Parallel Imports:

A Copyright Problem with no Copyright Solution.

by

Raul Iturralde Gonzalez.

A thesis submitted in conformity with the requirements for the degree of Masters of Laws

Graduate Department of the Faculty of Law
University of Toronto

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Raul Iturralde Gonzalez
Graduate Department of the Faculty of Law
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Abstract.

Parallel Imports refer to the legal importation of products that have some form of Intellectual Property rights attached to them. These products enter in direct competition with the products authorized for the imported market. As a result of that, Intellectual Property holders have attempted to deter these importations through the enforcement of Intellectual Property rights (such as Trademarks and Copyrights).

In this work, it will be shown that Copyrights cannot be used to prevent Parallel Imports. Copyrights grant the right to reproduce works of authorship and in that form to obtain a benefit from their first sale. Copyrights do not grant protection beyond that first sale making them unsuitable to halt the importation of original products.

By studying the form in which other countries have managed the Parallel Importation problem, a solution will be given to this issue.
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# Table of Contents

**Thesis Introduction**................................................................................................................. 1  
**Part I: History and Nature of Copyright**.................................................................................. 5  
  i. Introduction......................................................................................................................... 5  
  ii. Common Law Copyright History....................................................................................... 6  
  iii. Civil Law Author's Rights History.................................................................................... 17  
  iv. The Nature of Copyright.................................................................................................... 24  
**Part II. Parallel Imports**......................................................................................................... 27  
  i. Definition............................................................................................................................ 27  
  ii. Exhaustion.......................................................................................................................... 31  
  iii. International Exhaustion.................................................................................................... 33  
      a) United States................................................................................................................... 33  
      b) European Union.............................................................................................................. 38  
      c) Australia........................................................................................................................ 39  
      d) New Zealand.................................................................................................................. 39  
**Part III. Analysis**..................................................................................................................... 42  
  i. Reasons to use Copyrights.................................................................................................... 42  
  ii. A Trade Issue..................................................................................................................... 44  
  iii. Economic Analysis........................................................................................................... 47  
  iv. Analysis of a Parallel Importation case: *Kraft Canada*................................................... 51  
**Part IV. Final analysis**............................................................................................................. 56  
**Bibliography**............................................................................................................................ 59
Thesis Introduction.

Two factors can be credited as the origin of Parallel Imports: Intellectual Property rights, and price differences between countries.\(^1\) Parallel Imports refer to the legal importation of original products. In that sense they escape the traditional issues handled by Intellectual Property. Nonetheless, it would be very difficult to conceive of Parallel Imports without Intellectual Property rights, as these rights are what make the imported products distinguishable.

Copyrights are used to avoid unauthorized reproductions of works of authorship. Among the principal rights given to authors is the right to reproduce the work, which gives authors the right to benefit from the first sale of copies of the work.\(^2\) However, these rights were not originally given to authors but to printers. The study of the history of Common Law Copyright will help in understanding the form that these rights have developed and the reasons for placing authors in a preferred position in the Copyright theory.

The study of Civil Law Author’s Rights will also enable an understanding of the important position that authors have in these systems. Moreover, it will clarify the similarities and differences between the Common Law Copyright and Civil Law Author’s Rights, and the reasons that neither tradition can offer a complete solution to the Parallel Imports issue. Once the nature of Copyrights has been understood, the nature of Parallel

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\(^2\) E.g. The Canadian Copyright Act, R.S.C 1985, c. C-42 [Copyright Act], recognizes in section 3 the right to produce and reproduce the work and section on 2.2 (1) the right to publish the work by making copies available to the public. Also, the Mexican Ley Federal del Derecho de Autor, (Author’s Rights Federal Law, Mexico) D.O.F. December 24, 1996. online: Orden Juridico Nacional <http://www.ordenjuridico.gob.mx/PL/congreso.php> [LFDA] recognizes in article 11 the economic rights of authors, in article 16 the forms in which the works may be released to the public and in article 24 the right of authors to economically exploit their works. See also Rose Ann MacGillivray, Parallel Importation: A Framework for a Canadian Position on Exhaustion of Intellectual Property Rights (SJD Thesis, University of Toronto, Faculty of Law, 2008) [unpublished] at 155-56.
Imports will be studied. First, there will be an attempt to provide a reasonable explanation of Copyrights and Parallel Imports. Second, Parallel Imports will be classified according to the many forms and participants they can have. This will be undertaken to demonstrate that Parallel Imports are a trade issue not a Copyright issue, even though they involve the use of works of authorship.

It is not the objective of this work to negate the commercial aspect of Copyrights or their economic justification. By presenting Parallel Imports as a trade issue, it can be shown that they relate more to the traffic of goods than to the classical issues handled by Copyrights, such as unauthorized reproduction. As Parallel Imports relate more to the trade of goods, Trademarks are best positioned to deal with these issues, as the objective of Trademarks is the protection of a “company’s reputation”\(^3\) in the sale of goods.

Understanding Parallel Imports is only the first step to understanding the main issue, which is the concept of exhaustion. In Intellectual Property Law, “exhaustion” refers to the extinction of the entitlement to prevent the further sale of a product once the product has been put on the market. As will be explained, exhaustion can be considered at a national and an international level. The international level is the one that involves Parallel Imports. The study of exhaustion and how it has been interpreted in different jurisdictions will be helpful to understand how different countries have dealt with this issue, in particular that there is not a standard view of the problem and that each country decides what is best for its internal market.

Once the concepts of Parallel Imports and exhaustion have been explained, it will become clear that this is a trade concern more than an issue related to unauthorized reproduction or other classical Copyright concerns. Being a trade issue, it would be

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expected that trademarks would be used to deal with these kinds of situations. As it will be
explained, even the use of trademarks is not enough to assure complete protection against
Parallel Imports, which leads Intellectual Property holders to seek a solution in Copyrights.

As Copyrights have developed to guarantee a reward to authors for the first sale of
copies of their works, they cannot offer a complete solution to the Parallel Import problem.
Parallel Imports deal with original products, which were sold by authors or by their licensees. This means that authors receive a direct or indirect profit from the parallel imported products. Since an answer cannot be sought in the theory of Copyright, and Parallel Imports are a trade matter, a possible solution will be sought in the theory of international trade. This will help to explain the solutions taken by several countries including the U.S., Australia and the E.U.

Once Parallel Imports have been described as a trade issue and once the trade theory has been explored, an analysis of a recent Canadian Supreme Court decision dealing with Parallel Imports will be provided. This decision was the Kraft Canada case\(^4\), which resulted in a split court. The problems that Justices faced in this case show the difficulties in applying Copyright theory to a mere trade issue. The decision was divided in many groups with different views. In the end, the majority decided the case based on an interpretation of the concepts of exclusive license and assignment.

Finally, the various points explained above will be the basis of this paper’s argument, which is that Copyrights cannot be used to prevent the legal importation of products that bear a valid copyright (Parallel Imports) due to the focus of Copyrights on the protection of authors and their rights. These rights specifically are the right to reproduce the work and the right to benefit from the first sale of copies of that work. As Parallel Imports

are made with original works bought to authors or their licensees, there is always a reward for authors. Being a trade matter, the solution for Parallel Imports must be found in the economic policies of each country, which will have to decide the best exhaustion policy for their market.
Part I: History and Nature of Copyright.

i. Introduction.

Parallel Imports refer more to a trade problem than to a problem related to the theory of Copyrights. The fact that the issue of Parallel Imports originates and is promoted by Copyrights makes it seem logical to seek a solution based in this theory. Nevertheless, the form in which Copyrights and Civil Law Author’s Rights are constructed make it impossible to use them to solve this issue.

That Copyrights cannot be used to prevent Parallel Imports originates from the form that Copyrights and Author’s Rights developed and the focus that these legal theories have to protect authors’ rights and more specifically the right of authors to reproduce their works. Studying the history of Copyrights is the best approach to obtaining an idea of how the theory of Copyrights is organized and the many facts that gave it shape. It will also permit an understanding of the reasons that made authors an important part of the theory and the rationale behind the protection of the right of reproduction.

Civil Law Author’s Rights follow a similar logic to that of Copyrights. Author’s Rights are based on theories developed by ancient Romans and French theorists. Author’s Rights promoted authors by giving them the notion of Moral Rights, which protect their works from distortions made by others. This concept of Moral Rights has been adopted by many Common Law countries, proving the importance that authors and their rights have in Copyrights.

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5 See Part III.ii. A Trade Issue, below, for more on this topic.
Both Copyrights and Author’s Rights are based on the idea of protecting the effort of authors that is put into the development and construction of works, by allowing them to obtain a reward for the sale of their works and avoiding their unauthorized reproduction. Nonetheless, this protection falls short in cases where no unauthorized reproduction has been made and where authors have already obtained a reward for the sale of their works as in the case of Parallel Imports.

A brief look at the history and basis of both legal doctrines will clarify the reasons why they are constructed in the manner that they are and the difficulty of applying them to solve the Parallel Imports issue.

ii. Common Law Copyright History.

From the single seed of the printer’s privilege grows the author’s legal right to print his work for a certain length of time. From this author’s right emerge a number of secondary rights, the term of protection lengthens, the right is extended to other “authors” (such as dramatists) operating within the realm of cultural production, and finally, this vibrant, slowly blooming flower outgrows the very country in which it first took root.6

In order to understand an institution such as Copyrights, it is necessary to know its origins and its development. The origins of Common Law Copyright, surprisingly, have nothing to do with the author. The figure of the author is a subsequent development, and even then the author appeared only as an instrument used by printers to protect their interests when William Caxton (or Claxton) introduced the printing press in England in 1476. Those were different times; there was no notion of free speech, and the government was worried about the dissemination of subversive political and religious material through the printing press. Some form of control had to be invented.

The first form of control devised was the granting of “patents”. These patents were not exclusive rights to use an invention as they are now known, but the exclusive right to print books. The right to print copies of certain books was given by Royal Prerogative. John Feather recognizes three forms that these patents adopted;\(^7\) first, the grant given to one or more people to print books of unknown authors (such as the Bible, or the Book of Prayers); second, the privilege given to certain people to print books of a particular category, including books not yet written (as an example, Richard Tottel obtained a grant to publish common law books in 1553).\(^8\) Finally, patents were given to certain authors to protect certain books.

The last category is the one that resembles modern copyright the most. All three categories of patents were given for a limited period (although some were given with no time limitation),\(^9\) but there was not a standard period; in other words, it was the crown who decided the duration of each patent.

The real origins of modern Copyright have to be sought outside this privilege system. In 1557 the “Company of Stationer of London” received a grant to print all the books in the kingdom. This company had the responsibility of ensuring that every book published in England was authorized by the crown’s censors. Moreover, it was during this time that the modern concept of copyright developed. At the beginning there was not a clear notion of property over writings. Authors did not receive most of their earnings from the sale of their books as they do nowadays, but from patrons, rich people who sustained

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\(^7\) John Feather, “From rights in copies to copyright: The recognition of author’s rights in English Law and practice in the sixteenth and seventeenth centuries” (1991-92) 10 Cardozo Arts & Ent. L.J. 455 at 456-457 [Feather, “From rights”].


\(^9\) John Feather alludes to the grant given to Richard Field to publish John Harington’s translation of Ariosto’s *Orlando Furioso*, Feather, “From rights” supra, note 7 at 457.
authors in order to gain honour and status for themselves.\textsuperscript{10} The Stationers were considered the owners of the copies of the books (although they always maintained a close relationship with the authors). In order to be printed, a book had to be licensed by the “Master and Wardens”, who were the elected senior officers of the Company,\textsuperscript{11} and be registered in the “Stationers’ Register”.\textsuperscript{12}

The concept of property over writings started to develop. Feather states that in between the years 1563-64 a man named John Sampson was fined by the company for printing “other mens copyes”;\textsuperscript{13} and also, that between 1558-59 William Copland was fined for printing a book “of master Bradforde”.\textsuperscript{14} It can be seen that the concept of exclusive right to copy a book was accepted at that time. Nevertheless, it is important to note that this right was not given to the author of the book, but to the stationer under whose name the book was registered.

