

Kirtsaeng v. John Wiley & Sons: The Supreme Court takes a second look at the 'first sale' doctrine

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The "first sale" doctrine is a familiar rule of copyright law. Put simply, it grants the purchaser of a copyrighted work the right to further sell, lend or otherwise transfer that copy of the work. Thus, a copyright holder cannot, for example, impose a minimum resale price on a book by threatening an infringement suit against anyone who seeks to sell it for less.¹

The interplay between the first-sale doctrine, now codified at 17 U.S.C. § 109, and a copyright holder's right to prevent the unauthorized importation of copyrighted works into the United States² has been a source of controversy. In the first Supreme Court case to address the issue of the relationship between these two provisions, *Quality King Distributors Inc. v. Lanza Research International*, the court held that the first-sale doctrine trumped the right of a copyright holder to prevent the importation of copyrighted materials that had made a "round trip," that is, they were manufactured in the United States, subsequently exported and then re-imported without the permission of the copyright holder.³

However, the language that Congress employed in its 1976 codification of the first-sale doctrine is not entirely straightforward. It instructs that "[n]otwithstanding the provisions of Section 106(3), the owner of a

particular copy or phonorecord *lawfully made under this title*, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord." 17 U.S.C. § 109(a) (emphasis added).

So in order to understand the breadth of the first-sale doctrine, one must know when a copyrighted work has been made "under this



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title." The answer is of interest to anyone buying or selling copyrighted goods, because without the protections of the first-sale doctrine, it would be an act of infringement to "distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending." 17 U.S.C. § 106(3).

In *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), the 9th U.S. Circuit Court of Appeals became the first federal appeals court to rule upon the meaning of the phrase "under this title" after *Quality King*. The 9th Circuit held that, in keeping with its own pre-*Quality King* jurisprudence, a work was only made "under [that] title" when it had been made in the U.S. It therefore concluded that the first-sale doctrine did not apply to items manufactured outside the United States, unless there had been a sale authorized by the copyright holder within the U.S. As a result, the 9th Circuit held that Costco, which had sold Omega watches manufactured in Switzerland in the U.S. without Omega's consent, could not defend against a charge of infringement by way of the first-sale doctrine.⁴

After agreeing to review the 9th Circuit's *Omega* decision, the Supreme Court affirmed

by an evenly divided vote.⁵ The 4-4 split was made possible by the recusal of Justice Elena Kagan (who presumably recused herself because she had earlier signed a brief on behalf of the United States suggesting that the Supreme Court should not grant review of the case).⁶ Because of the justices' deadlock, the 9th Circuit decision stood, though the affirmation was not of precedential value.⁷

In the wake of that affirmation, the 2nd Circuit took up the proper interpretation of "under this title" in a case brought by publisher John Wiley & Sons against Supap Kirtsaeng.⁸ Kirtsaeng had come to the U.S. to attend college and during his time in the U.S. made some money by having family and friends ship him foreign-edition textbooks printed abroad by Wiley's Asian subsidiary.

Those books were purchased at a lower price than U.S. texts, and so Kirtsaeng resold them, pocketing the difference between what he was able to sell them for and what it cost to purchase and ship them from Asia. Wiley, none too happy about the sales of these "gray market" books, filed suit for copyright infringement in the U.S. District Court for the Southern District of New York.

At trial, Kirtsaeng sought to defend himself on the basis of the first-sale doctrine,



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claiming that he had undertaken to sell the textbooks only after reading about that doctrine online, thereby satisfying himself of the legality of his conduct. Wiley disagreed as to the availability of that defense and noted that it had affixed to many of the books in question a legend stating that they were to be sold only in Europe, Asia, Africa and the Middle East.

The District Court sided with Wiley, refusing to allow Kirtsaeng to raise the defense. Kirtsaeng was subsequently found liable for willful copyright infringement and ordered to pay statutory damages.

