

Supreme Court Applies “First Sale” Doctrine to Imported Works

In a significant decision addressing the Copyright Act’s “first sale” doctrine and the ability of copyright owners to control geographic distribution of their copyrighted works, the Supreme Court recently construed the doctrine’s applicability to works manufactured abroad. *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697, 2013 U.S. LEXIS 2371 (March 19, 2013). The first sale doctrine, codified in 17 U.S.C. § 109(a), generally permits the lawful owner of a copy of a copyrighted work to resell or distribute that copy. In *Kirtsaeng*, the Court held that a work manufactured abroad can still be “lawfully made under” the Copyright Act, as that phrase is used in Section 109(a), and, therefore, a copyrighted work legally manufactured abroad and later imported into the United States can lawfully be resold in the United States.

Background

In *Kirtsaeng*, Plaintiff John Wiley & Sons, Inc. published and sold various academic, scientific, and educational journals and books (including textbooks) both abroad and within the US. The goods sold abroad and domestically were often similar, and in some cases identical, although the books sold in international markets in certain instances differed somewhat from John Wiley’s domestic versions. Copies sold abroad bore legends indicating the countries in which John Wiley authorized the book to be sold.

Defendant Kirtsaeng allegedly solicited shipments of foreign textbooks from his friends and family living in Asia, in order to re-sell these textbooks within the US using eBay.com. At trial, the district court prohibited Kirtsaeng from raising the first sale doctrine as a defense, holding that the Copyright Act can only regulate domestic conduct, and an imported book manufactured abroad was therefore not “manufactured pursuant to the US Copyright Act.” The Second Circuit affirmed, interpreting the wording “lawfully made under this title” as a geographic requirement that works be manufactured within the US. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 224 (2d Cir. 2011).

The Supreme Court was presented with three potential interpretations of the phrase “lawfully made under this title,” reflecting the disagreement of the parties, as well as a split among circuit courts. Wiley and the Second Circuit panel, as well as the Solicitor General as an amicus, all embraced interpretations that limited the first sale doctrine to works manufactured domestically. Kirtsaeng asserted, instead, that “under this title” means only that a copy was made “in accordance with” or “in compliance with” the Copyright Act—an interpretation tentatively embraced by the Third Circuit in *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988), which had confessed “some uneasiness” with an interpretation of “lawfully made under this title” that implicitly emphasized the place of manufacture. Finally, the Ninth Circuit in *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), had interpreted the statutory language to require *either* that a copy was manufactured in the US *or* that an authorized first sale occurred within the US. As the Supreme Court had previously been unable to reach a majority opinion in *Omega*, the Ninth Circuit’s opinion establishing this middle ground view of territoriality had controlled that case.

The Decision

The Supreme Court primarily relied on three avenues of analysis in order to interpret “lawfully made under this title”: linguistic analysis, statutory context, and the common law history of the first sale doctrine. The Court’s linguistic analysis begins with the recognition that Section 109(a) does not explicitly make any reference to geography or location. The Court cited dictionary definitions of “under” to show that while that term has no consistent legal meaning, it can mean “in accordance with.” The Court was particularly inclined towards a non-geographic meaning of the statutory language because it allowed each term to have meaning: “lawfully made” distinguishes from copies not lawfully made, and “under this title” sets forth the standard for lawfulness. The Court was skeptical of Wiley’s geographic interpretation, under which “lawfully” was largely superfluous.

The Court was further unconvinced that the Copyright Act is not “applicable” to foreign-manufactured copies of a work. While it is true that the Copyright Act cannot “instantly *protect*” against foreign piracy, the Court perceived the Act as still applicable to foreign copies. The Court cited to Section 104 of the Copyright Act, establishing that unpublished works are subject to protection regardless of the author’s domicile, as evidence that the Act is still “applicable” to copies printed abroad. The Court took particular issue with the Ninth Circuit’s holding in *Omega*, which applied the first sale doctrine to works manufactured *or* first sold domestically. As the Court explained, the Ninth Circuit’s position was a compromise in order to prevent a “parade of horrors,” but could not be justified by the language of the Copyright Act. Even if “lawfully made under this title” could be read to require domestic manufacture, the Court saw no reading of those words that could justify an exception for foreign-manufactured works first sold in the US.

