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Abstract

This note argues that the Copyright Act should be changed to permit compensated importation where the underlying work is out of print in the United States. Part I discusses the relevant sections of the Copyright Act and their interpretation by the courts. Part II demonstrates that compensated importation should be allowed when a work is out of print in the United States. Part III proposes a solution into eh form of a compulsory license for out-of-print imports where the work has been out of print in the United States for a certain length of time. This note concludes that the interests of the creators and of the public would be better served by allowing importation of works that are out of print in the United states.

IMPORTATION OF OUT-OF-PRINT WORKS UNDER THE COPYRIGHT ACT OF 1976

INTRODUCTION

In response to a demand for literary property[1] legally available abroad but not distributed by its United States copyright owners, small companies have imported into the United States copies and phonorecords of works from abroad.[2] The owners of the United States copyrights in these works, seeking to protect their markets against these imports, have sued these importers for infringement under section 602 of the Copyright Act of 1976[3] (Copyright Act). Courts interpreting this statute have resolved these disputes in favor of the copyright owner.

This Note argues that the Copyright Act should be changed to permit compensated importation where the underlying work is out of print in the United States. Part I discusses the relevant sections of the Copyright Act and their interpretation by the courts. Part II demonstrates that compensated importation should be allowed when a work is out of print in the United States. Part III proposes a solution in the form of a compulsory license for out-of-print imports where the work has been out of print in the United States for a certain length of time. The Note concludes that the interests of the creators and of the public would be better served by allowing importation of works that are out of print in the United States.

I. *IMPORTATION AND DISTRIBUTION UNDER THE COPYRIGHT ACT OF 1976*

Under section 602 of the Copyright Act, a United States

1. The term used in the Copyright Act, 17 U.S.C.A. §§ 101-914 (West 1977 & Supp. 1987), is "works of authorship," 17 U.S.C. § 102(a) (1982). "Works of authorship" is purposely left undefined. H.R. REP. No. 1476, 94th Cong., 2d Sess. 51 [hereinafter HOUSE REPORT], *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5664. The categories of copyrightable works of authorship are listed in section 102(a), and four of them are defined in section 101, 17 U.S.C. § 101 (1982). The remaining three—"musical works," "dramatic works," and "pantomimes and choreographic works"—are not defined, since their meanings are "fairly settled." HOUSE REPORT, *supra*, at 53, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5666-67.

2. *See* Pareles, *Law Cuts Flow of Imported Records*, N.Y. Times, Dec. 31, 1986, at C9, col. 1.

3. 17 U.S.C. § 602 (1982).

copyright owner may sue an entity that has brought into, or distributed within, the United States copies[4] or phonorecords[5] of a work[6] acquired abroad.[7] When the work is unavailable in the United States, the copyright owner's right to control distribution of the work is pitted against the public's interest in access to the work.[8]

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4. The Act defines "copies" as

> material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

17 U.S.C. § 101 (1982). Books, computer punch cards, and videotapes are examples of copies. 1 M. NIMMER & D. NIMMER, NIMMER ON COPYRIGHT § 2.03[C], at 2-31 to 2-32 (1986) [hereinafter NIMMER ON COPYRIGHT].

5. The Act defines "phonorecords" as

> material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "phonorecords" includes the material object in which the sounds are first fixed.

17 U.S.C. § 101. Phonograph records and audiocassettes are examples of phonorecords. *See* CBS Inc. v. Pennsylvania Record Outlet, Inc., 598 F. Supp. 1549 (W.D. Pa. 1984).

Phonorecords are the embodiment of sound recordings, which the Copyright Act defines as "works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied." 17 U.S.C. § 101. A sound recording is a derivative work of the underlying work, such as a song, if there is an underlying work. *See* 17 U.S.C. § 103(a) (1982).

6. The underlying work, or work of authorship, is distinguished from the material object in which the work must be embodied in order to satisfy the statutory requirement of fixation in a tangible medium. 1 NIMMER ON COPYRIGHT, *supra* note 4, § 2.03[C], at 2-31; *see* 17 U.S.C. § 102(a) (1982).

7. *See, e.g.*, Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986); W. Goebel Porzellanfabrik v. Action Indus., 589 F. Supp. 763 (S.D.N.Y. 1984); Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984). *See infra* notes 21-32 and accompanying text.

Many of the actions implicating section 602 involve piratical imports, *see infra* note 12. The Customs Service is authorized to seize piratical imports and inform the United States copyright owner of their presence. *See* 17 U.S.C. § 602(b) (1982); 19 C.F.R. §§ 133.42-.44 (1986). These seizures often result in administrative determinations finding infringement. *See, e.g.*, C.S.D. 84-33, 18 Cust. B. & Dec. 905 (1983) (monkey dolls); C.S.D. 81-198, 15 Cust. B. & Dec. 1122 (1981) (stuffed bears); C.S.D. 80-173, 14 Cust. B. & Dec. 1021 (1979) (Christmas tree ornaments).

8. *See, e.g.*, Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986); CBS Inc. v. Important Record Distribs., Inc., 1981-1983 Copyright L. Dec. (CCH) ¶ 25,446

A. *The Copyright Clause and Governing Sections of the Copyright Act*

The copyright clause[9]—the federal constitutional basis for the copyright law—is intended to grant creators[10] a measure of control over the use of their works, including the right of first publication in the United States, and to motivate creators to produce for the public good.[11] The relevant sections of the Copyright Act in importation cases are 602, 106(3), and 109(a).[12] Section 602(a) provides that importation into the

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(E.D.N.Y. 1982), *discussed in* Note, *Parallel Importing Under the Copyright Act of 1976*, 17 N.Y.U. J. INT'L L. & POL. 113, 147-48 (1984).

9. The copyright clause empowers Congress "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." U.S. CONST. art. I, § 8, cl. 8.

10. An author, which is the term used in the Constitution, *see id.*, is a person "to whom anything owes its origin." Burrow-Giles Lithographic Co. v. Sarony, 111 U.S. 53, 58 (1884); 1 NIMMER ON COPYRIGHT, *supra* note 4, § 1.06[A], at 1-37. For the sake of convenience, "creator" is used in this Note to encompass the terms "author," "artist," and the like. *See* N. BOORSTYN, COPYRIGHT LAW § 2:3, at 24 (1981).

11. Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 546 (1985); Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 429, 431-32 (1984); Fox Film Corp. v. Doyal, 286 U.S. 123, 127 (1932); Hearst Corp. v. Stark, 639 F. Supp. 970, 978 (N.D. Cal. 1986); REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, 87th Cong., 1st Sess. 5-6 (House Judiciary Comm. Print 1961); 1 NIMMER ON COPYRIGHT, *supra* note 4, § 1.10[B]-[C] (1986); *see* COPYRIGHT LAW REVISION PART 4: FURTHER DISCUSSIONS AND COMMENTS ON PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW, 88th Cong., 2d Sess. 211 (House Judiciary Comm. Print 1964) [hereinafter COPYRIGHT LAW REVISION PART 4] (implication that exclusive right under section 602 is that of distribution in the United States).

12. *See* 17 U.S.C. §§ 602, 106(3), 109(a) (1982).

Section 602 delineates two types of importation: importation of "piratical" articles (that is, copies or phonorecords made without the copyright owner's authorization), and unauthorized importation of copies and phonorecords that were lawfully made. HOUSE REPORT, *supra* note 1, at 169, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5785. For the purposes of this Note, the word "import" means a copy or phonorecord made abroad with the United States copyright owner's authorization but imported without his authorization, unless the contrary is indicated.

Three commentators have described this situation as parallel importation. *See* Tyson & Parker, *Parallel Importation of Copyrighted Phonorecords*, 10 N.C. J. INT'L L. & COMM. REG. 397, 397-98 (1985); Note, *supra* note 8, at 114-15. This characterization may be too broad, however. The term is more precisely applied where there are two lines of importation, one authorized and one unauthorized; there can be no parallel importation where there is only one line of importation, authorized or not. Interview with Hugh C. Hansen, Associate Professor of Law (Intellectual Property), Fordham University (Mar. 18, 1987) (author's notes available at the offices of the *Fordham International Law Journal*); *see* Vivitar Corp. v. United States, 761 F.2d 1552, 1555 (Fed. Cir. 1985) (trademarks), *cert. denied*, 106 S. Ct. 791 (1986).

