



Protecting Your Products in Light of the U.S. Supreme Court's Holding That A Copyright Owner Only Controls the "First Sale" of a Copy No Matter Where That Sale Occurred

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A copyright affords the copyright owner with "exclusive rights". One such right is "to distribute... copies of [a] copyrighted work" under 17 U.S.C. § 106(3). Under the first sale doctrine, "the owner of a particular copy or phonorecord lawfully made under this title... is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy of phonorecord." 17 U.S.C. § 109(a). Thus, if one purchases a lawfully made copy of a copyrighted item, it may subsequently be sold without restriction.

The issue is rather clear-cut when it applies to goods that are made and sold in the United States. However, when a copy of an item protected by a copyright is lawfully made or sold abroad with the permission of the copyright owner and then imported and sold in the United States, then does the doctrine of first sale apply? Yes. The U.S. Supreme Court has recently addressed this issue in *Kirtsaeng v. John Wiley & Sons*, 568 U.S. ___ (2013).

Kirtsaeng involved the sale of textbooks that were made abroad. The Copyrights to the textbooks were owned by a U.S. Publisher. The Publisher/Copyright Owner authorized its Asian affiliate to print and sell the textbooks in the Asian market. A student from Malaysia, studying in the United States, asked his family and friends in Malaysia to buy the textbooks for him and then ship them to him in the United States. The contents of textbooks were identical to the textbooks sold in the United States, except for the fact that the Malaysian versions were much cheaper. The student then sold the Malaysian textbooks in the United States and made a nice profit. The Publisher/Copyright Owner sued the student and argued that it intended the Malaysian versions of the books to be sold only in Asia and alleged that the sale of those books in the United States infringed its copyright rights.

The Supreme Court sided with the student and ruled that the first sale doctrine applies and is **not** geographically limited. Therefore, if a copyright owner authorized copies of a work to be made and sold abroad, it cannot stop the sale of such work in the United States under copyright law. This not only affects books, but also a number of other products protected by copyrights.

In theory, *Kirtsaeng* limits a business' ability to divide markets territorially. Now, grey market goods, made lawfully outside of the United States for markets abroad may enter into and be sold lawfully in the United States. For example, with regard to items such as apparel, if a copyright owner has copyright registrations on a certain print and authorizes the production of clothes bearing that print to be sold outside of the United States, then anyone may lawfully purchase those clothes and import them into the United States and sell them in the United States without obtaining any additional consent. Thus, under *Kirtsaeng*, companies must shift their importation and international strategies.

Accordingly, how does a business now protect itself? Trademark law may have the answer. The importation of goods authorized and made for a specific geographic region, even though bearing the same trademark, may still cause a likelihood of confusion—which is actionable under Federal law under the Lanham Act.

A trademark is a word, phrase, symbol, and/or design that identifies and distinguishes the source of the goods of one party from those of others. When a trademark is licensed, a product bearing the mark is not considered "truly 'genuine' unless it has been made and distributed under quality controls established by the trademark owner." J. Thomas McCarthy, *Trademarks and Unfair Competition* § 3:4, at 112 (4th ed. 2013). Therefore, a trademark owner has a duty to control the quality of goods when it licenses its trademarks in order to thwart confusion amongst consumers.

While the quality of goods sold under a trademark owner's marks may change from region to region, the duty to control quality is still present. *Societe Des Produits Nestle, S.A. v. Casa Helvetia*, 982 F.2d 633 (1st Cir. 1992) is instructive. In the *Nestle* case, Nestle owned the trademark PERUGINA for chocolates. The chocolates it sold in the United States under the trademark were made in Italy. Nestle also made chocolates under the same trademark specifically for the Venezuelan market. A third party importer began to import the Venezuelan chocolates to the United States and sold them for significantly less than the Italian made chocolates bearing the same trademark. Nestle sued the importer for trademark infringement and unfair competition. Nestle's main argument was that a likelihood of confusion was



present because the quality of the chocolates sold under the trademark were vastly different between the ones made in Italy and the ones made for the Venezuelan market.

Nestle argued that the methods of handling, shipment and production were different for the chocolates and thus the quality of the chocolates were respectively different. The fact that consumers were willing to pay extra for the chocolate made in Italy was another indication that there was a difference in quality. Therefore, due to the unauthorized importation of the goods from Venezuela, Nestle was unable to exercise its duty to control the quality of the goods. Thus, the goods were likely to cause consumer confusion. The First Circuit agreed and ruled in favor of Nestle. It held that the importation of the products from Venezuela amounted to trademark infringement and unfair competition.

Thus, trademark law may be an avenue to prevent the importation of grey market goods. Perhaps had the Publisher in *Kirtsaeng* asserted a trademark cause of action, the outcome in *Kirtsaeng* may not have been the same. The Publisher, if it were to assert a trademark cause of action, could have argued that a likelihood of confusion exists in the importation of the books made in Asia. It could have argued that the quality of books sold under its trademarks varied from region to region and because of the importation, it was unable to exercise control of the quality of the books sold under its trademark.

Accordingly, a trademark owner must take steps to document the quality of products made under its trademarks and if it chooses to license its trademark to others abroad, it must also control the quality of the products made under the trademark. In doing so, a trademark owner may be able to assert a trademark cause of action against potential infringers, thereby preventing the otherwise allegedly legal importation of grey market goods.



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