This does not mean that the author had no rights at all. It is important to remember that the Crown could give “patents” to authors; such was the case with the patent given to John Minsheu for his \textit{Glosson Etymologicon} in 1611, and the one given in 1616 to John Marriott for his \textit{Pharmocopoeia Londiniensis}.\textsuperscript{15} Nevertheless, returning to the book trade and the Stationer’s Company, it is possible to see some recognition for the author in the fact that stationers paid authors for their copies.

\textsuperscript{10} Daniel Burkitt, “Copyright Culture-The History and and Cultural Specificity of the Western Model of Copyright” (2001) 5 Intellectual Property Quarterly 146 at 148 n. 5
\textsuperscript{11} Their job was to act as censors for the government and the church.
\textsuperscript{12} Also known as “Hall Book”, “Register Book”, “Entry Book” among others. Feather, “From rights” \textit{supra} note 7 at 459.
\textsuperscript{13} \textit{Ibid.} at 461.
\textsuperscript{14} \textit{Ibid.}
\textsuperscript{15} \textit{Ibid.} at 470.
In 1642, parliament ordered the Stationers to identify the author on each book printed and to obtain the permission of the author to print it.\textsuperscript{16} Furthermore, in 1662 the \textit{Licence Act}\textsuperscript{17} was promulgated. This Act stipulated in section VI that the name of the printer had to appear on the book, and that the printer had to reveal the name of the author when the Licensor required it.\textsuperscript{18} These requirements had little to do with an acceptance of authorial rights, and more with improving censorship of heretical and seditious works. The goal sought by these rules was to have better means to prosecute and locate printers and authors of subversive books. Even though this statute did not improve the rights of authors, it was a trigger for the development of copyrights. Originally the \textit{Licence Act} was meant to last two years, but instead of that it was in force until 1695.\textsuperscript{19}

The bargain created between the Stationers’ Company and the government was weakened when in May 1695 the offences of criminal and seditious libel were declared to be punishable by common law.\textsuperscript{20} This added to the emergence of a new form of press, the newspapers, a development which began to raise questions of a licensed press, as Parliament felt that there where better methods to control seditious publications and the House of Commons began to support the idea of a free press.

There were, however, attempts to establish some form of regulation. Ronan Deazley refers to thirteen attempts to regulate the press after the end of the \textit{License Act};\textsuperscript{21} nonetheless, none of these attempts achieved any of the goals sought by the Stationers.

\textsuperscript{17} An Act for preventing the frequent Abuses in printing seditious, treasonable and unlicensed Books and Pamphlets, and for regulating of Printing and Printing Presses, 1662 (U.K.), 13 & 14 Car 2, c 33, online: British History Online < http://www.british-history.ac.uk/report.aspx?compid=47336#s6 > also Primary Sources on Copyright (1450-1900), eds L. Bently & M. Kretschmer < www.copyrighthistory.org >
\textsuperscript{18} Ibid note 16 at s. VI.
\textsuperscript{19} Deazley, \textit{On the Origin}, supra note 6 at 2, n. 4.
\textsuperscript{20} Deazley, \textit{On the Origin}, \textit{ibid} at 5.
\textsuperscript{21} Ibid at 28-29.
Company. The House of Commons was reluctant to support a statute that censored the press, and in the end the only bill that received the Royal Assent was meant to suppress “atheism, blasphemy and prophaneness”.22

The Stationers realized that they needed to act in order to maintain their dominion over the printing business. As their services as censors of books for the government began to be seen as unnecessary, they started to push for legislation that could protect their form of life.

Deazley explains how Daniel Defoe in some essays pointed to a new form of piracy “press-piracy”.23 This new form of piracy, according to Defoe, occurred due to a lack of a law that protected the property over writings; although Defoe advocated for such a law, he did it thinking of the benefits given to society by the “Encouragement of Letters and all useful Studies”.24 The Stationers took this idea of Defoe’s and used it in order to protect their control over the press business.

The Company started to promote the idea that some form of protection should be given to the author’s copy and to those who, in exchange for that copy gave the author “Mony or other valuable Considerations”.25 The Stationers made use of the figure of the author and claimed that a property over his copy had to be accepted, though they also claimed that that property had to be transferred to someone (a Stationer) so the work could be published.

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22 Ibid at 20-22.
23 Ibid at 31
24 Ibid at 32.
Parliament heard the claims of Defoe and the Stationers and on April 5th, 1710 the first recognized copyright statute in the world, *The Statute of Anne*, was passed. This Act gave 21 years of protection to authors, printers or booksellers of any book that already printed, and 14 years for books that were not printed by April 10th, 1710.27 This last right was to be “returned” to the author, if he was still alive, for an additional period of 14 years.28

This Statute is essential in the history of copyright, as it is the first that recognizes a right given to the author of the book, and establishes a limited period of time for the enjoyment of this right. Nonetheless, at the bottom the real objective of *The Statute of Anne* was neither the recognition of the author’s rights nor “the encouragement of learned men to compose and write useful books”29, but to regulate the book trade.

Another act that is also important for the development of Copyright is the *Engravers Act*.30 This Act also gave engravers the right to “print and reprint” their designs for 14 years starting from the day of the first publication.31 The difference between the *Engravers Act* and *The Statute of Anne* would be that the former extended the right of the authors in a way that an inexact copy of a work would be an infringement of the right of the engraver.32 The *Engravers Act* also protected only original works.33

26 *An Act for the Encouragement of Learning by vesting the Copies of printed Books in the Authors or Purchasers of such Copies, during the Times therein mentioned, 1709* (U.K.), 8 Anne, c19 online: Primary Sources on Copyright (1450-1900), eds L. Bently & M. Kretschmer <www.copyrighthistory.org >
27 *The Statute of Anne, ibid* s. 1.
32 *Ibid*.
33 *Ibid*. 
There were other differences with the previous statute. The Engravers Act was promoted by the artists themselves as a form of protection against the printsellers, while The Statute of Anne was promoted by the Stationers as a form to protect their market.\textsuperscript{34} The engravers also promoted the idea that there was a difference between the physical object that contained the work (the piece of paper) and the work itself. Furthermore, they also promoted the idea that two artists working on the same subject would produce two different works. The idea of copyright as we know it today was developing.

Another push for the development of the idea of copyright was the decision given in the case Pope v. Curl.\textsuperscript{35} In this case, the writer Alexander Pope claimed property over letters that he wrote to Jonathan Swift and that were published by Edmund Curl. The decision given in this case advanced the notion of a property not over a physical object (the ink and paper), but over the work itself, as Lord Chancellor Hardwicke acknowledged that the author had some form of property to the author of the letter.\textsuperscript{36}

The Statute of Anne prescribed a term of 14 years for the exclusivity to print a book, which could be doubled if the author was still alive at the end of the first 14 years. Once the terms started to expire the Stationer sought the development of new legislation that would allow them to maintain their business. As with The Statute of Anne, they used the figure of the author, but this time they claimed something new, a Common Law property over the writings. The Stationers claimed that the previous statute only recognized a Common Law right that existed before 1709 and that was perpetual. Opponents denied that such Common

\textsuperscript{34} Ibid at 90.


\textsuperscript{36} In the words of Lord Chancellor Hardwicke: “I am of opinion that it is only a special property in the receiver, possibly the property of the paper may belong to him; but this does not give a licence to any person whatsoever to publish them to the world, for at most the receiver has only a joint property with the writer.” Pope v. Curl ibid. cited in Rose, ibid.
Law right existed, and argued that *The Statute of Anne* was made to protect authors while promoting the creation of new works.\(^{37}\) The struggle was not over copies anymore, but on the property of the writings.

As had happened with *The Statute of Anne*, there were many legislative attempts to regulate the printing business once more. The most important of these was the *Bill for the Better Encouragement of Learning* of 1737.\(^ {38}\) This bill recognized the property that authors have over their writings, and not only on the physical ink and paper. This bill would also have given the authors dominion over their writings for their entire life, and 11 years after that to his “Executors, Administrators or Assigns”\(^ {39}\).

In Deazley’s opinion, this bill was not accepted because it imposed many charges and disadvantages on the booksellers.\(^ {40}\) The author was not only a figure anymore, but an important player. Stationers would have had to negotiate with him every ten years in order to renew the permission to print his writings. In addition, the bill seemed to encourage other booksellers by allowing them to print abridgements or translations after three years from the first publication. The Stationers started to search for other means to protect their monopoly outside of Parliament.

The problems for the Stationers came not only from Parliament, but from trade itself. The Scottish printers had become real competitors for their British counterparts, as the Scottish were best positioned for trade with America. The Company armed with the decision given in the case *Baller v. Watson* (1737)\(^ {41}\) in which Lord Chancellor Talbot

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\(^{38}\) *Ibid.* at 104.

\(^{39}\) *Ibid.* at 105.

\(^{40}\) *Ibid.* at 107-08.

\(^{41}\) *Ibid* at 117.
granted a “perpetual” injunction,\textsuperscript{42} decided to sue the Scottish printers at the Court of Session in Scotland.

The truth is that the Stationers had no luck before the Court of Session, which rejected the idea of a Common Law Copyright.\textsuperscript{43} After this defeat, the booksellers decided not to continue their litigation in Scotland. Nevertheless, it was during these debates in the Court of Session that the concept of Copyright would be defined while both parties tried to define the range of The Statute of Anne.

The next important case in the history of Copyright is \textit{Millar v. Taylor} (1768).\textsuperscript{44} In this case Millar claimed that Taylor had published, exposed to sale and sold books, which property was claimed by Millar. This case was a temporary victory for the Stationers as the Court accepted the idea of a Common Law Copyright that allowed the author (and especially his printer) to publish his work in perpetuity.\textsuperscript{45}

Nonetheless, a new decision would change everything for the Stationers Company. \textit{Donaldson v. Becket} (1774)\textsuperscript{46} was a case about piracy of books. Deazley explains the difficulties in studying this case due to the many reports that exist and the differences between them. However, this decision has been interpreted as the end of the idea of a Common Law Copyright eliminating the perpetual right and acknowledging that Copyright is a creation of statute.\textsuperscript{47}

This is a concise the history of the development of Common Law Copyright, which is the history of how authors received special protection of the right to reproduce and sell

\begin{itemize}
  \item \textsuperscript{42} What should be understood as a “perpetual injunction” in Copyright cases was not clear at that time. The booksellers used this word to advance their argument of a Common Law property over books. See Deazley, \textit{On the Origin}, supra note 6 at 62-65.
  \item \textsuperscript{43} Deazley, \textit{On the Origin}, supra note 6 at 128.
  \item \textsuperscript{44} \textit{Ibid.} at 174.
  \item \textsuperscript{45} \textit{Ibid.} at 178.
  \item \textsuperscript{46} \textit{Donaldson v. Becket} (1774) 4 Burr 2408, 2 BroPC 129 cited in Deazley, \textit{On the Origin}, supra note 6 at 191.
  \item \textsuperscript{47} Deazley, \textit{On the Origin}, supra note 6 at 217-220.
\end{itemize}
their works. Although it is true that some of the statutes and rules were created to promote the creation of useful writings, it is also true that the form to achieve this has been by promoting the rights of the author. From this point onwards, the history of Copyright can be explained by mentioning the many statutes made to regulate it.

