. I, § 8, cl. 8.

<sup>68</sup> See generally Christopher A. Mohr, *Gray Market Goods and Copyright Law: An End Run Around KMart v. Cartier*, 45 CATH. U. L. REV. 561 (1996) (describing the possibility to circumvent the holding in *KMart* with copyright law).

<sup>69</sup> *Baker v. Selden*, 101 U.S. 99, 105 (1880).

<sup>70</sup> *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 153 (1989).

<sup>71</sup> *TrafFix Devices, Inc. v. Mktg. Displays, Inc.*, 532 U.S. 23 (2001).

<sup>72</sup> *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003).

<sup>73</sup> *Id.* at 34.

<sup>74</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905 (U.S. 2012).

Circuit decision in *Omega v. Costco Wholesale*.<sup>75</sup> In *Kirtsaeng*, the Court is set to address the interpretation of section 109(a) of the Copyright Act and the issue of the geographical extent of the rule of copyright first sale. In *Omega*, the Ninth Circuit has the opportunity to assess whether Omega's leveraging of copyright protection for a small insignia affixed to the back of its watches to block the importation of unauthorized watches into the United States constitutes copyright misuse. The outcomes of these cases could finally resolve the uncertainty and confusion that currently characterize this area. Such judicial guidance could also be coupled with appropriate legislative action by Congress. Notably, Congress could introduce into the Copyright Act a specific provision rendering copyright protection for incidental product features unenforceable in the context of international trade and gray market products.

¶18 The Supreme Court granted certiorari in *Kirtsaeng* following the Second Circuit's decision in favor of John Wiley & Sons.<sup>76</sup> Dr. Kirtsaeng petitioned the Court and again asked to clarify the application of section 109(a) of the Copyright Act to foreign manufactured products—the issue that the Court had left unresolved with its non-decision in *Costco v. Omega* in 2010. The Second Circuit's decision in *Kirtsaeng* was considerably problematic because it relied on Justice Ginsburg's concurrence in *Quality King* and interpreted the language “lawfully made under this title” in section 109(a) as “lawfully made in the United States.”<sup>77</sup> In particular, the Second Circuit departed from the position by the Ninth Circuit that section 109(a) applies to foreign manufactured products after their first lawful sale in the United States.<sup>78</sup> Instead, the Second Circuit stated that “[w]hile perhaps a close call . . . in light of its necessary interplay with section 602(a)(1), section 109(a) is best interpreted as applying only to works manufactured domestically.”<sup>79</sup> Under this ruling, only domestically manufactured products would then be subject to the first sale rule, while section 109(a) would not apply to foreign-made products, even after their authorized sale in the United States.<sup>80</sup> This position was (and still is) clearly problematic as it implied that the owners of copyrighted goods manufactured abroad could prevent retailers, consumers, and even libraries and museums, to resell, lend, or gift these goods even after the goods have been lawfully sold in the United States.

¶19 In October 2012, the Court heard the oral arguments in the case.<sup>81</sup> The Justices struggled in reconciling the outcome of the decision in *Quality King* with the intention of the legislature in enacting section 109(a) of the Copyright Act. Notably, the Justices underlined that Congress could not have intended a (“horrible”) system wherein foreign

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<sup>75</sup> *Omega S.A. v. Costco Wholesale Corp.*, No. 11-57137 (9th Cir. July 25, 2012).

<sup>76</sup> *John Wiley & Sons Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011).

<sup>77</sup> The Second Circuit directly relied on Justice Ginsburg's concurrence in *Quality King v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 154 (1998). (Ginsburg J., concurring) (holding that the first sale doctrine does not apply to copies manufactured outside of the United States.).

<sup>78</sup> *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 984 (9th Cir. 2008); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994); *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991).

<sup>79</sup> *John Wiley & Sons*, 654 F.3d at 221 (noting that the Ninth Circuit held that section 109 applies also to foreign manufactured works sold in the US).

<sup>80</sup> *Id.*

<sup>81</sup> Transcript of Oral Argument, *Kirtsaeng v. John Wiley & Sons, Inc.*, 132 S. Ct. 1905 (2012) (No. 11-697), available at

[http://www.supremecourt.gov/oral\\_arguments/argument\\_transcripts/11-697.pdf](http://www.supremecourt.gov/oral_arguments/argument_transcripts/11-697.pdf).



