

# Michigan Telecommunications and Technology Law Review

---

Volume 21 | Issue 1

---

2015

## A Material World: Using Trademark Law to Override Copyright's First Sale Rule for Imported Copies

Mary LaFrance

*William S. Boyd School of Law, UNLV*

Follow this and additional works at: <http://repository.law.umich.edu/mttlr>

 Part of the [Courts Commons](#), [Intellectual Property Commons](#), [International Trade Commons](#), and the [Legislation Commons](#)

---

### Recommended Citation

Mary LaFrance, *A Material World: Using Trademark Law to Override Copyright's First Sale Rule for Imported Copies*, 21 MICH. TELECOMM. & TECH. L. REV. 43 (2015).

Available at: <http://repository.law.umich.edu/mttlr/vol21/iss1/2>

This Article is brought to you for free and open access by the Journals at University of Michigan Law School Scholarship Repository. It has been accepted for inclusion in Michigan Telecommunications and Technology Law Review by an authorized administrator of University of Michigan Law School Scholarship Repository. For more information, please contact [mlaw.repository@umich.edu](mailto:mlaw.repository@umich.edu).

# A MATERIAL WORLD: USING TRADEMARK LAW TO OVERRIDE COPYRIGHT'S FIRST SALE RULE FOR IMPORTED COPIES

Mary LaFrance\*

Cite as: Mary LaFrance, *A Material World: Using Trademark Law to Override Copyright's First Sale Rule for Imported Copies*, 21 MICH. TELECOMM. & TECH. L. REV. 43 (2014).  
*This manuscript may be accessed online at repository.law.umich.edu.*

## ABSTRACT

*When the Supreme Court held that the first sale rule of copyright law permits the unauthorized importation and domestic sale of lawfully made copies of copyrighted works, regardless of where those copies were made, copyright owners lost much of their ability to engage in territorial price discrimination. Publishers, film and record producers, and software and videogame makers could no longer use copyright law to prevent the importation and domestic resale of gray market copies, and therefore could no longer protect their domestic distributors against competition from cheaper imported copies.*

*However, many of these copyright owners can take advantage of a novel strategy under trademark law in order to reclaim their ability to maintain separate foreign and domestic markets. Copyright owners can invoke trademark law to prevent unauthorized parallel imports of lawful copies of their works as well as domestic distribution of those imported copies, thereby achieving an end-run around copyright's first sale rule. Thus far this strategy has succeeded, but its validity has not yet been tested in court.*

*Whenever copyright and trademark law overlap, the possibility of using one regime as an end-run around the other raises significant policy concerns. The trademark strategy described here gives copyright owners the power to exclude parallel imports and maintain high prices without conferring any significant public benefit, thus frustrating the goals of copyright law while failing to advance those of trademark law. While current judicial interpretations of trademark law permit this strategy, courts should consider whether their continued adherence to these standards disserves the public interest.*

---

\* IGT Professor of Intellectual Property Law, William S. Boyd School of Law, University of Nevada, Las Vegas. The author would like to thank the International Trademark Association (INTA) for the opportunity to present this paper at INTA's Annual Meeting in Hong Kong (May 10–14, 2014).

## TABLE OF CONTENTS

INTRODUCTION .....	44
I. THE LIBERALIZED COPYRIGHT RULES ON PARALLEL IMPORTS .....	46
II. TRADEMARK LAW AS A COPYRIGHT ALTERNATIVE .....	51
A. <i>Trademark Protection for Copyrighted Goods</i> .....	52
B. <i>Trademark Remedies Against Parallel Imports</i> .....	54
1. Lanham Act Remedies and Limitations .....	54
2. Tariff Act Remedies .....	62
3. Effectiveness of Seizure as a Remedy .....	62
C. <i>Applying Trademark Remedies to Copyrighted Works</i> ..	63
1. Material Differences under the Lanham Act .....	63
2. Tariff Act Strategy .....	67
D. <i>John Wiley &amp; Sons Invokes Trademark Law Against Parallel Imports</i> .....	68
III. QUASI-PREEMPTION UNDER <i>Dastar</i> ? .....	70
IV. CONFLICT WITH COPYRIGHT POLICY .....	72
CONCLUSION .....	76

## INTRODUCTION

Can copyright owners use trademark law to circumvent the first sale rule of copyright? In the case of parallel imports, the answer appears to be yes.

In both trademark and copyright law, non-counterfeit goods that are imported without the consent of the owner of the domestic intellectual property rights are referred to as parallel imports, or “gray market goods.”<sup>1</sup> Restricting parallel imports benefits domestic intellectual property owners by enabling them to offer their goods at higher prices in the United States than in foreign markets, without facing competition from imports of the foreign goods.<sup>2</sup>

In *Kirtsaeng v. John Wiley & Sons, Inc.*,<sup>3</sup> the Supreme Court addressed a longstanding ambiguity in the first sale rule of copyright law. The first sale rule permits the owner of “lawfully made” copies of a copyrighted work to transfer ownership or possession of those copies, notwithstanding the copyright owner’s exclusive distribution rights.<sup>4</sup> In its prior decision in *Quality King Distributors, Inc. v. L’anza Research International*,<sup>5</sup> the Court held that the first sale rule permits the importation of copies lawfully made in the United States even if the copyright owner intended them exclusively for

1. Ferrero U.S.A., Inc. v. Ozak Trading, Inc., 952 F.2d 44, 45 n.1 (3d Cir. 1991); K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988); 5 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29:46 (4th ed. 2013).

2. See ROSE ANN MACGILLIVRAY, PARALLEL IMPORTATION 19–21, 26–28 (2010) (discussing economic theory underlying territorial price discrimination).

3. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

4. See *infra* notes 11–12 and accompanying text.

5. *Quality King Distrib., Inc., v. L’anza Research Int’l*, 523 U.S. 135 (1998).

overseas distribution; however, *Quality King* did not decide whether the same rule applies to foreign-made copies. *Kirtsaeng* answered this question, holding that the first sale rule permits the unauthorized importation and domestic sale of copies that were lawfully made outside the United States, notwithstanding the exclusive importation rights of copyright owners. Together, these decisions were a major defeat to copyright owners, who can no longer rely on copyright law to divide their domestic and foreign markets to maintain higher domestic prices by foreclosing competition from cheaper imports.

However, copyright owners may find alternative remedies in trademark law. Although trademark law incorporates its own version of a first sale rule, that rule was not affected by *Kirtsaeng*, and further, does not apply when the goods bearing the trademark are materially different from the goods which the trademark owner has authorized for domestic sale.<sup>6</sup> In addition, some trademark owners can prevent importation of foreign-made goods even in the absence of material differences.

This Article reveals how copyright owners may invoke the Lanham Act and the Tariff Act of 1930 to protect against unauthorized parallel imports of their copyrighted works, as well as domestic distribution of those imported copies.<sup>7</sup> Traditionally, these trademark protections have been justified largely by the need to prevent consumer deception about the origin of goods or services,<sup>8</sup> which is not the fundamental concern of copyright law.<sup>9</sup> Nonetheless, under current law, copyright owners can exploit the trademark rules—originally aimed at consumer deception—to insulate themselves from price competition. If their efforts succeed, copyright owners will avoid the consequences of *Quality King* and *Kirtsaeng* and recapture their ability to segregate domestic and foreign markets by preventing parallel imports. At least one copyright owner—the same publisher whose infringement claim was rejected in *Kirtsaeng*—has already adopted this new strategy.<sup>10</sup>

Part I of this Article explains how *Quality King* and *Kirtsaeng* impact the copyright owners' importation rights. Part II examines the scope of trademark protection for copyrighted works, and explores the range and efficacy of trademark remedies that are currently available to copyright owners seeking to prevent importation of their works. Part III considers whether this application of trademark law will be precluded by Supreme Court precedent

---

6. See *infra* notes 73–77 and accompanying text.

7. Although copyright law uses the term “phonorecord” in place of “copy” with respect to sound recordings, 17 U.S.C. § 101 (2012), for simplicity the term “copy” is used here for all categories of copyrighted works.

8. I.P. Lund Trading ApS v. Kohler Co., 163 F.3d 27, 36 (1st Cir. 1998).

9. Copyright “is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.” Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984).

10. See *infra* notes 142–149 and accompanying text.

that disfavors the use of the Lanham Act to prevent activities that are lawful under copyright law, and Part IV raises policy concerns that may come to the forefront if this practice becomes widespread. The Article concludes that, in spite of the concerns raised in Parts III and IV, this novel legal strategy has a strong likelihood of succeeding.

#### I. THE LIBERALIZED COPYRIGHT RULES ON PARALLEL IMPORTS

In *Kirtsaeng*, the Supreme Court held that copyright's first sale rule—embodied in section 109(a) of the Copyright Act of 1976<sup>11</sup>—applies to all lawfully made copies, regardless of their country of manufacture.<sup>12</sup> As a result, copyright owners cannot invoke copyright law to prevent the unauthorized importation and domestic sale of lawfully made foreign copies of their copyrighted works, notwithstanding their exclusive importation rights under sections 106(3)<sup>13</sup> and 602(a) of the Copyright Act.<sup>14</sup>

This decision was a major defeat to copyright owners that distribute their copyrighted works through tangible copies, including books, CDs, home videos,<sup>15</sup> videogames, and art reproductions. Protection against parallel imports can be highly beneficial not only to publishers but also to manufacturers in any industry, because it enables them to engage in territorial price discrimination by setting different prices for their products in different global markets. A manufacturer may, for example, authorize the sale of its product in certain foreign countries at a lower price than in the United States. There are many reasons for this. For example, the economic conditions of the foreign country may require setting a lower price in order to be competitive. Local law may impose price controls. The manufacturer may not provide the same level of advertising and marketing support to retailers in the foreign country, or it may not provide the same kind of customer service or warranty support in that country. The manufacturer may also face greater economic risks under product liability laws in the United States than in other markets.<sup>16</sup>

---

11. 17 U.S.C. § 109(a) (2012).

12. 131 S. Ct. at 1355–56.

13. 17 U.S.C. § 106(3) (2012).

14. *Id.* § 602(a).

15. *Kirtsaeng* was less of a setback for movie studios than for other copyright owners, because most DVDs and many Blu-ray discs contain region codes that make them compatible only with players in the regions where they are sold. Like many technological protection measures, however, the region codes can be circumvented. *See infra* notes 172, 174, and accompanying text.

16. *See* MACGILLIVRAY, *supra* note 1, at 19–21, 26–28 (providing a detailed analysis of reasons for territorial price discrimination); Pernilla Larsson, *Parallel Imports – Effects of the Silhouette Ruling*, SWEDISH COMPETITION AUTH., 28–29 (1999), available at [http://www.kkv.se/upload/Filter/ENG/Publications/rap\\_1991-1\\_eng.pdf](http://www.kkv.se/upload/Filter/ENG/Publications/rap_1991-1_eng.pdf) (factors include cultural and historical differences, local purchasing power, insurance systems, charges, taxes, price controls, and exchange rates); Mary LaFrance, *Wag the Dog: Using Incidental Intellectual Property Rights to Block Parallel Imports*, 20 MICH. TELECOMM. & TECH. L. REV. 45, 47 (2013); Jacqueline

Prior to the Supreme Court's decision in *Kirtsaeng*, copyright owners had reason to believe that they could prevent the importation and domestic resale of foreign-made copies of their works even if those copies had been made with their consent—that is, even if they were non-pirated copies.<sup>17</sup> Case law from several federal courts indicated that the first sale rule did not apply to foreign-made copies.<sup>18</sup> This interpretation was reinforced by the Supreme Court's 1998 decision in *Quality King*.<sup>19</sup> In that case, the Court held that the first sale rule permitted the importation of copies that had been lawfully made in the United States prior to being exported. This was a significant holding because it established that the first sale rule limits the copyright owner's exclusive importation right.<sup>20</sup> The plaintiffs in *Quality King* did not own valuable copyrights in works such as sound recordings, books, or motion pictures. In fact, they were seeking to prevent parallel imports of uncopyrightable goods—hair care products. Instead of suing for trademark infringement,<sup>21</sup> the plaintiffs framed their complaint as copyright infringement, asserting copyright protection in the content of the labels on the product bottles. However, because the labels had been printed in the United States before being applied to the bottles, the Supreme Court held that, even though L'anza had exported the products and intended them for sale exclusively in foreign markets, the first sale rule allowed them to be reimported without L'anza's consent.<sup>22</sup> In the Court's view, the copyright owner's exclusive importation right under section 602(a) was merely one aspect of the

---

Nolan-Haley, *The Competitive Process and Gray Market Goods*, 6 N.Y.L. SCH. J. INT'L & COMP. L. 231, 233 (1983) (noting greater need for advertising, warranty service, and product liability insurance in some territories than in others).