In 1814, a new Copyright Act was approved.48 This act recognized the rights of the authors for 28 years, and stipulated that in the case that the author was still alive after this period, she should enjoy the copyright the rest of her life.49 Playwrights obtained acknowledgement of their rights with the Dramatic Copyright Act, 1833.50 This right was extended to musical compositions with the act of 1842.51 The Berne Convention, 188652 gave protection to the authors of works made in any of the contracting states. This convention was revised in 1908. On this occasion the requirement of registration for granting copyright was eliminated, and the term was expanded to 50 years after the death of the author.53 These ideas were integrated in the Copyright Act of 1911, which signalled the end of the Stationers Company.54 This act also acknowledged “neighbouring rights”, which are given to people other than the author (and include performers, producers and broadcasters among others). These rights were later stipulated in the Rome Convention.55

48 An Act to amend the several Acts for the Encouragement of Learning, by securing the Copies and Copyright of Printed Books, to the Authors of such Books or their Assigns, 1814, (U.K.) 54 Geo.III, c.156 online: Primary Sources on Copyright (1450-1900), eds L. Bently & M. Kretschmer <www.copyrighthistory.org>
49 Deazley, R. ‘Commentary on Copyright Act 1814’, (2008) online: Primary Sources on Copyright (1450-1900), eds L. Bently & M. Kretschmer, <www.copyrighthistory.org>
51 Copyright Amendment Act, 1842, (U.K.) 5 & 6 Vict., c.45 s. 20. online: Primary Sources on Copyright (1450-1900), eds L. Bently & M. Kretschmer <www.copyrighthistory.org>
54 Ibid.
55 Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, 26 October 1961, 496 U.N.T.S. 43- 96 (registration number I-7247) online: WIPO <
In Canada, the *Provincial Statutes of Lower-Canada* (1832) gave authors, composers and their assignees an exclusive right to copy and to sell their works for 28 years. The first Canadian Copyright Act was created, in 1921. The act that applies today was passed in 1985. This Act gives copyright for the life of the author plus 50 years, and in section 14.1 acknowledges the Civil Law theory of Moral Rights, although limiting them to the duration of the copyright.

Finally, American Copyright history is similar to the English one in that the former originated in the later. Nevertheless, American Copyright is marked by an important difference with other Common Law traditions. This difference originates in Article 1, section 8, clause 8 of the U.S. Constitution, which establishes that the objective of Copyright is the “Progress of Science and useful Arts”. This article has been interpreted as giving more importance to the public benefit than to the interests of authors. Under American Copyright Law, authors play a secondary role as the means to achieve the promotion of the arts. Even though authors are not as important as in other legal systems, their role in the creation and dissemination of culture is still acknowledged. The diffusion of the culture is achieved through the defence and protection of author’s right to reproduce and to sell for the first time their works. As will be explained, the relevant role that authors


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Copyright Act, S.C. 1921, c. 24.

Copyright Act, supra note 2.

Ibid. S.6

Ibid. S. 14.2 (1)

U.S. Const. Art. I, § 8, cl. 8 “[The Congress shall have power to] promote the Progress of Science and useful Arts, by securing for limited times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries” cited in Daniel Burkitt, “Copyright Culture- The History and Cultural Specificity of the Western Model of Copyright” (2001) 5 Intellectual Property Quarterly 146 at 154 note 45. See also *Merriam- Webster’s Dictionary of Law* (United States of America: Merriam- Webster, 1996) at 621.

See Burkitt, *ibid.*
play in Copyright doctrine will make it very difficult to solve the Parallel Import issue even in jurisdictions where authors are considered in a secondary way, such as in the United States.

iii. Civil Law Author’s Rights History.

Civil Law Author’s Right is understood as being different from Common Law Copyright. Their history is certainly very different. The Civil Law notion that Author’s Rights are based on a special relation between the author and his creation can be traced to ideas developed in ancient Greece and Rome. In Athens the accusation of plagiarism was a serious one, especially during the times of Pericles (495-429 BC), while the Romans developed concepts that are the basis for the theory of Author’s Rights, although they did not have Author’s Rights (or Copyrights) as they are understood today.

One of these concepts was the development of the idea of “intangible property”. The Romans developed the concept of *res incorporeales*; that is, property that had no substance and that “could not be held in hand like physical objects”. The Romans treated rights in a manner that was adopted by modern Civil Law jurisdictions. To clarify, rights are

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64 Moreover, some authors see Roman institutions as precedent for the Common Law Copyright. See Russ VerSteeg, “The Roman Roots of Copyright” (2000) 59 Md. L. Rev. 522.

65 *Ibid* at 532.
considered as objects differentiated from the physical objects that they affect.\textsuperscript{66} As a result, they are classified as “personal” and “real” rights.\textsuperscript{67}

Personal rights arise from the conduct of a person\textsuperscript{68} when that person decides to oblige herself to do something. Civil Law accepts three types of obligation, to give, to do and not to do.\textsuperscript{69} The classical example of a personal right is the credit in which a person compels herself to give something (an amount of money, to pay) to another. In this case, it is been said that the creditor has a personal right over the debtor, who has a personal obligation.

Real rights refer to a relationship between a person and an object. This will be explained later. At this moment, it is important to mark the difference between the

\textsuperscript{66} N.B. The definition of goods in Civil Law is different from the definition in Common Law. Goods in Civil Law are considered as: “anything that can be owned” Rafael Rojina Villegas, Compendio de Derecho Civil; Bienes, Derechos Reales y Sucesiones, (Civil Law; Goods, Rights over Goods and Inheritances) 40th ed. (Mexico, Porrua, 2007) at 67. [Translated by the author]. This definition is contrary to the Common Law definition of goods that only include chattels that are “capable of physical possession.” S.J. Traves, Commercial Law (Australia: LexisNexis Butterworths, 2006) at 117

\textsuperscript{67} In Civil Law jurisdictions there exist many classifications of goods. In addition, the classification of a good in one category does not prevent the inclusion of that good in another. These classifications have been divided in two groups: first, those classified as “things” or physical objects, and second, those classified as goods in general, which includes physical objects and incorporeal goods.

The first group has no relevance for this work, as it only refers to physical objects. The second group is composed of a) “movable” and “immovable” goods, b) corporeal and incorporeal goods, and c) public and private goods. From this group, only a) and b) are of relevance for this work.

The classification of movable and immovable goods refers to the capacity to transport the good from one place to another. Immovable goods cannot be transported from one place to another, such as land or buildings. To make a comparison, although not an exact one, this kind of goods would refer to what is known in Common Law as real property.

Movable goods are goods that can be transported from one place to another. This classification refers not only to physical objects, but also to rights. Compared with the Common Law classification of property, movable goods would be similar to the concept of chattels personal.

Corporeal goods are physical goods; in other words, objects that have a mass and can be touched. In Common Law, these goods would fit in the category known as choses in possession. Incorporeal goods refer to rights. Rights are divided in two categories in Civil Law, “real” rights and “personal” rights.

Rojina Villegas, \textit{ibid} at 63, 68, 73, 75. Also Traves, \textit{ibid} at 4, 6, 117.

\textsuperscript{68} Rojina Villegas, \textit{ibid} at 63.

\textsuperscript{69} Codigo Civil Federal (Mexican Federal Civil Code) D.O.F. 1928 s. 1824 [Translated by author]. Contracts can have as an object.

\textbf{I.} The object that the person must give.

\textbf{II.} The action that the person has to do or that has to avoid.

See also Rojina Villegas, \textit{ibid}.
corporeal good (the physical object) and the incorporeal good (the right). 70 Under these circumstances, it has been said that Author’s Rights are real rights. 71 Another important idea born from Roman Law is the idea that the material object was different from the work.

Russ VerSteeg recounts a discussion that Roman jurists had in which the Roman jurists wondered who would be the owner of a work of art made on the property of another man. The simple fact that this problem arose is sufficient to tell us that the ancient Romans understood that there was a difference between the material object and the artistic creation. 72 Adolfo Loredo Hill 73 explains that the Digest of Justinian (41.65 and 47.2.17) punished the theft of writings in a special manner and not as a regular theft. In other words, the property over writings was considered as a special property. Thus the ancient Romans developed many ideas and institutions that would be the basis for the Civil Law theories.

Even though they did not have an Author’s Rights (or Copyright) per se, some of their ideas are present in the modern theory of Author’s Rights.

The history of Civil Law Author’s Rights is the story of the different Laws that regulated it; some of the most important will be included here. Author’s Rights has a similar beginning to that of Copyrights. Gutenberg’s printing press was also the main reason to start regulating the printing business, which was a result of this press. By 1470, it was usual to give privileges to printers in a manner similar to the grant given to the

70 This is similar to the distinction made in the case of property in Common Law. “The term ‘property’ is used in two ways. It is used to denote interests or ‘things’ capable of being owned (for example, my car or my book is my ‘property’), and to denote ‘ownership’ itself (for example, I have ‘the property in’ my car). Goodeve’s Modern Law of Personal Property, 9th ed., (London: Sweet & Maxwell, 1949) at 1 cited in Traves, supra note 66 at 4. The first example (the car) will be the corporeal good and the second example (the property in the car) the incorporeal good.

71 Rojina Villegas, supra note 66 at 177.

72 The problem involved a parchment, a canvas and a piece of bronze. The answer depended on the material and the school of the jurist answering the question. See VerSteeg, supra note 64 at 536-37.

Stationers Company in England. For example, in 1495 the Venetian Senate gives Aldo Manuzio the privilege to print Aristotle’s works. Similarly, King Louis XII authorized the printer Verard to publish the letters of Saint Paul and Saint Bruno. These privilege systems were also used as a way to censor and control the printing of books.

The development of Author’s Rights continued with important events that happened in Europe, such as the enactment of The Statute of Anne in England, which Civil Law jurisdictions see as the first acknowledgement of author’s rights by a government.

In France, the Revolution introduced new ideas that developed the Author’s Rights theory. The Revolutionaries tried to eliminate the privilege system based on the idea that authorial protection should not be subject to the caprice of the authority. Authorial protection should be based on the recognition of a special relation between authors and their work. The Décret du 13 Janvier 1791 protected the public performance of dramatic works, and guaranteed the protection of the work during authors’ life and five years after their death. The Décret du 19 Julliet 1793 protected any creation of the spirit that belonged to the fine arts.

In Spain, there was a rigid control over written works. The Catholic Kings Phillip II of Aragon and Elizabeth I of Castile established a strong control in order to censor those

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74 Ibid.
75 Ibid. See also Herrera Meza, Iniciación al Derecho de Autor (Introduction to Author’s Rights) (Mexico, LIMUSA, 1992) at 24.
76 Herrera Meza, ibid.
77 Le Chapelier’s report (1791), online: Primary Sources on Copyright (1450-1900), eds L. Bently & M. Kretschmer, <www.copyrighthistory.org>
79 Décret de la Convention Nationale du dix-neuf juillet 1793 relatif aux droits de propriété des Auteurs d’écrits en tout genre, des Compositeurs de musique, des Peintres et des Dessinateurs, online: Primary Sources on Copyright (1450-1900), eds L. Bently & M. Kretschmer, <www.copyrighthistory.org>
80 Art. 7. See also Adolfo Loredo Hill, “Repaso Historico Analitico del Derecho Intellectual” in Chacon Fernandez, ed., supra note 63, 1 at 4.
writings that could affect the Catholic Religion or the Crown.\footnote{Adolfo Loredo Hill, “Repaso Historico Analitico del Derecho Intellectual” in Chacon Fernandez, ed., supra note 63, 1 at 6 and Herrera Meza, supra note 75 at 27.} There were also privileges given by the monarch in order to print writings. Moreover, in order to import books to the Spanish colonies in America a Royal grant was necessary under death penalty for disobedience.\footnote{Ibid.} Phillip II orders that authors should get the 8% of the earnings where his work is sold.\footnote{Ibid.} King Charles III through the Real Orden of March 22nd, 1763 determined that the exclusive right to print a book belonged to the author.\footnote{Adolfo Loredo Hill, “Repaso Historico Analitico del Derecho Intellectual” in Chacon Fernandez, ed., supra note 63, 1 at 6.} The Courts of Cadiz in 1813 acknowledge the property of authors over their writings.\footnote{Ibid.}

In Mexico, the first Constitution that adopted the federal system, the Constitution of 1824, gave the Congress the faculty to legislate over Author’s Rights.\footnote{Ibid. at 7.} The Civil Codes of 1870 and 1884 considered the Author’s Rights as property rights.\footnote{Ibid at 8.} On December 31st, 1947 the first Federal Author’s Rights Law was promulgated, finishing the period were Author’s Rights were regulated through the Civil Code.\footnote{Ibid at 10.} The present Law was promulgated on December 24th, 1996.\footnote{Ibid. at 11.}

Describing the Laws does not explain much about the evolution of the Author’s Rights theory. To understand this theory, it is necessary to explain its components. The Civil Law Author’s Rights theory rests on the ideas created in France after the Revolution and the Roman Law principles inherited by the Civil Law jurisdictions.

