COMBATING GRAY MARKET GOODS IN A GLOBAL MARKET: COMPARATIVE ANALYSIS OF INTELLECTUAL PROPERTY LAWS AND RECOMMENDED STRATEGIES

I. INTRODUCTION

Gray goods, also called parallel imports, pose a significant threat to multinational companies (MNCs) that enter foreign markets.[1] Gray goods are genuine goods sold

1. *See* Darren E. Donnelly, Comment, *Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 445, 447–48 (1997). The terms "gray goods" and "gray market" are used in the United States, while the term "parallel imports" was

through unauthorized channels in direct competition with authorized distributors.[2] Gray goods comprise three categories: "unintended" goods, "licensed" goods, and "distress" goods.[3] Unintended goods are those goods authorized for sale in one country, but then redirected to another country, often in direct competition with authorized distributors in that country.[4] Unintended goods may be further divided into goods manufactured domestically, and those manufactured abroad by an entity under "common control" or a foreign license.[5] Licensed goods are those goods manufactured pursuant to a trademark license but sold through unauthorized channels.[6] For example, a licensee may sell to a gray marketer for a better price or because authorized distribution channels are closed due to a canceled license.[7] Distress goods are those goods dumped by an otherwise authorized dealer, who typically has an excess supply or outdated goods.[8] Whatever the scenario, intellectual property owners may find themselves competing against their own "genuine" goods, effectively reducing their profits.[9]

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adopted in the European Community. *See* SETH E. LIPNER, THE LEGAL AND ECONOMIC ASPECTS OF GRAY MARKET GOODS 8 (1990).

2. *See* LIPNER, *supra* note 1, at 1. The gray market is distinguished from the black market, which deals with counterfeit goods, in that gray goods are genuinely copyrighted, trademarked, or patented goods. *See id.* at 1–2.

3. *See id.* at 6–7.

4. *See, e.g., id.* at 5–6 (citing two cases involving unintended goods).

5. *See* Lawrence M. Friedman, *Business and Legal Strategies for Combating Gray-Market Imports*, 32 INT'L LAW. 27, 27 (1998) (explaining that gray goods fall into three categories: (1) where the goods are manufactured in the United States, exported to a foreign distributor, sold to another distributor, and then imported back into the United States, (2) where a foreign licensee imports into the United States without authorization, and (3) where the firm or a licensee manufactures the goods abroad, then imports them into the United States); K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 286–87 (1988); Donnelly, *supra* note 1, at 455–56.

6. *See* LIPNER, *supra* note 1, at 6.

7. *See id.* at 6–7. In contrast to unintended and distress goods, canceled-license goods may be inferior to their authorized counterparts. *See id.* at 7. In some cases, the licenser, rather than the licensee, imports gray goods into the market. For example, a foreign firm may import its goods into the United States where it has sold its trademark rights to a domestic firm. *See K Mart*, 486 U.S. at 286.

8. *See* LIPNER, *supra* note 1, at 7. Distress goods, typically dumped into the domestic gray market, may also be dumped into the foreign market and eventually become unintended goods. *See id.*

9. *See* Friedman, *supra* note 5, at 27.

Case law in various countries, including the United States, is inconsistent on the issue of gray goods.[10] The trend toward international business operations, international trade, and high technology makes intellectual property protection critical to MNCs.[11] Uniform protection is necessary to fully protect intellectual property rights, otherwise parallel importation may be permitted in one country and prohibited in another, thereby deterring international trade and business.[12] The gray market arguably benefits the consumer by providing low cost goods in competition with the copyright holder,[13] yet it may also harm the intended country by reducing the supply of those goods.[14] Inferior goods may also enter the gray market, such as goods from a foreign licensee that were not approved by the licenser.[15]

The gray market exists primarily due to price differentials between products marketed abroad and those products sold domestically.[16] Differences in currency exchange rates, product quality and characteristics, warranties, and services offered all contribute to the gray market.[17] Entering a new foreign market requires a business strategy, such as differentiation of a product, usually by price, quality, or service.[18] An MNC may decide to enter the market at a deep discount competitive with local products to capture market share.[19] If the discount is large enough, it may be profitable for a gray marketer to purchase the discounted goods and redirect them to a more profitable market such as the United Stats.[20]

Gray goods are said to benefit the consumer at the expense of the intellectual property owner.[21] Opponents

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10. *See* Donnelly, *supra* note 1, at 448. The law on gray goods and exhaustion of rights is "widely disparate" between the United States and its trading partners, as well as among the three categories of intellectual property law: patents, trademarks, and copyrights. *See id.*

11. *See id.* at 447–48.

12. *See id.*

13. *See* Friedman, *supra* note 5, at 28.

14. *See* Hillary A. Kremen, Note, *Caveat Vendor: International Application of the First Sale Doctrine*, 23 SYRACUSE J. INT'L L. & COM. 161, 163 (1997).

15. *See* LIPNER, *supra* note 1, at 7.

16. *See* Friedman, *supra* note 5, at 28.

17. *See* LIPNER, *supra* note 1, at 3.

18. *Cf.* Friedman, *supra* note 5, at 28 (citing examples of strategies employed by various exporters).

19. *See id.*

20. *See id.*

21. *See* Daniel A. DeVito & Benjamin Marks, *Preventing Gray Marketing Imports After Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, J. PROPRIETARY RTS., May 1998, at 2, 2.

argue that gray goods undercut prices offered by authorized dealers, confuse consumers, and even reduce consumer goodwill when the products materially differ from those intended for U.S. distribution.[22] Goods intended for a foreign market may comply with different regulations; include instructions in a foreign language; or even look, smell, or taste different, having been adjusted for the targeted foreign market.[23] Consumers may become disappointed in so-called "luxury" goods when they are retailed at a discount.[24] Furthermore, gray marketers are said to have a free ride on the U.S. intellectual property owner's advertising and promotion, further fueling the gray market.[25] Proponents argue that consumers benefit from the gray market due to increased competition and choice between serviced and no-frills products.[26]

The primary controversy regarding gray goods concerns the doctrines of first sale and exhaustion of rights in the international context.[27] The first sale doctrine mandates that once an intellectual property owner makes a first sale, he has exhausted his intellectual property rights with respect to the goods sold.[28] However, the extent of the exhaustion of rights is unclear. Some courts hold that a first sale results in international exhaustion, arguing that the intellectual property rights are internationally exhausted because the product has been placed into the stream of commerce and may forseeably reach other countries.[29] Other courts hold that a first sale results only in territorial exhaustion, since each country is a separate zone of exclusivity with respect to the intellectual property.[30]

An MNC may enter a foreign market by setting up its own operations by joint venturing, or by simply exporting its

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22. *See id.*
23. *See id.*
24. *See id.*
25. *See id.*; *see also* LIPNER, *supra* note 1, at 8–9. Free riding can be broken into two categories: advertising and service. The gray marketer profits by buying goods where the MNC deeply discounts the product and then importing it to a country where the product is highly advertised and includes servicing. The problem arises when the consumer seeks servicing from the MNC on a gray good or the gray marketer takes insufficient safeguards to ensure product quality and safety. *See id.*
26. *See* Friedman, *supra* note 5, at 28–29.
27. *See* Donnelly, *supra* note 1, at 447–48.
28. *See id.* at 447.
29. *See id.* at 449.
30. *See id.* at 447.

product.[31] In each case, intellectual property rights are at stake. The risk largely depends on the intellectual property at issue, the interpretation of a first sale, and the extent of exhaustion of rights with respect to such intellectual property.[32] The gray market has been attacked using the "law of trademarks, contracts, copyrights, civil RICO, tariffs, and international trade," but the most important legal weapons are tariffs and intellectual property rights enforcement.[33]

II. U.S. INTELLECTUAL PROPERTY LAW

The law regarding gray goods is not uniform within the United States, let alone within the international market, and wide variances are seen among trademark, copyright, and patent laws.[34] The courts interpret statutes differently, emphasize different policies, and leave the area of gray goods in a complicated arena of territorial and first sale issues.[35]

A. Trademark Law

Trademarks symbolize a product's reputation and goodwill, represent consistent quality to the consumer, and prevent confusion among competing products.[36] Trademark law provides protection against gray goods pursuant to section 42 of the Lanham Act and section 1526 of the Tariff Act.[37]

Section 42 of the Lanham Act prohibits importation of goods falsely designating origin or displaying a counterfeit mark.[38] Section 42, entitled "Importation of Goods Bearing Infringing Marks or Names Forbidden," provides that:

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31. *See* PHILIP KOTLER & GARY ARMSTRONG, PRINCIPLES OF MARKETING 641–42 (7th ed. 1996).

32. *See* Donnelly, *supra* note 1, at 447.

33. Hugh C. Hansen, *Protection of Intellectual Property Rights at the Border: The Continuing Battle Over "Parallel Imports," in* GLOBAL TRADEMARK AND COPYRIGHT: PROTECTING INTELLECTUAL PROPERTY RIGHTS IN THE INTERNATIONAL MARKETPLACE 41, 43 (PLI Intell. Prop. Course Handbook Series No. G-536, 1998).

34. *See* Donnelly, *supra* note 1, at 48.

35. *See id.* (discussing variations in gray goods law).

36. *See* Andreas Reindl, *Intellectual Property and Intra-Community Trade*, 20 FORDHAM INT'L L.J. 819, 855 (1997) (recognizing several functions of trademarks including product quality, origin, reputation, and advertising).

37. *See* Donnelly, *supra* note 1, at 454–57; *see also* CRAIG JOYCE ET AL., COPYRIGHT LAW 8 (4th ed. 1998). Trademark law developed in the common law as a sort of consumer protection law, aimed at protecting the goodwill of established goods distinguished by some sort of mark. The source of the trademark holder's right is in use of the mark. *See id.*

38. *See* 15 U.S.C. § 1124 (Supp. III 1997).

> [N]o article of imported merchandise which shall copy or simulate the name of . . . any domestic manufacture, or manufacturer, . . . or which shall copy or simulate a trademark registered in accordance with the provisions of this chapter or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States . . . .[39]

As entitled, section 42 directly addresses the "importation of goods bearing infringing marks . . . ."[40] Yet the definition of "infringing" is unclear.[41] In view of this ambiguity in the term "infringing," sections 32 and 43 of the Lanham Act define infringement and false designations of origin, respectively.[42] Section 32 provides that:

> Any person who shall, without the consent of the registrant—
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> (a) use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is *likely to cause confusion*, or to cause mistake, or to deceive . . . shall be liable in a civil action . . . .[43]

Thus, according to section 32, trademark infringement under the Lanham Act requires a likelihood of confusion between the genuine goods and the allegedly infringing goods, even for gray goods.[44] Similarly, section 43(a) of the Lanham Act provides a civil cause of action when the unauthorized use of a trademark or other misleading fact causes a likelihood of confusion concerning the origin of the goods.[45]

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39. *Id.*

40. *Id.*

41. *See* Arif S. Haq, *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.: Gray Market Goods; Reason Makes a Run For the Border*, 23 N.C. J. INT'L L. & COM. REG. 381, 393 (1998) (commenting that § 42 does not define when goods are "infringing").

42. *See* 15 U.S.C. § 1114(1)(a) (Supp. III 1997).

43. *Id.* (emphasis added).

44. *See* Lois Sportswear v. Levi Strauss & Co., 799 F.2d 867, 871 (2d Cir. 1986); Haq, *supra* note 41, at 391.