17. See Irene Calboli, *Corporate Strategies, First Sale Rules, and Copyright Misuse: Waiting for Answers from Kirtsaeng v. Wiley & Omega v. Costco*, 11 NORTHWESTERN J. TECH. & INTELL. PROP. 221, 222 (2013).

18. See *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991) (records); *T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575 (D.N.J. 1987) (records); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 976–77 (N.D. Cal. 1986) (books); *Columbia Broad. Sys. v. Scorpio Music Distrib.*, 569 F. Supp. 47, 49 (E.D. Pa. 1983) (records), *aff'd mem.*, 738 F.2d 421 (3d Cir. 1984); *Nintendo of America, Inc. v. Elcon Indus.*, 564 F. Supp. 937 (E.D. Mich. 1982) (videogames); see also *Denbicare USA, Inc. v. Toys R Us, Inc.*, 84 F.3d 1143, 1149–50 (9th Cir. 1996) (suggesting that first sale rule applies to imported copies only after U.S. copyright owner has consented to their initial sale in the U.S.).

19. *Quality King Distribs., Inc. v. L'anza Research Int'l*, 523 U.S. 135 (1998).

20. *Id.* at 145.

21. The published opinions do not indicate why L'anza did not pursue trademark remedies. However, trademark relief was probably unavailable because L'anza (rather than a licensee) had directly authorized the use of its trademark on the goods, and the goods were not materially different from the goods authorized for domestic sale. See *Trademarks, Trade Names, and Copyrights*, 19 C.F.R. § 133.23 (2014) (restricting importation of genuine goods only when (a) the trademark was attached by someone other than the trademark owner or an affiliate under common ownership or control, or (b) the goods are not materially and physically different from those authorized for domestic sale).

22. *Quality King*, 523 U.S. at 145.

section 106(3) distribution right.<sup>23</sup> Because the first sale rule is an exception to the exclusive distribution right, it must also be an exception to the exclusive importation right.<sup>24</sup> *Quality King* therefore established the principle that, if a copy was lawfully made in the United States, the first sale rule superseded the copyright owner's exclusive right to control the importation of that copy. Although only a product label was at issue in that case, the holding applied equally to other copyrighted works.<sup>25</sup> Thus, for example, if books, CDs, or DVDs were manufactured in the United States and then exported for sale in foreign markets, the domestic copyright owner could not prevent them from being brought back to the United States to compete with domestic sellers.

The Court strongly implied, however, that the first sale rule did not apply to copies made *outside* of the United States.<sup>26</sup> Under this approach, if copyright owners arranged for copies to be manufactured overseas, they could authorize those copies to be sold exclusively in foreign markets and could use copyright law to prevent their importation for domestic sale. Although technically this part of the decision was dictum, lower federal courts generally embraced this interpretation.<sup>27</sup>

---

23. *Id.*

24. *Id.* In her *Kirtsaeng* concurrence, Justice Kagan expressed doubt as to the correctness of this holding. *Kirtsaeng*, 133 S.Ct. at 1372–73 (Kagan, J., concurring).

25. While acknowledging that the labels in question had “only a limited creative component,” the Court noted that its analysis would apply equally to “more familiar copyrighted materials such as sound recordings or books.” *Quality King*, 523 U.S. at 140.

26. The majority stated:

If the author of the work gave the exclusive United States distribution rights . . . to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, . . . presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

*Id.* at 148 (footnote omitted); *see also id.* at 147 (quoting Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law, 87th Cong., 1st Sess., 125–26 (H.R. Judiciary Comm. Print 1961))(suggesting that import ban on piratical copies should be extended to ban imports of foreign copies where U.S. and foreign publisher had agreed to divide the markets). Justice Ginsburg's concurrence noted: “[W]e do not today resolve cases in which the allegedly infringing imports were manufactured abroad.” *Quality King* at 154 (Ginsburg, J., concurring).

27. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988–90 (9th Cir. 2008), *aff'd by an equally divided court*, 131 S. Ct. 565 (2010) (per curiam); *Pearson Educ., Inc. v. Kumar*, 721 F. Supp. 2d 166, 176–78 (S.D.N.Y. 2010); *Microsoft Corp. v. Cietdirect.com LLC*, No. 08-60668-CIV, 2008 WL 3162535 (S.D. Fla. Aug. 5, 2008) (software); *UMG Recordings, Inc. v. Norwalk Distribs., Inc.*, No. SACV 02-1188, 2003 WL 22722410 (C.D.Cal. March 13, 2003) (records).



Trademark owners, as well as copyright owners, embraced *Quality King* as a possible solution to the problem of gray market goods. For example, in *Costco Wholesale Corp. v. Omega, S.A.*,<sup>28</sup> watchmaker Omega sought to prevent the unauthorized importation of genuine Swiss-made Omega watches that it had sold to a foreign distributor for sale only in foreign markets. Because the watches were genuine Omega products, and were not materially different from the watches authorized for sale in the U.S., Omega could not use trademark law to block their importation. Therefore, for the specific purpose of preventing importation and domestic sale, Omega engraved a copyrighted design on the back of each watch.<sup>29</sup> When Omega brought a copyright infringement claim against domestic retailer Costco for selling the imported watches, Omega prevailed in the Ninth Circuit,<sup>30</sup> and an equally divided Supreme Court upheld the decision.<sup>31</sup>

In *Kirtsaeng*, however, the Supreme Court expressly rejected *Costco*'s analysis and *Quality King*'s dictum, holding instead that the first sale rule permits the importation and domestic sale of lawfully made copies without regard to their place of manufacture.<sup>32</sup> Of course, some copyright owners may still choose to manufacture their copies overseas in order to take advantage of cheaper manufacturing costs. However, this choice will no longer enhance their control over domestic markets by allowing them to prevent domestic resale of foreign-made copies through copyright law.

*Kirtsaeng*'s facts illustrate the advantage that copyright owners once derived from their ability to use copyright law to block the importation of lawfully made copies of their works. The defendant, Supap Kirtsaeng, asked friends and family in Thailand to purchase English language college textbooks there, where they commanded lower prices than in the United States.<sup>33</sup> He then imported and resold them domestically for a profit.<sup>34</sup> A 2003 *New York Times* article confirms that this practice was widespread.<sup>35</sup> To discourage such arbitrage, textbook publisher John Wiley & Sons sued Kirtsaeng for copyright infringement, hoping to preserve its ability to sell copies at lower prices in foreign markets without fear that the cheaper copies would compete with the higher-priced copies offered for sale in the United States.

In addition to facilitating price discrimination between domestic and foreign markets, the power to block parallel imports of copyrighted works

---

28. 541 F.3d 982 (9th Cir. 2008).

29. *Omega S.A. v. Costco Wholesale Corp.*, No. CV 04-05443, 2011 WL 8492716, at \*1 (C.D. Cal. Nov. 9, 2011).

30. *Omega*, 541 F.3d at 982.

31. *Costco*, 131 S. Ct. at 565.

32. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355–56 (2013).

33. *Id.* at 1356.

34. *Id.*

35. See Tamar Lewin, *Students Find \$100 Textbooks Cost \$50, Purchased Overseas*, N.Y. TIMES (Oct. 21, 2003), <http://www.nytimes.com/2003/10/21/us/students-find-100-text-books-cost-50-purchased-overseas.html>.



could have allowed copyright owners to prevent domestic *secondhand* sales of any copies that were manufactured overseas. If the copyright owner manufactured its products outside of the United States, so that the books were not covered by the first sale rule, then the copyright owner could effectively eliminate most of the secondhand market because all unauthorized domestic sales of its products would be infringing. By preventing the sale of secondhand books, CDs, and DVDs, copyright owners could increase their sales of new copies, as well as the price of those copies.<sup>36</sup>

Under *Kirtsaeng*, however, copyright owners can no longer invoke copyright law to prevent domestic resales of lawful foreign-made goods.<sup>37</sup> Lawfully manufactured foreign made copies of any kind of copyrightable work can be imported and resold domestically (as either new or used goods) without the consent of the domestic copyright owner. After *Kirtsaeng*, copyright owners can no longer divide their domestic and foreign markets in order to maintain higher domestic prices by foreclosing competition from cheaper imports and limiting the secondhand market.

As publishers transition to digital delivery of content, some of the legal questions surrounding the unauthorized importation and distribution of copies will change, creating new opportunities for publishers to engage in territorial price discrimination. First, section 109(a) may not apply to the transfer of a digital file unless the tangible medium embodying the file (for example, an iPod) is also transferred, because the current technology for transferring digital files from one medium to another involves making, at least, a temporary copy of the file,<sup>38</sup> an action which may infringe the copyright owner's exclusive reproduction right.<sup>39</sup> Second, many digital copies are not "sold" but "licensed," and section 109(a) may not apply to licensed copies.<sup>40</sup> Thus, in the absence of a digital first sale rule, shifting from hard copy distribution to digital deliveries could help content owners maintain the separation of

---

36. See R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. REV. 577, 585–86, 591 (2003) (explaining that because of the first sale doctrine, sellers of new copies can charge high prices upon first release of the work, but face price competition once used copies become more available); Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 894–95 (2011) (acknowledging that resale markets reduce prices and promote availability).

37. See *Kirtsaeng*, 133 S. Ct. at 1355–56, 1358 (holding "that the 'first sale' doctrine applies to copies of a copyrighted work lawfully made abroad" and that under a contrary holding, a buyer of a copy lawfully made overseas "could not resell . . . that particular copy without further permission").

38. See *Capitol Records, LLC v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013).

39. 17 U.S.C. § 106(1); *ReDigi* at 651; see Clark D. Asay, *Kirtsaeng and the First-Sale Doctrine's Digital Problem*, 66 Stan. L. Rev. Online 17 (May 7, 2013), <http://www.stanfordlawreview.org/online/kirtsaeng-and-first-sale-doctrines-digital-problem>; John Villasenor, *Rethinking a Digital First Sale Doctrine in a Post-Kirtsaeng World: The Case for Caution*, 2 CPI ANTITRUST CHRON. (May 28, 2013), [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2273022](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2273022).

40. See, e.g., *Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010).

domestic and foreign markets. However, the switch to digital-only deliveries may take some time. In addition, consumer demand for hard copies of certain categories of works is likely to remain strong.<sup>41</sup> Therefore, the market for tangible copies is likely to continue well into the future.

*Kirtsaeng*'s interpretation of the first sale rule means that there is no copyright barrier to importing and distributing lawfully made copies of books and other copyrighted works in the United States even if they were manufactured abroad.<sup>42</sup> However, while *Kirtsaeng* controls the application of the first sale rule of copyright law, it does not control the application of the first sale rule of trademark law.<sup>43</sup> As will be discussed in Part II, *infra*, trademark law may enable many copyright owners to block parallel imports of their works notwithstanding *Kirtsaeng*'s rule.

## II. TRADEMARK LAW AS A COPYRIGHT ALTERNATIVE

In the wake of *Kirtsaeng*, copyright owners must look outside the Copyright Act to preserve their ability to price discriminate between foreign and domestic markets. Trademark law could fill this role. In fact, trademark law has the potential to give copyright owners a greater degree of import control than they ever achieved through copyright law. As discussed in Part II. A. below, most owners of commercially valuable copyrighted works—for example, book publishers, motion picture studios, record companies, and makers of videogames and software—also own one or more trademarks associated with those works.<sup>44</sup> As a result, these copyright owners are also

---

41. Textbooks, the subject of the price discrimination in *Kirtsaeng*, are a good example. Research indicates that students continue to prefer hard copies over e-books. William Douglas Woody et al., *E-books or Textbooks: Students Prefer Textbooks*, 55 COMPUTERS & EDUC. 945, 947 (2010). In addition, while the market for music downloads is steadily increasing, CD sales still constitute roughly half the market. Keith Caulfield, *CD Album Sales Fall Behind Album Downloads, Is 2014 the Year Digital Takes Over?*, BILLBOARD (Feb. 11, 2014, 9:30 AM), <http://www.billboard.com/biz/articles/news/digital-and-mobile/5901188/cd-album-sales-fall-behind-album-downloads-is-2014-the>. Art reproductions, such as posters and figurines, represent another market where most consumers will still purchase hard copies.

42. See *Kirtsaeng*, 133 S. Ct. at 1358 (holding that the first sale rule is not geographically limited); see also Mary LaFrance, *Wag the Dog: Using Incidental Intellectual Property Rights to Block Parallel Imports*, 20 MICH. TELECOMM. & TECH. L. REV. 45, 63 (2013).

43. One commentator suggests that trademark protection against parallel imports is so robust that *Kirtsaeng* will have little practical impact. Charles E. Colman, *Post-Kirtsaeng, 'Material Differences' Between Copyright and Trademark Law's Treatment of Gray Goods Persist* (N.Y.U. Sch. of Law Pub. Law & Legal Theory Research Paper Series, Working Paper No. 13-40, 2013).

