

THE FIRST-SALE DOCTRINE: PARALLEL IMPORTATION AND BEYOND

S Karjiker

BSc LLB LLM LLD

Associate Professor, Department of Mercantile Law, Stellenbosch University

1 Introduction

In 2013, the United States (“US”) Supreme Court gave its judgment in *Kirtsaeng v John Wiley & Sons Inc*,¹ which appeared to fundamentally change the US’ position in relation to copyright law and parallel importation. The aforementioned judgment serves as an ideal opportunity to reflect on the corresponding legal position in South Africa. As will be illustrated, not only is the South African position very different from that which now exists in the US, but it is striking how different the US legal analysis is from that under South African law. This article will use the *Kirtsaeng* case to highlight the shortcomings in our current approach to copyright law and parallel importation, and the need to re-evaluate our legal position. Consideration of the legal position relating to parallel importation is not an esoteric, academic indulgence. The law in this area helps to determine the type of market which may exist for a particular product, and could affect consumer welfare.

This article will illustrate that our approach to parallel importation is a rather narrow, literal one – based on questionable authority. It is an approach, which fails to properly consider the appropriate domain of copyright law, and fails to have regard to its purpose. What we require is a more far-reaching analysis of parallel importation, based on principles, and the effects on consumer welfare, which will provide a proper basis for future challenges that will be posed in this field by developments such as the emergence of digital copyright works.

It is submitted that the first-sale doctrine,² also known as the doctrine of exhaustion, is an issue which is central to parallel importation (although it potentially goes beyond parallel importation), but it has received no serious consideration in our law. Briefly, the first-sale doctrine serves to prevent a copyright owner from controlling the sales of copies of its copyright work beyond their initial, authorised distribution. This article will consider the origin and legal basis of the first-sale doctrine, with specific reference to copyright law. As will be illustrated, while our courts have refused to consider it as a legal principle, it features prominently in US (and European) case law. The failure to consider the first-sale doctrine when dealing with the question

¹ *Kirtsaeng v John Wiley & Sons Inc* 2013 133 S Ct 1351.

² Although in most literature the term “first sale doctrine” (that is, without the hyphen between “first” and “sale”) is used, the hyphen is grammatically required.

of parallel importation in South African law has, arguably, led to our rather superficial treatment of subject.

At the outset, it is important to make it clear that this article's focus on US law should not be construed as suggesting that we should simply follow its legal position, due to the importance of that jurisdiction in matters concerning intellectual property law. There are two reasons for considering the comparative position in US law. First, it was US law which initially developed the first-sale doctrine in relation to intellectual property, and to demonstrate its common-law origin. In other words, the US legal position is merely indicative of how significant the first-sale doctrine could be in relation to an issue such as parallel importation. Second, it also illustrates what could happen if the rationale for a legal principle is forgotten, and when it is then subsequently simply applied in a rigid and institutionalised manner. As will be illustrated below, even though legal analysis in the US has generally included an acute awareness of the economic consequences of legal regulation, it has, arguably, failed to appropriately apply the first-sale doctrine in relation to digital works, appropriately. Although the focus of this work is not the application of the first-sale doctrine to digital works, it does illustrate how having a developed legal principle such as the first-sale doctrine would enable us to address future challenges, which will be posed to copyright law as a consequence of the emergence of digital copyright works, in a principled manner. In other words, far from suggesting that our law should be based on the legal interpretation of a single jurisdiction, the focus on US law relating to the first-sale doctrine also serves as a cautionary tale.

After an introduction to the relevant copyright law, this article will provide an outline of parallel importation, and the reason for its existence. The origins, purpose, and effect of the first-sale doctrine will then be introduced. This will be followed by a consideration of the respective copyright-law positions in the US and South Africa concerning parallel importation, and a critique of the South African legal position. Central to the criticism of our muddled legal position concerning parallel importation has been the refusal by our courts to consider the first-sale doctrine. For completeness, further developments in the US and Europe concerning the first-sale doctrine in relation to digital works will also be considered.

2 Copyright law

Copyright protection only exists by virtue of the rights granted pursuant to the Copyright Act 98 of 1978 ("SA Copyright Act").³ Our copyright law has its origins in English law, and, already back in the 18th century, the House of Lords rejected the notion of any common-law copyright in *Donaldson v Becket*.⁴ Copyright protection, therefore, cannot extend beyond the rights expressly provided for by statute. The SA Copyright Act specifies the types of works, which are eligible for copyright protection, and determines

³ *Northern Office Microcomputers (Pty) Ltd v Rosenstein* 1981 4 SA 123 (C) 128.

⁴ 17 Parl Hist Eng 953 (HL 1774).

the scope of protection in respect of each type of eligible work.⁵ For each type of eligible work, the act defines the exclusive rights granted to the copyright owner.⁶ These exclusive rights are sometimes also referred to as the “restricted acts”. For example, the owner of a literary work has the exclusive right to reproduce or publish the work, perform the work in public, or make an adaptation (including a translation) of the work.⁷ Performing any of the specified restricted acts in respect of a copyright work, or any substantial part thereof, without the permission of the copyright owner constitutes copyright infringement.⁸ These forms of infringement constitute so-called “primary,” or “direct,” infringement.⁹ In addition to the primary forms of infringement, the SA Copyright Act also makes provision for so-called “secondary” (or “indirect”) infringement, and criminal infringement: these are additional acts that cannot be performed without the copyright owner’s permission.¹⁰ Secondary infringement is provided for in section 23(2) of the SA Copyright Act, which provides as follows:

Without derogating from the generality of subsection (1), copyright shall be infringed by any person who, without the licence of the owner of the copyright and at a time when copyright subsists in a work –

- (a) imports an article into the Republic for a purpose other than for his private and domestic use;
- (b) sells, lets, or by way of trade offers or exposes for sale or hire in the Republic any article;
- (c) distributes in the Republic any article for the purposes of trade, or for any other purpose, to such an extent that the owner of the copyright in question is prejudicially affected; or
- (d) acquires an article relating to a computer program in the Republic, if to his knowledge the making of that article constituted an infringement of that copyright or would have constituted such an infringement if the article had been made in the Republic [underlining added].

The various forms of secondary (and criminal) infringement serve to protect the copyright owner’s market for its copyright work, in order that it can effectively exploit such market. Essentially, secondary infringement seeks to prevent the commercial exploitation of infringing articles, that is, articles which were produced as a result of primary infringement.¹¹ However, as should be apparent from what follows, acts of secondary infringement may also be possible in relation to articles which are *deemed* to constitute infringing articles. For present purposes, the relevant rights given to a copyright owner to prevent secondary infringement are the right to control the importation of copies of its copyright work into South Africa (other than for private and domestic use) and to distribute the work in South Africa.¹² In fact, from an

⁵ S 2(1) of the SA Copyright Act.

⁶ Ss 6-11B.

⁷ S 6.

⁸ S 23(1), as read with s 1(2A).

⁹ O Dean *Handbook of South African Copyright Law* 14 ed (2012) 1-65.

¹⁰ Ss 23(2) and (3), and s 27 of the SA Copyright Act. In contrast to primary infringement, both these forms of infringement will only have taken place provided that there was knowledge of its unlawfulness on the part of the person engaged in the relevant activity. Although not relevant for the purposes of this article, for completeness, while constructive (or inferred) knowledge is sufficient for infringement pursuant to s 23(2), actual knowledge is required for purposes of s 27.

¹¹ L Bently & B Sherman *Intellectual Property Law* 3 ed (2009) 195; T Hart & L Fazzani *Intellectual Property Law* 3 ed (2004) 171.

¹² S 23(2) of the SA Copyright Act.

economic point of view, in the context of parallel importation these two rights can, collectively, be categorised as the copyright owner's "distribution right".¹³

Although section 23(2), which deals with secondary infringement, does not expressly state that the particular exclusive acts must involve infringing articles, or, more specifically, "infringing copies," as defined in section 1, it must "as a matter of logic and fact" involve such articles.¹⁴ Section 1 defines an "infringing copy" as follows:

"infringing copy", in relation to –

- (a) a literary, musical or artistic work or a published edition, means a copy thereof;
 - (b) a sound recording, means a record embodying that recording;
 - (c) a cinematograph film, means a copy of the film or a still photograph made therefrom;
 - (d) a broadcast, means a cinematograph film of it or a copy of a cinematograph film of it or a sound recording of it or a record embodying a sound recording of it or a still photograph made therefrom; and
 - (e) a computer program, means a copy of such computer program,
- being in any such case an article the making of which constituted an infringement of the copyright in the work, recording, cinematograph film, broadcast or computer program or, in the case of an imported article, would have constituted an infringement of that copyright if the article had been made in the Republic [underlining added];

Thus, the SA Copyright Act provides that an infringing copy is a copy of a copyright work made by infringement of the copyright in that work, or, in the case of an imported article, would have constituted an infringement of that copyright if it had been made in South Africa.¹⁵ It is the interpretation of the latter deeming provision in the last paragraph of section 23(2) (underlined above), and which is substantially repeated in the definition of "infringing copy" (also underlined above) – the "deeming provision" – which has been central to the use of copyright law in preventing parallel importation into South Africa.

In order to appreciate the scope of copyright law it is important to note that copyright protection is afforded to works such as literary or artistic works, irrespective of their literary or artistic quality, which means that rather mundane items may include, or comprise, copyright works.¹⁶ For example, statement-of-account forms,¹⁷ spare-parts catalogues,¹⁸ package inserts for medicines,¹⁹ a technical drawing of a hydraulic ram,²⁰ the drawing of a

¹³ The categorisation of the two exclusive rights, collectively, as the copyright owner's distribution right is not unusual. For example, the equivalent provision to s 23(2) in the UK is considered to generally be concerned with the right to control the distribution of copies of the copyright work, or the "stages of exploitation" of the copyright work (see Bently & Sherman *Intellectual Property Law* 195, and W Cornish *Intellectual Property* 3 ed (1996) 374). Incidentally, to date, I have found no explanation (whether in case law or secondary sources) of what s 23(2)(d), which concerns the acquisition of "an article relating to a computer program" in South Africa, was meant to deal with.

