

Memorandum

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To: National Association of College Stores

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Re: Sales of International-Edition Textbooks by College Stores

LEGAL ANALYSIS OF THE SALE BY COLLEGE STORES OF INTERNATIONAL-EDITION TEXTBOOKS

I. INTRODUCTION

Sales of textbooks from non-U.S. sources create significant challenges for U.S. college stores. Two factors have made low priced “international versions” of textbooks more easily accessible to U.S. consumers: the publishing industry’s maintenance of a dual pricing system and an increasingly global marketplace. College stores’ inability to compete with the low prices offered by foreign distributors undercuts all stores’ missions, whether they are contributing to the educational function of the institutions they serve or promoting entrepreneurship and innovation in other ways.

This paper addresses the legal basis allowing for college stores’ participation in the global textbook market by selling international version textbooks. This is a legal analysis, and it is not intended as an endorsement of stores selling international-editions. That is a decision that stores should make based upon local competition, university policies, relationships with publishers, and other relevant business considerations.

II. BACKGROUND

College textbook prices in the United States have grown at twice the national inflation rate for the last two decades.¹ Pricing is affected by a number of factors, including quantity of new books sold, regularity with which new editions are offered, and “bundling” of supplemental materials, among others.² Amid rising costs, the National Association of College Stores, including institutionally owned stores at public and private schools, privately owned/off campus stores, and leased stores, are looking for ways to enhance affordable access to course materials for students.³

The dual pricing system used by publishers causes particular challenges for college stores. Dual pricing refers to the system used by publishers where textbooks intended for U.S. sale are priced significantly higher than alternate versions of the same textbook intended for sale overseas.⁴ International versions are typically of lower quality than domestic versions and do not contain the supplemental materials, like study guides or CD-Roms, that are included with their domestic counterparts. Current data suggests that international versions are priced at 20 to 40 percent of the domestic versions.⁵

Publishers explain that the dual system prices reflect factors such as differences in income level, local market conditions, and classroom role of textbooks.⁶ The practice is seen by many as resulting in U.S. consumers shouldering significant costs of textbook development while overseas consumers pay for textbooks at a price that reflect lower costs associated with printing and distribution.⁷

The dual pricing system has been in place for a number of years, and, until recently, geographic separation was a significant enough hurdle to impede U.S. consumers' obtaining lower-priced volumes.⁸ Internet commerce has lowered those barriers, and an increasing number of college students, in search of more affordable textbooks, are acquiring international versions never intended for sale in the U.S. International versions are now readily available on websites like eBay and Amazon's United Kingdom affiliate.

While the National Association of College Stores has spoken out in favor of a "one price" system so that U.S. students are not alone in bearing the costs of textbook development, the publishing industry has maintained the dual pricing system.⁹ In response to increased importation of textbooks not intended for U.S. sale, publishers have increased their efforts to bar reimportation. Their approach is twofold. First, and more difficult to observe, publishers have strengthened and begun enforcement of their overseas sales distribution agreements. Publishers include provisions that penalize either distributors' reimportation of textbooks back into the United States or sales to sub-distributors who reimport textbooks into the United States.

Second, publishers have initiated lawsuits against individuals and companies reimporting international versions into the United States.¹⁰ The legal claims against such reimportation are outlined more carefully in Section III. Publishers have generally asserted trademark infringement, copyright infringement, and unfair and deceptive trade practices. No case has reached the trial stage, having all reached settlement agreements.

The dual pricing system hurts college stores. Not only are stores losing business in an undetermined amount to internet retailers selling lower-priced international versions, they are also losing the loyalty of students unfamiliar with the dual pricing structure and who assume that college stores' prices are too high, and take advantage of college students. The National Association of College Stores wants to work cooperatively with publishers. But because publishers continue to use the dual pricing structure, some college stores desire a means to participate more freely in the global textbook market. Such participation may advance the

stores' educational and entrepreneurial missions by working to lower the financial burden on students.

Section III sets out the legal basis for stores' participation in the global textbook market by *selling*, not *importing*, international versions. College stores may sell textbooks not intended for U.S. sale, so long as they are not pirated versions, and the stores sell international versions that have been imported by an entity separate from and unrelated to the college store. Stores must also provide clear disclosure to consumers about the differences between the domestic and international versions.