Recent trademark litigation has seen a controversy over parallel importation of

United States, without the United States copyright owner's authority, of copies or phonorecords of a work that have been acquired outside the United States constitutes an infringement of the exclusive right of distribution granted by section 106(3).[13] Section 602(a) contains three exceptions for what are usually non-commercial uses of copyrighted material,[14]

"gray market goods." Gray market goods "are goods that are manufactured abroad, are legally purchased abroad from authorized distributors, and are then imported by persons other than the [United States] trademark holder and without the [United States] markholder's permission." Olympus Corp. v. United States, 792 F.2d 315, 317 (2d Cir. 1986), *petition for cert. filed*, 55 U.S.L.W. 3372 (U.S. Nov. 6, 1986) (No. 86-757). The Supreme Court of the United States has agreed to resolve the question of the validity of a Customs Service regulation that permits importation of gray goods, 19 C.F.R. § 133.21 (1986), in seeming contravention of section 526(a) of the Tariff Act of 1930, 19 U.S.C. § 1526(a) (1982), which forbids such importation. *See* K-Mart Corp. v. Cartier, Inc., 107 S. Ct. 642, *granting cert. to* Coalition to Preserve the Integrity of Am. Trademarks v. United States, 790 F.2d 903 (D.C. Cir. 1986); 47th St. Photo, Inc. v. Coalition to Preserve the Integrity of Am. Trademarks, 55 U.S.L.W. 3343 (questions presented in Petition for Certiorari No. 86-624, filed Oct. 16, 1986).

13. 17 U.S.C. § 602(a). Section 106 of the Act sets forth the copyright owner's exclusive rights:

> Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
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> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) 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;
>
> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
>
> (5) 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.

Id. § 106.

Section 602(b) prohibits importation of piratical copies and phonorecords. *Id.* § 602(b); HOUSE REPORT, *supra* note 1, at 170, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5786; *see supra* note 12. Violations of section 602 are actionable under section 501, 17 U.S.C. § 501 (1982).

For discussions of section 602's legislative history, see Tyson & Parker, *supra* note 12, at 402-06; Note, *supra* note 8, at 134-37.

14. The exceptions to section 602(a)'s prohibition are as follows:

> (1) importation of copies or phonorecords under the authority or for the use of the Government of the United States or of any State or political subdivision of a State, but not including copies or phonorecords for use in schools, or copies of any audiovisual work imported for purposes other than archival use;
>
> (2) importation, for the private use of the importer and not for distribution, by any person with respect to no more than one copy or pho-

which indicates that the section was intended to restrict mass importation for commercial gain. However, the statute includes no exception for works in which a United States copyright exists but that are out of print[15] or otherwise unavailable in the United States.[16]

Section 109(a), the "first-sale" doctrine, is a limitation on section 106(3)'s exclusive distribution right.[17] Under the first-

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norecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage; or

(3) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2) [Limitations on exclusive rights: Reproduction by libraries and archives].

17 U.S.C. § 602(a)(1)-(3).

15. For the purposes of this Note, "out of print" means that the work is no longer being produced and offered for sale in the United States by an entity authorized to do so. The definition of the term "in print" varies from contract to contract. 1 A. LINDEY, ENTERTAINMENT, PUBLISHING AND THE ARTS 137 (2d ed. 1986) (Practice Comment: Out of Print Provision) (discussing book contracts); *see, e.g., id.* at 136 (Form 1:A-1.01, Agreement for Book Publication (Random House Form)), 198 (Form 1:B-33.01, Termination of Contract (Out-of-Print Provision)), 199 (Form 1:B-33.02, Termination of Contract (Another Form)). For a discussion of the mechanics of book publishing and recording contracts, see generally *infra* notes 69-84 and accompanying text. Although typically applied to books that are no longer available, the term "out of print" is also often applied to records. *See, e.g.*, Pareles, *supra* note 2.

16. *See* 17 U.S.C. § 602. One participant in the panel discussions in the drafting of section 602 raised the possibility that the provision might block the importation of materials "useful to the public." COPYRIGHT LAW REVISION PART 4, *supra* note 11, at 205 (comment of Sydney M. Kaye of Broadcast Music, Inc.).

The drafters of section 602, then designated section 44, were lawyers and representatives of book publishers, music publishers, authors, composers, record companies, and government agencies; the views of importers were not represented. Note, *supra* note 8, at 135 n.118, 148; *see, e.g.*, COPYRIGHT LAW REVISION PART 2: DISCUSSION AND COMMENTS ON REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, 88th Cong., 1st Sess. 1-2, 55-56, 109, 171 (Comm. Print 1963) (list of participants in discussions); *id.* at 223-416 (written comments on proposed revision). Had importers' opinions been solicited, section 602 might have been drafted differently. Note, *supra* note 8, at 148-49.

17. Section 109(a) provides as follows: "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." 17 U.S.C. § 109(a) (1982). For discussions of the first-sale doctrine and

sale doctrine, conditions imposed by a seller on a buyer of a particular copy or phonorecord cannot be enforced by an infringement action,[18] but they can still be enforced by a breach of contract action.[19] Courts and commentators reveal some conflict as to whether the doctrine protects a first sale occurring outside the United States.[20]

B. *The Issues in Importation Cases: Marketing and Public Access*

The majority of cases concerning section 602 have involved phonorecords.[21] When read together, these cases hold that anyone—importer, distributor, retailer—involved in the distribution of phonorecords acquired abroad is liable for infringement under section 602, even if the works were not otherwise available in the United States.[22] The record companies view these developments as a vindication of their right to control the marketing of their products.[23] Importers, distribu-

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section 109(a), see Tyson & Parker, *supra* note 12, at 399-402; Note, *supra* note 8, at 132-34.

18. House Report, *supra* note 1, at 79, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5693.

19. *Id.*

20. For a discussion of this topic, see *infra* note 31.

21. *See, e.g.*, CBS Inc. v. Pennsylvania Record Outlet, Inc., 598 F. Supp. 1549 (W.D. Pa. 1984) (defendant who imported and sold Canadian-made phonorecords held in contempt for violating consent decree); Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47 (E.D. Pa. 1983) (distributor held liable for selling records imported by another party from the Philippines), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984); *see* Tyson & Parker, *supra* note 12; Note, *supra* note 8; Pareles, *supra* note 2; Mills, *The Crisis Facing Imports & the Industry: A Threat to New Talent*, BILLBOARD, Aug. 2, 1986, at 9; Goldberg, *Imports Under Fire: Supply of Foreign Releases Dries Up as Fear of Lawsuit Grows*, ROLLING STONE, July 17-31, 1986, at 17.

22. *See* CBS Inc. v. Pennsylvania Record Outlet, Inc., 598 F. Supp. 1549 (W.D. Pa. 1984) (defendant who imported and sold Canadian-made phonorecords held in contempt for violating consent decree); Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47 (E.D. Pa. 1983) (distributor held liable for selling records imported by another party from the Philippines), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984); CBS Inc. v. Sutton (Jimmy's Music World), 1983-1984 Copyright L. Dec. (CCH) ¶ 25,559 (S.D.N.Y. 1983) (retailer in consent decree not to sell foreign pressings); CBS Inc. v. Important Record Distribs., Inc., 1981-1983 Copyright L. Dec. (CCH) ¶ 25,446 (E.D.N.Y. 1982) (consent decree involving importer and phonorecords not otherwise available in the United States), *discussed in* Note, *supra* note 8, at 147-48.

23. "We are opposed to anyone importing records into this country that cause a disruption in the orderly marketing of phonograph records that we own the rights to .... We reserve the right to decide when we want to release a piece of music in this market." Remarks of Bob Altshuler, spokesman for CBS Records, *quoted in* Goldberg, *supra* note 21. While CBS Records is more inclined to allow importation

tors, and retailers of phonorecords characterize these developments as limiting the variety of music available to consumers in the United States.[24]

Deciding an issue new to United States courts, a recent case in the federal District Court for the Northern District of California illustrates similar conflicting interests in the book publishing industry.[25] The defendants imported books that had been lawfully published in the United Kingdom,[26] which they maintained were not otherwise available in the United States.[27] The United States book publishers who owned the United States copyrights in these books sought an injunction and damages under section 602.[28] The court found an infringement of section 602 and granted summary judgment to the plaintiffs.[29] The court held that section 602 bars unauthorized importation regardless of the works' availability in the United States.[30] The first-sale doctrine protects only resale of

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of older material, *id.* (quoting Altshuler), not all record companies are so inclined. *Id.*; *see also* Pareles, *supra* note 2.