¹⁴ O Dean "Parallel Importation: Infringement of Copyright" (1983) 100 *SALJ* 258 261-262; Dean *Handbook of South African Copyright Law* 1-81 and 1-82. Although it is submitted that this is correct, it does make the section somewhat tautologous as the key quality of what constitutes an article an infringing copy is repeated in s 23(2).

¹⁵ S 1 (sv "infringing copy") and s 23(2) of the SA Copyright Act.

¹⁶ S 1 (sv "artistic work" and "literary work").

¹⁷ *Accesso CC v Allforms (Pty) Ltd* 1998 4 All SA 655 (T).

¹⁸ *Payen Components SA Ltd v Bovis CC* 1995 4 SA 441 (A).

¹⁹ *Biotech Laboratories (Pty) Ltd v Beecham Group Plc* 2002 4 SA 249 (SCA).

²⁰ *Pan African Engineers (Pty) Ltd v Hydro Tube (Pty) Ltd* 1972 1 SA 470 (W).

mechanical face-loading shovel,²¹ and football-fixture lists,²² have all been held to be eligible for copyright protection. In other words, although copyright protection is commonly associated with the protection of works of literature or the art works of recognised artists (and may have initially been justified on the basis that it would provide protection to such works), copyright protection also extends to aspects of common consumer goods to the extent that the packaging, or labels, used in respect of such items may embody material which are protectable as literary or artistic works. As will be illustrated below, it is this fact that has enabled copyright law to be used, with remarkable effectiveness, to prevent parallel importation.

US copyright law mirrors South African copyright law, and the US Copyright Act of 1976 contains equivalent provisions. For example, a copyright owner's exclusive rights are set out in section 106, which includes the right to distribute the copyright work, and is equivalent to the right to publish and distribute the work under South African law. The right to control the importation of copies of its copyright work is set out in section 602(a) (1), which provides that importing a copy without the copyright owner's permission violates the owner's exclusive distribution right. Importantly, in the context of parallel importation, section 602(a)(2) of the US Copyright Act has a substantively equivalent concept to our "infringing copy" as something will be an infringing item if the making of it "either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable."

3 Definition of parallel importation

Providing a universal definition of what constitutes parallel importation is not easily done because intellectual property law is territorial in nature. Equivalent, or corresponding, rights could be held by different parties in the various jurisdictions, and whether something is considered to be an infringing parallel importation will depend on the law of the jurisdiction into which it is imported (usually, with reference to its doctrine of exhaustion). For example, the initial copyright owner of a literary work may assign the copyright in country X to party A, and assign the copyright in country Y to party B. By splitting the ownership of the copyright in the various countries, and depending on the copyright law of a particular jurisdiction, a copy of the literary work emanating from another jurisdiction could constitute an unlawful parallel import in the first jurisdiction.

However, for purposes of the definition that follows, we can assume that there are two jurisdictions in which the relevant intellectual property (such as a trademark or copyright work) is owned by the same person (the "IP owner") in both jurisdictions. Parallel imports, or so-called "grey" goods, commonly refer to goods which include, or comprise, intellectual property (such as a trademark or a copyright work) and have been manufactured in one

²¹ *Scaw Metals Ltd v Apex Foundry (Pty) Ltd* 1982 2 SA 377 (D).

²² *National Soccer League t/a Premier Soccer League v Gidani (Pty) Ltd* 2014 2 All SA 461 (GJ).

jurisdiction by, or with the permission of, the IP owner, and those goods are then imported by another party (the “importer”) into the other jurisdiction (the “second jurisdiction”) without the IP owner’s permission.²³ In the second jurisdiction, the rights to trade in such goods are often granted to an exclusive licensee or distributor (“exclusive trader”). The term “parallel” thus connotes the fact that the goods have originated from another, corresponding (or parallel) intellectual property right in another jurisdiction. These are, therefore, not pirated, or counterfeit, goods as they have been produced by, or with the consent of, the relevant intellectual property rights owner in the jurisdiction in which they were produced.

As will become clear, and as already illustrated above, parallel importation also includes the situation where the intellectual property rights in the second jurisdiction may be owned by someone other than the IP owner, although the intellectual property rights in both jurisdictions (ultimately) originate from the same person. So, for example, in the *locus classicus* on the use of copyright law to prevent parallel importation in South African law – the *Frank & Hirsch* case²⁴ – TDK Electronics Co Ltd of Japan (“TDK Japan”) originally owned the relevant copyright works.²⁵ TDK Japan then subsequently assigned its South African copyright in the copyright works to Frank & Hirsch (Pty) Ltd (“Frank & Hirsch”), the exclusive trader in South Africa.²⁶

This article will focus on the legal position of parallel imports which include, or comprise, copyright works, not other forms of intellectual property.

4 Why does parallel importation exist?

Parallel importation relies on an elementary business concept: arbitrage. Arbitrageurs exploit price differences that exist in different markets. Firms, for various reasons, sell the same (or similar) goods at different prices in various markets. If a price difference is sufficiently significant, it serves as an incentive for an arbitrageur, who could make a profit (having factored in its transport costs, and any applicable taxes and currency exchange rates) by importing goods from the market in which they are priced more cheaply.

There may be sound economic reasons for price differences in various markets. For example, an obvious reason may be that there are lower production costs in one jurisdiction when compared to another, which has been the principal reason why businesses in some countries have outsourced the manufacture of their products to lower-cost jurisdictions countries such as China. Of course, the decision to charge different prices in different markets may simply be to maximise profits, and by setting the prices to what the relevant market can bear to achieve that objective.

²³ O Dean & C Puckrin “South African Case Law on the Infringement of Copyright by Parallel Importation” (1983) 7 *EIPR* 190 190; K Rippel & R De Villiers “Legalising Parallel Imports Under Intellectual Property Law” (2004) 3 *Stell LR* 550 550.

²⁴ *Frank & Hirsch (Pty) Ltd v A Roopanand Brothers (Pty) Ltd* 1993 4 SA 279 (A).

²⁵ 282.

²⁶ 283.

Although this article will consider some of the economic issues relating to parallel importation, in the absence of empirical evidence, it is not possible to make any definitive statements about the preferred economic approach to parallel importation.²⁷ Therefore, it is important to note that the purpose of this article is not to suggest that parallel importation should always be permitted, or that there should be absolutely no price discrimination in the various markets. While it may suggest a preference in relation to the economic aspects of parallel importation – based on general propositions – its ambit is more modest: why has there been no serious engagement of the first-sale doctrine in relation to the use of copyright law to prevent parallel importation? As will be illustrated, engagement with the first-sale doctrine should assist greatly in determining the appropriate scope of copyright law, and avoid our current, rather superficial and literal, approach to question of parallel importation.

5 The first-sale doctrine

The first-sale doctrine serves to prevent a copyright owner from controlling the sales of copies of its copyright work beyond their initial, authorised distribution. Although the first-sale doctrine will only be considered in relation to copyright law, it also applies to products protected by patents or trademarks.²⁸ The first-sale doctrine limits the copyright owner's exclusive distribution rights by preventing further post-sale restraints on the distribution of copyrighted works. In the *Kirtsaeng* case, it was said to derive from English law and originated with the sale of movable property since at least the 15th century, and it served to prevent anti-competitive behaviour,²⁹ by restricting a copyright owner's control over further distribution.³⁰ In copyright jargon, the first sale is said to terminate, or "exhaust," the copyright owner's exclusive distribution right.³¹ Thus, as stated before, the concept of exhaustion (or the doctrine of exhaustion) is an alternative description of the first-sale doctrine.³²

It is important to note that the first-sale doctrine is a common-law principle, which was first recognised in the case of *Bobbs–Merrill Co v Straus & Another*.^{33 34} Although the first-sale doctrine was subsequently embodied as

²⁷ No economic analysis appears to have been conducted in South Africa on the impact of our current legal position relating to parallel importation. In Australia, legislative change was preceded by such an impact study (see L Longdin "Copyright: The Last Trade Barrier in a Globalised World?" (2006) *Birkbeck University of London* <<http://www.copyright.bbk.ac.uk/contents/conferences/2006/longdin.pdf>> (accessed 15-09-2015) 1 9-10).

²⁸ W Hansen & S Morales "John Wiley & Sons Case: Limits on the First Sale Doctrine on US Copyright Law" (2012) 34 *EIPR* 558 558.

²⁹ 2013 133 S Ct 1372.

³⁰ 1387-1388.

³¹ 1355.

³² R Clark "Exhaustion, Geographical Licensing Restrictions and Transfer Prohibitions: Two Surprising Decisions" (2013) 8 *JiPLP* 460 460.

³³ *Bobbs–Merrill Co v Straus & Another* 1908 210 US 339.

³⁴ *Kirtsaeng v John Wiley & Sons Inc* 2013 133 S Ct 1363; *Vernor v Autodesk Inc* 2010 621 F 3d 1102 1107; *Capitol Records LLC v ReDigi Inc* 2013 934 F Supp 2d 640 653. See also N Samanta & S Sen "Copyright Exhaustion in India and the USA: A Comparative Critique" (2009) 4 *JiPLP* 827 829; M Collins "Crossing Parallel Lines: The State of the First Sale Doctrine After Costco v. Omega" (2012) 8 *Buff Intell Prop LJ* 26 29; A Katz "The First Sale Doctrine and the Economics of Post-Sale Restraints" (2014) 1 *BYU Law Review* 55 64.

a statutory provision in the US Copyright Acts of 1909, 1947 and 1976,³⁵ it has remained essentially a common-law principle and is not restricted by its statutory form.³⁶ In other words, its statutory embodiment does not amount to an exhaustive codification of the doctrine.