manufactured goods would not be subject to the principle of copyright first sale.<sup>82</sup> Still, the Justices also showed reasonable concerns for the impact that a broader interpretation of section 109(a)—a shift toward a system of international first sale in copyright law—could have on domestic businesses and their ability to price products differently across different jurisdictions.<sup>83</sup> Ultimately, the outcome of the Court’s decision in *Kirtsaeng* could follow one of three solutions. First, the Court could reverse and agree with petitioner’s argument that the language “lawfully made under this title” should not be interpreted as “lawfully made in the United States” but instead as “lawfully made anywhere in the world.” This outcome would end the corporate game of exploiting and leveraging copyright protection for incidental features of uncopyrightable products to block gray market products. Corporations’ ability to engage in this practice would end when both copyright and trademark law follow the same rule of international first sale. Second, the Court could agree, instead, with the position so far supported by the Ninth Circuit that section 109(a) and the first sale rule apply to copyrighted products (regardless of their place of manufacture) only after their lawful sale in the United States.<sup>84</sup> Third, the Court could affirm the Second Circuit and rule that section 109(a) indeed applies only to domestically manufactured products.<sup>85</sup> In either of these two latter hypotheses, corporations’ ability to leverage copyright protection for incidental features of their products to circumvent the rule of international trademark first sale would continue—with respect to all unauthorized imports if the Court adopts an approach similar to the Ninth Circuit’s or with respect to the unauthorized importation of goods manufactured abroad if the Court affirms the Second Circuit.

Because of the uncertain outcome in *Kirtsaeng*, it is fundamental that the Ninth Circuit affirms the decision of the California District Court in the case *Omega v. Costco*,<sup>86</sup> on remand after the Supreme Court case in 2010, *Costco v. Omega*, and rules that Omega misused its copyright protection in the Omega Globe Design. Even though the Ninth Circuit previously found in favor of Omega,<sup>87</sup> the Ninth Circuit has already embraced a broader interpretation of copyright misuse in other decisions.<sup>88</sup> Thus, the Ninth Circuit could, and should affirm the District Court in this case. Omega itself conceded “a purpose of the copyrighted Omega Globe Design was to control the importation and sale of its watches containing the design, as the watches could not be copyrighted.”<sup>89</sup> In turn, the District Court found that “Omega misused its copyright of the Omega Globe Design by leveraging its limited monopoly in being able to control the

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<sup>82</sup> *Id.* at 29-32.

<sup>83</sup> *Id.* at 32.

<sup>84</sup> See *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 984 (9th Cir. 2008); *L’anza Research Int’l, Inc. v. Quality King Distributors, Inc.*, 98 F.3d 1109, 1113 (9th Cir. 1996).

<sup>85</sup> *John Wiley & Sons*, 654 F.3d at 210; see also *Pearson Educ., Inc. v. Liu*, 656 F. Supp. 2d 407, 416 (S.D.N.Y. 2009) (holding dubitante in a case also dealing with imported textbooks, that the first sale rule does not apply to foreign manufactured goods).

<sup>86</sup> *Omega S.A. v. Costco Wholesale Corp.*, No. 11-57137 (9th Cir. July 25, 2012).

<sup>87</sup> *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) (in this decision the court addressed only the territorial extent of Section 109(a) of the Copyright Act and did not address the issue of copyright misuse). This decision was later affirmed by the Supreme Court. See *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010).

<sup>88</sup> See *Practice Mgmt. Info. Corp. v. Am. Med. Ass’n*, 121 F.3d 516, 520-21 (9th Cir. 1997).

<sup>89</sup> *Omega S.A. v. Costco Wholesale Corp.*, No. 04-05443, slip op. at 2 (C.D. Cal. Nov. 9, 2011).

importation of that design to control the importation of its . . . watches.”<sup>90</sup> Traditionally, courts limited the defense of copyright misuse primarily to “situations involving antitrust tying agreements and restrictive licensing agreements,”<sup>91</sup> yet the District Court supported the position that these precedents would not exclude “that copyright misuse could exist in other situations,” like in the situation at issue.<sup>92</sup> Omega, the District Court said, “used the defensive shield of copyright law as an offensive sword,”<sup>93</sup> and as such misused its copyright in the Omega Globe Design. Ultimately, the public policy underlying copyright law and the subsequent application of the copyright misuse doctrine clearly weigh in favor of a ruling in Costco’s favor in this case. Accordingly, the Ninth Circuit should affirm the District Court’s finding that Omega was leveraging and misusing its copyrights in the Omega Globe Design—a minuscule (irrelevant) insignia affixed to the back on its watches—exclusively to prevent the legitimate importation of otherwise functional and uncopyrightable watches.

In addition to the Supreme Court and the Ninth Circuit (or other Courts of Appeals), Congress could also step into the debate and enact *ad hoc* legislation in this area. Similar to countries like Australia<sup>94</sup> and Singapore,<sup>95</sup> Congress could enact as part of the Copyright Act a provision stating “the importation or sale of an article does not infringe the copyright embodied in elements that are merely ‘accessory’ to the article.” As under Australia’s and Singapore’s Copyright Acts, Congress could include in the definition of “accessory,” items such as: labels incorporated into the surface of an article; packaging or containers in which an article is packaged or contained; labels affixed to, displayed on, incorporated into the surface of, or accompanying, the packaging or container in which the article is packaged or contained; written instructions, warranties or

<sup>90</sup> *Id.* at 3.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 2.

