



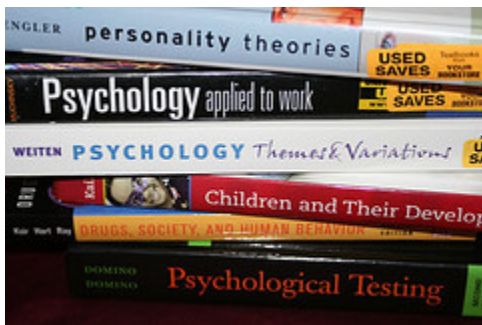
North Carolina Law Life

Gray Goods Are Red Hot Copyright Issue

By: Donna Ray Berkelhammer. *Thursday, November 1st, 2012*

You're in London for business, and you impulsively pick up the newest Harry Potter book in Heathrow for the plane ride, not realizing that this is a limited edition British only version. When you're done, you try to donate it to the local charity thrift store. They won't take it, because you are guilty of willful copyright infringement for improperly distributing a good manufactured abroad and not authorized for sale in the US.

This is the issue heard by the **US Supreme Court** this week.



(Photo credit: greenasian)

Gray goods are genuine branded goods (not stolen, counterfeit, unauthorized or pirated) that are sold outside of an authorized sales territory or by non-authorized dealers in an authorized territory. Typically gray goods are sold at prices lower than those of authorized channels.

Supap Kirtsaeng, a doctoral student at the University of Southern California, was found liable for a \$600,000 copyright **infringement** judgment for starting a side business. He noticed that certain **textbooks** in his native Thailand were significantly cheaper than similar or identical books sold in the US. He had his family and friends legally purchase textbooks in Thailand and ship them to him in the US, where he was able to sell them at a profit. He relied on the **doctrine of first sale** under Section 109(a) of the US Copyright Act, which says that once you buy an authorized book or a car or a laptop,

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you are free to resell it without worrying about the intellectual property rights of the author/manufacturer. Section 109 does not mention geography at all.

Publisher **John Wiley & Sons** sued Kirtsaeng for copyright infringement under Section § 602(a) of the Copyright Act, which says the exclusive right to distribute copyrighted works is infringed if the distributor acquired those works outside the US and they are not authorized to be sold here. The Second Circuit (which covers Connecticut, New York, and Vermont), ruled that Section 602 controls, and that it is copyright infringement to distribute gray goods.

This is a fairly new issue, and sits in the vortex of seemingly inconsistent provisions within the US Copyright Act. A similar **case** came before the Supreme Court in 2010 and the Court split 4-4 (with Justice Kagan recusing herself because she had worked on this case while solicitor general), on the decision of whether the doctrine of first sale is a defense to a claim of infringement for selling goods manufactured abroad.

That case, out of the Ninth Circuit (which covers Alaska, Arizona, California, Hawaii, Idaho, Montana, Nevada, Oregon and Washington), held that Costco was infringing **Omega SA's** copyrighted logo (engraved on the bottom of the watch) by acquiring legally purchased Swatch watches that were manufactured in Switzerland and sold by authorized distributors in Europe, and selling them in the US for less than authorized US dealers.

Based on these two holdings, if a creator of copyrighted goods does not manufacture or authorize sale of its products in the US, it is copyright infringement to resell in the United State a copyrighted good that was legally purchased abroad.

There are compelling business reasons to control the gray market and disallow gray goods from being sold here. Canadian English has different grammar and spelling than American English, so books may look full of errors if sold here. British vehicles have the driver on the right side, so there might be safety issues to allow those cars here. Pricing may be intentionally set at different levels in different countries to reinforce the reputation of the product as a luxury good. Formulations of products might be different in other countries; toothpaste sold under the same brand name might taste different in different counties and soap intended for European water conditions may not lather well in the US.

Many of these issues seem to affect the reputation of the brand rather than protecting the copyright owner from impermissible copying, transfer, distribution, performance or adaptation. Reputational issues are not governed by copyright law. It is interesting that the two federal circuit courts that have held that the doctrine of first sale does not apply to foreign-made goods have high concentrations of copyright owners in their jurisdictions: the motion picture, recording and publishing industries.

There are also compelling business reasons to apply the first sale doctrine against gray goods. Primarily, the copyright owner has received its expected economic benefit from the original sale. Remember, this case applies to goods purchased abroad, not stolen or counterfeit goods. In many cases, it will be impossible or economically prohibitive to determine where a product was made and

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what were the authorized distribution channels were at the time of purchase. Finally, do you know where your car was made? It may have been assembled in Michigan or South Carolina, but where were the components manufactured? What percentage is enough to be made in America? What if you live in Italy for several years, and want to bring your Fiat home with you?

Reports indicate lively questioning. Stay tuned.

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