國 立 交 通 大 學

科 技 法 律 研 究 所

碩 士 論 文

與山姆大叔的著作物貿易:
從平行輸入,台美貿易與合理使用談起
Trading Copyright Products with Uncle Sam:
Parallel Imports, Taiwan-U.S. Trade and Fair Use

研究生　：　江苑臻

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中 華 民 國 九 十 六 年 五 月

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A Thesis

Submitted to Graduate Institute of Technology Law

College of Management

National Chiao Tung University

in fulfillment of the requirements

for the Degree of

Master

in

Technology Law

May 2007

Hsinchu, Taiwan, Republic of China

中 華 民 國 九 十 六 年 五 月

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摘 要

一國是否允許著作物的真品平行輸入，牽涉到該國在著作權之立法政策上是否允許著作權人享有散布權及輸入權，是否採取耗盡理論(Exhaustion Doctrine)，以及所採用者究為「國際耗盡」、「國內耗盡」亦或「區域耗盡」而有不同。在美國三零一貿易報復的強大壓力下，我國於民國八十二年四月修正著作權時，明文禁止著作之真品平行輸入(著作權法第八十七條第四款)，只於相當有限的例外情形下(著作權法第八十七條之一)承認平行輸入的合法性，此舉無異於在未承認著作權人散佈權的情況下，先行創設了屬於散佈權能的輸入權；民國九十二年修正的著作權法為了矯正此矛盾立法，增訂散佈權(新法第二十八條之一)，採用國內耗盡理論對散佈權的範圍加以限制(新法第五十九條之一)，然而這樣的做法仍未徹底解決此問題，因為平行輸入物一般係由輸入者於國外合法取得，既然該著作物並非在國內取得，著作權人的散布權並未耗盡，輸入者仍須受民事與刑事追訴，加上司法實務上總將此類平行輸入之著作重製物，視為「非法重製物」，因此縱使該輸入物係在國內取得後輸出國外再回銷回台灣，第三人亦無法依著作權法第六十條的例外規定而合法出租及散佈平行輸入物。

本文從平行輸入的形成、現行台灣著作權法對平行輸入的規範及其法源依據出發，探討立法過程中台美貿易政策所扮演的角色，禁止平行輸入對台美貿易的影響，以及此種立法對台灣與美國著作權產業的負面效果，進而比較國際公約與美國著作權法對於平行輸入的規定，觀察我國此種立法政策及司法運作是否妥適；本文另外也指出美國貿易法的三零一條款並未遵守 WTO 相關規定，而禁止平行輸入也可能反被其他 WTO 會員國認為是不當的貿易障礙，另外再從經濟學「市場失靈」(market failure)理論的觀點，分析禁止真品平行輸入是否能增進我國人民最大經濟效益，並主張以合理使用原則，而非耗盡原則，來解決著作物平行輸入的爭議，換句話說，法官在處理平行輸入案件時，應針對每一個案評估禁止與允許平行輸入對社會公益及著作權人權益的影響,參酌允許平行輸入的經濟效益及對於促進我國文化創新的助益，而非斷然以國內耗盡理論與僵硬的法條操作，否定平行輸入的合法性，如此才不致與著作權法所欲達成促進社會文化進步之宗旨有所扞格。

Trading Copyright Products with Uncle Sam:

Parallel Imports Ban, Taiwan-U.S. Trade and Fair Use

Student: Yuan-Chen Chiang Advisor: Dr. Ming-Chuan Wang

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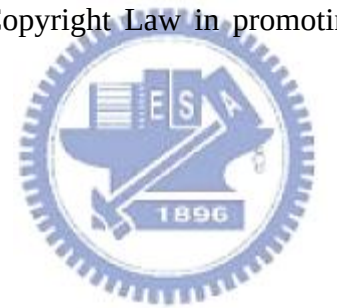
ABSTRACT

Under current intellectual property laws regime, Copyright Law which aims at promoting the progress of culture, along with Patent Law and Trademark Law, are all facing the challenges from parallel imports in gray market. Taiwan's current Patent Law expressly permitted parallel importation (Patent Law Article 57(6)), and courts, as well as conventional wisdom, both recognize the legality of parallel imports in Trademark Law. Nevertheless, after Amendment in April 1993, Article 87 (4) was added to Taiwan's Copyright Law which forbid parallel imports with limited exceptions due to the fear of Section 301 trade sanction from U.S. This enactment essentially creates a new distribution right for copyright owner in addition to the eumberated exclusive rights which only include the right to reproduce, right to revise, publicly display right and rental right, and etc. Furthermore, most courts still hold those parallel imports as illegal copies, even if they are manufactured with authorization initially. Courts tend to deem them as unlawful copies and refused to grant exemption under Article 60, thereby a third party distributor of those imports are still subject to civil and criminal penalties.

This Thesis starts from the cause of parallel imports, how current Copyright Law

regulates parallel imports, the role U.S. and Taiwan's trade policy played in the legislative process of Copyright Law, the impact and adverse effect of parallel import ban on trade between U.S. and Taiwan, then proceeds to research on how U.S. law and international treaties cope with parallel import issue as a reference for reviewing the propriety of this enactment. This Thesis will indicate that Section 301 of Trade Act is not in compliance with WTO laws, and conversely, the ban on parallel imports may risk Taiwan to be challeged by other WTO Members as an unlawful trade barrier. Furthermore, with the analysis of market failure theory, this Thesis proposed that current parallel import ban should be lifted, and, instead of exhaustion doctrine, fair use doctrine should be applied to evaluate each parallel import case in a case -by -case manner, taking into account its impact on public interest and copyright owner's private benefit so that the regulations on parallel imports could be consistent with the objectives of Copyright Law in promoting the progress of culture and useful art.



誌謝

工作幾年後能再回到校園重溫學生夢，並有機會出國進修，進而完成這篇論文，真要感謝科法所所長老師們、家人以及朋友們的支持。首先要感謝指導老師王敏銓教授的細心指導，在我回國時特別於百忙之中抽空與我討論論文大綱與內容，針對論文結構及參考資料提供專業的寶貴意見，使我受益良多；此外，口試委員所長劉尚志教授從我入所以來，亦師亦友的提攜照顧，在我赴美留學期間的不斷鼓勵，並引領我從經濟學角度詮釋法律的另類思考，帶給我深刻的啟發；而口試委員邵瓊慧教授對著作權立法背景的熟稔，加上豐富的執業經驗及深厚的學術造詣，在口試中所提出的中肯意見，使我有機會提升論文的嚴謹度。能有幸進入科法所受教於這麼多位專精智慧財產權的前輩，而得以一窺智慧財產權法的堂奧，我心存感激。

其次要感謝林志潔教授的精神支持，大學時期的死黨珮慈於口試當天為我幫老師們準備茶水及後續行政事宜，以及所上助理玉佩、宏鳴及素美的行政與技術支援，使口試得以順利進行。在所上學習期間，從與宏節、培錚、育竹、宜臻的課堂及日常討論中，讓我認識到法學辨證的實踐性，也為我開啟了智慧財產法的另一扇窗。赴美求學期間，感謝傳立、王軼對我在生活及情感上的鼓舞，使我有動力繼續完成論文的寫作;張嵐為我細心校對註腳，使我得以完成論文最後的潤飾階段。

最後，一路走來，要感謝我的家人對我無條件的支持，父親是我在智識上最重要的啟蒙導師，每當我面臨人生諸多抉擇而裹足不前時，他永遠在一旁理性並客觀的為我分析提供意見，同時並容忍這個看似不停浪跡天邊的女兒追逐自我實現的夢想；母親樂

觀的人生態度，是我在異鄉遭遇困頓寂寞時的學習榜樣；弟弟這些年來與我在生活上的交流，讓我學習到以不同角度看待事物的多面性；貼心的大妹從我的論文寫作過程到口試準備，總是給我最適切的意見，是我在寫作過程中情感上最大的支持者；而小妹的藝術天份與善體人意，總在我疲憊時給我最大的安慰，我何其有幸能擁有如此豐富的人生資產，謹以此論文獻給這些關心我的人們，希望能對智慧財產法制有些許貢獻。

目　錄

Trading Copyright Products with Uncle Sam: Parallel Imports, Taiwan-U.S. Trade and Fair Use

Yuan-Chen Chiang

CHAPTER I

INTRODUCTION

The legislative process of Taiwan's Copyright Law with respect to parallel imports is heavily influenced by U.S. laws because of the close tie between these two trading partners. However, the exercise of Section 301 threat from the U.S. apparently also impairs the ability of Taiwan's Copyright Law to adequately address this issue. Chapter II illustrates Taiwan's current situation and legal framework provided for parallel imports and exhaustion doctrine under Taiwan's Copyright Law, which is primarily shaped by the political pressure from U.S. The enactment of Article 87(4), in my opinion, is clearly a reflection of this political reality. Chapter III further explores how U.S. laws and international treaties, such as TRIPs and WCT, deal with parallel imports. Chapter IV then discusses the conflict between free trade theory and copyright principles, and what role that Taiwan and U.S. international trade policy has played in the legislative process of parallel imports regulations. Chapter V indicates the inconsistency of U.S. Section 301 of the Trade Act with WTO laws, specifies problems arising from Taiwan's parallel imports ban and explores its impacts on both U.S.

entertainment industry and Taiwan itself. Chapter VI proposes to lift current parallel imports ban and to apply fair use doctrine on a case-by-case basis in each parallel imports case in order to accomplish the objective of Copyright Law. Lastly, Chapter VII summarizes the conclusion drawn from the aforementioned analysis, and presents a viable solution for this controversial issue.

CHPATER II

PARALLEL IMPORTS UNDER CURRENT TAIWAN COPYRIGHT REGIME

A. Parallel imports - "Harry Potter" as an example

When "Harry Potter" overwhelmingly drove readers crazy and swept over the whole world in 2001, Crown Cultural Publication Corporation (hereinafter "Crown"), a prominent Taiwanese publishing company, acquired the exclusive license as to "Complex Chinese" version of Harry Potter, thus was entitled to exclusively distribute the books within the territory of Republic of China, Taiwan. Crown, however, realized shortly thereafter that at the same time, another publishing company was also marketing their books by giving away "Simplified Chinese" version of Harry Potter as a gift in a book festival held in Kaoshiung. Crown, as an exclusive licensee, thereby filed a criminal action in Kaoshiung District Court, alleging that the distribution of those Simplified Chinese "Harry Potter" infringed its copyright and sought to impose criminal penalty on the defendants[1].

[1] Under Article 91*bis* of Taiwan Copyright Law, a person who distributes the original of a copyrighted work or its copy through transfer of ownership (including sale, gift) may be put into prison for no more than three years.

Kaoshiung District Court, nevertheless, dismissed this action solely on the procedural ground under Article 319 of Rule of Criminal Procedure[2] and found that Crown didn't obtain the license of Simplified Characters version from the author J.K. Rowling, instead, what it obtained in the contract was "Complex Characters only." The scope of Crown's exclusive license was thereby confined to "Complex Chinese" version with the deliberate omission of "Simplified Chinese" counterpart, therefore, Crown can only sue for copyright infringement of Harry Potter's Complex Chinese version, rather than its Simplified Chinese version. Since the defendants were licensed to distribute Simplified Chinese version "throughout the world", their conducts thus fell outside the scope of the plaintiff's copyright. As a result, the Court concluded that no infringement could be found because Crown, as a criminal plaintiff, is not a direct victim and thereby lacked standing to sue against defendants.[3]

This case again highlights the long-standing legal problem as to whether parallel importation is permissible, as well as how to strike a balance between protection of a

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Where the representative, agent or employee of a legal entity commits any of the offenses specified in Article 91 – Article 96*bis* within the scope of its employment, such legal entity may be fined accordingly. *See* Taiwan Copyright Law, art. 101.

[2] Article 319 of Taiwan's Rule of Criminal Procedure provides: "[t]he victime of a crime may file a private prosecution. Where he is without, of limited, or dead, such private prosecution may be filed by his statutory agent, lineal relative, or spouse." It has been widely accepted by the courts and scholarship that only a "direct victim" of a crime is entitled to file private prosecution. When filing a criminal case in Taiwan, the default is filing through public prosecution, private prosecution is filed only in exceptional cases. Taiwan Rule of Criminal Procedure (latest amendment in Feb. 6, 2003), art. 319.

[3] *See* Kaoshiung District Court 90 Nen Du Tze Sue Tze No. 237 His Shi Pan Jue (No. 237 of Private Prosecution Criminal Judgment of the Kaoshiung District Court, 2001), *available at* the website of Lawbank: http: //fyjud.lawbank.com.tw/ (last visited May 9, 2007)

copyright holder's distribution right and public welfare resulted from the accessibility of copyrighted works in a gray market. However, Kaoshiung District Court in its judgment did not address the issue regarding the legality of parallel imports, nor did the Taiwan Supreme Court while affirming Kaoshiung District Court's judgment.[4]

Today, copyright industries[5] are playing an increasingly important role in the economy of the whole world. However, a major problem facing copyright industry engaged in international trade has been the development of "gray market"[6], also termed as "parallel imports"— the unauthorized importation of copyrighted products lawfully acquired abroad.[7]

"Parallel Imports", a situation where goods are initially manufactured under a license that

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[4] This lawsuit was initially brought by Crown against the managing agency of this book festival, including Kaoshiung World Trade Center, Asia-American Publication Company and Hong-Tzung Cultural Entertainment Company. The Kaoshiung District Court's decision was eventually affirmed by Taiwan Supreme Court on March 20, 2003. *See* Zuai Kao Fa Yuan 92 Nen Du Tai Shan Sue Tzu No. 1372 Hsi Shi Pan Jue (No. 1372 of Criminal Judgment of the Taiwan Supreme Court, 2003). This judgment is available at the website of Judicial Yuan: http: //jrs.judicial.gov.tw/ (last visited May 9, 2007)

[5] Some experts have categorized four groups particularly affected by copyright laws as copyright industry: (1) core copyright industries, which primarily produce copyrighted goods such as newspapers, periodicals, books, motion pictures, theatrical production, advertising item, computer software, and data processing items; (2) partial copyright industries, which produce goods or services that encompass copyrighted element, such as fabric or architecture; (3) distribution industries, which provides the channel to distribute copyrighted goods to consumers , such as transportation services and retail trade; (4) copyright-related industries, which produce and distribute items used in association with copyrighted goods. This group includes televisions, computers, recording, and listening devices. *See, e.g.*, STEPHEN E. SIWEK & HAROLD FURCHTGOTT-ROTH, COPYRIGHT INDUSTRIES IN THE U.S. ECONOMY: 1977-1990 3 (1992).

[6] *See Ferrero U.S.A., Inc. Ozak Trading, Inc., 952 F.2d 44,46 fn.1 (3d Cir. 1991)* (defining gray market goods)

[7] A similar definition made by U.S.Federal District Court for the Central District of California is "goods that are intended to be sold outside the United States but which are imported into this country without the consent of the owner of the United States trademark or copyright associated with the goods." *Parfums Givenchy v. C & C Beauty Sale*, 832 F. Supp. 1378 at 1382 n.1 (C.D. Cal. 1993)

grants the licensee or distributor the exclusive right to sell the goods in a particular country; these goods then somehow flow into other countries where the copyright licensor/owner is already selling the same goods, where there are other licensees, or where the goods have not yet been marketed. These goods are not counterfeit or pirated; nevertheless, they indeed impose significant hurdle for the copyright owner to maintain different price structures, product models, and quality standards among the countries where the goods are being marketed. This is particularly true in countries that are members of a customs union or a free trade area where the free movement of goods among member states is guaranteed.

From the policy-making perspective, parallel imports involve a country's international trade concerns as to whether the notion of free movement of intellectual property goods trumps the protection of copyright owners; from the legal standpoint, nonetheless, whether a country allows parallel importation primarily depends on whether the copyright owner is entitled in that country the import right; whether that particular country adopts first sale doctrine, and, to what extent it adopts. First sale doctrine is also called "exhaustion doctrine."[8] There are three approaches to define its scope: the "national exhaustion" where copyrights are exhausted only when the owner makes his first sale in domestic market; "regional exhaustion" where only when the copyright owner makes his first sale in a

[8] "First sale" doctrine is known as "exhaustion doctrine" in Europe, meaning copyright owner's distribution right is exhausted after its first sale.

particular region would the copyrights be exhausted[9], and the "international exhaustion" where a copyrighted product marketed in one nation can be freely sold anywhere, based on the theory that all rights are exhausted internationally upon first sale. A country may adopt any of the above legal approaches based on its own circumstances, and its international trade policy.

