Not a textbook case

THE CASE:
Supap Kirtsaeng v John Wiley & Sons, Inc
The US Supreme Court
19 March 2013

Covington & Burling's **Ronald G Dove, Jr** and **Joshua N Williams**
explain why first-sale doctrine goes global for US copyrights

On 19 March, the US Supreme Court issued its decision in *Supap Kirtsaeng v John Wiley & Sons, Inc,* 11-697. The case addressed whether the US' Copyright Act's first-sale doctrine applies to textbooks and other copyrighted works made abroad. The first-sale doctrine permits the legal owner of a copy of a copyrighted work to sell or otherwise dispose of that copy without the copyright holder's approval.

The court, in a 6-3 opinion authored by Justice Breyer, held that there are no geographic limits on the first-sale doctrine, and therefore authorised that foreign-made works may be imported and re-sold in the US without the copyright holder's permission. The holding, which at least temporarily resolves a longstanding debate in US copyright law, is favourable to those who wish to import and re-sell copyrighted works made overseas. However, it is a corresponding setback for copyright holders who wish to make their works available at lower prices in less developed markets and who now will have to seek other avenues to combat the importation of such "gray market" goods.

Re-selling cheap foreign textbooks for a profit

The petitioner in the case, Supap Kirtsaeng, is a Thai citizen who moved to the US in 1997 to attend Cornell University on a Thai government scholarship, and later, to pursue a PhD in maths at the University of Southern California. While Kirtsaeng was living and studying in the US, his friends and family in Thailand purchased foreign editions of low-cost English-language textbooks, and sent them to Kirtsaeng, who re-sold them in the US for a profit. The foreign-published textbooks that Kirtsaeng imported into the country and re-sold included textbooks published and copyrighted by the respondent, Wiley & Sons, Inc.

Believing Kirtsaeng's unauthorised importation and sales of its books to be copyright infringement under Sections 106(3) and 602(a)(1) of the US Copyright Act, Wiley filed suit in the Southern District of New York. The district court found that the first-sale doctrine did not apply to goods made outside the US, and that therefore Kirtsaeng was liable to Wiley for copyright infringement. The Second Circuit affirmed.

> **"In deciding *Kirtsaeng*, the Supreme Court finally clarified the geographic scope of the first-sale doctrine, which had been uncertain since the court's 1998 decision in *Quality King Distributors, Inc v L'Anza Research International, Inc*."**

The global reach of the first-sale doctrine

In deciding *Kirtsaeng*, the Supreme Court finally clarified the geographic scope of the first-sale doctrine, which had been uncertain since the court's 1998 decision in *Quality King Distributors, Inc v L'Anza Research International, Inc*. In *Quality King*, the court held that "round-trip" products made in the US, sold abroad by (or with permission of) the copyright holder, and then imported back into the US by third parties, were subject to the first-sale doctrine, but left unanswered whether the doctrine also applies to copyrighted products made outside the US. In 2010, it looked like the court would have an opportunity to resolve the geographic scope of the first-sale doctrine in *Omega SA v Costco Wholesale Corp*, but the justices split 4-4, with Justice Kagan recused because of her prior involvement in the case as US solicitor general.

Writing for the court, Justice Breyer framed the issue in *Kirtsaeng* as one of statutory construction. Section 109(a) of the Copyright Act codifies the first-sale doctrine by allowing the owner of a "particular copy… lawfully made under this title" (ie, lawfully made under the Copyright Act) to sell that copy without the copyright holder's permission. As Justice Breyer put it,

> "We must decide whether the words 'lawfully made under this title' restrict the scope of § 109(a)'s 'first-sale' doctrine geographically."

Justice Breyer emphatically answered that question in the negative. Looking to the language of Section 109(a), its context, and the common law history of the first-sale doctrine, he concluded that "lawfully made under this title" does not mean "made in territories in which the Copyright Act is law" (ie, made in the US), but rather made "in accordance with" or "in compliance with" the Copyright Act. Justice Breyer summed up his reading of Section 109(a) quite clearly,

> "[T]he nongeographical reading is simple, it promotes a traditional

> copyright objective (combating piracy), and it makes word-by-word linguistic sense. The geographical interpretation, however, bristles with linguistic difficulties… It imports geography into a statutory provision that says nothing explicitly about it."