The effect of the first-sale doctrine is that once a copy of a copyright work has been lawfully sold (or its ownership otherwise lawfully transferred), the buyer of that copy, and subsequent owners, are free to dispose of it as they wish.³⁷ In other words, while a copyright owner may prevent others from performing any of the exclusive rights afforded by copyright law, once a copy of the copyright work has been distributed by, or with the authorisation of, the copyright owner, the copyright owner's distribution rights are exhausted and it is not allowed to control further sales or transfers thereof.³⁸ It should be noted that it applies to any kind of authorised distribution. Notwithstanding its suggestive name, the doctrine does not only apply when a copy is first sold, but it also applies when a copy is given away, or title to such copy has otherwise been transferred without the accoutrements of a sale. The term "sale" is, thus, merely a term of art.³⁹

The doctrine recognises the detrimental social effect of unduly fettering the transfer of property, be it tangible or intangible property. For example, we would not consider it to be socially desirable if car manufacturers (or, indeed, the manufacturers of any tangible goods) sold us their products subject to restrictive conditions on subsequent disposals, such as, the need for us to obtain their prior consent for subsequent disposals, or the payment of a fee in return for such permission. Likewise, why should copyright owners be allowed to control the further transfers of lawful copies of their works? If they are to be given such rights, why should such further restrictions not be subject to competition law, as may be the case with tangible property? Economically, the sale (and subsequent distribution) of copyrighted works should be treated like that of any other commercial commodity.

The doctrine is well illustrated by the seminal case of *Bobbs-Merrill Co.* Bobbs-Merrill Co sought to restrain the respondents, retailers, from selling copies of its copyrighted novel for less than \$1 each. Each printed copy contained a notice that retailers were not "licensed to sell" it for less than \$1, and to do so would be treated as copyright infringement ("the restriction").⁴⁰ The respondents had purchased the copies from third parties who were under no obligation to enforce the restriction, or only to sell to retail dealers who agreed to observe the restriction.⁴¹ However, Bobbs-Merrill Co (as copyright owner) claimed that its rights to prevent the sales by the respondents derived from copyright law. More particularly, it claimed that its power to control

³⁵ Collins (2012) *Buff Intell Prop LJ* 29.

³⁶ Samanta & Sen (2009) *JIPLP* 827; Collins (2012) *Buff Intell Prop LJ* 30; Katz (2014) *BYU Law Review* 130.

³⁷ *Kirtsaeng v John Wiley & Sons Inc* 2013 133 S Ct 1355.

³⁸ *Capitol Records LLC v ReDigi Inc* 2013 934 F Supp 2d 653; *UMG Recordings Inc v Augusto* 2011 628 F 3d 1175 1180. See also Hansen & Morales 558.

³⁹ *UMG Recordings Inc v Augusto* 1179.

⁴⁰ *Bobbs-Merrill Co v Straus & Another* 1908 210 US 341.

⁴¹ 341-342.

further sales derived from its exclusive right to “vend” (or right of exclusive sale⁴²) its copyrighted book.⁴³ Of course, this is the equivalent of the modern distribution right.

In *Bobbs-Merrill Co* the court held that the distribution right did not permit the plaintiff to dictate that subsequent sales of the work below a stipulated price would amount to copyright infringement.⁴⁴ The court held that the extent of copyright protection is wholly determined by statute,⁴⁵ and that the scope of protection should extend only so far as the benefits were intended to be granted.⁴⁶ The principal exclusive right afforded by copyright protection is to produce copies of the copyright work for financial gain.⁴⁷ Where a copyright owner has sold a copy of copyright work for a satisfactory price, and passed full dominion over that article to the purchaser, it has no right to control any subsequent sale of it. This would also be the position if the copy of the copyright work contained a notice that a sale below a stipulated price will be treated as copyright infringement.⁴⁸ Copyright protection does not give a copyright owner the right to impose, by notice, a restriction, or limitation, on subsequent purchasers with whom there is no privity of contract.⁴⁹

5 1 Rationale for the first-sale doctrine

The first-sale doctrine could be said to operate as a form of common-law competition law; in particular, it evidences a general hostility to agreements imposing vertical restraints.⁵⁰ In the *Kirtsaeng* case (discussed below), the court expressly recognised that a copyright owner should not be permitted to exercise perpetual control over the distribution of copies of a copyright work; if such control continued, the copyright owner could control the price at which lawfully-purchased copies of its work were subsequently sold.⁵¹

The purpose of the doctrine of exhaustion is to avoid partitioning of markets for copyright works by limiting restrictions on the distribution of those works to what is necessary to safeguard the interest of the copyright owner in the particular copyright work.⁵²

5 2 Scope of the first-sale doctrine

The scope of the first-sale doctrine may be unlimited, or limited with reference to a particular jurisdiction or geographic area, also referred to as international exhaustion, national exhaustion, or regional exhaustion, respectively. In the case of international exhaustion, a copyright owner will

⁴² 349.

⁴³ 343.

⁴⁴ 350-351.

⁴⁵ 346.

⁴⁶ 346.

⁴⁷ 347.

⁴⁸ 350.

⁴⁹ 350-1.

⁵⁰ Katz (2014) *BYU Law Review* 66.

⁵¹ 2013 133 S Ct 1374.

⁵² *UsedSoft GmbH v Oracle International Corp* 2012 C-128/11 3 July 2012 [62].

have exhausted its exclusive distribution right by the sale of a copy of its work, irrespective of the jurisdiction in which it first took place, and, hence, will not be able to prevent its distribution in, or importation into, any other jurisdiction (provided, of course, that such other jurisdiction adheres to a policy of international exhaustion). Pursuant to a principle of national exhaustion, a copyright holder's distribution rights are exhausted only with respect to the relevant jurisdiction in which it has first authorised such distribution. Such distribution does not exhaust its rights to prevent the distribution of those copies of its work in another jurisdiction which, similarly, follows a principle of national exhaustion. Regional exhaustion is similar to national distribution, except that the distribution rights are only exhausted in the relevant region (most notably, the European Union) in which the copies are first distributed, and the copyright owner can continue to prevent the distribution of copyright works within the specific region which emanate from outside the region.⁵³ For example, article 4 (and recitals 28 and 29 of the preamble) of the InfoSoc Directive expressly establishes a policy of regional exhaustion for the members of the European Union.⁵⁴

6 Parallel importation and copyright law

We will now proceed with a more detailed account of how copyright law is used to prevent parallel importation in South Africa, and then indicate how the US Supreme Court has dealt with the issue in the *Kirtsaeng* case. As stated previously, copyright protection is potentially available in respect of rather mundane items which may embody, or comprise, literary, or artistic, works. The copyright works relied upon to prevent the importation of TDK cassette tapes in the *Frank & Hirsch* case were, *inter alia*, the pictorial material included on the packaging of those tapes (protectable as artistic works), the so-called "get-up" of the tapes.⁵⁵

Furthermore, it is important to note that, in the assessment of whether there has been copyright infringement, it is irrelevant whether the copyright work forms an insignificant part of another copyright work or article. As already mentioned, the only consideration is whether any of the restricted acts have been performed in respect of the copyright work, or any substantial part thereof, without the permission of the copyright owner.⁵⁶ Thus, as stated in the *Frank & Hirsch* case, although the copyright work could be a comparatively small, or an accessory, part of the imported article, it could render the article an infringing copy (because the copyright work is not transferred or forfeited because it forms part of the principal thing), with significant consequences for the parallel importer. In other words, the principles that deal with the passing,

⁵³ Clark (2013) *JIPLP* 460; P Lim "Copyright in Logos and Exhaustion of Rights Under the First Sale Doctrine in Grey Markets" (2012) 7 *JIPLP* 663 664.

⁵⁴ Council Directive 2001/29/EC of 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society [2001] OJ L 167/10.

⁵⁵ 1993 4 SA 279 (A) 283 and 288.

⁵⁶ S 23(1), as read with s 1(2A) of the SA Copyright Act.

or termination, of ownership in corporeal property – such as the concepts of *accessio* and *specificatio* - have no relevance to such copyright works.⁵⁷

As a consequence, copyright law is used to prevent the importation of virtually any kind of good, and not just those goods which are typically (that is, inherently, or “truly”) associated with copyright protection such as books, films and music. The importation of medicines could be prevented, not because the particular product is subject to patent protection, but because its packaging, or the informational insert accompanying it, is the subject of copyright protection. It is this potentially ubiquitous application of copyright law, which is somewhat removed from its purpose of incentivising the production of creative works, and its potentially iniquitous outcomes, which is a source of concern.

6 1 South African law

Whether a parallel import incorporating, or comprising, a copyright work into South Africa will be considered to be an infringing copy, and, therefore, prohibited, depends on the geographical scope of rights under copyright law held by the manufacturer of such article. More particular, if such manufacturer also had the right (or permission) to produce such article in South Africa, the article will not constitute an infringing copy.

In so far as the interpretation of the words in the deeming provision in section 23(2) – “would have constituted such an infringement if the article had been made in the Republic” – are concerned, the Appellate Division (as it then was) in the *Frank & Hirsch* case endorsed the decision of the court in *Twentieth Century Fox Film Corporation v Anthony Black Films (Pty) Ltd*^{58, 59}. The court held that the aforementioned phrase applied only to an imported article, that is one not made in South Africa. It required a court to postulate a hypothetical situation (or a counterfactual enquiry in US terminology): the imported article must be assumed to have been made in South Africa by the person who actually made the article in the other jurisdiction from which it originated. If that person could lawfully have made it in South Africa – either because it was the copyright owner in South Africa, or had such owner’s permission – it will not constitute an infringing copy, and, accordingly, there can be no copyright infringement. It follows, as a logical corollary, that, if the person who made the article in the foreign jurisdiction could not lawfully have made it in South Africa (that is, because it was not the South African copyright owner, or did not have that person’s consent to do so), it will constitute an infringing copy. A person who, with the requisite knowledge,⁶⁰ and without the South African copyright owner’s permission, either imports the article into South Africa, or

⁵⁷ 1993 4 SA 279 (A) 289-290.