Antitrust complications have been ascribed to section 602. *See* Hearst Corp. v. Stark, 639 F. Supp. 970, 980-81 (N.D. Cal. 1986) (rejecting defendant book importer's antitrust counterclaim); United States v. Addison-Wesley Publishing Co., 1976-2 Trade Cas. (CCH) ¶ 61,225 (S.D.N.Y. 1976) (consent judgment); Department of Justice Competitive Impact Statement, 41 Fed. Reg. 32,617 (1976) (discussing then-proposed *Addison-Wesley* consent judgment). Antitrust considerations are beyond the scope of this Note.

24. One retailer has commented:

> Consumers are not able to buy what they should by all rights be able to purchase. This is perfectly legitimate material, not bootleg or counterfeit albums. If you want to buy a record that an American record company has chosen not to release, or allowed to go out of print, you can't.

Remarks of Patrick Daly, manager of Record Exchange, a collector-oriented store in Houston, Tex., *quoted in* Pareles, *supra* note 2, at C9, col. 3; *see also* Goldberg, *supra* note 21 (discussing attitudes toward imported phonorecords).

Record companies are not the only entities trying to control imports of phonorecords. In T.B. Harms Co. v. Jem Records, Inc., 655 F. Supp. 1575, 1576-77 (D.N.J. 1987), a music publisher sued an importer for infringement under section 602 for importing a phonorecord embodying a musical work in which the publisher owned the copyright. The court granted the publisher's motion for partial summary judgment on the issue of liability. For a further discussion of this case, see *infra* note 101.

25. Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986).

26. *Id.* at 972.

27. *Id.* at 975.

28. *Id.* at 973.

29. *Id.* at 981-82.

30. *Id.* at 975-76. "The test under the statute is simply whether there has been

"a particular copy," not the importation of large quantities of titles for multiple resales in the United States.[31] Moreover, section 602 does not restrict the flow of creative output in violation of the first amendment to the United States Constitution, but is essential to protecting the copyright owner's right to decide when, if at all, to publish.[32]

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an importation of a copy of a work which infringes a copyright in the United States." *Id.* at 976.

31. *Id.* at 976. The court stated:

> Even if section 109 did permit booksellers to sell a particular copy of a copyrighted work, that section would not authorize the wholesale importation and redistribution of multiple copyrighted works in conflict with section 602. The singular language of section 109 contrasts with the pluralistic language of section 602, which refers to importation, copies, and distribution.

Id. The *Hearst* court also cited Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc., 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984), to support the proposition that courts have interpreted the first-sale doctrine narrowly. *Hearst*, 639 F. Supp. at 976. In *Scorpio*, plaintiff CBS owned the United States copyright in certain sound recordings. 569 F. Supp. at 47. CBS consented to an agreement between CBS-Sony, a Japanese corporation, and Vicor, a Philippines corporation, whereby Vicor was to manufacture and sell phonorecords of the sound recordings exclusively in the Philippines. *Id.* Vicor sold about 6000 phonorecords to Rainbow Music, Inc., a Philippines corporation, which then sold them to International Traders, Inc., a Nevada corporation, which in turn sold them to Scorpio. *Id.*

The court rejected Scorpio's first-sale defense, holding the phrase "lawfully made under this title," 17 U.S.C. § 109(a), to mean that the sale of copies and phonorecords is protected only if the articles were "legally manufactured and sold *within the United States*"; "[t]he protection afforded by the United States Code does not extend beyond the borders of this country unless the Code expressly states." 569 F. Supp. at 49 (emphasis added). This interpretation was questioned in Cosmair, Inc. v. Dynamite Enterprises, Inc., 6 I.T.R.D. (BNA) 2436, 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985). The *Cosmair* court suggested that "lawfully made," in the context of section 109(a)'s relation with section 602(a), means made outside the United States under the United States copyright owner's authorization. *See id.* at 2439, 226 U.S.P.Q. at 347 (dictum) (citing COPYRIGHT LAW REVISION PART 6: SUPPLEMENTARY REPORT OF THE REGISTER OF COPYRIGHTS ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW: 1965 REVISION BILL, 89th Cong., 1st Sess. 150 (House Judiciary Comm. Print 1965)). *Scorpio*'s interpretation of section 109(a) has also been questioned by commentators. *See* Tyson & Parker, *supra* note 12, at 418-19; Note, *supra* note 8, at 129-32.

32. *Hearst*, 639 F. Supp. at 977-78 (citing Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 555-56 (1985)). The defendants and amici curiae argued that section 602 violates the first amendment. *See* Defendants' Memorandum of Points and Authorities re Motion for Summary Judgment at 37-42; Amicus Curiae Brief of Northern California Booksellers Ass'n, Inc. in Opposition to Plaintiffs' Motion for Summary Judgment at 4-5, Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986) (No. C-84-4701-CAL).

II. *THE BENEFITS OF IMPORTATION OF OUT-OF-PRINT WORKS*

The cases arising under section 602 implicate three interests: making available works that are out of print and "unavailable for purchase through normal channels";[33] enabling the copyright owner to control distribution while protecting the public's interest in access to the works;[34] and helping the copyright owner to market the work effectively, while also ensuring that the creator receives his royalties and due recognition.[35] This part argues that compensated importation of out-of-print works is justified by the fair use doctrine, striking a beneficial balance of these three interests.

A. *Market Analysis of Fair Use*

The fair use doctrine is a limitation on a copyright owner's exclusive right to control distribution of his work.[36] The doctrine permits courts to avoid rigid application of the copyright statute when it would stifle the creativity that copyright protec-

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33. S. REP. No. 473, 94th Cong., 1st Sess. 64 [hereinafter SENATE REPORT] (discussing out-of-print works and fair use, see *infra* notes 55-93 and accompanying text).

34. *See* Pareles, *supra* note 2; Goldberg, *supra* note 21.

35. *See* Defendants' Memorandum of Points and Authorities re Motion for Summary Judgment at 42 (author tells defendant that he was "delighted to see [his] book imported" before its United States publication), Hearst Corp. v. Stark, 639 F. Supp. 970 (N.D. Cal. 1986) (No. C-84-4701-CAL); Mills, *supra* note 21; Chin, *Royalty Threat to Imports*, MUSIC WEEK, Nov. 2, 1985, at 6.

36. The doctrine is codified at section 107 as follows:

> Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—
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> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C. § 107 (1982). A commercial use generally works against a finding of fair use, Brewer v. Hustler Magazine, Inc., 749 F.2d 527, 529 (9th Cir. 1984), although it does not preclude such a finding, Iowa State Univ. Research Found., Inc. v. American Broadcasting Cos., 621 F.2d 57, 61 (2d Cir. 1980).

tion aims to foster.[37] Although the fair use analysis applies primarily where the defendant has made use of part of an author's work in his own without obtaining the author's consent or paying him a fee,[38] one court that has interpreted section 602 has applied the doctrine.[39]

One commentator has suggested that courts use a market analysis in fair use cases, based on the premise that copyright law creates a market for intellectual property.[40] In an ordinary copyright case, the court assumes that the defendant could have bargained with the copyright owner to obtain his permission to use the work.[41] However, sometimes the market for copyrighted material does not function properly, and the defendant cannot readily bargain with the copyright owner. The doctrine of fair use evolved to resolve this problem by allowing a defendant to use the plaintiff's work in certain circumstances.[42]

The proposed market analysis sets forth a three-part test to determine whether a fair use finding is appropriate in a given situation.[43] The first prong is to see whether market failure is present.[44] This requirement ensures that market bypass[45] will not be approved without good reason.[46] The second prong requires that transfer of the use of the copyrighted work to the defendant is socially desirable.[47] This ensures that transfer of the license from the copyright holder to the unauthorized user effects a net gain in social value.[48] The third

37. 3 NIMMER ON COPYRIGHT, *supra* note 4, § 13.05 (quoting Iowa State Univ. Research Found., Inc. v. American Broadcasting Cos., 621 F.2d 57, 60 (2d Cir. 1980)).

38. Gordon, *Fair Use as Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1602 (1982).

39. *See* Hearst Corp. v. Stark, 639 F. Supp. 970, 977-78 (N.D. Cal. 1986).

40. *See* Gordon, *supra* note 38.

41. That is, the defendant could have proceeded through the market. *Id.* at 1612.

42. *See id.* at 1613; *supra* note 36.

43. Gordon, *supra* note 38, at 1614.

44. *Id.* Copyright law "facilitates the functioning of the consensual market in four ways: it creates property rights, lowers transaction costs, provides valuable information, and contains mechanisms for enforcement." *Id.* at 1612-13.

45. Market bypass occurs when the defendant does not proceed through the market. *See id.* at 1614-15.

46. *Id.*

47. *Id.* at 1615-18.