B. Formation of the Gray Market

1. Factors Contributing to Gray Market Imports

The gray market is essentially developed from the ability of third party distributors or purchasers to exploit the profit resulted from the differentiation of market strategy in the foreign market where they legally obtained copyrighted goods. Differences in currency exchange rates, product quality and characteristics, warranties, and services offered all contribute to the gray market. Price difference may result from copyright owners' intentional price discrimination[10] in foreign market or simly be a reflection of the variation in foreign currency's exchange rate. Those factors motivate a third party who legally bought

[9] E.U. basically adopts this approach by exhausting copyright owner's distribution right only within European Community

[10] There seems to be some reasonable incentives why price discrimination is more desirable for copyright owners. Copyright owners tend to regard price discrimination as an essential tool to the success of their development and marketing efforts. It's also an effective way to divide a copyright owners' global market. With appropriate market segmentation, price discrimination can also benefit developing countries where most consumers can't afford high priced copyrighted products. *See* John Barton, *Symposium: Global trade issues in the new millennium: The economics of TRIPs: International Trade in Information-Intensive Products*. 33 GEO. WASH. INT'L L. REV. 473 (2001)

the products abroad to ship it back to copyright owner or licensees' domestic market and sell it in competition with the higher priced version provided by the authorized domestic distributors.

2. Benefits of Gray Market

a. Promote competition and efficiency

Advocates of gray market goods pointed out that parallel imports may provide beneficial price competition that leads to lower prices for consumers and encourage copyright owners and their licensees to find the most efficient ways to manufacture and distribute copyrighted goods, so that goods are distributed in an efficient fashion to people who are willing to pay the most for them.[11]

b. Increase public access to copyrighted goods, increase the overall public welfare

Also, parallel imports may allocate resources to their best use in view of consumer demands by offering consumers more options, the public thus gains more access to the copyrighted works, therefore increases the overall welfare for the public although it might reduce the individual copyright owner's profits due to the lowered price resulted from more

[11] *See* Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 U. PA. J. INT'L BUS. L. 373, 377 (1994); Matthew Burgess & Lewis Evans, *Parallel Importation and Service Quality: An Empirical Investigation Of Competition Between DVDs and Cinemas in New Zealand*, 1 J. COMPETITION L. & ECON. 747, 758

supply of copyrighted goods[12].

c. Prevent copyright owner's global monopoly power through price discrimination in different countries

For years, one major concern for the protection of intellectual property is its potential to support monopoly pricing.[13] Since copyright owners have exclusive right to reproduce the copyrighted work, there is a risk that they may reduce production in an attempt to establish monopolistic prices which, in economicists' view, leads to the loss of "consumer surplus" represented as "deadweight loss."[14] Supporters of parallel import thus assert that, by importing lawful copies to another country, parallel imports serve the function as to reduce the deadweight loss, facilitate the dissemination of copyrighted works, and prevent the exercise of copyright owner's monopoly power through geographic price discrimination in the global market.[15]

d. Break down trade barriers, equalize price globally and harmonize the market

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[12] Matthew Burgess & Lewis Evans, supra 768 (Burgess and Evans' investigation indicated that the introduction of parallel imports into the New Zealand film sector has resulted in increased overall welfare.)

[13] Keith E. Maskus, *Intellectual Property Rights and Economic Development*, 32 CASE W. RES. J.INT'L L.471, 490

[14] *See* Alan O. Sykes, *Public Helath and International Law: TRIPs, Pharmaceuticals, Developing Countires,and the "Doha" Solution*, 3 CHI. INT'L. 47, 57

[15] *See* Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55 (2001) (indicating that price discrimination, which requires substantial market power, is socially undesirable. The author therefore supports the restrictions on using import right to block parallel imports.)

What's more, from the perspective of international trade relationship, parallel imports actually help break down trade barriers established due to copyright owner's exercise of monopoly power, serving to equalize prices globally and thus harmonizing the market.[16]

3. Problems of Gray Market

a. Creating intra-brand competition

However, opponents assert that parallel imports entail many problems, such as intra-brand competition.[17] This competition would force the domestic exclusive licensee to lower price on the authorized goods. If copyright licensor himself also distributes the products in domestic market, he will have to compete against imports of his own products. Since domestic licensees may be forced to cut prices in order to survive in intra-brand competition, they may therefore no longer be willing to make investment in copyrighted goods or provide service related to this product (such as warranties, pre-sale quality control) within their market area had parallel imports are allowed. In other words, gray marketing reduces the size of profits originally enjoyed and used by copyright owner/licensor to further improve the quality of goods because the intra- brand price competition diminishes the ability

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[16] *See* Ghosh, *supra* note 11; *see* ALSO JOHN H. JACKSON, WILLIAM J. DAVEY & ALAN O. SYKES, JR., LEGAL PROBLEMS OF INTERNATIONAL ECONOMIC RELATIONS: CASES, MATERIALS AND TEXT ON THE NATIONAL AND INTERNATIONAL REGULATION OF TRANSNATIONAL ECONOMIC RELATIONS 961, 950 (4th ed. 2002)

[17] Intra-brand competition is the competition between different distributors of the same product licensed from the same licensor. *Continental T.V., Inc. v. GTE Sylvania Inc.* 433 U.S. 36, 52 n.19 (1977)

of manufacturers and distributors to provide better quality products.[18]

b. Causing consumer confusion

Opponents also argue that it's very likely that consumers will confuse gray market goods with the domestic authorized goods; further, because consumers might not receive any warranty protection for gray market goods, they have to bear the risk of inferior or unsafe goods, which is detrimental to the general public[19].

c. Free-riding and diminishing goodwill

Parallel imports are said to free ride the exclusive domestic licensee or copyright owner's efforts in advertisement and promotion. Those goods may even, because of their compliance with foreign regulations such as instructions in a foreign language, look or package adjusted for the targeted foreign market, reduce the goodwill attached to the original products when they appear materially different from those intended for domestic distribution.[20]

C. Distribution right v. Exhaustion Doctrine in Taiwan

1. Distribution Right- Created under Article 28*bis* of Copyright Law in 2003 Amendment

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[18] *See* Ghosh, *supra* note 11.

[19] *See* Lawrence M. Friedman, *Business and Legal Strategies for Combating Grey-Market Imports*, 32 INT'L LAW. 27, 28-29 (1998) (suggesting that unwary consumers of grey-market goods usually get products without a factory warranty and do not receive the full benefit of their bargains)

[20] Daniel A. DeVito & Benjamin Marks, *Preventing Gray Marketing Imports After Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, J. PROPRIETARY RTS.2 (May 1998).

a. Historical development

Parallel imports involves the issue as to whether a copyright owner or licensee has the exclusive import right to block the entry of gray market goods. The import right is arguably regarded as part of distribution right because it essentially gives the copyright owner to control not only the sale to a distributor or licensee in a different geographic market, but also the chain of all future distribution to potential parallel importers. However, prior to 2003, Taiwan's Copyright Law failed to enumerate distribution right in the bundle of copyright owner's property rights identified from Article 22 to 29[21]. Instead, the Copyright Law merely defines the act of "distribution" in Article 3 as meaning "the activity of providing the original of a work or its reproduction to the general public for trading or circulating, no matter whether with or without compensation". It then separately confers copyright owners and performers rental right in Article 29.[22] Prior to the 2003 Amendment, the distribution right is implicitly inferred partly from the right to rent under Article 29, and partly from the reproduction right under Article 22, based on the reasoning that reproduction would not have taken place but for the intent to distribute, and that therefore the law providing an exclusive reproduction right is directed to control distribution.[23]

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[21] Taiwan Copyright Law Article 22-29 enumerates eight exclusive property rights: reproduction, public recitation, broadcast, presentation, performance, exhibition, adaption, and rent.

[22] Article 29 of Taiwan Copyright Law provided: "Except as otherwise provided in this Act, authors of works have the exclusive right to rent their works. Performers have the exclusive right to rent their performances reproduced in sound recordings."

[23] *See* Chang, Chong-Hsin, *Review of "Distribution Right" in Copyright Law* 3, *available at* his personal

b. Distribution Right and Parallel Imports in 2003 Amendment

Due to the long-standing criticisms about the Copyright Law's implicit import right, coupled with the failure to enumerate distribution right and the lack of exhaustion doctrine to balance the parallel import restriction[24], Taiwan Legislative Yuan, by referencing to Article 6 of World Intellectual Property Organization Copyright Treaty (WIPO Copyright Act, hereinafter "WCT")[25], Article 8, 12 of The WIPO Performances and Phonograms Treaty (WPPT),[26] and U.S. Section 106 of Copyright Act[27], enacted Article 28*bis* in 2003 which expressly provides distribution right by stating that " except otherwise provided in this Law, authors of works have the exclusive rights to distribute their works through transfer of ownership; Performers have the exclusive right to distribute their

website: http://www.copyrightnote.org/paper/pa0020.doc (last visited May 9, 2007).

[24] Before 2003, many Taiwanese copyright practitioners and scholars have been fiercely criticizing this loophole in Copyright Law.*See, e.g.*, Chang, Chong –Hsin, *Research on Parallel Importation of Copyrighted Goods*, 1998, *at* http:// www. copyrightnote.org (last visited, May 9, 2007); Fong, Cheng-Yu, *Parallel Imports Ban in Copyrighshall BeLifted*, Editorial in COMMERCIAL TIMES, Mar. 13, 1998; and Chang, Kai-Na, *Comments on Parallel Copyrighted Imports Legislation*, MOON SUN LAW JOURNAL 86-93 (1997).

[25] Article 6 of WCT defines the scope of right of distribution as "authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership"

[26] WPPT Article 8 Right of Distribution: "(1) Performers shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their performances fixed in phonograms through sale or other transfer of ownership."

[27] U.S. Section 106 of Copyright Act of 1976 provides: "Subject to section 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:….. (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."

performances reproduced in sound recordings through transfer of ownership."[28] However, this statutory language of distribution right remains controversial since some scholars argue that the scope of distribution right should not be confined to "transfer of ownership", it should also cover public display or the possession of the works with the intent to distribute because those conducts make copyrighted goods accessible to the public as well.[29]

2. Exhaustion Doctrine – "National Exhaustion" under Article 59*bis* in 2003 Amendment

Exhaustion doctrine[30] serves an important limit which extinguishes copyright owner's distribution right to control what the purchaser or future owners might do with the work once the compensation for a copy is already received. It mandates that once a copyright owner makes a first sale, he has exhausted his copyrights embodied in his goods, regardless of whether he received the "full value" from that sale because the continuation of his control would unjustifiably permit him to obtain excessive compensation and deprive the buyer of the freedom to assign his property. Aiming to prevent restraints on trading of property, this doctrine is a primary limitation on the distribution right. Prior to 2003, nevertheless, exhaustion doctrine could only be found in Article 60 of Copyright Law which merely limits

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[28] The legislative record of Article 23*bis* stated that current Copyright Law only protects copyright owner's rental right as part of distribution right, which is insufficient and thus wholesale distribution right should be added. *Available at* the website of Parliamentary Library: http://lis.ly.gov.tw/ttscgi/lgimg?@923402;0003;0168 (last visited May 9, 2007).

[29] *See* Chang, Chong-Hsin, *Comments On Related Regulations of Distribution Right In New Copyright Law*, Vol. 1, Issue 2, NCCU INTELLECTUAL PROPERTY JOURNAL(2004).

[30] "Exhaustion doctrine" is used in Europe while it's also termed as "first sale doctrine" in U.S., meaning copyright owner's distribution right is exhausted after its first sale.

copyright owner's right to rent, conferring the owner of lawful copies, except for the owner of computer program and sound recording, the right to rent them.[31] The exhaustion exemption under Article 60 does not apply to other types of distribution such as sale, lending, bestow, exchange or various sorts of transfer of ownership; therefore, even under Article 60, absent the copyright owner's consent, owners of originals or lawful copies of original works may only rent those copies to a third party, they may not resell or distribute them in other forms. During the 2003 Amendment, with an effort to balance the distribution right which enlarges the scope of copyright, the Legislative Yuan codified exhaustion doctrine in Article 59*bis*, stating that "A person who has acquired ownership of the originals or a lawful copy of the originals within the territory of the Republic of China may distribute it by means of transfer of ownership." National exhaustion doctrine is therefore explicitly adopted. The legislative history[32] suggests that this provision is corresponding to U.S. Supreme Court's decision in

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[31] Article 60 of Taiwan Copyright Law provided: "Owners of originals and lawful copies of original works may rent such originals or copies, yet this shall not apply to sound recordings and computer programs. However, where computer programs are incorporated in products, machinery or equipment legally rented, and not the subject matter of such rental, the proviso in first paragraph does not apply."

[32] After *Quality King*, parallel import issue was brought up on several occasions during a series of meetings between an U.S. delegation and senior Taiwan officials in May 1998. The U.S. delegation is organized by Asia Pacific Legal Institute (APLI) and its members, which included the Honorable Randall R.Rader (Circuit Judge of the United States Court of Appeals for the Federal Circuit), Marybeth Peters (United States Register of Copyrights), Professors Martin J.Adelman of Wayne State University, Charles M. McManis of Washington University, Paul C.B.Liu of APLI, Jerome H.Reichman of Vanderbilt University, Toshiko Takenaka of University of Washington, along with Michael N.Schlesinger (Counsel to the International Intellecutl Property Alliance) and Andy Y. Sun (Associate Director of the Dean Dinwoodey Center for Intellectual Property Studies, The George Washington University Law School). The legality of parallel imports is hotly debated during a Workshop on Trade-Related Aspect of Intellecutl Property Protection, organized by APLI and as a part of the official program

Quality King Distribution Inc. v. L'Anza Research Int'l[33], which adopted exhaustion doctrine and allowed parallel imports as long as they are manufactured in U.S, no matter being distributed or acquired within or outside U.S. In other words, under *Quality King*, even if the work is acquired outside U.S., they can still be imported back to U.S. without copyright owner's consent should they be originally manufactured in U.S (the "round-trip" scenario of parallel importation). However, when interpreting the language "acquired ownership of the originals or a lawful copy of the originals within the territory of the Republic of China" in Article 59*bis*, the exhaustion doctrine here seems to adopt a more stringent standard than *Quality King* by requiring the first sale, not the manufacture of copyrighted goods, to take place "within Taiwan's territory" as a prerequisite in the application of exhaustion doctrine. This means if the first sale took place abroad, and an importer subsequently acquired the lawful copies from an authorized distributor overseas, since copyright owner's distribution right is not exhausted, those imports will be barred even if they are originally manufactured within Taiwan.

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of the 68th Biennial Conference of the Internatinoal Law Association in May, 1998 in Taipei. *See* Andy Y. Sun, *From Pirate King to Jungle King: Transformation of Taiwan's Intellectual Property Protection*, 9 FORDHAM INTELL.PROP. MEDIA & ENT. L.J. 67, notes 151, 152. The *Quality King* decision had apparently generated Taiwanese legislators' and scholars' interests to reexamine the enactment of Article 87(4). Subsequently in the 2003 Amendment, legislative record indicates that the purpose of Article 59*bis* is to balance the relationship between copyright owner's distribute right and lawful copies owner's right to dispose his property. It also specifically stated that the round-trip type of parallel imports is permissible as concluded in *Quality King* decision. *Available at* the website of Parliamentary Library: http://lis.ly.gov.tw/ttscgi/lgimg?@923402;0003;0168 (last visited May 9, 2007).

[33] 523 U.S. 135 (1998)

D. Taiwan's Copyright Law §87 (4)

1. U.S. political influence in the legislative history of §87 (4)

Parallel imports also happen in Patent and Trademark regime, and it's permissible under both Taiwan Patent Law[34] and Trademark Law[35]; yet current framework of Taiwan Copyright

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[34] Taiwan's Patent Law explicitly adopted international exhaustion doctrine since the amendment in 1997. Article 57 of Patent Law provides, in relevant part:

① The invention patent right shall not extend to any of the following circumstances:

……..(6) Where the patented product manufactured by the patentee or under the patentee's consent is used or re-sold after such patented product was sold. The territory where the above stated manufacture or sale is conducted shall not be limited to within this country.

② The user referred to in items 2 and 5 of this article shall confine his continued use of the invention within the existing enterprise only. The territory where one is allowed to sell the patented product stated in item 6 shall be determined by the court based on the fact.