45. *See* 15 U.S.C. § 1125(a) (1994) providing that:

Finally, section 1526(a) of the Tariff Act states:

> [I]t shall be unlawful to import in the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within the United States, and registered in the Patent and Trademark Office . . . .[46]

Goods imported into the United States in violation of section 1526(a) are "subject to seizure and forfeiture."[47]

Territoriality is a key issue in the area of gray goods, but early trademark law did not consider the possibility of international business.[48] The Supreme Court established the territoriality of trademarks in *Bourjois & Co. v. Katzel*, providing that trademarks are legally enforceable only in the country granting the trademark and its accompanying rights.[49] However, the lower courts did not consistently follow the decision and often interpreted it narrowly.[50]

In the 1980s, federal courts developed the material difference standard as a proxy for the likelihood of confusion test,[51] allowing parallel importation unless the goods are materially different from those sold through authorized channels.[52] In *Osawa & Co. v. B & H Photo*, the court held that differences in point-of-sale servicing irreparably injured

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(1) Any person . . . who uses in commerce any word, term, name, symbol, or device . . . which—

> (A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or
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> (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action....

46. 19 U.S.C. § 1526(a) (1994).

47. *Id.* § 1526(b).

48. *See* Haq, *supra* note 41, at 393.

49. *See* 260 U.S. 689, 692 (1923).

50. *See* Michael D. Manson & Timothy P. Lo, *Preventing the Importation of Counterfeit and Gray Market Goods*, *in* GLOBAL TRADEMARK AND COPYRIGHT: PROTECTING INTELLECTUAL PROPERTY RIGHTS IN THE INTERNATIONAL MARKETPLACE 67, 77 (1998) (explaining that the Treasury Department adopted the *Bourjois* decision, but courts interpreted the decision inconsistently).

51. *See* Haq, *supra* note 41, at 395–98.

52. *See* Donnelly, *supra* note 1, at 456. The material difference standard is important because it provides an exception to the first sale doctrine, which says intellectual property rights are exhausted by a lawful first sale. *See id.*

the trademark holder.[53] The absence of these services created a material difference between authorized dealers and unauthorized gray goods dealers, creating a likelihood of consumer confusion that injured the trademark holder.[54] However, the meaning of material difference is unclear because the courts have found difficulty in applying a uniform rule.[55] In *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*, the Second Circuit interpreted material difference as that which causes consumer confusion or disappointment with the goods.[56] *In Societe Des Produit Nestle, S.A. v. Casa Helvetia, Inc.*, the First Circuit interpreted material difference to mean any difference which the consumer would consider relevant when purchasing a product.[57] In *Martin's Herend Imports v. Diamond & Gem Trading USA, Co.*, the Fifth Circuit adopted a broad interpretation of material difference and included stylistic differences within its definition.[58] Regardless of the confusion concerning the material difference standard, it is generally understood that trademark law does not encompass genuine or identical merchandise.[59] Thus, genuine goods are protected by the first sale doctrine, and parallel importation of such goods is prohibited.[60]

In *K Mart Corp. v. Cartier, Inc.*, the Supreme Court interpreted section 526 of the Tariff Act of 1930, which banned unauthorized parallel imports.[61] The Supreme Court noted three situations in which the gray market arises:

> [A] domestic firm . . . purchases from an independent foreign firm the rights to register and use the latter's trademark as a United States trademark and to sell

53. *See* Osawa & Co. v. B & H Photo, 589 F. Supp. 1163, 1165–70 (S.D.N.Y. 1984); *see also* Haq, *supra* note 41, at 395 (analyzing *Osawa*).

54. *See* 589 F. Supp. at 1168–70 (detailing the differences in warranties, prices and instructions that contribute to consumer confusion); *see also* Donnelly, *supra* note 1, at 456–57 (concluding the underlying test for material difference is the "likelihood of confusion" test, comparing the genuine and gray goods).

55. *See* Haq, *supra* note 41, at 395–98; Friedman, *supra* note 5, at 32–33.

56. *See* 816 F.2d 68, 73 (2d Cir. 1987).

57. *See* 982 F.2d 633, 641 (1st Cir. 1992).

58. *See* 112 F.3d 1296, 1302 (5th Cir. 1997) (holding that stylistic differences are material when analyzing material differences in the context of luxury goods); *see also* Haq, *supra* note 41, at 399.

59. *See* NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1509 (9th Cir. 1987); *see also* Friedman, *supra* note 5, at 34.

60. *See NEC Elec.*, 810 F.2d at 1509–10; *see also* Haq, *supra* note 41, at 401.

61. *See* 486 U.S. 281, 285 (1988).

> its foreign-manufactured products here. . . . [A] domestic firm registers the United States trademark for goods that are manufactured abroad by an affiliated manufacturer. . . . [T]he domestic holder of a United States trademark *authorizes* an independent foreign manufacturer to use it.[62]

In all three situations, parallel imports arise because the foreign entity, or a third party obtaining goods from such entity, imports into the United States.[63] The U.S. Customs Service interpreted section 526 of the Tariff Act to allow unauthorized parallel imports in three situations, as embodied in Customs Service Regulation § 133.21(c):

> (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity;
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> (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control . . . , or
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> (3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner.[64]

The first two exceptions are collectively referred to as the "common control" exception, whereas the third exception, at issue in the present case, is entitled the "authorized use" exception.[65] The Supreme Court rejected the Customs Service's authorized use exception, while upholding its common control exception.[66] Unfortunately for trademark

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62. *Id.* at 286–87 (emphasis in original). The court allowed importation bans in the first scenario because it was analogous to *Bourjois v. Katzel. See* Donnelly, *supra* note 1, at 455. The second scenario is also known as the "common control" exception because the foreign and domestic trademark holders are the same or related in such as way that the domestic trademark holder really has control over the foreign entity. *See K Mart*, 486 U.S. at 286–87. The third scenario can be referred to as the "independent foreign entity" scenario. Donnelly, *supra* note 1, at 456.

63. *See K Mart*, 486 U.S. at 286–87.

64. 19 C.F.R. 133.21(c) (1987); *see also Kmart*, 486 U.S. at 289–90.

65. *See Kmart,* 486 U.S. at 288–90; *see also* Hansen, *supra* note 33, at 44; Donnelly, *supra* note 1, at 456 n.60 (explaining that the Customs Service regulations at issue in *K Mart* were enacted in 1972); Manson & Lo, *supra* note 50, at 77–78 (tracing the history of the "related companies" exception from the time it was originally adopted by the Treasury Department in 1953, dropped in 1959, but later adopted by Congress in 1972).

66. *See K Mart*, 486 U.S. at 294 (holding that Customs Service's Regulations 19 C.F.R. § 133.21(c)(1) and (c)(2), the same person and common control exceptions, are consistent with the statutory language of § 526 of the

owners, the common control exception will continue to allow most parallel imports because very few MNCs would ever authorize the foreign licensees of trademarks to own them independently abroad.[67] However, in *Lever Bros. Co. v. United States*, the court held that the common control exception does not apply to materially different parallel imports.[68] In sum, trademark rights are only subject to domestic exhaustion when the imported products originate from the same or related entity.[69]

B. Copyright Law

The goal of copyright law is "[t]o promote the Progress of Science and useful Arts,"[70] which is accomplished "by balancing between two competing policy interests:" (1) economic incentive to authors, and (2) public access to works for further development and benefit to the public.[71] A copyright holder has exclusive rights in copyrighted works, including the right to reproduce and distribute copies of the copyrighted work.[72] The section 106 exclusive rights are "[s]ubject to sections 107 through 120,"[73] wherein the section 109(a) first sale doctrine limits the distribution right.[74]

Tariff Act, but § 133.21(c)(3), the authorized use exception, conflicts with the plain language of § 526).

67. *See* Hansen, *supra* note 33, at 47; *see also* Friedman, *supra* note 5, at 46 (explaining that § 526 of the Tariff Act can only ban unauthorized parallel imports when the foreign distributor is unrelated to the U.S. firm).

68. *See* 981 F.2d 1330, 1338–39 (D.C. Cir. 1993) (holding that § 42 of the Lanham Act prevents parallel importation of "physically different" goods, thus the Custom Service's common control exception only applies to genuine (identical) parallel imports).

69. *See The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of Trademarks*, Final Report for DGXV of the European Commission, Feb. 8, 1999, at 25 [hereinafter *Economic Consequences*] (providing an overview of the IPR exhaustion regimes in the European Union, the United States, Japan, New Zealand, and Australia).

70. U.S. Const. art. I, § 8, cl. 8.

71. Fred Anthony Rowley, Jr., *Dynamic Copyright Law: Its Problems and a Possible Solution*, 11 HARV. J.L. & TECH. 481, 481 (1998). The competing interests are also intertwined, as each author's economic interest furthers the public's interest in new creative works. *See id.* at 485. To further the progress of science, copyright law must provide enough protection to the author, while also providing enough public domain material to others upon which further progress can be made. *See id.* at 486.

72. *See* 17 U.S.C. § 106(1), (3) (Supp. III 1998).

73. *Id.* § 106.

74. *See id.* § 109(a); *see also* Donnelly, *supra* note 1, at 458–459 (stating that the distribution rights of the copyright holder are limited).

MNCs seek protection against gray goods in section 602(a) of the Copyright Act,[75] which provides protection against infringing imports of copyrighted works.[76] Section 602(a) states:

> 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, actionable under section 501.[77]

The relationship between the section 109(a) first sale doctrine and the section 602 infringing importation exclusion has confused the courts concerning the extent of section 602 protection.[78] Gray goods importers argue that the first sale doctrine limits the copyright owner's right to control importation, because the copyright owner's exclusive rights are exhausted upon lawful first sale.[79] MNCs argue that section 602 is not limited by the first sale doctrine, because

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75. *See* Friedman, *supra* note 5, at 36; Feist Publications, Inc. v. Rural Tel. Serv., 499 U.S. 340, 348 (1991) (stating that factual compilations are sufficiently original that Congress may protect such compilations through the copyright laws, so long as the compilations are made independently by the compiler and contain a minimal degree of creativity).

76. *See* 17 U.S.C. § 602(a); Quality King Distribs., Inc. v. L'anza Research Int'l, 523 U.S. 135, 145 (1998) (explaining that 17 U.S.C. § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right); Sebastian Int'l, Inc. v. Consumer Contacts (Pty) Ltd., 847 F.2d 1093, 1097 (3rd Cir. 1988) (stating that 17 U.S.C. § 602(a) creates an infringement of the exclusive right of distribution when copies acquired outside the United States are imported into this country without the copyright owner's permission); Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 480 (9th Cir. 1994) (stating that under 17 U.S.C. § 602(a) unauthorized importation of foreign purchased copies of U.S. copyrighted materials is an infringement of distribution rights); BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991) (stating that 17 U.S.C. § 602(a) prohibits the importation of copies acquired outside the United States without the copyright owner's permission); Columbia Broad. Sys. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47, 48 (E.D. Pa. 1983) (stating that 17 U.S.C. § 602(a) forbids importation of phonorecords without the consent of the copyright owner).

77. *See* 17 U.S.C. § 602(a) (1998).

78. *See* Donnelly, *supra* note 1, at 459 (declaring that the circuit courts are split on whether the distribution right is exhausted by first sales of products subsequently acquired outside, and imported into, the United States).