48. *Id.* at 1615.

prong requires that an award of fair use not cause substantial injury to the plaintiff copyright owner's incentive to produce creative work.[49]

B. *Application of the Market Analysis to Compensated Importation of Out-of-Print Works*

A market analysis is a valid tool because it is based on the goal of copyright, motivating creators to produce for the public good.[50] When applied to out-of-print works, a market analysis demonstrates that compensated importation is beneficial to society and to creators. It helps resolve market failure, results in social benefits, and causes no substantial injury to the copyright owner.

1. Presence of Market Failure

Market failure is present when consumers are willing to purchase a work that the United States copyright owner has stopped distributing.[51] Importation is justified when the importer may actually create a market for a work that the copyright owner has decided is no longer desirable to publish.[52] Such a use of a copyrighted work is consistent with a market approach, since markets cannot form where goods are unavailable.[53] Of course, if the defendant is operating in a realm that the copyright owner might be willing to exploit, fair use should be denied.[54] This problem can be overcome, however, if an

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49. *Id.* at 1618-22.

50. *See supra* note 11 and accompanying text.

51. *Cf.* Gordon, *supra* note 38, at 1613 (in certain circumstances, "the market cannot be relied on to mediate public interest in dissemination and private interests in remuneration").

52. *See* Maxtone-Graham v. Burtchaell, 803 F.2d 1253, 1264 (2d Cir. 1986) (defendant's use "might stimulate further interest" in plaintiff's out-of-print work). Fair use is justifiable if a work is out of print. *Id.* at 1264; Gordon, *supra* note 38, at 1627-28 (citing SENATE REPORT, *supra* note 33, at 64); Encyclopaedia Britannica Educ. Corp. v. Crooks, 542 F. Supp. 1156, 1177 (W.D.N.Y. 1982) (dictum, citing SENATE REPORT, *supra* note 33, at 64). *But see* Meeropol v. Nizer, 560 F.2d 1061, 1070 (2d Cir. 1977) (overturning grant of fair use summary judgment for plaintiff) ("[t]he fact that the Rosenberg letters have been out of print for 20 years does not necessarily mean they have no future market which can be injured"), *cert. denied*, 434 U.S. 1013 (1978).

53. *Cf.* H. HOVENKAMP, ECONOMICS AND FEDERAL ANTITRUST LAW § 1.1, at 8 (1985) ("when the electronic calculator was invented the demand for slide rules dropped precipitously").

54. *See* Gordon, *supra* note 38, at 1635.

importer is prohibited from bringing in out-of-print works for a certain period after cessation of production.[55] After a reasonable period of time, the copyright owner may conclude that there is no market to be exploited.[56] An importer should then be able, upon paying a fee to the copyright owner, to make the work available in the United States if it continues to be lawfully produced abroad. Market failure would then be cured by providing works that purchasers want.

2. Social Benefits of Compensated Importation

The goal of copyright law is to motivate creators to produce for the public good. Compensated importation would fulfill the policy of wide dissemination of creative works to the public.

Courts have found infringement in copyright and trademark cases where an imported item has posed a risk of harm to the public.[57] However, unlike trademark cases, the identity of

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55. A copyright owner may allow a work to go out of print if he determines he can no longer sell it profitably. *See* 1 A. LINDEY, *supra* note 15, at 136 (Form 1:A-1.01, Agreement for Book Publication (Random House Form)). If an importer must wait a specified period before bringing in out-of-print works and then must compensate the copyright owner, the possible harm to the copyright owner's market is minimized. *But cf. Meeropol*, 560 F.2d at 1070 ("[t]he fact that the Rosenberg letters have been out of print for 20 years does not necessarily mean they have no future market which can be injured").

56. *See supra* note 55.

57. *See* Selchow & Righter Co. v. Goldex Corp., 612 F. Supp. 19 (S.D. Fla. 1985) (importation of Trivial Pursuit games intended for the Canadian market); Bell & Howell: Mamiya Co. v. Masel Supply Co., 548 F. Supp. 1063 (E.D.N.Y. 1982) (importation of cameras intended for sale outside the United States), *vacated on other grounds*, 719 F.2d 42 (2d Cir. 1983); *cf.* Dallas Cowboys Cheerleaders, Inc. v. Scorecard Posters, Inc., 600 F.2d 1184 (5th Cir. 1979) (defendant's parody of plaintiff's posters held to cause consumer confusion and harm plaintiff's reputation).

Trademark rests on different policy grounds from copyright. Trademark's purpose is to protect consumers from being misled as to the enterprise from which goods emanate, to prevent an impairment of the value of the enterprise that owns the trademark, and to achieve these ends in a manner consistent with the objectives of free competition. Anti-Monopoly, Inc. v. General Mills Fun Group, 611 F.2d 296, 300 (9th Cir. 1979). Despite the difference, however, the analysis is helpful in demonstrating that imports of out-of-print works do not harm consumers. *See infra* notes 58-59 and accompanying text.

Courts have denied preliminary injuctions to plaintiffs whose goods sold by foreign distributors found their way back into the United States, finding that the plaintiff had already received the royalties due it and that the public was receiving equally good merchandise. *See* Cosmair, Inc. v. Dynamite Enters., Inc., 6 I.T.R.D. (BNA) 2436, 226 U.S.P.Q. (BNA) 344 (S.D. Fla. 1985); Parfums Stern, Inc. v. United States

the entity that manufactures literary property is irrelevant to the consumer.[58] When a consumer purchases a book or record, he is not harmed by its import status.[59] An amendment to the copyright law that would allow importation while compensating the United States copyright owner would not result in confusion to the consumer.[60] Furthermore, it would yield such benefits as knowledge from public debate.[61] The market cannot be relied upon to facilitate such socially desirable transactions, since a work's revenues do not necessarily indicate its social benefits external to the transaction.[62]

3. No Substantial Injury to the Copyright Owner

Injury to the copyright owner resulting from the defendant's venture into the copyright owner's market has long been considered the dominant factor in the fair use analysis.[63] If injury is likely to result, courts are reluctant to find fair use.[64] However, when the copyright owner is likely to receive a net benefit from the defendant's use, courts are more likely to find fair use.[65] The importer may create a market for the work, and

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Customs Serv., 575 F. Supp. 416 (S.D. Fla. 1983). *But cf.* Whelan Assocs., Inc. v. Jaslow Dental Laboratory, Inc., 609 F. Supp. 1307, 1319-20 (E.D. Pa. 1985) (defendants' purchase of single copy of computer program from plaintiff did not grant defendants the right to market copies of it), *aff'd*, 797 F.2d 1222 (3d Cir. 1986).

58. *Cf. Cosmair*, 6 I.T.R.D. at 2440, 226 U.S.P.Q. at 348 (consumers not likely to suffer harm from genuine fragrances imported by defendant); *Parfums Stern*, 575 F. Supp. at 421 (same). One commentator has suggested labelling gray market goods to warn consumers of different warranty provisions and other problems. *See* Note, *Grey Market Goods and Modern International Commerce: A Question of Free Trade*, 10 FORDHAM INT'L L.J. 308, 333-34 (1986-1987). However, the problems of warranties and the like usually do not arise with literary property.

59. *See supra* note 57.

60. *See supra* note 57.

61. *See* Gordon, *supra* note 38, at 1630.

62. *Id.* at 1630 (citing R. POSNER, ECONOMIC ANALYSIS OF LAW 48-52 (2d ed. 1977)).

63. *Id.* at 1639 (citing Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc., 626 F.2d 1171, 1177 (5th Cir. 1980)); 3 NIMMER ON COPYRIGHT, *supra* note 4, § 13.05[A][4].

64. *See, e.g.*, Harper & Row, Publishers, Inc. v. Nation Enters., 471 U.S. 539, 566-69 (1985).

65. *See* Karll v. Curtis Pub. Co., 39 F. Supp. 836, 837 (E.D. Wis. 1941) (fair use upheld where magazine article about the Green Bay Packers football team quoted from plaintiff's song—"[u]ndoubtedly many thousands who read the article became aware for the first time of the existence of a musical composer by the name of Eric Karll"); *cf.* Maxtone-Graham v. Burtchaell, 803 F.2d 1253, 1264 (2d Cir. 1986) ("not beyond the realm of possibility" that defendant's quotation of 7000 words from

the copyright owner may receive a benefit if he decides to release the work again following the success of the import, and his sales are strong.