44. See, e.g., *Cliff's Notes, Inc. v. Bantam Doubleday Dell Pub. Group, Inc.*, 886 F.2d 490, 495 (2d Cir. 1989) (noting, in a suit over infringement of the "Cliff's Notes" mark, "the purchaser of a book . . . has a right not to be misled as to the source of the product") (internal quotation marks omitted); *Time Warner, Inc. v. CPIC Net*, No. D2000-0433, 2000 WL 35595582, at \*2 (UDRP-ARB Dec. Sept. 15, 2000) ("Among Time Warner's most important assets are its . . . trademarks."); FOR DUMMIES, Registration No. 3,167,658 (federal trademark registration for John Wiley & Sons' line of nonfiction books); BLIZZARD EN-

entitled to the protections of the Lanham Act, the federal trademark statute. Part II. B. examines the different remedies available to publishers who believe their trademark rights will be infringed by the importation of gray market copies of their works, and Part II. C. evaluates the publishers' likelihood of success. One publisher's ongoing effort to implement this strategy is examined in Part II. D. This analysis reveals that trademark law may not offer complete protection from parallel imports, but it could be a viable alternative for many copyright owners.

#### A. Trademark Protection for Copyrighted Goods

In general terms, trademark law allows merchants to prevent unauthorized uses of their trademarks (for goods) or service marks (for services)<sup>45</sup> that are likely to cause confusion or to dilute the value of their marks.<sup>46</sup> While trademark and service mark protection is available under both state and federal law, in the case of unauthorized imports trademark owners usually rely on federal law, as embodied in the Lanham Act.<sup>47</sup> Under the Lanham Act, a trademark can be any "word, name, symbol, or device" that enables consumers to identify the source of the goods.<sup>48</sup> If a mark does not describe a characteristic of the goods in question, it is considered inherently distinctive as applied to those goods, and is therefore eligible to be protected as a source identifier under this definition.<sup>49</sup> In contrast, a mark that describes any aspect of the goods must acquire distinctiveness through use before it can qualify as a trademark.<sup>50</sup> Such acquired distinctiveness is referred to as secondary meaning.<sup>51</sup> Trademark protection is available for both inherently distinctive marks and descriptive marks that acquire secondary meaning,<sup>52</sup> and marks can be protected whether or not they are federally

---

TERTAINMENT, Registration No. 3538516 (federal trademark registration for computer games).

45. While service marks receive the same protection as trademarks, this discussion will refer to trademarks because the analysis of parallel imports involves tangible goods.

46. 15 U.S.C. § 1114 (2012) (infringement of registered marks); *id.* § 1125(a) (2012) (infringement of unregistered marks); *id.* § 1125(c) (2012) (dilution of registered or unregistered marks that have become famous). All states have laws that protect against infringement, and most protect against dilution as well. However, this analysis focuses on federal law.

47. 15 U.S.C. §§ 1051–1127 (2012).

48. *Id.* § 1127.

49. *Two Pesos v. Taco Cabana*, 505 U.S. 763, 768–69 (1992).

50. *Id.*

51. *Id.* For example, publisher Scholastic, Inc. has registered the mark SCHOLASTIC for a variety of educational materials and services. Because the term describes a characteristic of the trademark owner's goods and services, under § 2(f) of the Lanham Act, 15 U.S.C. § 1052(f), it could be registered only because consumers learned to recognize it as a trademark—because, in other words, it acquired secondary meaning. *See, e.g.*, SCHOLASTIC, Registration No. 2,392,914 (SCHOLASTIC mark registered for information services pertaining to educational publications).

52. *Two Pesos*, 505 U.S. at 768–69.

registered.<sup>53</sup> However, the strongest protection against parallel imports requires federal registration.<sup>54</sup>

Like other merchants, most domestic publishers of copyrighted works use at least one trademark to identify the source of their publications. Book publishers' trademarks, for example, include any indications of origin displayed on or in the book—the name of the publisher, the name of any specialized imprint, a logo, or a particular design or color scheme that is used consistently on books distributed by that publisher.<sup>55</sup> Motion picture producers and distributors, record companies, and makers of software and videogames typically display their brand names and/or logos on the packaging of their physical products. Even distributors of poster art typically display their name and/or logo somewhere on the poster or its packaging. All of these examples are eligible for trademark protection. In many cases, these publishers and producers typically register some or all of their eligible marks.<sup>56</sup> The fact that a work is protected by copyright does not foreclose the use of trademark law to prevent false designations of the origin of that work.<sup>57</sup> Generally speaking, copyright law protects the original creative expression embodied in the work, while trademark law protects the origin indicators that enable consumers to identify the source of the work.

In addition to inherently distinctive trademarks that serve no function besides identifying the source of a work, some trademarks may be incorporated in the copyrighted works themselves. Thus, there can be some overlap between elements protected by copyright law and those protected by trademark law. Where a copyright owner distributes a series of works that feature common elements, some of those elements may qualify as trademarks—for example, well-known Disney characters or the name “Harry Potter.” Even the title, characters, or other features of an *individual* work, if sufficiently

---

53. Section 32 of the Lanham Act protects against infringement of registered marks, 15 U.S.C. § 1114, while section 43(a) provides similar protection for unregistered marks, *id.* § 1125(a), and section 43(c) protects against dilution of famous marks regardless of whether they are registered, *id.* § 1125(c).

54. See *infra* note 99 and accompanying text.

55. See, e.g., *Cliff's Notes Inc. v. Bantam Doubleday Dell Pub. Group, Inc.*, 886 F.2d 490, 492 (recognizing registered trademark in appellant's distinctive cover design); General Notices, 48 Cust. B. & Dec. 7, pgs 1–2 (Feb. 19, 2014) (applying import restrictions for books bearing the WILEY and JW & DESIGN marks).

56. See, e.g., WALT DISNEY, Registration No. 4,006,400 (trademark for production and distribution of motion pictures and television programs); FOUNDATION PRESS, Registration No. 1,267,928 (trademark for legal and educational books).

57. “Books are ‘sold in the commercial marketplace like other more utilitarian products, making the danger of consumer deception a legitimate concern that warrants some government regulation.’” *Cliff's Notes*, 886 F.2d at 493 (quoting *Rogers v. Grimaldi*, 875 F.2d 994, 997 (2d Cir. 1989)). A number of commentators have noted the increasing overlap between copyright and trademark protections. See, e.g., Andrew Beckerman-Rodau, *The Problem with Intellectual Property Rights: Subject Matter Expansion*, 13 YALE J.L. & TECH. 35 (2010–11); Laura A. Heymann, *The Trademark/Copyright Divide*, 60 SMU L. REV. 55 (2007).

publicized, may develop enough secondary meaning<sup>58</sup> to qualify as trademarks,<sup>59</sup> although these elements may have to be used in more than one work to qualify for federal trademark registration.<sup>60</sup>

As the above discussion reveals, different aspects of a copyrighted product can be protected by copyright law and trademark law. Therefore, *Kirtsaeng*'s negation of a copyright remedy against parallel imports does not necessarily foreclose a trademark remedy. As discussed below in Part II.B., not every unauthorized import will constitute a trademark infringement. However, with appropriate planning a copyright owner can satisfy the requirements of trademark law, and thereby open the door to a variety of remedies—from monetary damages to seizure by U.S. Customs agents<sup>61</sup>—against the unauthorized importation of copies that are otherwise lawful under copyright law.

### B. Trademark Remedies Against Parallel Imports

Trademark owners have legal remedies against parallel imports under several provisions of the Lanham Act,<sup>62</sup> as well as section 526 of the Tariff Act of 1930.<sup>63</sup> As discussed below, trademark owners enjoy multiple avenues for relief against unauthorized imports of their trademarked goods even when the goods in question are lawfully made rather than counterfeit. In addition, judicial interpretations of these laws tend to favor trademark owners.

#### 1. Lanham Act Remedies and Limitations

A trademark owner can bring an infringement claim under the Lanham Act against any party that uses the mark in a way that is likely to confuse or mislead consumers about the origin of particular goods or services; in the context of parallel imports, the defendant may be the actual importer or a subsequent reseller. In addition to a claim for damages or injunctive relief

---

58. See *Two Pesos*, 505 U.S. at 768–69 (explaining secondary meaning). Trademark law treats the titles of creative works, and character names or images from those works, as descriptive marks. They are not considered to be inherently distinctive, because they do not function primarily as indicators of origin. However, if the public comes to recognize them as indicators of the origin of goods or services, they acquire secondary meaning, which makes them eligible for trademark protection, including federal registration.

59. See, e.g., *DC Comics v. Kryptonite Corp.*, 336 F. Supp. 2d 324, 332 (S.D.N.Y. 2004) (fictional “Kryptonite” element in Superman comic books, films, and radio program); *Frederick Warne & Co. v. Book Sales, Inc.*, 481 F. Supp. 1191, 1197 (S.D.N.Y. 1979) (cover illustrations); *Jackson v. Universal Int’l Pictures, Inc.*, 222 P.2d 433, 436 (Cal. 1950) (play title); *Lutz v. De Laurentis*, 260 Cal. Rptr. 106, 108 (Cal. Ct. App. 1989) (book and movie titles).

60. *Herbko Int’l, Inc. v. Kappa Books, Inc.*, 308 F.3d 1156, 1162–63 (Fed. Cir. 2002) (titles); *in re Scholastic, Inc.*, 23 U.S.P.Q. 2d (BNA) 1774, 1779 (T.T.A.B. 1992) (titles).

61. See *infra* notes 99–106 and accompanying text.

62. 15 U.S.C. §§ 1114, 1125 (2012). See *infra* notes 64–98 and accompanying text.

63. 19 U.S.C. § 1526 (2012). See *infra* notes 99–100 and accompanying text.

against the infringer, the owner of a mark that is federally registered can obtain the assistance of federal customs officials in blocking unauthorized imports of counterfeit or gray market goods.

#### a. Trademark Infringement

Under the Lanham Act, a trademark owner can prevent another merchant from using a similar trademark on goods or services without the trademark owner's consent, if the unauthorized use is likely to cause consumers to be confused about the source of the competitor's goods or services. This principle, which is derived from common law, is reflected in several provisions of the Lanham Act: section 32(1),<sup>64</sup> addressing infringement of federally registered marks; section 43(a)(1)(A),<sup>65</sup> addressing infringement of unregistered marks; section 43(b),<sup>66</sup> allowing civil actions to enjoin importation of any goods likely to infringe registered or unregistered trademarks;<sup>67</sup> and section 42,<sup>68</sup> which authorizes U.S. Customs and Border Protection (CBP) to prevent the importation of goods that infringe registered or unregistered trademarks.

Although these provisions enable trademark owners to prevent the importation and domestic sale of counterfeit goods, or goods to which a trademark has been affixed without the consent of the trademark owner, they can also apply to non-counterfeit goods. As discussed in greater detail below, Lanham Act remedies can, in many cases, prevent the importation and domestic sale of goods to which the trademark was affixed with the consent of the trademark owner (or a licensee), if the trademark owner has not consented to their importation.<sup>69</sup>

#### b. The First Sale Rule of Trademark Law

The trademark owner's rights, however, are limited by trademark law's version of the first sale rule, better known outside the United States as the principle of "trademark exhaustion."<sup>70</sup> In general, under the first sale rule, a

---

64. 15 U.S.C. § 1114(1) (2012).

65. *Id.* § 1125(a)(1)(A).

66. *Id.* § 1125(b).

67. Regulations under section 43(b) allow infringing imports to be seized and forfeited. 19 C.F.R. § 11.13 (2014). Section 43(b) also allows civil actions based on dilution under 15 U.S.C. § 1125(c), which protects famous marks against certain unauthorized uses even in the absence of a likelihood of confusion.

68. 15 U.S.C. § 1124. Although the dilution provisions of the Lanham Act permit the owner of a famous trademark to sue a defendant that uses the mark in a way that weakens the distinctiveness or tarnishes the reputation of the famous mark even if there is no likelihood of confusion as to origin, *id.* § 1125(c), parallel import cases generally have not involved dilution claims.

69. See *infra* note 84 and accompanying text.

70. See Irene Calboli, *Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues*, 6 MARQ. INTELL. PROP. L. REV. 47 (2002) (tracing the development of the exhaustion doctrine in the European Union).



trademark owner cannot prevent the sale of goods once it has authorized the use of its mark on those goods.<sup>71</sup> The rationale is that “when a retailer merely resells a genuine, unaltered good under the trademark of the producer, the use of the producer’s trademark by the reseller will not deceive or confuse the public as to the nature, qualities, and origin of the good.”<sup>72</sup>

The tension between the trademark owner’s exclusive right to sell goods bearing its trademark and the first sale rule’s limitation on those rights has a significant impact on the trademark owner’s ability to prevent the unauthorized importation of goods bearing its trademark. If a trademark owner authorizes the use of its mark on certain merchandise intended for sale only *outside* the United States, the trademark owner can often use Lanham Act remedies to prevent those goods from being imported and resold domestically, even though they bear an authorized trademark rather than a counterfeit one.