Turning to the historical and contemporary context of Section 109(a), the Court compared the section’s current wording to the “immediate predecessor” provision in the Copyright Act of 1909. That earlier section applied to copies “the possession of which has been lawfully obtained” before being amended in the current statute to refer to “the owner of [a copy] lawfully made under this title.” The Court viewed this change from “lawfully obtained” to “the owner of a copy lawfully made” as intended to prevent a party who only leased copies (such as theaters) from selling those leased copies. The Court concluded that Congress’s amendment was intended only to require ownership, not to implicitly create a geographic requirement.

The Court also noted that Congress had been attempting to phase out the distinction between domestic and foreign manufacture in other aspects of the Copyright Act, which the Court saw as at odds with interpreting Section 109(a) to have a geographic limitation. Furthermore, reading a geographic interpretation into the phrase “lawfully made under this title” would lead to strange consequences in other sections using that wording, such as Section 110(1), which allows a teacher to use copies of a work “lawfully made under this title” for face-to-face teaching activities. Wiley’s interpretation would prevent teachers from using foreign-manufactured works in their teaching activities, without obtaining authorization for each copy.

The Court’s third area of analysis focused on the common law doctrine which preceded Section 109(a). In a broad review of the history of the common law first sale doctrine, the Court remarked on the doctrine’s goal of increasing competition through encouragement of reselling used copies. Importantly, the Court found no geographical distinctions in the common law first sale doctrine. Nor did the Court find any geographic limitation in the Court’s own original recognition of the first sale doctrine in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), or in the first codification of the first sale doctrine a year after *Bobbs-Merrill*. Notably, the Solicitor General acknowledged that a strict application of *Bobbs-Merrill* would not require the geographic limitation that the Solicitor General was urging.

Having determined that each of these three avenues of analysis supports a non-geographic interpretation of “lawfully made under this title,” the Court addressed the potential “parade of horrors” that would result from Wiley’s proposed reading of the statute. Associations of libraries, used-book dealers, technology companies, consumer-goods retailers and museums submitted amici briefs detailing their fears of the consequence of adopting Wiley’s interpretation. These groups had “for centuries” relied on the protections of the first sale doctrine. The Court acknowledged that a geographic interpretation of the first sale doctrine would require the reseller of a car, for example, to obtain permission from the copyright holder of each piece of software included in that car. Neither Wiley nor its amici supporters refuted that such results could, in principle, ensue from Wiley’s interpretation. Wiley, instead, insisted that these harms were artificial dangers, invented by Kirtsaeng and his supporters, that would never come to pass. The Court suggested that, on the contrary, these harms might have already been observed if the museums, libraries and resellers had not been relying for so long on the first sale doctrine. Were the Court to adopt Wiley’s proposed interpretation, it could incentivize copyright holders to begin asserting geographic

limits on resale rights and might force institutions such as libraries to begin defensively seeking rights for imported goods. Ultimately, the Court believed that these potential results were “too serious, too extensive, and too likely to come about” to be ignored.

The remainder of the majority’s opinion was dedicated to rebutting arguments advanced by Wiley and in dissent by Justice Ginsberg (joined by Justice Kennedy and, in part, by Justice Scalia). Of particular interest is Justice Ginsberg’s claim that the majority opinion would make it difficult for publishers to divide foreign and domestic markets. The majority explicitly concedes this point, admitting that a copyright holder may now find it difficult to charge different prices for a work in different geographic markets. The majority is unconvinced that this potential difficulty should be given weight, however, as there is “no basic principle of copyright law that suggests that publishers are especially entitled to such rights.” On the contrary, the Court points to the first sale doctrine as evidence that Congress *intended* to limit the ability of copyright holders to divide domestic markets. The Court leaves it to Congress to determine whether or not copyright holders *should* have an inherent right to charge different rates in different geographic markets.