An uncompensated fair use grant is inappropriate where it would substantially prejudice a developing reprint market in out-of-print works.[66] However, the importer may create the reprint market.[67] A scheme that would allow importation with compensation to the copyright owner would serve to reconcile solicitude for the copyright owner's economic interest in out-of-print works with Congress's apparent concern for maintaining access to these materials.[68] A discussion of the mechanics of publishing and recording contracts and the right of first publication demonstrates that compensated importation offers benefits to the public without causing substantial harm to the copyright owner.

a. *Imports in the Context of Publishing and Recording Contracts*

In a typical book publishing contract, an author will grant his publisher[69] for the duration of the copyright the exclusive

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plaintiff's out-of-print work found a fair use, in part as stimulating further interest in plaintiff's work). Furthermore, "[w]here the primary function of defendant's work is to give increased access to plaintiff's work, this increased access may bring a benefit to plaintiff or at least indicate the noncompetitive nature between the two works." Gordon, *supra* note 38, at 1644 n.236 (discussing New York Times Co. v. Roxbury Data Interface, Inc., 434 F. Supp. 217 (D.N.J. 1977) (defendant's publishing of name index compiled from plaintiff's index found a fair use)). *But see* Salinger v. Random House, Inc., 811 F.2d 90 (2d Cir. 1987) (biographer's use of J.D. Salinger's unpublished letters not a fair use), *rev'g* 650 F. Supp. 413 (S.D.N.Y. 1986).

66. *See* Meeropol v. Nizer, 560 F.2d 1061, 1069-70 (2d Cir. 1977) ("[i]f the effect on the market by an infringing work is minimal, for example, far greater use may be privileged than where the market value of the copyrighted material is substantially decreased"), *cert. denied*, 434 U.S. 1013 (1978); *see also* Triangle Publications, Inc. v. Knight-Ridder Newspapers, Inc., 626 F.2d 1171, 1177 n.14 (5th Cir. 1980) ("if the copyrighted work is out of print and cannot be purchased, a user may be more likely to prevail on a fair use defense").

67. *Cf.* Note, *supra* note 8, at 120 n.35 (import of album not yet available in United States created a market that enabled United States record company to release its own successful version); Chin, *supra* note 35 (imported records provide royalties to owners of rights to songs and create markets for major United States record companies to exploit).

68. Gordon, *supra* note 38, at 1646 (citing SENATE REPORT, *supra* note 33, at 64); *see infra* notes 102-19 and accompanying text.

69. For further discussion of the author-publisher relationship, see House, *Good Faith Rejection and Specific Performance in Publishing Contracts: Safeguarding the Author's Reasonable Expectations*, 51 BROOKLYN L. REV. 95, 97-98 (1984).

rights conveyed by section 106(1), (3), and (5) of the Copyright Act.[70] The United States publisher often licenses to a foreign publisher the exclusive rights to print, publish, and distribute the work in that country.[71] The author receives as royalties a percentage of the publisher's revenues from all sales of the work.[72]

In the case of a recording contract[73] involving musical works, a person or entity wishing to make a sound recording of a nondramatic musical work must obtain permission from the music publisher who owns the copyright in the musical work.[74]

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70. *See* 1 A. LINDEY, *supra* note 15, at 111-17 (Form 1:A-1.01, Agreement for Book Publication (Random House Form)). Section 106 provides in relevant part:

> Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> . . .
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership . . . ;
>
> . . .
>
> (5) in the case of literary . . . works . . . to display the copyrighted work publicly.

17 U.S.C. § 106 (1982).

71. See 1 A. LINDEY, *supra* note 15, at 239-44 (Form 1:D-1.01, Agreement for Publication Abroad of Book First Published in the United States).

72. *Id.* at 128-32 (Form 1:A-1.01, Agreement for Book Publication (Random House Form)).

73. A recording contract customarily takes one of four forms:

> 1. The Exclusive Artist Recording Contract: Record company directly signs the recording artist, and furnishes and pays for the artistic producer (the "producer"), who supervises the creative production process.
>
> 2. The "All-In" Artist Contract: Record company directly signs the recording artist, who furnishes and pays the producer out of his or her royalty.
>
> 3. The Production Contract: Record company directly signs an independent production company ("production company"), which furnishes the services of the recording artist, whom the production company has signed to an exclusive artist recording contract, and often the services of the producer as well.
>
> 4. The Master Purchase or Master License Contract: Record Company purchases or licenses finished master recordings from a production company.

Bomser & Goldring, *Current Trends in Record Deals*, in 1984 ENTERTAINMENT, PUBLISHING AND THE ARTS HANDBOOK 167, 167-68 (M. Meyer & J. Viera eds.). The major record companies are increasingly using the third type. *Id.* at 168.

74. *See* 2 A. LINDEY, *supra* note 15, at 1383 (Form 7:A-1.01, Popular Songwriters Contract).

Then, once the recording company accepts a master[75] from a recording artist or a production company, all of the rights in the sound recording are transferred to the record company.[76] Under the terms of the contract, the sound recording becomes a "work made for hire."[77] In exchange for this grant, the recording artist typically receives promotional assistance, recording assistance, and distribution services from the record company.[78] The record company owns all of the rights in the sound recording for the duration of the copyright.[79] When the sound recording is published outside the United States, the following sequence of events occurs. The United States music publisher grants a publisher in another country—England, for example—an exclusive license to exploit the song in that country.[80] The English publisher pays the United States publisher a percentage of all monies received from the exploitation of the song.[81] As for the sound recording, the United States record company grants an English record company a license to manufacture and distribute phonorecords of the sound recording in England.[82] The English company pays the United States company a royalty based on sales in England.[83] The English company must also acquire a license from the owner of the English copyright in the underlying work.[84]

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75. A master is the recorded product that the record company receives from the artist or production company. Bomser & Goldring, *supra* note 73, at 172.

76. *See, e.g.*, 2A A. LINDEY, *supra* note 15, at 1472.22 (Form 8:A-1.02, Independent Producer's Agreement with Record Company).

77. *See id.* at 1472.21. The Copyright Act defines "work made for hire" in part as "a work prepared by an employee within the scope of his or her employment." 17 U.S.C. § 101 (1982). (The second definition is not relevant here.) The Act further provides that the employer owns the copyright in a work made for hire, absent a written agreement to the contrary. 17 U.S.C. § 201(b) (1982).

78. *See* 2A A. LINDEY, *supra* note 15, at 1472.66-.67 (advertising); *id.* at 1472.66 (distribution); Bomser & Goldring, *supra* note 73, at 169 (recording assistance).

79. *See, e.g.*, 2A A. LINDEY, *supra* note 15, at 1472.7-.8 (Form 8:A-1.02, Independent Producer's Agreement with Record Company). This sample contract's use of the language "in perpetuity," *id.* at 1472.7, conflicts with the statutory term for a work made for hire of seventy-five years from the year of first publication or one hundred years from the year of its creation, whichever expires first, 17 U.S.C. § 302(c) (1982).

80. 2 A. LINDEY, *supra* note 15, at 1432.11-.12 (Form 7:A-4.01, Licensing Agreement Between U.S. Music Publisher and Music Publisher in a Specified Territory).

81. *Id.* at 1432.16-.17.

82. 2A *id.* at 1472.91 (Form 8:A-4.01, Phonograph Record License Agreement: One Territory).

83. *Id.* at 1472.92.

84. *Id.* at 1472.94.

If a book publisher fails to keep a work in print for a certain period or fails to put the work in print within a certain period after receiving written notification from the author, the agreement terminates, and all of the rights that the author granted to the publisher revert to the author.[85] However, any licenses or agreements granted by the publisher outside the United States continue in force, which means that the author and publisher continue to collect revenue from foreign sales.[86] With compensated importation, the author, to whom the United States market now belongs, receives two benefits: one, compensation for the importer's use of his market, and two, continued recognition.[87]

When a phonorecord goes out of print, typically no rights revert to the artist or producer, since the record company owns all rights to the sound recording for the duration of the copyright,[88] if the sound recording is protected by copyright.[89] If the recording company chooses not to produce any more phonorecords of the work in the United States, the artist has no remedy under the contract,[90] although royalties continue to flow to him from foreign sales.[91] With compensated importation, the recording company and the music publisher receive enhanced revenues from the importer's use of the market, and the recording artist and the composer receive royalties from

85. *See* 1 A. LINDEY, *supra* note 15, at 198 (Form 1:B-33.01, Termination of Contract (Out-Of-Print Provision)); *id.* at 199 (Form 1:B-33.02, Termination of Contract (Another Form)).