Under this provision, Taiwan Patent Law apparently adopted "international exhaustion doctrine" which allows parallel importation of patented products from a country where the product is manufactured under patentee's consent.

[35] Paragraph 2, Article 30 of Trademark Law of 2003 provided: "Where goods bearing a registered trademark are traded or circulated in the marketplace by the trademark right holder or by an authorized person, or are offered for auction or disposal by a relevant agency, the right holder shall not claim trademark rights on the said goods. However, the aforementioned shall not apply in case of preventing deterioration or damage of goods or any other fair reasons." Even before the amendement on May 28, 2003, it's well settled by conventional wisdom and numerous precedents that parallel imports of trademark products is lawful. In Zuai Kao Fa Yuan 81 Nen Tai Shan Tzu No. 444 Min Shi Pan Jue (No. 444 of Civil Judgment of the Taiwan Supreme Court, 1992), the Taiwan Supreme Court held that where the parallel importation of genuine trademarked goods has same quality as the products marketed by the trademark holder in Taiwan, and incurs no danger of misleading, confusing or concealing the consumers, those imports harm neither the good will of trademark holders nor the interest of consumers, it actually benefit the society by preventing the risk of monopolistic price controlled by trademark holder, thereby facilitates the competition and provides more options for consumers, which does not undermine the aim of Trademark Law, it's therefore not an infringement. Likewise, in 1993, Taipei District Court, one of the biggest District Courts in Taiwan, ruled for defendant in 82 Nen Du Sue Tzu No. 1718 Hsi Shi Pan Jue (No. 1718 of Criminal Judgment of the Taipei District Court, 1993), a case regarding Nintendo computer game. The Court held that "the defendant's computer games at issue are legitimate goods, the trademark on those goods is genuine mark, not pirated trademark, thereby defendant's importation and exportation both do not constitute the infringement of trademark." This judgment is available in the website of Judicial Yuan: http://jirs.judicial.gov.tw/

Law apparently has rather different view from Patent Law and Trademark Law when dealing with this issue. Taiwan's Copyright Law basically prohibited parallel imports after the amendment in 1993, which can be traced back to the fear of potential Special 301 trade sanction imposed by the United States during that period.[36] Under U.S. Trade Act of 1974 (hereinafter "Trade Act"), the violation of intellectual property right is deemed as a type of anti-competitive conduct, and also a violation of Omnibus Trade and Competitive Act that adds "Special 301" to the original Section 301 of Trade Act in 1988. Special 301 is named for its close relationship with the special investigative proceedings under Section 301 of the Trade Act. According to this Act, the Office of the United States Trade Representative (USTR) is empowered to identify "Priority Foreign Country" if a trading partner "has committed the most onerous or egregious acts, policies or practices" in denying "adequate and effective protection of intellectual property rights"[37], or denying "fair and equitable market

[36] Taiwan and U.S. signed a memorandum of understanding in June 1992 requiring the Taiwan Executive branch to make its best efforts to work with the Legislative Yuan for passage of the U.S.-Taiwan Copyright Pact of 1989 by January 31, 1993. However, the Legislative Yuan refused to sign eight provisions, including the provision on creation of import rights, while ratifying this bilateral agreement. To its dismay, U.S. copyright industry thereby recommended USTR that immediate trade sanctions under "Special 301" be imposed on Taiwan. This threat aroused the Exectuive Yuan and the then-ruling party, KMT, to launch a lobby effort in the Legislative Yuan that eventually resulted in the withdrawal of refusion. The ban on parallel imports was accordingly enacted in consistent with the establishment of copyright owner's import rights. *See* Robin Winkler, *Taiwan: Parallel Imports- The Debate Continues*, IP ASIA 5 (Aug. 6, 1993).

[37] 19 U.S.C. 2242 (a)(1)(A): A country "denies adequate and effective protection of intellectual property rights" if it "denies adequate and effective means under the laws of the foreign country for persons who are not citizens or nationals of such foreign country to secure, exercise, and enforce rights relating to patents, process patents, registered trademarks, copyrights and mask works." 19 U.S.C. 2242 (d)(2)

access to United States persons that rely on intellectual property protection.[38]" Once identified as a "Priority Foreign Country", the USTR then initiates an unfair trade practice investigation according to the regular Section 301 procedure. If a violation of a trade agreement is found, the USTR is then authorized to "suspend, withdraw, or prevent the application of, benefits of trade agreement concessions"[39] as a trade sanction. In order to monitor the adequacy of a country's protection of U.S. intellectual property rights, the USTR also creates three other categories in increasing level of seriousness: countries of "Growing Concern" where the concern of U.S. intellectual property protection is just growing, countries on a "Watch List" where U.S. needs to pay special attention because those countries maintain intellectual property barriers to market access., and countries on a "Priority Watch List" whose policies and practices meet some of the criteria for "Priority Foreign Country." Taiwan has been constantly on USTR's hit list since the enactment of the "Special 301" provision.[40] USTR

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[38] 19 U.S.C. 2242 (a)(1) (B): A country "denies fair and equitable market access" if it: effectively denies access to a market for a product protected by a copyright or related right, patent, trademark, mask work, trade secret, or plant breeder's right, through the use of laws, procedures, practices, or regulations which –
(A) violate provisions of international law or international agreements to which both the United States and the foreign country are parties, or
(B) constitute discriminatory non-tariff trade barriers. 19 U.S.C.2242 (d)(3)

[39] See 19 U.S.C. 2411 (c)(1)(A)

[40] According to the USTR's annual report for 2005, Taiwan, along with Argentina, Bahamas, Brazil, Egupt, European Union, India, Indonesia, Korea, Kuwait, Lebanon, Pakistan, Republic of the Philippines, Russia, and Turkey, was listed on the "Watch List." *See* OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, SPECIAL 301 PRIORITY WATCH LIST(2005), *available at* http://www.ustr.gov/assets/Document_Library/Reports_Publications/2005/2005_Special_301/asset_upload_file662_7650.pdf. In 2006, Taiwan remained on the Watch List even if U.S. also recognized Taiwan's efforts to improve its IPR regine, such as increasing the number of seizures of pirated optical media, counterfeit

accordingly insisted that Taiwan needs to prohibit parallel importation of copyrighted works without prior authorization from copyright owner[41]. In response to the tremendous political and economic pressure from U.S., although import right is arguably regarded as an extension of distribution right, and Taiwan Copyright Law back then didn't entitle copyright owner the distribution right, in 1993 the Taiwan Legislative Yuan enacted Article 87, Paragraph 4 which in principle prohibits the parallel importation with very few exceptions outlined in Article 87*bis*, thus implicitly conferred the copyright owner a new import right.[42] Violation of this Article will lead to the confiscation of the excess copies under Article 90 and a maximum two-year imprisonment under Article 93 (3) of 1993.[43]

Article 87 of Taiwan's Copyright Law provided: "Any of the following circumstances

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pharmaceuticals, and prosecution of peer- to- peer internet service Kuro. The 2006 report suggested that the U.S. will continue to call on Taiwan to "strengthen border enforcement against transshipment of pirated and counterfeit goods, consider legislative amendments to address ISP liability, implement stronger criminal penalties for IPR infringement, and extend the term of copyright protection for works and sound recordings." *Available at* http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/2006_Special_301_Review/asset_upload_file190_9339.pdf

[41] WILLIAM P. ALFORD, TO STEAL A BOOK IS AN ELEGANT OFFENSE: INTELLECTUAL PROPERTY LAW IN CHINESE CIVILIZATION 46 (1995).

[42] Some Taiwanese scholars disagree that the prohibition of parallel imports implicitly creates an independent import right for copyright owner, arguing that the right to bar parallel imports is simply supplemental to distribution right because this right can't be independently transferred without the transfer of copyright itself. *See* Chang, Chong-Hsin, *Comments On Related Regulations of Distribution Right In New Copyright Law*, Vol. 1, Issue 2, NCCU INTELLECTUAL PROPERTY JOURNAL（2004）; *see also* LUO MING-TUNG, COPYRIGHT LAW 204 (2004).

[43] Article 93 of 1993 stated that in addition to the prison sentence, a fine of a maimum of five hundred thousand New Taiwan Dollars may be imposed.

shall be deemed as an infringement upon copyright or plate right, unless this Law provided otherwise… (4) import [ing] any originals or [lawful] copies of a work without copyright owner's authorization" In comparison to Paragraph 3 in this Article which prohibits the importation of any "unlawful" copies or pirated works, Paragraph 4 is commonly interpreted as a ban on parallel importation of "lawful" copies.

Yet it is worth noting that back to the year of 1992, one group that exercised particular influence upon the USTR is the International Intellectual Property Alliance (IIPA) which represented eight major copyright organizations and served as a coalition of movie producers, software publishers, and record companies[44]. As part of its lobby efforts, IIPA testified before the U.S. Congress that piracy in Taiwan costs the U.S. motion picture, televisions, sound recordings, publishing, and computer software industries the loss of $669 million in 1992[45], which makes Taiwan the largest violator that year. They also stated that this $669 million loss consisted of approximately $585 million in piracy of computer software. However, in my opinion, since parallel imports are not pirated goods and there is no evidence that people who purchase a pirated good would buy parallel imports if illegal copies were not

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[44] Each year, IIPA's list of offending countries often becomes the basis for US. trade action under Section 301. *See* John Maggs, *Group Releases "Hit List" of Countries Seen as Lax on Copyright Protection*, J.COM. (1993), 2A (1), *available at* Westlaw, JOC dialog database.

[45] Edward G. Durney, *Copyright Law in China and Taiwan*, 367 PLI/ Pat 311, Global Intellectual Property Series 1993: Protecting Trademarks and Copyrights Successful Strategies, Patents, Copyrights, Trademarks and Literary Property Course Handbook Series, Sep. – Oct. 1993 at 9, Practicing Law Institute, *available at* Westlaw, PLI DATABASE (Sep.-Oct. 1993)

available, the justification for a ban on parallel imports should be based on the loss resulted from parallel imports, rather than from piracy. Although the U.S. media estimated two decades ago that sales of parallel imports accounted for approximately six billion dolloars of total retail sales in the United States[46], so far there is no reliable estimate of profits lost from the retail sales of parallel imports in Taiwan. IIPA actually confused the American public and U.S. Congress by failing to establish a trustworthy statistics that proves those parallel imports contributed to this $669 million loss. USTR, as a matter of fact, mistakenly relied on those piracy loss figures to support a conclusion that parallel imports is a primary factor in Taiwan's inadequate protection of U.S. intellectual property rights.[47]

2. Exemptions for parallel imports– Art. 87*bis*, Art. 59*bis* & Art. 60

There are two types of exemptions for parallel imports to enjoy lawful status in Taiwan. One is quantitative exemptions in Art. 87*bis* which allows a certain amount of parallel imports to enter into Taiwan under specific circumstances; the other is exhaustion exemptions under Art. 59*bis* and Art. 60 which, though do not exempt parallel imports themselves, do exempt certain types of distribution after parallel importation, based on exhaustion doctrine. The quantitative exemptions under Article 87*bis* are rather limited; they apply only when the

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[46] *See* Doris R. Perl, Note, *The Use of Copyright Law to Block the Importatino of Gray-Market Goods: The Black and White of It All*, 23 LOY. L. A. L.REV. 646, n. 12 (quoting that the estimates of annual retail sales of parallel imports in 1984 accounted for approximately $6 billion in U.S. domestic retail sales, from Boyer, *The Assault on the Right to Buy Cheap Imports*,Fortune, Jan. 7, 1985, at 89)

[47] The same opinion can be found in Soojin Kim, *In Pursuit of Profit Maximization by Restricting Parallel Imports: The U.S. Copyright Owner and Taiwan Copyright Law*, 5 PAC. RIM L. & POL'Y J. 205, 218 (1995)

imported goods are fewer than "certain amount", and only when they are for governmental use, for the purpose of preserving data in educational, academic or religious institutions, for preserving data in the library, for personal use without the intent to distribute, or when the copyrighted products are attached to lawfully imported commodity or machines.[48] Furthermore, according to "The Meaning of Certain Amount in Article 87*bis*" (hereinafter "The Meaning of Certain Amount") promulgated by the Ministry of Interior Affair, the so called "certain amount" refers to that importers may import no more than one copy when the imports are audio-visual goods intended to be preserved for academic, educational or religious purpose, or for personal use without the intent to distribute. Only when the imports are non-audiovisual goods intended for preserving materials in non-profit academic or religious library can importers be allowed to bring no more than five copies.[49] Consequently,

[48] Article 87*bis* provides: Article 87(4) doesn't apply in the following situations:
(1) Certain amount of copies of work intended to be used by central or local governments, but not including copies for use in schools or other educational institutions, or copies of any audiovisual work imported for purposes other than archival use.
(2) Certain amount of copies of any audiovisual work for archival purposes of an organization operated for scholarly, educational, or religious purposes and not for private gain; copies of any other work for library lending or archival purposes of such organization where use is in conformity with provisions of Article 48.
(3) Certain amount of copies of a work for private use of importer, if such importation is not for distribution, or by any person arriving from outside the territory if such copy forms a part of such person's personal baggage.
(4) Work incorporated into any goods, machinery, or equipment otherwise legally imported where such work cannot be copied during the ordinary operation or use of the goods, machinery, or equipment.
(5) Instructional or operational manual, accompanying any goods, machinery, or equipment otherwise legally imported. However, prohibition applies where importation of such work is an essential object of the act of importation of the goods, machinery, or equipment.

[49] The Taiwan Ministry of Interior Affair in 1993 issued an administrative regulation "The Meaning of Certain Amount in Article 87*bis*" defining the meaning of "certain amount" in Article 87*bis*, which provides : "Certain amount of copyrighted products in article 87bis (2) and (3) means the following: (1) for the importation of

after 1993, no individual may bring into Taiwan more than one copy of any copyrighted work from the United States, unless it's for use in the academic, educational or religious library. Violators are not only subject to criminal penalty[50] but also may be penalized by confiscation of the excessive copies pursuant to Article 90*bis*.[51]

3. Problems of Parallel Imports Ban remained after 2003 Amendment

a. Who qualifies as the claimant remained unclear

Under Taiwan's copyright regime, once an original work is created, the author enjoys two types of copyright - one is his moral rights as to publish the work, to show he is the author, to prevent any revision of the work and destruction of the integrity of his work which might damage his reputation, etc.[52]; those rights are attached to the author's personality, thus may not be assigned. The other is a bundle of property rights as to reproduce, publicly

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audio-visual copyrighted goods intended for preserving them in academic, educational, or religious library, no more than one copy is permissible; (2) for the importation of copyrighted goods other than audio-visual goods intended for the same purpose, no more than five copies are permissible; (3) for the importation of a copy for personal use without the intent to distribute, no more than one copy each time is permissible; (4)imported as a part of individual's luggage, no more than one copy each time is permissible. "

[50] The old version of Article 93 provides, in relevant part, that "[i]n any of the following circumstances, a sentence of up to two-year imprisonment, detention or fine of no more than $500,000 New Taiwan Dollars shall be imposed, or in addition to criminal penalty, a fine of no more than five hundred thousand New Taiwan Dollars…. (2) infringement of another person's property rights by any of the means specified in paragraph 2,3,4,5,6 of Article 87"

[51] Article 90*bis* provides, in pertinent part, that "copyright owner or plate right holder may request custom to confiscate imports or exports that infringe their copyright or plate right"

[52] Article 15 provides the author with the right to publish his work; Article 16 provides the right to name himself as the legitimate author; Article 17 provides that the right to prevent any change of the work which might damage author's reputation.

perform and distribute his work, etc., which are articulated in Art. 22-29, and may be assigned as a whole or in part under Art. 36.[53] An author therefore may assign the distribution right in Article 28*bis* to one person while assigning other exclusive rights to another. Theoretically speaking, there could conceivably be many copyright property owners corresponding to different property rights, yet the ambiguous language of Article 87 leaves unanswered the question of who qualifies as the claimants to sue parallel importers. It appears to me that Article 87 does not limit the potential claimants to the holder of distribution right, yet it is not clear whether the claimants must own all of the rights enumerated in Art. 22-29 to have standing for an action; namely, whether only holder of the right related to distribution has standing; or standing requirement is satisfied as long as a holder owns any of the enumerated rights.