79. *See* Manson & Lo, *supra* note 50, at 99 (asserting gray goods importers would argue that once a manufacturer sells the goods, the right to control reimportation would be terminated pursuant to 17 U.S.C § 109(a)).

section 602 explicitly states its own limitations.[80] The courts have reached disparate conclusions.[81]

In *Columbia Broadcasting Systems v. Scorpio Music Distributors, Inc.*, the court held that section 109(a) does not extend beyond the United States and does not supersede section 602's prohibition of infringing imports.[82] The court focused on the provision "lawfully made under this title" in section 109(a), explaining that the U.S. Code only applies within the United States unless it is clearly stated that it should apply beyond the United States.[83] Therefore, the first sale doctrine only applies where goods are legally manufactured and sold in the United States.[84] The court also explained that section 602 would be "virtually meaningless" if section 109(a) superseded section 602, a result that the court found contrary to the intent of Congress.[85]

In *Sebastian International, Inc. v. Consumer Contacts (Pty) Ltd.*, the Third Circuit held that section 602 is limited by the section 109(a) first sale doctrine, regardless of the location of first sale.[86] The court explained that section 602 is not an additional exclusive right, but rather a right dependent on the section 106(3) distribution right which is limited by section 109(a).[87] Therefore, the court held that once a lawful

80. *See* Friedman, *supra* note 5, at 36 (arguing that according to 17 U.S.C. § 602(a), unauthorized importation is a violation of the distribution right and thus an infringement).

81. *See* Donnelly, *supra* note 1, at 459.

82. *See* 569 F. Supp. 47, 49 (E.D. Pa. 1983) (warning that construing 17 U.S.C § 109(a) as superseding the prohibition on importation stated in 17 U.S.C. § 602 would render § 602 virtually meaningless).

83. *Id.* at 49 (explaining that the protection afforded by the U.S. Code does not extend beyond the borders of this country unless the code expressly states).

84. *See id.* (concluding that 17 U.S.C § 109(a) grants first sale protection to the third party buyer of copies that have been legally manufactured and sold within the United States, but not to purchasers of imports).

85. *See id.* at 49–50.

86. *See* 847 F.2d 1093, 1099 (3rd Cir. 1988) (indicating that the place of sale is not the critical factor in determining whether 17 U.S.C. § 602(a) governs, and stating that unauthorized importation is an infringement of the exclusive right to distribute copies granted by 17 U.S.C. § 106(3), a right that is specifically limited by the first sale provisions of 17 U.S.C. § 109(a)); *see also* Friedman, *supra* note 5, at 37 (asserting that merchandise legitimately purchased abroad is subject to the first sale doctrine).

87. *See Sebastian,* 847 F.2d at 1099 (emphasizing that the distribution right to a copy does not survive so as to be infringed by importation after transfer of ownership).

first sale exhausts the distribution right, the section 602 infringing importation prohibition is also exhausted.[88]

In contrast to the Third Circuit, the Ninth Circuit has consistently held that section 602 is not limited by the section 109(a) first sale doctrine, because the section 106(3) distribution right is only exhausted by a domestic first sale.[89] In *Platt & Munk v. Republic Graphics*, the court held that the test for whether there is a first sale for section 109(a) purposes is whether the copyright owner received value for the copyright.[90] In *BMG Music,* the court followed the rationale in *Scorpio Music*, holding that the first sale doctrine only applies to copies "legally made and sold in the United States."[91] In *Parfums Givenchy, Inc.*, the court reached the same holding as the *BMG Music* court.[92] The opinion focused on copyright policy,[93] explaining that section 602 effectively gives the section 106(3) distribution right extraterritorial application ensuring that the copyright owner receives the "full value of each copy sold."[94] In *L'Anza Research International v. Quality King Distributors, Inc.*, the Ninth Circuit continued its view that section 602 is not limited by section 109(a), explaining that the copyright owner is entitled to receive the full value of its copyrighted work, and parallel imports would frustrate that right to compensation.[95]

The Supreme Court finally addressed the issue in *Quality King Distributors, Inc. v. L'Anza Research International*, unanimously reversing the Ninth Circuit's holding on the applicability of the first sale doctrine to section 602.[96] The Court held that the section 109(a) first sale doctrine applies

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88. *See* Donnelly, *supra* note 1, at 459–60 (stating that the Ninth Circuit has consistently held that 17 U.S.C. § 109(a) only exhausts the distribution right if the first sale was within the United States); Parfums Givenchy, Inc. v. Drug Emporium, *Inc.*, 38 F.3d 477, 481 (9th Cir. 1994) (contending that the importation right survives as to a particular copy unless and until there has been a "first sale" in the United States); BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991) (construing the words "lawfully made under this title" in 17 U.S.C. § 109(a) as granting first sale protection only to copies legally made and sold in the United States).

89. *See Parfums Givenchy*, 38 F.3d 477; *BMG Music*, 952 F.2d 318; *see also* Donnelly, *supra* note 1, at 459–460.

90. *See* 315 F.2d 847, 854 (2d Cir. 1963).

91. *See BMG Music,* 952 F.2d at 319 (citing Columbia Broad. Sys. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47, 49 (E.D. Pa. 1983)).

92. *See Parfums Givenchy,* 38 F.3d at 481–82.

93. *See id.* at 481.

94. *Id.*

95. *See* 98 F.3d 1109, 1116–17 (9th Cir. 1996), *rev'd*, 523 U.S. 135 (1998).

96. *See* 523 U.S. 135, 138, 154 (1998).

to the section 602 infringing importation provision, regardless of the location of first sale.[97] Although the Court's opinion left no doubt regarding domestically manufactured goods,[98] Justice Ginsburg's concurring opinion left some doubt regarding foreign manufactured goods.[99] The majority explained that section 602 covers copies "lawfully made under the law of another country," extending beyond the scope of the first sale doctrine.[100] In contrast, Justice Ginsburg stated that the Court's opinion does not extend to foreign manufactured goods.[101] In brief, the Court's holding allows for parallel importation of goods originating in the United States, but not for goods of foreign manufacture.[102]

C. Patent Law

A patent holder has the exclusive right to make, use, sell, or import a patented process or product.[103] Section 271 of the Patent Act protects the patentee's exclusive rights against infringement,[104] including gray goods. Section 271(a) provides:

> [W]hoever *without authority* makes, uses, offers to sell, or sells any patented invention, within the United States or *imports* into the United States any patented invention during the term of the patent therefor, infringes the patent.[105]

However, the section 271 exclusive rights are limited by the first sale doctrine, even though there is no statutory law

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97. *See id.* at 145; *see also* Linda Greenhouse, *Ruling Aids 'Gray Market' in U.S. Goods*, N.Y. TIMES, March 10, 1998, at D1.

98. *See Quality King Distribs.*, 523 U.S. at 152; *see also* Robert W. Clarida, *Quality King Decision May Force Major Changes in Business Practices*, INTELL. PROP. WORLDWIDE, July/Aug. 1998, at 2.

99. *See Quality King Distribs.*, 523 U.S. at 154 ("[W]e do not today resolve cases in which the allegedly infringing imports were manufactured abroad."); *see also* David A. Gerber & David Bender, *Gray Market Becomes Less of an IP Gray Area*, NAT'L L.J., Oct. 19, 1998, at C19.

100. *Quality King Distribs.*, 523 U.S. at 148.

101. *See id.* at 154.

102. *See* Hansen, *supra* note 33, at 60.

103. *See* 35 U.S.C. § 101 (1998) ("Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."); *id.* § 154(a)(1) (recognizing patents include the "right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, of [the same right, including] products made by that process . . . ").

104. *See id.* § 271.

105. *Id.* § 271(a) (emphasis added).

similar to the Copyright Act.[106] The important issue regarding gray goods is the extraterritorial application of patent law, which courts consistently hold to be territorial in scope.[107]

If patents are held in various countries on the same subject matter, then under the territoriality doctrine an unauthorized foreign first sale does not exhaust the domestic patent.[108] In *Brown v. Duchesne*, the Court stated that U.S. patent laws "do not, and were not intended to, . . . extend beyond the limits to which the law itself is confined."[109] The Court further explained that any extraterritorial scope of the patent laws would require "plain and express words" indicating such a legislative intention.[110] In *Boesch v. Graff*, the Court held that U.S. patent rights are not exhausted by a foreign first sale to an unrelated party.[111] In *Daimler Manufacturing Co. v. Conklin*, the Second Circuit explained that "[t]he use of articles covered by a United States patent within the United States can no more be controlled by foreign law than the sale can."[112] In *Dowagiac Manufacturing Co. v. Minnesota Moline Plow Co.*, the Court refused to apply U.S. patent laws to acts done in Canada that would constitute infringement if performed in the United States.[113] The Court stated that patent infringement "cannot be predicated [on] acts wholly done in a foreign country."[114]

In contrast, the court in *Holiday v. Mattheson* held that U.S. patent rights were exhausted if there were no prohibitions made in the bargain.[115] The court explained:

> When the owner sells an article without any reservation respecting its use, or the title which is to pass, the purchaser acquires the whole right of the vendor in the thing sold: the right to use it, to repair it, and to sell it to others; and second purchasers

106. *See* Donnelly, *supra* note 1, at 449–50.

107. *See* Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505, 505–07, 521 (1997).

108. *See* Donnelly, *supra* note 1, at 450.

109. 60 U.S. 183, 195 (1856) (explaining that a patentee's rights are territorially limited, and the use of property outside of the patentee's territory is not an infringement of his rights).

110. *Id.*

111. *See* 133 U.S. 697, 701–02 (1890) (explaining that an invention patented in the United States as well as a foreign country cannot be imported into the United States without the consent of the U.S. patent owner).

112. 170 F. 70, 72 (2d Cir. 1909).

113. 235 U.S. 641, 650–51 (1915).

114. *Id.* at 650 (citing United Dictionary Co. v. Merriam Co., 208 U.S. 260, 265 (1908)).

115. 24 F. 185, 185–86 (S.D.N.Y. 1885).

> acquire the rights of the seller, and may do with the article whatever the first purchaser could have lawfully done if he had not parted with it.[116]

This arises from the presumption that the seller "intends to part with all his rights in the thing sold."[117] In *Curtiss Aeroplane & Motor Corp. v. United Aircraft Engineering Corp.*, the court supported the international exhaustion principle, holding that goods sold by a patentee are released from the patentee's exclusive rights, including the exclusive rights in all domestic and foreign patents.[118] In *Sanofi v. Med-Tech Veterinarian Products., Inc.*, the court held that an "unrestricted sale" prohibits the patent owner from later imposing restrictions on the use of the goods sold to the buyer.[119] The court explained that to hold otherwise would defeat the purchaser's expectation of unrestricted ownership and use of the goods and also the presumption following a lawful sale that the seller intends to part with all of his rights in the goods.[120] The court also stated that a buyer only receives rights in the goods purchased to the extent of the seller's rights in the goods sold.[121]

However, other courts have followed the territorial view, whereby U.S. patent rights are not exhausted by sales under foreign patents.[122] In *Deepsouth Packing Co., Inc. v. Laitram Corp.*, the Supreme Court refused to provide extraterritorial application of the U.S. patent laws, explaining that such expansion "is based on more than mere inference from ambiguous statutory language."[123] The Court further stated that sections 154 and 271 of the patent laws indicate a congressional intent that patent owners seek protection in foreign countries through patents in the respective countries, not through the U.S. patent system.[124] In *Griffin v. Keystone Mushroom Farm, Inc.*, a case involving concurrent patents in the United States and Italy, the court refused to stray from the *Boesch* rule by considering the fact that the plaintiff held patents in both countries.[125]

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116. *Id.* at 185.
117. *Id.*
118. *See* 266 F. 71, 78 (2d Cir. 1920).
119. *See* 565 F. Supp. 931, 938–39 (D.N.J. 1983).
120. *See id.*
121. *See id.* at 939 (citing Featherstone v. Ormonde Cycle Co., 53 F. 110, 111 (C.C.N.Y. 1892)).
122. *See* Donnelly, *supra* note 1, at 452.
123. 406 U.S. 518, 531 (1972).
124. *See id.* (citing 35 U.S.C. §§ 154, 271 (1998)).
125. *See* 453 F. Supp. 1283, 1285 (E.D. Pa. 1978).