86. A typical provision is that when a work goes out of print in the United States and the copyright reverts to the author such an occurrence "shall not affect or impair the Publisher's rights under licenses and agreements for publication and sale of the Work outside the United States." *See id.* at 198. Although no explicit provision is made for the author's continued receipt of royalties from the publisher's revenues, construing the contract to preclude the author's receipt of royalties would give the publisher a windfall, probably giving the author an action against the publisher on an unjust enrichment theory. *Cf.* Kossian v. American Nat'l Ins. Co., 254 Cal. App. 647, 62 Cal. Rptr. 225 (1967) (insurance contract).

87. *Cf.* Maxtone-Graham v. Burtchaell, 803 F.2d 1253, 1264 (2d Cir. 1986) ("it is not beyond the realm of possibility that defendant's book might stimulate further interest in" plaintiff's work).

88. *See supra* note 79 and accompanying text.

89. Sound recordings fixed prior to February 15, 1972, are not protected under the Copyright Act. 17 U.S.C. § 301(c) (1982).

90. *See supra* notes 73-79 and accompanying text.

91. *See* 2A A. LINDEY, *supra* note 15, at 1508.36 (Form 8:B-2.01, Exclusive Artist Recording Agreement (Record Company)); *supra* notes 73-84 and accompanying text.

those revenues.[92]

In both book publishing and recording contexts, the importer—provided he compensates the copyright owner—can continue in business with lessened risk of lawsuits under the Copyright Act. His cost of doing business will include double compensation to the copyright owner, but the fair use doctrine requires such payment.[93] More importantly, however, the public receives the benefit of an enhanced selection of creative output, with minimal negative effect on the copyright owner.

b. *Imports and the Right of First Publication*

Compensated importation would remedy a situation in which foreign consumers have ready access to United States works that United States consumers want and cannot otherwise find in the United States.[94] Copyright owners would retain the right of first publication, as compensated importation would be applied only to out-of-print works. In *Harper & Row, Publishers, Inc. v. Nation Enterprises*,[95] the publisher sued the *Nation* magazine for its unauthorized use of an unpublished manuscript of former President Ford's memoirs.[96] The Court held that a defendant may not use a work that has not yet been published in the United States and for which someone owns a copyright.[97] By contrast, when a United States copyright owner finds it unprofitable to keep the work in circulation in

92. *See supra* notes 73-84 and accompanying text.

93. The fourth fair use factor, and the one to which courts have given the most weight, is the effect of the use upon the potential market for or value of the copyrighted work, 17 U.S.C. § 107(4) (1982). 3 NIMMER ON COPYRIGHT, *supra* note 4, § 13.05[A][4]. An importer's use is commercial, cutting against a finding of fair use. *See* 17 U.S.C. § 107(1) (1982); *see, e.g.*, Brewer v. Hustler Magazine, Inc., 749 F.2d 527, 529 (9th Cir. 1984). Double payment is required to minimize harm to the copyright owner.

94. One record retailer observed that if all record companies blocked all imports, "the average man on the street in Japan will have more access to American musical culture than people in America." Goldberg, *supra* note 21 (quoting Nancy Noenning, an owner of a record store specializing in early recordings).

95. 471 U.S. 539 (1985).

96. *Id.* at 542.

97. Justice O'Connor wrote for the majority:

> In its commercial guise, . . . an author's right to choose when he will publish is no less deserving of protection. The period encompassing the work's initiation, its preparation, and its grooming for public dissemination is a crucial one for any literary endeavor. The Copyright Act, *which accords the copyright owner the "right to control the first public distribution of his work,"* echos [sic]

the United States but it is still legally available outside the country, then importation is justified because the right of first publication has been exercised by its true owner.[98] Thus, compensated importation promotes the constitutionally mandated purposes of copyright, resolves failure in the copyright market, results in a net social benefit, and causes minimal harm to the copyright owner or creator.

III. *COMPULSORY LICENSING AS A SOLUTION FOR OUT-OF-PRINT IMPORTS*

The Copyright Act includes no provision for the importation of works that are out of print in the United States, and it is structured so that a court would have difficulty interpreting the statute to allow such importation. Accordingly, the Copyright

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the common law's concern that the author or copyright owner retain control throughout this critical stage.

Id. at 554-55 (emphasis added) (citation omitted).

98. *See id.* ("author's right to control the first public appearance of his undisseminated expression will outweigh a claim of fair use").

A related issue is that of an author's moral rights. Long recognized statutorily in European countries, they are certain rights personal to the author. 2 NIMMER ON COPYRIGHT, *supra* note 4, § 8.21[A], at 8-247. Also known as *droit moral*, they are "separate and apart from the proprietary aspect of copyright." *Id.* One of these rights is the withdrawal of a published work from distribution if it no longer represents the views of the author. *Id.* United States courts have recognized an author's right not to have his work altered beyond the parties' contemplation in a contract. *See* Gilliam v. American Broadcasting Cos., 538 F.2d 14, 27 (2d Cir. 1976); Follett v. New Amer. Library, Inc., 497 F. Supp. 304, 313 (S.D.N.Y. 1980).

However, moral rights as they are known in Europe do not exist in the Copyright Act and have been recognized by neither federal nor state courts in the United States. 2 NIMMER ON COPYRIGHT, *supra* note 4, § 8.21[B], at 8-248. *But cf.* CAL. CIVIL CODE § 987 (West Supp. 1987) (protection, *inter alia*, against mutilation granted to works of fine art); N.Y. ARTS & CULT. AFF. LAW §§ 11.01, 14.01, 14.03 (McKinney Supp. 1987) (same). In no case has a court sanctioned under copyright a work's withdrawal in intact form once the author has consented to publication. House, *supra* note 69, at 118 n.112 (citing Note, *Moral Right in the United States*, 35 CONN. B.J. 509, 515 (1961) [hereinafter Note, *Moral Right*]); *cf.* Rosemont Enters., Inc. v. Random House, Inc., 366 F.2d 303 (2d Cir. 1966) (fair use granted to defendant who used published magazine articles about plaintiff in unauthorized biography of plaintiff), *cert. denied*, 385 U.S. 1009 (1967); Autry v. Republic Prods., Inc., 213 F.2d 667, 670 (9th Cir. 1954) (motion picture depicting actor in outmoded clothing not sufficient injury to plaintiff to enjoin defendant from exhibiting it); Estate of Hemingway v. Random House, Inc., 23 N.Y.2d 341, 352, 244 N.E.2d 250, 258, 296 N.Y.S.2d 771, 782 (1968) ("[o]nce a person has sought publicity he cannot at his whim withdraw the events of his life from public scrutiny") (quoting Goelet v. Confidential, Inc., 5 A.D.2d 226, 228, 171 N.Y.S.2d 223, 225 (1958)). One rationale is that the public benefits from mistakes of the past. Note, *Moral Right*, *supra*, at 515.

Act must be amended to allow importation of out-of-print works. One mechanism is a compulsory license[99] for the importation of such works.[100]

A. *The Principle of Compulsory Licensing*

A compulsory license is a license that the holder of the copyright[101] in a work must grant to someone who uses the

99. The Copyright Act currently includes compulsory licenses for sound recordings of nondramatic musical works, 17 U.S.C. § 115 (1982 & Supp. III 1985); jukebox performances, 17 U.S.C. § 116 (1982); certain cable television transmissions, 17 U.S.C.A. § 111 (West 1977 & Supp. 1987); and certain uses by public broadcasting, 17 U.S.C. § 118 (1982).

100. One commentator has suggested a compulsory license for the importation of records that have not yet been published in the United States. *See* Note, *supra* note 8, at 148-49 & n.193. The license would terminate as soon as a copyright owner marketed the phonorecord domestically. *Id.* at 149 n.193. However, the commentator maintains, such a plan could frustrate the effective marketing of new material, to the detriment not only of the copyright owner but also of the public. *Id.* at 148. These problems are less serious when the work is out of print in the United States. *See supra* notes 51-90 and accompanying text.

101. A case recently decided in the United States District Court for the District of New Jersey answers one question and raises another about whose permission is required for importation of phonorecords under the Copyright Act. In T.B. Harms Co. v. Jem Records, Inc., 655 F. Supp. 1575, 1576-77, 1583 (D.N.J. 1987), the court held that an importer had infringed the copyright of a music publisher by importing phonorecords embodying a sound recording in whose underlying musical work, "Ol' Man River," the publisher owned the copyright. The court rejected the importer's argument that the availability of the musical work for compulsory licensing negated the publisher's exlusive rights in the work. *Id.* at 1578, 1580-82.