⁵⁸ *Twentieth Century Fox Film Corporation v Anthony Black Films (Pty) Ltd* 1982 3 SA 582 (W).

⁵⁹ 1993 4 SA 279 (A) 286.

⁶⁰ It was accepted, without the matter having been fully argued, that knowledge in this context means notice of facts such as would suggest to a reasonable man that a breach of copyright law was being committed (see *Frank & Hirsch (Pty) Ltd v A Roopchand Brothers (Pty) Ltd* 1993 4 SA 279 (A) 289).

sells or distributes it in South Africa, commits an infringement of copyright in terms of section 23(2).⁶¹

This interpretation of section 23(2) creates a device by which a manufacturer of an article incorporating, or comprising, a copyright work (or its appointed South African exclusive trader) can prevent parallel imports of such an article by ensuring that any copyright in the article (or in accompanying material, such as the packaging or instructions) is split so as to ensure that the South African copyright is owned by a person other than the manufacturer in the foreign jurisdiction. For example, a corporate copyright owner can arrange for its copyright to be split by assigning the copyright in South Africa (and any country which has a similar approach to parallel importation) to a different subsidiary, or party. In this manner, it is possible to protect an exclusive trader's market in South Africa against parallel importation; unless the importation and distribution of the copyright-protected article has been authorised by the South African copyright owner (who could, of course, be the exclusive trader), any importation or distribution of the articles manufactured elsewhere would be regarded as unlawful, infringing copies. This is notwithstanding the fact that the articles were lawfully made elsewhere, possible even by the original copyright owner, from whom the South African copyright owner derived its rights. Thus, in the *Frank & Hirsch* case, TDK Japan assigned its copyright in the literary or artistic works comprised in the get-up of the TDK cassette tapes to Frank & Hirsch.⁶² The effect of the assignment was that no other person, including TDK Japan, could import TDK cassette tapes into South Africa which included such artistic works without Frank & Hirsch's consent.

Similarly, in the *McCarthy* case, McCarthy Ltd ("McCarthy"), as exclusive distributor of Yamaha amplifiers, was able to protect its market by getting Yamaha Corporation (also of Japan) to assign to McCarthy its South African copyright in the design drawings of the front panels of its amplifiers.⁶³ In this case, the court considered the legal device of splitting the copyright, with the express purpose of protecting an exclusive distributor's market, to be entirely lawful, and did not consider it to be a sham.⁶⁴ There is no indication from the court in the *McCarthy* case as to why it was necessary, or beneficial, that the exclusive distributor should be allowed to be protected in this manner. It did not consider the economic benefits of having an exclusive trader for the particular product, let alone any consideration of the first-sale doctrine. Apart from copyright infringement, it is clear that McCarthy would have had no other legal remedy to prevent the parallel importation of the Yamaha amplifiers.

As correctly noted by Rippel and de Villiers, there could be no argument for claiming that the parallel importer, Hi-Fi Corporation (Pty) Ltd, was unlawfully competing with McCarthy, as the exclusive distributor.⁶⁵ Our courts have held that the principle of free and active competition in the

⁶¹ 286.

⁶² 283.

⁶³ *McCarthy Ltd v Hi-Fi Corporation (Pty) Ltd* 2008 1075 JOC (T) 1075-1076.

⁶⁴ 1080-1081.

⁶⁵ Rippel & De Villiers (2004) *Stell LR* 567-568.

market is public policy in South Africa and monopolies are regarded with disfavour.⁶⁶ It is in the interest of consumers that the same, or similar, goods can be bought from more than one source because it will result in them paying a reasonable price for such goods.⁶⁷ The Appellate Division (now the Supreme Court of Appeal) held that competition as such is not unlawful, and that, in the absence of statutory protection, there will be no protection afforded to a trader if another trader uses the same idea or concept on which his product is based, even if the first trader has, through its efforts, built up a demand for the product. It is not unlawful competition simply because the later, competing trader's activities affects the first trader's custom or exploits a market that the first trader has established.⁶⁸ Thus, it has held that parallel importation of goods, by itself, will not amount to unlawful competition.⁶⁹ It is copyright law which enables an exclusive trader to have a monopoly of the relevant imported articles.⁷⁰

While the court in the *Frank & Hirsch* case was careful to limit its order to delivery up of the get-up of the cassette tapes, and not the cassette tapes themselves, that was sufficient to effectively put an end to the parallel importation of such tapes.⁷¹ Without the original get-up, the importer would not be able to convince consumers that the imported tapes were the genuine article. So too, attempting to sell amplifiers with alternative front panels, although functionally the same, is not an appealing proposition for any would-be parallel importer.

In this manner, copyright law can be, and has been, successfully used in South Africa to prevent the importation of genuine consumer articles by persons other than the exclusive trader.

6 2 US law

The US legal position with respect to the parallel importation of goods that include, or comprise, copyright works has been clarified in the *Kirtsaeng* case. The respondent, John Wiley & Sons, Inc. ("Wiley"), was a publisher of academic textbooks, and the US copyright owner in those books. It assigned to its wholly-owned foreign subsidiary, John Wiley & Sons (Asia) Pte Ltd., the rights to publish, print, and sell its English-language textbooks outside the US ("foreign editions"). These foreign editions typically contained wording indicating that they were only for sale outside the US.⁷²

⁶⁶ *Union Wine Ltd v E Snell and Co Ltd* 1990 2 SA 189 (C) 203.

⁶⁷ *Taylor & Horne (Pty) Ltd v Dentall (Pty) Ltd* 1991 1 412 (A) 421-422.

⁶⁸ 422.

⁶⁹ 423.

⁷⁰ It is not being suggested that copyright protection *per se* amounts to a monopoly. While it is often described in those terms, the description of the rights afforded by copyright as monopoly rights is a misnomer. A copyright owner generally receives no more of a monopoly than any other property owner. Copyright protection rarely confers monopoly power and the attendant social costs such as resource misallocation. However, in the case of the current legal position, copyright law does, in fact, allow the exclusive trader (to whom the South African copyright has been assigned) a monopoly position in respect of the particular product.

⁷¹ 1993 4 SA 279 (A) 288 and 292.

⁷² *Kirtsaeng v John Wiley & Sons Inc* 2013 133 S Ct 1356.

The appellant, Supap Kirtsaeng, imported copies of the foreign editions from Thailand and sold them in the US.⁷³ Wiley sued Kirtsaeng for copyright infringement, claiming that the unauthorised importation of the foreign editions and that their resale infringed its exclusive distribution right, as well as the related import prohibition. Kirtsaeng's defence was that the books were "lawfully made" and acquired. Thus, he claimed that he was permitted to resell or otherwise dispose of the books without the copyright owner's permission as a consequence of the first-sale doctrine.⁷⁴

The court upheld Kirtsaeng's appeal, and reversed the earlier decisions that had held him liable for copyright infringement.⁷⁵ A copyright owner's exclusive distribution right, provided for in section 106 of the US Copyright Act,⁷⁶ is qualified by, amongst other provisions, the first-sale doctrine embodied in section 109.⁷⁷ Section 109(a) provides as follows:

Notwithstanding the provisions of section 106(3),⁷⁸ the owner of a particular copy or phonorecord lawfully made under this title . . . is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. [underlining added]⁷⁹

What the court had to decide was whether the first-sale doctrine applied to a copy of copyright work manufactured abroad with the copyright owner's permission, which was bought there and then brought to, and disposed of in, the US, given the provisions of section 602(a)(1).⁸⁰

Section 602(a)(1), similar to section 23(2) of the SA Copyright Act, provides that importing a copy of a copyright work without the copyright owner's permission violates the owner's exclusive distribution right. The court held that the importation ban in section 602(a)(1) enhances the copyright owner's exclusive distribution right provided for in section 106.⁸¹ All that had to be decided was whether the words "*lawfully made under this title*" in section 109(a) restricted the scope of the first-sale doctrine geographically, that is, whether it made a difference if the copy of the copyright work was manufactured abroad.⁸²

The court held that the position was the same, irrespective of where the copies of a copyright work were made, and, therefore, the first-sale doctrine also applied to copies lawfully made abroad.⁸³ The words "*lawfully made under this title*" mean made "in accordance with" or "in compliance with" US copyright law. *In casu*, the first-sale doctrine applied because – in accordance with US law – the copies were manufactured with the permission of the relevant copyright owner in the relevant jurisdiction.⁸⁴ The first-sale

⁷³ 1356.

⁷⁴ 1357.

⁷⁵ 1371.

⁷⁶ US Copyright Act.

⁷⁷ *Kirtsaeng v John Wiley & Sons Inc* 2013 133 S Ct 1354.

⁷⁸ S 106(3) grants copyright owners exclusive distribution rights.

⁷⁹ *Kirtsaeng v John Wiley & Sons Inc* 2013 133 S Ct 1354-1355.

⁸⁰ 1355.

⁸¹ 1355 and 1357.

⁸² 1355 and 1357.

⁸³ 1355-1356.

