A Checklist for Foreign Rights Deals

Part 2: Distribution Contracts

by Steve Gillen

Some books travel well, even in their US English-language editions. An Arkansas real estate practice book won't be one of them, but any number of other subjects are far less provincial and would interest a large audience of people who speak English as a second language. Books about science, medicine, management, finance, and, as it happens, English as a second language seem to travel especially well, as do children's books.

If you are going to take advantage of these markets, you will probably have to do it through a distributor that has a presence on the ground in each territory you wish to reach, as well as recognition and credibility with the local population and established local channels of distribution.

Moreover, as with the rights transactions covered last month in "A Checklist for Foreign Rights Deals," you will have to learn a new "language"—in this case, the language of foreign distribution contracts—and you will also have to learn a few new rules to capture revenue without at the same time taking on unnecessary business risk.

However, since you will be delivering copies that were published and manufactured by you or under your supervision, you will not have to worry about important provisions of foreign licensing deals such as faithful translation, owning/retaining the copyrights, authorship attribution, copyright notice or registration, warranties, royalties, or accounting.

PRICING LAWS AND PRACTICES

Many markets will support a price point comparable to the one you would set for US distribution. Canada and Great Britain are good examples. But some of the largest and hungriest markets for US literature are in underdeveloped or developing countries where a book with a price geared to sales in the United States would be far beyond the economic reach of most readers; think India or the Philippines, for example.

Remember, though, that a book you must price at $29.95 in the United States in order to cover your development and prepress costs and still produce an acceptable margin probably costs you only a couple of dollars per extra copy once it is already on press. So if you could sell an additional 10,000 copies at a little more than your per-unit cost of manufacture plus any incidental costs of handling and shipping, and if, by doing that, you could increase your print run and drive the per-unit manufacturing cost down on all the copies you print (including those destined for US distribution), it would make economic sense to supply the many large markets for your books at a price low enough to make them affordable in those markets.

There was a time when you could have done just that—set different prices in different markets, without worry that the low-priced books would find their way back to the developed markets to displace higher-priced copies. Then came the Internet, with global reach and near-zero costs for communication and information facilitating connections between buyers and sellers and making cross-border transactions more efficient.

Publishers selling for lower prices abroad are adopting measures to minimize the likelihood of negative financial consequences.

Until 2013, publishers were still protected to some extent by a provision of the US copyright law that permitted the US copyright holder to block unauthorized importation into the United States of books that had been manufactured in the United States under US law and shipped out of the country designated for foreign distribution and sale.

This protection of the biggest high-value market broke down with a 2013 decision of the US Supreme Court holding that the copyright holder's right to control importation was trumped by another provision of US Copyright law called the Doctrine of First Sale.

In *Kirtsaeng v. John Wiley & Sons*, the court considered a publisher's complaint that Supap Kirtsaeng, a Thai citizen who was in the United States to do graduate work in mathematics, was infringing on Wiley's copyrights by buying and importing copies of books Wiley sold at very low prices to distributors in southeast Asia and reselling those same books in the United States at much higher prices (but below Wiley's US price), thereby displacing some portion of Wiley's US sales.

This was not an insignificant problem for Wiley, as evidence in the record suggested that Kirtsaeng's gross from this enterprise was approaching $1 million. Although Wiley had achieved favorable decisions in the district court and the court of appeals, the Supreme Court, in a split decision, reversed a line of earlier decisions and held that once a copy of a physical book has been sold, the rights of the copyright holder are exhausted with respect to that copy, and this First Sale Doctrine trumps the copyright holder's right to control importation of those copies.

Despite this unfavorable turn of events, many publishers are still selling books in markets where the prices must be lower than US prices can be. But they are adopting other measures to minimize the likelihood of negative financial consequences. Some are being very selective about the distributors they sell to, and using contracts requiring their distributors to aggressively ensure that they sell only to local buyers for local consumption. Some are differentiating their international editions in some way that makes them distinctive and not fungible with the US edition. Some are restricting foreign distribution to e-books (which are arguably not subject to the First Sale Doctrine because they are licensed and not sold). And some are reducing the price differentiation, which limits their penetration and share in many markets but reduces the incentive for would-be importers of foreign editions.

KEY POINTS TO KEEP IN MIND

If you are going to work through distributors to sell in foreign markets, the information and recommendations below will help you realize the potential there.

- **The form contract.** The US publisher has the bigger economic stake in a deal for foreign distribution, since it provides an inventory in return for a receivable. Use this as the rationale for starting with a form contract that has been drafted by a lawyer who has your interests in mind and who also has international publishing experience, rather than starting with the distributor's form contract. If you don't have your own contract, you might ask a colleague whose company has a successful foreign distribution program for permission to replicate and use its form.

- **Trademarks and recordation.** Bear in mind that you will be delivering goods bearing your imprint and trademarks to a third party for its promotion and distribution in territories where you probably have not yet established trademark rights. Unlike in the United States, where trademark rights are vested in the first party to use the mark in commerce as a trademark, most other countries vest trademark rights in the first party to register a mark.