In sum, the courts disagree on the geographical scope of U.S. patent laws, yet there is generally no patent exhaustion where the foreign sales were not authorized by the U.S. patent owner.[126] However, the courts appear to apply the territorial approach more than the international exhaustion approach, with two exceptions: contributory infringement and profits related to infringement.[127] The doctrine of contributory infringement provides extraterritorial effect when actions conducted in a foreign country cause infringement of a U.S. patent domestically.[128] Foreign profits related to infringement are potentially recoverable where the patent infringement occurs within the United States.[129]

III. FOREIGN INTELLECTUAL PROPERTY LAW

A. European Union

The European Union (EU) is unique in that it was formed with the goal of a single market, having a free flow of goods not restricted by any nation within the union.[130] Similar to the Commerce Clause, EU free flow of goods laws seek to bar economic protectionism by member states who may otherwise favor national businesses.[131] Accordingly, the law regarding gray goods is relatively more developed within the EU because of its single market focus.[132] A lawful and consensual first sale within the EU generally exhausts intellectual property rights within the EU, a scenario commonly referred to as "community exhaustion."[133]

The European Court of Justice (ECJ) first recognized the exhaustion of rights doctrine in *Deutsche Grammophon v. METRO*, where the court focused on the single market goal of the EEC Treaty.[134] The case involved copyrighted sound recordings that were manufactured in Germany, then sold to

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126. *See* Donnelly, *supra* note 1, at 454; *see also Economic Consequences*, *supra* note 69, at 25 (noting that U.S. patent law applies national exhaustion).

127. *See* Bradley, *supra* note 107, at 522–23.

128. *See* 35 U.S.C. § 271(b)(c) (1997); *see also* Bradley, *supra* note 107, at 522–23.

129. *See* Bradley, *supra* note 107, at 522–23.

130. *See* Donnelly, *supra* note 1, at 469.

131. *See* Hansen, *supra* note 33, at 61.

132. *See* Donnelly, *supra* note 1, at 468–69.

133. *See* Donnelly, *supra* note 1, at 469, 483 (explaining that not all copyrights are exhausted by a first sale within the EU; for example, distribution rights are exhausted but performance rights are not).

134. *See* Case 78/70, Deutsche Grammophon GmbH v. METRO-SB Grossmarkte GmbH & Co., [1971] E.C.R. 487, 1971 C.M.L.R. 631 (1971); *see also* Donnelly, *supra* note 1, at 470.

a Parisian subsidiary, and eventually diverted back to Germany by Metro.[135] The ECJ held that the sale within the EU exhausted Deutsche Grammophon's copyrights in the sound recordings.[136] In other cases, the ECJ focused on the issue of consent as it pertains to a first sale.[137] The ECJ held that only a consensual first sale exhausted the intellectual property owners' rights, whereas a nonconsensual first sale justified parting from the free flow of goods principle.[138]

Encapsulating these holdings, the Agreement Relating to Community Patents (ARCP) advocated the territorial doctrine, or community exhaustion as applied to a consensual first sale within the EU.[139] Although the ARCP was not ratified, similar terms were set forth in the First Council Directive, whereby trademark rights are effectively exhausted within the community upon a consensual first sale therein.[140] The First Council Directive provides an exception to community exhaustion where legitimate reasons, such as damaged goods bearing the owner's trademark, support departure from the free flow of goods principle.[141]

The European Court of Justice recently ruled on the international exhaustion principle in *Silhouette International Schmied GmbH & Co. KG v. Harlauer Handelsgesellschaft mbH.*[142] Analyzing the First Council Directive, the ECJ held that the principle of exhaustion must be interpreted strictly.[143] Accordingly, the ECJ held that the international exhaustion principle is "contrary to Article 7(1) of the

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135. *See Deutsche Grammophon*, 1971 E.C.R., at 489.

136. *See* Donnelly, *supra* note 1, at 470–71.

137. *See id.* at 473–74.

138. *See* Case 341/87, EMI Electrola GmbH v. Patricia Im-und Export, 1989 E.C.R. 79, 89, [1989] 2 C.M.L.R. 413, 418 (1989) (holding that the exhaustion of rights principle does not apply when IP rights holder or a licensee gives no consent to first sale); Case 15/74, Centrafarm B.V. v. Sterling Drug, Inc., 1974 E.C.R. 1147, 1161, [1974]2 C.M.L.R. 480 (1974) (holding that intellectual property rights were exhausted by sale with IP right holder's consent); Case 19/84, Pharmon B.V. v. Hoechst AG, [1985] 3 C.M.L.R. 775, 791 (1985) (holding that a compulsory license is not equivalent to a "consensual" first sale, hence no patent exhaustion).

139. *See* Council Agreement 89/695 EEC of 15 December 1989 Relating to Community Patents, 1989 O.J. (L 401) 1.

140. *See* First Council Directive 89/104 EEC of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Makers, 1989 O.J. (L 40) 1, 4–5, 7.

141. *See id.*

142. Case C-355/96, *available in* 1998 ECJ Celex LEXIS 5059, at *14–15; *see also* Barbara Cookson, *ECJ Decision in* Silhouette *Seems Likely to Anger Consumers and Non-EU Countries,* INTEL. PROP. WORLDWIDE, July/Aug. 1998 <http://www.ipww.com/jul 98/po6-europe.html>.

143. *See Silhouette*, 1998 ECJ Celex LEXIS 5059, at *18–19.

Directive," thereby limiting community exhaustion of trademark rights to sales within the EU.[144] In effect, this means that lawful sales within the European Union exhaust the trademark rights only within the EU, not internationally.[145] This maintains the EU's free movement of goods principle without disturbing rights outside the EU.[146]

In sum, the EU recognizes a territorial application of the exhaustion of rights doctrine, namely community exhaustion, and precludes international exhaustion at least with respect to trademark rights.[147] This community exhaustion principle applies not only to trademarks, but to all areas of intellectual property.[148] Furthermore, the exhaustion of rights principle may be extended in situations where the intellectual property owner has "expressly or impliedly consented to the importation and sale of the relevant product."[149] If consent is found, then parallel imports will be allowed, even if originating from outside the EU.[150] Finally, the European Commission recently organized two meetings regarding exhaustion of trademark rights in the EU and discussed the possibility of changing its existing policy to one of international exhaustion.[151]

B. Canada

Current Canadian copyright and trademark laws provide some protection against gray market goods, in that parallel importation cannot confuse consumers regarding trademarked goods or import copyrighted goods with intent to sell, as explained below.

In *Consumers Distributing Co. v. Seiko Time Canada Ltd.*, the Supreme Court of Canada concluded that gray market goods were allowable, provided that the product differences

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144. *Id.*

145. *See* Cookson, *supra* note 142.

146. *See id.*

147. *See id.* "[W]hen the Advocate-General handed down his opinion . . . he urged . . . that the Directive 'exhaustively' decide the principle of exhaustion, prescribing community exhaustion only." *Id.*

148. *See Economic Consequences*, *supra* note 69, at 25–26.

149. *Id.* (explaining that international exhaustion applies in situations where the intellectual property owner consents to the importation and sale, in spite of the general community exhaustion doctrine).

150. *See id.*

151. *See id.* at 1; *see also Exhaustion of Trademark Rights: Commission Organises Meetings with Member States and Interested Parties* (visited Oct. 15, 1999) <http://www.europa.eu.int/comm/dg15/en/intprop/indprop/185.htm> [hereinafter *Exhaustion of Trademark Rights*] (reporting on the meetings held on April 26 & 28, 1999).

were communicated to the public to avoid any confusion with the trademarked goods.[152] The court enjoined Consumers Distributing from misrepresenting itself as an "authorized Seiko dealer . . . by advertising and selling 'Seiko' watches as internationally guaranteed," because the product offered was different in that it lacked the one year international warranty.[153]

Under Section 27(2) of the Canadian Copyright Act, it is an infringement for any person to import goods made outside of Canada with intent to distribute or sell, where that person should know that it is copyright infringement to distribute or offer to sell those goods if made in Canada.[154] Protection under this provision requires that the copyright owner hold copyrights both in Canada and in the country of manufacture.[155] Furthermore, the knowledge requirement is interpreted by the objective reasonable person standard.[156]

C. Mexico

Mexico currently has an open door policy regarding international trade, resulting from significant legal and economic reform over the past twenty years.[157] Unfortunately, Mexico's free trade policy has caused an influx of parallel imports, and the government has afforded little protection against such gray goods.[158] Mexico operates under a civil law system, therefore intellectual property law is entirely

152. [1984] D.L.R. 161, 174–175 (noting that in order to enjoin sales by an unauthorized distributor, "there remains the requirement . . . that confusion in the minds of the public be a likely consequence by reason of the sale . . . by the defendant of a product not that of the plaintiff's making, under the guise . . . that it was . . . .").

153. *Id.* at 165 (recognizing that *this* product includes a warranty).

154. *See* Copyright Act, R.S.C., ch. C-42, § 27(2) (1985), amended by ch. 24 1997 S.C. 26, § 15 (Can.).

155. *See* Copyright Act, R.S.C., ch. C-42, § 44.1 (1993), amended by ch. 24 1997 S.C. 60 § 27 (Can.); *see also* Manson & Lo, *supra* note 50, at 79–83.

156. *See* Clarke, Irwin & Co. Ltd. v. C. Cole & Co. Ltd., [1960] C.P.R. 173, 181.

157. *See* Luis C. Schmidt, *Mexico Battles Wave of Parallel Imports: New IP Regulations Give Some Relief to Mexican Trademark Owners*, INTELL. PROP. WORLDWIDE, Special to Intell. Prop. Worldwide, (modified May 23, 1999) <http://www.ipww.com/!greymar.htm> (stating that Mexico's reform moved the country's trade policy from one of economic protectionism to one of free trade).

158. *See id.*(discussing the current status of parallel imports in Mexico; and recent regulations and treatment in the areas of patents, copyrights, and trademarks).

statutorily based rather than dependent on the common law like the United States.[159]

In 1991, Mexico enacted the Law for the Promotion and Protection of Industrial Property (LPPIP).[160] Article 92(II) states:

> The registration of a trademark will have no effects against . . . any person trading with, distributing, acquiring or using the product to which the registered trademark is applied after said product has been legally introduced into the market by the holder of the registered trademark or by the person to whom a license has been granted.[161]

The statute covers the "import of legitimate products to which the trademark is applied."[162] Mexican courts have interpreted Article 92(II) literally, allowing third parties to parallel import legitimate products initially sold by the trademark owner or licensee.[163] The term "legitimate products" is not expressly limited to products complying with Mexican trademark law.[164] Accordingly, the term may be interpreted broadly to include products manufactured and sold under a foreign counterpart trademark, even if the foreign trademark is not held by a Mexican trademark owner.[165] This interpretation causes international trademark exhaustion in every situation, because it covers genuine goods produced by the Mexican trademark owner and genuine goods produced under any foreign trademark law.[166]

In 1994, the LPPIP was amended and renamed the Industrial Property Law (IPL)[167] and regulations were issued

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159. *See* Christina Moeckel, *Intellectual Property Protection and Enforcement in Mexico*, NLCIFT, 1995, (visited Aug. 19, 1999) <http://www.natlaw. com/pubs/moeckel.htm> (explaining that Mexico operates under a civil law system, wherein courts interpret federal legislation but do not depend on prior case law as in common law systems).

