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Supreme Court Finds "First Sale" Copyright Doctrine Applies to Copies Lawfully Made and First Sold Abroad

On March 19, 2013, in Kirtsaeng v. John Wiley & Sons, Inc.[1] the Supreme Court of the United States held in a 6-3 decision that the "first sale" doctrine of U.S. copyright law applies to copyrighted works lawfully made and first sold outside the U.S. This decision has important implications for companies that rely on copyright protection for materials produced outside the U.S. or that are in the business of reselling those materials, including technology companies, book, video game and music publishers, fashion and cosmetics companies and consumer goods retailers.

Background

Under U.S. copyright law, copyright owners hold certain exclusive rights in their works, including the right of distribution. These exclusive rights are nonetheless limited by certain statutory and common law exceptions. For instance, the public is permitted to make "fair use" of copyrighted works, libraries can reproduce works for their archives and purchasers of lawfully manufactured copyrighted goods may, without the consent of the copyright owner, resell (or otherwise transfer) the copyrighted items to others.

The Kirtsaeng decision focuses on the last of these exceptions, known as the "first sale" doctrine. It is well established that the first sale of a copyrighted work manufactured in the U.S., whether the sale occurs within or outside the U.S., "exhausts" the copyright owner's exclusive distribution right, in the sense that the owner may no longer control further resale or distribution. However, owners and purchasers alike have grappled with the unresolved question of whether a first sale exhausts the copyright in a work manufactured *outside* the U.S. The Kirtsaeng decision answers this question in the affirmative, clarifying that purchasers of copyrighted works that were lawfully made abroad, and first sold abroad, have the right to resell or otherwise transfer ownership of those works within the U.S.

This decision arises from a suit by John Wiley and Sons, Inc. ("Wiley"), which publishes, prints and sells academic textbooks in the U.S. and, through its wholly owned foreign subsidiary, outside the U.S. The U.S. and non-U.S. editions of Wiley's books are generally equivalent, except that the non-U.S. versions contain a statement that they may not be imported into the U.S. without Wiley's permission. Starting in 1997, Thai citizen and

[1] Kirtsaeng v. John Wiley & Sons, Inc., 2013 WL 1104736 (U.S. Mar. 19, 2013).

American university student Supap Kirtsaeng coordinated with friends and family in Thailand to obtain low-priced foreign-published editions of English-language textbooks purchased in Thailand, which he then resold in the U.S. at a higher price.

In 2008, Wiley brought a copyright infringement suit against Kirtsaeng, alleging he violated its exclusive right to distribute its textbooks and a Copyright Act provision prohibiting the textbooks' unauthorized importation. Kirtsaeng argued the first sale doctrine permitted him to resell the textbooks without Wiley's permission. The District Court disagreed, finding the first sale doctrine did not apply to foreign-manufactured goods. On appeal, a split panel of the Second Circuit affirmed. The Second Circuit's ruling rested upon an interpretation of Section 109(a) of the Copyright Act, which specifies that the first sale doctrine applies only to copies "lawfully made under this title." The court concluded this phrase limits the doctrine to works made within the U.S. on the basis that works made outside the U.S. were not "lawfully made under" the U.S. Copyright Act.

The Supreme Court's Decision

The Supreme Court reversed, holding that the first sale doctrine applies not only to copyrighted works made in the U.S. but also to those lawfully made abroad. Rejecting the Second Circuit's territorial-based interpretation of Section 109(a), the Court found instead that "lawfully made under this title" means "in compliance or accordance with" U.S. copyright law. The Court ruled that neither Kirtsaeng's importation nor his U.S. resale of Wiley's textbooks infringed its rights.

In reaching its decision, the Court relied on the first sale doctrine under common law (applying a rule of statutory interpretation, according to which, when a statute covers an issue previously governed by common law, Congress is presumed to have intended to retain the substance of the common law) and on what it described as potentially "horrible" consequences of adopting the lower courts' interpretation, such as the need to obtain permission from copyright owners for the resale of a car, the lending of a book by a library and the display of a painting by a museum. The Court also considered its prior treatment of the first sale doctrine in Quality King v. L'Anza,[2] which addressed Quality King's resale of L'Anza's hair care products bearing a copyrighted label, which were manufactured in the U.S., first sold by L'Anza abroad and subsequently imported into the U.S. for resale. The Quality King Court ruled that a copyright owner's right to control importation under Section 602(a)(1) of the Copyright Act is a component of its distribution right under Section 106(3), which in turn is subject to the first sale doctrine codified in Section 109(a). Accordingly, Quality King held that the copyright owner could not rely upon the Copyright Act to exclude purchasers from re-importing the copyrighted work into the U.S. (Because Quality King concerned copyrighted works manufactured in the U.S. that returned to the U.S. after an initial sale abroad, it did not directly address the question presented in Kirtsaeng.)