The lastest case in U.S. regarding this issue is *Brilliance Audio, Inc. v. Haights Cross Communications, Inc.*[54], where the 6th Circuirt held that a rental or lease agreement which does not transfer title will not trigger the first sale soctrine and therefore the lessee is not free to sell the leased copy. This suggests that U.S. courts took the position that the first sale doctrine applies only to the distribution right, and does not limit any of the copyright owner's other exclusive rights under Section 106 of Copyright Act of 1976.

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[53] Article 36 of Copyright Law provides, in relevant part: "(1)The property rights of a copyright owner may, in whole or in part, be assigned to another person, or jointly owned with another person; (2) The assignee's property right is confined to the scope of the assignment"

[54] 474 F.3d 365 (6th Cir. 2007).

b. Imbalance of penalty

Another legal issue is the imbalance of penalty on parallel importors and the distributors of those imports. Under Copyright Law of 1993, the violation of Article 87 (4) will lead parallel importers to a criminal liability of up to two-year imprisonment pursuant to Article 93. As a result of video rental industry's lobby efforts, this criminal penalty was eventually abolished in 2003[55]; however, parallel importers remain liable for civil damages pursuant to Article 88. Furthermore, since parallel importation is still regarded as a conduct that infringes copyright, courts accordingly still deemed those imports unlawful copies, thus held that those imports do not qualify for the exhaustion exemption under Article 59*bis* and Article 60, thus could not be rented without copyright owned's consent. Consequently, if one sells, rents or distributes those goods with the knowledge of parallel importation, he is still subject to the criminal penalty under Article 91*bis* (2)[56] and Article 92[57], and may be held

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[55] The new Article 93 of 2003 eliminated the criminal liability for violation of Article 87,Paragraph 4

[56] Article 91*bis* provides: "(1) A person who infringes the property rights of another person by distributing the original of a work or a copy by transfer of ownership is subject to imprisonment for no more than three years, detention, or in addition to the criminal punishment, a fine no more than seven hundred and fifty thousand New Taiwan Dollars. (2) A person who distributes, publicly displays or possesses copies with the intent to distribute, with the knowledge that the copies infringe on another person's copyright, is subject to imprisonment for no more than three years, detention, or in addition to the criminal punishment, a fine no fewer than seventy thousand and no more than seven hundred fifty thousand New Taiwan dollars."

[57] Article 92 provides: "A person who, with the intent to profit, infringes on the property rights of another person by means of public recitation, public broadcast, public presentation, public performance, public transmission, public display, adaptation, compilation, or leasing" shall be punished by imprisonment for no more than three years, detention, or in addition to the criminal penalty, a fine of no more than seven hundred and fifty New Taiwan Dollars.

civilly liable[58] as well. This in effect creates an ironic situation in which parallel importers themselves are not criminally punishable while distributors of parallel imports are nonetheless both criminal and civially liable for knowingly distribute those lawful copies.

Furthermore, distributors of parallel imports are subject to the maximum of three-year imprisonment under Article 91*bis* (2), which is heavier than the importation of pirated copies, which is only punishable up to two year imprisonment under Article 93(3). This suggests that Taiwan's Copyright Law views parallel imports more condemnable than pirated copies, which ignores the fact that pirated goods are the real source of copyright owner's financial loss as well as the substantial obstacle which undermines the objective of Copyright Law in promoting the progress of culture. In my view, 2003 Amendment failed to address these issues and left many controversial legal problems remain unresolved.

CHAPTER III

PARALLEL IMPORTS UNDER INTERNATIONAL INTELLECTUAL PROPERTY TREATY, U.S. LAW AND TAIWAN LAW

A. Exhaustion doctrine under TRIPs & WCT

The rule governing parallel imports is not uniform either within the international legal

[58] Taiwan Supreme Court held in Zuai Kao Fa Yuan 85 Nen Du Tai Shan Tzu No. 5500 Hsi Shi Pan Jue(No. 5500 of Criminal Judgment of the Taiwan Supreme Court, 1996) that since parallel imports are not authorized to import to Taiwan, and constitute infringement of copyright owner's property rights under Article 87, they are still regarded as unlawful copies, therefore, if a third party knowingly acquires those copies, he does not qualify as "the owner of original works and lawful copies of works", thereby does not enjoy the exhaustion exemption under Article 60.

community or within the United States. Berne Convention does not provide a wholesale distribution right to all types of copyright owners[59], neither does it stipulate that the importation of lawful copy of original copyrighted work should be banned. In addition, neither WTO's agreement in Trade Related Aspects of Intellectual Property Rights (hereinafter "TRIPs Agreement[60]") nor World Intellectual Property Organization Copyright Treaty (WIPO Copyright Treaty, hereinafter "WCT") requires Member States to adopt exhaustion doctrine. Article 6 of TRIPs states, in pertinent part, that "[f]or the purpose of dispute settlement under this Agreement ….. nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights.[61]" It appears that WTO Member States participating in the Uruguay Round negotiations were unable to agree on how to treat parallel imports and deal with exhaustion. TRIPs thus expressly refused to address the issue of gray market goods, and instead, leave this issue up to the discretion of each WTO member. The Doha ministerial meeting declaration (hereinafter "Doha Declaration")[62] in

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[59] Article 14 of Berne Convention simply confers distribution right to the author of literary or artistic work for authorizing the distribution of cinematographic production or reproduction of the original work. The statutory language provides, in relevant part: "(1) Arthur of literary or artistic works shall have the exclusive right of authotizing: (i) the cinematographic adaption or reproduction of these works, and the distribution of the works thus adated or reproduced; (ii) the public performance and communication to the public by wire of the works thus adapted or reproduced."

[60] Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the WTO, Annex 1C, Legal Instruments - Results of the Uruguay Round vol. 1 33 I.L.M. 81 (1994)

[61] *Id.*

[62] DECLARATION ON THE TRIPS AGREEMENT AND PUBLIC HEALTH (Nov. 14, 2001), Doc. WT/MIN (01)/DEC/2 (Nov. 20, 2001), *available at* WTO website: www.wto.org.

2001 further confirmed this position by declaring that "[t]he effect of the provisions in the TRIPs Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Article 3 and 4."[63] A member state is therefore free to choose international, regional or national exhaustion doctrine. Nevertheless, as the Doha Declaration indicated, no matter what measure a country adopts to deal with parallel imports, it is still subject to both the national treatment and most favored nation treatment principles.[64] It turned out that currently each country adopts different standard to resolve parallel imports cases based on their own policy concerns.

Likewise, Article 6 (2) of WCT provides "[n]othing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original of a copy of the work with the authorization of the author." Apparently both TRIPs Agreement and WCT have no intent to provide protection for copyright owners against parallel imports. The underlying reason appears to be political, based on the fear among signatories that doing so would assist multinational enterprises, mostly from developed

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[63] *See* Doha Declaration §5. The ministerial declarations within the WTO are not legally binding, and in the event of a conflict between the treaties and declaration, the treaties would prevail. Doha Declaration is primarily interpretive of imprecise language in TRIPs, and does not appear to contracdict any textual provision, therefore, it is likely to be persuasive authority in the interpretation of TRIPs.

[64] International Copyright Law and Practice 3[1][a][i]. *See* Alexander A. Caviedes, International Copyright Law: Should the European Union Dictate its Development? 16 B.U. INT'L L.J. 165, 171-72 (1998)

countries, in engaging in global market division, price discrimination, and other anti-competitive or imperialistic practices.

B. Parallel Imports under U.S. Law- Copyright Act of 1976

In my opinion, parallel imports are hotly-debated over years in U.S. due to two conflicts. First is the policy concern regarding the inherent conflict between traditional copyright principle, which purports to promote cultural progress by rewarding copyright owner the exclusive right to enjoin parallel imports, and the free trade theories, which encourage the free flow of cross-border trade, thus support the legality of parallel imports. The other conflict arises from the statutory language of Copyright Act itself. Under U.S. Copyright Act of 1976, parallel imports involve three provisions: the distribution right under Section 106 (3), the import right under Section 602 (a), and the exhaustion doctrine codified in Section 109 (a).

Section 106 of the Copyright Act of 1976 enumerates five exclusive rights: reproduction, adaptation, distribution, public performance, and display[65]. Under Section 106(3), copyright owners are given the exclusive right to distribute copies to the public. This right guarantees that copyright owners determine when, where, and if the distribution of the copies occur. Nevertheless, once copyright owners have authorized the distribution of a particular copy, their right to control distribution of that copy vanishes due to the limitation of exhaustion

[65] 17 U.S.C. §106 (1994)

doctrine in Section 109(a).

The legal issue of parallel imports arises from whether Section 602 (a), which confers copyright owners the right to bar imports, is an extension of a copyright owner's distribution right which is limited by exhaustion doctrine under Section 109 (a) just as other exclusive rights, or it functions distinctively from the distribution rights and is thereby free from the limitation of exhaustion doctrine? In view of a series of U.S. courts' decisions, the answer rests on whether exhaustion doctrine in Section 109 (a) is applicable to parallel imports lawfully obtained outside the U.S.[66]

Absent a uniform rule regarding parallel imports as well, the U.S. courts split on interpreting the copyright statutes by stressing different policies, leaving the area of gray market goods a complicated issue intertwined between territorial and exhaustion doctrine.[67]

1. Section 106 (3) Distribution right & Section 602 (a) Import right

Copyright owners are granted the distribution right under Section 106 (3), which confers them the exclusive right to "distribute copies or phonorecords to the public by sale or other transfer of ownership, or by rental, lease or lending."[68] The purpose of this distribution

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[66] *See Columbia Broadcasting System v. Scorpio Music Distributors*, 569 F. Supp. 47 (E.D.Pa. 1982); *Sebastian International, Inc. v. Consumer Contacts (PTY), Ltd.*, 847 F.2d 1093 (3rd Cir. 1988); *Quality King Distributors, Inc. v. L'anza Research Intl. Inc.*, 523 U.S. 135 (S.Ct. 1998). These cases will be discussed in the subsequent sections.

[67] In view of the *Scorpio*, *Sebastian*, and *Quality King* decisions, U.S. courts are struggling as to whether copyright is exhausted within a certain territory, or exhausted globally once first sale is done.

[68] 17 U.S.C. § 106 (3) provides: "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:…. (3) to distribute copies or phonorecords

right, as limited by exhaustion doctrine, is to give copyright owners the right to control the first public distribution of a copy. Section 602 (a) further provides copyright owners the right to bar the importation of copyright works without their consents. It specifically stipulates that "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 Sates, is an infringement of the exclusive right to distribute copies or phonorecords under section 106." Interpreting from the language of Section 602 (a), supporters of parallel imports advocate that the right to bar imports is an extension of a copyright owner's distribution right, thus should be, by implication, subject to the exhaustion doctrine which overall limits the distribution right.[69]

2. Section 109 (a)– Exhaustion Doctrine

a. Exhaustion Doctrine and Import right under U.S. Law

In U.S., the exhaustion doctrine is developed through a series of cases. The first one is *Bobbs-Merrill Co. v. Straus*[70] where the plaintiff, a copyright owner of a book, put a notice of copyright infringement in the book, stating that the resale of that book for less than one dollar constituted copyright infringement. The defendant purchased copies of the book

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of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending…."

[69] *See* Maureen M.Cyr , *Notes & Comments : Determining The Scope of a Copyright Owner's Right to Bar Imports: L'anza Research International, Inc. v. Quality King Distributors*, 73 WASH. L. REV. 81, 85 (1998). Maureen indicated that "the distribution right is primarily a right of first publication…. Thus, after the first sale, the distribution right has served its purpose and further control over distribution is unjustified." *Id.* at 86.

[70] 210 U.S. 339 (1908)

to resell at the retail level and sold some below one dollar. The U.S. Supreme Court there ruled that "the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose, by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract."[71] By saying so, the U.S. Supreme Court expressly drew the line between the copyright embodied in the original work, and the property right owned by the purchaser of the originals, and thus established a foundation for exhaustion doctrine.

After a couple of decades, in 1959, exhaustion doctrine is again touched in *United States v. Wells*[72]where the key issue lies in whether exhaustion doctrine applies to copyright owner's license agreement that authorized an oversea licensee to reproduce the original work, and whether the protection of the copyright law extends to the transfer of copies belonging to a lawful licensee of copyright owner. The U.S. District Court for the Southern District of Texas reasoned that "[w]henever the copyright proprietor parts with title to a particular copy, the incident of his statutory monopoly having been exhausted by the exercise of the power of sale, is extinguished;….. that copy is no longer under the copyright law insofar as the purchaser's right is concerned"[73] The Court further affirmed that exhaustion doctrine does

[71] *Id.* at 351.

[72] 176 F. Supp. 630 (D.Tex. 1959)

[73] *Id.* at 633.

apply to license agreement, ruling that when the title of copies passed to the first purchaser, the copyright owner can only resort to breach of contract remedy against its licensee, rather than rely on copyright infringement, to enforce any restriction on the transfer of copies embodied in the license.[74]

The Exhaustion Doctrine is later codified in Section 109 (a), which provides that "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." Under exhaustion doctrine, once the copyright owner has authorized the sale of a particular copy, he/she exhausts the right to control subsequent distribution of that copy, and the buyer is free to distribute or assign that copy. The purpose of exhaustion doctrine is to prevent copyright owner from controlling the alienation of the lawful copies since under property law, the owner of lawful copies is entitled to dispose of those copies at his will. In light of parallel imports, the conflict arises because barring importation of copyrighted work after its first sale amounts to imposing a restriction on a lawful buyer's future distribution, which apparently would undermine the purpose of exhaustion doctrine.

b. Exhaustion Doctrine and Vertical Restraint under U.S. Antitrust law

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[74] *Id.* at 634.

Copyright owner's imposition of territorial restrictions on distributors might additionally implicate some antitrust concerns, especially when the owner has significant market power.[75] Since exhaustion doctrine bars copyright owners from restraining intra-brand competition among different sellers of the same product, it essentially prevents copyright owners from imposing vertical restraints, either price or non-price (such as territorial restrictions and exclusive dealing), on its licensees.

Under U.S. Sherman Act, the vertical minimum resale price maintenance is per se illegal[76] because it creates the danger of facilitating a cartel. I believe exhaustion doctrine is in line with U.S. antitrust law in this sense because they both prevent copyright owners from imposing restraints on vertical resale price and controlling the future distribution of its copies.

3. U.S. Case law regarding the conflict between §602 (a) and §109 (a)

a. "The location of manufacture and sale" standard – *Scorpio*

Another case which raised this legal challenge between §602 (a) and §109 (a) of

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[75] A recent case from Australia, for example, major music labels were found liable for misusing their market power when they tried to prevent parallel importation of CDs after an amendment to the copyright act that specifically allowed such imports, *see Australian Competition & Consumer Commission v. Universal Music Australia Pty Ltd.* (2001), 115 F.C.R 442. On appeal, the Australia court reversed the decision with regard to the misuse of market power but upheld the defendant music labels' liability under the exclusive dealing provisions of the Trade Practices Act; see *Universal Music Australia Pty Ltd. v. Australian Competition and Consumer Commission*, [2003] F.C.A.F.C. 193

[76] The U.S. Supreme Court in *Business Electronics Corp. v. Sharp Electronics Corp*., 485 U.S. 717 (1988) held that "[a] vertical restraint is not illegal per se unless it includes some agreement on price or price levels." *Id.* at 735-736.

Copyright Act was *Columbia Broadcasting System v. Scorpio Music Distributors*[77], In *Scorpio*, the copyright owner sued to enjoin the importation of phonorecords which was originally manufactured by his exclusive licensee in Philippine, but later imported to the U.S. without his consent. The Court reasoned that the phrase "lawfully made under this title" in §109 (a) suggests that exhaustion doctrine only applies to copyrighted goods legally manufactured and sold "within the U.S.", thus copyright owner's distribution right is not exhausted if the copies are made or first sold abroad. The Court thereby enjoined the importation in this case since the imports here were first manufactured and sold in Philippine. *Scorpio* court regarded the location of imported copies' manufacture or first sale as the key factor as to whether exhaustion doctrine applies, thus limit the scope of §109 (a) by §602 (a).[78]

b. "The identity of first seller" standard – *Sebastian*

Scorpio standard has subsequently been disregarded by the 3rd Circuit in *Sebastian International, Inc. v. Consumer Contacts (PTY), Ltd.*[79], where the copyright owner alleged that the re-importation of hair product with copyrighted label by defendant, a South African corporation which entered into a contract with plaintiff to distribute the copies exclusively in South Africa, yet ended up reshipping them back into the United States,

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[77] 569 F. Supp. 47 (E.D. Pa. 1982).