⁸⁴ 1377.

doctrine applied only to copies whose making actually complied with the US Copyright Act, or would have complied with US Copyright Act had it been applicable (that is had the copies been made in the United States). There was no basis for any hypothetical postulation (or counterfactual enquiry).⁸⁵ The language of section 109(a) did not provide for any geographical limitation.⁸⁶ This interpretation was consistent with the interpretation of related sections in the US Copyright Act, which also contained the words “lawfully made under this title.” If the meaning of the words “lawfully made under this title” distinguished on the basis of place of manufacture it would create an anomalous position, both in relation to the application of the statutory first-sale doctrine (and with its common-law history), and other provisions of the US Copyright Act in which the phrase is used.⁸⁷ Distinguishing goods based on place of manufacture would lead to the anomaly that a US copyright holder could exercise permanent control over the US distribution chain (sales, resales, gifts, and other distribution) in respect of copies printed abroad, but not in respect of copies printed in the US.⁸⁸

In other words, the first-sale doctrine limited the exclusive distribution right, and the complementary importation ban pursuant to section 602(a) (1).⁸⁹ Thus, a purchaser of a copy of a copyright work which was lawfully made in a foreign jurisdiction could import that copy without the US copyright owner’s permission.⁹⁰

7 Reappraisal of *Frank & Hirsch* decision

It is submitted that the current South African position relating to the interpretation of the deeming provision in section 23(2) is incorrect because of two important reasons. First, the legal approach adopted by our courts in relation to the deeming provision involved, almost exclusively, a literal approach (and the interpretation thereof was, in any event, not a very convincing one), without any attempt to contextualise such provision, and consider its purpose and consequences. Second, the UK authorities relied on as persuasive authority for the current interpretation of the deeming provision, were of questionable value. However, before dealing with the aforementioned specific criticisms of our current approach to parallel importation, it is necessary that we should be clear about why copyright protection exists, and what the appropriate scope of that protection should be. The first-sale doctrine is an important component in delineating the scope of such protection, and, as illustrated below, we have a muddled approach to parallel importation by failing to recognise the first-sale doctrine.

⁸⁵ 1377.

⁸⁶ 1358.

⁸⁷ 1358, 1360, 1362 and 1367.

⁸⁸ 1362.

⁸⁹ 1372.

⁹⁰ 1372.

7 1 Purpose of copyright law

The South African position concerning parallel importation rests on a particular – distinctly literal – interpretation of section 23(2) of the SA Copyright Act, without any attempt to indicate why such interpretation is consistent with the rationale for copyright protection. While our courts have rejected possible alternative interpretations of the deeming provision because it would, apparently, introduce more anomalies, and that such interpretations would conflict with the general approach and intention of the SA Copyright Act,⁹¹ there has been no elaboration of those reasons by our courts beyond these general assertions. This is possibly because our courts have never expressly attempted to articulate the rationale for copyright protection. In fact, the Supreme Court of Appeal has expressed its scepticism concerning the “philosophical premise” underlying the SA Copyright Act.⁹²

It is respectfully submitted that our case law has focused on the narrow, literal issues at stake in a particular case, with very little analysis of those issues with reference to the purpose of copyright as a legal institution.⁹³ As noted above, copyright protection does not originate from our (or English) common law, and we need to be clear as to its purpose. Not that the common law is a sacred cow. All law is now subject to the rights enshrined in the Constitution of the Republic of South Africa (“Constitution”), and no longer should our analysis be confined to the literal interpretation of a statute. While such an approach may have been acceptable in a pre-Constitutional era, when the *Frank & Hirsch* case was decided, it simply will no longer pass muster. The Constitution mandates that our law must be applied in a manner which promotes “the spirit, purport and objects of the Bill of Rights.”⁹⁴ This is not to suggest that section 23(2) of the SA Copyright Act is unconstitutional. It is simply to stress the point that a court needs to now satisfy itself that its application of the law considers the wider implications of a particular legal position. If a South African court should be faced with a matter having similar facts to the *Kirtsang* case, could it now simply proceed on the basis evidenced in the *Frank & Hirsch* case, without any consideration of, for example, the constitutionally enshrined right to education?⁹⁵ Clearly, that can no longer be the case.

It is only by having a sound theoretical justification for copyright that we can determine the appropriate scope of copyright protection. In the absence of such a framework, there is a distinct danger that our approaches to copyright issues will be arbitrary or *ad hoc*. This has, arguably, been the case in the approach of our courts to the position concerning copyright law and parallel importation. There is no consistent approach in relation to parallel importation

⁹¹ See, for example, *Twentieth Century Fox Film Corporation v Anthony Black Films (Pty) Ltd* 1982 3 SA 582 (W) 592.

⁹² *Biotech Laboratories (Pty) Ltd v Beecham Group Plc* 2002 4 SA 249 (SCA) 260.

⁹³ The same is true of English copyright law, which formed the foundation of South African and continues to be influenced by it.

⁹⁴ S 39 of the Constitution.

⁹⁵ S 29.

and the various other types of intellectual property rights.⁹⁶ This is not to deny that a coherent justification for protection of intellectual property, such as copyright, is a “formidable task,”⁹⁷ and not so easily discernible.⁹⁸ However, there should at least be a guiding principle, which can be used to bring coherence to our copyright law, and, in that vein, it is submitted that it should be an economic one.⁹⁹ By awarding authors proprietary rights in their creations, copyright law allows authors the ability to earn direct financial returns (and potentially profit) from their efforts; copyright law provides the required incentives for authors to create copyright works.

Given the public-good nature of copyright works, although copyright protection is required to address the so-called free-rider problem (and the associated market failure), it does impose a social cost. In the absence of copyright protection, copyright works can be enjoyed by additional persons at negligible, or no extra, cost. It is, therefore, necessary to ensure that a copyright owner’s protection extends no further than providing the necessary incentives for the production of works protected by copyright, and does not unnecessarily increase the social costs of such protection. The first-sale doctrine, in a manner similar to the fair-dealing exceptions, seeks to reduce the social costs of copyright protection. These devices seek to promote the efficient use of copyright works (particularly where the copyright owner may have ceased to exploit its copyrighted work¹⁰⁰), and to reduce transaction costs.¹⁰¹ Copyright protection is not some inviolate right.

The first-sale doctrine should not affect the incentives created by copyright law, as the copyright owner is able to determine the time of publication, number of copies of the copyright work to be distributed, and the price it wishes to charge for those copies. Copyright protection allows a copyright owner to earn his reward on the first sale of a copy of his work.¹⁰² There is no economic reason why a copyright owner should be protected against the circulation of – what from its perspective are – “used” copies of its work by third parties.¹⁰³ On the contrary, it may serve to increase sales (and probably also the price that could be charged) for a copyright work if a purchaser of a copy has the comfort that it is able to dispose it in a secondary market, without the copyright owner’s consent. You are referred to the earlier example of the purchaser of a motor vehicle. The first-sale doctrine reduces a consumer’s opportunity cost and risk of acquiring a copy of copyright work, particularly one with which it unfamiliar.¹⁰⁴ Socially, this is, of course, a very important consideration if new authors are to be incentivised to create

⁹⁶ Provided that the imported goods are genuine goods, and have not been materially altered, s 34(2)(d) of the Trade Marks Act 193 of 1994 permits parallel importation.

⁹⁷ E Hettinger “Justifying Intellectual Property” (1989) 18 *Phil & Pub Aff* 31 51.

⁹⁸ S Trosow “The Illusive Search for Justificatory Theories: Copyright, Commodification and Capital” (2003) 16 *Can J L & Juris* 217 245, quoting Hettinger (1989) *Phil & Pub Aff* 39-40.

⁹⁹ See S Karjiker “Justifications for Copyright: The Moral Justifications” (2013) 1 *IPLJ* 42 42; S Karjiker “Justifications for Copyright: The Economic Justification” (2014) 2 *IPLJ* 13 13.

¹⁰⁰ Katz (2014) *BYU Law Review* 111.

¹⁰¹ 141-142.

¹⁰² Collins (2012) *Buff Intell Prop LJ* 28.

¹⁰³ Katz (2014) *BYU Law Review* 91-92 and 136.

¹⁰⁴ 111.

copyright works. The level of such further trade may also serve as a signal to a copyright owner to increase its distribution of the work, or resume the distribution thereof, if it had ceased to do so.

When comparing the authoritative South African judgments with those of the court in the *Kirtsang* case, it is instructive how the US Supreme Court was expressly concerned with the economic consequences of the alternative arguments. This difference is rather surprising as the court *a quo* in *Frank & Hirsch* case raised similar concerns relating to copyright and parallel importation as did the US Supreme Court, which were largely ignored by the Appellate Division.¹⁰⁵ The court *a quo* held that to accept the current interpretation of the deeming provision would mean that the importer of a car which had components such as shock absorbers of another manufacturer fitted, upon which a literary or artistic work was printed or painted, could be infringing copyright, and copyright law could be used to prohibit the importation of the car.¹⁰⁶ The car itself would not be a copy, reproduction or adaptation of the copyright work. The copyright work would merely be an accessory component thereof.¹⁰⁷ Similarly, the US Supreme Court was concerned that millions of imported consumer goods that contain copyright works, such as computer programs or their packaging, would not be able to be resold without the permission of the relevant copyright holder because it would amount to copyright infringement.¹⁰⁸ The dissenting judgment in the *Kirtsang* case, rather dismissively, dubbed these practical, economic problems as the “parade of horrors.”¹⁰⁹

7 1 1 Adoption of the first-sale doctrine

Central to the US Supreme Court’s desire to address these practical, economic problems, was a rejection of a geographical limitation of the first-sale doctrine. In contrast, in the context of copyright law, our courts have either completely ignored the first-sale doctrine, or have held that it is inapplicable. For example, the court *a quo* in the *Frank & Hirsch* case stated that we should be wary of considering the first-sale doctrine and the US authorities based upon that doctrine, because it was applicable by virtue of US legislation.¹¹⁰ As illustrated above, that is not so; it has common-law origin. Thus, there is no reason why it should not be introduced into South African law.

7 1 2 What is our exhaustion policy?

The Trade Related Aspects of Intellectual Property Rights Agreement (“TRIPS Agreement”), principally article 6 (and, more indirectly, articles 8(2) and 40(2)), allows member states of the World Trade Organisation, of which

¹⁰⁵ 1993 4 SA 279 (A) 289-90.

¹⁰⁶ *Frank & Hirsch (Pty) Ltd v A Roopanand Brothers (Pty) Ltd* 1991 3 SA 240 (D) 245-246.

¹⁰⁷ 246.