As a result, an unscrupulous distributor could register your mark in its name and thereby hold your business captive no matter what your distribution contract says. So be sure to register your trademarks in each territory before you ▶

grant distribution rights in that territory, and make sure your distribution contract includes appropriate controls over the distributor's use of your trademarks (for details, see "Trademarking and Your Brand Strategy," via *Independent* Magazine at *ibpa-online.org*). Also, note that many countries require trademark licenses to be recorded in a public office as a condition of enforcement. For example, recordation is mandatory in Mexico and Honduras, although it's optional but with benefits in the United Kingdom and Panama, and not required in Canada.

Because your distribution contracts will likely include a license to use your trademarks in the specified territory, the contracts should be recorded in all countries that require or offer advantages for recording. And since recordation of the trademark license is different from registration of the trademark, the best practice is to do both.

Appointment. You will likely be appointing a distributor as your exclusive distributor of all or some specified portion of your list of titles in a specified territory. Because the appointment is likely to be exclusive, you will want the distributor to commit to reaching some measurable minimal level of sales or effort in order to maintain its status as your exclusive distributor.

If the distributor's territory will include countries where the price of your books must be significantly lower than the US price, you will also want contract provisions that bar the distributor from selling to customers it knows or has reason to suspect are purchasing primarily for resale outside the territory, and that require the distributor to cooperate with you in investigating the intentions or conduct of any purchaser you suspect of engaging in this sort of activity.

You should specify minimum quantities for orders from you, and require regular projections of estimated purchases.

Credit. In international transactions involving other types of goods, it is common to employ letters of credit and security interests to ensure that the seller gets paid before the buyer can take possession; or, at minimum, that the seller has the legal right to recover possession of inventory not timely paid for.

With books, however, the cost to replace inventory at risk is often less than the cost of repossessing it and shipping it back. For this reason, efforts to ensure that you get paid will probably be more productive if you focus on doing thorough due diligence on your distributor early on, and if you regularly adjust your credit terms as market conditions and/or your distributor's circumstances change.

Fulfillment. You should specify minimum quantities for the distributor's orders from you and require regular projections of estimated purchases in your contract so that you can manage your inventory levels and efficiently schedule additional printings. In addition, you should reserve the right to allocate copies among orders at your discretion if inventory is not sufficient to fill them all.

Although you would probably prefer to sell nonreturnable, most distributors will want return rights. You can manage returns as you would for your domestic customers, but any issues with returns from other countries will be more difficult and more expensive to resolve.

Some distributors may want to purchase on consignment, which means that the distributor becomes obligated to pay you only after the inventory sells through. If you agree to do business on consignment, you should reserve the right to monitor inventory levels, refuse orders at your discretion, require insurance on the stock in possession of the distributor, and comply with local laws about marking consignment inventory.

Regardless of how you sell, your contract should specify how and at whose expense books are shipped. Here, you may encounter a special, international shorthand vocabulary—"Incoterms"—established by the International Chamber of Commerce for removing ambiguity from these decisions. If you encounter a term you don't recognize, look here first for an explanation: *bit.ly/1jU6jyW.*

Territory. As with translation and adaptation deals, the distributor's rights should be limited to the territory where it is positioned to aggressively promote the work, and you may want to carve out Canada and Mexico for direct sales by you of the US edition. The rest of the world (outside the specifically licensed territory) should be reserved to you for subsequent licensing.

Term. The term of a distribution contract can be much shorter than the term of a translation or adaptation license because the distributor does not have a big upfront investment to recover. Try to keep the term between one and three years, and require affirmative assent to extend it (as opposed to providing for automatic renewal unless canceled).

Choice of law. Most distributors will want their own country's law to govern interpretation of your contract. Resist this unless you have engaged a lawyer who practices regularly in the distributor's jurisdiction and is familiar with the nuances of local law.

The term of a distribution contract can be much shorter than the term of a translation or adaptation license.

Choosing the venue for resolving disputes is another matter. While you may be more comfortable in a US court, challenges and additional formalities will be involved in enforcing its decision outside the US.

A common compromise is specifying that all disputes will be resolved by arbitration conducted by the International Centre for Dispute Resolution under its Procedures for Cases under the UNCITRAL Arbitration Rules.

Exchange rate risk. If you are selling on credit, so that there is a time lapse between when the sale is booked and when the receivable is paid, you will run an exchange rate risk related to the timing of the currency conversion.

Your contract should specify when the conversion will take place (on sale or on payment) so that at least it cannot be manipulated to your disadvantage.

A STREAMLINED SUMMARY

According to reports from members of the Association of American Publishers, export sales of US editions are steadily growing. To get the best from this growth market and squeeze additional revenue from your publishing assets, proceed in an informed and careful way.

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