On appeal, the 2nd Circuit affirmed the court's ruling, holding that "the phrase 'lawfully made under this title' in Section 109(a) refers specifically and exclusively to works that are made in territories in which the Copyright Act is law, and not to foreign manufactured works."⁹ It so held, in part, because in its view the importation provision of Section 602 "would have no force in the vast majority of cases if the first-sale doctrine was interpreted to apply to every work manufactured abroad that was either made 'subject to protection under Title 17,' or 'consistent with the requirements of Title 17 had Title 17 been applicable.'"¹⁰

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A dissenting judge would have interpreted the phrase otherwise: "Nothing in Section 109(a) or the history, purposes and policies of the first-sale doctrine limits it to copies of a work manufactured in the United States."¹¹

The Supreme Court thereafter granted Kirtsaeng's petition for *certiorari* to take up the question it had been unable to resolve two terms before. In his briefing, Kirtsaeng focused upon what he claims to be the perverse incentives created by reading the statute to apply only to works manufactured in the United States; manufacturers of copyrighted materials are generally subject to the first-sale doctrine, but could retain the right to control future use and sale of their works if only they moved their manufacturing offshore.

17 U.S.C. § 109(a) (codified first-sale doctrine)

Notwithstanding the provisions of Section 106(3) [of the Copyright Act], the owner of a particular copy ... lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy.

17 U.S.C. § 602(a)(1)

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under Section 106, actionable under Section 501.

Kirtsaeng argued for what he called the "nondiscriminatory definition," meaning that the first-sale doctrine would apply regardless whether the copyrighted work was manufactured in the U.S. or abroad, and regardless of where the first sale took place. He asserted that the importation ban was not intended to reach any goods that had previously been sold anywhere in the world, and that "lawfully made under this title" means in compliance with rules of U.S. law.

Wiley in turn argued that Congress had intended to facilitate international market segmentation when it passed the importation provision, such that a publisher would not need to either set a uniform price in all countries or risk competition from its own goods imported from offshore. Wiley also asserted that Kirtsaeng's reading would render the importation ban of Section 602 a dead letter and that there was no evidence that any company had tried to move operations offshore in order to take advantage of the potential inapplicability of the first-sale doctrine.

The U.S. government, appearing as *amicus curiae* in the case, supported Wiley's position, agreeing that the addition of Section 602(a) to the copyright laws was intended to give copyright holders the ability to divide international markets, such that they could sell at lower prices in foreign countries without fear of having those same materials being imported and resold in the U.S. The government also said subsequent amendments to Section 602 showed that Congress intended to restrict the importation of more than just pirated copies of works.

Showing the importance with which the case is viewed, two dozen *amicus curiae* briefs

were filed, with proponents ranging from bookstores to technology companies. The volume of submissions by *amici* reflects the wide range of materials that might be affected by the ruling. Simply looking at the past Supreme Court cases in this area confirms its potential breadth. Though *Kirtsaeng* itself deals with books, perhaps the quintessential subject of copyright, the previous cases to reach the court dealt with very different goods: hair care products (*Quality King*) and watches (*Omega*).

Moreover, the realm of copyright has expanded since 1976 to include the lifeblood of the digital economy: computer source code. As products ranging from cars to mobile devices incorporate more and more potentially copyrighted software, they too may end up falling within the ambit of whatever rule comes out of *Kirtsaeng*.

Leaving aside the importance of source code, the Internet plays a central role in lowering transaction costs and providing vibrant online marketplaces for the resale of goods. Though Kirtsaeng was the only defendant in the case, the record indicates that "Kirtsaeng sold these textbooks on commercial websites such as eBay.com."¹²

At oral argument Oct. 29, counsel for Kirtsaeng was questioned about whether his reading of Section 109 effectively meant that a manufacturer must give up its U.S. rights whenever it licenses a manufacturer anywhere in the world to produce the copyrighted work. The court seemed concerned by the possibility that the U.S. would be an outlier in adopting a rule under which sales in a foreign country would exhaust the rights of the copyright holder in the U.S.

It is interesting to consider whether the fact that it is a copyrighted book at issue may influence one's views on the proper outcome. In the arguably analogous field of patent law, it is far from clear that, for example, a pharmaceutical product sold in one country could be imported to and sold in another country where the patent rights relating to the drug in question differed.¹³ Yet such a comparison between the patent and copyright regimes was not raised in the principal briefs or at oral argument in *Kirtsaeng*; it could only be found in parts of the briefs of *amici*.