¹⁰⁸ *Kirtsang v John Wiley & Sons Inc* 2013 133 S Ct 1365.

¹⁰⁹ 1373-1374 and 1389-1390.

¹¹⁰ 1993 4 SA 279 (A) 244.

South Africa is one, to determine their own exhaustion regimes.¹¹¹ Although our courts have refused to consider the first-sale doctrine,¹¹² and, accordingly, indicate what type of exhaustion policy we adhere to in South Africa, it is worthwhile considering whether, in any event, the current interpretation of section 23(2) is, in substance, equivalent to a particular type of exhaustion. At first glance, the current interpretation of the deeming provision may appear to amount to a policy of national exhaustion, given the fact that parallel importation of copies of a copyright work emanating from another jurisdiction may be prevented. However, as indicated above, whether a particular article constitutes an infringing copy is not determined by its origin, but rather by the extent of the manufacturer's rights under copyright. If the manufacturer could have lawfully produced the copy in South Africa, it is not an infringing copy, and the importation of such article is permitted, without any copyright-law restrictions. This is clearly demonstrated in the *Twentieth Century Fox* case.¹¹³

In the *Twentieth Century Fox* case, the UK manufacturer of the video cassettes containing copies of the relevant copyright works (cinematograph films) had a licence to manufacture those copies in both the United Kingdom and South Africa.¹¹⁴ Accordingly, the importation of such video cassettes from the UK did not constitute an infringement of the copyright in the relevant cinematograph films pursuant to section 23(2) of the SA Copyright Act.¹¹⁵ This was the case even if the relevant South African copyright owner had granted another trader (or licensee) the exclusive rights to distribute such copies in South Africa. Such exclusive trader was not able to prevent such imports.

Accordingly, the South African legal position does not amount to a policy of national or international exhaustion. While it would almost certainly be the case that copyright owner's national distribution rights are exhausted in South Africa if it has authorised the distribution of copies of its copyright work in South Africa, our legal position is not one of national exhaustion. This is because our courts have decided that the issues of parallel importation are to be determined with reference to the geographic extent of the manufacturer's rights to produce the copies, namely, whether it extends to South Africa. The question of parallel importation is not determined by reference to the place of an authorised distribution of the copy of a copyright work, as is the case in questions of exhaustion. Our courts have, unnecessarily, muddied the waters, leaving us with a confused legal position relating to parallel importation. They should make every effort to address the issue in a more principled manner when next given the opportunity, if the matter has not been addressed by the legislation by then. The first-sale doctrine allows for a more principled

¹¹¹ Annex IC to the General Agreement on Tariffs and Trade ("GATT"), which established the World Trade Organisation, signed on 15 April 1994.

¹¹² As stated previously, the court *a quo* in the *Frank & Hirsch* case stated that the first-sale doctrine was applicable in the US because of statutory law, and, therefore, we should be wary of following US authorities based upon this doctrine (1993 4 SA 279 (A) 244). As illustrated above, this is incorrect as it is a common-law doctrine.

¹¹³ *Twentieth Century Fox Film Corporation v Anthony Black Films (Pty) Ltd* 1982 3 SA 582 (W).

¹¹⁴ 588.

¹¹⁵ 594.

approach to consider relevant factors, which are currently absent from our legal analysis.

Interestingly, prior to the *Kirtsaeng* case, the US government was considered to be the foremost proponent of a policy of national exhaustion, which policy was thought to be motivated by its national interest in protecting the significant US copyright industry.¹¹⁶ It was this fact which prompted the dissenting judges in the *Kirtsaeng* case to express their difficulty in reconciling the majority's finding with the supposed meaning of the US Copyright Act's provisions and its history.¹¹⁷ The majority's decision in the *Kirtsaeng* case had now established the principle of international exhaustion in the United States, which the United States had steadfastly resisted.¹¹⁸ Of course, the majority considered their position to be in accordance with the legislative intent.¹¹⁹ The majority was clear: if it had misconstrued what the US exhaustion policy ought to be, it was up to the legislature, Congress, to provide for a system of national exhaustion.¹²⁰

7 1 3 A serious anomaly of our current position

Not only does our current copyright position relating to parallel importation not amount to any recognised exhaustion policy, it leads to a rather anomalous position concerning the status of articles protected by copyright which have been manufactured elsewhere. For example, on the facts of *Frank & Hirsch* case, Frank & Hirsch could have – subject, of course, to its contractual obligations towards TDK Japan or trade mark law – imported counterfeit TDK cassette tapes which it sourced from third parties elsewhere. It is Frank & Hirsch, as the South African copyright owner, who is given the exclusive right to determine whether those cassette tapes would be regarded as infringing copies. Clearly, no one, other than Frank & Hirsch in South Africa, would be able to claim that such articles did not infringe copyright, but our approach to parallel importation permits that anomalous possibility. Perhaps it is this concern that makes foreign manufacturers wary of assigning the South African copyright to a local exclusive trader, and why section 23(2) has not been used more often to prevent parallel importation.¹²¹

7 2 English cases cited

Apart from the aforementioned principled criticism of the approach followed by our courts (which I will again return to below), the preferred interpretation of the deeming provision was principally based on the approach followed in two English cases on the interpretation of an equivalent provision,

¹¹⁶ Rippel & De Villiers (2004) *Stell LR* 552.

¹¹⁷ 2013 133 S Ct 1385.

¹¹⁸ 1373.

¹¹⁹ 1360-1361.

¹²⁰ 1373.

¹²¹ Prof Owen Dean, who has extensive experience as a practising attorney, and was the instructing attorney for the parties seeking to prevent parallel importation in both the *Frank & Hirsch* and *McCarthy* cases, has stated that foreign entities have generally been very reluctant to assign their South African copyright to an exclusive trader in South Africa, despite its potential usefulness to prevent parallel importation.

namely, section 16(2), in the UK Copyright Act 1956: *Polydor Ltd & Another v Harlequin Record Shop & Another*¹²² and *CBS United Kingdom Ltd v Charmdale Record Distributors Ltd*^{123 124}. The aforementioned cases were, at best, of questionable value as support for the courts' preferred interpretation.

Although there was no authority relating to the interpretation of the equivalent UK provision,¹²⁵ the court in the *Polydor* case – despite it only involving motion proceedings for an interlocutory injunction – did not admit to any other possible interpretation of the provision, and did not consider it to be a difficult question of law requiring any “detailed argument and mature consideration.”¹²⁶ Its confidence is somewhat perplexing as it in fact cites a New Zealand decision, which dealt with the equivalent New Zealand statutory provision, in which the New Zealand court acknowledges that interpretation of the section “is indeed troublesome.”¹²⁷ Furthermore, the New Zealand court came to a different conclusion to that of the court in the *Polydor* case. The New Zealand court appeared to regard lawful copies, that is, those made by any person specifically authorised by the copyright owner, as non-infringing copies.¹²⁸

However, the *Polydor* court's confidence in its conviction that its interpretation was correct was clearly not as convincing as it would appear at first glance, as it was “glad” that the court in the *CBS* case agreed with its interpretation.¹²⁹ Although the *CBS* case was decided after the *Polydor* case, the court in the *Polydor* case managed to get access to the transcript of the *CBS* judgment.¹³⁰ What makes the *Polydor* case even more problematic as persuasive authority is that the *CBS* case used the *Polydor* case as the basis for *its assumption* that the provision should be interpreted in that manner.¹³¹ In fact, the court in the *CBS* case, similar to the New Zealand court, admitted that it had no “clear concept of the exact purpose which the section was designed to achieve,” and that there was no fully-argued authority on the proper interpretation of the section.¹³² A case of circular precedent, if ever there was one.¹³³

7.3 Property, contract, corporate veils and competition

For completeness sake, it is necessary to consider briefly the relevance of other areas of law, such as contract law, company law, and competition law, to the regulation of parallel importation, or other practices by which a copyright

¹²² *Polydor Limited & Another v Harlequin Record Shop & Another* [1980] FSR 194.

¹²³ *CBS United Kingdom Ltd v Charmdale Record Distributors Ltd* [1980] 2 All ER 807.

¹²⁴ *Twentieth Century Fox Film Corporation v Anthony Black Films (Pty) Ltd* 1982 3 SA 582 (W) 590-591.

¹²⁵ *Polydor Limited & Another v Harlequin Record Shop & Another* [1980] FSR 199.

¹²⁶ 200.

¹²⁷ *CBS United Kingdom Ltd v Charmdale Record Distributors Ltd* [1980] 2 All ER 813-814.

¹²⁸ 814.

¹²⁹ *Polydor Limited & Another v Harlequin Record Shop & Another* [1980] FSR 200.

¹³⁰ 200.

¹³¹ *CBS United Kingdom Ltd v Charmdale Record Distributors Ltd* [1980] 2 All ER 812.

¹³² 813 and 815.

¹³³ The court in the *CBS* case contradicted itself when considering the position of a copyright owner, as opposed to a licensee (see *CBS United Kingdom Ltd v Charmdale Record Distributors Ltd* [1980] 2 All ER 816).

owner seeks to control the distribution of copyrighted works beyond the first sale.

Already from its inception in the case of *Bobbs-Merrill Co*, there was clearly no suggestion that a post-sale restriction by way of *contract* was not possible. As indicated in that case, the restriction sought to be imposed by notice was not enforceable as an infringement of copyright, and there was no privity of contract between Bobbs-Merrill Co and the respondents.¹³⁴ Accordingly, the first-sale doctrine does not appear – at least in US law¹³⁵ – to prevent a copyright owner from imposing, by way of contract, a post-sale restriction on a recipient of a copy of a copyright work, such as limiting where the copy can be resold, to whom, and at what price. The enforceability, or validity of such contracts, or restrictions, will depend on the relevant principles of contract law, and competition law relating to vertical restrictive practices. For example, the legality of the agreement might be in issue, or the agreement may be held to substantially prevent or lessen competition in a market.¹³⁶

If downstream trade in a copy of a copyright work could be prevented by contract law (provided it does not conflict with competition law) it may, in one – theoretical – respect, be even more powerful than copyright law. Copyright protection is of limited duration, while contractual rights could endure indefinitely. However, given the generous period of copyright protection, it is unlikely that the copyright owner would have any remaining economic interest which would be worth protecting, and which it could prove has been damaged, beyond the period of copyright protection. There is a more important reason why it would be socially beneficial to limit such attempted restrictions on further trade in copies of copyright works to the regulation by contract law (or competition law).