Similarly, at oral argument, Justice Ginsburg had urged Kirtsaeng’s counsel to confirm that his position would push the US to a regime of “international exhaustion,” by which “once a copy is sold anywhere, the copyright owner loses control of distribution everywhere.” Justice Ginsburg reiterated this point in dissent, arguing that the US did not intend to adopt such a regime. The majority countered by noting that the Solicitor General agreed, at oral argument, that the consequences from Wiley’s geographic reading of the statute would be “worse” than the consequences of Kirtsaeng’s interpretation.

In addition to the majority opinion, a brief but forward-looking concurrence by Justice Kagan, with whom Justice Alito joined, is likely to be of interest to copyright litigants, lobbyists and observers. Justice Kagan concurs fully in the Court’s opinion regarding the interpretation of Section 109(a) and the first sale doctrine. Justice Kagan also recognizes, however, that the Court’s opinion combined with precedent “constricts the scope of § 602(a)(1)’s ban on unauthorized importation.” Justice Kagan suggests that any problems resulting from this decision should not be attributed to the *Kirtsaeng* opinion, but instead are a consequence of the Court’s holding in the case of *Quality King Distributors, Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135 (1998). In *Quality King*, the Court held that where the first sale doctrine of Section 109(a) applies, the anti-importation restrictions of Section 602(a)(1) cannot prohibit importation. It is Justice Kagan’s view that a reversal of the *Quality King* decision would simultaneously allow copyright holders to divide international markets and allow groups such as libraries and used book dealers to display, circulate or resell works without being concerned that the books “happen to have been manufactured abroad.” Justice Kagan explains that a reversal of *Quality King* would “target unauthorized importers alone,” as Section 602(a)(1) already only prohibits importation “without the authority of the owner of copyright.” Thus, authorized imports would be permitted even under a restored Section 602(a)(1) and could then be subject to the first sale doctrine once in the US, while unauthorized imports would be prohibited regardless of sales abroad.

In light of *Quality King*, Justice Kagan interprets Wiley and the dissent as encouraging the Court to “misconstrue § 109(a) in order to restore § 602(a)(1) to its purportedly rightful function of enabling copyright holders to segment international markets.” Justice Kagan believes that sacrificing the first sale doctrine in order to rectify *Quality King* would be a “much worse” mistake and would merely take the statute further from Congress’s intent. Thus, while Justice Kagan realizes that it is Congress’s prerogative to amend the statute, she specifically encourages Congress to adopt the arguments that were rejected in *Quality King*, rather than Wiley’s position in *Kirtsaeng*.

The Road Ahead

The Court’s decision in *Kirtsaeng* resolves a significant open question in copyright law by limiting the rights of copyright holders to prevent importation of copies manufactured abroad. By applying the first

sale doctrine to works manufactured abroad, the Court has seemingly paved the way to import cheaper copyrighted works from abroad into the US. Copyright holders who are concerned about the diversion of foreign goods into the US might change their pricing structure by reducing the price differential so that it would not make economic sense to purchase works abroad and then import them to the US for resale.

Copyright owners might also consider other potential avenues of enforcement, such as trademark law, which permits a trademark owner to prevent the importation of “grey goods” in certain circumstances. With the advent of digital distribution, such as e-books, which are not sold but are leased, thus making the first sale doctrine inapplicable, owners of copyrights in books should be able to preserve their ability to maintain distinct geographical markets. Similarly, owners of copyrights in software can continue to charge varying prices by licensing their software for use only by the lessee, although, under the Court’s ruling, this will not prevent the importation of products, such as automobiles, that contain licensed software but are themselves sold.

This said, Congress may respond to the Supreme Court’s ruling by amending the Copyright Act’s first sale doctrine and importation provisions. To varying degrees, all three opinions in *Kirtsaeng* acknowledge that the Court’s ruling will create problems by preventing copyright holders from segmenting international markets, and Justice Kagan’s concurrence practically urges Congress to amend the law, going so far as to map out the particular manner in which Congress should do so. It remains to be seen whether Congress sees this issue as ripe for legislative action.

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