Although the majority opinion was grounded in various canons of statutory construction, Justice Breyer seemed to be most persuaded by the parade of "horribles" that he believed could result from an alternative reading of Section 109(a): absent permission from copyright owners; libraries could not circulate foreign-printed books; products ranging from cars to microwaves to cell phones that contain copyrightable software or packaging made in other countries could not be re-sold by consumers or retailers; used book stores could not re-sell foreign-made books; and, under parallel language in Section 109(c), art museums could not display foreign-produced artistic works. Even if copyright holders rarely enforced these rights, he wrote, "a copyright law that can work in practice only if unenforced is not a sound copyright law".

To reach the conclusion that the first-sale doctrine knows no geographic limits, however, Justice Breyer also had to grapple with a second, seemingly contrary, provision of the Copyright Act: Section 602(a)(1). This section makes it a violation of the copyright holder's exclusive distribution rights to import a copy of a copyrighted work into the US without the copyright holder's permission.

Indeed, in dissent, Justice Ginsburg, joined by Justices Kennedy and Scalia, argued that the majority holding was "at odds with Congress' aim [in § 602(a)(1)] to protect copyright owners against the unauthorised importation of low-priced, foreign-made copies of their copyrighted works". In the dissent's view, Congress included the ban on unauthorised imports of copyrighted works precisely to enable copyright owners to segment markets by charging different prices for copies of their works in different geographic locations. Further, the dissent pointed to language in *Quality King* in which the court opined that books published outside the US "presumably" would not be within the scope of the first-sale doctrine.

Responding to these arguments, the majority dismissed the *Quality King* language as "pure dictum". Justice Breyer also addressed the critical interplay of Section 109(a)'s first-sale doctrine and Section 602(a)(1)'s ban on unauthorised importation of copyrighted works, by arguing that a geographically limitless first-sale doctrine did not render the unauthorised import ban pointless.

Instead, he insisted, Section 602(a)(1) "would still forbid importing [without permission]… copies lawfully made abroad" in certain circumstances. For example, an authorised foreign publisher (who is not itself the copyright holder), would still not be able to print copies of a book overseas and import them into the US without the copyright owner's permission prior to making a first-sale.

Justice Kagan, joined by Justice Alito, agreed with the majority but wrote a brief concurrence. She acknowledged that the court's decision limited the ban on unauthorised imports "to a fairly esoteric set of applications". Nonetheless, Justice Kagan refused "to misconstrue § 109(a) in order to restore § 602(a)(1) to its purportedly rightful function of enabling copyright holders to segment international markets".

"The broad scope given to the first-sale doctrine in *Kirtsaeng* injects new importance into the issue of whether and how the first-sale doctrine applies to copyrighted works distributed electronically."

She made no secret of her view that *Quality King*, in which the court first found that the first-sale doctrine limits the scope of the unauthorised import ban, was wrongly decided. Indeed, Justice Kagan expressly invited Congress to ensure that copyright holders have sufficient power "to restrict importation and thus divide markets", by amending the Copyright Act to make clear that copyright holders can prevent unauthorised imports into the US regardless of the geographic scope of the first-sale doctrine. If this were done, she concluded, the import ban would only render illegal the actions of unauthorised importers, and not the actions of those who merely purchase or re-sell foreign-made copies in the US. This would be the case if the first-sale doctrine did not apply to such foreign-made copies at all.

The future of first-sale

Although the court's decision resolved the geographic scope of the Copyright Act's first-sale doctrine, it also raised a number of questions that intellectual property owners, courts, legislators and policy makers will need to consider in the months ahead.

The first open question is whether Congress will take up Justice Kagan's invitation to clarify that the first-sale doctrine does not constrain the Copyright Act's ban on unauthorised imports, or will otherwise amend the Copyright Act in response to the *Kirtsaeng* decision. Such legislative action could potentially restore copyright holders' traditional ability to charge different prices in different international markets.

Secondly, as Justice Ginsburg points out in her dissent, the *Kirtsaeng* decision risks undermining the US government's support for a "national exhaustion" approach to copyright in international trade negotiations. Under a "national exhaustion" system, a copyright owner's right to control distribution of a particular copy is exhausted only within the country in which the copy is sold. By contrast, in an "international exhaustion" system – which is the US system following *Kirtsaeng* – the first-sale of a particular copy anywhere in the world exhausts the copyright owner's distribution right everywhere with respect to that copy. This contradiction between US law and the US government's negotiating position comes at a particularly significant diplomatic moment, as the Obama Administration pursues a "Trans-Pacific Partnership" trade agreement and is in the early stages of talks on a US – European Union Free Trade Agreement.