<sup>94</sup> *Copyright Act 1968* (Cth) s 10(1), 10(d), 44C, and 112 (Austl.). The original text of the Australian Copyright Act was amended in 1998, 2000, and 2001. With respect to the subject matter of this Essay, see Schedule 3, Copyright Amendment Bill 1997 (Cth) (Austl.), available at [http://www.aph.gov.au/Parliamentary\\_Business/Bills\\_Legislation/bd/BD9697/97bd160#Passage](http://www.aph.gov.au/Parliamentary_Business/Bills_Legislation/bd/BD9697/97bd160#Passage). “[I]f the label or instructional material has already been approved by the manufacturer as an accessory to the product (say, for use in another country), then the importation into Australia of the product itself should not be stopped. The issue is that the force of copyright law was never meant to apply to the contents of the bottle of liqueur which is really the subject of the importation.” *Id.* For an overview of the motivations that brought to the adoption of this legislative amendment, see also *R. & A. Bailey & Co. Ltd v. Boccaccio Pty Ltd* [1986] 4 NSWLR 701 (Austl.) (decided before the 1998 Copyright Amendment Act). For a judicial application of the new provision, see *Polo/Lauren Company L.P. v. Ziliani Holdings Pty Ltd* [2008] FCAFC 195 (decided after the 1998 Copyright Amendment Act) (Austl.). I would like to particularly thank Professor Mary LaFrance for indicating to me the relevance of the Australian legal system and the two above mentioned Australian cases with respect to the national debate on the same issue in the United States. Professor LaFrance has developed, for the first time among United States scholars, a specific proposal advocating an amendment to the Copyright Act to include a similar statutory limitation also in the United States. See Mary LaFrance, *Avoiding Mutant Trademarks: A Statutory Exclusion for Copyrighted Accessories to Parallel Imports*, TRADEMARK PROTECTION AND TERRITORIALITY CHALLENGES IN THE GLOBAL ECONOMY (forthcoming 2013-14) (Irene Calboli & Edward Lee eds.) (on file with author); Mary LaFrance, *Wag the Dog: Using Incidental Intellectual Property Rights to Block Parallel Imports*, (article draft) (on file with author).

<sup>95</sup> Singapore Copyright Act of 1987, §§ 7(1), 40A(1) (2006) (Sing.) (as amended by Copyright Amendment Act No. 14 of 1994). It should be noted that Singapore follows a rule of international first sale both in copyright and trademark law, thus Singapore courts have not addressed to date any attempt by corporations to leverage copyright protection to circumvent the rule of trademark law.

other information provided with the article.<sup>96</sup> This legislative amendment would not conflict with any of the possible interpretations of sections 109(a) and 602(1)(a) that the Supreme Court could adopt in *Kirtsaeng*, such as if section 109(a) should be read as establishing a rule of international or rather national first sale. The amendment, instead, would assist the judiciary both in the short and long term by creating a specific prohibition against the leveraging of copyright protection for “accessory” features regardless of the territorial extent—national or international—of the rule on copyright first sale in the United States. Most crucial, such an amendment would render unenforceable copyright protection for incidental elements of functional products even in those cases where the courts might still be hesitant in defining this practice as copyright misuse. As expected, the corporate world is already lobbying to overrule a possible outcome of *Kirtsaeng* in favor of international copyright first sale, and is calling for new legislation that would clearly (re)instate a system of national first sale.<sup>97</sup> In light of these efforts, an *ad hoc* amendment prohibiting copyright protection for incidental product features in the context of international trade seems to be necessary in order to prevent the opportunist exploitation of overlapping copyright and trademark protection on otherwise uncopyrightable products.

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<sup>96</sup> Section 10(1) of the Australia Copyright Act defines as “accessory” the followings: “(a) a label affixed to, displayed on, incorporated into the surface of, or accompanying, the article; (b) the packaging or container in which the article is packaged or contained; (c) a label affixed to, displayed on, incorporated into the surface of, or accompanying, the packaging or container in which the article is packaged or contained; (d) a written instruction, warranty or other information provided with the article; (e) a record embodying an instructional sound recording, or a copy of an instructional cinematograph film, provided with the article.” *Id.* Section 7(1) of the Singapore Copyright Act provides a similar list of items to be considered “accessory.” *Id.*