III. ANALYSIS

A. **Importation—Not Sales—of International Versions Violate Trademark and Copyright Infringement Laws.**

1. International version textbooks are “gray market goods.”

Non-U.S. textbooks sold in the United States are “gray market goods.” A gray market good is foreign-manufactured under a valid United States trademark and imported without the consent of the United States trademark holder.¹¹ International versions are gray market goods because they are formulated and manufactured by U.S. publishers for distinct overseas markets under a valid United States trademark and reimported without authorization to the United States for competition with textbooks intended for U.S. sale.

“Import” has a precise meaning under United States customs law. Importation is defined as the bringing of goods within the jurisdictional limits of the United States with the intention to unlade, or unload, them.¹² Thus, importation of textbooks consists of bringing textbooks to the United States with the intention of unloading them. A good's point of origin has been held immaterial to the determination of whether it was imported. Thus, international version textbooks manufactured in the United States, shipped abroad, and then returned to the United States for resale would be considered imports.¹³

2. Importation of “materially different” gray market goods is a violation of the Lanham Act.

Federal trademark law, the Lanham Act, defines trademark infringement as the unauthorized use of trademarks when such use causes consumer confusion.¹⁴ The Lanham Act, accordingly, prohibits two merchants from selling goods that are physically different from each other in the same market under the same name.¹⁵ The prohibition's purpose is to protect the trademark holder's goodwill and prevent consumer confusion.¹⁶

The test for determining infringement requires an analysis of whether the reimported goods are “materially different” from goods intended for U.S. sale.¹⁷ If a court finds the

reimported goods to be materially different from the goods meant for sale in the United States, the gray goods importer is liable for trademark infringement under the Lanham Act. Unless they are counterfeit or pirated, goods that are not materially different are genuine goods whose importation is not barred by the Lanham Act.

3. Some international version gray market textbooks may be “materially different” from textbooks intended for domestic sale.

Although courts have not considered whether international versions are materially different from versions intended for sale in the United States, the “materially different” standard is not a stringent one and should be applied to international versions on a case-by-case basis.

Generally, any difference considered relevant by consumers between the authorized good and the gray good creates a presumption of consumer confusion under the Lanham Act.¹⁸ In the context of cigarettes intended for domestic and foreign markets, for example, courts found material differences where foreign cigarette purchases did not apply toward Phillip Morris’s rewards program and where the cigarettes themselves were not subject to Phillip Morris’s quality control program.¹⁹ The court also found persuasive evidence that consumers had complained to Phillip Morris about mistakenly purchasing foreign cigarettes, which were of a different quality than those intended for domestic sale.²⁰

Publishers have presented information of this type in trademark infringement suits against importers of international textbooks. Publishers have described in their complaints differences between international versions of textbooks and versions intended for sale in the United States. Publishers described books intended for U.S. sale to be of the “highest quality . . . printed on durable paper in bright inks,” featuring “printed diagrams and photographs in numerous colors” and “strong hard-cover materials with glossy protective coatings.”²¹ The international versions at issue, by contrast, “are often printed on lower quality paper, have different cover and jacket designs, have lower quality binding, and are printed in fewer colors, if any.”²² Publishers have also presented evidence that customers purchasing textbooks from unauthorized reimporers reported dissatisfaction with textbook quality, which evidence courts in the cigarette context found persuasive.

No court, however, has decided whether the publishers’ argument on this point is meritorious. Such a conclusion is rendered more complex in light of the varying degree of differences between domestic and international versions. While some books may differ to the degree described by the publishers’ complaints, other international versions are distinguishable only in ISBN number from their domestic counterparts. The “materially different” standard requires careful consideration of whether consumers would consider the differences relevant to their purchase decision and must be evaluated on a case-by-case basis.

4. College stores should not import foreign textbooks not intended for sale in the United States.

It is settled law that reimportation of gray market goods that are materially different from goods intended for domestic sale—like some international version textbooks—is prohibited by trademark infringement law.²³ College stores, like anyone else, are prohibited from importing, or bringing into the United States with the intention of unloading, materially different international versions intended for sale overseas.

In some contexts, the “first sale” doctrine insulates resale of genuine goods from infringement liability. Under that doctrine, after the initial sale by a trademark owner, the product purchaser may resell a product under the original trademark without incurring trademark liability.²⁴ The doctrine is not applicable to sales of some international versions of textbooks, however, because such goods are materially different from domestic goods and are not “genuine.”²⁵ Thus, the first sale doctrine does not legalize importation of materially different international versions.