### c. Material Differences

The mechanism by which trademark owners achieve this result under the Lanham Act is the “material differences” standard.<sup>73</sup> In general, under the first sale or “exhaustion” principle, a trademark owner cannot object to the sale of goods once it has authorized the use of its mark on those goods. However, if the goods in question are “materially different” from the goods that are sold in the United States with the trademark owner’s consent, consumers may be confused or misled about the nature or quality of the goods bearing the trademark.<sup>74</sup> If consumers are disappointed in the goods because they do not possess the expected characteristics, consumers will blame the trademark owner for the discrepancy.<sup>75</sup> Thus, the consumer’s confusion can undermine the good will associated with the trademark, thereby damaging the mark and causing injury to the trademark owner.<sup>76</sup> Accordingly, materi-

---

71. *E.g.*, *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc.*, 988 F.2d 587, 590 (5th Cir. 1993); *Polymer Tech. Corp. v. Mimran*, 975 F.2d 58, 61 (2d Cir. 1992). *See generally* Restatement (Third) of Unfair Competition § 24 cmt. b (1995); 4 McCARTHY, *supra* note 1 § 25:41.

72. *Tumblebus, Inc. v. Cranmer*, 399 F.3d 754, 766 (6th Cir. 2005); *see also* *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987); Restatement (Third) of Unfair Competition § 24 cmt. b.

73. *E.g.*, *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68 (2d Cir. 1987). *See generally* 5 McCARTHY, *supra* note 1 § 29:51.75.

74. *Philip Morris, Inc. v. Cigarettes for Less*, 69 F. Supp. 2d 1181, 1184 (N.D. Cal. 1999), *aff’d*, 215 F.3d 1333 (9th Cir. 2000); *see* *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992).

75. *See* *Martin’s Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1302 (5th Cir. 1997); *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 671 (3d Cir. 1989).

76. *Davidoff & Cie, S.A. v. PLD Int’l Corp.*, 263 F.3d 1297, 1301–02 (11th Cir. 2001); *Weil Ceramics*, 878 F.2d at 671; *Mishawaka Rubber & Woolen Mfg. Co. v. S.S. Kresge Co.*, 316 U.S. 203, 205 (1942).



ally different goods that are legitimately marked with the same designation but designed for sale in different geographic areas are considered to be non-genuine.<sup>77</sup>

For this reason, a trademark owner can bring a Lanham Act action for trademark infringement against a seller of genuine goods bearing the protected mark if the goods being sold are materially different from those that are sold domestically under the authority of the trademark owner. This remedy is available for both federally registered marks (under section 32(1))<sup>78</sup> and common law marks (under section 43(a)).<sup>79</sup> This remedy might be limited in one important respect: while remedies under sections 32(1) and 43(a) apply to gray market goods lawfully manufactured by third-party licensees,<sup>80</sup> courts disagree on whether they also apply to materially different goods manufactured by the U.S. trademark owner itself or by a corporate affiliate.<sup>81</sup>

#### d. The *Lever* Rule

In addition to section 32(1) and 43(a) infringement actions, section 42 of the Lanham Act<sup>82</sup> permits trademark owners to enlist Customs and Border Protection (CBP) to block the importation of materially different goods bearing a mark that copies or simulates a federally registered mark.<sup>83</sup> In contrast

---

77. *Davidoff*, 263 F.3d at 1302 (collecting cases); *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 303 (3d Cir. 1998); *Phillip Morris v. Cigarettes for Less*, 69 F. Supp. 2d 1181, 1184 (N.D. Cal. 1999).

78. 15 U.S.C. § 1114(1) (2012).

79. *Id.* § 1125(a).

80. *Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 70 (2d Cir. 1987).

81. *Compare* *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506, 1510 (9th Cir. 1987) (holding that because domestic trademark owner and foreign manufacturer were under common control, there was no source confusion, and therefore gray market goods were non-infringing), *and Phillip Morris*, 69 F. Supp. 2d at 1187 (holding that despite material differences, there was no infringement where plaintiff manufactured both the domestic products and the products intended for foreign sale), *aff'd*, 215 F.3d 1333 (9th Cir. 2000), *with* *R.J. Reynolds Tobacco Co. v. Cigarettes Cheaper!*, 462 F.3d 690 (7th Cir. 2006) (affirming trademark liability for sale of materially different gray market cigarettes even though the same manufacturer made both the domestic products and the products intended for foreign sale, and domestic trademark owner was manufacturer's subsidiary), *and Phillip Morris, Inc. v. Allen Distributors, Inc.*, 48 F. Supp. 2d 844, 852–53 (S.D. Ind. 1999) (finding likelihood of success despite uncertainty whether § 32 applies when domestic and foreign trademark owners are affiliates).

82. 15 U.S.C. § 1124 (2012). Section 43(b) extends similar protection to unregistered marks, *id.* § 1125(b), with implementing regulations under 19 C.F.R. § 11.13 (2014), but owners of such marks do not appear to be utilizing this provision. *See* 5 McCARTHY, *supra* note 1 § 29:53.

83. 15 U.S.C. § 1124. Although early case law held that section 42 did not apply to parallel imports, *see Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 666 (3d Cir. 1989); *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), later cases established that section 42 applies when the imported goods are materially different, *see Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 639 (1st Cir. 1992) (“physical or like material differences”); *Lever Bros. Co. v. United States*, 981 F.2d 1330, 1338 (D.C. Cir. 1993) (“physically, materially different goods”). To trigger section 42, the marks on the imported

to infringement actions, Customs enforcement under section 42 is available even if the U.S. trademark owner is affiliated with the foreign manufacturer. Specifically, the existence of common ownership or control does not preclude CBP enforcement provided that (1) the mark is federally registered, (2) the trademark owner records the mark with CBP, and (3) the imported goods are *physically and materially different* from those authorized for domestic sale.<sup>84</sup>

To obtain CBP enforcement under these circumstances, the trademark owner must notify CBP of the specific “physical and material differences between the specific articles authorized for importation or sale in the United States and those not so authorized,”<sup>85</sup> and must provide supporting documentation.<sup>86</sup> If these requirements are met, then CBP will prohibit the importation, under what has become known as the “*Lever* rule.”<sup>87</sup> However, under an exception to this rule, CBP must permit the importation of gray market goods if they bear a conspicuous label indicating that they are physically and

---

goods must “copy or simulate” federally registered trademarks, and defines such a mark as “one which may so resemble a recorded mark or name as to be likely to cause the public to associate the copying or simulating mark or name with the recorded mark or name.” Trademark, Trade Names, and Copyrights, 19 C.F.R. § 133.22(a) (2014). This is the same as the “likelihood of confusion” standard. *U.S. v. Able Time, Inc.*, 545 F.3d 824, 830 (9th Cir. 2008).

84. Trademark, Trade Names, and Copyrights, 19 C.F.R. §§ 133.2–133.3(a)(1) (2014). In 1998, the D.C. Circuit held in the *Lever Bros.* case that section 42 applies to “physically, materially different goods” even if they are made by a corporate affiliate of the U.S. trademark owner. 981 F.2d at 1338. That decision was implemented in the 1999 Customs regulations. *See K Mart Corp. v. Cartier*, 486 U.S. 281 (1988). *See generally* Frederick M. Abbott, *Political Economy of the U.S. Parallel Trade Experience: Toward a More Thoughtful Policy*, in 3 *INTELLECTUAL PROPERTY: TRADE, COMPETITION, AND SUSTAINABLE DEVELOPMENT*, WORLD TRADE FORUM 177 (Thomas Cottier & Petros Mavroidis eds., 2001).

85. 19 C.F.R. § 133.2(e).

86. CBP regulations include a non-exhaustive list of differences which may qualify as physical and material:

- (1) The specific composition of both the authorized and gray market product(s) (including chemical composition);
- (2) Formulation, product construction, structure, or composite product components, of both the authorized and gray market product;
- (3) Performance and/or operational characteristics of both the authorized and gray market product;
- (4) Differences resulting from legal or regulatory requirements, certification, etc.;
- (5) Other distinguishing and explicitly defined factors that would likely result in consumer deception or confusion as proscribed under applicable law.

*Id.* While some trademark owners may chose not to invoke the *Lever* rule if the required disclosure would reveal proprietary information, *cf. R.J. Reynolds Tobacco Co. v. Cigarettes Cheaper!*, 462 F.3d 690, 700 (7th Cir. 2006) (plaintiff withdrew claim of material differences because it could not provide details without revealing trade secrets), publicly distributed copyrighted works are not likely to raise this concern.

87. 19 C.F.R. § 133.23(a)(3) (2014).

materially different from the genuine goods.<sup>88</sup> The regulations even prescribe the specific language that must appear on the label.<sup>89</sup>

e. The Uncertain Impact of Lever Labels on Trademark Infringement Claims

While a *Lever* label may preclude *CBP* from blocking gray market goods the use of a *Lever* label does not necessarily preclude a court from finding that the gray market goods are infringing. In fact, the impact of a *Lever* label on trademark infringement claims is unsettled. In cases arising under sections 32(1) or 43(a), as well as under state trademark and unfair competition laws, courts will determine for themselves whether, under all of the relevant facts and circumstances, a particular disclaimer is sufficient to eliminate the likelihood of confusion.<sup>90</sup> Thus, a disclaimer that satisfies the *Lever* rule for purposes of importation does not necessarily immunize the domestic reseller of the goods from liability for trademark infringement. While a court may consider the effect of a disclaimer in its likelihood of confusion analysis, the disclaimer will be only one of many factors the court will consider. In recent years in particular, courts have expressed doubt about the ability of disclaimers to alleviate consumer confusion, and have frequently found a likelihood of confusion despite the presence of a disclaimer, both in the specific context of parallel imports<sup>91</sup> and also with respect to other claims of trademark infringement.<sup>92</sup>

---

88. *Id.* at § 133.23(b) (“[The product or its packaging must] bear[ ] a conspicuous and legible label designed to remain on the product until the first point of sale to a retail customer in the United States. . . . The label must be in close proximity to the trademark as it appears in its most prominent location on the article itself or on the retail package or container.”).

89. *Id.* (“This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.”).

90. Those facts and circumstances are usually explored by analyzing a non-exhaustive list of factors considered relevant to the likelihood of consumer confusion—for example, the *Polaroid* factors in the Second Circuit, *Polaroid Corp. v. Polarad Elecs. Corp.*, 287 F.2d 492, 495 (2d Cir. 1961), and the *Sleekcraft* factors in the Ninth Circuit, *AMF Inc. v. Sleekcraft Boats*, 599 F.2d 341, 348–49 (9th Cir. 1979).

91. *E.g.*, *Premier Dental Prods. Co. v. Darby Dental Supply Co.*, 794 F.2d 850, 859 (3d Cir. 1986) (rejecting disclaimer on imported goods); *Hyundai Constr. Equip. USA, Inc. v. Chris Johnson Equip., Inc.*, No. 06-C-3238, 2008 U.S. Dist. LEXIS 84687, at \*8 (N.D. Ill. Sept. 10, 2008) (finding that consumer awareness that imported goods were unauthorized and materially different did not foreclose infringement liability because downstream purchasers could be confused); *Certain Cigarettes and Packaging Thereof*, Inv. No. 337-TA-424, USITC Pub. 3366 (Nov. 3, 2000) (Final); *Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*, Inv. No. 337-TA-380, USITC Pub. 3227 (Aug. 1999) (Final) (holding that disclaimers that do not avoid likelihood of confusion are disfavored remedy, and disclaimer is also inadequate remedy where disclaimer can be removed or obliterated), *aff’d*, *Gamut Trading Co. v. U.S. Int’l Trade Comm’n*, 200 F.3d 775 (Fed. Cir. 1999).