Under *Harms*, therefore, a music publisher has standing under the Copyright Act to sue an importer for infringement if the importer has not obtained the publisher's permission to import a phonorecord of the work. However, the disputed phonorecord was of a sound recording not subject to federal copyright protection because it was fixed prior to February 15, 1972. *See* 17 U.S.C. § 301(c) (1982); *His Greatest Hits, Frank Sinatra—New York New York* (album jacket) (indicating that Frank Sinatra's recording of "Ol' Man River" was fixed in 1963). In the case of a sound recording fixed on or after February 15, 1972, the record company (or other entity) that owned the copyright in the sound recording would also have been able to sue. Put another way, both the owner of the copyright in the underlying work and the owner of the copyright in the derivative work would have standing to sue, since an infringer has used both the underlying work and the derivative work, 1 NIMMER ON COPYRIGHT, *supra* note 4, § 3.05, at 3-21 to 3-22, although the plaintiffs in phonorecord importation cases have usually been record companies; the music publishers, which typically own the rights in the underlying musical compositions, *see* 2 A. LINDEY, *supra* note 15, at 1383 (Form 7:A-1.01, Popular Songwriters Contract), have not been parties, *see, e.g.*, CBS Inc. v. Pennsylvania Record Outlet, Inc., 598 F. Supp. 1549 (W.D. Pa. 1984); Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc., 569 F. Supp. 47, *aff'd without opinion*, 738 F.2d 421 (3d Cir. 1984); CBS Inc. v. Sutton (Jimmy's Music World), 1983-1984 Copyright L. Dec. (CCH) ¶ 25,559

work in any of the ways specified in the copyright law.[102] In return for allowing this use, the copyright owner receives a royalty from the user.[103] The purpose of a compulsory license is to allow immediate public access to creative works.[104] Compensation in the case of an out-of-print work is called for by the fourth fair use factor—impact of the use on the potential future market for the copyrighted work.[105]

The principle of compulsory licensing has been criticized as an unfair encroachment on the copyright owner's exclusive right to dispose of his property as he chooses at fair value.[106] However, the copyright owner apparently gains nothing by refusing additional remuneration for another person's importation of a work whose continued foreign publication he has au-

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(S.D.N.Y. 1983); CBS Inc. v. Important Record Distribs., Inc., 1981-1983 Copyright L. Dec. (CCH) ¶ 25,446 (E.D.N.Y. 1982). *But see* 1 NIMMER ON COPYRIGHT, *supra* note 4, § 3.05, at 3-22 (derivative work proprietor who is nonexclusive, as opposed to exclusive, licensee has no standing to sue).

This circumstance should not be extended to mean that an importer of phonorecords needs permission from the music publisher as well as from the record company to import a protected sound recording. First, although a license in a certain case may not be expressly authorized to sublicense a copyright in a particular work, the circumstances may indicate "no serious doubt of [the licensee's] authority to do so." Gracen v. Bradford Exch., 698 F.2d 300, 303 (7th Cir. 1983). *But see* 3 NIMMER ON COPYRIGHT, *supra* note 4, § 10.01[C][4], at 10-18. The importer who has acted with the record company's permission should therefore not be subject to suit from the music publisher, provided that the record company in allowing the importation has not breached its agreement with the music publisher. Breach of such an agreement has been present where a use sanctioned by the proprietor of a derivative work has been found an infringement. *See* Gilliam v. American Broadcasting Cos., 530 F.2d 14, 17-18, 21 (2d Cir. 1976). Second, since the music publisher receives royalties based on the number of phonorecords manufactured and sold by the record company, *see* 2A A. LINDEY, *supra* note 15, at 1460-61 (Form 8:A-1.01, License to Make Recording of Musical Composition); notes 73-84 and accompanying text, he suffers no harm, and the public benefits from wider distribution. *Cf. supra* notes 33-93 and accompanying text (importation of out-of-print works generally).

102. *See* A. LATMAN, R. GORMAN & J. GINSBURG, COPYRIGHT FOR THE EIGHTIES 33 (2d ed. 1985).

103. *Id.*

104. Note, *Music Recording, Publishing, and Compulsory Licenses: Toward a Consistent Copyright Law*, 14 HOFSTRA L. REV. 379, 385 & n.35 (1986) (citing 17 U.S.C. § 801(b)(1)(A) (1982)).

105. *See supra* note 36.

106. *See, e.g.*, Goldstein, *Preempted State Doctrines, Involuntary Transfers and Compulsory Licenses: Testing the Limits of Copyright*, 24 U.C.L.A. L. REV. 1107, 1107-08, 1127-28, 1135-40 (1977); Lee, *An Economic Analysis of Compulsory Licensing in Copyright Law*, 5 W. NEW ENG. L. REV. 203 (1982); Note, *The Socialization of Copyright: The Increased Use of Compulsory Licenses*, 4 CARDOZO ARTS & ENT. L.J. 105 (1985).

thorized but whose domestic production he has allowed to cease.[107] Under a compulsory license for out-of-print imported works, the United States copyright owner receives increased revenues from the license fees,[108] and the author, if he is not the copyright owner, receives more royalties.[109] Furthermore, the imports may create a market for the the work that the United States copyright owner can exploit,[110] and, although the importer's cost of doing business is increased, he can continue to import out-of-print works without the threat of a lawsuit.[111]

B. *The Mechanics of Compulsory Licensing for Out-of-Print Imports*

The compulsory license might be based on section 115 of the Copyright Act, which provides for a compulsory license for making and distributing phonorecords of a nondramatic musical work that has already been distributed to the public in a phonorecord.[112] It should require that the work be out-of-print for at least five years and that the distribution may be only to the public for private use. The purpose of the grace

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107. The United States Copyright owner continues to receive revenues from foreign sales. *See supra* notes 73-84 and accompanying text.

108. *See* 17 U.S.C. §§ 801-810 (1982).

109. *See supra* notes 73-84 and accompanying text.

110. The importation might also create a "test market" that might induce the United States copyright owner to resume distribution of the work. *Cf.* 17 U.S.C. § 601 (1982 & Supp. III 1985) (Manufacturing Clause, which expired July 1, 1986); HOUSE REPORT, *supra* note 1, at 167, *reprinted in* 1976 U.S. CODE CONG. & ADMIN. NEWS 5659, 5783.

111. *See supra* notes 63-97 and accompanying text.

112. *See* 17 U.S.C. § 115(a) (1982). The parties may waive the compulsory license and negotiate an agreement according to their own terms. 2 NIMMER ON COPYRIGHT, *supra* note 4, § 8.04[1], at 8-78.1; *see* A. LATMAN, *supra* note 102, at 361-62 (Harry Fox license). A copyright user may also petition the Copyright Royalty Tribunal for an adjustment of the statutory rate. *See* 17 U.S.C. §§ 801-810 (1982).

The Copyright Act could be amended as follows to accommodate the compulsory license for imports that are out of print in the United States. First, another exception would be added to section 602(a). This exception might read:

> (4) importation of copies or phonorecords for distribution where the underlying work has been out of print in the United States for five years and the importer has obtained a compulsory license for importation pursuant to section 119.

Second, a section denominated "119" and titled "Scope of exclusive rights: compulsory license for importing and distributing copies and phonorecords" would be added and might read:

> The exclusive rights provided by clause (3) of section 106, to distribute copies or phonorecords of the copyrighted work to the public by sale or

period is to minimize any possible impingement on a reprint or

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other transfer of ownership, or by rental, lease, or lending, are subject to compulsory licensing under the conditions specified by this section.

(a) AVAILABILITY AND SCOPE OF COMPULSORY LICENSE.—

(1) When copies or phonorecords of a work have been distributed to the public in the United States under the authority of the copyright owner but have not been so distributed for a period of five or more years, any other person may, by complying with the provisions of this section, obtain a compulsory license to import and distribute copies or phonorecords of the work. A person may obtain a compulsory license only if his or her primary purpose is to import and distribute them to the public for private use. A person may not obtain a compulsory license for importation of copies or phonorecords, unless such copies or phonorecords were produced pursuant to a valid license from the owner of the copyright in the work or other person authorized to grant such a license.

(2) A compulsory license includes the privilege of importation and distribution and any advertising necessary to facilitate such distribution, but does not constitute a grant of permission to alter the work.

(3) The copyright owner shall give the importer at least thirty days' notice of any plans to reprint, reissue, or otherwise distribute the work for which a compulsory license has been granted. Receipt of such notice automatically terminates the compulsory license. Any subsequent importation of the work, other than shipments already in transit, shall constitute an infringement of copyright.