160. *See* Schmidt, *supra* note 157 (discussing the effect of Article 92(II) on parallel imports); *see also* Alejandro Perez Serrano, *Overview of Intellectual Property Enforcement in Mexico*, NATIONAL LAW CENTER FOR INTER-AMERICAN FREE TRADE (1998) (visited July 7, 1999) <http://natlaw.com/pubs/spmxip13.htm> (citing "Ley de Fomento y Proteccion a la Propiedad Industrial," (Law for the Promotion and Protection of Industrial Property) D.O., 27 de junio de 1991 [Mex.]).

161. Schmidt, *supra* note 157 (citing LPPIP art. 92(II)).

162. *Id.*

163. *See id.*

164. *See id.*

165. *See id.*

166. *See id.*

167. *See* Serrano, *supra* note 160 (citing "Decreto por el que se reforman, adicionan y derogan diversas disposiciones de la Ley de Fomento y Proteccion

changing the above interpretation of legitimate products.[168] The 1994 regulations defined legitimate products as those which are manufactured by the foreign trademark owner or licensee and when the same person, entity, or "group of economic interest" owns both the Mexican and foreign trademark.[169] However, quality differences between the foreign-made and Mexican manufactured goods also affects the legitimacy of the foreign products.[170] The 1994 regulations only confer legitimate status upon foreign made goods that comply with Mexican consumer laws, product standards, and regulations.[171] In sum, the 1994 regulations and the IPL provide international trademark exhaustion of legitimate products sold by the trademark owner or a related entity in Mexico or abroad.[172]

In the area of patent law, Article 22(II) of the Law on Inventions and Trademarks of 1976 only applies domestic patent exhaustion, allowing the Mexican patent owner to prevent parallel imports linked to a first sale outside of Mexico.[173] Under Article 22(II), patent exhaustion occurs when a patent owner or licensee first sells the patented product in Mexico.[174] Further-more, products manufactured under foreign counterpart patents may not be imported into Mexico absent permission from the Mexican patent owner.[175]

In Mexican copyright law, the Federal Law of Author's Rights (FLAR) fails to specifically address parallel imports or

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de la Propiedad Industrial," (Decree Amending, Adding and Repealing Several Provisions of the Law for the Promotion and Protection of Industrial Property) D.O., 8 de febrero de [Mex.]).

168. Schmidt, *supra* note 157.

169. *See id.*

170. *See id.* (discussing the problem of meeting Mexican quality standards when parallel imports of legitimate foreign made products are brought into Mexico, since the foreign made products are subject only to foreign quality standards that may not meet Mexican standards).

171. *See id.* (explaining that the 1994 Regulations do not provide means to enforce the Mexican quality standards on foreign made goods, and further noting that the Regulations do not address repackaging and relabeling of parallel imports).

172. *See id.* (discussing the amended LPPIP, wherein Article 92(II) paragraph 1 recognizes the traditional domestic trademark exhaustion when a legitimate first sale in Mexico exhausts the Mexican trademark rights, and paragraph 2 provides for international trademark exhaustion when a legitimate product has been exported or first sold anywhere).

173. *See id;* Serrano, *supra* note 160 (citing "Ley de Invenciones y Marcas," (Law on Inventions and Trademarks), D.O.,10 de febrero de 1976 [Mex.]).

174. *See* Schmidt, *supra* note 157.

175. *See id.*

exhaustion of rights.[176] The FLAR does appear to provide a distribution right and a first sale exception, but the copyright owner is not given an explicit right to prevent genuine imports.[177] Comparing the treatment of patents and trademarks, copyrights are at least subject to domestic exhaustion and possibly international exhaustion.[178]

In sum, Mexican law recognizes international exhaustion under trademark law, possibly under copyright law, but not under patent law.[179] The territoriality doctrine applies to patent rights, whereby Mexican patent rights are only exhausted by a first sale in Mexico.[180]

In contrast to the civil remedies available in the United States, Mexican intellectual property rights are enforced through administrative and criminal remedies.[181] Copyrights are enforced by the National Institute of Author's Rights (INDAUTOR), while patents and trademarks are enforced by the Mexican Institute of Industrial Property (IMPI).[182] The IMPI provides the following administrative remedies: inspections, impoundment of violating goods, fines, business cessation, administrative arrest, and provisional measures.[183] The FLAR and IPL theoretically allow civil suits, yet the relevant provisions are rarely exercised in practice.[184] Similarly, injunctive relief is unavailable in practice, even

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176. *See* Serrano, *supra* note 160 (citing "Ley Federal del Derecho de Autor," (Federal Law of Author's Rights) D.O., 24 de deciembre de 1996 [Mex.]); Schmidt, *supra* note 157.

177. *See* Luis C. Schmid, *Exhaustion of Rights Under Mexican IP Laws*, MONDAQ BUS. BRIEFING, Mar. 22, 1999, *available in* LEXIS, World Library, Mondaq File [hereinafter *Exhaustion Rights*]; *cf.* Schmidt, *supra* note 157 (stating that in copyright law there is no first sale or equivalent).

178. *See* Schmidt, *supra* note 157 (explaining that copyrights are probably subject to domestic exhaustion, while international exhaustion would probably require explicit statutory support); *see also* Olivares & CIA, *supra* note 177 (arguing that the Mexican copyright law probably supports international exhaustion because there is no right to prevent legitimate imports, similar to the treatment of trademarks).

179. *See Exhaustion Rights*, *supra* note 177.

180. *See id.*

181. *See* Christina Moeckel, *Intellectual Property*, (visited Aug. 19, 1999) <http://www.natlaw.com/pubs/project.htm> [hereinafter Moeckel, *Intellectual Property*] (noting Mexico's lack of civil remedies); *see also* Serrano, *supra* note 160 (providing an overview of Mexican intellectual property and discussing means of enforcement in Mexico).

182. *See* Serrano, *supra* note 160.

183. *See id.*

184. *See id.* (explaining that practitioners avoid the Mexican judicial system in complex intellectual property matters because the system is slow).

though provisions in the IPL appear to provide such relief.[185] Mexican customs laws provide some measures to fight counterfeit goods, but no similar protection is provided to fight off parallel importers.[186] Finally, the administrative remedies such as those listed under the IMPI fail to provide for damages, profits, and attorneys fees.[187]

D. Japan

Japan currently appears to support international exhaustion of patents and trademarks, yet allows contracts and notice to prevent parallel imports.[188] In the area of patent law, Japan has traditionally applied domestic exhaustion of patent rights.[189] Accordingly, a patent owner's rights were exhausted upon first sale in Japan, but were unaffected by a first sale abroad.[190] On July 1, 1997, in *Jap-Auto Products, K.K. v. BBS Kraftfahrzeug Technique AG* (*Aluminum Wheels Case*), the Japanese Supreme Court affirmed the Tokyo High Court's decision to apply international exhaustion of patent rights.[191] Applying different reasoning than the Tokyo High

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185. *See id.* (describing three possible, but seldom exercised, forms of injunctive relief under the IPL: (1) ordering that infringing goods be withdrawn from circulation, (2) prohibiting marketing or use of infringing products, and (3) ordering the alleged infringer to cease infringing actions).

186. *See* Manson & Lo, *supra* note 50, at 91–95 (discussing Articles 148 and 149 of the Mexican Customs Law effective April 6, 1996, and explaining that an administrative or judicial resolution must be produced in order for the Customs Authorities to actually prevent counterfeit imports, making it very difficult to stop such imports).

187. *See* Serrano, *supra* note 160.

188. *See Economic Consequences*, *supra* note 69, at 25–26 (explaining Japan's international exhaustion doctrine and contract exception).

189. *See* Toshiko Takenaka, *Harmonizing the Japanese Patent System with Its U.S. Counterpart Through Judge-Made Law: Interaction Between Japanese and U.S. Case Law Developments*, 7 PAC. RIM L. & POL'Y J. 249, 269 (1998) (discussing the recent decision of the Japanese Supreme Court in the case of *Jap-Auto Products, v. BBS Kraftfahrzeug Technique AG*).

190. *See id.*

191. *See id.* The Japanese Supreme Court clearly stated that the extent of patent exhaustion is an issue of domestic patent law, having no relevance to the principles of territoriality and patent independence under the Paris Convention. *See* Jinzo Fujino, *Parallel Imports of Patented Goods: The Supreme Court Talks About Its Legality*, 22 AIPPI J. 163 (visited Dec. 20, 1999) <http://okuyama.com/c3v01ok.htm> (translating and discussing the Japanese Supreme Court's decision in *Jap-Auto Products v. BBS Kraftfahrzeug Technique AG*, Case No. Heisei 7(wo) 1988, delivered on July 1, 1997). Under the Paris Convention, a patent on a specific invention in one Convention country is independent of a patent on the same invention in another Convention country, thus an invention may receive varying rights—or no rights at all—from one country to another with no effect on patent rights in other countries. *See id.* at 4. Under the principle of territoriality, patent rights are determined by the laws

Court, the Japanese Supreme Court adopted the implied license theory to uphold international exhaustion, but also proposed a method for contracts and notices to preclude international exhaustion.[192]

The Japanese Supreme Court explained that an implied license arises through the act of a sale, wherein all of the seller's rights related to the goods are transferred to the buyer.[193] However, the court explained that the seller could prevent parallel importation by placing restrictions on the rights conferred through selling the patented invention.[194] First, the patentee may prevent the buyer from parallel importing by contract, wherein the buyer may not resell the goods in Japan.[195] Second, the patentee may prevent third parties and subsequent buyers from parallel importing by placing notice of the agreement on the goods.[196]

The Japanese Supreme Court also recognized that counterpart patents existing in other countries are not necessarily identical and may be owned by someone other than the Japanese patent owner.[197] Accordingly, the Supreme Court explained that international exhaustion only applies to foreign sales by the patentee, "a subsidiary[,] or an affiliated company which can be regarded as an entity identical to the

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of each individual country and are only effective in each granting country. *See id.*

192. *See* Fujino, *supra* note 191 at 4 (explaining the Japanese Supreme Court's implied license reasoning, wherein a buyer receives an implied license to all of the seller's rights in the goods purchased). In contrast, the Tokyo High Court based its decision on principles of free trade and economic reasoning, explaining that a patentee is entitled to only one compensation for its patented product. *See* Takenaka, *supra* note 189, at 269; *see also* Harold C. Wegner, *Patent Parallel Imports in Japan, Consumer Promise or Patent Peril: The Aluminum Wheels Parallel Import Case*, Foley & Lardner, Biotechnology and Pharmaceutical Practice Group <http://www.foleylardner.com/PG/IP_BIOT/pate25_alum.html> (discussing the decision of the Tokyo High Court). Therefore, once a patented product is sold at home or abroad, the patentee's exclusive rights are exhausted and no objections can be made to parallel importing. *See* Takenaka, *supra* note 189, at 269. The Tokyo High Court also noted that international exhaustion applies regardless of the location of first sale, unless the patentee receives less than full compensation due to regulations or foreign laws such as compulsory licenses. *See id.*; Wegner, *supra*, at 27.

193. *See* Fujino, *supra* note 191.