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In turn, counsel for Wiley received skeptical treatment when the justices pondered the questions of whether someone who brought a book home from abroad for their spouse would be violating the copyright laws and whether someone who wished to sell a car that came with copyrighted source code installed could do so without permission of the copyright holder. These sorts of questions were of a piece with what *Kirtsaeng* himself had described as a parade of horrors, even going so far as to concede that “a natural response to a parade of horrors like this is to roll one's eyes and blithely insist, ‘It'll never happen.’”¹⁴

Though the court considered such hypotheticals in its questions, it is fair to ask whether those sorts of violations would likely be pursued by copyright holders; after all, the reported cases thus far appear to involve alleged infringement in bulk, not retail infringement by transfer of one or two items of foreign origin.¹⁵

Moreover, the reported cases appear to involve attempts to maintain market segmentation between countries, as opposed to efforts to extract further rents from a subsequent sale of products manufactured abroad that had previously been brought into the United States. Given that, as Wiley points out, rulings on the interpretation of Section 109 have consistently gone against *Kirtsaeng*'s position for nearly three decades,

a sea change in enforcement actions may be unlikely now.

The parties and the *amici* on both sides view the stakes in the case as high, whether it is because it will spell the end for garage sales and used bookstores, because it will lead to an acceleration in the offshoring of manufacturing jobs from the U.S., or because it will take away the ability of authors and publishers of creative works to determine the markets in which copies of their works may be sold. As there was no recusal this time, no affirmance by an equally divided Supreme Court is possible, and there will be

a resolution of the meaning of the statute one way or another.

There are many possible outcomes beyond those advocated by the parties. The court could adopt the 9th Circuit's rule, which held that the first-sale doctrine would apply to foreign-manufactured goods after an authorized sale was made in the U.S. The American Intellectual Property Law Association suggested that the court should focus on importation alone, and not reach the question of whether the first-sale doctrine applied because there could be no sale in the U.S. prior to an infringing importation. Given the varied readings advocated by all involved, the reasoning of the high court's decision will be at least as important as the result.

However, both the reasoning and the result of the ruling will be on a question of statutory interpretation, and of the interpretation of a body of law that Congress has amended dozens of times since its enactment, oftentimes in response to judicial decisions. Even considering the possibility of legislative inertia, if Congress wishes to allow publishers to segment markets internationally, it could change the language of Section 109 to make that clear in the face of a contrary ruling.

And it seems unlikely that copyright holders would, in response to a favorable ruling in this case, start inserting provisos into software in a car noting that they reserved the right to prevent resale of the copyrighted engine

control unit source code without permission, or sending letters to libraries noting that certain works printed outside the U.S. could not be lent out without express permission. Congress could well rain on such a parade of horrors almost as soon as it started. **WJ**

NOTES

¹ See *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).

² 17 U.S.C. § 602(a)(1) reads, “Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under Section 106, actionable under Section 501.”

³ See *Quality King Distrib. v. Lanza Research Int'l Inc.*, 523 U.S. 135 (1998).

⁴ The basis for the claim of copyright infringement was a copyrighted symbol found on the back of the watch.

⁵ *Costco Wholesale Corp. v. Omega S.A.*, 131 S. Ct. 565 (2010).

⁶ The government's brief on the merits in the Supreme Court, in support of the copyright holder, was signed by her successor, acting Solicitor General Neal Katyal.

⁷ See *Neil v. Biggers*, 409 U.S. 188, 192 (1972).

⁸ *John Wiley & Sons Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011).

⁹ *Id.* at 222.

¹⁰ *Id.* at 221.

¹¹ *Id.* at 228 (Murtha, J., dissenting).

¹² *Id.* at 213.

¹³ *Cf. Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010) (*per curiam*) (discussing “territoriality requirement” of first-sale rule in patent law).

¹⁴ Petition for Certiorari, *Kirtsaeng v. John Wiley & Sons*, No. 11-697, at 15. Even the government, which supported Wiley's position on the merits, conceded at oral argument that the posited untoward consequences from a ruling in favor of Wiley were more severe than those that could hypothetically flow from a ruling in favor of *Kirtsaeng*.

¹⁵ See, e.g., *Omega* (importation by Costco); *Pearson Educ. v. Kumar*, 721 F. Supp. 2d 166, 170 (S.D.N.Y. 2010) (involving claims of infringement of 379 copyrights); *Pearson Educ. v. Liu*, 656 F. Supp. 2d 407, 408 (S.D.N.Y. 2009) (“Defendants can reasonably be described as small-time Internet entrepreneurs.”).