Thirdly, it is still unclear what impact *Kirtsaeng* will have on the common law patent exhaustion doctrine. Currently, under Federal Circuit case law, patent holders' rights in a patented item are exhausted only when the patented item is manufactured and sold within the US. However, *Kirtsaeng* raises the possibility that patent exhaustion could apply even when a patented item is sold overseas. Shortly after *Kirtsaeng*, the Supreme Court declined the opportunity to address this precise question when it denied *certiorari* in *Ninestar Technology Co v International Trade*

Commission. This case centered on patent infringement that appeared to turn on the issue of whether an authorised first-sale of a patented item outside the US cuts off patent holders' rights to that item under US law.

Finally, the broad scope given to the first-sale doctrine in *Kirtsaeng* injects new importance into the issue of whether and how the first-sale doctrine applies to copyrighted works distributed electronically. If a consumer were to lawfully purchase a digital copy of a song or a movie that was made outside the US (and if that consumer were treated as the lawful owner of the digital copy, rather than as a mere licensee of the work), then under *Kirtsaeng*, the consumer would arguably be permitted to re-sell that digital copy without the copyright owner's permission. Thus, in the wake of *Kirtsaeng*, a clear determination that the first-sale doctrine applies to electronic distributions of copyrighted works could significantly impact the global online marketplace for music, movies, and books. Whether this outcome is realised will depend in part on how courts resolve a number of significant line-drawing issues, such as when a digital copy is purchased and owned, as opposed to merely licensed, and when a digital copy is re-sold, as opposed to copied and sold. For example, less than two weeks after the *Kirtsaeng* decision, a federal court in the Southern District of New York held that the first-sale doctrine did not apply to the re-sale of lawfully downloaded music via the digital music marketplace ReDigi. This was on the technical grounds that transferring a lawfully downloaded song required making a digital copy of the song, which is an unauthorised reproduction of a copyrighted work – even if the original digital copy was deleted in the process of transferring the file to the new owner.

"Rights owners may wish to include a special tamper-proof code or other device on their copyrighted product to identify and trace diversion."

Strategies for combating gray market importation

Even after *Kirtsaeng*, there are still a number of actions that copyright owners and their counsel can take to combat the unauthorised importation and sale of gray market goods.

First, if there are material differences between the authorised and gray market goods, such as differences in quality, language, or other characteristics, and a trademark is associated with those goods, the US rights owner may be able to pursue a trademark infringement action in federal court or apply for gray market border enforcement from US customs. Success in such an action or application may hinge on whether the differences between the products would likely be relevant to consumers or cause confusion. Rights owners may wish to consider creating such differences for copyrighted works intended for distribution abroad.

Secondly, where appropriate, rights owners should make sure that their distribution and retail agreements contain geographic and redistribution limitations that can be enforced through termination, disciplinary measures or breach of contract actions.

Thirdly, rights owners may wish to include a special tamper-proof code or other device on their copyrighted product to identify and trace diversion. This code could also serve to enhance quality control and facilitate recalls where necessary. If the code is removed or altered by the gray market importer, the rights owner may be able to initiate legal action in certain circumstances.

Fourthly, some copyrighted works may also be eligible for design patent or other patent protection. If that is the case, the rights owner may be able to bring legal action for patent infringement against an unauthorised importer of gray market goods.

Finally, rights owners may wish to consider lobbying for legislative change, perhaps seeking the outcome suggested by Justice Kagan in her concurrence or the approach previously adopted by the Court of Appeals for the Ninth Circuit, (that the first-sale doctrine applies to foreign-made works, but not until after they have first been sold in the US with the copyright holder's permission). This would allow copyright owners to divide international markets without creating the potential disruptions that so concerned the majority of the court and various *amici* in *Kirtsaeng*.

Authors

Ronald G Dove, Jr is of counsel and Joshua N Williams is an associate at the law firm of Covington & Burling. Mr Dove specialises in copyright and trademark litigation and advice, with particular expertise in designing and executing strategies for combating the unauthorised importation and distribution of gray market goods. Mr Williams focuses on international trade law and trademark and copyright issues.