Copyright law creates a proprietary right in the protected copyright work. Accordingly, breaches of copyright are invariably protected by a property rule.¹³⁷ The principal remedy for a breach of copyright is an interdict restraining the infringer from performing the relevant restricted act. Dean stresses the proprietary nature of the remedy, by stating that “the failure by the court to grant an interdict would abrogate the very nature of copyright in a work.”¹³⁸ If such vertical post-sale restrictions could be enforced based on copyright law, the relative strength of a proprietary entitlement could pose a threat in circumstances where the restrictions sought to be enforced are socially harmful.¹³⁹ Moreover, as property rule, it can be enforced against third parties, with whom the copyright owner has no contractual relationship. In addition to the interdict, copyright law has assisted the copyright owner

¹³⁴ *Bobbs-Merrill Co v Straus & Another* 1908 210 US 350-351.

¹³⁵ As will be discussed below, this is not the case in Europe.

¹³⁶ Of course, minimum resale price maintenance is expressly prohibited in South Africa (s 5(2), Competition Act 89 of 1998).

¹³⁷ A property rule gives its holder an absolute right to enforce legal entitlement, and the holder can only be deprived thereof by agreeing to dispose of such an entitlement. Such an entitlement is typically protected by way of injunctions or orders for specific performance. See C Veljanovski *Economic Principles of Law* (2007) 54-55.

¹³⁸ Dean *Handbook of South African Copyright Law* 1-127.

¹³⁹ Katz (2014) *BYU Law Review* 68.

with difficulties it may have in establishing its damages suffered, allowing it claim a reasonable royalty in lieu of damages,¹⁴⁰ and the possibility of additional damages.¹⁴¹ This makes copyright infringement proceedings a particularly potent remedy, and one that is much more likely to be invoked than a party seeking to prevent a breach of contract.¹⁴²

The strength of copyright remedies to prevent infringement in relation to copies of a copyright work in the context of parallel importation – which we should remember, in this context, were lawfully produced – appears to be excessive. This is particularly the case when our courts have not attempted to engage with the doctrine of exhaustion, and have not expressly indicated what our current exhaustion policy is. The first-sale doctrine serves as a limitation on the extent to which a copyright owner can control (and possibly distort) the market for copies of its copyright work; it “reflects the law’s sensitivity to the differences between the costs and benefits of contract as opposed to property entitlements.”¹⁴³ In the absence of a clearly-articulated preference for national exhaustion, copyright law should rather err on the side of allowing consumers the benefit of a market in which free competition for a particular copyright-protected good is allowed. We should, therefore, in the absence of an empirically-based economic analysis adopt a policy of international exhaustion.

Matters concerning intellectual property law, such as copyright law, and which clearly have an effect on the operation, and nature, of the market for a particular good should not be decided without reference to the economic consequences. This is, arguably, also the intention of the Competition Act, which contains no exception for intellectual property. Given the strategic advantage which the property rule created by copyright law gives the copyright owner in relation to claims of copyright infringement, there is, at present, no reason, other than a questionable literal interpretation of the deeming provision, why such disputes should not be left to be regulated by competition law. For example, if the application of copyright law, in effect, results in a vertically restrictive practice – when such effect is not required to enable copyright protection to satisfy its incentivising purpose – that situation should be subject to scrutiny in terms of competition law. Our courts have taken an unduly restrictive approach in their consideration of issues, focussing, for example, on the literal meaning of the statutory provisions or contract law, instead of considering the economic consequences of particular arrangements.

The current interpretation of the deeming provision gives no consideration to whether a copyright owner has engaged in a deliberate partitioning of markets (by, for example, splitting its copyright in the different jurisdictions and assigning it to different subsidiaries) to exercise possible price discrimination in order to maximise its profits. In the absence of competition law, the only other remedy available to a parallel importer seeking to prevent

¹⁴⁰ S 24(1A) of the SA Copyright Act.

¹⁴¹ S 24(3).

¹⁴² Katz (2014) *BYU Law Review* 73.

¹⁴³ 100.

such a flagrant exercise to partition markets would have to be by way of an exceptional remedy such as piercing of the corporate veil. If the parallel importer could succeed in demonstrating that the copyright in the territory from which it has imported its goods, and that in South Africa, is, in effect, owned by or derived from the same person, the imported good should not be considered to be infringing copies.

As can be seen from the *Kirtsaeng* case, with a policy of international exhaustion it becomes unnecessary to consider the validity of a copyright owner's actions to split the ownership of its copyright, by assigning its copyright in the various jurisdictions to different persons. Our courts, unlike US law, have also, in any event, never developed a copyright-misuse doctrine, which seeks to prevent copyright holders from using their rights under copyright in order to allow them to control areas which are rightly regulated by another area of law, such as competition law.¹⁴⁴

8 The purpose of the deeming provision

Having expressed the view that the interpretation of the deeming provision adopted by our courts, involving a hypothetical postulation, has led to a confused position in respect of parallel importation, the question remains as to what the deeming provision was meant to deal with. As indicated above, before the *Polydor* and *CBS* cases in the UK, there was no decision on the meaning of the deeming provision. The leading English textbooks prior to the aforementioned decisions contained no commentary on what the deeming provision meant; there was certainly no suggestion that the hypothetical postulation adopted by the English and South African courts was correct, or intended. In fact, the court in the *Polydor* case dismissed a plausible alternative hypothesis, namely, that the goods were made in similar circumstances to that made in England.¹⁴⁵ This is, of course, the approach adopted by US Supreme Court in the *Kirtsaeng* case. This would essentially involve an enquiry whether the imported articles had been made in infringing circumstances where they were actually manufactured. If not, then such imported articles could not be said to constitute infringing copies under the SA Copyright Act. Accordingly, the issue should simply be whether the article was lawfully made in the other jurisdiction, namely, by, or with the consent of, the copyright owner in that jurisdiction.

It is submitted that there is no greater mischief that the deeming provision seeks to address than to prevent the importation of counterfeit articles. This interpretation also accords with the proposed position argued for by Rippel and de Villiers.¹⁴⁶ What makes this interpretation (with the resultant policy of international exhaustion) particularly convincing, and neat, is not merely the fact that there was nothing in the legislative history indicating that it was meant to be deal with anything other than counterfeit copies. In fact, as illustrated earlier, the current interpretation of the deeming permission means that the South African copyright owner can condone any counterfeiting

¹⁴⁴ Collins (2012) *Buff Intell Prop LJ* 47-8.

¹⁴⁵ *Polydor Limited & Another v Harlequin Record Shop & Another* [1980] FSR 198-199.

¹⁴⁶ Rippel & De Villiers (2004) *Stell LR* 571.

activity which may have taken place elsewhere. This would almost certainly conflict with its treaty obligations.

Incidentally, Prof Owen Dean, who acted for Frank & Hirsch, was rather candid and honest with the author concerning the interpretation of the deeming provision which they argued for, and which the Appellate Division, of course, accepted. In a conversation with the author, he stated that the particular interpretation was not based on any legislative history of section 23(2). The fact is that the interpretation simply suited their case.

9 Exhaustion and digital works

While the aforementioned analysis may already have served to indicate the shortcomings in our current approach to parallel importation, our approach becomes even starker should our courts have to consider the legal position relating to digital works. The benefit of having a well-developed first-sale doctrine is illustrated by recent European decisions involving digital works.

For an increasing number of copyright works, the first-sale doctrine has to take account of modern methods of distribution. In some respects, the issue of what constitutes an imported article is rendered redundant with digital distribution. Increasingly, we are getting copies of copyright works in digital form, without the need for a copyright owner to use a physical medium to distribute such works. For example, music can now be distributed via digital downloads over the Internet, and literary works are available as ebooks, as well as printed copies. This has raised the issue of whether the first-sale doctrine also applies to the distribution of a digital copy of a copyright work, as it would if such work were distributed via a physical medium. For purposes of this discussion, it must be assumed that the further “sale” of the digital copy of the copyright work does not involve the making of an illegal (or additional) copy of the work. For example, it would involve the purchaser of an ebook deleting the copy of the literary work from his electronic device and allowing another person to gain access to the digital copy. In fact, as a result of technological protective mechanisms such as digital rights management, a copyright owner is able to verify that there is, at any time, the relevant number of copies of its copyright work.

Interestingly, while the US has adopted a creditable position in relation to the use of copyright law, and the first-sale doctrine, in relation to parallel importation, it has failed to develop the first-sale doctrine in the face of digital distribution of copyright works. As noted, while the US courts have tended to display an awareness of the economic consequences of legal regulation, they appear to have adopted a surprisingly rigid approach to the development of the first-sale doctrine in relation to digital works. In fact, it is the European Court of Justice (“ECJ”) that has now taken the lead in developing the first-sale doctrine in relation to digital works. The approach of the US courts is amply illustrated by two cases: *Vernor v Autodesk Inc*,¹⁴⁷ and *Capitol Records LLC v ReDigi Inc*.¹⁴⁸

¹⁴⁷ *Vernor v Autodesk Inc* 2010 621 F 3d 1102.

¹⁴⁸ *Capitol Records LLC v ReDigi Inc* 2013 934 F Supp 2d 640.

