Copyright Alert: *Kirtsaeng v. John Wiley & Sons*

Supremes Hold First Sale Doctrine Applies to Foreign-Made Works And Trim § 602(a)(1) Importation Bar – Boon to Gray Marketers

BY MITCHELL ZIMMERMAN

Fenwick
FENWICK & WEST LLP

Resolving the long legal struggle over the scope of the Copyright Act's provision governing the right of copyright owners to control imports, the Supreme Court held on Tuesday that the first sale doctrine embodied in 17 U.S.C. § 109(a) trumps the import-control provision of § 602(a)(1). *Kirtsaeng v. John Wiley & Sons,* 2013 U.S. Lexis 2371 (Mar. 19, 2013).

Once a copy of a work of authorship has been lawfully obtained, the High Court held, purchasers have the right to re-sell and distribute that copy without the consent of the copyright holder, and unauthorized parties may import such copies into the United States, all regardless of whether the copy was manufactured here or abroad. The Court's broad interpretation of § 109(a) sharply limits the scope of § 602(a)(1), in substance eliminating copyright law as a significant obstacle to gray market importing. The industries impacted by such imports will likely ask Congress to overturn the decision.

In light of the oft-noted constitutional cousinhood between patent and copyright law, *Kirtsaeng* may have implications for the territorial limitations on the corresponding doctrine of patent exhaustion, which, the Federal Circuit affirmed last year, does not apply to foreign-made works not first sold in the United States. *Ninestar Technology Co., Ltd. v. Intern'l Trade Comm'n,* 667 F.3d 1373 (Fed. Cir., 2012). On the other hand, the decision in *Kirtsaeng* rests heavily on statutory wording and legislative history that have no parallel in or direct bearing on the judge-created patent doctrine.

The 6-3 opinion of the Court, written by Justice Breyer, (1) reversed the Second Circuit's decision holding that the first sale doctrine did not apply to foreign-made goods; (2) resolved the question left open in *Quality King Distributors, Inc. v. L'anza Research International, Inc.,* 523 U.S. 135 (1998), essentially disavowing dicta that leaned the other way; and (3) disapproved the Ninth Circuit's effort, in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.,* 38 F.3d 477, 482 n.8 (9th Cir. 1994), and *Omega S.A. v. Costco Wholesale Corp.,* 541 F.3d 982 (9th Cir. 2008), to harmonize the two provisions by holding that first sale does apply to works made abroad if they have been imported by or with the authority of the copyright holder.

The Dispute and Legal Backdrop

Like other manufacturers who price differentially in different markets, publisher John Wiley & Sons designated certain editions of its texts for sale only outside the U.S. and printed them overseas. Friends and family members of Kirtsaeng bought copies in Thailand and shipped them to him in the United States, where he sold them on eBay. Wiley brought an action claiming that Kirtsaeng violated § 602(a)(1), which provides: "Importation into the United States, without the authority of the owner of copyright ..., of copies ... of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies [of the work]."

However, under 17 U.S.C. § 109(a) the owners of copies "lawfully made under this title" may sell or distribute their legally acquired copies without the copyright holder's permission. Kirtsaeng asserted that this provision shielded him from liability. The central issue in the case was whether "lawfully made under this title" meant "lawfully made in the United States."

The Majority's Opinion

Justice Breyer (joined by Roberts, Thomas, Alito, Sotomayor and Kagan) maintained that the key phrase did not have a geographical component or implication, and therefore the first sale right was not geographically cabined. Justice Breyer relied on the language, history and context of the provision:

- The wording of the contested phrase – and particularly the term "under" – connotes no geographical limitation, the Court repeatedly emphasized.

- The 1909 Act's version of the first sale doctrine did not include this language, and there is no reason to believe that Congress, in adding this phrase to the 1976 Act, intended to change the geographical scope of the provision. Moreover, the concurrent phasing out, in the 1976 Act, of the manufacturing clause "sought to equalize treatment of copies manufactured in America and copies manufactured abroad." Giving preferential treatment to foreign manufacturers, with regard to first sale, would have conflicted with that goal.

- The common law's opposition to restraints on alienation, which makes no geographical distinctions, should apply to the resale of copies of works of authorship.

- Giving the owners of works manufactured abroad the power to prohibit re-sale (or public displays) would threaten and burden the established practices of libraries, owners of myriad technology products containing computer software, museums, and others, and give manufacturers unexpected powers over a very broad array of imported goods that are copyright-protected or accompanied by or contain copyrighted works. It would represent copyright infringement, under John Wiley's interpretation of § 109(a), for libraries to circulate books printed abroad without the copyright-holder's consent, and for used book stores to sell such books; for consumers to sell their used foreign-made cars containing automobile software; for consumers or others to re-sell other foreign-made goods that come in copyrighted packaging; for museums to publicly display foreign works without consent.