\footnotesize{\textsuperscript{81} Adolfo Loredo Hill, “Repaso Historico Analitico del Derecho Intellectual” in Chacon Fernandez, ed., supra note 63, 1 at 6 and Herrera Meza, supra note 75 at 27.}  
\footnotesize{\textsuperscript{82} Herrera Meza, ibid.}  
\footnotesize{\textsuperscript{83} Ibid.}  
\footnotesize{\textsuperscript{84} Adolfo Loredo Hill, “Repaso Historico Analitico del Derecho Intellectual” in Chacon Fernandez, ed., supra note 63, 1 at 6.}  
\footnotesize{\textsuperscript{85} Ibid.}  
\footnotesize{\textsuperscript{86} Ibid at 7.}  
\footnotesize{\textsuperscript{87} Ibid at 8.}  
\footnotesize{\textsuperscript{88} Ibid. at 10.}  
\footnotesize{\textsuperscript{89} Ibid. at 11.}  
\footnotesize{LFDA, supra note 2.}
The theories created after the French Revolution centered on the figure of the author, who was considered to have a special relationship with his creation. This special relationship has created a right, which is only recognized but not created by the law.\textsuperscript{90} This relation gives the author a right over his oeuvre by the mere fact of creation. This special relation between the author and his creation gave birth to one of the principal concepts of Civil Law Author’s Rights, the concept of Moral Rights. Authors cannot lose their Moral Rights; these rights cannot be taken from them.\textsuperscript{91} Moral Rights are protected during the whole life of the authors, and after their death they can be protected by their heirs with no time limit.\textsuperscript{92} These rights are different from the economic rights given by the law.

Moral rights should be understood as those rights born from the special relationship that exists between an author and his work. These rights include: to be named as the author, to publish the work, to modify it, to retrieve the work from the market and to deny the paternity of a work.\textsuperscript{93} The economic rights should be understood as the right to exploit the work and to authorize others to exploit it.\textsuperscript{94}

Civil Law jurisdictions believe that every person has a patrimony. This patrimony is described as “the sum of goods and rights, which can be translated in money that a person owns.”\textsuperscript{95} These rights are usually divided into two categories. Personal rights are considered as those relations that give a person the right to demand something, money or and action,

\textsuperscript{90} See Burkitt, supra note 10 at 158-164.
\textsuperscript{91} LFDA, supra note 2 at article. 19.
\textsuperscript{92} Ibid. at article. 20.
\textsuperscript{93} Ibid. at article. 21.
\textsuperscript{94} Ibid at. article. 24.
\textsuperscript{95} “[C]onjunto de obligaciones y derechos susceptibles de una valorización pecuniaria” Rojina Villegas, supra note 66 at 21. [Translated by author].
from other person. “Real”\textsuperscript{96} rights are considered as “a legal power that someone has over an object in order to exploit it totally or partially”.\textsuperscript{97}

“Real” rights refer to a special relationship created between a person and an object. This does not mean that a right is created between a person and an object (as only people are able to have rights), but that when it comes to “real” rights the passive subject (that is, the person that is compelled to do something) can be determinable or undeterminable. As an example, it is said that property (which is a “real” right) gives everybody in the world (or at least in the zone where the object is) an obligation to not affect the proprietary relation created between the owner and the object that is owned.\textsuperscript{98}

“Real” rights give their owners the capability to use, administer or dispose of the goods that are affected by these rights.\textsuperscript{99} This is the essence of the relationship created between the person and the object. The owner of a “real” right is able to use an object depending on the type of right. There are several types of “real” rights acknowledged by the Civil Right’s doctrine, property being the most common example. Another type of “real” rights are Author’s rights.

It has been said that “real” rights give their owners the capacity to use the objects that are affected by these rights. Nevertheless, in the case of Author’s Rights, it is important not to confuse the material object in which the work is expressed and the work itself. The rights created by Author’s Rights affect the artistic creation, not the physical object that contains the work (in other words, Author’s Rights affect the movie itself not the DVD).

\textsuperscript{96} “Real” comes from the Latin \textit{Res} (thing). “Anglo-French, concerning land, property, or things (rather than persons), from Middle French, form Medieval Latin and Late Latin; Medieval Latin \textit{realis} relating to things (in law), from Late Latin, actual, from Latin \textit{res} thing, fact.” \textit{Merriam-Webster’s Dictionary of Law}, s.v. “real” [emphasis in original].
\textsuperscript{97} “[P]oder jurídico que se ejerce en forma directa e inmediata sobre un bien para su aprovechamiento total o parcial…” Rojina Villegas, \textit{supra} note 66 at 21. [Translated by author].
\textsuperscript{98} \textit{Ibid} at 47, 80.
\textsuperscript{99} \textit{Ibid} at 45.
Author’s Rights are the legal powers that authors have over their artistic creations. This legal power is acknowledged and protected by the law, and includes the right to exploit the artistic creation and the protection of the relation between authors and their works. According to the doctrine of Civil Law, the objectives of Author’s Rights are: to reward authors in order to allow them to enjoy the fruits of their works; to promote the creation of intellectual works by giving authors the necessary protection to their works; and to allow the promotion and traffic of intellectual works.\textsuperscript{100}

Author’s Rights, which started as privileges given by the authority, ended by being a new form of right acknowledged and protected by the law. The many laws established acknowledge an understanding of a special relationship between the author and his oeuvre, and this relationship created a new form of protection with the Moral Rights. All of this was made possible through the combination of new ideas with ancient theories.

\textbf{iv. The Nature of Copyright.}

Common Law Copyright and Civil Law Author’s Rights started in a similar manner, but at a certain point they divided to form two different theories. Nonetheless, these theories are not so dissimilar to each other: both try to regulate a similar conduct, the

\textsuperscript{100} Even though the importance of each principle depends of every Law system, all Author’s Rights are based on the following objectives and principles:

- The need to reward the authors: Author’s Rights allow authors to receive a reward from the fruits of their work that is their oeuvres.
- To promote the creation of new works: Authors Rights promote the creation of new works by giving authors a guaranty on the protection of their works (allowing a profitability and in that way encouraging creation). This adds value to intellectual goods and allows an adequate distribution.
- Author’s Rights is a cultural policy instrument that aims to advance and rule the distribution of ideas and culture. As a consequence, Author’s Rights and their limitations are the two elements that promote this policy.

creation and dissemination of a work of art. Their similarities are appreciated by observing
the similar goal and the similarities between the laws made to regulate them.

Even though the histories of the two systems are different, they both converge in the
same idea: the protection of the author. Common Law Copyright started as a bargain
between the English Crown and the Stationers Company. Different circumstances ended
that relation and compelled the Stationers to seek protection of their interests. In the end
authors became an important element of the theory of Copyright and their right to benefit
from the sale of their works was acknowledged. Civil Law Author’s Rights started in a
similar fashion, with privileges given by the authority. The French Revolution boosted the
figure of the author, and allowed the creation of the theory of a special relation between the
author and his work. Civil Law theorists combined that idea with concepts of patrimony to
create a new form of right, the Author’s rights.

In both cases it was the author who benefited the most.101 Even in those jurisdictions
that protect Copyrights or Author’s Rights in order to promote the creation of valuable
works, they encouraged this creation by protecting the author.102 Authors may not be the
most important element in all Law jurisdictions, but the protection of their rights is the
basis of the Copyrights theory. When the principal objective of a Law jurisdiction centers
on another figure (such as the promotion of culture or the development of a country), this
objective is always sought through the protection of authors’ rights to reproduce the work
and to sell copies of it.

101 See e.g. “Much of copyright law in the United States and abroad makes sense only if one recognizes the
centrality of the author, the human creator of the work.” Jane C. Ginsburg, “The Concept of Authorship in
Comparative Copyright Law” [“Concept”], (2003) 52 DePaul L. Rev 1063 at 1063. Also, Jane C. Ginsburg,
“A Tale of Two Copyrights: Literary Property in Revolutionary France and America” (1990) 64.5 Tul. L.
Rev. 991 (where Ginsburg compares the origins of American Copyrights and French Droits d’Auteur
establishing similarities on their goals).
102 Authors are the heart of Copyright” Ginsburg, “Concept”, supra 101 at 1064.
These rights are protected in the legislation of each country: as an example, section 13 of the Canadian Copyright Act establishes that the creator of a work will be the owner of the Copyright. Section 3 of the same act gives the owner of the Copyright the right to produce or reproduce the work, and to authorize such acts, and s. 2.7 allows the Copyright owner to give exclusive licenses. Article 11 of the Ley Federal del Derecho de Autor acknowledges the right that authors have over their creations giving them their moral and economic rights. Article 12 defines author as the person who created an artistic or literary work, and article 30 establishes that the owner of the economic rights can transmit them or give exclusive licences. These articles and sections establish the right that authors have to decide the use of their creations. In other words, authors can decide the way in which their creations are going to be exploited. Authors have the option to decide whether they want to exploit their works by themselves or by giving licenses; as a result, authors can decide in which places their works are going to be sold, and the price.

The rights given by Copyright are not absolute, as they have limits. As will be seen later, the right of sale extinguishes once the product has been put on the market and authors have received a benefit from that. This is the objective of both Copyrights and Author’s Rights. Under these circumstances, I will refer to both systems as just Copyrights.

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103 Copyright Act, supra note 2, s. 13.
104 Ibid. at s. 3 and s. 2.7
105 LFDA supra note 2 at article. 12
106 Ibid. article. 30
107 The price will also be determined by other factors, such as economic ones.
Part II. Parallel Imports.

i. Definition.

Even though Parallel Imports have been the subject of many studies,\textsuperscript{108} there is no
exact definition of them. Parallel Imports refer to the legal importation of genuine goods
that somehow interfere with the Intellectual Property rights of a person or company in the
country of destination. The term does not refer to the products themselves, but to the
manner they are imported. There are two ways in which Parallel Imports can be defined:
focusing on the goods (which promotes that sometimes Parallel Imports be referred as
“gray market goods”), and focusing on the channels of commerce.

Definitions that focus on the goods themselves are common among American jurisprudence and doctrine. The United States Supreme Court defined gray market goods as
“a foreign-manufactured good, bearing a valid United States trademark, that is imported
without the consent of the United States trademark holder.”\textsuperscript{109} Willie Skinner defines gray
market goods as “goods imported into the United States that compete with domestic
products. Both the domestic and foreign goods have valid trademarks. These products are
labelled as “gray market” items because although they have valid trademarks, they are
directly competing against a valid domestically registered trademark”.\textsuperscript{110}

The alternate view of the definition of Parallel Imports is through the channels of
commerce that the goods follow:

\textsuperscript{108} See e.g. Seth E. Lipner, \textit{The Legal and Economic Aspects of Gray Market Goods}, (United States of
America: Greenwood Publishing Group, Inc., 1990)
Goods With Copyright Law” (1993-94) 57 Alb. L. Rev. 1187 at 1188
& Com. 315 at 315.
The only distinction between gray and regular goods is the distribution channel through which they travel to reach the consumer. Gray channel operators acquire and resell branded goods without the sanction of the trademark owner. Regular goods travel through intermediaries designated by the trademark owner as the authorized purveyors of the product. Gray channels acquire merchandise from members of the authorized channel, including even the manufacturer... The term gray is applied only because the diversion is against the professed policies of the brand owner. 111

The best definition that combines these two points of view is the one found in the report of the National Economic Research Associates (NERA). 112

Parallel trade: sometimes referred to as the “grey market”, consists of trade in genuine trademark (or other intellectual property) protected goods that takes place without the consent of the trademark owner. Official channel goods reach the final customer through the intermediaries and distribution networks that are designed by the trademark owner. Parallel traders acquire goods, typically without the consent of the trademark owner, from some layer of the authorized channel. This can either be directly from the manufacturer from an intermediary (wholesaler or middleman) or from authorized retailers.