The first sale doctrine would apply to international version imports that are not materially different from domestic versions. This includes two categories of international version textbooks: those that bear differences from domestic versions but are not “materially different,” and those that are not counterfeited, but are identical to or share an ISBN number with domestic versions. Such international versions are genuine goods whose reimportation would not violate trademark law. But because courts have not yet applied the “materially different” standard to textbooks, stores will best protect themselves by avoiding all importing activities, direct or indirect, without regard to the apparent differences between versions.

5. Sales of non-U.S. Textbooks Do not Violate Copyright Infringement Laws.

Copyright law does not substantially change the calculus regarding importation of international versions of textbooks not intended for sale in the United States. A brief outline of United States copyright law strengthens the conclusion that college stores are prohibited from *importing*, not *selling*, materially different international versions.

The application of United States copyright laws to overseas textbook sales necessarily depends on the textbooks’ place of manufacture, which in turn determines when a copyright owner retains the exclusive right to distribute copies.²⁶ Under current case law, foreign-manufactured goods—international versions manufactured overseas—purchased overseas and imported to the United States infringe on a copyright holder’s exclusive right to distribute that good in the United States.²⁷ Thus, as in the trademark context, college stores are prohibited from importing international versions manufactured and purchased abroad.

Conversely, when copyrighted goods are manufactured in the United States, as some international versions are according to publishers, and are exported abroad and then reimported, the first sale doctrine insulates such reimportation from copyright infringement liability.²⁸ While

this indicates that some importation of international versions might not violate copyright law, importing materially different international versions would still constitute trademark infringement.

B. No Law Prohibits College Stores From *Selling* Foreign Textbooks Already Imported into the United States.

Federal trademark and copyright law prohibit the importation of materially different international versions not intended for domestic sale.²⁹ No federal law, however, prohibits the sale of international versions that have already been imported. College stores, accordingly, may legally sell international versions that have been imported by entities separate from and unrelated to the college store.

In order to prevent allegations of impropriety, college stores desiring to sell international versions should take two precautionary actions. First, stores should carefully avoid engaging in any importation activities. As explained above, importation arises where the store itself brings books from overseas to the United States. Stated differently, a store “imports” when it directs that textbooks be shipped into the United States from overseas. Accordingly, stores should not purchase international version textbooks directly from overseas vendors like Amazon.co.uk and Abebooks.co.uk. College stores may, however, purchase international version textbooks where the textbooks have already been reimported into the United States.

Second, college stores should disclose to consumers, in advertising and at the point of sale, the true nature of the international versions and the ways in which they differ from corresponding domestic versions. Such warnings are necessary for two reasons.

First, consumer warnings ensure that college stores adhere to any applicable state gray goods disclosure laws and state laws prohibiting false advertising, misrepresentation, and unfair trade practices.³⁰ Publishers’ suits against alleged unauthorized importers of international versions included not only causes of action for trademark and copyright infringement, but also for unfair trade practices. Publishers supported such claims by demonstrating that alleged infringers misrepresented to consumers that they were purchasing domestic version textbooks at significantly lower prices, when in fact consumers were purchasing international versions that materially differed from domestic versions. College bookstores’ careful marketing of international versions in a manner that educates consumers about the reasons for price differences between international and domestic versions—and the reason for publisher-affixed “not authorized for U.S. sale” labels—will avoid this type of liability.

Second, even while college bookstores will not import international versions in violation of trademark law, consumer warnings provide an extra layer of protection against trademark infringement allegations. As explained in Section A.2 above, trademark infringement is measured in terms of consumers’ “likelihood of confusion” upon being confronted with a gray market good.³¹ Affirmative steps to prevent such confusion by college stores will preclude a

finding that a store intended to misrepresent to consumers that consumers could acquire domestic versions at significantly lower prices.

IV. CONCLUSION

The current dual pricing system utilized by textbook publishers can impede college bookstores' ability to support their missions, whether furthering the educational purposes of their institution, or promoting an innovative, entrepreneurial response to changing, increasingly competitive market conditions.