92. *E.g.*, *First Nat’l Bank in Sioux Falls v. First Nat’l Bank in S.D.*, 679 F.3d 763, 769–70 (8th Cir. 2012) (affirming district court’s conclusion that disclaimer would be insufficient to alleviate confusion arising from similarity of banks’ names); *Nat’l Bus. Forms & Printing v. Ford Motor Co.*, 671 F.3d 526, 533 (5th Cir. 2012) (noting that disclaimers did not

In analyzing trademark infringement claims against parallel imports, courts have good reason to give limited weight to *Lever* labels. Substantively, the requirements a *Lever* label must satisfy are too nonspecific to protect consumers from unwittingly purchasing materially different goods.<sup>93</sup> The disclaimer must state: “This product is not a product authorized by the United States trademark owner for importation and is physically and materially different from the authorized product.”<sup>94</sup> No other disclosures are required.<sup>95</sup> Consumers are left to guess what “physically and materially different” means, whether these differences will affect their experience with the product, and whether it matters that the product is not “authorized.” Moreover, a consumer who has never purchased the product before will have no basis for comparing the unauthorized import with its domestic counterpart. In the case of copyrighted works, this problem is particularly acute, because consumers tend to purchase a single copy of a copyrighted work, rather than making repeat purchases over time. A consumer that purchases gray market PERUGINA chocolates or L’ANZA hair care products may al-

---

dispel post-purchase confusion); *Au-Tomotive Gold Inc. v. Volkswagen of Am., Inc.*, 603 F.3d 1133, 1138 (9th Cir. 2010) (disclaimer on packaging will not dispel post-purchase confusion); *Au-Tomotive Gold, Inc. v. Volkswagen of Am., Inc.*, 457 F.3d 1062, 1078 (9th Cir. 2006) (noting defendant’s failure to establish that disclaimers had any effect); *Weight Watchers Int’l, Inc. v. Luigino’s, Inc.*, 423 F.3d 137, 143–44 (2d Cir. 2005) (placing burden on defendant to establish disclaimer’s effectiveness); *Int’l Kennel Club of Chi., Inc. v. Mighty Star, Inc.*, 846 F.2d 1079, 1093 (7th Cir. 1988) (noting disclaimers are often ignored by consumers); *Home Box Office, Inc. v. Showtime/The Movie Channel Inc.*, 832 F.2d 1311, 1315–17 (2d Cir. 1987) (stating that defendant would have “heavy burden” to produce evidence showing effectiveness of disclaimer in reducing likelihood of confusion); *Univ. of Ga. v. Laite*, 756 F.2d 1535, 1547 (11th Cir. 1985); *Gilliam v. Am. Broad. Cos., Inc.*, 538 F.2d 14, 25 n.13 (2d Cir. 1976); *Bos. Prof’l Hockey Ass’n v. Dall. Cap & Emblem Mfg.*, 510 F.2d 1004, 1013 (5th Cir. 1975) (finding disclaimer inadequate); *Freeway Ford, Inc. v. Freeway Motors, Inc.*, 512 F. Supp. 2d 1353 (M.D. Ga. 2007); *Ty, Inc. v. Publ’ns Int’l, Ltd.*, No. 99-C-5565, 2005 WL 464688, at \*1 (N.D. Ill. Feb. 25, 2005) (assuming likelihood of confusion despite disclaimer on cover of book); *1-800 Contacts, Inc. v. WhenU.com*, 309 F. Supp. 2d 467, 494 (S.D.N.Y. 2003), *rev’d on other grounds*, 414 F.3d 400 (2d Cir. 2005); *E. & J. Gallo Winery v. Gallo Cattle Co.*, No. CV-F-86-183 REC, 1989 U.S. Dist. LEXIS 7950, at \*77 (E.D. Cal. June 19, 1989); *Marquis Who’s Who, Inc. v. N. Am. Adver. Assocs., Inc.*, 426 F. Supp. 139, 143 n.5 (D.D.C. 1976), *aff’d*, 574 F.2d 637 (D.C. Cir. 1978); *Edgar Rice Burroughs, Inc. v. Manns Theatres*, No. 76-3612, 1976 U.S. Dist. LEXIS 11754, at \*8–9 (C.D. Cal. Dec. 20, 1976); *Volkswagenwerk Aktiengesellschaft v. Karadzian*, No. 70-2244 JWC, 170 U.S.P.Q. 565, 567 (C.D. Cal. 1971); *see also* McCARTHY, *supra* note 1 § 23.51 (claiming that studies indicate disclaimers may be ineffective or even counterproductive in alleviating consumer confusion).

93. See Margo A. Bagley, *Using Section 337 of the Tariff Act of 1930 to Block Materially Different Gray Market Goods in the Common Control Context: Are Reports of Its Death Greatly Exaggerated?*, 44 EMORY L.J. 1541, 1573–74 (1995) (presenting a skeptical view of the effectiveness of disclaimers on gray market goods).

94. Trademark, Trade Names, and Copyrights, 19 C.F.R. § 133.23(b) (2014).

95. In contrast, some state statutes impose more specific disclosure requirements on parallel imports. *See, e.g.*, Cal. Civ. Code § 1797.81 (West 2014); N.Y. Gen. Bus. § 218-aa (McKinney 2014); Conn. Gen. Stat. § 42-210 (2014).

ready have experience with the domestic version of the same product due to prior purchases (or receipt of gifts), and thus, once alerted by the *Lever* label, might be able to evaluate differences in packaging or ingredients before deciding whether to make the purchase.<sup>96</sup> In contrast, a consumer purchasing a book or CD has probably never owned any version of that specific product. Once the consumer reads a book or listens to a CD, he or she typically has little reason to purchase the same item again (except, in some cases, for gift giving). At the point of purchase, therefore, the buyer of a copyrighted item may have greater difficulty identifying the material and physical differences that distinguish the gray market version from the authorized version.<sup>97</sup> Simply telling the consumer that this version of the product is “different” from the authorized version gives no indication of what the differences are. A purchaser unfamiliar with the book or CD would have to make an affirmative effort to seek out the authorized version for comparison. The authorized version of the book or CD in question may not be readily available at a local store, and the merchandise offered by online merchants cannot readily be inspected before purchase. Thus, the purchaser evaluating a gray market purchase of copyrighted goods will typically have to guess at the nature and materiality of the differences.

The *Lever* label may be ineffective for another reason. The regulations do not specify how the label must be attached to the product, and do not require it to remain attached throughout the useful life of the product, including resales. The label must be “conspicuous and legible,” placed “in close proximity to the trademark as it appears in its most prominent location on the article itself or the retail package or container,” and “designed to remain on the product until the first point of sale to a retail customer.”<sup>98</sup> The label might, therefore, appear on a sticker or wrapper that can be easily removed. Despite the vague requirement that the label be “designed to remain on the product until the first point of sale,” there is no way to ensure that the disclaimer will still be visible when the article is first sold to a consumer. Even if the label persists through the initial sale, the law does not require it to remain visible through subsequent resales. Once again, the problem is particularly acute with respect to copyrighted works. There is a lively secondhand market for books, CDs, videogames, and similar works, unlike chocolates.

---

96. See *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992) (showing that even though gray market chocolates were labeled as to their country of origin, material differences in product and packaging may create likelihood of confusion).

97. The same reasoning has led courts to be skeptical as to the value of disclaimers in a variety of scenarios. For example, in concluding that a disclaimer would not alleviate consumer confusion where a television network edited a program without the consent of its creators, the Second Circuit stated: “We are doubtful that a few words could erase the indelible impression that is made by a television broadcast, especially since the viewer has no means of comparing the truncated version with the complete work in order to determine for himself the talents of the plaintiffs.” *Gilliam v. Am. Broad. Cos.*, 538 F.2d 14, 25 n.13 (2d Cir. 1976).

98. 19 C.F.R. § 133.23(b) (2014).

The secondhand purchaser of a copyrighted work may never see the label that enabled the imported copy to enter the United States in the first place.

## 2. Tariff Act Remedies

Under some circumstances, a U.S. trademark owner can block the importation of genuine but foreign-made goods even when the imported goods are *identical* to those authorized for domestic sale. Section 526 of the 1930 Tariff Act allows a U.S. person (typically, a corporation) that owns a federally registered mark to block parallel imports of foreign-made goods bearing that mark *unless* (1) the foreign manufacturer is a corporate affiliate, or (2) the U.S. person also owns the same trademark in the country of manufacture.<sup>99</sup> No showing of material differences or likelihood of confusion is required. The original purpose of section 526 was to protect domestic companies that purchase U.S. trademark rights from foreign manufacturers against the possibility that the foreign manufacturer's identical goods—bearing the identical trademark—would find their way into the U.S. market.<sup>100</sup>

## 3. Effectiveness of Seizure as a Remedy

CPB activity against unauthorized imports has increased significantly in the past ten years; the agency reported 24,361 seizures of infringing merchandise in 2013,<sup>101</sup> up from 7,255 in 2004.<sup>102</sup> Had the goods been genuine, their estimated retail value would have been over \$1.7 billion.<sup>103</sup> Although these figures do not distinguish between seizures involving trademark rights and those involving copyright and patent rights, the vast majority of the seizures involved trademarks.<sup>104</sup> Even so, trademark owners may be underutilizing the CPB; one source reports that, out of two million active trade-

99. 19 U.S.C. § 1526 (2012); *K Mart Corp. v. Cartier*, 486 U.S. 281, 287–88 (1988); *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 664, 673 (3d Cir. 1989); 19 C.F.R. § 133.23(a)(2) (2014). Section 42 applies to marks that “copy or simulate” federally registered trademarks, and defines such a mark as “one which may so resemble a recorded mark or name as to be likely to cause the public to associate the copying or simulating mark or name with the recorded mark or name.” 19 C.F.R. § 133.22(a) (2014). This is the same as the “likelihood of confusion” standard. *See U.S. v. Able Time, Inc.*, 545 F.3d 824, 830 (9th Cir. 2008).

100. *K Mart*, 486 U.S. at 287–88; *see A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923).

101. U.S. CUSTOMS AND BORDER PROTECTION OFFICE OF INTERNATIONAL TRADE, INTELLECTUAL PROPERTY RIGHTS SEIZURES STATISTICS, FISCAL YEAR 2013, 2, 4 [hereinafter *2013 Report*], available at <http://www.cbp.gov/sites/default/files/documents/2013%20IPR%20Stats.pdf>.

102. U.S. DEP'T OF HOMELAND SECURITY, U.S. CUSTOMS AND BORDER PROTECTION AND U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT FY 2004 TOP IPR COMMODITIES SEIZED, available at [http://www.cbp.gov/sites/default/files/documents/FY2004%20Statistics\\_.pdf](http://www.cbp.gov/sites/default/files/documents/FY2004%20Statistics_.pdf).

103. *2013 Report*, *supra* note 101, at 2.

104. The majority of seized goods consist of wallets, handbags, watches, jewelry, wearing apparel, footwear, tags and labels, and toys. *2013 Report*, *supra* note 101, at 6–9. While goods in these categories may sometimes have patented or copyrighted components, most will be protected only by trademark law.



mark registrations and even more copyright registrations, only about 32,000 trademarks and copyrights have been recorded with the CPB.<sup>105</sup>

Even if CPB allows importation of particular gray market goods, this does not preclude a private action by the trademark owner under section 526(c), in which case all trademark remedies are potentially available.<sup>106</sup>

### C. Applying Trademark Remedies to Copyrighted Works

Publishers may be able to use the Lanham Act and Tariff Act remedies described above to curtail the importation and dissemination of parallel imports of their copyrighted works. However, depending on the avenue of relief chosen, the publisher may need to alter its publication arrangements in order to qualify for a particular remedy. Under either the Lanham Act or Tariff Act, the copies intended for overseas distribution must display a registered U.S. trademark. To invoke remedies under the Lanham Act, the publisher must also ensure that there are material differences between the copies authorized for domestic sale and those intended for foreign sale. To be eligible to invoke the Tariff Act, the publisher must have its copies manufactured overseas by a non-affiliate.

#### 1. Material Differences under the Lanham Act

Copyright owners that wish to maintain separation between their domestic and foreign markets can do so under the Lanham Act by ensuring that the copies intended for foreign distribution (1) bear a registered U.S. trademark, and (2) are physically and materially different from copies authorized for domestic sale. Because the goods are materially different from those that the trademark owner has authorized for sale, the first sale doctrine of trademark law does not apply.<sup>107</sup>

---

105. JENNIFER LAZO, *Help Them Help You: Partnering with U.S. Customs and Border Protection to Safeguard Your Brand*, BAKER BOTTS (May 2014), [http://www.bakerbotts.com/file\\_upload/IPReport201405-HelpThemHelpYou.htm](http://www.bakerbotts.com/file_upload/IPReport201405-HelpThemHelpYou.htm).

106. *Original Appalachian Artworks, Inc. v. Granada Elecs.*, 816 F.2d 68 (2d Cir. 1987); *Olympus Corp. v. United States*, 792 F.2d 315, 320 (2d Cir. 1986); *Vivitar Corp. v. United States*, 761 F.2d 1552, 1570 (Fed. Cir. 1985); *Philip Morris USA Inc. v. Lee*, 481 F. Supp. 2d 742 (W.D. Tex. 2006); *PepsiCo, Inc. v. Torres*, 1993 U.S. Dist. LEXIS 17588 (C.D. Cal. Feb. 18, 1993); *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951 (S.D. Fla. 1986); *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984). *See also* *Vittoria N. Am. LLC v. Euro-Asia Imports, Inc.*, 278 F.3d 1076 (10th Cir. 2001); *Philip Morris USA Inc. v. C.H. Rhodes, Inc.*, 2010 U.S. Dist. LEXIS 39114 (E.D.N.Y. April 19, 2010); *Ahava (USA) Inc. v. J.W.G., Ltd.*, 250 F. Supp. 2d 366 (S.D.N.Y. 2003).