Nonetheless, it is necessary to clarify that the problem is not the acquisition of the goods as the NERA definition mentions, but the use given to these goods. In the typical cases of Parallel Imports, there is nothing illegal or dubious about the purchasing or acquisition of the goods by the parallel importer. The real issues appear when the goods enter the market in the country of destination.

At the beginning of this section, it was said that the importation of the goods affects the Intellectual Property rights of a person or company in the country of destination. This refers more to commercial competition than to a classic infringement problem. In other words, the importation of genuine goods compels the Intellectual Property owner to compete with her own products, likely sold at a lower price.

The best way to understand the issue of Parallel Imports is through an example. In her work Rose Ann MacGillivray explains four forms in which Parallel Imports can

present. These forms are when prices are lower in the source country than in the destination country; when prices are lower in the destination country; when the product is not available in the destination country; and when the product is exported from one foreign market to another foreign market.

The first form can be seen as the classic form in which parallel imports present. This form presents the Intellectual Property owner selling her products in two different countries. She uses an authorized distributor to sell her products in the foreign country. The differences in prices (that can exist due to different reasons including market conditions, government regulations and the cost of licenses, among others) make the product cheaper in the source market than in the destination country. A parallel trader will acquire the goods in the source market and will export them to the destination country. The difference in prices has to be enough to allow the parallel trader to sell the goods in the destination country more cheaply than the authorized distributor, and to obtain a gain.

The second form is similar to the first one, but for the higher price being in the source market instead of the destination market. The Parallel Trader will buy the goods in the destination country in order to export them to the source country. This is sometimes referred as re-importation, as the goods that were originally exported to be sold in a foreign market are sent back to their original country.

The third form refers to a situation in which the Intellectual Property owner is present in a country but not the product. In other words, the Intellectual Property owner does not sell that product in that country. It is common to see parallel importers charging a high price in this type of transaction. This type may not be considered as a Parallel Import.

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113 MacGillivray, *ibid.* at 21-29.
due to the lack of competition between the Intellectual Property owner and her own product.

MacGillivray explains that the fourth example relates to the special case of compulsory licenses created by the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). This example, as explained by MacGillivray, refers cases when generic drugs created to help developing countries are taken out of their intended market. This type will not be used nor examined in this work.

Parallel Imports can also be classified according to the person that commits them. Christopher B. Conley refers to a division of Parallel Imports as passive and active Parallel Imports. Passive Parallel Imports will refer to those cases where the products are imported by a third party, who bought them in a foreign market. Active Parallel Imports, according to Conley’s paper, will be those cases where a licensee competes directly with the Intellectual Property holder or other licensees.

As it is possible to see in these definitions, Parallel Imports refer to genuine, legal works. Parallel Importation is not about the trade of counterfeit goods. As the trade of these goods is usually legal, Intellectual Property owners cannot use traditional mechanisms – such as criminal law or customs regulations - to prevent the importation of parallel goods. That is the reason Intellectual Property owners have sought a solution in Intellectual Property Law.

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Using Intellectual Property rights in order to prevent the importation of parallel trade goods seems to be a logical step, since the goods carry Trademarks, Copyrights or Patents. However, this is the source of problems for Intellectual Property holders.

As explained above, the imported goods are genuine, legal products. The Intellectual Property holder cannot argue that these products are unauthorized reproductions. Moreover, it was the Intellectual Property owner who used the patent, affixed the trademark or reproduced the copyrighted material. The real issue is whether the owner can use her Intellectual Property rights once the goods have been put into the market; that is, once they have been sold.

This involves what is known as exhaustion of Intellectual Property rights. Under this theory, the right to prevent the subsequent sale of a good extinguishes after the first sale of that good. As Christopher Heath explains it “[i]t is] [n]ot the right as such [that] is exhausted, but the possibilities of exercising it.” 116 This means that the Intellectual Property rights of the owner do not extinguish after the sale, as she keeps her rights on her Patents, Trademarks and Copyrights, but that she can not use them to prevent a future sale.

According to Christopher Heath, 117 the concept of exhaustion was developed by Joseph Kohler in his work on patents. Heath explains that Kohler developed his ideas under the German Civil Law of the beginnings of the 20th century. The author explains the ideas of Kohler as based on two theses. The first of these theses was based on the idea that patents were a way to reward the inventor by allowing him a monopolistic right in the

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commercialization of the invention. The second thesis was that the different forms of commercialization of the invention (production, advertisement, sale, rental, lending, import, export) are nothing but different forms of the same right.

Under these circumstances, explains Heath, Kohler’s conclusion was that the recompense obtained by the commercialization of a product (the invention) eliminated the right to prevent any further commercialization of that specific product. With respect to Parallel Imports, Christopher Heath says that the intention of Kohler was to limit his theory to a national range.\footnote{118}

The theory of exhaustion developed and was incorporated in national Law systems through its enactment or use in judicial decisions. As an example, in Mexico, it is incorporated in article 27 (IV) of the Ley Federal del Derecho de Autor\footnote{119}. Unfortunately, exhaustion is not included in the Canadian Copyright Act\footnote{120} so it has to be interpreted from the rights given to authors. Rose Ann MacGillivray explains that the Canadian Copyright Act does not grant a distribution right.\footnote{121} Section 3 (1) grants authors the right to produce, reproduce, perform or publish the work or a substantial part of it,\footnote{122} but does not include an exclusive right in the distribution of the work. MacGillivray connects this to the wording of section 2.2 (1)(a)(i), which defines publication as making copies of the work available to the public, and section 27 (1), which defines infringement as doing something that only the Copyright owner can do without her consent, to find the base of the theory of exhaustion in the Canadian Copyright Act.
According to Rose Ann MacGillivray, the wording of the Copyright Act creates a situation in which the sale of a protected work does not transmit any Copyright to the purchaser; in other words, the purchaser has no right to reproduce the work. Nonetheless, once a copy of the work has been made available to the public, continues MacGillivray, it is not an infringement to make that copy available again; that is, the purchaser can sell the copy again without infringing Copyright. MacGillivray also explains that infringement by distribution is only acknowledged in Canada as secondary infringement, which according to section 27 (2) of the Copyright Act requires a primary infringement; that is, the distributed copy has to be an illegal copy (or an imported copy that would have been illegal if it had been made in Canada).

Nonetheless, the mentioned regulations relate to what has been called national exhaustion; in other words, the exhaustion of the right to prevent the distribution of authorized copies of a protected work once these copies have been sold in the country. For the issue of Parallel Importation, the real question is whether the sale of these copies outside the country creates an international exhaustion of the right to prevent distribution.

In order to proceed with this paper, it is necessary to examine how different jurisdictions have dealt with the issue of international exhaustion.

iii. International Exhaustion.

a) United States:

In the United States the doctrine of exhaustion is known as “the first sale doctrine”. According to Jeremy M. Klass, the first sale doctrine started on a Copyright issue. The first case was *Bobbs-Merrill Co. v. Strauss*, a case which dealt with sales of books below

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the price cover. The books had a notice that prohibited this. The Supreme Court of the United States found that this notice was not enough to prevent the future sale of the books. This, in the opinion of the Court, would be to give rights not present in the Copyright statute of that time.\textsuperscript{125}

Different from Canada, the doctrine of the first sale is provided in the American Copyright legislation on section 109(a),\textsuperscript{126} which establishes that a person owning a lawfully made copy has the right to sell it or dispose of it. This section refers to the cases of sales in the United States, but says nothing about sales made abroad.

The other important sections of the American Copyright legislation are section 106 and section 602(a). Section 106 is similar to section 3(1) of the Canadian Copyright Act in that this section also mentions the rights of a Copyright owner.\textsuperscript{127} Section 602(a) has a clear prohibition on the importation of works bought outside of the United States.\textsuperscript{128} This last

\textsuperscript{125} \textit{Bobbs-Merrill Co. v. Strauss}, 210 U.S. 339 at 351 (1908)
\textsuperscript{126} 17 U.S.C.A § 109(a):
\begin{quote}
(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. […]\end{quote}
\textsuperscript{127} 17 U.S.C.A. § 106
\begin{quote}
§ 106. Exclusive rights in copyrighted works
Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
\begin{enumerate}
\item to reproduce the copyrighted work in copies or phonorecords;
\item to prepare derivative works based upon the copyrighted work;
\item to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
\item in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
\item in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
\item in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.
\end{enumerate}
\end{quote}
\textsuperscript{128} 17 U.S.C.A. § 602
\begin{quote}
§ 602. Infringing importation or exportation of copies or phonorecords
(a) Infringing importation or exportation. --
\begin{enumerate}
\item Importation. --Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.
\end{enumerate}
\end{quote}
section seems to prohibit Parallel Imports by itself, but as the first part of section 106 establishes that rights conferred to a Copyright owner are subject to section 109, courts have had to determine whether these two sections accept the doctrine of international exhaustion.

The interpretation of these two sections created a conflict between the Third Circuit and the Ninth Circuit. The Third Circuit had to decide the case Sebastian Int’l., Inc. v. Consumer Contacts (PTY) Ltd. This was a case of Parallel Imports that fits in the second form described above. The defendant Consumer Contacts had a contract to sell the products of Sebastian in South Africa, but instead, PTY returned the products and sold them in the United States. The trial Court interpreted the sections of the Copyright Act as granting two types of rights: vending and importation.

Under these circumstances the importation right of Sebastian was not extinguished by the first sale, while the place of that sale did not matter. The defendants appealed the decision and the appeals court accepted the idea that the place of the sale was not relevant. However, the appeals court did not find infringement arguing that Sebastian’s distribution right had been extinguished by the first sale.

The Ninth Circuit had a different interpretation of the first sale doctrine. The Ninth Circuit considered the place of manufacture of the products to be important. In the BMG case the Ninth Circuit argued that the first sale doctrine stipulated on section 109(a) should not affect the right granted in section 602.

129 Sebastian Int’l., Inc. v. Consumer Contacts Ltd., 847 F.2d 1093 (3d Cir. 1988)
130 Klass, supra note 123 at 419.
131 Ibid at 420.
132 Ibid.
133 Ibid at 421.
134 “The words ‘lawfully made under this title’ in 109(a) grant first sale protection only to copies legally made and sold in the United States” BMG Music v. Perez, 952 F.2d 318,319 (9th Cir. 1991) in Klass ibid. at 421-425.
135 Klass, Ibid. at 422.
In a subsequent case, *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, the California District Court denied the previous decision in the BMG case and created the theory of the “full value”. This theory is based on the idea that the Copyright owner has the right to receive the “full value” of each copy sold. Forcing the Copyright owner to compete with Parallel Imports will reduce the price at which she is willing to sell the product preventing her to obtain a full value on the sales of that product.

Under these circumstances, the District Court is more concerned about the benefit that the copyright owner will receive from each copy sold than about the place of the sale or manufacture of the product. The District Court argues that allowing Parallel Imports will prevent copyright owners from receiving the “full value”, which they are entitled to receive. With this, Parallel Imports are rejected based on the idea of the reward that authors receive instead of on the place where the work is sold or made.

Nevertheless, in a following footnote the Court argues that “[t]his rationale does not apply where copies or phonorecords of a copyrighted work are manufactured and first sold in the United States, exported, and then brought back into the United States... In such a situation, the copyright owner has voluntarily released the copies into the United States market and has received the full value to which she is entitled for them.”

The Court fails to explain why a reward should be accepted when it is received in (or from) the United States, but not from another country. The same logic could be applied to a sale of a product in any other country as the Copyright owner “has voluntarily released the copies... and has received the full value to which she is entitled for them.”

