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Legal Update[†]

Copyright Law

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1. Reversing the Ninth Circuit, the United States Supreme Court, in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, unanimously decided to prevent manufacturers from using the Copyright Act to curtail “parallel importation” of lawfully manufactured and legally acquired goods.¹ Parallel importation occurs when a foreign distributor imports goods from a single manufacturer, thus competing with the goods already in domestic distribution.²

2. L'anza Research International, Inc. (“L'anza”) makes and sells hair care products.³ L'anza sells its goods both domestically and in foreign markets, but under quite different terms. L'anza invests heavily in advertising and marketing in the United States and keeps tight control over resales by its domestic distributors.⁴ L'anza also sells the same goods to foreign distributors at a substantial discount, resulting in prices 35 to 40% lower than domestic prices.⁵ Without L'anza's permission, Quality King Distributors, Inc. (“Quality King”) bought lawfully manufactured L'anza products from an authorized foreign distributor and resold

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¹ *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, No. 96-1470, 1998 WL 96265 (U.S. Mar. 9, 1998), *rev'g* 98 F.3d 1109 (9th Cir. 1996).

² *See, e.g.*, GEORGE A. BERMAN ET AL., EUROPEAN COMMUNITY LAW 633 (1993).

³ *See Quality King*, 1998 WL 96265 at *3.

⁴ *See id.*

⁵ *See id.*

them in the United States to sellers outside L'anza's authorized distribution network.⁶

3. L'anza protects its product labels with copyrights.⁷ L'anza sued Quality King for copyright infringement, alleging a violation of L'anza's exclusive right "to distribute the copyrighted material in the United States."⁸ Quality King asserted that L'anza did not have the right to control subsequent distribution by an owner of the lawfully made goods after the manufacturer placed the goods in the stream of commerce.⁹ The Ninth Circuit refused to apply the first sale doctrine because it would have eviscerated the provisions of the Copyright Act prohibiting unlawful importation of copies.¹⁰

4. The Supreme Court, on the other hand, noted that L'anza had only a weak copyright in its labels¹¹ and that L'anza, in essence, was trying to use copyright to protect its marketing arrangement.¹² Indeed, L'anza acknowledged that although it can control domestic distributors through contract, it could not effectively control foreign distributors.¹³ To resolve the conflict, the Court considered three interrelated sections of the Copyright Act: the right of exclusive distribution in § 106(3),¹⁴ the first sale doctrine codified at § 109(a),¹⁵ and the prohibition of unauthorized importation of copyrighted goods under § 602(a).¹⁶

5. The first sale doctrine limit's the copyright holder's exclusive right to distribute copies to the public:

⁶ *See id.*

⁷ *See id.*

⁸ *Id.* at *4 (quoting appellate brief).

⁹ *See id.*

¹⁰ *See id.*

¹¹ *Cf. id.* (noting that "the labels themselves have only a limited creative component" and characterizing the case as "unusual" because plaintiff did not allege any unauthorized copying).

¹² *See id.*

¹³ *See id.* at *5.

¹⁴ 17 U.S.C. § 106(3) (1994).

¹⁵ 17 U.S.C. § 109(a).

¹⁶ 17 U.S.C. § 602(a).

[n]otwithstanding the provisions of section 106(3), the owner of a particular copy . . . lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy.¹⁷

6. The Court noted that, from the beginning, the case law distinguished between statutory rights and contract rights in the distribution of copyrighted works.¹⁸

7. The Court then set out the contested provision:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that has been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.¹⁹

8. The Court emphasized that the Act only indirectly prohibits unauthorized importation, by declaring that such importation infringes the exclusive right to distribute copies under § 106.²⁰ Sections 107 through 120, including the first sale provision in § 109 and the fair use provision in § 107, limits the exclusive rights of § 106.²¹ The Court concluded that because § 602(a) recognizes unlawful importation as a type of § 106 infringement, which requires the 107 and 109 limitations, “the literal text of 602(a) is simply inapplicable” to lawful owners of L’anza products.²²

¹⁷ *Id.*

¹⁸ *See Quality King*, 1998 WL 96265, at *5 (citing *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908)).

¹⁹ 17 U.S.C. § 602(a). The section explicitly provides three exceptions: importation for governmental purposes other than use in schools, importation of one copy for private use only, and importation of a specified number of copies only for the library lending or archival purposes of an educational or religious organization. *See id.*

²⁰ *See Quality King*, 1998 WL 96265, at *6.

²¹ *See* 17 U.S.C. § 106.

²² *See Quality King*, 1998 WL 96265, at *6.

Thus, these owners, whether domestic or foreign, have the right to import the items and resell them in the United States.²³

9. L'anza argued that because § 602(b)²⁴ already prohibits the importation of unlawfully made copies, § 602(a) is “superfluous” unless it covers lawfully made copies sold by the copyright owner. The Court rejected this argument, finding that § 602(a) provides a different remedy²⁵ and that § 602(a) also includes a new category of copies that were “lawfully made’ . . . under the law of some other country.”²⁶

10. L'anza also argued that the exceptions to § 602(a) would be superfluous if the first sale doctrine applied.²⁷ The Court held that the § 602(a) exceptions were not coextensive with the § 109(a) exceptions, because § 602(a) covers copies not covered by § 106. Thus, each section retains “significant independent meaning.”²⁸

11. The Court also considered the text of § 501,²⁹ which defines infringers as “anyone who violates any of the exclusive rights of the copyright owner as provided by section[] 106 . . . or who imports copies or phonorecords into the United States in violation of section 602,” suggesting “that a violation of 602 is distinct from a violation of 106.”³⁰ Although the Court acknowledged this as the most straightforward reading of § 501, the Court held that this inference was “outweighed by other provisions in the statutory text.”³¹ The Court noted that L'anza's construction would deprive importers of the fair use defense.³² Although it may be difficult to imagine a fair use argument for copyrighted labels, the Court pointed out that fair use is essential in the more mainstream copyright cases.³³

²³ See *id.*

²⁴ See 17 U.S.C. § 602(b) (“[W]here the making of the copies would have constituted an infringement of copyright . . . , their importation is prohibited.”).

²⁵ See *Quality King*, 1998 WL 96265, at *7 (noting that § 602(a) provides a private cause of action, whereas only the Customs Service can enforce § 602(b)).

²⁶ See *id.*

²⁷ See *id.* at *8.

²⁸ See *id.*

²⁹ 17 U.S.C. § 501.

³⁰ See *Quality King*, 1998 WL 96265, at *8.

³¹ See *id.*

³² See *id.*

³³ See *id.* at *9.

12. Amici also argued that because § 109(a) applies to the sale or other disposal of copies, it does not apply to importation of copies. However, the Court found this argument “unpersuasive” because “[i]n a typical commercial transaction,” the shipper surrenders custody of the products to another person.³⁴

13. Addressing the policy arguments directly, the Court stated that its own view of policy is irrelevant to its “duty to interpret the text of the Copyright Act.”³⁵ It also insisted that recent actions and policies of the Executive Branch “shed no light on the proper interpretation of a statute that was enacted in 1976.”³⁶

³⁴ *See id.*

³⁵ *See id.* at *10.

³⁶ *See id.*