107. *Beltronics USA, Inc. v. Midwest Inventory Distrib., LLC*, 562 F.3d 1067 (10th Cir. 2009); *Brilliance Audio, Inc. v. Hights Cross Commc'ns, Inc.*, 474 F.3d 365 (6th Cir. 2007); *Davidoff & Cie, S.A. v. PLD Int'l Corp.*, 263 F.3d 1297, 1302 (11th Cir. 2001); *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 302–03 (3d Cir. 1998); *Martin's Herend Imps., Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1301–02 (5th Cir. 1997); *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 635 (1st Cir. 1992); *Original Appalachian Artworks*, 816 F.2d at 73.



A finding of material differences can be based on differences in quality control,<sup>108</sup> marketing methods,<sup>109</sup> or differences in the goods themselves.<sup>110</sup> One court defined a material difference as “one that consumers consider relevant to a decision about whether to purchase a product,” but noted that “the threshold of materiality must be kept low,” and that any alteration “resulting in physical differences” should be considered material.<sup>111</sup>

The material differences standard applies to both imported and non-imported goods. Even if goods are not imported, they may be materially different if either the goods or the packaging have been altered, without the trademark owner’s consent, since leaving the factory<sup>112</sup> or if they have been subject to post-manufacture handling or quality control that does not conform to the trademark owner’s requirements.

However, where the goods are imported, courts have established a particularly low threshold of materiality. Under this approach, material differences can arise even from “subtle differences” between the goods authorized for domestic sale and the unauthorized imports.<sup>113</sup> Examples of material differences include: different warranties,<sup>114</sup> Cabbage Patch dolls with Spanish language birth certificates and adoption papers,<sup>115</sup> different soap ingredients,<sup>116</sup> TIC TACS with a different size and different calorie counts,<sup>117</sup> chocolates with different shapes,<sup>118</sup> quality control differences,<sup>119</sup> packaging or

108. See *infra* note 119 and accompanying text.

109. See *infra* note 121 and accompanying text.

110. See *infra* notes 114–118, 122, and accompanying text.

111. *Davidoff*, 263 F.3d at 1301–02.

112. See, e.g., *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924); *Davidoff*, 263 F.3d at 1301–03.

113. *Societe des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992); accord, *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 243, 246 (2d Cir. 2009) (“In the context of gray-market goods, . . . we apply a low threshold of materiality, requiring no more than a slight difference which consumers would likely deem relevant when considering a purchase of the product.”).

114. *Societe des Produits Nestle*, 982 F.2d at 639 n.7; *Swatch S.A. v. New City, Inc.*, 454 F. Supp. 2d 1245, 1251 (S.D. Fla. 2006); *Fender Musical Instr. Corp. v. Unlimited Music Ctr., Inc.*, No. 3:93CV2449 (AVC), 1995 U.S. Dist. LEXIS 15746 (D.Conn. Feb. 16, 1995).

115. *Original Appalachian Artworks v. Granada Elecs., Inc.*, 816 F.2d 68, 73 (2d Cir. 1987).

116. *Lever Bros. Co. v. United States*, 877 F.2d 101, 103, 108 (D.C. Cir. 1989); *Dial Corp. v. Encina Corp.*, 643 F. Supp. 951, 955 (S.D. Fla. 1986).

117. *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, 1243, 1247 (D.N.J. 1991), *rev’d on other grounds*, 935 F.2d 1281 (3rd Cir. 1991) (on appeal, the Court reversed only on the issue of attorney fees).

118. *Societe des Produits Nestle*, 982 F.2d at 643.

119. *Davidoff & Cie, S.A. v. PLD Int’l Corp.*, 263 F.3d 1297, 1302 n.5 (11th Cir. 2001) (nonimported goods); *Iberia Foods Corp. v. Romeo*, 150 F.3d 298, 302 (3rd Cir. 1998) (gray market goods); *Warner-Lambert Co. v. Northside Dev. Corp.*, 86 F.3d 3, 5 (2d Cir. 1996) (nonimported goods); *Polymer Tech. Corp. v. Mimran*, 37 F.3d 74, 78–79 (2d Cir. 1994) (nonimported goods); *Shell Oil Co. v. Commercial Petroleum, Inc.*, 928 F.2d 104, 106 (4th Cir. 1991) (nonimported goods); *Phillip Morris, Inc. v. Allen Distributors, Inc.*, 48 F. Supp. 2d

labeling differences,<sup>120</sup> or different advertising participation or marketing methods.<sup>121</sup> It is not unusual for courts to find that a single gray market product embodies a multitude of material differences.<sup>122</sup> According to several courts, the use of packaging that identifies the country of origin does not reduce the likelihood of confusion arising from these material differences.<sup>123</sup> However, courts do not always agree on whether particular differences are material.<sup>124</sup> One court articulated the materiality standard for parallel imports as follows:

[T]he existence of any difference between the registrant's product and the allegedly infringing gray good that consumers would likely consider to be relevant when purchasing a product creates a presumption of consumer confusion sufficient to support a Lanham Trade-Mark Act claim. Any higher threshold would endanger a manufacturer's investment in product goodwill and unduly subject consumers to potential confusion by severing the tie between a manufacturer's protected mark and its associated bundle of traits.<sup>125</sup>

The low threshold of materiality which applies to imported goods offers copyright owners an opportunity to block parallel imports by ensuring that any foreign-made copies they authorize are materially different from the domestically made copies that are sold under the same trademark.

In the case of textbooks, material differences are easy to introduce without requiring authors to create different content for the U.S. and foreign editions. A simple difference in pagination, for example, is likely to satisfy

---

844, 852–53 (S.D. Ind. 1999) (gray market goods); *Adolph Coors Co. v. A. Genderson & Sons, Inc.*, 486 F. Supp. 131, 133 (D. Colo. 1980) (nonimported goods).

120. *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 243, 246 (2d Cir. 2009) (removal of UPC codes from product packaging of gray market goods); *Davidoff & Cie*, 263 F.3d at 1299; *Shell Oil*, 928 F.2d at 106; *Lever Bros.*, 877 F.2d at 103 (packaging and labeling differences were material); *John Paul Mitchell Sys. v. Pete-N-Larry's, Inc.*, 862 F. Supp. 1020, 1027 (W.D.N.Y. 1994); *PepsiCo, Inc. v. Nostalgia Prods. Corp.*, No. 90-C-7024, 1990 U.S. Dist. LEXIS 18990, at \*4 (N.D. Ill. Dec. 20, 1990); *Adolph Coors*, 486 F. Supp. at 133.

121. *Nostalgia Prods.*, 1990 LEXIS 18990, at \*4; *PepsiCo, Inc. v. Giraud*, No. 87-01887 (JP), 1988 U.S. Dist. LEXIS 12864, at \*7–8 (D.P.R. Mar. 14, 1988).

122. *See, e.g., PepsiCo, Inc. v. Reyes*, 70 F. Supp. 2d 1057, 1058–59 (C.D. Cal. 1999); *Giraud*, 1988 LEXIS 12864, at \*3–7.

123. *Societe des Produits Nestle*, 982 F.2d at 639; *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 753 F. Supp. 1240, 1243 (D.N.J. 1991), *aff'd*, 935 F.2d 1281 (3rd Cir. 1991).

124. *See Graham Webb Int'l Ltd. v. Emporium Drug Mart, Inc.*, 916 F. Supp. 909, 910 (E.D. Ark. 1995) (holding that removal of batch codes from hair care products was not a material difference where it did not significantly affect overall appearance of product, and thus would not materially affect consumer decision to purchase); *John Paul Mitchell Systems v. Randall's Food Mkts. Inc.*, 17 S.W.3d 721, 721 (Tex. App. 2000) (holding in a similar manner).

125. *Societe des Produits Nestle*, 982 F.2d at 641.

the material differences test.<sup>126</sup> A student who uses a text that is paginated differently from the text that the professor has used in preparing the syllabus will encounter difficulty in completing the correct reading assignments; had the purchaser known of the difference in pagination, this would almost certainly have influenced the purchasing decision. Other material differences in textbooks might include changes in chapter headings or chapter sequence, re-numbering of problem sets, and the use of footnotes versus endnotes.<sup>127</sup> Changing the color, fabric, or cover art used on the cover of the textbook, while a less substantial difference, might still qualify as material; even though these differences do not affect the content of the textbook, students who encounter both versions of the book could be confused as to whether they are purchasing the correct text.<sup>128</sup>

With respect to books other than textbooks—including both fiction and nonfiction works—pagination differences might still be considered substantial.<sup>129</sup> In addition, differences in covers and cover art might be considered more significant for this class of works. Because these books are more likely to be purchased at the consumer's own initiative—not assigned by an educational authority—the visual appearance of the copy can play a role in initially drawing the consumer's attention and may cause the consumer to choose one book over another.<sup>130</sup> Other material differences could include chapter headings, placement of illustrations, front matter and other supplementary content, book jacket design, and binding materials.

---

126. While there is no case directly on point, a pagination difference would be closely analogous to a difference in packaging or labeling, both of which courts have treated as material. *See supra* note 120 and accompanying text.

127. In addition to the packaging and labeling cases, *supra* note 120, analogous cases have treated differences in product shape, size, and ingredients as material, *see supra* notes 116–118 and accompanying text, as well as differences in language, *see supra* note 115 and accompanying text. In addition, rearranged content in a textbook is closely analogous to differences in quality control, because a difference between the instructor's copy of the book and the student's copy can seriously impede the student's ability to complete assignments successfully, especially if the parties are unaware of the difference. Courts routinely treat quality control differences as material. *See supra* note 119 and accompanying text.

128. The most closely analogous precedents are those involving packaging and labeling differences, *see supra* note 120 and accompanying text.

129. This conclusion is based on the courts' willingness to embrace a low standard of materiality with respect to gray market goods, *see supra* note 113 and accompanying text.

130. For example, in *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, the Fifth Circuit held that imported figurines infringed Martin's trademark where some were "completely different pieces" from those that Martin's had authorized for sale, and others "had painted patterns and colors different from those offered by Martin's." 112 F.3d 1296, 1302 (5th Cir. 1997). Even though, at the point of purchase, their outward appearance made them obviously different from the trademark owner's authorized goods, the court held that "[a]s a matter of law, such differences are material, since consumer choices for such artistic pieces are necessarily subjective or even fanciful, depending on each consumer's personal artistic tastes." *Id.*

In the case of videogames or software,<sup>131</sup> differences in the warranty, documentation, or packaging, including the availability of multilingual text, are likely to qualify as material.<sup>132</sup> For CDs and home video, material differences could arise from differences in “bonus” content, cover and interior art, packaging, and liner notes.<sup>133</sup> For textiles and other artistic or decorative works, differences in dimensions, design, manufacturing materials, or packaging could satisfy the material differences test.<sup>134</sup>

## 2. Tariff Act Strategy

Some copyright owners might choose to block gray market imports without resorting to introducing material differences. Under section 526 of the Tariff Act,<sup>135</sup> a copyright owner may be able to prevent the importation of foreign-made copies bearing any of its federally registered trademarks, even if the foreign copies are identical to the domestic version. In contrast to Lanham Act remedies, however, section 526 relief is available only if (1) the trademark owner is a U.S. person,<sup>136</sup> (2) the gray market copies are manufactured overseas,<sup>137</sup> and (3) the trademark is applied under the authority of a foreign trademark owner that is neither the U.S. trademark owner nor a corporate affiliate thereof.<sup>138</sup>

While the first two requirements are easily satisfied, the third can be problematic. To satisfy this requirement, the copyright owner would have to assign the foreign ownership of its trademark to a non-affiliate, and could not take a license back.<sup>139</sup> The owner of a valuable trademark might be understandably reluctant to assign it to an unrelated party, for several reasons.

---

131. In the case of software and videogames, of course if the terms of use specify that the copy is being licensed rather than sold, and if a court agrees with this characterization, then the first sale rule of copyright law will not apply in the first place. *See, e.g., Vernor v. Autodesk*, 621 F.3d 1102 (9th Cir. 2010).

132. Courts have already held that warranty differences and differences in the language of the documentation accompanying a product are material. *Supra* notes 114–115 and accompanying text.

133. Differences in bonus content and liner notes are analogous to differences in ingredients, *see supra* notes 116–117 and accompanying text, while differences in cover and interior art and packaging would be material according to the case law on product shapes, *see Societe des Produits Nestle*, 982 F.2d at 643, as well as packaging differences, *see supra* note 120 and accompanying text.

134. The closest precedents would be the cases involving differences in product ingredients, shapes, and packaging. *See supra* notes 116, 118, 120, and accompanying text.

135. 19 U.S.C. § 1526 (2012).

136. *Id.* § 1526(a).