<sup>97</sup> See Trans-Pacific Partnership, Intellectual Property Rights Chapter Draft Agreement, U.S.-Austl., Feb. 2011, available at <http://keionline.org/sites/default/files/tpp-10feb2011-us-text-ipr-chapter.pdf> [hereinafter TPP, *February 2011 IP Chapter Draft*]; see also Trans-Pacific Partnership, Intellectual Property Rights Chapter, Draft (Selected Provisions), U.S.-Austl., Sept. 2011, available at <http://www.citizenstrade.org/ctc/wp-content/uploads/2011/10/TransPacificIP1.pdf>. [hereinafter TPP-2]. The TPP is currently being negotiated between Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the United States. In particular, Article 4.2 of the TPP IP Chapter Draft states that “[e]ach 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.” TPP, *February 2011 IP Chapter Draft*, art. 4.2. Interestingly, in line with a possible legislative amendment prohibiting leveraging copyright protection for “accessory” product features in the context of international trade, footnote 11 to the proposed text of Article 4.2, specifies that “[w]ith respect to copies of works and phonograms that have been placed on the market by the relevant right holder, the obligations described in Article [4.2] apply only to books, journals, sheet music, sound recordings, computer programs, 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).” TPP, *February 2011 IP Chapter Draft*, art. 4.2, n. 11. However, the last part of footnote 11 concludes with the language, “[n]otwithstanding the foregoing, each Party may provide the protection described in Article [4.2] to a broader range of goods.” *Id.* This language could be interpreted as permitting copyright protection for a range of goods where the copyrighted materials do not represent “substantially all of the value of the product[s]” *Id.* This in turn could be interpreted as permitting copyright protection for incidental product features for those members of the TPP that would favor this approach, thus overruling a possible decision in favor of Costco and copyright misuse in *Omega SA v. Costco Wholesale Corp.* by the Ninth Circuit.

## V. CONCLUSION

¶22 The opportunistic exploitation of one type of intellectual property right to expand other types of rights is not an uncommon phenomenon in the business world. Once a specific overlapping practice is brought to the attention of the courts, they have generally redressed the imbalances that result from this exploitation by prohibiting or limiting overlapping rights. Accordingly, United States courts should prohibit the current practice of claiming copyright protection for incidental (often insignificant) product features of otherwise functional and uncopyrightable products and leveraging this protection in order to control the distribution of these products in the international market. To this end, courts should boldly and consistently embrace the position that this practice amounts to copyright misuse insofar as it permits copyright owners to use “copyright in a manner that violates the public policy embodied in the grant of the copyright.”<sup>98</sup> Notably, the Ninth Circuit should affirm the District Court in the appeal currently pending in *Omega v. Costco*, and should confirm that Omega’s copyrighted insignia, as well as Omega’s attempt to segment the market by leveraging copyright on that insignia constitute copyright misuses.

¶23 A decision by the Ninth Circuit confirming that Omega misused copyright law would prove crucial, especially if the Supreme Court confirms a system of national copyright first sale in *Kirtsaeng*. A decision in *Kirtsaeng* in favor of national copyright first sale would in fact perpetuate the difference in the first sale rules between copyright and trademark law in the United States. This distinction would leave intact the incentive for corporations to obtain and leverage copyright protection in the context of international trade of consumer products. Still, the Ninth Circuit should find in favor of Costco and find that Omega misused copyright law regardless of the outcome of the decision in *Kirtsaeng* including the case where the Supreme Court would reverse the decision on appeal and rule in favor of a rule of international copyright first sale. In particular, courts in the United States should take the fundamental step of defining as copyright misuse the practice of leveraging copyright protection for incidental product features to segment international markets. The Ninth Circuit currently has the opportunity to mark this step. Ideally, Congress could follow the example of other jurisdictions by enacting *ad hoc* legislation that would explicitly prohibit, or render unenforceable, copyright protection for incidental features of otherwise uncopyrightable products, once and for all. Such legislative amendment seems increasingly necessary considering the corporate world is already lobbying to overrule a possible outcome of *Kirtsaeng* in favor of international copyright first sale.

¶24 Until the day Congress acts, the responsibility nevertheless remains with the judiciary to safeguard the public policy objectives that are at the core of intellectual property rights, in this case, the respective and distinct domain of copyright and trademark law. These objectives have never included the creation of a system where corporations could invoke copyright protection for the labels, warranties, instructions, packaging design, or insignias affixed onto hidden parts of their products rather than for actual works of authorship. In such a system, corporations derive most, or all of the benefits of copyright protection, and multiple rewards for the sale of the same products. Meanwhile, the public covers all the costs of this protection and is deprived of the benefit

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<sup>98</sup> *Practice Mgmt.*, 121 F.3d at 521.

resulting from the sales of genuine gray market products. Courts in the United States, beginning with the Ninth Circuit in *Omega v. Costco*, should now redress this growing imbalance. Courts should finally call the corporate game of misusing copyright law to protect incidental, often insignificant product features over.