(b) NOTICE OF INTENTION TO OBTAIN COMPULSORY LICENSE.—

(1) Any person who wishes to obtain a compulsory license under this section shall, at least thirty days prior to importing copies or phonorecords of the work, serve notice of intention to do so on the copyright owner and on the United States Customs Service. If the registration or other public records of the Copyright Office do not identify the copyright owner and include an address at which notice can be served, it shall be sufficient to file notice of intention in the Copyright Office. The notice shall comply, in form, content, and manner of service, with requirements that the Register of Copyrights shall prescribe by regulation.

(2) Failure to serve or file the notice required by clause (1) forecloses the possibility of a compulsory license and, in the absence of a negotiated license, renders the importation and distribution of copies or phonorecords actionable as acts of infringement under section 501.

(3) The importer shall present to the Customs Service a copy of the compulsory license. The Customs Service shall not allow entry of copies or phonorecords without presentation of such license.

(c) ROYALTY PAYABLE UNDER COMPULSORY LICENSE.—

(1) To be entitled to receive royalties under a compulsory license, the copyright owner must be identified in the registration or other public records of the Copyright Office. The owner is entitled to royalties for copies and phonorecords imported and distributed after being so identified.

(2) Except as provided by clause (1), the royalty under a compulsory license shall be payable for every copy or phonorecord imported

and distributed in accordance with the license. For this purpose, a copy or phonorecord is considered "distributed" if the person exercising the compulsory license has voluntarily and permanently parted with its possession. With respect to each copy or phonorecord distributed, the royalty shall be 10 percent of the price at which the importer sells such copy or phonorecord. In the case of a phonorecord embodying sound recordings fixed on or after February 15, 1972 that embody nondramatic musical works, the owner of the copyright in such sound recordings warrants to the importer that he will pay the owner of the copyright of the underlying nondramatic musical work at a rate equal to that set by section 115 of this title.

(3) A compulsory license under this section includes the right of the importer of copies or phonorecords under subsection (a)(1) to distribute or authorize distribution of copies or phonorecords by rental, lease, or lending (or by acts or practices in the nature of rental, lease, or lending). In addition to any royalty payable under clause (2) and chapter 8 of this title, a royalty shall be payable by the compulsory licensee for every act of distribution of a copy or phonorecord by or in the nature of rental, lease, or lending, by or under the authority of the compulsory licensee. With respect to each copy or phonorecord, the royalty shall be a proportion of the revenue received by the compulsory licensee from every such act of distribution of the copy or phonorecord under this clause equal to the proportion of the revenue received by the compulsory licensee under distribution of the copy or phonorecord under clause (2) that is payable by a compulsory licensee under that clause and under chapter 8. The Register of Copyrights shall issue regulations to carry out the purpose of this clause.

(4) Royalty payments shall be made on or before the twentieth day of each month and shall include all royalties for the month next preceeding. Each monthly payment shall be made under oath and shall comply with requirements that the Register of Copyrights shall prescribe by regulation. The Register shall also prescribe regulations under which detailed cumulative annual statements of account, certified by a certified public accountant, shall be filed for every compulsory license under this section. The regulations covering both the monthly and annual statements of account shall prescribe the form, content, and manner of certification with respect to the number of copies and phonorecords imported and distributed.

(5) If the copyright owner does not receive the monthly payment and the monthly and annual statements of account when due, the owner may give written notice to the licensee that, unless the default is remedied within thirty days from the date of notice, the compulsory license will be automatically terminated. Such termination renders either the importation or the distribution, or both, of all copies and phonorecords for which the royalty has not been paid, actionable as acts of infringement under section 501.

Cf. 17 U.S.C. § 115 (1982 & Supp. III 1985) (compulsory license for making sound recording of nondramatic musical work). Petitions filed with the Copyright Royalty Tribunal regarding this proposed section would be treated the same way as petitions regarding section 115. *Cf.* 17 U.S.C. §§ 801(b)(1), 804(a) (1982); 37 C.F.R. §§ 301.60-.77 (1986).

reissue market for the work.[113] The copyright owner would be required to file with the Copyright Office notice of cessation of publication of the work.[114] In recognition of the copyright owner's right to exploit the market, he would remain free to terminate the license at any time, provided he gives the importer thirty days' notice of his intention to reissue the work. The purpose of the notice provision is to allow the importer to adjust his plans accordingly. The importer would be required to present the Customs Service with proof of the license before the copies or phonorecords would be allowed to enter the United States.[115] Royalty payments would be a percentage of the sale price of the number of copies or phonorecords sold. In the case of phonorecords of sound recordings protected by copyright,[116] the copyright proprietor of the sound recording would warrant to the importer that a royalty equal to the rate specified in section 115 will be paid to the owner of copyright in the underlying musical work.[117] The permission from the

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113. One version of section 115 provided for a five-year period after the date of original recording during which the owner of the exclusive right to make and distribute phonorecords would retain his exclusive rights. COPYRIGHT LAW REVISION PART 3: PRELIMINARY DRAFT FOR REVISED U.S. COPYRIGHT LAW AND DISCUSSION AND COMMENTS ON THE DRAFT 215-16 (1964). One participant in the discussions suggested that this be reversed, that is, the first five years would be a period of compulsory licensing, thus allowing the making and distribution of as many records as possible. *Id.* at 236 (statement of Harold Orenstein). In the case of out-of-print works, such a grace period would ensure that all outstanding copies or phonorecords of a work have been sold, minimizing harm to the United States copyright owner's market.

114. A similar scheme was suggested during the drafting of section 115. *See id.* at 215-16. In addition, book publishers reported books that they had ceased to produce for the compilation *Books Out-of-Print*, published by Bowker, which also publishes *Books In Print*. *See* BOOKS OUT-OF-PRINT 1980-1983 vii-viii (1983).

A theoretical difficulty arises in determining not just whether but how a pantomime or choreographic work, 17 U.S.C. § 102(a)(4) (1982), can be out of print. The difficulty is resolved as follows. To be eligible for federal copyright protection, a work must be "fixed in [a] tangible medium of expression." *Id.* § 102(a). A pantomime or choreographic work can be fixed in Laban notation or in a motion picture, 1 NIMMER ON COPYRIGHT, *supra* note 4, § 2.07[C], at 2-70, which is a type of copy. 17 U.S.C. § 101 (1982). If the copy is no longer distributed by the owner of the copyright in the pantomime or choreographic work, the work is out of print.

115. Customs is currently authorized to seize any imports that appear to be piratical. *See* 17 U.S.C. § 602(b) (1982); 19 C.F.R. §§ 133.41-.46 (1986).

116. *See supra* note 101.

117. One reason musical works are treated differently from other works that are embodied in derivative works is that most people can appreciate musical works only when they are performed—most people cannot read musical notation—and the access that most people have to performed music is through phonorecords of sound

sound recording copyright proprietor is adequate so as to ease the administrative burden on the importer, who, if required to contact each song copyright proprietor, might be deterred from importing altogether.[118]

These provisions would provide an efficient mechanism whereby the United States copyright owner is compensated for a purely commercial use of his works while the public gains access to a wider variety of creative endeavors. A compulsory license would solve the problems discussed above: it would help resolve market failure, yield social benefits, and alleviate injury to the copyright owner's market.

CONCLUSION

Under the current status of the Copyright Act, courts are correct in finding that unauthorized imports constitute infringement, regardless of whether the works imported were out of print in the United States. However, such decisions would deter all imports of literary property and thus decrease the variety of creative works available to the public. If a work has not yet been published in the United States, the right of first publication justifies characterizing its importation as an infringement of section 602. However, importation should be allowed if a copyright owner has let a published work become unavailable, especially if the work is still available for purchase elsewhere in the world. A compulsory license for out-of-print imports is one way to respect the copyright owner's rights while increasing the variety of works available to the American public.

*Paul D. Getzels**

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recordings. COPYRIGHT LAW REVISION PART 4, *supra* note 11, at 440 (comment of Record Industry Association of America, Inc.). *But see* Note, *supra* note 104 (questioning the validity of the section 115 compulsory license).

118. *Cf.* Pareles, *Ruling Threatens Imports of Records*, N.Y. Times, Apr. 15, 1987, at C23, col. 1 (discussing consequences of T.B. Harms Co. v. Jem Records, Inc., 655 F. Supp. 1575 (D.N.J. 1987), *see supra* note 101); Terry, *Legal Decision Requires Importers to Get U.S. Mechanical Licenses; Few Left in Weakened Business*, Variety, Apr. 8, 1987, at 79, col. 4, at 81, cols. 1-2 (same); *see also* Goodman, *Importers Search for Ways to Handle Mechanicals*, BILLBOARD, May 16, 1987, at 1, 84 (in light of *Harms* decision possibility of compromise between music publishers and importers, reducing royalty rates for imports).

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