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136 *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.* 832 F. Supp 1378. See also Klass, *ibid* at 423.
137 Klass, *ibid* at 424.
139 *Ibid*.
141 *Ibid*. 
Under the circumstances described by the Court in the footnote, Copyright owners are compelled to compete against their own product at a lower price, which is the original basis to reject Parallel Imports.

After the first *Givenchy* case, another case was decided by the Ninth Circuit that also involved the company Givenchy. The case *Parfums Givenchy, Inc. v. Drug Emporium, Inc.* was resolved by the Ninth Circuit Court of Appeal following their previous decision on BMG arguing that the place of the first sale determined whether the importation right was exhausted; in other words, the first sale has to occur in the U.S.

As can be seen, the decisions given by the Third and the Ninth circuits were completely opposite. The Third Circuit accepted the idea of international exhaustion while the Ninth Circuit rejected it. The differences between these decisions would be solved by the Supreme Court of the United States in the case *Quality King Distributors, Inc. v. L´Anza Research International, Inc.*

In the *L´Anza* case, the Supreme Court decided that the first sale doctrine applied to imported copies. It is important to note that the *Quality King* case consisted on the importation of copies originally manufactured in the U.S. This case, which involved reimportation of goods, was similar to the second form of Parallel Imports explained above.

The decision in the *Quality King* case meant that the U.S. accepted a form of national exhaustion that rejects the importation of products manufactured or sold abroad, but permits the introduction of products manufactured in the U.S. As Willie Skinner explains “[t]his decision curtailed the ability of companies to use section 602(a) to prevent the unauthorized importation and resale of goods manufactured in the U.S. and legally

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142 Parfums Givenchy, Inc. v. Drug Emporium, Inc. 38 F.3d 477 in Klass, supra note 123 at 424-25.
144 Klass, supra note 123 at 425-26.
acquired abroad. However, the decision does not prevent companies from using section 602(a) if the goods were manufactured abroad.”

b) European Union:

In Europe, the Court of Justice of the European Communities has created a form of exhaustion that stands between the national and the international exhaustion. This new form is the regional or community exhaustion. This form accepts the importation of products sold inside the European Union but rejects products acquired abroad. In other words, the sale of a product in any of the countries of the European Unions exhausts the right to control the distribution of that product inside the EU, but the legal acquisition of a product outside the Union does not exhaust that right.

This form was construed in the decision of the case Silhouette International Schmiedt GmbH & Co. KG v. Hartlauer HmbH. In this case, the European Court decided that national laws could not be used to allow international exhaustion. However, this was a case related to Trademarks not Copyrights. Nevertheless, the Court of First instance used it to decide the case Micro Leader Business v. Commission, which was a case of copyrighted software.

According to MacGillivray, the Court of First instance used the decision on the Silhouette case in order to avoid the importation of software acquired outside of the EU. MacGillivray also notes that even though this case relates specifically to software, the use

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145 Skinner, supra note 110 at 336.
148 MacGillivray, supra note 2 at 185-86.
of the Silhouette decision implies that the use of community exhaustion also applies to Copyrights.\textsuperscript{149}

c) Australia:

Australia has accepted the theory of international exhaustion of some Copyrights. In other words, Copyrights can not be used to prevent the importation of sound recordings, books and accessories legally acquired abroad.\textsuperscript{150} Different from the previous examples, Australia accepted Parallel Imports not through decisions of the courts but by enactment of statutes.\textsuperscript{151} According to Vautier, the principal purpose was to accomplish a sufficient reward/incentive for the author.\textsuperscript{152} The objective of the Australian government was to achieve equilibrium between the incentives given to authors and the benefits given to society.

d) New Zealand:

New Zealand has a similar Parallel Import history to Australia's. As explained by Vautier, New Zealand has an extremely wide protection for Copyrights,\textsuperscript{153} and used to have a strict national exhaustion policy.\textsuperscript{154} New Zealand also accepted Parallel Imports through

\textsuperscript{149} Ibid at 186.
\textsuperscript{150} Kerrin M. Vautier, “Exhaustion and Parallel Imports in New Zealand and Australia” in Heath, ed., supra note 116, 177 at 183. Vautier explains a difference between books first published in Australia and books published abroad, which have no restrictions, at note 23.
\textsuperscript{151} Ibid at 183-86.
\textsuperscript{152} Ibid at 184.
\textsuperscript{153} Vautier explains that “New Zealand’s law accords copyright protection to a relatively wide range of goods” ibid at 178. (Vautier also quotes in note 2 at 178 part of the following text).

“Almost alone among OECD countries New Zealand continues to operate a system of dual protection in which the resort to (or the availability of) design protection in no way limits the protection available under the copyright regime. This result does not come about because the industrial product is itself an original copyright work but simply by applying long accepted copyright rules which treat each industrial artifact as a simple, albeit indirect, copy of a preceding model, plan or prototype whose status as an artistic work is not in doubt, and then applying equally ordinary infringement principles which treat dealings in the ‘indirect’ copy as if they were dealings in the original protected source… Copyright was thus able to be captured for such mundane objects as lavatory pan connectors, plastic kiwi fruit trays, farm gates, filing cabinets and Frisbees.”

Louise Longdin, “Parallel Importing post TRIPS: Convergence and Divergence in Australia and New Zealand", (2001) 50.1 I.C.L.Q. 54 at 64 [Footnotes omitted]

\textsuperscript{154} Kerrin M. Vautier, “Exhaustion and Parallel Imports in New Zealand and Australia” in Heath, ed., supra note 116, 177 at 178 and n. 2.
the enactment of legislation. A report ordered by the New Zealand government supported the lift on the ban on Parallel Imports on economic grounds.\textsuperscript{155}

Vautier explains that changes started in New Zealand with the enactment of the Copyright Amendment Act of 1998.\textsuperscript{156} A new report made by the government of New Zealand reflected positive economic results.\textsuperscript{157} The government supported the prohibition of Parallel Imports for limited periods of time.\textsuperscript{158} This prohibition encountered voices in favour and against.\textsuperscript{159} In the end the government supported the idea of prohibiting Parallel Imports of films, videos and DVDs for limited periods of time.\textsuperscript{160} Later, in 2008, the government amended the Copyright Act again, allowing Parallel Imports, but establishing a limited period of time to protect the film industry.\textsuperscript{161}

\begin{itemize}
\item a net welfare gain to New Zealand was likely as a result of changes in market price and quantity (assuming the same quality of product);
\item parallel importing could introduce a new mode of competition, e.g. for books and CDs where prices were relatively high;
\item actual parallel imports would be unlikely under conditions of effective interbrand competition;
\item given New Zealand’s small size, investment decisions of international innovators were unlikely to be influenced by the diminished opportunity to price discriminate.
\end{itemize}

\textit{Ibid} at 178 [footnotes omitted]

\textsuperscript{155} About three years [after the 1994 Copyright Act replaced the previous 1962 Act] the Government commissioned an economic analysis which led to the following key conclusions on the hypothetical removal of the parallel importing restrictions on copyright goods:

\begin{itemize}
\item a net welfare gain to New Zealand was likely as a result of changes in market price and quantity (assuming the same quality of product);
\item parallel importing could introduce a new mode of competition, e.g. for books and CDs where prices were relatively high;
\item actual parallel imports would be unlikely under conditions of effective interbrand competition;
\item given New Zealand’s small size, investment decisions of international innovators were unlikely to be influenced by the diminished opportunity to price discriminate.
\end{itemize}

\textit{Ibid} at 178 [footnotes omitted]


\textsuperscript{157} Kerrin M. Vautier, “Exhaustion and Parallel Imports in New Zealand and Australia” in Heath, ed., \textit{supra} note 116, 177 at 179.

\textsuperscript{158} \textit{Ibid} at 180.

\textsuperscript{159} \textit{Ibid}.

\textsuperscript{160} \textit{Ibid} at 181.


(3) A person also infringes copyright in a film to which subsection (6) applies if that person—

(a) imports a copy of the film into New Zealand within 9 months of first being made available to the public; and

(b) knows or has reason to believe that the film is imported into New Zealand within 9 months of first being made available to the public;

(4) For the purposes of subsection (3), a film is first made available to the public (as set out in section 23(2)) by any authorised act \textit{whether in New Zealand or elsewhere}.

[Emphasis added] This article clearly accepts the Parallel Importation of films after 9 months of becoming available, and the words “\textit{whether in New Zealand or elsewhere}” accept the doctrine of International exhaustion.
These examples show the different approaches through which each country has tried to solve the Parallel Import issue. The differences in the views of each country do not suggest international agreement in regards to the treatment that should be given to Parallel Imports. This lack of agreement is clearly stipulated on the TRIPS agreement. Article 6 of TRIPS mentions that that agreement should not be used to determine the national policy on exhaustion of rights.\textsuperscript{162}

Nonetheless, it is possible to note a similarity among the provided examples. All the mentioned countries used economic arguments in order to prohibit or allow Parallel Imports. It seems that the factor that in the end determines the use of a national or international exhaustion policy is an economic one, and not something related to the theory of Copyrights.\textsuperscript{163} Economic theory will be used in order to give an example of how Parallel Imports can be solved.

\textsuperscript{162} TRIPS, supra note 114.

\textbf{“Article 6 Exhaustion:} For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”

\textsuperscript{163} As explained, economic justifications are secondary to the main objective of Copyrights, which is the protection of the rights of the author.
Part III. Analysis.

i. Reasons to use Copyrights.

The cases previously explained demonstrate that the issue of Parallel Imports is one issue related more to trade and economic problems than to Intellectual Property or Copyrights. It is clear that Parallel Imports are created by the use of Intellectual Property rights, as it would not be possible to identify the products as being the same without these rights. This, however, does not explain the use of Copyrights as a method to prevent the unauthorized importation of goods.

Being a trade issue, the natural step would be the use of an Intellectual Property right more related with these aspects; in this case, Trademarks. However, the results obtained by Intellectual Property holders have on some occasions left the door open to Parallel Imports, or some form of them.  

The trade aspects of Parallel Imports can be seen in the fact that many of the arguments to accept or reject them are related to commercial aspects and not with a direct attack on Intellectual Property rights. Some of the arguments given to reject Parallel Imports are: that Parallel Importers take advantage of a free ride on the expenses created by Intellectual Property holders in the promotion and advertisement of the products; that there can be consumer deception in the fact that instruction booklets and other important features come in a foreign language; that the “trademark owner’s goodwill is damaged when the
gray market version of a product lacks a warranty equivalent to that of the authorized dealers good”, and that Parallel Importations do not allow Intellectual Property holders to make price discriminations between countries.

As can be seen, these arguments relate more to commercial and trade matters than to the classic Intellectual Problems, such as unauthorized reproductions. The arguments in favour of having an international exhaustion policy are also in part commercial. The most important argument in favour is that Parallel Imports allow consumers to obtain cheaper and more varied products.

Opponents of Parallel Imports argue that this type of goods affect brand image and the goodwill created on the product. Nonetheless, this is more an argument of Trademarks than Copyrights. It seems that the use of Copyrights to prevent the flow of gray marketed goods is less about the appropriateness of Copyrights for this task than about the fact that the use of Trademarks has proven not to be enough to prevent all types of Parallel Importations.

The arguments presented to use Copyrights to prevent the importation of gray marketed goods are related to the distribution right granted by Copyrights. As explained early, this distribution right may or may not be affected by the international exhaustion doctrine. This does not mean that there are not opponents of the use of Copyrights to prevent Parallel Imports based on the Copyright’s theory. Leah M. Howie says that

166 See e.g. Moisant, supra note 164 at 652-54. Also Lipner, supra note 108 at 8, 9. See also Skinner, supra note 110 at 323-24 for an example of consumer deception related to the Parallel Importation of toys into the U.S.
167 See e.g. Moisant, supra note 164 at 651-52. See also Skinner, supra note 110 at 315.
168 See e.g. Skinner, ibid.
protecting against Parallel Imports goes beyond the reach of Copyrights and into the sphere of other Intellectual Property rights.\textsuperscript{170}

Copyrights are not correctly positioned to give a satisfactory solution to the Parallel Importation issue. Until now, the history of Copyrights have been used to show that Copyrights have concentrated on protecting authors´ rights and more specifically their right to reproduce the work and obtaining a benefit from the first sale of copies of it.