194. *See id.*

195. *See id.*

196. *See id.*

197. *See id.*

patentee," regardless of whether the patentee or related entity has a counterpart patent in the foreign country.[198]

In conclusion, once the Japanese patent owner, or an entity related to the patent owner, sells its patented goods outside of Japan, absent an explicit agreement and notice restricting the buyer from distributing the goods back into Japan, the Japanese patent rights are exhausted, preventing relief when the buyer parallel imports the goods back into Japan.[199] The Japanese Supreme Court's decision indicates a strong influence from U.S. law, as it applied the implied license doctrine adopted in U.S. courts.[200] As one of the most developed nations in the world, both economically and technologically, Japan's new position allowing international patent exhaustion will surely have global effects in intellectual property and business relations with Japan.[201] Nevertheless, the impact of this case remains to be seen, as the Japanese courts traditionally apply only domestic patent exhaustion.[202]

E. China

The Patent Law of the People's Republic of China specifically addresses the issue of acts that constitute patent

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198. *Id.* (explaining that international exhaustion only applies where there is some relation between the patentee and the foreign seller). The Japanese Supreme Court also discussed the double compensation reasoning employed by the Tokyo High Court and noted that the double profiting argument fails when there are counterpart patents involved. *See id.* Counterpart patents are separate and represent different rights from the Japanese patent, thus there can be no claim of double profiting even if the Japanese patent owner owns the counterpart patent and enforces its Japanese patent against the goods sold under the counterpart patent. *See id.* at 4–5. In contrast, the Japanese Supreme Court's implied license theory does not depend on the distinction between the domestic and counterpart patents, but rather depends on the relation between the Japanese patentee and the foreign seller. *See id.*

199. *See id.* at 5–6. The court held that the goods were sold by the Japanese patent owner in Germany without any reservation as to resale rights, hence the Japanese patent rights were exhausted. *See id.*

200. *See* Takenaka, *supra* note 189, at 268, 270.

201. *See* Ako Shimada Williams, *International Exhaustion of Patent Rights Doctrine: Is Japan's Move a Step Forward or Back from the Current Harmonization Effort?*, 7 J. INT'L L. & PRAC. 327, 358 (1998) [hereinafter *International Exhaustion*]; Kremen, *supra* note 14, at 183–84.

202. *See* Ladas & Parry, *Japan—Infringement of Patents by Parallel Imports*, INTELL. PROP. BULL. & NEWSL. Dec. 1997 <http://www.ladas.com/BULLETINS/1997/1297Bulletin/Japan_PatInfrgParImports.html>. Many critics fear that the decision may severely harm the pharmaceutical and agri-chemical industries, which depend on an exclusive market to justify the high costs of pre-marketing approval. *See International Exhaustion*, *supra* note 201, at 327–28, 351.

infringement and exhaustion.[203] Article 11 confers to patent owners the right to "make, use or sell the patented product," the right to permit the use or sale of its product obtained by a third party from a patented process, and "the right to prevent any other person from importing, without its or his authorization" for the aforementioned rights.[204] However, Article 62 states:

> None of the following shall be deemed an infringement of the patent right:
>
> (1) Where, after the sale of a patented product that was made by the patentee or with the authorization of the patentee, any other person uses or sells that product;
>
> (2) Where any person uses or sells a patented product not knowing that it was made and sold without the authorization of the patentee . . . .[205]

Although Article 62 fails to address importation, the Patent Law arguably supports international patent exhaustion if Articles 11 and 62 are interpreted together.[206] Article 62(1) is silent as to the location of the first sale necessary to exhaust the patent rights, focusing primarily on the genuine character of the patented goods.[207] Furthermore, paragraph (2) excuses an innocent third party who sells a patented product which was not originally authorized to be made and sold by the patentee.[208] Accordingly, once a patented product is made by an authorized party, a buyer may freely resell the product to a third party, who may also resell the product even if the original sale was unauthorized.[209] Absent a limitation on the location of first sale, a foreign buyer should be free to parallel import the patented products into China.

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203. Patent Law of the People's Republic of China, art. 62, adopted Mar. 12, 1984, amended Sept. 4, 1992 (Chinese Patent Office, trans.) (visited July 23, 1999) <http://www.cpo.cn.net/p31e.htm> [hereinafter Patent Law of PRC].

204. *Id.* art. 11.

205. *Id.* art. 62.

206. *See id.* at arts. 11, 62 (suggesting that the language of Article 62(1) seems to exhaust the right to sell a patented product once it is first sold, with no limitation on location of first sale, provided the patented product is genuinely made by the patentee or one authorized by the patentee).

207. *See id.* art. 62. Typically, a genuine product is one that is manufactured by the patentee. *See* Friedman, *supra* note 5, at 27.

208. *See* Patent Law of PRC, *supra* note 203, art. 62(2).

209. *See id.* art. 62(1), (2).

F. Hong Kong

Although Hong Kong recently reverted to Chinese sovereignty, the country will remain a separate "Special Administrative Region" for at least fifty years, during which time Hong Kong's previous laws remain in force.[210] The Hong Kong Special Administrative Region (Hong Kong SAR) passed a Copyright Ordinance prohibiting parallel importation of copyright articles.[211] The Copyright Ordinance gives copyright owners the sole importation right supported by both civil and criminal remedies.[212] However, the availability of the aforementioned remedies may first require the copyright owner to take reasonable steps to enforce its exclusive importation right, such as giving public notice of any restrictions and sole distributorships.[213] Criminal sanctions are only available for eighteen months after the first publication, after which time only civil remedies are available.[214] Criminal sanctions include maximum fines of $50,000 per infringing copy and up to four years imprisonment.[215] Criminal sanctions are enforced by the Customs and Excise Department, which has broad search

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210. John Richards, *Recent Patent Law Developments in Asia*, 7 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 599, 610 (1997) (discussing the effect of the transfer on Hong Kong's laws).

211. *See* Copyright Ordinance, ch. 528, June 27, 1997 (visited Oct. 2, 1999) <http://www.justice.gov.hk/blis.nsf>; *see also* Ceri Williams, *Lawmakers Order Review of 'Unfair' Copyright Law*, S. CHINA MORNING POST, Oct. 11, 1998, at 4 [hereinafter Williams, *Lawmakers Order Review*] (noting that the Copyright Ordinance was passed four days before the handover); *see also Parallel Importation of Copyright Articles*, Legislative Council Panel on Trade and Industry, Trade and Industry Bureau, Sept. 1998 (visited Oct. 4, 1999) http://www.legco.gov.hk/yr98-99/english/panels/ti/papers/ti10106e.htm> [hereinafter *Parallel Importation*] (discussing the background and legislative history of the copyright ordinance); Gren Manuel, *Piracy Thrives Under Parallel Import Law*, S. CHINA MORNING POST, Sept. 15, 1998, at 15 (noting that Hong Kong originally intended to decriminalize parallel imports in favor of consumers, but due to external influences, the government retained criminal sanctions in favor of the copyright owners).

212. *See Parallel Importation*, *supra* note 211; *see also Intellectual Property in Hong Kong,* (Intell. Prop. Dep't. ed.) <http://www.info.gov.hk/ipd/> (explaining that copyright holders are protected against parallel imports, provided they act reasonably).

213. *See Intellectual Property in Hong Kong*, *supra* note 212. The copyright owner may also lose the exclusive importation right by unconscionably withholding the work from the Hong Kong SAR. *See id.*

214. *See Parallel Importation*, *supra* note 211. First publication is not limited to the Hong Kong SAR, but means the first publication or release anywhere in the world. *See id.*

215. *See id.*

and seizure powers for matters relating to intellectual property infringement.[216]

The Copyright Ordinance was intended to favor the copyright owners, but it may actually increase piracy and reduce the availability of goods to the detriment of all parties.[217] The Copyright Ordinance requires importers to go through limited authorized local distributors, thereby resulting in higher prices and less product selection.[218] Colin Grant, owner of Movieland, complained of product shortage and commented that the new legislation "has forced many businesses to close."[219] Legislator Selina Chow Liang Shuk-yee commented that some of the retailers complained of piracy "flourishing on the black market to fill the gap."[220] The result is that consumers are paying more for a limited selection of authorized goods, while pirates are supplying goods unavailable to local retailers, to the detriment of retailers and copyright owners.[221]

G. Korea

Effective November 6, 1995, the Korean government amended its regulation concerning export/import clearance of intellectual property at Customs, allowing parallel importation of genuine goods in certain situations.[222] The new law effectively allows parallel importation of genuine goods bearing a foreign counterpart trademark, provided that the foreign trademark was affixed to the goods under the foreign trademark owner's authorization and provided that either: (1) "the foreign and local [trademark] holders are the same or are in a relationship making them essentially the same entity," such as common ownership or control or an

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216. *See Intellectual Property in Hong Kong, supra* note 212.

217. *See* Louise Lucas, *Hong Kong's Copyright Law Finds Few Friends as Pirates Occupy 'Twilight Zone,'* FIN. TIMES, Jan. 8, 1999, at 4 (reporting on the effect of parallel import legislation on retailers).

218. *See* Williams, *Lawmakers Order Review*, *supra* note 211, at 4 (reporting on the Legislature's response to complaints from video retailers); *see also* Lucas, *supra* note 217 (explaining that the Copyright Ordinance is harming consumers because retailers cannot provide many nonmainstream goods due to the limited number of local distributors, who are raising prices as they become monopoly suppliers).

219. *Id.*

220. *Id.*

221. *See* Williams, *Lawmakers Order Review, supra* note 211, at 4.

222. *See Border Enforcement Regulation Revised to Allow Parallel Importation*, BNA PAT. TRADEMARK & COPYRIGHT L. DAILY, Jan. 16, 1996, *available in* LEXIS, Patent Library, Bnaptd File [hereinafter *Border Enforcement*].

agency relationship or (2) the domestic trademark owner grants a "local exclusive license," the licensee being in a business relationship as described above, but excluding situations where the licensee is only involved in domestic manufacturing and sales of the trademarked goods.[223]

In sum, the key in Korea is the relationship between the foreign and domestic trademark holders.[224] An unrelated foreign trademark holder may be prohibited from importing its foreign trademarked goods.[225]

H. Indonesia

The gray market has flourished in Indonesia due to fluctuating currencies, having a strong impact on information technology products.[226] MNCs complain about the gray market's harmful effects, as parallel imports affect their marketing efforts and cause consumer confusion over warranty application.[227] In the area of patent law, Indonesia is currently considering a proposed amendment to prevent unauthorized importation.[228]

I. Singapore

On June 30, 1998, in *Remus Innovation v. Jeep Chee*, the High Court of Singapore held that the "sale of parallel

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223. *Id.*

224. *See id.*

225. *See id.*

226. *See* Wiwiek Juwono, *Parallel Imports Take a Chunk out of Distributor Profits*, ASIA COMPUTER WKLY., Dec. 21, 1998, *available in* 1998 WL 13861738. Marketing manager for Canon, Danny Harjono, commented that unstable currency exchanges encourage IT retailers to make a quick buck on the gray market. *See id.* The gray market has slowed down since recent spikes in January and May of 1998, but the impact of the rampant gray market activity had a destructive effect. *See id.*

227. *See Feds Set Plan to Black Out Gray Market,* DISCOUNT STORE NEWS, July 21, 1986 at 1, *available in* LEXIS, Market Library, Disstr File; *see also* Juwono, *supra* note 226; Friedman, *supra* note 5, at 29 (explaining that consumers buy gray goods which typically do not have a warranty, but then seek warranty service from the original manufacturer, who often provides such service to maintain its reputation even though it is not obliged to provide such service). Agus Honggo of Metrodata commented that consumers buying on the gray market must be aware that their products are not covered by the manufacturer's warranty, consequently increasing their cost if anything goes wrong with their merchandise. *See* Juwono, *supra* note 226.