In *Vernor v Autodesk Inc*, Vernor attempted to resell copies of Autodesk's computer software, which Autodesk claimed constituted copyright infringement.¹⁴⁹ Autodesk distributed its software pursuant to a nonexclusive and non-transferable licence, which, *inter alia*, prohibited customers from transferring the software without Autodesk's prior consent.¹⁵⁰ The court considered the crux of the case to be whether Autodesk's customers *owned* their copies of the software, or were only *licensed* the copies. This was so because it claimed that the first-sale doctrine applied only in the former case, that is, if the customer owned the copy of the software. In that case, the customer could resell its copy of the software, as Autodesk's exclusive distribution right would have been exhausted as a result of the application of the first-sale doctrine.¹⁵¹ This was apparently because section 109(a), and the common-law doctrine, limited its application to an "owner" of a copy of a copyright work, and did not apply to licensee.¹⁵²

In the *Capitol Records* case the legal issue was whether a digital music file, lawfully downloaded and purchased, could be resold.¹⁵³ The court held that such resale necessarily involved a transfer of a digital music file over the Internet, which constituted an unlawful reproduction and distribution of the relevant sound recording.¹⁵⁴ As a consequence of the wording of the statutory first-sale doctrine, the resale of the sound recordings were not protected by the first-sale doctrine because it was limited to the distribution of material items, like records. *In casu*, the resale involved the making of a reproduction of the relevant sound recording.¹⁵⁵ If this position was unsatisfactory, given the technological changes which have taken place, it should be amended by the legislature.¹⁵⁶ Interestingly, the court expressed no view on whether a purchaser was simply a licensee in respect of the digital music, or on the specific contractual provisions.

In contrast, the ECJ's position is clearly illustrated in *UsedSoft GmbH v Oracle International Corp* case.¹⁵⁷ Oracle was the proprietor of the relevant software (computer programs), which was distributed as a download over the Internet or supplied on CD-ROM or DVD.¹⁵⁸ Its licence agreements for the software provided that the licence was for an unlimited period, non-exclusive, and non-transferable.¹⁵⁹ UsedSoft sold software licences it acquired from Oracle's customers,¹⁶⁰ which Oracle sought to prevent.¹⁶¹ The issue was whether the doctrine of exhaustion of the distribution right under article 4(2) of

¹⁴⁹ 2010 621 F 3d 1103-6.

¹⁵⁰ 1103-1104.

¹⁵¹ 1107 and 1113.

¹⁵² 1107-1109.

¹⁵³ *Capitol Records LLC v ReDigi Inc* 2013 934 F Supp 2d 648.

¹⁵⁴ 648 and 651.

¹⁵⁵ 655.

¹⁵⁶ 655 and 660.

¹⁵⁷ *UsedSoft GmbH v Oracle International Corp* 2012 C-128/11 3 July 2012.

¹⁵⁸ 2012 C-128/11 3 July 2012 [20] and [21].

¹⁵⁹ [23].

¹⁶⁰ [24].

¹⁶¹ [27].

the Software Directive¹⁶² applied to computer programs, whether downloaded from over the Internet, or distributed on a data carrier (physical medium), such as a CD-ROM or DVD.¹⁶³ That would, in turn, determine whether a UsedSoft customer was a “lawful acquirer” of a copy of the software, and would enable such customer to use the software.¹⁶⁴

The ECJ held that whether the copyright in a situation such as Oracle’s was exhausted had to be determined with reference to the contractual relationship between the rightsholder and its customer, within which the downloading of the copy of the software took place.¹⁶⁵ Therefore, the commercial transaction giving rise to a “sale” for the exhaustion of the right of distribution of a copy of the software in accordance with article 4(2) had to involve a transfer of the right of ownership in that copy.¹⁶⁶ Legally, the downloading of a copy of the software and the conclusion of the user licence agreement formed an indivisible whole, as the software could not otherwise be used.¹⁶⁷

In determining whether there was the transfer of the right of ownership of the copy of the software in question, it was significant that a customer who downloaded the copy obtained a right to use it for an unlimited period. Thus, the intention was that the customer would have permanent use thereof, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work to Oracle, as its proprietor.¹⁶⁸

Legally, it made no difference whether the copy of the software was downloaded or distributed by means of a material medium such as a CD-ROM or DVD. In both cases, the use of the software involved the making of a copy of the software, and the transfer of the right of ownership in that copy.¹⁶⁹ Article 4(2) of the Software Directive did not distinguish between software distributed on a tangible medium or intangible form over the Internet as to when the exhaustion of the right of distribution applies.¹⁷⁰

From an economic point of view, there was no difference between the sale of software on a physical medium or via download over the Internet. The distribution in intangible form over the Internet was the functional equivalent of the supply of software on a physical medium.¹⁷¹ If there was no exhaustion of the distribution right in respect of the distribution of the software in intangible form, the copyright holder could control the resale of copies downloaded from the Internet, and demand further remuneration on the occasion of each new sale, even though the first sale of the copy had already enabled the rightholder

¹⁶² Council Directive 2009/24/EC of 23 April 2009 on the legal protection of computer programs [2009] OJ L111/16, which codified Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs [1991] OJ L122/42.

¹⁶³ *UsedSoft GmbH v Oracle International Corp* 2012 C-128/11 3 July 2012 [30], [31], [33], [34] and [35].

¹⁶⁴ [30], [34], [35] and [73].

¹⁶⁵ [38].

¹⁶⁶ [42].

¹⁶⁷ [44].

¹⁶⁸ [45] and [46].

¹⁶⁹ [47].

¹⁷⁰ [55], [57], [58], [59] and [61].

¹⁷¹ [61].

to obtain an appropriate remuneration. Such a restriction would go beyond what is necessary to safeguard the software.¹⁷²

Thus, article 4(2) of the Software Directive had to be interpreted as meaning that the right of distribution of a copy of a computer program is exhausted if the copyright holder has authorised the downloading of a copy from the Internet for an unlimited period of use, in return for payment of a fee (or even free of charge) corresponding to the economic value of the copy of the work to the copyright holder.¹⁷³ Moreover, the consequence of the exhaustion of the distribution right will negate any contractual terms by which the copyright owner seeks to prohibit the resale of that copy of the computer program.¹⁷⁴ Thus, in Europe the first-sale doctrine may trump any contractual post-sale restriction sought to be imposed by the copyright owner.

10 Conclusion

There are serious shortcomings in our current approach to copyright law and parallel importation, and this is primarily due to a refusal by our courts to engage with the doctrine of exhaustion in our law. Consequently we have a rather confused approach to parallel importation, and will, no doubt, have no principled approach when confronted with issues relating to digital works.¹⁷⁵ Analysing vexing issues concerning the development of copyright in the face of emerging technologies is best done if there is clarity on the purpose, and scope, of copyright law, otherwise the development of copyright law will, arguably, be *ad hoc* and unpredictable.

If our courts refuse to develop the law in a principled manner, the legislature should consider stepping in. However, as mentioned before, this article is not to justify, economically, a case for or against parallel importation. It merely expresses serious concerns about the current ability of copyright law to prevent parallel importation, without regard to any additional considerations, such as economic consequences. The use of copyright to partition markets to enable price discrimination, arguably, goes beyond the purpose, and the proper scope, of copyright law. Such use of copyright law is, it is submitted, not sanctioned by the SA Copyright Act.

The comparison between the US and EU concerning digital works again illustrated the difference a more thorough analysis can make. While the US courts' approach was a rigid, formulaic application of the law, focussing on the narrow issues of contract law (engaging in only a superficial consideration of the first-sale doctrine), while the ECJ considered the matter at a more fundamental level. It considered the proper scope of copyright law and the economic nature of the particular transactions.

Irrespective of the economic arguments for, or against, parallel importation, (or even if we simply adopt a system of national exhaustion) the use of copyright

¹⁷² [63].

¹⁷³ [72] and [88].

¹⁷⁴ [77].

¹⁷⁵ It is submitted that digital works, such as music and books, are not covered by s 23(2)(d) of the SA Copyright Act, as such work will not satisfy the definition of "computer program" in s 1.

in the labels, packaging, or accompanying documentation, of consumer products should not be the basis on which the parallel importation of those goods should be prevented. It is an abuse of copyright. Allowing reliance on copyright law to prevent the importation of consumer goods based on such ancillary matter does not serve to incentivise creative endeavours. The authors of those ancillary copyright works have been appropriately remunerated by the firms which employ or commission them to create such works. A person whose artistic work is embodied in the packaging of a cassette tape is unlikely to be remunerated based on the number of tapes sold (or even be offered remuneration on that basis). Having regard to the justification for copyright protection, the reliance on the use of copyright in ancillary copyright works to prevent parallel importation should not be allowed.

SUMMARY

This article critically reassesses the South African legal position in relation to copyright law and parallel importation, using the decision of the US Supreme Court in *Kirtsaeng v John Wiley & Sons Inc* to highlight the shortcomings in our current approach. The South African legal position concerning parallel importation is based on a narrow literal interpretation of the section 23(2) of the Copyright Act 1978, based on questionable UK case law. This approach fails to properly contextualise the relevant statutory provision, taking into account the purpose and scope of copyright law.

What is required is a more far-reaching analysis of parallel importation, based on principles, and the effects on consumer welfare. Such analysis should include consideration of the first-sale doctrine (or doctrine of exhaustion), which has been employed and developed in the leading jurisdictions on intellectual property law. Our courts have refused to consider the first-sale doctrine in the context of parallel importation, or, indeed, any other context concerning intellectual property law. The article provides an account of the origin, purpose, and effect the first-sale doctrine. By failing to consider the first-sale doctrine, our current approach to parallel importation is confused, and is not based on sound theoretical principles. The need for our courts to consider the first-sale doctrine extends beyond parallel importation. It is also relevant to how we develop copyright law in relation to digital copyright works. The development of copyright law in the face of emerging technologies is best done if there is clarity on the purpose, and scope, of copyright law, otherwise the development of copyright law will be *ad hoc* and unpredictable. Development of the first-sale doctrine in South African law will help to ground our law on a more coherent theoretical foundation.