As Copyright developed to deal with situations that affect the right of authors to receive a reward from their work or unauthorized reproductions, and as Parallel Imports are made with original products, they are outside the possibilities of the theory. The solution presented is based on economic grounds.

Each country has to decide which of the forms of exhaustion, and in which cases, is the best for his interests. This decision has to be taken outside the Copyright theory.

\textbf{ii. A Trade Issue.}

In her paper “Using Copyright Law to Stop Grey-Market Candy: A Case Comment on \textit{Kraft Canada, Inc. v. Euro Excellence, Inc.”}, Leah M. Howie explains that “[a]rguably, trade-mark law is the most appropriate intellectual property regime to use in the case of parallel importation because the focus of trade-mark law is to protect a company´s reputation in its commercial goods.”\textsuperscript{171} Trademarks are related to the sale of products and the offering of services with a profit making goal.\textsuperscript{172}

\textsuperscript{170} See Howie, \textit{supra} note 3 at 254.
\textsuperscript{171} Howie, \textit{ibid} at 250.
\textsuperscript{172} “Those uncomfortable with the ‘intellectual’ epithet sometimes more aptly call these assets \textit{industrial} property. This term signals their essentially commercial and profit-making character.” (referring to Trademarks).
The objectives of Trademarks were stipulated by the Supreme Court of Canada in the case *Mattel, Inc. v. 3894207 Canada Inc.*\(^{173}\) in which Justice Binnie mentions that Trademarks serve the function of proving the origin of a product to consumers. They are a “kind of shortcut to get consumers to where they want to go”\(^{174}\). David Vaver also mentions this by saying that the purpose of Trademarks is “to identify the trade source of products and services to potential consumers”\(^{175}\).

This shows that the nature of Trademarks is commercial in the sense that they are related to the trade of goods and services. Trademarks are more related to the trade of goods and services than to the protection of works of the mind (artistic creations, inventions to name some examples); in this aspect, they are different from the other Intellectual Property rights\(^{176}\).

Copyrights deal with the protection of works of authorship by allowing authors to prevent unauthorized reproductions of their works and by allowing them to obtain a benefit from the first sale of authorized reproductions. Nonetheless, the rights of authors are limited by several exceptions to infringement including fair dealing\(^{177}\) and the studied theory of exhaustion.

Copyrights, as mentioned, have a commercial component in that they allow the author to obtain a gain from the first sale of authorized copies of the work. Nevertheless,


\(^{174}\) *Ibid* at para. 21.

\(^{175}\) Vaver, *supra* note 172 at 176.

\(^{176}\) See e.g. Vaver, *supra* note 172 at 173-76. Also, *Mattel, Inc. v. 3894207 Canada Inc.*, *supra* note 173 at para. 21. (“Trademarks are something of an anomaly in intellectual property law.”)

\(^{177}\) Excessive control by holders of copyrights and other forms of intellectual property may unduly limit the ability of the public domain to incorporate and embellish creative innovation in the long-term interests of society as a whole, or create practical obstacles to proper utilization. This is reflected in the exceptions to copyright infringement enumerated in ss. 29 to 32.2, which seek to protect the public domain in traditional ways such as fair dealing for the purpose of criticism or review (…) *Théberge v. Galerie d’Art du Petit Champlain, Inc.*, 2002 SCC 34, [2002] 2 S.C.R. 336 at para. 32. *[Théberge]*
this component is not as important as it is in Trademarks, which deal with the protection of goodwill associated to the mark.\textsuperscript{178} Only the first sale of copies of the work interests Copyrights, as it is the one that allows authors to obtain a reward (this does not mean that Trademarks do not have an exhaustion theory of their own).

It would be wrong to claim that Copyrights do not have trade and commercial components, but it would also be wrong to claim that these are the most important parts of this legal theory. The objective of Copyrights is not profit making by authors or copyright owners but the protection of the artistic creation of authors and their right to obtain a just reward from them to an extent consistent with the public interest in the dissemination of works of authorship.\textsuperscript{179}

The reason to identify Parallel Imports as a trade issue rather than as a Copyright issue is that they relate to trade and the commercialization of goods more than to traditional issues of Copyright, such as unauthorized reproductions or distortions of original works.

The reasons given to support or deny Parallel Imports are also related to commercial matters; for instance, prices differentials or consumer protection.\textsuperscript{180} The commercial aspects

\begin{footnotesize}
\begin{enumerate}
\item[178] \textit{Trade-marks Act} R.S. C. 1985, c. T-13 at s. 22(1)
No person shall use a trade-mark registered by another person in a manner that is likely to have the effect of depreciating the value of the goodwill attaching thereto.
\item[179] The \textit{Copyright Act} is usually presented as a balance between promoting the public interest in the encouragement and dissemination of works of the arts and intellect and obtaining a just reward for the creator (or, more accurately, to prevent someone other than the creator from appropriating whatever benefits may be generated)...This is not new. As early as 1769 it was said by an English judge:
\begin{quote}
It is wise in any state, to encourage letters, and the painful researches of learned men. The easiest and most equal way of doing it, is, by securing to them the property of their own works. . . .
He who engages in a laborious work, (such, for instance, as Johnson’s Dictionary,) which may employ his whole life, will do it with more spirit, if, besides his own glory, he thinks it may be a provision for his family.
(Millar v. Taylor (1769), 4 Burr. 2303, 98 E.R. 201, per Willes J., at p. 218)
\end{quote}
The proper balance among these and other public policy objectives lies not only in recognizing the creator’s rights but in giving due weight to their limited nature...
\item[180] \textit{Théberge supra} note 177 at paras. 30-31.
N.B. In this paper, I take the view that the rights granted to authors are part and parcel of the Copyright and that therefore their recognition is fundamental to the balance mentioned by Justice Binnie.
\end{enumerate}
\end{footnotesize}
of Copyrights and their economic justification should not obscure the at least equally central role of the protection of the rights of authors in Copyright theory. This work does not try to deny the commercial components, but only to differentiate them from the protection of the rights of authors as central to Copyright.

This is what led Leah M. Howie to defend the idea that Trademarks are best positioned to prevent the importation of gray market products as Trademarks safeguard the goodwill associated to a product. Moreover, this idea is what supports the differentiation mentioned in this work between Copyrights and trade issues, and what motivates the search for a solution outside Copyright theory.

iii. Economic Analysis.

Parallel Importations are based on sales of copies that have been already sold by the Copyright owner or an authorized dealer. Under these circumstances the rights to produce and to sell copies of the works are not being affected. This cannot be considered as an infringement. These circumstances are what, in my belief, make it so difficult for the courts to find an answer for the cases of Parallel Imports.

The examples provided seem to depend on economic matters in order to find an answer for the Parallel Imports issue. The most significant of the examples are those of

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market goods are a free market remedy against price discrimination that enables the consumer to buy lower priced products. When consumers buy gray market goods, they are not deceived, but are getting what they paid for - at a lower price.


181 Howie, supra note 3 at 250.

182 It could be argued that Parallel Imports affect the right of authors to obtain a complete price for the sale of their works. Indeed, this is what was argued at the mentioned case Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc. supra note 136. Nevertheless, the reasons to accept Parallel Imports when the first sale occurred in the U.S. and not in another country were never explained in that decision. This work defends the idea that any first sale of authorized copies should be considered as the reward that Copyrights attempt to safeguard and that once authors have received that reward from the sale of their works Copyright theory by itself offers no protection against gray marketed products.
Australia and New Zealand, both of which accepted a lift on the ban of Parallel Imports after considering that the admission of gray market products would be good for their economy.  

It is also possible to find similar arguments in the cases of Europe and the United States, which, being big exporters of information products, reject the idea of international exhaustion because it can affect their internal market.

These economic arguments are based on the idea of International Trade, which is based on the concept of comparative advantage. Comparative advantage was developed by David Ricardo, based on the ideas formulated by Adam Smith in his work *The Wealth of Nations*. Smith developed the idea that all countries will benefit from trade when they specialize in the production of those goods that give them the greatest advantage; in other words, each country should fabricate those goods that can be produced more efficiently and buy other goods from other countries. This idea is named “absolute advantage” as it postulates that each country should specialize in the production of goods where that country has an advantage over the others.

The problem created by the theory of Adam Smith in its original conception was that it could not explain what to do when a country did not possess an advantage over the others or when a country had an advantage on all the products. This issue was solved by David Ricardo in his book *The Principles of Political Economy* when he proposed that it was not necessary for a country to have an absolute advantage over the others but only a

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185 See Trebilcock & Howse, *ibid.* at 2.
186 See *ibid* at 3.
comparative advantage.\textsuperscript{187} Under these circumstances, countries will benefit from trade with others by promoting those industries that production is more efficient.

This idea of comparative advantage has been the centre of the promotion of International Trade. Under this idea, a country will promote those industries where it has a comparative advantage; in the case of Intellectual Property, each country will promote policies depending on its situation, whether the country is an exporter of technology or an importer. Moreover, this idea can be seen in the arguments presented in Australia and New Zealand to allow Parallel Imports,\textsuperscript{188} and can explain the position taken by the European Union and the United States.

However, this is an economic argument, not an argument from Copyright theory. As explained previously, Copyright theory cannot be used to solve the Parallel Imports issue as the principal right given by Copyright is the right to reproduce the work. This right is not affected by Parallel Imports as gray marketed goods are original products.

Copyright theory faces insurmountable difficulties as a proposed remedy for Parallel Imports issues because its history and doctrine aim to protect the rights granted to authors, not to solve the problems that other actors (such as, licensees) may have. Copyrights developed to reward authors and promote the creation of new works. Even jurisdictions where the centre of Copyrights is not authors themselves but the promotion of knowledge depend on the right of authors to sell copies of their works for the first time to accomplish this.\textsuperscript{189}

\textsuperscript{187} See \textit{ibid}.
\textsuperscript{188} See Kerrin M. Vautier, “Exhaustion and Parallel Imports in New Zealand and Australia” in Heath, ed., \textit{supra} note 116, 177-86.
\textsuperscript{189} I am referring to the United States and Article 1, section 8, clause 8 of the U.S. Constitution (\textit{supra} note 61), which has been interpreted as putting the rights of society before the rights of the authors.
As the objective of Copyrights is to allow authors to obtain a gain from the first sale of authorized copies of their works, Parallel Imports do not affect this right in a direct manner. The products bought by Parallel Importers are original, which means that the author always benefits from the sale. The people whose interests can be affected are the licensees as they will be competing against original products from which they did not obtain any gain.

In this form, the interests of authors are affected in an indirect manner. Authors are encouraged to create new works by giving them a monopolistic right on the first sale of the copies of their works. However, authors are not sellers. In order to obtain a gain from their works authors have to license their rights. In cases where the rights of licensees are not fully protected, they may not accept to promote the works of authors. Parallel Imports could affect the interest of licensees to accept the works.

Even when authors may see their rights affected in an indirect manner, Copyrights theory cannot solve these issues, as it was not made to solve the problems of people other than authors. This was the reason for the creation of the “neighbouring rights”, to acknowledge the role of some of these people.190 Nevertheless, authors continue to be an essential part of the theory and their reward is the one that interests Copyrights. Whether that reward is affected or not by gray market goods is the centre of the discussion of

190 Licensees are not present in the protection given to neighbouring rights. The treaties related to this subject regulate the rights of performers, producers of phonograms and broadcasting organizations. The most related of these people would be the producers of phonograms, who refer only to musical works. The Rome convention only protects producers of phonograms against unauthorized reproduction. The same goes for TRIPS while the WIPO Performances and Phonograms Treaty establishes the right of each country to determine an exhaustion policy.
Rome Convention, supra note 55 at s. 10.
TRIPS, supra note 114 at article 14.2
Parallel Imports. This work follows the idea that it is not affected, which makes Copyrights unsuitable to solve the Parallel Importation issue.

iv. Analysis of a Parallel Importation case: Kraft Canada.