137. *Id.*

138. *K Mart Corp. v. Cartier*, 486 U.S. 281, 292–93 (1988); *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, 664, 673 (3d Cir. 1989); *Trademark, Trade Names, and Copyrights*, 19 C.F.R. § 133.23(a)(2) (2013).

139. When a trademark licensee has placed the mark on non-materially-different goods, CPB will restrict their importation only if the licensee is “independent of the U.S. owner” of the mark. 19 C.F.R. § 133.23(a)(1).

First, the sale of a trademark will typically trigger a taxable gain, resulting in an increased tax liability for the seller.<sup>140</sup> Second, by assigning the foreign trademark rights, the copyright owner will lose the ability to control the use of that mark in the country of manufacture.<sup>141</sup> However, the copyright owner can reduce this risk by limiting the trademark assignment to a particular class of goods, even a specific publication. By assigning rather than licensing the mark, the trademark assignor gives up the right to exercise quality control over the other party's use of the mark. However, because the U.S. trademark owner will also license the *copyright* in that publication to the foreign trademark assignee, the copyright license itself can contain the quality control provisions necessary to ensure that the foreign-made copies conform to the copyright owner's standards.

Thus, section 526 offers copyright owners an alternative route to restricting parallel imports without introducing material differences. The copyright owner would have to manufacture the restricted copies outside of the United States, and would have to assign its foreign trademark rights with respect to those copies. For some copyright owners, this could be preferable to creating distinguishable editions for different territories. Alternatively, some copyright owners might prefer the certainty of section 526 over the uncertainty of whether a court or the CPB will deem particular differences "material."

#### D. *John Wiley & Sons Invokes Trademark Law Against Parallel Imports*

Some textbook manufacturers have already turned to trademark law in combating parallel imports. In November of 2013, John Wiley & Sons—the same publisher that was the unsuccessful plaintiff in *Kirtsaeng*—applied to CBP for *Lever* rule protection against unauthorized importation of 11 textbook titles bearing the registered trademarks WILEY<sup>142</sup> and JW & DESIGN.<sup>143</sup> The textbooks at issue dealt with science and business subjects and were imported for resale in the United States.<sup>144</sup> Because John Wiley & Sons had recorded these trademarks with CPB,<sup>145</sup> the publisher could enlist the agency to block the importation of books bearing the recorded marks by declaring that the imported books were materially different from the books

---

140. See 26 U.S.C. §§ 1231, 1253 (2012).

141. But see, e.g., 6 CALBOLI, *supra* note 70, at 49 (teaching that if the assigned territory was a nation within the European Union, then the assignee would have the right to distribute goods under that mark throughout the European Union under the principle of community exhaustion).

142. *General Notices*, 48 CUST. B. AND DEC., no. 7 (Feb. 19, 2014).

143. *Id.*

144. *Id.*

145. JW & DESIGN, Registration No. 1,639,555 (Customs Recordation Number: TMK 06-01378); WILEY, Registration No. 1,003,988 (Customs Recordation No. TMK 06-01435).

that the publisher had authorized for domestic sale.<sup>146</sup> On January 30, 2014, CBP granted the requested protection.<sup>147</sup> CBP reported that the textbooks were physically and materially different from their counterparts authorized for sale in the U.S.; the differences included “product construction, design, quality, appearance, market pricing, and labeling.”<sup>148</sup> Based on its finding of material differences, CBP restricted importation of the books, but indicated that they could still be imported if they satisfied the *Lever* labeling requirements.<sup>149</sup>

It is not clear whether CBP exercised any independent judgment in concluding that the imported books were physically and materially different, or whether it simply accepted the publisher’s assertions at face value. Even considering the low threshold of materiality that the courts have applied in determining whether gray market goods are infringing, the CBP’s assertion that “market pricing” constitutes a “physical and material difference” is difficult to defend. However, rather than incur the costs of a legal challenge to the CBP’s ruling, the importer is more likely to accept the ruling and simply apply a *Lever* label.

Assuming that the importer applies *Lever* labels to the textbooks, CPB will release them. However, as discussed above, this does not preclude John Wiley & Sons from pursuing its private remedies under the Lanham Act and the Tariff Act. At that stage, a court will have to evaluate whether the *Lever* label is sufficient to negate the likelihood of confusion under all the facts and circumstances. In the meantime, students encountering the *Lever* disclaimer will have to decide whether the price differential offsets the risk of purchasing a text that might not fully conform to their course requirements. Some students might ignore the disclaimer completely. Indeed, the specific textbooks at issue in *Kirtsaeng* did bear a disclaimer, and apparently this did not dissuade the defendant or his customers from purchasing the books; unlike a *Lever* label, however, that disclaimer did not state that there were material differences between the domestic and foreign books.<sup>150</sup> Faced with

---

146. See *supra* notes 82–87 and accompanying text.

147. *General Notices*, 48 CUST. B. AND DEC., no. 7 (Feb. 19, 2014).

148. *Id.*

149. *Id.* (citing Trademark, Trade Names, and Copyrights, 19 C.F.R. § 133.23(b) (2014)).

150. For example, one of textbooks in *Kirtsaeng v. John Wiley & Sons, Inc.* contained the following warning:

This book is authorized for sale in Europe, Asia, Africa, and the Middle East only and may be not exported out of these territories. Exportation from or importation of this book to another region without the Publisher’s authorization is illegal and is a violation of the Publisher’s rights. The Publisher may take legal action to enforce its rights. . . . Printed in Asia.

133 S.Ct. 1351, 1356 (2013). There may in fact have been no material differences between the domestic and foreign editions; the Supreme Court described them as “essentially equivalent versions,” although the Court did not indicate how it reached this conclusion. *Id.*



a true *Lever* disclaimer, the more risk-averse students could decide to spend the additional money to purchase the authorized text instead. If so, that would count as a victory for the copyright/trademark owner.

It may not be long before other publishers and content owners invoke the *Lever* rule against parallel imports of their copyrighted works. Several have already recorded their marks with the CPB in categories encompassing copyrightable works.<sup>151</sup> Others could decide to follow Wiley's example.

### III. QUASI-PREEMPTION UNDER *Dastar*?

Although trademark law could provide a tool to offset the liberalization of copyright's parallel import rules, this strategy might be challenged as an impermissible end-run around the limitations of copyright law. Copyright law does not generally preempt federal trademark law, but the Supreme Court and several of the lower federal courts have indicated that certain applications of trademark law to copyrighted works could frustrate the congressional intent underlying the copyright laws, and may therefore be disallowed under a sort of "quasi-preemption" analysis.

In *Dastar Corp. v. Twentieth Century Fox Film Corp.*,<sup>152</sup> the Supreme Court rejected the application of section 43(a) to a claim of false designation of origin pertaining to an expressive work. In *Dastar*, the defendant re-edited a television series that had originally been produced by the plaintiff, but which had lost its copyright and entered the public domain. The defendant then released the re-edited series on videocassette, identifying itself as the producer and omitting any reference to the plaintiff.

In a typical section 43(a) claim, the defendant places the plaintiff's mark on the defendant's product. *Dastar*, however, involved a claim of "reverse passing off," under which a defendant places its own mark on the *plaintiff's* product, in a manner that is likely to lead consumers to believe that the defendant is the source, or "origin," of the plaintiff's product. In this case,

---

151. To see which marks have been recorded for which categories of merchandise, use the CPG's searchable database at <http://iprs.cbp.gov/index.asp>. For example, publisher Prentice-Hall has recorded its mark for books, magazines, newsletters, looseleaf reference books, and instructional materials. PRENTICE-HALL, Registration No. 1,332,044 (Customs Recordation No. TMK 07-00015). Publisher Houghton-Mifflin has recorded its Dolphin Colophon mark for books and instructional materials. DOLPHIN COLOPHON, Registration No. 1,378,958 (Customs Recordation Number: TMK 06-01225). Sony has recorded several of its marks for musical recordings, SONY CLASSICAL, Registration No. 1,711,369 (Customs Recordation Number: TMK 12-00907), as well as motion pictures, television programs, and videogames, SONY PICTURES AND DESIGN, Registration No. 3,908,213 (Customs Recordation Number: TMK 12-00624). Disney has recorded its mark for prerecorded CDs and DVDs featuring music, stories, games, computer games, motion pictures and television programs. DISNEY, Registration No. 3,235,413 (Customs Recordation Number: TMK 13-00121). Some of these recordations may have been prompted largely by concerns over counterfeiting rather than gray market goods. However, once the mark is recorded, its owner may ask for relief against gray market goods as well.

152. 539 U.S. 23 (2003).



the product was the plaintiff's television series, and the plaintiff claimed that the defendant had engaged in reverse passing off by "bodily appropriat[ing]" the series and replacing the plaintiff's trademark with its own, thus implying that the defendant was the origin of the series.<sup>153</sup>

The Supreme Court rejected this claim, holding that the term "origin" in section 43(a) refers to "the producer of the tangible goods that are offered for sale, and not to the author of any idea, concept, or communication embodied in those goods."<sup>154</sup> Although the Court acknowledged that, in general, section 43(a) encompasses claims of reverse passing off, it held that such a claim is limited to false designations of the physical producer of goods, and thus may not be based on failure to identify the origins of ideas or expression embodied in those goods.<sup>155</sup> In dicta, the Court noted that reverse passing off would "undoubtedly" have been established if the defendant had repackaged videocassettes that had been physically produced by the plaintiff,<sup>156</sup> but held that the same conclusion did not follow when the defendant copied only the plaintiff's intangible intellectual property.<sup>157</sup> Although *Dastar* concerned a work in which copyright had expired, courts have consistently held that *Dastar*'s reasoning applies equally to works still subject to copyright.<sup>158</sup>

*Dastar*, however, involved a claim of *reverse* passing off. In the context of expressive works, reverse passing off closely resembles a claim of copyright infringement, because it involves the unauthorized use of the plaintiff's creative *content*<sup>159</sup> rather than the unauthorized use of the plaintiff's *source identifier*, which is the subject of a traditional claim of passing off. In contrast, the use of trademark law to block gray market copies of copyrighted

---

153. *Id.* at 28.

154. *Id.* at 37.

155. *Id.* at 31–32.

156. *Id.* at 31.

157. *Id.*

158. *E.g.*, *Zyla v. Wadsworth*, 360 F.3d 243, 251–52 (1st Cir. 2004); *Richard Feiner & Co. v. N.Y. Times Co.*, 07 Civ. 11218 (RMB) (RLE), 2008 U.S. Dist. LEXIS 58454, at \*9–11 (S.D.N.Y. Aug. 1, 2008); *Thomas Publ'g Co., LLC v. Tech. Evaluation Ctrs., Inc.*, 06 Civ. 14212 (RMB), 2007 U.S. Dist. LEXIS 55086, at \*6–7 (S.D.N.Y. July 27, 2007); *Antidote Int'l Films, Inc. v. Bloomsbury Publ'g, PLC*, 467 F. Supp. 2d 394, 389 (S.D.N.Y. 2007); *Beckwith Builders, Inc. v. Depietri*, No. 04-cv-282-SM, 2006 U.S. Dist. LEXIS 67060, at \*12–14 (D.N.H. Sept. 15, 2006); *Auscapes Int'l v. Nat'l Geographic Soc'y*, 409 F. Supp. 2d 235, 250 (S.D.N.Y. 2004); *Smith v. New Line Cinema*, 03 Civ. 5274, 2004 U.S. Dist. LEXIS 18382, at \*10–11 (S.D.N.Y. Sept. 8, 2004); *Williams v. UMG Recordings*, 281 F. Supp. 2d 1177, 1185 (C.D. Cal. 2003).

159. Another example of reverse passing off is *Smith v. Montoro*, 648 F.2d 602 (9th Cir. 1981), which found that a film distributor engaged in reverse passing off by removing an actor's real name from the film credits and replacing it with a different actor's name. *See also* *John Wright, Inc. v. Casper Corp.*, 419 F. Supp. 292, 325, 327–28 (E.D. Pa. 1976) (although it was lawful for defendant to copy plaintiff's public domain antique reproductions, defendant engaged in reverse passing off by advertising these copies "as replicas of its own original antiques"), *aff'd in relevant part*, *Donsco, Inc. v. Casper Corp.*, 587 F.2d 602 (3d Cir. 1978).

works involves traditional passing off—the use of a plaintiff’s source identifier to mislead consumers into believing that the plaintiff is the source of the imported goods. If the imported goods are materially different from those that the plaintiff has authorized for domestic sale, then the goods are not the plaintiff’s genuine goods, and anyone who imports or sells them under the plaintiff’s mark is falsely designating their origin. *Gilliam v. American Broadcasting Company*<sup>160</sup> and *King v. Innovation Books*<sup>161</sup> exemplify the application of traditional passing off doctrine to creative merchandise.<sup>162</sup> In each case, the defendant attributed a creative work to the plaintiff in a manner that misled consumers as to the plaintiff’s degree of responsibility for the work. So far, no court has held that *Dastar*’s rationale applies to traditional passing off claims involving creative merchandise. Thus, it appears that sections 32(1) and 43(a) will continue to apply to all categories of goods, including copies of copyrighted works. A copyright owner may therefore bring a Lanham Act claim against a defendant that uses the copyright owner’s trademark to sell copies that are materially different from the copies authorized by the copyright owner for that particular market.