The National Association of College Stores is fully committed to ethical purchasing practices, as evidenced by the Association's adoption of a national "Buying Ethically" policy in December 1998. By following the above guidelines, avoiding the importation of versions not intended for U.S. sale, never selling pirated versions of textbooks, and carefully educating consumers regarding the differences between differing versions offered for sale, college bookstores may sell international-edition textbooks.

¹ U.S. General Accounting Office, College Textbooks: Enhanced Offerings Appear to Drive Recent Price Increases 806, at 2 (July 2005) [hereinafter GAO Report].

² GAO Report, at 3.

³ *Are College Textbooks Priced Fairly?: Hearing Before H. Subcomm. on 21st Century Competitiveness, H. Comm. on Education and the Workforce*, 108th Cong. (July 20, 2004) (testimony of Marc L. Fleischaker, Counsel, National Association of College Stores) [hereinafter *Hearings* (testimony of Marc Fleischaker)].

⁴ For the purposes of this paper, I will refer to the latter category, textbooks not intended for U.S. sale, as “international versions.”

⁵ *Hearings*, *supra* note 3 (testimony of Marc Fleischaker).

⁶ GAO Report, at 22.

⁷ GAO Report, at 21.

⁸ GAO Report, at 21.

⁹ *Hearings*, *supra* note 3 (testimony of Marc Fleischaker).

¹⁰ *See, e.g., Pearson Educ., Inc. v. Lewis et al.*, 2004 WL 3722855 (S.D.N.Y. May 12, 2004); *Pearson Educ., Inc. v. Liao, et al.*, 2006 WL 2582397 (S.D.N.Y. Aug. 14, 2006); *Pearson Educ. v. Salim et al.*, 2005 WL 3881705 (S.D.N.Y. Sept. 9, 2005).

¹¹ *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 285 (1988).

¹² *Sherwin-Williams Co. v. United States*, 38 C.C.P.A. 13, 18 (1950); *United States v. Field & Co.* 14 U.S. Cust. App. 406, 407 (Ct. Cust. App., 1927).

¹³ *United States v. 1903 Obscene Magazines*, 907 F.2d 1338, 1342 (2d Cir. 1990).

¹⁴ 15 U.S.C.A. § 1125(a)(1)(A) (West 1998); 15 U.S.C.A. § 1114(1) (West 1997).

¹⁵ *Martin’s Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1300 (5th Cir. 1997)

¹⁶ *Martin’s Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296 (5th Cir. 1997)

¹⁷ 4 J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS § 29:50, at 29-117 (4th ed. 2006).

¹⁸ *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633, 641 (1st Cir. 1992).

¹⁹ *Phillip Morris, Inc. v. Allen Dist., Inc.*, 48 F. Supp. 2d 844, 853 (S.D. Ind. 1999).

²⁰ *Id.*

²¹ *Pearson Education, Inc. v. Lewis*, 2004 WL 3722855, Pl.’s Compl. at ¶ 30 (S.D.N.Y. May 12, 2004).

²² *Id.* at ¶ 31.

²³ 4 MCCARTHY, *supra* note 17, §29:51.2

²⁴ *NDC Electronics, Inc. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).

²⁵ 4 MCCARTHY, *supra* note 17, §29:46.

²⁶ 4 MCCARTHY, *supra* note 17, §29:51.2.

²⁷ 4 MCCARTHY, *supra* note 17, §29:51.2.

²⁸ 4 MCCARTHY, *supra* note 17, §29:51.2.

²⁹ Section 526 of the Tariff Act prohibits importing into the United States foreign-manufactured goods if the goods bear a registered U.S. trademark, unless the importer produces written consent of the trademark holder. *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 287 (1988). U.S. Customs regulations contain a “common control” exemption that exempts foreign-manufactured goods from the ban when they are imported by the trademark holder or a person subject to the common control of the trademark holder. *See K Mart Corp.*, 486 U.S. at 291. In practice, a U.S. trademark holder can invoke the Tariff Act to prevent unauthorized gray market imports.

³⁰ Stores should research state law applicable to their jurisdiction to determine whether gray goods disclosure laws apply. Such laws are currently in effect in New York, N.Y. Gen. Bus. Law § 218-aa, and in California, Cal. Civ. Code § 1797.8-1797.86.

³¹ 4 MCCARTHY, *supra* note 17, §29:51.1