[78] The Court stated that "construing §109 (a) as superseding the prohibition on importation set forth in the more recently enacted §602 would render § 602 virtually meaningless." *C.B.S. v. Scorpio*, 569 F. Supp. 47, at 49.

[79] 847 F.2d 1093 (3rd Cir. 1988)

violated plaintiff's import right under §602 (a). The Third Circuit ruled that the identity of the first seller, rather than the location of the imported copies' manufacture or first sale, determined whether a copyright owner can bar imports under §602 (a). The Court concluded that when a copyright owner, rather than a licensee or a third party, makes the first sale, he or she exhausts the right to bar importation of that copy regardless of where the manufacture or sale takes place because an adequate reward has already been received from first sale. The *Sebastian* court suggested that exhaustion doctrine would not apply to a situation where a "licensee", rather than copyright owner, made the first sale of copies of a copyrighted product within U.S., thus if for some reason, those products are resold abroad, then reshipped back to the U.S., copyright owner can still enjoin the reshipment of that copy even if it's domestically manufactured. The Ninth Circuit took this reasoning and further viewed the import right under §602 (a) superseding §109 (a) exhaustion doctrine in *Quality King Distributors, Inc. v. L'anza Research Intl, Inc.*[80]

c. § 602 (a) is limited by §109 (a) - *Quality King*

Noting the widespread debates over these two provisions as to the legality of parallel imports, in 1998 the United States Supreme Court rendered a landmark opinion in *L'Anza Research International v. Quality King Distributors*[81] which vacated the Ninth Circuit's decision and determined that, in view of the statutory framework of § 602 (a), §106

[80] 98 F.3d 1109 (9th Cir. 1996)

[81] 523 U.S. 135 (1998).

(3) and § 109 (a), §602 (a) is in essence construed to be limited by exhaustion doctrine as other exclusive rights in §106. *Quality King* involves L'Anza, a copyright owner which manufactured hair care products with copyrighted label in the U.S., sued Quality King, alleging that Quality King, by importing its products with copyrighted label initially sold to United Kingdom for exclusive distribution, violates its distribution right in the absence of its permission. The U.S. Supreme Court noted that "[a]fter the first sale of a copyrighted item lawfully made under this title, any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an owner of that item…. §109 (a) unambiguously states that such an owner is entitled, without the authority of the copyright owner, to sell that item……The literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L'anza's products who decide to import them and resell them in the United States."[82] The Court further concluded that Quality King therefore could use the exhaustion doctrine as a defense in this case.[83] It is therefore clearly recognized by the Supreme Court that an owner of copyrighted goods lawfully made "under the Copyright Act" was entitled to the protection of exhaustion doctrine under §109 (a) "even if the first sale occurred abroad". In other words, first sale doctrine is triggered regardless of where the authorized first sale occurs, as long as the copies were "lawfully made" in the U.S. This decision seems to suggest that Supreme Court is in favor of international exhaustion doctrine as opposed to national exhaustion.

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[82] *Id.* at 145.

[83] *Id.* at 145, 153-154

However, in my view, the first loophole in this decision is that the Supreme Court didn't rule on the importation of copyrighted goods "manufactured" abroad in its application of exhaustion doctrine, it only concluded that exhaustion doctrine still applies even if the first sale takes place abroad.[84] Most U.S. courts[85] nowadays interpretes *Quality King* as to mean that only a lawful first sale of "U.S.-made" goods exhausts the copyright owner's exclusive distribution right. In other words, if the lawful copies are foreign-made, copyright owner retain the control over the distritbution of those foreign-made copies even after they are subsequently legally sold in the U.S. because first sale doctrine is not triggered and his right is not exhausted. This essentially gives copyright owners of forign-made goods greater protections than those of American-made goods, which does not make much sense. Furthermore, *Qulity King* Court did not addresss the issue of whether Section 602 (a) creates a right of importation that is distinct from distribution right under Section 106 (3). It is thus not clear whether *Quality King* represents U.S. Supreme Court's wholesale acceptance of parallel importation[86].

Interestingly, noting that the Executive Branch has entered into five international trade agreements with other countries[87] to protect domestic copyright holders from

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[84] As Justice Ginsburg stated in her concurring opinion: "We do not today resolve cases in which the allegedly infringing imports were manufactured abroad." *Id.* 154

[85] *See Swatch S.A. v. New City,Inc.*, 454 F. Supp.2d 1245 (S.D. Fl. 2006)

[86] Ariel Katz, *A Network Effects Perspective On Software Piracy*, 55 UNIV. OF TORONTO L.J. 155, note 93.

[87] Such agreements have been made with Cambodia, Trinidad and Tobago, Jamaica, Ecuador, and Sri Lanka. *Quality King*, 523 U.S. 135, 154.

unauthorized importation, the Supreme Court also touched international trade issue in this case, yet refused to explore this issue in further detail, and decided that those agreements are irrelevant in interpreting these provisions under 1976 Copyright Act.[88]

CHAPTER IV

COMPARITIVE STUDY OF TAIWAN AND U.S. COPYRIGHT LAW, AS WELL AS THEIR INTERNATIONAL TRADE POLICY

As a small island which heavily relies on the imports and exports of hi-tech products (especially semiconductors, chips, computer software, LCD monitors) as its comparative advantage in the global market, there is no doubt that international trade plays a significant role in shaping Taiwan's economy. Taiwan's international trade policy concerns thus inevitably come into play when it comes to parallel imports of copyright goods. The intellectual property industry now increasingly enjoys a tremendous boom in Taiwan. Nevertheless, just like the U.S., Taiwanese multinational corporations that distribute its goods as a copyright owner also encounter the direct conflict between free trade theory and copyright owner's exclusive import right. The concept of free trade focuses on the reduction of trade barrier while the idea of copyright is based on conferring copyright owner a bundle of exclusive rights in order to stimulate incentive for innovation. After Taiwan's accession to

[88] The Supreme Court said those agreements "shed no light on the proper interpretation of a statute enacted in 1976". *Id.*

WTO, those exclusive rights, such as the right to bar parallel imports, could possibly result in trade barrier which represents protectionism and might be challenged by other WTO Members.

A. Free Trade Theory and Copyright

Traditional free trade theory is based on an economic analysis that the world, as well as each country, would be better off with the free movement of normal goods because the price of goods could therefore be closest to the lowest marginal cost as a result of increased supply, the consumer cost could be minimized, and each nation can be benefited by the elimination of trade barriers because the consumer welfare is maximized. In light of intellectual property rights, a larger market, as a product of free trade movement, can also lead to more intellectual products because it creates incentive for the global industries to produce them. Today, copyrighted goods already accounts for a significant and growing segment in the flow of international trade. The goods and licenses supplied by copyright industries are highly exportable commodities, and copyright holders can also increase their revenue and market appeal through free trade agreement. However, if copyright industries are to benefit from a larger market, the provisions in free trade agreements concerning copyrighted goods have to align with the goal of free trade.

B. Conflict between Free Trade and Copyright

1. Different economics of copyrighted products as opposed to normal products

The traditional free trade theory assumes that by establishing a free trade regime, the price of goods will be reduced close enough to the marginal costs; therefore benefit the world's consumers in the form of lower price. Trade in copyrighted products, nevertheless, is different from trade in "normal" products. The unique feature of copyright products is that it usually requires a substantial production cost in their development or creation, but once being created, copyrighted products could thereafter be reproduced at relatively low marginal cost. The most obvious examples are movies, computer data, and software, whose creations require tremendously expensive investment, but the reproduction of whom is essentially costless. Therefore, even with the free trade agreement in place, the royalty arrangements between a copyright licensor and his licensees does not necessarily make the retail price of copyrighted goods fall toward marginal cost. The market price of copyrighted goods will probably still be significantly higher than marginal cost; in fact, it is the ability to sell these products above marginal cost that stimulates the incentive for intellectual creativity and invention[89].

2. Different stance between free trade theory and copyright principle in view of parallel imports

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[89] *See* Julie E. Cohen, *Takin Stock: The Law and Economics of Intellectual Property Rights: Copyright and the Perfect Curve*, 53 VAND. L. REV. 1799 (2000), explaining that "[T]he access restrictions [in Copyright Law] enable copyright owners to charge prices above the marginal cost of producing additional copies of their works. The result is that there are consumers who want to purchase copies of the work, but are only willing (or able) to do so at a price lower than the monopoly price but higher than the work's marginal cost. Scholars have termed this effect--the "deadweight loss" created by copyright law."

The economics of parallel imports presents some of the most complex challenge to itnernaitonal trade system. There are very little empirical research conducted, and it is extremely difficult to quantify the benefits and costs attributed to parallel imports in international trade. Under traditional free trade theory, when it comes to parallel imports issues and the scope of first sale / exhaustion doctrine, international exhaustion doctrine, rather than national exhaustion doctrine, is definitely more desirable for the purpose of facilitating international trade. A tension between free trade theory and copyright principle in viewing parallel import thus arises from the danger that prohibiting parallel imports be deemed as a trade barrier which undermines the aim of free trade agreement and WTO.[90] One possible argument to justify the ban of parallel imports under free trade scheme could be the application of cultural exceptions[91], which exist virtually in all trading agreements and allow a country to impose restrictions upon the trade of goods involving that country's

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[90] As Frederick Abbott of the International Trade Law Committee (ITLC) states "the premise [is] that restrictions on the free movement of goods and services legitimately placed on the world market are inconsistent with the underlying objective of the GATT-WTO system." He even bluntly argues that: "In light of the inherent tension between IPR-based territorial restrictions and the rules of the GATT 1994... promoting the free movement of goods and services, it may be necessary to give priority to one set of values over the other. It is suggested here that the WTO Agreement places a priority on the liberalization of markets... as opposed to strict neutrality or a converse presumption." *See* Frederick M. Abbott, *Discussion Paper for Conference on Exhaustion of Intellectual Property Rights and parallel Importation in World Trade 3* (Draft Paper for Conference on Exhaustion of Intellectual Property Rights and Parallel Importation in World Trade, Geneva, Switzerland) (November 6-7, 1998).

[91] Some commentators nevertheless argue that cultural exclusions severely limit, even prohibit cultural industries from competing in a free trade area and advocate a ban on cultural exceptions. *See* Stacie Strong, *Banning The Cultural Exceptions: Free Trade and Copyrighted Goods*, 4 DUKE J. COMP. & INT'L L. 93. (1993)

culture.

Based on this analysis, I believe, unlike the traditional free trade theory which is based on the economics of "normal" product, we need to use different approach in determining whether the world is better off with the free trade of copyrighted products. We have to ask whether an exclusive right, such as import right, offers a favorable trade-off between price cost to consumers (enhanced price in the short term) and innovation benefit to consumers. (enhanced innovation incentives in the long run). The economics of copyright products will be discussed in subsequent chapter.

C. The U.S. International Trade policy and Taiwan's Copyright Law

The United States, as Taiwan's third biggest trading partner in 2004[92], increasingly relies on copyright products to support its own economy.[93] On the one hand, with the trend of globalization and free trade agreement (such as North America Free Trade Area, World Trade

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[92] According to the latest statistics of Taiwan Bureau of Foreign Trade, the total amount of trade between Taiwan and U.S. in 2004 is 49.7 billion U.S. dollars, accounts for approximately 14.6 percent of the total amount of Taiwan's foreign trade, which is next to Japan and mainland China. *Available at* http://cus93.trade.gov.tw/fsci/ (last visited May 9, 2007)

[93] Take U.S. computer software for example, according to Nathan Associates, Inc.'s forecast, in 2005, the U.S. software industry has the potential to reach a size that should contribute a total of 1,030,500 jobs in direct employment to the global economy, and $25 billion in total tax revenue generated by federal and state corporate income taxes. *Available at* http:// www. bsa.org/usa/press/newsrelease/upload/contributions-of-the-Packaged-Software- Industry- to –The-Global-Economy. Pdf (last visited ?). In addition, by 2000, the value-added contribution of core software industry was second highest among all manufacturing and services industries, adding $125.5 billion to the U.S. economy. In 2002, the software industry contribution was estimated $130.1 billion, 77% above the contribution in 1997. *Available at* http://www.bsa.org/usa/research/upload/SoftwareandUS-Economy-2002.pdf (last visited May 9, 2007).

Organization), the market of U.S. copyright industries is extended to the global platform, and copyright owners gain more profits by extensively license or sell their products abroad, which makes more copyrighted goods available for the consumers all over the world; on the other hand, nevertheless, parallel imports resulted from free trade would potentially undermine U.S. copyright owner's global market segmentation and business strategy.

The U.S. has been evaluating the possibility of launching a free trade agreement with Taiwan since Taiwan's accession to the WTO in 2002. Prior to joining WTO, Taiwan was the 8th largest U.S. trading partners, ranked 10th in terms of U.S. exports and 8th in terms of U.S. imports for consumption in 2001.[94] The U.S. also maintained long term trade deficit with Taiwan growing from $13.6 billion in 1997 up to a peak of $18 billion in 2000.[95] Over the past decades, nevertheless, U.S. copyright goods exporters are frustrated with the proliferating piracy in Taiwan. The White House therefore linked the trade deficit with the piracy problem and pressured Taiwan government each year to improve its copyright enforcement through the trade sanction authorized under Section 301, as mentioned above in Chapter I (D)(1). Given the fact that the U.S. trade deficit with Taiwan in 2004 is still as high as $12.9 billion[96], the U.S. government continued to conduct its trade relationship with

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[94] *See* International Trade Commission, U.S-Taiwan FTA: Likely Economic Impacts of a Free Trade Agreement between the United States and Taiwan, Investigation no. 332-438, USITC Publication 3548, 3-1 (2002)

[95] *Id.* at 3-4.

[96] *See* UNITED STATES INTERNATIONAL TRADE COMMISSION, 56TH REPORT: THE YEAR IN TRADE 2004: OPERATION OF THE TRADE AGREEMENTS PROGRAM(USITC publication 3779) 1-13 (July 2005), p. 1-13, *available at* http://hotdocs.usitc.gov/docs/pubs/year_in_trade/pub3779.pdf

Taiwan based specifically on whether its concerns with regard to Taiwan's copyright law enforcement, and trade in counterfeit goods has been fully addressed.[97]

Taiwan signed a bilateral copyright agreement with the U.S. in 1989, the "Agreement for the Protection of Copyright between the Coordination Council for North American Affairs (CCNAA) and the American Institute in Taiwan (AIT)." (hereinafter "U.S.-Taiwan Copyright Pact of 1989"[98]). Article 14 of this Agreement empowers copyright owners to block parallel imports, therefore was used by AIT to back up its arguments in support of the import right during the Copyright Law Amendment legislative process in 1992.[99] AIT's arguments included (1) the import right is important to international trade, and available in developed economies such as Germany and the U.S.; (2) the import right will also benefit licensees in Taiwan in distributing copyrighted work since under Taiwan's Copyright Law, exclusive Taiwanese licensees are entitled to sue parallel importers just as a copyright owner does; (3) the import right is an important part of bilateral concessions upon which this Agreement is based, and thus should be honored.[100] It appears that AIT based its aforementioned

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[97] *Id.* at 1-9.

[98] Due to the sensitive political issue as to whether Taiwan is an independent country or a part of China, this Agreement is reached in the form of representative office between Taiwan and U.S. rather than an intergovernmental form.

[99] Article 14 of this Agreement states, in relevant part: "(1) Infringing copies of a work …. An infringing copy …… including a copy which is imported into the territory represented by either Party where, if made in such territory by the importer, would constitute an infringement of the copyright."

[100] *See* THIRD QUARTERLY REVIEW OF THE JUNE 1992 INTELLECTUAL PROPERTY RIGHTS (IPR) UNDERSTANDING BETWEEN THE AMERICAN INSTITUTE IN TAIWAN (AIT) AND THE COORDINATION COUNCIL FOR NORTH AMERICAN AFFAIRS (CCNAA) (held in Washington, D.C., 133 on Mar. 8-12, 1993) (hereinafter AIT/CCNAA IPR Quarterly

arguments on the premise that copyright law is aimed to facilitate international trade. This is, however, not recognized as the goal for both Taiwan's Copyright Law, as well as U.S. Copyright Act.[101]

Even if copyright law does, to some extent, purport to promote international trade, it remained unresolved as to the questions of: (1) how the creation of the import right can serve the purpose of facilitating international trade; (2) whether copyright is really the appropriate approach to balance the need of free trade and the need to provide just compensation for copyright owners.