228. *See* Richards, *supra* note 210, at 636–37 (discussing Indonesia's proposed amendments to its Patent Law, wherein "unauthorized importation" will be added to the list of infringing actions).

imports was a perfectly lawful business."[229] Following *Imperial Tobacco Co. of India, Ltd. v. Bonnan*,[230] the High Court proposed that:

> Apart from contract or misrepresentation there is nothing to prevent a person from acquiring goods from a manufacturer or his buyer and selling them in competition with him, even in a country into which the manufacturer, or his agent, has been the sole importer and distributor.[231]

The High Court further noted that there is no cause of action for an infringement of exclusive distributorship rights.[232] In sum, the Singapore High Court appears to adopt the international exhaustion of rights doctrine.[233] Although the case was brought under copyright infringement and passing off, the High Court's holding appears to apply regardless of the intellectual property involved.[234] However, as the High Court noted, contract law could be used to prevent buyers or distributors from parallel importing the copyright owners goods,[235] similar to the Japanese Supreme Court's recent holding in the *Aluminum Wheels* case.[236] The actual effect of *Remus Innovation* remains to be seen, but it will probably have a major impact on parallel imports in Singapore.[237]

J. *Thailand*

A patent law amendment bill was recently passed by Thailand's Senate directly affecting gray market goods.[238]

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229. *Remus Innovation Forschungs-Und Abgasanlagen-Produktionsge sellschaft mbH & Anor v. Hong Boon Siong & Ors*, 1991-1 S.L.R. 179, 1998 S.L.R. LEXIS 97, at 2 (1998).

230. *See id.* at 16 (citing Imperial Tobacco Co. of India, Ltd. v. Bonnan, AC 755 (1924)).

231. *Id.* at 16.

232. *See id.* at 15–16.

233. *See id.* at 16.

234. *See id.* at 2, 16.

235. *See id.* at 16.

236. *See* Fujino, *supra* note 191.

237. *See* Ladas & Parry, *Singapore—Parallel Imports of Genuine Products Allowed*, November 1995 Information Letter P-S (visited July 2, 1999) <http://www.ladas.com/BULLETINS/1995/BULLETIN.1195.PS.html> [hereinafter Ladas & Parry, *Singapore*] (discussing *Remus Innovation v. Jeep Chee*).

238. *See* Say Sujintaya, *Thailand Pushes Its Patent Law Towards International Standards*, INTELL. PROP. WORLDWIDE, Mar./Apr. 1999 (discussing Thailand's proposed patent amendment, one provision of which focuses on

Thailand's current Patent Law provides five exceptions to patent rights, one of which immunizes "'any act connected with products acquired in good faith.'"[239] The bill narrows this exception to the area of gray market goods, specifying that patent rights are unenforceable against:

> [A]ny use, sale, possession for sale, offer for sale or importation of patented products if the patentee permits or gives consent to the original manufacture or sale of the aforesaid products.[240]

The bill appears to apply the doctrine of international exhaustion, in a very broad sense of the term. The bill provides for exhaustion upon either first sale or manufacture, provided that the patentee consented.[241] Furthermore, the bill allows importation upon consensual first sale or manufacture, yet it does not specify where the first sale must occur in order to trigger exhaustion.[242] The outcome of this bill remains to be seen.

K. Taiwan

In Taiwan, intellectual property rights are regulated by administrative law,[243] under which the government recently implemented a monitoring system for parallel imports.[244] Taiwan's Trademark Law specifically addresses parallel imports in Article 23, paragraph 3, but fails to define the scope of trademark exhaustion.[245] In the areas of copyright

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allowing parallel imports of products originally made or sold by patentee, or with the patentee's consent).

239. *Id.*

240. *Id.*

241. *See id.*

242. *See id.*

243. *See* H. G. Chen and John Kehoe, *Taiwan's IP Regime Becomes More Fair and Open: But Expect Big Delays in Awarding and Enforcing IP Rights*, INTELL. PROP. WORLDWIDE, Special to Intell. Prop. Worldwide, Mar./Apr. 1999 (explaining that The National Bureau of Standards (NBS) of the Ministry of Economic Affairs currently handles all intellectual property registrations, but a newly created Bureau of Intellectual Property (BIP) will assume all of the NBS's intellectual property duties pursuant to amendments enacted on October 28, 1998).

244. *See IPR and Its Relevance to the Development of the Information Industry in Taiwan*, Ministry of Economic Affairs, Taiwan National Bureau of Standards, ch. 2, § B (visited: July 7, 1999) <http://stlc.iii.org.tw/stlc/NBS-R3.htm> [hereinafter *IPR Relevance*].

245. *See* Andy Y. Sun, *From Pirate King to Jungle King: Transformation of Taiwan's Intellectual Property Protection*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 67, 99 (discussing the exhaustion of rights doctrine in the context of trademarks).

and patent law, an exclusive importation right is provided in the revised statutes.[246]

The Trademark Law fails to address whether the doctrine of territoriality applies to parallel imports or whether a lawful first sale results in international exhaustion.[247] In *Taiwan Meiji Co. v. San-Pang Trading Co.*, the Supreme Court of Taiwan justified parallel imports of trademarked goods, explaining:

> For parallel import of genuine goods, its quality is identical to the product marketed and distributed by the trademark right owner or his or her licensee, and it causes no concern over likelihood of confusion, misident-ification, or misleading of the product. Thus, it causes no harm to the goodwill of the trademark right holder or the interests of the consumers.[248]

In justifying parallel imports, the Supreme Court reasoned that the trademark owner's goodwill is not harmed by genuine goods of identical quality, and the consumer is benefited by increased price competition and greater availability of goods.[249] Therefore, trademark goods may be parallel imported, provided they are not substantially different in quality.[250]

The 1993 revised Copyright Law gives copyright owners the right to "prevent the unauthorized import of copyrighted goods," and Customs may block imports unless the importer is listed as an authorized importer in the Customs database.[251] Since the amendment of April 28, 1993 the Copyright Law effectively prevents the importation of more than one copy of any copyrighted work, unless specifically authorized by the Taiwanese copyright owner.[252]

Taiwan's Patent Law, as revised in 1994, provides "the right to control unauthorized importation of patented

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246. *See IPR Relevance*, *supra* note 244, ch. 3, §§ B, D (discussing the amendments to Taiwan's patent and copyright laws, whereby the right to exclude unauthorized imports was expressly included).

247. *See* Sun, *supra* note 245, at 86, 114.

248. *Id.* at 100 (citing Taiwan Meiji Co. v. San-Pang Trading Co., (81) Tai Shang Tzu Ti No. 2444 (Civil Judgment of the Supreme Court, Oct. 22, 1992)).

249. *See id.*

250. *See id.*

251. *IPR Relevance*, *supra* note 244, ch. 3, § D.

252. *See* Sun, *supra* note 245, at 114 (explaining that the United States pressured Taiwan, with threats of trade sanctions, to amend its copyright law in favor of a policy of territorial exhaustion rather than international exhaustion).

goods."[253] However, the extent of these exclusive importation rights are probably limited by the exhaustion of rights doctrine.[254] Section 57(1)(6) of the 1994 Patent Law seems to suggest international patent exhaustion, yet it does not affirmatively state such a policy, leaving the door open for courts to decide.[255] However, commentators expect that Taiwan will follow the Japanese court's holding in the *Aluminum Wheels* case and adopt international patent exhaustion.[256]

In sum, Taiwanese intellectual property owners, specifically in patent and copyright law, have an exclusive importation right, which is at a minimum probably subject to domestic exhaustion.[257]

L. Australia

In July 1998, the Australian government repealed its parallel import restrictions regarding copyrighted musical works and sound recordings.[258] The new copyright law allows parallel imports of copyrighted articles without the copyright owner's consent, provided the articles were originally made "by or with the consent" of the copyright owner and "without infringing any copyright" in the country in which the articles were made.[259] The July change to the Copyright Act is a potential disaster for Australia's music industry, worth 1.5% of the world market.[260] The government thought the new legislation would reduce compact disk prices, but instead it caused artists and labels to look abroad toward international deals rather than establishing their work in the domestic

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253. *IPR Relevance*, *supra* note 244, ch. 3, § B (noting the 1994 revisions to Taiwan's Patent Law).

254. *See* Richards, *supra* note 210, § VIII (discussing the 1994 patent amendments).

255. *See id.* (discussing the first sale doctrine under the 1994 Patent Law in Taiwan); *see also* Sun, *supra* note 245, at 87—88 (noting that the legislators did not want to adopt a specific policy regarding the territorial extent of patent exhaustion, and citing art. 57(1) of the Taiwanese Patent Law); *see also generally IPR Relevance*, *supra* note 244.

256. *See* Richards, *supra* note 210, § VIII.

257. *See id.*

258. *See* Warwick A. Rothnie, *Australian Government Unveils Additional Copyright Reforms*, BNA PAT. TRADEMARK & COPYRIGHT L. DAILY, June 10, 1998, *available in* LEXIS, Bna Library, Bnaptd File (discussing the Copyright Amendment Bill of 1997).

259. *Id.*

260. *See* Christie Eliezer, *Parallel Imports Mar an 'Ordinary Year' in Australia*, BILLBOARD, Dec. 26, 1998, at 61.

market.[261] Because many businesses fear further parallel importation legislation,[262] the Australian government is considering opening the market to gray market books and computer software.[263] Even more importantly, if the government continues to broaden the scope of copyrighted articles that can be parallel imported, the use of copyrighted labels, packaging, and manuals will no longer provide a means of prohibiting gray market goods.[264]

In the area of Australian trademark law, it appears that parallel imports are generally allowed.[265] Section 123(1) of the Trademarks Act of 1995 provides that "a person who uses a registered trade mark does not infringe that trade mark if it has been applied by or with the consent of the registered trade mark owner."[266] The trademark need not be applied to the goods in Australia, as section 123(1) only requires that the Australian trademark owner, or an authorized party, affixes the trademark to the goods.[267] In sum, Australian trademark law seems to support international trademark exhaustion upon authorized affixation of the Australian trademark.[268]

Australian patent exhaustion depends on the circumstances surrounding the first foreign sale.[269] If an

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261. *See id.*

262. *See Lifting of Import Restrictions on Audio Carriers*, ONE TO ONE, Sept. 1998, at 22.

263. *See* Gwen Robinson, *Australia Presses for Liberalisation of Parallel Imports*, FIN. TIMES, Mar. 4, 1999, at 6 [hereinafter Robinson, *Australia Presses*].

264. *See* Bill Bennett & Kerry Newcomb, *Parallel Imports in Australia*, INTELL. PROP. TODAY, (visited July 1, 1999) <http://www.lawworks.iptoday.com/current/bennett.htm> (discussing Section 37 of the Copyright Act of 1968, which prohibits parallel importation of copyrighted articles even if the copyrighted article is only ancillary to the gray goods, but noting that this position could change in light of the government's developing policy regarding parallel imports).

265. *See* Rodney De Boos, *Attack on Australia's Gray Market Creates New Risks for Foreigners*, INTELL. PROP. WORLDWIDE, July/Aug. 1999, available in LEXIS, News Library, Ipww File.