[2] See Quality King Distributors Inc. v. L'Anza Research International Inc., 523 U.S. 135 (1998).

The Kirtsaeng Court also considered the Ninth Circuit's application of the first sale doctrine in Omega S.A. v. Costco Wholesale Corp.[3] (While the Court had reviewed this ruling in 2010, the Justices split 4-4 on whether to affirm the Ninth Circuit,[4] therefore providing no binding precedent for other courts to follow.) The Ninth Circuit held in its 2008 decision that the first sale doctrine applies to U.S.-manufactured goods and to foreign-manufactured goods first sold in the U.S. with the copyright owner's authorization, but does not apply to foreign-manufactured items first sold abroad (even if sold abroad with the owner's permission). In Kirtsaeng, the Court rejected this "split" geographical approach, specifically holding that, whether copyrighted goods are made in the U.S. or abroad, and whether the first authorized sale of such goods occurs in the U.S., the first purchaser of such goods may subsequently resell them within the U.S.

Implications of the Court's Decision

The Kirtsaeng decision may have far reaching effects on global companies' business models and may influence other areas of intellectual property law.

Copyright Law Implications. The most immediate impact will be on those businesses that rely on copyright protection for materials produced outside the U.S. or that are in the business of reselling such materials, including technology companies, book, video game and music publishers and fashion and cosmetics companies. They will no longer be able to rely on U.S. copyright law to prevent their copyright-protected products that are manufactured abroad and intended for sale abroad from being resold in the U.S. market (although, as discussed below, they may continue to rely on patent and trademark law protections). These businesses may thus wish to reconsider their international business models, especially if their current cross-border pricing structures will reward the resale in the U.S. of goods purchased abroad at prices lower than those that apply in the U.S.

Another possible consequence is that this ruling will be extended to certain licenses to use copyrighted products outside the U.S., and even to copyrighted material that is not embodied in a tangible copy but is distributed digitally, such as downloaded copies of software, music and video content. The Court of Justice of the European Union recently found that a copy of a computer program is "sold" rather than licensed (and, due to exhaustion, the copyright owner cannot oppose further resale) when the copyright owner licenses the right to use that copy for an "unlimited period" of time in return for a "remuneration corresponding to the economic value" of such copy, including when the copy was made available to customers through download.[5] A court might extend Kirtsaeng to

[3] See Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2008).

[4] See Costco Wholesale Corp. v. Omega, S.A., 131 S. Ct. 565 (2010).

[5] Case C-128/11, UsedSoft GmbH v. Oracle International Corp., July 3. 2012.

copyrightable items produced abroad, licensed for download in the EU under terms that local law would consider to be a "sale" and then resold in the U.S.

Patents. U.S. patent law includes a common law doctrine similar to the first sale doctrine. In 2001, in Jazz Photo Corp. v. U.S. International Trade Commission,[6] the U.S. Court of Appeals for the Federal Circuit ruled that only first sales in the U.S. exhaust the patent rights of the U.S. patent owner, and it reaffirmed that precedent recently in Ninestar Technology Co. Ltd, Ninestar Technology Company Ltd., and Town Sky Inc. v. International Trade Commission, Epson Portland, Inc., Epson America, Inc. and Seiko Epson Inc.[7] In its petition for certiorari to the Supreme Court, Ninestar asked the Court to determine whether the sale of a patented item outside the U.S. exhausts all U.S. patent law rights to that item. While some commentators suggested that the Kirtsaeng decision would guide the Supreme Court's consideration of this issue, the Court today denied certiorari in Ninestar, thus leaving the Federal Circuit's decision intact.[8]

Trademarks. U.S. law with respect to trademark exhaustion generally provides that where a trademark owner (or an entity under its control) sells goods under a trademark abroad, the trademark owner's rights are exhausted and the goods may be imported into the U.S. This doctrine does not apply, however, where the goods sold under the trademark abroad are materially different from those sold under that trademark in the U.S. Thus, as a result of the Kirtsaeng decision, some copyright holders may rely on trademark law to prevent importation of copyrighted and trademarked goods manufactured and sold abroad, if these goods materially differ from those sold in the U.S.

If you have any questions, please feel free to contact any of your regular contacts at the firm or any of our partners and counsel listed under "Intellectual Property" in the "Practices" section of our website at http://www.clearygottlieb.com.

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[6] Jazz Photo Corp. v. U.S. Int'l Trade Comm'n, 264 F.3d 1094 (Fed. Cir. 2001).

[7] Ninestar Tech. Co. v. Int'l Trade Comm'n, No. 09-1549 (Fed. Cir. 2012).

[8] United States Supreme Court Orders (March 25, 2013), available at http://www.supremecourt.gov/orders/courtorders/032513zor_q86b.pdf.

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