D. Taiwan's International Trade Policy and its Copyright Law

According to the latest statistics from the WTO, Taiwan was ranked the world's 15th major import nation, as well as 15th major trading nation[102], and its foreign reserve has increased 17.3% in 2004.[103] There is little doubt that Taiwan has been developing its economy primarily in reliance on international trade. However, the policy concern regarding international trade, as a practical matter, put Taiwan government into a painful dilemma when dealing with parallel imports. On the one hand, Taiwan's commitment to be a WTO member

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Consultations)

[101] Article 1 of Copyright Law provides: "This Law is enacted with the goal to protect copyright owner's interests, to mediate public interests, and to promote cultural development in this nation."

[102] *See* WTO website: http://www.wto.org/english/res_e/statis_e/its2005_e/section1_e/i05.xls (last visted May 9, 2007)

[103] Statistics are available at the website of Bureau of Foreign Trade, Taiwan Ministry of Economics. http://ekm92.trade.gov.tw/BOFT/ekm/browse_db/OpenFileService_CheckRight.jsp?file_id=48119&context=sql server

presumably support its adoption of international exhaustion doctrine as a means to eliminate trade barrier and facilitate free movement of intellectual products; on the other hand, the huge pressure from U.S. trade sanction forced Taiwan to choose national exhaustion doctrine instead, since Taiwan still heavily depends on the exports to U.S. in support of its own economy.[104] Obviously Taiwan has a bigger economic stake in maintaining trade relations with the United States than the United States does with Taiwan, and this susceptibility to the U.S. threat explains why Taiwan Legislative Yuan would rather twist its Copyright Law in order to meet the demand from U.S even if it initially reserved its ratification of Article 14 of the U.S.-Taiwan Copyright Pact,[105] and the Ministry of the Interior simultaneously suggested that Copyright Law is not the proper forum for banning parallel imports.[106]

E. The inconsistency of Article 87(4) with WTO rules

The restrictions on parallel imports could be a substantial trade barrier. Art. XI of GATT provides that "No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be

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[104] Taiwan exported products worth of $6.1billion to U.S. in January 2006. http://ekm92.trade.gov.tw/BOFT/ekm/browse_db/OpenFileService_CheckRight.jsp?file_id=55662&context=sql server

[105] The Legislative Yuan's reservation states that the import of "legal" copyrighted works shall not be banned, noting that "since the bilateral agreement [with U.S.] does not provide an import right or a distribution right, the importation of legal copyrighted works will not infringe the author's copyright.. .. if the TRIPs agreement is amended to provide an import right and distribution right, the Legislative Yuan will consider amending the copyright law to provide those rights. " *See* AIT/CCNAA IPR Quarterly Consultations.

[106] *See* Robin Winkler, *Taiwan: Parallel Imports – The Debate Continues*, IP ASIA, Aug. 6, 1993, at 5.

instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party." (Quantitative restriction) In light of parallel imports ban in Copyright Law, through the interpretation of Article 87*bis* and "The Meaning of Certain Amount in Article 87*bis*", only a certain amount of parallel imports may legally enter into Taiwan, which may constitute quantitative restriction prohibited per se under GATT Art. XI, unless it qualifies general exceptions in Article XX[107] or security

[107] Article XX of GATT 1994 provides : "Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevails, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: (a)necessary to protect phblic morals; (b) mecessary to protect human, animal or plant life or health; (c) relating to the importations or exportations of gold or silver; (d) necessary to secuire compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to customs enforcement, the enforcement of monopolies operated under paragraph 4 of Article II and Aricle XVII, the protection of patents, trade marks and copyrights, and the prevention of deceptive practices; (e) relating to the products of prison labour; (f) imposed for the protection of natural treasures of artistic, historic or archaeological value; (g)relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption; (h) undertaken in pursuance of obligations under any intergovernmental commodity agreement with conforms to criteria submitted to the CONTRACTING PARTIES and not disapproved by them or which is itself so submitted and not so disapproved; (i) involving restrictions on exports of domestic materials necessary to ensure essential quantities of such materials to a domestic processing industry during periods when the domestic price of such materials is held below the world price as part of a governmental stabilization plan; *Provided* that such restrictions shall not operate to increase the exports of or the protection afforded to such domestic industry, and shall not depart from the provisions of this Agreement relating to non-discimination; (j)essential to the acquisition or distribution of products in general or local short supply; *Provided* that any such measures shall be consistent with the principle that all contracting parties are entitled to an equitable share of the internatinonal supply of such products, and that any such measures, which are inconsistent with the other provisions of the Agreement shall be discontinued as soon as the conditions giving rise to them have ceased to exist. The CONTRACTING PARTIES shall review the need for this sub-paragraph not later than 30 June 1960."

exception in XXI.[108] A quantitative restriction may be justified under Article XX if the restrictions are for the purpose of protecting public moral, human, animal or plant life or health, exhaustible natural resources, or if it's necessary to secure compliance with laws not inconsistent with GATT, etc. To qualify for security exception in Article XXI, the restriction must involve the protection of a country's security interests. In view of Article XX and XXI, the only possible exception to justify Taiwan's parallel import ban is Article XX (d): a measure is justified if it's necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of GATT. Nevertheless, since little literature or study showing a ban on parallel imports is necessary to induce gray marketer's compliance with Taiwan's Copyright Law could be found in the legislative process, quantitative restriction argument, in my opinion, could be a powerful challenge to Article 87 (4) in violation of WTO rule.[109]

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[108] Article XXI of GATT provides: "Nothing in this Agreement shall be construed (a) to require any contracting party to furnish any information the disclosure of which it considers contrary to its essential security interests; or (b) to prevent any contracting party from taking any action which it considers necessary for the protection of its essential security interests- (i) relating to fissionable materials or the materials from which they are derived; (ii) relating to the traffic in arms, ammunition and implements of war and to such traffic in other goods and materials as is carried on directly or indirectly for the purpose of supplying a military establishment; (iii) taken in time of war or other emergency in international relations; or (c) to prevent any contracting party from taking any action in pursuance of its obligations under the United Nations Charter for the maintenance of international peace and security"

[109] Similar to WTO laws, Article 30 of European Community Treaty prohibits "quantitative restrictions on imports and all measures having equivalent effect. " Although Article 36 of the EC Treaty provides exceptions to this rule by stating that prohibitions or restrictions on imports may be justified on grounds of public morality, public policy or public security, the European Court of Justice has narrowed the scope of Article 36 exceptions, holding that the protection of intellectual property rights should not come under a disguised restriction of trade

CHAPTER V

TRADING COPYRIGHTED PRODUCTS WITH U.S.

A. The Inconsistency of U.S. Section 301 of the Trade Act with WTO laws

1. Section 301 & Special 301

With its influence on the legislative process of Taiwan's Copyright Law, Section 301 of the Trade Act of 1974 is originally designed to grant the U.S. president the power to take action in response to trade complaints brought by private parties against countries regarded as failing to adequately protect U.S. intellectual property rights. The legislative history of Section 301 suggests that it purports to create a parallel mechanism to deal with the infringement of U.S. intellectual property right overseas in order to address U.S. Congress' dissatisfaction with GATT. The Congress report stated "The Committee felt it was necessary to make it clear that the President could act to protect U.S. economic interests whether or not such action was consistent with the articles of an outmoded international agreement."[110] The Omnibus Trade and Competitiveness Act of 1988 further added Special 301 and transferred this presidential power from U.S. president to the U.S. Trade Representative (USTR), which thus has authority to take unilateral action against individual countries and imposing sanctions once they are found as "Priority Foreign Countries." Current version of Section 301

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within the meaning of the treaty. It is fair to say that the official European Union attitude to parallel imports is tolerance. *See* Bess-Carolina Dolmo, *Examining Global Access to Essential Pharmaceuticals In The Face Of Patent Protection Rights: The South African Example*, 7 BUFF. HUM.RTS. L.REV. 137, 148.

[110] S. Rep. No. 93-1298, at 166 (1974), reprinted in 1974 U.S.C.C.A.N.7186, 7304.

provides that when a trade agreement is violated, action is mandatory[111], action is simply discretionary if the USTR determines that a country's acts or policies are "unreasonable or discriminatory and burden or restrict United States commerce" and that such action has to be "appropriate"[112]; Action is not required if a WTO dispute settlement body has already ruled that the rights of the U.S. under a trade agreement are not being violated.[113] Typical conduct that might result in Special 301 action by the USTR is failing to "enter into good faith negotiations" [114] or failing to "make significant progress in bilateral or multilateral negotiations to provide adequate and effective protection of intellectual property rights"[115]

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[111] *See* 19 U.S.C. 2411 (a)Mandatory action: "(1) If the United States Trade Representative determines under Section 304(a)(1) that-

(A) the rights of the United States under any trade agreement are being denied; or

(B) an act, policy, or practice of a foreign country

(i) violates, or is inconsistent with, the provisions of, …. any trade agreement, or

(ii) is unjustifiable and burdens or restricts United States commerce;

the Trade Representative shall take action authorized in subsection (c), subject to the specific direction, if any, of the President regarding any such action, and shall take all other appropriate and feasible action within the power of the President…."

[112] 19 U.S.C. 2411 (b) Discretionary action: "If the Trade Representative determines under Section 304(a)(1) that-

(1) an act, policy, or practice of a foreign country is unreasonable or discriminatory and burdens or restricts United States commerce, and

(2) action by the United States is appropriate, the Trade Representative shall take all appropriate and feasible action… to obtain the elimination of that act, policy, or practice……"

[113] 19 U.S.C. 2411 (a) (2): "The Trade Representative is not required to take action….. in any case in which-

(A) the Dispute Settlement Body… has adopted a report, … that-

(i) the rights of the United States under a trade agreement are not being denied, or

(ii) the act, policy, or practice-

(I) is not a violation of, or inconsistent with, the rights of the United States, or

(II) does not deny, nullify, or impair benefits to the United States under any trade agreement…"

[114] 19 U.S.C. 2242 (b)(1)(C)(i)

[115] 19 U.S.C. 2242 (b)(1)(C)(ii)

2. The criticisms regarding inconsistency of Section 301 with WTO laws

Professor William Alford, Director of Harvard Law School's East Asian Legal Studies, has criticized that Section 301 apparently contravenes the United States' own obligations to the WTO because it restricts market access that U.S. already committed under the WTO regime.[116] In my opinion, the unilateral actions taken by the U.S. under Section 301 and Special 301 may be inconsistent with two WTO rules: one is the WTO procedural rule because Section 301 essentially confers U.S. government the right to supercede the WTO's authority to settle disputes, a violation of Article 23 of Understanding on Rules and Procedures Governing the Settlement of Disputes (Dispute Settlement Understanding, hereinafter "DSU") which gives Dispute Settlement Body (DSB) the priority to settle disputes among member states; the other is a substantive violation of Most Favored Nation principle (MFN) under Article 1 of GATT of 1947 because U.S. treats WTO Member States differently solely based on whether they comply with Section 301 or not. Futhermore, the broad scope of trade sanctions allowed under Section 301 is also inconsistent with the TRIPs proscribed scope of remedies[117].

a. Inconsistency between Section 301 and WTO Dispute Settlement Understanding

In light of WTO procedural rules, Section 23.2 of the Dispute Settlement Understanding

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[116] Keyon S. Jenckes, *Protection of Foreign Copyrights in China: The Intellectual Property Courts and Alternative Avenues of Protection*, 5. S. CAL. INTERDISC. L.J. 551, 566(1997)

[117] *See* Robert J. Pechman, *Seeking Multilateral Protection for Intellectual Property: The United States "TRIPs" over Special 301*, 7 MINN. J. GLOBAL TRADE 179, 187-88(1998)

(DSU)[118] requires Members to resolve the trade disputes regarding intellectual property through the WTO dispute settlement mechanism, which virtually creates an obligation for Member States not to take unilateral retaliatory measures against other members before the WTO dispute settlement body ruled on the same issue. According to the DSU, WTO members may not conclude that another member has violated WTO laws and proceed to impose trade sanction before the WTO dispute settlement body has decided so.[119] By ratifying TRIPs during the Uruguay Round[120], the United States became a signatory to the DSU and need to adhere to this WTO dispute settlement mechanism. However, under Section 301, once the USTR identifies a country as a "Priority Foreign Country" before the WTO make any determination as to whether this country violate WTO laws, the USTR "must" take action even if the WTO has not yet taken any steps.[121] Following the Uruguay Round, many WTO member states expect to see Section 301 repealed or modified to address

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[118] Article 23 of the DSU provided, in relevant part: "1. When members seek the redress of a violation of obligations or other nullification or impairment of benefits under the covered agreement… they should have recourse to…. the rules and procedures of this Understanding: 2 In such cases, Members shall: (a) not make a determination to the effect that a violation has occurred, that benefits have been nullified or impaired.. except through recourse to dispute settlement in accordance with the rules and procedures of this Understanding…."

[119] See Understanding on Rule and Procedures Governing the Settlement of Disputes (hereinafter DSU), April 15 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, Legal Instruments- Results of the Uruguay Round vol. 31, 33 I.L.M. 112,at 114 (1994), *available at* http://www.wto.org/english/docs_e/legal_e/28-dsu_e.htm.

[120] GATT's Uruguay Agreement in 1994 replaced GATT and founded the WTO. One of the agrerements entered into by the members of the WTO is the TRIPs agreement, which effectively catergorized international regulation of intellectual property rights as a part of trade law by establishing minimum standards for intellectual property protection and enforcement procedure.

[121] *See* 19 U.S.C. 2414(a)(3)(A) & (B); 19 U.S.C. 2242 (b)(1)(C)(ii)

this inconsistency, to their disappointment[122], the United States simply amended Section 301 to include the language: "no provision of any of the Uruguay Round Agreements.. that is inconsistent with any law of the United State shall have effect."[123] The House report also indicated that "[t]he Committee wishes to ensure that Section 301 authority remains a strong and effective means for the United States to enforce its rights under trade agreements and to deal with other foreign unfair trade practices."[124] As a matter of fact, many United States officials declared on several occasions that Section 301, far from being weakened after Uruguay Round, became more "effective" with the DSU.[125] It appears that the United States government is reluctant to adhere to WTO mechanism and prefer the use of Section 301 to deal with its international intellectual property problems. With Section 301 in place, a country could still be found to "deny adequate and effective protection of intellectual property rights" in violation of Section 301 even if it is in compliance with TRIPs and no violation of WTO law is found by DSU. In other words, through unilaterally invoking Section 301, the

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[122] The United State's failure to repeal Special 301 after the Uruguay Round was a great disappointment to many countries. In fact, "it is generally understood that one of the most important reasons why U.S. trading partner agreed to improve the WTO dispute settlement process and to make it more judicial was to impose restrictions on the use of Section 301.", *see* Seung Wha Chang, *Taming Unilateralism Under the MultilateralTrading System: Unfinished Job in the WTO Panel Ruling on U.S. Section 301-310 of the Trade Act of 1974*, 31 LAW & POL'Y INT'L BUS. 1151, 1154 (2000)

[123] Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809, 4938 (1994). For a thorough discussion of the U.S. adoption of the Uruguay Round agreements, *see generally* 4 Nimmer on Copyright 18.06.

[124] *See* A. Lynne Puckett & William L. Reynolds, *Rules, Sanctions and Enforcement Under Section 301:At Odds with the WTO?*, 90 AM. J. INT'L L. 675, 688 (1996) (citing H.R. Rep. No. 826, 103d Cong., 2d Sess. 1377 (1994), reprinted in 1994 U.S.C.C.A.N. 3773, 3909)

[125] *Supra* note 115, at 1154.

U.S. actually establishes its own statutory criteria, abandoning the dispute settlement mechanism available in the WTO, thus may constitute a violation of the DSU.[126]

b. Inconsistency between Section 301 and WTO substantive rules

In terms of the WTO substantive rules, Article 1 of GATT sets out Most Favored Nation principles by stating that "any advantage, favor or privilege granted by a Member to another Member has to be applied immediately and unconditionally to other Members."[127] However, as a result of the continuous use of Section 301, U.S. essentially gives privilege or favor to certain WTO Member States which comply with Section 301, and discriminates States which do not. On the other hand, lots of countries, especially developing countries, have little choice but to either pass new legislation or change their practice in order to give U.S. preferential treatment which is more favorable than they do to other WTO members. As indicated above, Article 87 of Taiwan's Copyright Law is apparently one of these examples.[128] The use of Section 301 has aroused strong disapproval and negative image

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[126] Some also argued that Section 301 violates international conventional law because it does not fulfill the "obligations imposed on WTO members to adhere to dispute resolution procedures and refrain from unilateral determinations of WTO violations." Kevin M. McDonald, *The Unilateral Undermining of Conventional International Trade Law via Section 301*, 7 J. INT'L L. & PRAC. 395 (1998).