#### IV. CONFLICT WITH COPYRIGHT POLICY

As in other situations where copyright and trademark law overlap, the possibility of using one regime to end-run around the other raises significant policy concerns.<sup>163</sup> If copyright law prevents copyright owners from maintaining separate territorial markets for their works, should they be permitted to achieve a similar result through trademark law?

With respect to many non-copyrighted goods, the protectionist approach of trademark law with respect to gray market goods has strong policy justifications. Although one of the primary benefits to the trademark owners is their ability to maintain different prices in different markets, there are also some consumer benefits. Goods manufactured or packaged specifically for foreign markets might have different ingredients, might be labeled or packaged differently, might be accompanied by different documentation (perhaps in a language other than English), might have been subjected to different levels of quality control during manufacturing, packaging, handling, or ship-

---

160. 538 F.2d 14 (2d Cir. 1976).

161. 976 F.2d 824 (2d Cir. 1992).

162. Many courts do not use the term “passing off,” but nonetheless hold defendants liable for offering creative works to the public under another party’s trademark. *See, e.g.,* *Robi v. Reed*, 173 F.3d 736 (9th Cir. 1999) (holding that former member of the musical group “The Platters” did not own the right to perform under that name); *Lutz v. De Laurentis*, 260 Cal. Rptr. 106 (Cal. Ct. App. 1989) (finding that similarity between defendant’s film title and plaintiff’s book title could falsely suggest to consumers that the works were related, if consumers perceived the title as a designation of origin).

163. *See* LaFrance, *supra* note 16, at 58–62 (discussing the use of copyright law to block importation of trademarked goods prior to *Kirtsaeng*).

ping, and might be covered by different warranties.<sup>164</sup> If domestic consumers purchase these unauthorized imports without knowing of these differences, the purchase may not meet their expectations. Thus, allowing trademark owners to segregate their domestic and foreign markets serves a consumer protection function in addition to enabling trademark owners to adjust their prices for each territory to reflect the costs of doing business and the competitive conditions in those markets.<sup>165</sup>

Thus far, trademark law has not subjected material differences to close scrutiny in order to determine whether a particular difference is dictated by marketplace requirements or has been devised by the trademark owner solely to prevent gray market imports. Courts have treated trademark owners favorably by accepting even minor differences as material; they have not demanded an explanation for the differences.<sup>166</sup>

Copyright owners can therefore take advantage of this judicial deference by introducing minor variations into their works. Of course, in the case of copyrighted works, just as with other consumer goods, some material differences between foreign and domestic versions could be dictated by external factors. Films released on home video, for example, could be dubbed or subtitled in different languages for different countries, or their content may be edited to satisfy local censorship or ratings requirements<sup>167</sup> or to accommodate cultural differences.<sup>168</sup> Books, of course, can be translated into different languages. However, even where works need not be published in different languages or edited to meet local content restrictions, copyright owners can easily introduce material differences that are unnecessary for meeting the demands of different markets. Under current law, such arbitrary or artificial differences will be just as effective in creating trademark liability as differences that are essential to meeting consumer demands.

The *Lever* disclaimer does not eliminate these concerns. While the use of a *Lever* disclaimer could allow some materially different copies to be imported, it cannot insulate domestic resellers from liability for trademark infringement under the multi-factor likelihood of confusion tests.<sup>169</sup> Thus,

---

164. See *supra* notes 114–121 and accompanying text.

165. See *supra* note 16 and accompanying text.

166. See *supra* notes 115–122 and accompanying text.

167. See, e.g., Peter Yu, *Region Codes and the Territorial Mess*, 30 CARDOZO ARTS & ENT. L.J. 187, 214 (2012) (noting that films are subject to especially strict censorship in China).

168. See also Kirsten Acuna, *Here are the American Phrases ‘The Lego Movie’ Changed for Foreign Audiences*, BUSINESS INSIDER (Feb. 26, 2014), <http://www.businessinsider.com/american-phrases-the-lego-movie-changed-for-foreign-audiences-2014-2>; Angie Han, ‘Captain America 2’ International Versions: How Are They Different?, FILM: BLOGGING THE REEL WORLD (Mar. 31, 2014), <http://www.slashfilm.com/captain-america-2-international-versions>; Aisha Harris, *Hollywood’s Bumbling Condescension to China*, SLATE (May 6, 2013), [http://www.slate.com/blogs/browbeat/2013/05/06/iron\\_man\\_3\\_china\\_hollywood\\_condescends\\_to\\_chinese\\_viewers.html](http://www.slate.com/blogs/browbeat/2013/05/06/iron_man_3_china_hollywood_condescends_to_chinese_viewers.html).

169. See *supra* note 90 and accompanying text.

even if imports are permitted, retailers might be unwilling to stock the labeled goods based on liability concerns. Apart from the risk of liability, retailers might be wary of carrying products with a *Lever* label because such a label could make goods more difficult to sell. A “material differences” warning could be particularly disconcerting to consumers contemplating the purchase of a book, DVD, CD, videogame or software package as opposed to the purchase of non-copyrighted goods such as candy or shampoo. The generally higher price of these copyrighted works—together with the fact that many of them are non-returnable once opened—might induce consumers to exercise greater caution in the purchasing decision, thus making a *Lever* disclaimer more of a deterrent. Students alerted to material differences in a text could be concerned about their ability to complete assignments and prepare for examinations correctly. The mere specter of material differences in a non-returnable DVD, CD, videogame or software package might persuade consumers to purchase the authorized version rather than risk being “stuck” with a version that lacks the desired content. Even if the product is returnable, consumers will have difficulty judging how different the two versions are unless they can compare them side-by-side, a comparison which, in the case of copyrighted works, most consumers will have neither the time nor the opportunity to undertake.<sup>170</sup>

Furthermore, a *Lever* disclaimer can impart useful information to consumers only as long as it remains attached to the merchandise. If the *Lever* label becomes separated from a product before its useful life is over, the product may be sold on the secondhand market to a purchaser who is unaware of the material differences. Copies of copyrighted works have longer useful lives than many other types of gray market goods (such as food or personal care products), and are also more likely to be sold secondhand. Because the regulations governing *Lever* labels are not specific as to the manner of attachment, separation is possible, especially in the case of products with relatively long useful lives, such as copyrighted works. Consumers that purchase secondhand books, CDs, DVDs, videogames, or software packages might inadvertently purchase something materially different from the product they were seeking, and might not have the option of returning the item. Thus, the *Lever* label will not protect these downstream purchasers from being misled or confused.

In their ability to impede cross-border trade, material differences in copyrighted works are somewhat analogous to DVD region codes, which make commercially distributed DVDs that are coded for one territory unplayable in devices coded for other territories.<sup>171</sup> The purpose of region

---

170. Cf. *Gilliam v. Am. Broad. Cos.*, 538 F.2d 14, 24 (2d Cir. 1976) (explaining that the network’s unauthorized editing of Monty Python television programs harms the authors because “the public will have only the final product by which to evaluate the work” even if the network publicly takes responsibility for the editing).

171. See Yu, *supra* note 167, at 194–95.

codes is to enable copyright owners to maintain separate markets by making unauthorized imports unappealing to consumers.<sup>172</sup> While region codes are designed to make DVDs completely unplayable outside of their intended markets, material differences allow the purchaser to access the copyrighted material but can render the material unsuitable for the purchaser's needs or expectations. A consumer that is forewarned of the difference can choose not to make the purchase, while a consumer that does not know about the difference may purchase the item and then experience the kind of confusion and disappointment that provide the basis for a finding of trademark infringement. In either case, the material differences have effectuated a territorial restriction. The major difference is that region codes create a technical barrier, while material differences create a legal one.<sup>173</sup> Although region codes can be circumvented by technological means,<sup>174</sup> only a policy-based legal challenge can overcome the effectiveness of material differences in the trademark context.

The strategy of deliberately introducing differences between domestic and foreign editions solely to take advantage of trademark laws is an anticompetitive measure. It enables domestic copyright owners to maintain higher domestic prices by restricting competition from cheaper imports. However, because this strategy does not appear to violate any existing legal principles, it is unlikely to attract judicial scrutiny. Courts will be loath to dictate content to producers and publishers of copyrightable works, nor are they likely to find any legal basis for doing so. A court cannot compel a textbook publisher to use the same pagination in both Thailand and the United States. Courts could, in theory, impose a higher threshold for assessing material differences in the context of copyrighted works. However, they would have to justify treating copyrightable works differently from other categories of gray market goods, possibly by noting the risk of an end-run around the first sale rule of copyright law. Because there are sometimes legitimate reasons for publishing different versions of a work in different countries, a heightened materiality standard would have to take account of the reasons for the material differences.

---

172. Motion picture studios use DVD region codes to control the timing of movie releases in different countries to facilitate price discrimination, to satisfy local distributors' needs for customized content, packaging, and advertising, and to meet censorship requirements. Yu, *supra* note 167, at 200–16.

173. Because they are a technical barrier, rather than a legal one, region codes have not been subjected to legal challenge in the United States. At one time, however, their role in facilitating price discrimination prompted legal scrutiny under the competition laws of Australia and the European Union. Paul Sweeting, *Probes into Regional DVD Imperils Studio Strategy*, VARIETY (June 3, 2001), <http://variety.com/2001/voices/columns/probes-into-regional-dvd-imperils-studio-strategy-1117800545/>.

174. Ryan Iwahashi, *How to Circumvent Technological Protection Measures Without Violating the DMCA: An Examination of Technological Protection Measures Under Current Legal Standards*, 26 BERKELEY TECH. L.J. 491, 506 (2011).

## CONCLUSION

At one point in their quest to block gray market imports, trademark owners such as Omega added superfluous copyrighted content to their products in an effort to use copyright law as a substitute for trademark law.<sup>175</sup> Today, copyright owners can turn this strategy on its head, introducing material differences that enable them to use trademark law in place of copyright law to block parallel imports. The former strategy ultimately failed, as a result of *Quality King* and *Kirtsaeng*. However, the reverse strategy may see greater success.

Although *Quality King* and *Kirtsaeng* have all but eliminated the copyright owner's right to control the importation of lawfully made copies under copyright law, publishers can now reclaim at least some of these rights under trademark law. By introducing material differences that distinguish gray market copies of works published under the same trademark, the publisher can take advantage of Lanham Act remedies, including but not limited to exclusion under the *Lever* rule. Alternatively, even without introducing material differences, under the Tariff Act publishers can block the importation of lawful foreign-made copies by assigning their foreign trademark rights with respect to those copyrighted works.

If copyright owners succeed in using trademark laws to create barriers to parallel imports, they will achieve a level of control over imported copies that they have not enjoyed since *Quality King*. This use of trademark law raises policy concerns, because it gives copyright owners the power to price-discriminate without the consumer protection justification that underlies trademark law. Many of the legitimate explanations for material differences in consumer goods have little application to copyrighted works. Nonetheless, under current law copyright owners can engage in price discrimination by exploiting the trademark rules that were designed primarily for consumer protection.

One publisher has already employed this device and has persuaded CBP to exclude gray market textbooks on the basis of material differences. It remains to be seen whether the importer in that case, or others faced with a similar problem, will continue the fight by applying a *Lever* disclaimer in order to release the goods into the domestic market. If not, then the trademark approach will have achieved a successful end-run around copyright law. If the importer applies a *Lever* label to the goods, then we may soon have the opportunity to observe how much weight a federal court will give to such disclaimer in evaluating the likelihood of confusion in the context of a trademark infringement claim. Ultimately, if this new strategy succeeds,

---

175. *Omega S.A. v. Costco Wholesale Corp.*, No. CV 04-05443, 2011 WL 8492716, at \*1 (C.D. Cal. Nov. 9, 2011) (opinion after remand from the Supreme Court and the Ninth Circuit).

more copyright owners will begin to use trademark law to accomplish what copyright law can no longer do.

If there is a benefit to be derived from copyright owners' use of trademark law to achieve anticompetitive ends, it is this: The exploitation of the "material difference" standard to block imports of lawfully made copies could lead courts to reconsider the extremely low threshold of materiality they have applied in the context of gray market goods. Although Congress could address this problem through amendments to the trademark and copyright statutes, no industry groups are likely to lobby for such a change. When copyright owners create material differences solely for the purpose of circumventing copyright law, courts should recognize that encouraging this practice is both anticompetitive and anti-consumer.