266. *Economic Consequences*, *supra* note 69, at 27 (citing § 123 of the Australian Trade Marks Act of 1995); *see also* De Boos, *supra* note 265 (citing and discussing § 123(1) of the Australian trademark law).

267. *See Economic Consequences*, *supra* note 69, at 27 (explaining that Australian Courts view a trademark owner's conduct of affixing their trademark to a product abroad as consent to import the product into Australia); *see also* De Boos, *supra* note 265 (explaining that trademark rights have no extraterritorial affect, but the trademark may be applied in any country by the Australian trademark owner or an authorized party).

268. *See Economic Consequences*, *supra* note 69, at 27.

269. *See* Bennett & Newcomb, *supra* note 264 (discussing patent exhaustion, and the implied license theory).

Australian patent owner makes a foreign sale, the buyer is given an implied license to sell the patented invention in Australia.[270] If someone other than the patentee makes the foreign sale, then no implied license is transferred with the sale.[271] The implied license depends on the authority of the foreign seller to also sell in Australia, thus patent exhaustion really depends on the circumstances of the case.[272] Nevertheless, domestic patent exhaustion appears to apply, unless the Australian patent owner (excluding licensees) makes the first sale without any express restrictions.[273]

M. New Zealand

To the surprise of many MNCs, and to the consternation of the U.S. government,[274] New Zealand recently removed its parallel importing restriction from the Copyright Act of 1994,[275] and basically took the position of encouraging such behavior in order to benefit consumers.[276] U.S. Trade Representative Charlene Barshefsky stated her office was "troubled that this far-reaching decision would be taken with such haste and with so little consultation with concerned interests, both foreign and domestic."[277] New Zealand then passed the legislation on May 16, 1998, just two days after announcing the plan.[278] Neil Turkewitz, executive vice president of the Recording Industry Association of America, expressed similar concern, stating that the U.S. copyright industry will "do everything in [its] power to reverse this ill-

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270. *See id.*

271. *See id.*

272. *See id.*

273. *See Economic Consequences*, *supra* note 69, at 25, 27.

274. *See* Gerald Raymond, *Companies Quick to Fight Parallel Imports*, PRESS (CHRISTCHURCH), Oct. 8, 1998, at 27, *available in* LEXIS, News Library, Tpress File; *see also* Gwen Robinson, *US Warns New Zealand over Parallel Imports,* FIN. TIMES, May 20, 1998 at 6 [hereinafter Robinson, *US Warns New Zealand*]; *see also U.S. Accuses NZ Government of Misleading Public Over Import Laws*, AGENCE FR. PRESSE, May 17, 1998, at 7 (quoting U.S. Ambassador Josiah Beeman, who commented that "no developed economy has completely eliminated parallel importation rights for copyright holders").

275. *See Parallel Importing—Executive Summary*, Competition and Enterprise Branch, (modified June 18, 1998) <http://www.moc.govt.nz/cae/parallel.html> (discussing the benefits and detriments of removing New Zealand's parallel import restrictions from the Copyright Act).

276. *See* Marc Selinger, *USTR Announces Review of New Zealand's Intellectual Property Laws*, BNA PAT. TRADEMARK & COPYRIGHT DAILY, May 29, 1998, *available in* LEXIS, Bna Library, Bnaptd File; s*ee also* Robinson, *US Warns New Zealand*, *supra* note 274.

277. Selinger, *supra* note 276, at 6.

278. *See id.*

considered decision, including, if necessary, ensuring that all of New Zealand's initiatives with the United States receive a frosty reception."[279] In response to protests from the United States, Jenny Shipley, New Zealand's Prime Minister, warned that they "will not be told how to run [their] country."[280]

New Zealand's government insists that gray goods benefit the consumer by providing lower prices and greater availability.[281] However, Lifestyle Sports manager Katrina Manaena commented that some products sold on the gray market are of an inferior quality.[282] Errol McKenzie of Philips New Zealand noted that many products imported by gray marketers may not meet New Zealand's technical specifications.[283] In addition to product problems, the new legislation may put the smaller shops out of business.[284] The smaller shops do not have the buying power of the larger shops, so the legislation hurts the smaller players who cannot get into buying groups to bring in the cheaper parallel imports.[285]

The impact of this legislation remains to be seen, and intellectual property owners must take precautionary measures to protect themselves in this market.

IV. REMEDIES

A. *Self-Help*

MNCs may protect themselves against parallel imports by actively placing their goods within the scope of intellectual property laws.[286] The most drastic approach would be to simply refuse to export to countries requiring a discounted price in order to be competitive.[287] This would eliminate price differentials that gray marketers thrive on, although it would also eliminate an additional profitable market for the MNC.[288] However, MNCs should take more positive measures to retain

279. *Id.*
280. Robinson, *US Warns New Zealand*, *supra* note 274, at 6.
281. *See id.*
282. *See* Hadyn Jones, *Imports Encouraged*, SOUTHLAND TIMES (New Zealand), Dec. 5, 1998, at 9, *available in* LEXIS, News Library, Majpap File.
283. *See* Raymond, *supra* note 274, at 27.
284. *See* Jones, *supra* note 282, at 9.
285. *See id.*
286. *See* Friedman, *supra* note 5, at 29–50 (1998).
287. *See* Robert W. Clarida, *US Supreme Court Removes Bar to Parallel Imports*, INTELL. PROP. WORLDWIDE, July/Aug. 1998, *available in* LEXIS, News Library, Ipww File.
288. *See id.*

the foreign market, while also protecting themselves against parallel imports.[289]

First, the MNC could differentiate their products directed toward foreign markets, intentionally creating material differences with its U.S. counterpart.[290] These material differences would provide protection under the Lanham Act.[291] Visible product distinctions may be sufficient.[292]

Second, MNCs should mark their products by distributor, intended country, and other such information helpful in identifying the source of the gray goods ending up in the United States.[293] However, labels such as these may be subject to the same de-labeling devices used by gray marketers to remove other such information in the past.[294]

Third, the *L'Anza* court suggested that the MNC could prevent competition with parallel importers either by advertising in the foreign market and raising prices or marketing goods directed to foreign countries under a different brand name to avoid confusion with the U.S. brand name.[295] MNCs could also move their manufacturing operations into foreign countries in order to avoid the application of the first sale doctrine under the Copyright Act, because the *L'Anza* decision was limited to goods manufactured in the United States.[296]

B. Customs

Customs officials have some authority to prevent parallel imports from entering the United States.[297] Counterfeit goods are absolutely within their reach, but gray goods are somewhat more slippery.[298] Trademarked goods can only be stopped if manufactured in a foreign country while having a

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289. *See id.*

290. *See* Friedman, *supra* note 5, at 49 (suggesting strategies by which U.S. producers and licensees may protect their interests against unauthorized importations).

291. *See id.* at 49.

292. *See id.* at 28–29, 49.

293. *See id.* at 49–50.

294. *See Gray Market Importation Restricted Under Customs Final Rule*, ROSESHEET (F-D-C REPORTS) (Mar 1, 1999), *available in* 1999 WL 8338301.

295. *See* Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc., 523 U.S. 135, 153 n.29 (1998).

296. *See* Clarida, *supra* note 287.

297. *See* Friedman, *supra* note 5, at 42.

298. *See* John F. Sweeney, *Using U.S. Courts and International Treaties to Protect Against Infringement Abroad, and at Home*, at 9, 97 n.134 (PLI Patents, Copyrights, Trademarks, and Literary Property Course Handbook Series No. G4–3932, 1994).

U.S. registered trademark.[299] Parallel imports of trademarked goods are allowed where the U.S. and foreign trademarks are commonly owned or controlled.[300] Furthermore, Customs cannot stop goods manu-factured in the United States, exported, and then reimported.[301] Customs can prevent copyright violations only if they are piratical, but not if they are lawfully made copies.[302]

C. State Law

Intellectual property owners may turn to contract law or "the tort of intentional interference with contract . . . set out in section 766A of the *Restatement of Torts*."[303] MNCs could also turn to shrink-wrap licenses similar to those in the software industry, such that the consumer is a mere licensee of the product, rendering the first sale doctrine under the Copyright Act inapplicable.[304] Consumer protection laws also provide possible areas of protection.[305] However, the use of contract law may pose difficulties, and such contracts limiting a distributor's resale of goods could be found void under the doctrines of federal preemption and copyright misuse.[306]

V. CONCLUSION

The wide variance in views across countries, among the areas of intellectual property law, and even within the United States, makes it difficult for multinational companies to adequately protect their intellectual property rights.[307] Uniform laws are clearly needed in the area of gray goods, particularly if countries want to increase international trade and the interest of foreign businesses.[308] Companies may avoid a country altogether if the laws are unfavorable or

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299. *See* Friedman, *supra* note 5, at 43.
300. *See* K Mart Corp. v. Cartier, Inc., 486 U.S. 281, 294 (1988).
301. *See* Friedman, *supra* note , at 43.
302. *See id.* at 47.
303. *Id.*
304. *See* Clarida, *supra* note 287.
305. *See* Friedman, *supra* note 5, at 48.
306. *See* Clarida, *supra* note 287.
307. *See* Robert Jacobs et al., *Argentine Patent Protection Remains Inadequate,* 9 No. 2 J. PROPRIETARY RTS. 24 (1997) (noting that the Clinton administration has threatened sanctions because it believes that the Argentine law does not provide adequate protection and fails to meet international standard for intellectual property protection).
308. *See* Donnelly, *supra* note 1, at 497.

perhaps enter another less risky country where the intellectual property laws adequately protect its product.[309]

Policy arguments can go both ways regarding gray goods because the exhaustion of rights principle is really a trade-off between the intellectual property holders' rights and the consumer benefits of more competitive markets and lower priced goods.[310] Some countries like New Zealand have specifically favored the latter, by allowing the gray market to flourish and benefit its citizens.[311] The problem with such moves is that they affect every entity involved in the international market.[312]

MNCs should take affirmative steps to prevent gray market exploitation of its goods.[313] For example, all intellectual property should be properly registered with the U.S. Copyright Office, the USPTO, and all foreign intellectual property offices where goods are expected to be marketed.[314] Products could be manufactured with material differences in foreign countries, in order to maintain rights against trademark infringement.[315] In dealing with its distributors, the MNC could mark the products by distributor and the intended market and include liquidated damages clauses in its distributorship contracts.[316] Furthermore, as the Japanese Supreme court suggested in *Aluminum Wheels*, an MNC could contractually limit a buyer's importation rights and bind subsequent buyers through notice on the goods.[317] Finally, in the United States, state law may provide some relief in tort or contract.[318] Whatever course an MNC takes, it should not blindly sell its products in a country without first investigating the country's intellectual property protection, registering its intellectual property, and identifying any potential exceptions to the applicable exhaustion rules.

Tait R. Swanson

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309. *See* Clarida, *supra* note 287.

310. *See* Friedman, *supra* note 5, at 28 (comparing propenents argument that parallel imports gives discount retailers and consumers an alternative source of merchandise with opponents argument that parallel imports interfere with contracts and exclusive licensees).

311. *See* Robinson, *US Warns New Zealand, supra* note 274.

312. *See USTR Announces Review of Laws,* PAT. TRADEMARK & COPYRIGHT DAILY (BNA), May 29, 1998, *available in* LEXIS, UK Library, Fintme File.

313. *See* Clarida, *supra* note 287.

314. *See* Friedman, *supra* note 5, at 49.

315. *See id.*

316. *See id.*

317. *See* Fujino, *supra* note 191.

318. *See id.* at 50.