[127] Art. 1 of GATT of 1947 provides: "With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation …… and with respect to all rules and formalities in connection with importation and exportation, ….. any advantage, favor, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

[128] Brazil and Ukraine are the other examples where the threat of Section 301is carried out. In 1988, due to Brazil's failure to change its policies and protect pharmaceuticals in a fashion deemed "adequate" by the U.S., the U.S. imposed 100% tariff on other Brazilian exports such as paper and electronics. In addition, after

about the U.S. among many countries in the world. Many argue the use of Section 301 is "the nuclear weapon of trade remedy"[129] which has little impact on improving the international intellectual property rights situation but to overprotect U.S. copyright capitalists.

Despite the inconsistency and fierce opposition from trading partners, U.S. continues to use Section 301 measure against countries deemed under its definition to provide inadequate protection for U.S. intellectual property rights. This is particularly true in connection with parallel imports. These complaints for years eventually led to the European Communities' action against the U.S. in the WTO Dispute Settlement Body in 1999, which is directed to challenge Section 301's inconsistency with the DSU.[130] The WTO panel at the end held that Section 301 was consistent with WTO rules because the Statement of Administrative Action submitted by the U.S. Administration in the hope of receiving congressional approval for the Uruguay Round still showed that U.S. government's intent to keep its promise to resort to the WTO Dispute Settlement Body when required, which, as interpreted by the panel, demonstrated a lack of unilateral action. Nevertheless, the panel also noted that Section 301

Ukraine's failure to fulfill a commitment made in 2000, and failure to reach an agreement during subsequent bilateral consultations with the U.S., U.S. in 2002 took retaliatory action by raising and imposing additional duties on imports from Ukraine. As a result of being identified by the USTR's 2004 report as a priority foreign country under Special 301, these sanctions against Ukraine, which amount to a total of $75 million loss, remain in place.

[129] *See* William Alford, *To Steal a Book Is an Elegant Offense: Intellectual Property in Chinese Civilization* 104 (1995), quoted in 4 Nimmer on Copyright 18.04 [B]

[130] UNITED STATES- SECTION 301-310 OF THE TRADE ACT OF 1974 – REPORT OF THE PANEL (hereinafter "Section 301-310 of the Trade Act of 1974 case"), WT/DS152/R/USA (Dec. 22, 1999), *available at* http://www.wto.org/english/trarop_e/dispu_e/wtds152r.pdf .

was in "prima facie violation" of Article 23 of the DSU[131], yet ended up concluding with cautious language and limited the decision to the specific claims in this case by stating that "We are not asked to make an overall assessment of the compatibility of Sections 301-310 with the WTO agreements…. We are, in particular, not called upon to examine the WTO compatibility of US actions taken in individual cases in which Sections 301-310 have been applied.[132]" This decision has been strongly criticized because its ambiguous language essentially left the legal questions regarding the consistency of Section 301 with WTO rules, especially in the context of gray market goods, unanswered.[133]

According to TRIPs and Doha Declaration in 2001 which interprets TRIPs, Taiwan in fact has options to decide any type of exhaustion approach it wishes to apply regarding parallel imports of copyright product as long as the measure is subject to both the National Treatment and Most Favored Nation principles. However, the United State's use of Section 301 pressured Taiwan to specifically apply national exhaustion and strictly restricts parallel imports under Article 87 of the Copyright Law, which actually holds parallel importers in

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[131] Section 301-310 of the Trade Act of 1974 case, para. 7.97.

[132] *Id.* para. 7.13

[133] One scholar criticized that panel in this case "creates a limit for its own duty by being overly cautious, ….panel is partial to hegemony and leaves a lot of suspicions and hidden risks." An Chen, *The Three Big Rounds of U.S. Unilateralism Versus WTO Multilateralism During the Last Decade: A Combined Analysis of the Great 1994 Sovereignty Debate, Section 301 Disputes (1998-2000), and Section 201 Disputes (2002-present)*, 17 TEMP. INT'L & COMP. L.J. 409, 429 (2003); *See also* Seung Wha Chang, *Taming Unilateralism Under the Multilateral Trading System: Unfinished Job in the WTO Panel Ruling on U.S. Section 301-310 of the Trade Act of 1974*, 31 LAW & POL'Y INT'L BUS. 1151, 1156 (noting that "while the … Panel Report is politically astute, its legal underpinnings are flawed.. the Panel ruling explicitly left many important legal questions unresolved")

Taiwan to a standard that is even higher than the one to which the United States holds for those importers into the U.S.

B. Issues Arising From Parallel Imports Ban on Trade between U.S. & Taiwan

1. Purchase U.S. copyrighted products online

Pursuant to Article 87 (4), coupled with the Ministry of Interior's administrative regulation "The Meaning of Certain Amount in Article 87*bis*", even in the absence of intent to distribute, no imports more than one copy of copyright works or the original work are permissible, and so are copies or original works carried by individual in their luggage while entering into Taiwan's territory. In other words, if an individual, for the purpose of personal use rather than distribution, places an order on internet (i.e. Amazon online bookstore) to purchase two or more copies of the original works manufactured abroad then imports them to Taiwan, the copyright owner may request for injunction relief to enjoin the importation under Article 84, and is entitled to money damages under Article 88. Taiwan's custom may also seize the imports exceeding one copy upon copyright owner's request. This consequence highlights the inadequacy of the restriction on parallel imports. It apparently ignores the fact that ordering copyrighted works such as books, CDs or VCD/DVDs online is a common business practice in today's e-commerce world. It may be possible for e-commerce operators to acquire copyright owner's consent for their importation; however, for individual consumers, it is not feasible to acquire the import license from every

single copyright owner while bringing more than one original work solely for personal use, especially when the copyright owner resides abroad. By doing so, the Copyright Law has placed an undue burden on consumers in Taiwan since the transaction cost is so high that, in my opinion, any reasonable person would rather avoid online purchase or break the law than pay for import license to comply with this rigid requirement. This restriction would in effect discourage Taiwanese consumers from purchasing copyrighted products from U.S. through internet transactions, and further frustrate international trade between U.S. and Taiwan.

2. Videotape/DVD rental of U.S. movies

a. Is rental of videotape/DVD after prohibited parallel importation a violation of Copyright Law?

The courts and scholarship in Taiwan split on this issue, thus this question remains unsettled so far. The consensus in scholarship is that Article 87 (4) penalizes parallel imports simply because they are treated as counterfeits “by the operation of law”; Copyright Law nevertheless does not deem parallel imports as inherently unlawful copies. Parallel imports are in essence genuine lawful copies and do not infringe copyright. The rental of them therefore falls within the scope of exhaustion exemption under Article 60 of Taiwan Copyright Law which entitled the owner of lawful copies to rent out those imports.

Some scholars furthermore support this approach based on the argument that since copyright owners already harvest profits of their original work as a result of its first sale

in the country of its first publication; their right of distribution to the whole world has thereby been waived in exchange for the previous compensation. Granting copyright owner the import right to bar parallel imports constitutes an unjust windfall for them.

On the other hand, most courts in Taiwan still held that although parallel imports are genuine lawful copies, they do not qualify the exhaustion exemption under Article 60 since they are deemed as unlawful copies through the operation of Article 87 (4).[134] Therefore, renting out the impermissible parallel imports of U.S. movies constitutes a violation of copyright owner's rental right.

b. Is rental of parallel imports which qualify exemptions under Article 87*bis* a violation of Copyright Law?

If the parallel imports qualify Article 87*bis* exemptions (i.e. importing merely one copy of audiovisual work for personal use, or importing fewer than five copies of non-audiovisual work), some argue that although those imports qualify exemptions, since they are initially deemed as "unlawful copies" by the operation of Article 87 (4), the rental of those imports may nevertheless not qualify exhaustion exemption under Article 60, thus violation could still be found; some nonetheless argue that because the parallel imports themselves

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[134] *See* No. 5500 of Criminal Judgment of the Taiwan Supreme Court, 1996. In this case, Taiwan Supreme Court held that "unless falling within the exceptions in Article 87*bis*, the importation of lawful copies of original work or the original itself without copyright owner's authoriziation is deemed as an infringement of copyright and should be punishable. Since those lawful copies still infringe copyright, people who own those copies are not owner defined in Article 60, thus the distribution of imports is still unlawful and they may not assert Article 60 exemption."

qualify exemptions, these imports, even absent the consent of copyright owner, does not infringe copyright, and by the same token, rental of them qualifies exemptions under Article 60, thus no violation shall be found.[135] This issue is thus far not settled in Taiwan's judicial decisions.

3. Internet Café

Is it a violation for internet café that purchased parallel imported computer program to install them in their computers for commercial purpose? According to the proviso of Article 60, the owner of lawful copies of computer program does not have the rental right because the copyright owner of computer program, along with its first sale, does not exhaust his rental right under Article 29. Furthermore, the contract between internet café and its customers is characterized as rental contract because internet café operator is essentially renting its computer program to customers for a certain period of time. This sort of use of computer program thus is copyright infringement in the absence of copyright owner's consent. Accordingly, internet café may still violate Article 87 (5) due to its knowingly commercial use

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[135] *See* Taiwan Kao Den Fa Yuan 89 Nen Tai Shan Yi Tzu No. 632 (No. 632 of Criminal Judgment of the Taiwan High Court, 2000): …. The importation of original work or its copies without the authorization of copyright owner is deemed as the infringement of copyright or plate right under Art. 87 (4); however, Art. 87*bis* (3) also provides that the importation of certain amount of copies of original works for personal use or as a part of individual's luggage is not restricted by Art. 87 (4), in this case, the defendant imported those DVD from U.S., for personal use, the amount of imports falls within the permissible amounts under 87*bis* (3), hence, the importer is found no violation of Art. 87 (4); in addition, since the defendant purchased this DVD from the importer exempted under Art. 87*bis*, his subsequent distribution is therefore exempted under Art. 60, thus is not subject to the criminal penalty under Arts. 92 and 93.

of computer program which infringes the copyright owner's rental right, thereby is subject to criminal penalty up to two year imprisonment pursuant to Article 93.

C. The Impacts of Parallel Imports Ban upon U.S. Entertainment Industry in Taiwan market

It is clear that U.S. copyright owners may benefit from the prohibition of parallel imports under Article 87 of Copyright Law, however, where the importer has obtained the goods without knowledge of the geographic resale restrictions imposed by the original copyright owner; the parallel import ban will penalize an innocent third party importer who subsequently imports those goods to Taiwan. This problem is acute for many U.S. companies as copyright licensees whose profits are earned not only from domestic sale of goods but also from international sale because each of their foreign importers or distributors, as a result of this ban, will have to review the original license contract, making sure whether there is an exclusive licensee in their countries in order to avoid the potential penalty on parallel imports. Because of the high transaction cost to trace the original license and verify copyright owner's authorization, the ban on parallel imports may serve a disincentive to international trade for distributors or importers in Taiwan to import U.S. entertainment products.

Furthermore, the success of U.S. in pushing many countries, such as Taiwan[136], to protect

[136] The U.S. has successfully urged many countries to accept its own intellectual property standard. For example, even though many Americans fiercely opposed the recent copyright term extension, the U.S.

its intellectual property by provisions such as parallel import ban could possibly hurt the U.S. itself, this is particularly true when those privisions are also controversial on U.S. soil.[137] This coercive pressure may result in bad image and local discontent against U.S. copyright holders. In fact, as a result of the growing hostility among members of the Legislative Yuan against a so called "American arrogance", in 1993, Taiwan's industry sucessfully lobbied for the enactment of several provisions the US particularly disliked, for example, a twenty percent ceiling on foreign shares or holdings in Taiwan's cable television company.[138] It may also lead to unexpected outcomes that adversely affect U.S. economic interests. For example, with the pressure from U.S. to include stronger intellectual property protection in the bilateral free trade agreement, Vietnam has decided, since 2003, to embrace open source as its solution to software piracy by requiring all state –owned companies and government agencies to use open source software within one year. U.S. software companies like Microsoft therefore do not receive the intended benefit at all.[139]

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government nevertheless included the extenstion in its free trade agreement with Singapore and Austrailia. *See* Emma Caine et al., *Copyright "Harmony" Profits US Firms*, AUSTL. FIN. REV., Nov. 19, 2003, at 71; Eddie Lee, *Taking the Mickey Out of Innovation*, STRAITS TIMES (SING.), Jan. 20, 2004.

[137] Many scholars indicated that by forcing developing countries to accept U.S. intellectual property provisions in the free trade agreement, U.S. might be hurt as a result of bad publicity and local resistance created by these agreements. As Peter Yu indicated : "First, bad publicity and local resistance created by the agreements will reduce the appeal of U.S. intellectual property laws. ….. Second, the controversial intellectual property provisions in the free trade agreements are likely to result in local discontent…." Peter K. Yu, *P2P and the Future of Private Copying*, 76 U. COLO. L. REV. 653, 690.

[138] *See e.g.*, Legislative Yuan, 82 Official Gazette issue 48-1, at 104-200 (July 21, 1993)

[139] Lee, *supra* note 118.

D. The Impacts of Parallel Imports Ban on Taiwan Itself

Because the price of compact disc reproduction equipments has been drastically reduced and second-hand equipments are more accessible, piracy is increasing in Taiwan. Therefore, while parallel imports have been decreased due to the enactment of Article 87 (4), piracy remains rampant in Taiwan. In addition, with the ban on parallel imports, government essentially frustrates consumer choice and reduces the availability of copyrighted goods in Taiwan. As a matter of fact, U.S. copyright owners are hurt not only from the lack of adequate protections against piracy, but also by limiting the availability of their goods to meet consumer demand. Take music and film industry for example, local distributors typically select their supplies from albums listed on top 100 lists in U.S., acquire license, then import them to Taiwan; as for other classic music albums or independent music titles and films in U.S., because they are usually not considered hot sellers, local distributors are reluctant to pay royalties, retailers therefore often have difficulty in obtaining those products from local distributors. Even if local distributors do supply these products, their supply is rather limited, and they tend to sell to retailers at higher prices, which in turn results in higher prices to consumers. Parallel imports become an alternative channel for supply. After the ban in 1993, retailers inevitably encounter the shortage which was previously filled up by parallel imports. Article 87 (4) actually forced local retailers to acquire U.S. music or movie products solely in reliance on local licensed distributors and copyright owners. The

consequences of narrowing retailers' supply channels include retailer's financial loss, the lack of choice and increased prices for Taiwan consumers.

After the bans on parallel imports, retailers in Taiwan are not only limited by the lack of supply previously provided by parallel imports, but also must compete with pirated goods. Pirated goods offer lower prices while the price in retail stores is more expensive due to limited distribution. In addition, pirates also offer more selection by distributing albums and films which local distributors fail to supply to retailers. In this sense, the ban on parallel imports is not helpful to reduce piracy, instead, it actually foster the competitiveness of pirated products.

As a policy matter, developing countries tend to allow wide exceptions either under the fair use doctrine or under exhaustion doctrine in order to encourage the development of indigenous intellectual property industry by importing new technology or follow-on innovation. Based on the same reason, they generally also favor international exhaustion while developed countries have been mostly in support of national exhaustion.[140] Taiwan, as a developing economy with emerging hi-tech industry that focuses on research and development of computer program and integrate circuit design, should adopt a more relaxing regulation on imports from developed countries like U.S. rather than impose the ban. Article 87 (4) in effect obstructs foreign innovation to flow into Taiwan, and at the same time,

[140] There are a few interesting exceptions, such as Canada, Australia, New Zealand, and most Scandinavian countries that supported international exhaustion during TRIPs negotiations.

constrains the freedom of individual Taiwanese to shop goods abroad.

CHAPTER VI

APPLY FAIR USE DOCTRINE AND LIFT THE BAN ON PARALLEL IMPORTS

A. Apply Fair Use Doctrine to Parallel Imports Cases

Due to its adverse impacts on Taiwan and U.S., I believe that current ban is not a proper way to deal with parallel imports. We therefore have to ask a key question: other than the ban, is there a legal doctrine that's better suited to resolve parallel imports issues? Under Taiwan's Copyright Law regime, in my opinion, a proper alternative will likely be, other than exhaustion doctrine, the application of fair use doctrine.