Quality King involved "round trip" goods, which were made in the U.S., exported by the copyright holder, lawfully sold, and then imported without authorization; and the case held that such goods fell under the first sale doctrine. While *Quality King* did not reach the status of copies manufactured abroad, the case contained dicta plainly supporting the claimed right of copyright holders to stop unauthorized foreign-made imports. The *Kirtsaeng* Court disparaged and ridiculed the comments: "Is the Court having once written dicta calling a tomato a vegetable bound to deny that it is a fruit forever after?"

The Dissent: "The Court Reduces § 602(a)(1) to Insignificance"

Justice Ginsburg wrote a long and vigorous dissent, in which Justices Kennedy and (in part) Scalia joined. Her main contentions:

- Congress intended to empower copyright holders to bar unauthorized imports that would erode their power to segment different markets with differential pricing. The Court's opinion eviscerates § 602(a)(1)'s goal of providing such power, effectively limiting the section to a narrow set of circumstances, and thwarting the Congressional purpose.

- Given that U.S. copyright law has no extraterritorial force, the phrase "lawfully made under this title" can only mean lawfully made in the U.S., since copies made in other countries are not subject to and are therefore not made "under" Title 17.

- The long legislative history of the 1976 Act indicates Congress's concern with allowing copyright owners to prevent importation of any copies made abroad, whether or not pirated.

- Justice Ginsburg's interpretation is also "consistent with the stance the United States has taken in international-trade negotiations … on the highly contentious trade issue of interterritorial exhaustion."

- "The Court's parade of horribles … is largely imaginary," the dissent maintained. Practical considerations have restrained copyright holders from asserting absurd and overreaching claims, and legal doctrines such as implied license and fair use may ameliorate others in the event copyright holders really attempted to exercise their rights

against end-users. Indeed, Justice Ginsburg argues, the Supreme Court's 1908 decision in *Bobbs-Merrill,* which initiated the first sale doctrine, has continued independent viability, and would apply to foreign-made goods after they were sold by the copyright holder in the U.S.

Many of the dissent's arguments have considerable force, particularly concerning the "lawfully-made-under-this-title" phrase. Nonetheless, it is impossible to credibly explain why Congress, in revising its codification of the first sale doctrine in 1976 to add this phrase, would want to give foreign manufacturers an unlimited right to forbid distribution and re-sale of their works, and apply copyright exhaustion only to domestic manufacturers. Nor is it a satisfactory answer to the "parade of horribles" to say, in effect, many of these bad things might lawfully come to pass but copyright holders probably won't assert such rights.

In the *Omega* and *Drug Emporium* decisions dismissed by the *Kirtsaeng* majority, the Ninth Circuit fashioned what may appear a compromise between the two views, namely, that the first sale doctrine would protect subsequent sales of foreign-made works, but only if they were first imported into the U.S. with the copyright holder's authority. This is consistent with the treatment of first sale and territoriality under U.S. patent law. In the event Congress addresses the issue, and compromises were sought, one would not be surprised to see proposals for overturning *Kirtsaeng* that embodied this limitation.

Mitchell Zimmerman is a member of the Copyright Group and Of Counsel at Fenwick & West LLP

For more information about this article, please contact: Mitchell Zimmerman (mzimmerman@fenwick.com) of Fenwick & West LLP.

©2013 Fenwick & West LLP. All Rights Reserved.

THE VIEWS EXPRESSED IN THIS PUBLICATION ARE SOLELY THOSE OF THE AUTHOR, AND DO NOT NECESSARILY REFLECT THE VIEWS OF FENWICK & WEST LLP OR ITS CLIENTS. THE CONTENT OF THE PUBLICATION ("CONTENT") IS NOT OFFERED AS LEGAL ADVICE AND SHOULD NOT BE REGARDED AS ADVERTISING, SOLICITATION, LEGAL ADVICE OR ANY OTHER ADVICE ON ANY PARTICULAR MATTER. THE PUBLICATION OF ANY CONTENT IS NOT INTENDED TO CREATE AND DOES NOT CONSTITUTE AN ATTORNEY-CLIENT RELATIONSHIP BETWEEN YOU AND FENWICK & WEST LLP. YOU SHOULD NOT ACT OR REFRAIN FROM ACTING ON THE BASIS OF ANY CONTENT INCLUDED IN THE PUBLICATION WITHOUT SEEKING THE APPROPRIATE LEGAL OR PROFESSIONAL ADVICE ON THE PARTICULAR FACTS AND CIRCUMSTANCES AT ISSUE.