The case of Kraft Canada, Inc. v. Euro Excellence, Inc.\textsuperscript{191} is an example of many of the problems presented to courts by the Parallel Imports issue. In this case, it is possible to appreciate the difficulties that the courts have in applying the Copyright theory to the Parallel Imports dilemma. Moreover, this case also presents the relations between Copyright owners and licensees, and creates more problems for Copyright owners.

The facts in the Kraft Canada case are the classical facts presented on a Parallel Imports case. Using the above classification of Parallel Imports, the Kraft Canada case can be included in the first form of Parallel Imports described by MacGillivray, and as passive Parallel Imports as described by Conley. In other words, a third party imports the protected products from a market where these products are sold cheaper.

Kraft Canada Inc. (KCI) was the exclusive licensee of Kraft Foods Belgium (KFB) and Kraft Foods Schweiz (KFS) to distribute in Canada chocolate bars with the trademarks “Toblerone” and “Côte d’Or”. KFS and KFB registered Copyrights with respect to the works presented in the labels of the chocolate bars and granted an exclusive license to KCI. Euro Excellence acquired chocolate bars with the mentioned trademarks and Copyrights in Europe and imported them into Canada. KCI sued Euro Excellence in order to prevent the further commercialization of these chocolate bars in Canada. KCI was successful at the Federal Court and at the Federal Court of Appeal.

It is important to mention the decision made by Harrington J. at the Federal Court, in which he prevented the further violation of the Copyright Act but not the

\textsuperscript{191} Euro Excellence, Inc. v. Kraft Canada, Inc. supra note 4.
commercialization of the imported goods in Canada. In other words, Euro Excellence was allowed to continue the importation and distribution of the chocolate bars as long as the designs protected by Copyright were covered.\footnote{See Howie, \textit{supra} note 3 at 248-49. “What was interesting about Harrington J.’s remedy is that instead of ordering Euro Excellence to stop importing the chocolate bars, he merely ordered Euro Excellence to stop infringing the Copyright Act. The effect […] was to allow Euro Excellence to simply change the packaging on the chocolate bars to comply with the injunction.” Also Teresa Scassa, “Using Copyright Law to Prevent Parallel Importation: A Comment on Kraft Canada, Inc. v. Euro Excellence, Inc.” (2006) 85 Can. Bar Rev. 409 at 413. “In a subsequent ruling, Harrington J. approved of a plastic film placed over the logos on the bars by Euro Excellence, and permitted the distribution of the bars so long as the copyright-protected logos were covered.”} As Howie explains, this seems to indicate that Harrington J. was not convinced that the use of Copyrights to prevent this kind of situations is appropriate.\footnote{Howie, \textit{supra} note 3 at 249. “Harrington J. was clearly not very sympathetic to the desire of KCI to maintain its monopoly on the two chocolate bars”.

\footnote{Euro Excellence, \textit{Inc. v. Kraft Canada, Inc.} \textit{supra} note 4 at para 25.}

\footnote{\textit{Ibid.} para 26-48.}

\footnote{\textit{Copyright Act, supra} note 2.}

Rothstein J. reached this analysis by studying the petition of KCI, who sued Euro Excellence for secondary infringement under section 27 (2)(e) of the Canadian Copyright Act.\footnote{(2) It is an infringement of copyright for any person to (e) import into Canada for the purpose of doing anything referred to in paragraphs (a) to (c),} The Court has determined that in order to find secondary infringement it is necessary

The final decision of the Supreme Court of Canada was divided on many issues. In the end, Euro Excellence was victorious, but only temporarily as the SCC’s decision opened the door for KCI to sue Euro Excellence again after a mere assignment of rights from KFB and KFS.

The decisions of the judges can be divided into four different groups. Rothstein J. delivered the reasons of Deschamps and Binnie. The basis for the argument of Rothstein J. is an analysis of the concepts of exclusive license and assignment. Rothstein J. maintains that an exclusive licensee cannot sue an owner-licensor for infringement,\footnote{\textit{Euro Excellence, Inc. v. Kraft Canada, Inc.} \textit{supra} note 4 at para 25.} reaching this conclusion by analysing both concepts under the Copyright Act.\footnote{\textit{Copyright Act, supra} note 2.}
to prove: the existence of a primary infringement, knowledge from the secondary infringer that the product infringes Copyright, and a sale, distribution or exposition for sale of the infringing goods by the secondary infringer. In the case of the first requirement, Rothstein J. acknowledges that section 27(2)(e) does not require an actual infringement but only an hypothetical infringement.

Under these circumstances, reasons Rothstein J., in order to proceed with the action of secondary infringement, the products sold by Euro Excellence have to be considered as hypothetically infringing products: that is, as infringing if they had been made in Canada. The problem is that this would be contrary to “copyright and common sense” because such a conclusion would require holding that KFB and KFS had infringed their own Copyrights. In order to avoid this problem, the Kraft companies argued that once an exclusive license is granted to KCI, KFS and KFB can infringe KCI’s Copyrights. Rothstein J. rejects this last argument by indicating that an exclusive licensee can not sue an owner-licensor.

Fish J. accepts the ideas stipulated by Rothstein J., but he also says that the action brought by KCI is more related to a protection on the disputed chocolate bars’ sale monopoly than to a real Copyright infringement concern. Moreover, Fish J. is concerned that the Intellectual Property laws in Canada may become an instrument of trade control.

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198 Ibid. at para. 20.
199 Ibid. at para. 24.
200 Ibid. at para. 49.
201 Ibid. at para. 54.
202 Ibid. at para. 56.
The decision of LeBel and Charron JJ. was delivered by Bastarache J, who introduced the concept of “legitimate economic interest”\textsuperscript{203} into his decision. He mentions that the Copyright Act only protects this interest and not other economic interests.\textsuperscript{204} Under these circumstances, Bastarache J. argues, the Copyright Act does not prevent the importation of goods that have Copyrights only in an incidental manner; in other words, the Justice complains of the use of copyrighted labels to prevent the importation of chocolate bars.

Bastarache J. arrived at this conclusion by studying the objectives of the Act. These objectives were mentioned in the case Théberge v. Galerie d’Art du Petit Champlain, Inc.\textsuperscript{205} by Justice Binnie.\textsuperscript{206} These objectives can be summarized as a balance between the rights of society and the rights of the author; in other words, Copyright has to be used to achieve equilibrium between the gains of the public and the gains of the author.

Bastarache J. believes that allowing Copyright owners to prevent the importation of goods based on Copyrighted works that are only incidental to the product (the labels) will disrupt the balance proposed by the Act.\textsuperscript{207} In the opinion of Bastarache J. the Copyright Act was meant to protect works of art when they were the principal product of a commercial transaction and not when they were only an unimportant part of the product.\textsuperscript{208}

Abella and McLachlin JJ. dissented from the other justices. Their decision was delivered by Abella J. This decision is different from the others in that these justices believe that KCI should have been able to continue with its Copyright infringement action. Abella

\textsuperscript{203} Ibid. at para. 85.
\textsuperscript{204} Ibid. at para. 85.
\textsuperscript{205} Théberge, supra note 177.
\textsuperscript{206} Théberge, supra note 177 and accompanying text.
\textsuperscript{207} Euro Excellence, Inc. v. Kraft Canada, Inc. supra note 4 at para. 88.
\textsuperscript{208} Euro Excellence, Inc. v. Kraft Canada, Inc. supra note 4 at para. 101, Bastarache J. “It cannot be reasonably maintained that in the course of a commercial transaction in which a customer buys a Côte d’Or or a Toblerone chocolate bar from a merchant, the customer is actually paying for a copyrighted work.”
J. rejects the idea expressed by Rothstein J. that an exclusive licensee is unable to sue the Copyright owner for Copyright infringement. This is the only difference with Rothstein J. decision, but this difference gives a completely opposite result in that KCI would have been successful in stopping Euro Excellence from selling the chocolate bars.

Euro Excellence, Inc. v. Kraft Canada, Inc. supra note 4 at para. 128, Abella J. “While an owner-licensor is, technically, still the owner of the copyright, it is nonetheless liable to an exclusive licensee of it breaches the copyright interest it has granted.”
Part IV. Final analysis.

The decision given in Kraft Canada was not supported by Copyrights but by the different rights granted by a license. This decision left the door open to another trial once KCI receives an assignment from the European Kraft companies. This deviation from the Copyright theory proves how difficult it is for the courts to solve the Parallel Importation issue from a Copyrights view alone.

The decisions given by the justices can be interpreted to denote the problem explained before, the conflict created by protecting rights of an author that has already been rewarded by the sale of the product. Justice Bastarache mentions the idea of “legitimate economic interest”210 resulting from a balance between the rights of society and the rights of the author.211 Bastarache J. analyses the legitimate economic interest questioning whether a Copyright holder should be protected against unauthorized importation of products that only have the copyrighted work in an incidental manner.

In his analysis, Bastarache J. mentions the idea of a “just reward” given to authors.212 Rothstein J. also mentions the idea of a just reward given to authors.213 This idea of just reward is connected to the idea of a balance between promoting new works and allowing an affordable access to society to those works.214 This idea is also what makes it

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211 See e.g. Théberge, supra note 177 and accompanying text.
212 Euro Excellence, Inc. v. Kraft Canada, Inc. supra note 4 at para. 88, Bastarache J.
213 Euro Excellence, Inc. v. Kraft Canada, Inc. supra note 4 at para. 21, Rothstein J. “Section 27(2)(e) thus represents Parliament’s intention to ensure that Canadian copyright holders receive their just rewards even where they do not hold copyright abroad”
214 Théberge, supra note 177 and accompanying text.
so difficult to solve Parallel Imports cases, as the author has already received a reward with the first sale of every original product (and Parallel Imports are made with original products); moreover, nothing in the theory of Copyrights states that authors should keep control over the distribution of their works once they have received this reward.

Copyright was created in order to reward authors for their creativity and in that form stimulate the creation of new works. This reward is achieved by giving authors the right to be the first to sell copies of their works, but once these copies are sold, authors cannot impede further sales. This is the basic idea of exhaustion. The fact that parallel importers buy original products means that Copyright owners have already benefited from that first sale. Licensees may be affected, but Copyright was not made to protect licensees.

The effects suffered by licensees should be considered at the time of defining a policy regarding the acceptance or not of international exhaustion. However, these effects escape the reach of Copyright theory as the rights to reproduce and to receive a reward are not directly affected by Parallel Imports. Even in situations where authors are compelled to compete against their own products, they are still benefiting from the sale of the authorized copies that are being imported. In this form, the Copyright system cannot prevent the importation of gray marketed products.215

215 The international exhaustion” or “universality” theory provides that the doctrine of exhaustion should apply whenever the United States intellectual property owner sells or authorizes the first sale of the good, regardless of whether the good was manufactured or originally sold in the United States, or abroad. The reasoning, essentially, is that the United States intellectual property owner has enjoyed the opportunity to control the first sale, which occurred abroad, and can be presumed to have obtained sufficient benefit to maintain an incentive to invest in creative efforts. Regardless of whether the good is protected by intellectual property rights in the foreign country, the United States intellectual property owner’s decision to sell there generally suggests that it finds the sale beneficial. Providing a “second bite of the apple,” by granting the opportunity to control foreign purchasers’ resale of the goods in the United States, is not necessary in order to serve the incentive function of intellectual property laws, and would interfere unnecessarily with the free international flow of goods and the competitive marketplace, depriving consumers of the benefits of competition and greater accessibility of goods. It also arguably would favor intellectual property owners selling abroad over intellectual property owners whose sales are strictly domestic, since the latter have no opportunity to control resales.
Following the Australian and New Zealand examples, the proposed solution to the Parallel Imports issue is to determine the individual conditions of each country and decide on an adequate exhaustion policy. Each country has to decide whether it is an importer or an exporter of Copyrighted goods and establish a national or international exhaustion policy in its laws.

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