The fair use doctrine is originated during the 1700s from the English courts of equity, flourished in the common law, and later codified in the United State's 1976 Copyright Act. In U.S., the fair use doctrine has developed through a number of judicial decisions so that parody[141], satire, quoted passages, critical reviews, and commentaries are regarded as fair use of copyrighted works. The *Quality King* Court suggested that in addition to the exhaustion doctrine in §109, the fair use doctrine could serve as a limitation of copyright owner's import right in § 602. It explained that if §602 were interpreted to function without considering the limitations on §106, then §602 would be free of the fair use doctrine in § 107. This result, according to the Court, would be wrong. The court noted that "[i]t is difficult to believe that

[141] *See Campbell v. Acuff-Rose Music, Inc*, 510 U.S. 569 (1994)

Congress intended to impose an absolute ban on the importation of all such works containing any copying of material protected by a United States copyright"[142] The Court further expressed its doubt as to whether the gray market was a bad thing[143].

Similarly, Taiwan's Copyright Law also adopts fair use doctrine in Article 65, which provides, in relevant part: "Fair use of a work shall not constitute infringement on the property rights of the work. In determining whether the use of a work complies with the provision of Article 44-63 or other conditions of fair use, all circumstances shall be taken into account as the basis for determination, in particular the following facts: (1) The purpose and nature of the use, including whether such use is of a commercial nature or is for nonprofit educational purpose; (2) The nature of the work; (3) The amount and substantiality of the portion used in relation to the work as a whole; (4) Effect of the use on the work's current and potential market value…."[144] By specifying a number of the circumstances which constitute

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[142] *See Quality King*, 118 S. Ct. 1133; 45 U.S.P.Q. 2d (BNA) 1968.

[143] The *Quality King* court said: "[w]e are not sure that [the term gray market] appropriately describe[s] the consequences of an American manufacturer's decision to limit its promotional efforts to the domestic market and to sell its products abroad at discounted prices that are so low that its foreign distributors can compete in the domestic market". *Id.* at 1134; 45 U.S. P.Q.2d (BNA) 1969.

[144] This Article is similar to Article 107 of U.S. Copyright Act of 1976, which states"[n]otwithstanding [the exclusive rights of authors], 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 aowrk in any particular use is a fair use, the factors to be considered shall include- (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

fair use in Article 44-63, the fair use doctrine becomes essentially the most important limitation on copyright in Taiwan's Copyright Law.

Instead of a rigid rule, fair use doctrine provides a flexible application of criteria that weigh the public interest over the private benefit. By applying fair use doctrine, each case involving parallel imports would compel an evaluation based on its unique facts and a determination of the public interest at stake. Whether fair use is a viable argument for parallel importers depends on whether society has an interest in the gray market that is strong enough to overcome the private interest of copyright owners. Accordingly, each parallel imports case would conceivably render a different outcome due to the evaluation of public and private interest in every single case, which is, in my opinion, a better way to strike a balance between an all-out ban and an all permissible open door approach on parallel imports cases. Under fair use doctrine, public policy and public interest concerns would inevitably become important factors in determining the legality of parallel imports.

B. Policy Consideration in Application of Fair Use Doctrine

Article 1 of Taiwan's Copyright Law expressly states that "the objective of this Law is to protect copyright owner's rights and benefits, mediate public interest and promote the progress of the nation's culture." There is no doubt that the scope of the protection for copyright owner must be consistent with this purpose. As a small island striving to base its economy on technology and hoping to make itself a "Green Silicon Island", Taiwan urgently

needs to attract greater inflows of technology and facilitate the free movement of trade in order to carry out this future blueprint. The ban on parallel imports in Article 87(4), nevertheless, serves a hurdle toward this goal. Article 87 (4) does not exempt parallel imports where no free riding problem exists when there is no authorized distributor or exclusive licensee in Taiwan at the time parallel importation occurs, thus impose an undue burden for an importer to freely transport his lawful copies into Taiwan. In cases where the local distributors or exclusive licensees do exist, Article 87(4) unjustifiably allows copyright owners who have already been adequately compensated in their first sale to earn additional profits by allowing them and their authorized distributors to continuously monopolize Taiwan market. When the copyright owner first sold the copyrighted product or license to sell the product in a given territory, the owner has been given ample opportunity to draft restrictive license or distribution agreement through the protection from contract; he or she should not be entitled to gain benefits twice by restricting the future distribution chain. Public interest and cultural progress objectives, in my opinion, should come into play at this point. The restrictions on the entry of parallel imports limit hi-tech and e-commerce industry the availability of foreign innovation, thus makes it difficult for those critical industries to gain access to the world's cutting-edge technology in a timely manner.

Another policy argument in opposition to the parallel imports asserts that parallel imports leads to increased consumer confusion because they are not coming from the

authorized chain of distribution network. However, there is actually no confusion as to the source of parallel imports since they do originate from the same copyright owner.

In sum, when the public interest concern outweighs the copyright owner's private interest, fair use doctrine should be a valid defense against copyright infringement action for parallel imports.

C. Market Failure Theory in Application of Fair Use Doctrine

1. Copyright market

Another alternative in considering whether parallel imports qualify fair use defense is the market approach. Economists tend to characterize intellectual property law as a regime designed to resolve a type of market failure stemming from the presence of "public goods" characteristics. A public good is typically described as having two characteristics. First, once produced, they are virtually inexhaustible because supplying additional access to new users would not obstruct the supply available to others. Second, and most importantly, it's difficult, if not expensive, to prevent persons who have not paid for access from using a public good.[145] Due to the second characteristic, it is commonly believed that public goods require government control or taxation because they will be under-produced if left to the

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[145] *See* M. OLSON, THE LOGIC OF COLLECTIVE ACTION: PUBLIC GOODS AND THE THEORY OF GROUPS 14 (1971): "A common, collective, or public good is here defined as any good such that, if any person Xi in a group X1,..., Xi..., Xn consumes it, it cannot feasibly be withheld from others in the group."; *see also*, E. MANSFIELD, PRINCIPLES OF MICROECONOMICS 70 (1974).

private market, for the fear of free riding problem[146].

All copyrighted works; digital works in particular, exhibit certain public goods characteristics. Once the literary work is made available to the public, its content might be used by countless consumers without exhausting the supply. A book or DVD may be simultaneously read or viewed by a number of persons without physically depriving others of its use. Furthermore, it's very hard to prevent a free-rider to access those works once they are created. However, government control and taxation is generally deemed not an appropriate approach for these literary works because freedom of expression and idea will very likely be curtailed by the chilling effect resulted from government control. Instead, copyright statutes create special property rights for authors to sell the physical copies of their works and, at the same time, retain control over the reproduction and other uses of the work embodied in those copies, in order to exclude free-riders. In other words, by doing so, Copyright Law allows a private market for intellectual property to function. In addition, Copyright Law makes it easy to transfer this property right with lower transaction cost by specifically defining the scope of these exclusive rights, and setting out the legal consequences of license and assignment. It also provides an enforcement mechanism for the

[146] A familiar example of a public good is national defense. Since it's impossible to distinguish one person who has paid for defense and the other who does not, government control and some kind of compulsory payment, such as taxation, is necessary to eliminate free rider problem and achieve the optimal amount of defense. It's generally believed that if the purchase of defense is left to private market mechanisms, defense service will be produced less than optimal amount because of the fear of free riding problem.

infringement, and thus secures the predictability of transaction and facilitates the operation of this private market.

When copyright market functions, people who would like to copy or use creative works may identify copyright owners, bargain with them and pay royalties to get the authorizations. Therefore, if copies are made without permission, the court assumes that the defendant could have, and should have proceeded through the market, but failed to do so, and accordingly imposes penalty on the defendant for their failure to make use of this existing mechanism. However, copyright market does not always function adequately; sometimes bargaining may be extremely expensive, or it may be impractical to obtain enforcement against free-riders, or other market flaws might preclude desirable property exchanges. In those cases, the market cannot be relied on to mediate public interests in dissemination of the original works and private interests in gaining rewards from them. In some extreme cases, the legislative branch may correct market dysfunction by imposing a regulatory solution such as a compulsory licensing scheme.

2. Market Failure and Fair Use

When market failure occurs, people who would like to make use of the original works may not effectively gain the permission through purchase even if they want to. When this happens, penalty on these users may be unjustifiable. Professor Wendy Gordon in Boston University therefore proposed a market failure approach in the analysis of fair use doctrine,

arguing that "[f]air use should be awarded to the defendant in a copyright infringement action when (1) market failure is present; (2) transfer of the use to defendant is socially desirable; (3) an award of fair use would not cause substantial injury to the incentives of the plaintiff copyright owner."[147]

Where the socially desired transfer of the copyrighted work is unlikely to take place voluntarily, or where special circumstances, such as market flaws, impair the market's ability to serve as a measure of how resources/copyrighted work should be allocated, the threshold market failure element is satisfied. The court should further determine if the use is more valuable in the defendant's hands than in the hands of the copyright owner, which makes the transfer to defendant socially desirable. Fair use is often found where defendant's use of the work is noncommercial and creates external benefits to society, such as the use for educational or other nonprofit purposes. The third element then requires the lack of substantial injury to copyright owners' incentives. If the use would impair copyright owner's incentives to create another original work, the court should deny fair use defense. In other words, when giving protection won't serve disincentive for copyright owner to create, fair use should be granted. For example, where transaction cost is so high that copyright owners and the potential users find that the costs of locating and bargaining with each other exceed the profit they might expect to gain from the transaction, no reasonable person would

[147] Wendy J. Gordon, *Fair Use As Market Failure: A Structural and Economic Analysis of the Betamax Case and Its Predecessors*, 82 COLUM. L. REV. 1600, 1614 (1982)

even enter into negotiations. In this case, enforcement of copyright would unjustifiably benefit the copyright owner; conversely, it would significantly harm the potential user who is denied access, as well as the general public who might benefit from the use. Therefore, Courts' refusal to enforce the owner's exclusive right of control here, which does not deprive him of any revenues he would otherwise receive, may be the only way to allow use of the work.

3. Market failure in gray market

The above market failure problem, in my view, appears in gray market. The costs for an individual to negotiate with copyright owners in order to acquire permission for his importation are so high that exceeds the profit both the importer and copyright owner could gain from the transaction. In addition, how can an innocent purchaser in a given territory know the geographic restriction that copyright owner initially impose on in the first sale of his works when importing them to another territory? In view of Article 87 (4), Article 87*bis*, and "The Meaning of Certain Amount in Article 87*bis*", for example, suppose one purchased "two" lawful copies of audiovisual works (i.e. VCD or DVD) from an authorized U.S. distributor, then imported them to Taiwan for the purpose of preserving materials in nonprofit academic, educational or religious institutions; because the amount he imports already exceeds the permissible amount in "The Meaning of Certain Amount" (under this regulation, only one copy is permissible), to avoid the violation of Article 87(4), he or she first need to

confirm whether Taiwan is an authorized market in the original copyright license agreement granted by copyright owner to the U.S. distributors. If not, he needs to seek copyright owner's consent by paying royalties. However, the costs involved in bargaining and reaching an agreement here is extremely high. It includes the costs of time and resources in the efforts to locate the copyright owner, to review the terms and conditions in original license contract between copyright owner and U.S. distributors, to negotiate with the copyright owner and determine how much the monetary value for this authorized importation is. This is particularly costly when the copyright owner is in a third country other than U.S. or Taiwan. The overall transaction cost would conceivably exceed the profits gained from the transaction since only one excessive copy requires copyright owner's consent. The copyright market here can't function properly and the threshold market failure element is thus fulfilled.

Second element is easily satisfied in this hypothetical as well because those parallel imports here are for nonprofit use and contributes to social welfare, which makes their importation socially desirable. The importer's use of these works makes them more valuable. In addition, the third element is also met here because copyright owner's incentive to create another original work won't be impeded since parallel imports are actually genuine goods authorized by copyright owners to distribute in U.S. This type of parallel imports therefore should be justified under fair use doctrine.

D. Recommendation

The existing all-out restrictions in Article 87 of Taiwan's Copyright Law, though with exceptions in Article 87*bis*, do not properly address the legal issues arising from parallel imports. In my opinion, neither a complete ban nor a complete permission approach with respect to parallel imports serves the ultimate objective of Copyright Law. Fair use application on a case-by-case basis, I believe, is a more adequate approach. This Thesis consequently recommends Taiwan's Legislative Yuan to lift current ban on parallel imports and apply fair use doctrine instead.

In my view, there are two steps to implement this application. First is to integrate specific circumstances that qualify fair use of parallel imports into Fair Use Section of Taiwan's Copyright Law (Article 44-64). Although Article 59*bis* providing national exhaustion doctrine for copies of original work lawfully acquired within Taiwan's territory is categorized as a type of fair use, it does not specify the circumstances where parallel importation is justified on the basis of fair use. In addition to the circumstances specified in Fair Use Section, the second step is to leave for the judge to evaluate the factors articulated in Article 65. This will possibly lead each parallel imports case to a different outcome depending on how judges weigh those factors. Judges should keep in mind that, when exercising their discretion in weighing fair use factors, public interest and market failure concerns must be taken into account. In other words, when public interest outweighs copyright owner's private interest, courts should favor fair use assertions. Similarly, when

market failure happens and the other economic balance tests are met, parallel importation should be justified to redress the dysfunction of a copyright market.

Nonetheless, to lift the complete ban may bring about a confrontation with Section 301 threat as U.S. may deem the lift as an indicator that shows Taiwan's reluctance to offer adequate protection for U.S. copyright holders. Since both Taiwan and U.S. are WTO members, and parallel imports issues apparently involve free movement of goods between U.S. and Taiwan, I believe the dispute settlement mechanism in WTO is a better forum for Taiwan to resolve this problem as opposed to unilateral negotiations with U.S.

CHAPTER VII CONCLUSION

Although TRIPs and WCT do not require members to restrict parallel imports or adopt national exhaustion doctrine, and explicitly left this issue for each Member State to decide, Taiwan's Legislative Yuan nevertheless enacted strict restriction on parallel imports in Article 87(4), which is undoubtedly a product of U.S. Section 301 threat and as discussed above, it has incurred adverse effects on both U.S. and Taiwan.

Due to criticisms for years, the Legislative Yuan finally amended Copyright Law, and eliminated criminal penalty for parallel importers in 2003. However, the 2003 Amendment essentially does not really liberalize the gray market. The benefits of parallel importation rest on distributing those copyrighted products to another market free from penalities, yet under current Copyright regime, the distributors of parallel imports are still subject to criminal

penalties.[148]

Political concerns should not outweigh a sound copyright policy. Copyright amendments should be designed to fulfill the purpose of the Copyright Law and be drafted to minimize undesirable effects. Rather than an all-out restriction or a complete permission for parallel imports, this Thesis proposed to lift the existing parallel import ban, and apply fair use as a means to regulate parallel imports in a case-by-case manner. Specifically, when the court applies fair use doctrine under Article 65, public interest and market failure theory should be taken into account. In other words, courts should favor parallel imports where public interest concerns outweigh copyright holder's personal interest, or where market flaws occur so that parallel importers may not efficiently reach an agreement with copyright holders due to unreasonably high transaction cost.

Nevertheless, lifting the parallel import ban would probably, once again, lead Taiwan to encounter tremendous pressure from potential Section 301 sanction by U.S. As indicated above, Section 301 itself has been analyzed by WTO panel as a "prima facie" violation of WTO rules; U.S. actually does not have legitimate justification to impose its Section 301 sanction.[149] Conversely, complete ban on parallel imports might risk Taiwan to be charged

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[148] As indicated above, Article 91*bis* (2) subjects distributors of parallel imports to a maximum of three year imprisonment.

[149] Although WTO panel eventually did not rule Section 301 a violation of WTO rules, by bringing the action challenging Section 301, European Union effectively curtailed the ability of the United States Trade Representative to impose sanctions regarding intellectual property under Section 301. *See* United States-Section 301-310 of the Trade Act of 1974, WTO Doc. WT/DC152/R (Dec. 22, 1999)

as a violation of quantitative restriction prohibition under WTO laws. Given the complexity of this issue which involves not only the trade between Taiwan and the U.S., but also the international trade flow in global market, this Thesis proposes to negotiate with the U.S. under multilateral WTO framework, rather than through bilateral agreement.

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