This week, the United States Supreme Court issued a ruling that strongly favors “gray market” resellers of books, CDs and other copyrighted works. The decision, *Kirtsaeng v. John Wiley & Sons, Inc.*, found that once physical copies of a copyrighted work are sold outside the US with the permission of the copyright owner, those copies may be imported into the US and resold, without violating the owner’s rights.

Because American publishers often sell their works abroad at lower prices, this means that US stores and e-merchants can now legally purchase copies abroad, import them into the country and resell them at prices that undercut the publisher’s US prices.

Under the “first sale” doctrine, a copyright owner’s rights in a physical copy of the copyrighted work are “exhausted” after the copy is first sold. The owner no longer has the right to control resale and display of the copy. While first sale is a long-standing aspect of US copyright law, there has long been a controversy over whether the doctrine applies to copyrighted goods that are first sold abroad and then imported into the US for resale.

To the surprise of many, the US Supreme Court has now ruled that under the Copyright Act, the first sale doctrine does apply to works first sold abroad, and that importation of those goods for resale into the US is not an infringement.

In *Kirtsaeng v. John Wiley & Sons, Inc.*, the plaintiff was a textbook publisher which sold textbooks at a lower price outside of the US than in the US. The defendant Kirtsaeng was a Thai citizen who began purchasing the lower-priced books in Thailand, and reselling them in the US at a profit. John Wiley sued Kirtsaeng for copyright infringement, and the district court entered judgment in favor of the publisher after trial. Because the infringement was held willful, US$600,000 in statutory damages were assessed against Kirtsaeng. The Second Circuit affirmed.

The Supreme Court’s majority opinion, written by Justice Stephen Breyer, reconciled several seeming inconsistent provisions of the Copyright Act. Section 106 gives a copyright owner specific exclusive rights, including the right
to distribute copies of a work by sale or other transfer of ownership. Section 109(a), however, limits this right, stating that the owner of a particular copy of a work “lawfully made under this title” may resell the copy without permission of the copyright owner. There is also an importation section in the Copyright Act, section 602(a)(1), which states that importation of copies of a work acquired outside the US without permission of a copyright owner is an infringement of the section 106 distribution right.

The Supreme Court, in *Quality King Distributors, Inc. v. L’anza Research Int’l, Inc.* had previously held that section 602(a)(1) incorporated the first sale limitation on the owner’s distribution right. 3 *Quality King*, however, dealt with goods that had been first manufactured in the US, then exported and sold, and finally reimported into the US, whereas *Kirtsaeng* involved goods manufactured abroad. *Quality King* had also suggested that the first sale doctrine would “presumably” only applied to copies made in the US. The publisher and its amici argued that this was a holding that should bind the Court in *Kirtsaeng*.

The Court concluded that the words “lawfully made under this title” did not impose any geographical limitation on the section 109(a) first sale doctrine. It first found that a literal reading of the five words favors a non-restricted first sale right, as this gives effect to each word, makes sense and still protects against the sale of copies not made with the authority of the copyright owner.

The opinion also reviewed the legislative history of the Copyright Act of 1976. It found that prior versions of the Copyright Act had not imposed any geographical limitation and that the legislative history of the new Act showed no intention on Congress’s part to create such a limitation. The Court noted that the first sale doctrine is a long-standing common law principle which is consistent with principles of American law favoring competition and consumer freedom. Relying heavily on amicus briefs, the Court found many bad consequences that could befall libraries, museums, technology companies, museums and even automobile manufacturers, were the first sale doctrine to be limited by geography.

The opinion also rejected the publisher’s argument that the statement in *Quality King*, stating that the first sale doctrine “presumably” is limited to US-manufactured goods, was binding. Judge Breyer found the passing statement to be non-binding dictum, unnecessary to the *Quality King* decision and on an issue not briefed by the parties in that case. The Court recognized that a decision in Kirtsaeng’s favor may make it impossible for copyright holders to divide foreign and domestic markets, but said that nothing in the copyright law favored giving holders such a right of division. To the contrary, said the Court, the first sale doctrine had been codified, and in language that did not imply a right in copyright owners to have more than ordinary commercial power to divide international markets. Lastly, the Court rejected the argument that the US had officially adopted a policy opposing “international exhaustion.”

Justice Elena Kagan, joined by Justice Samuel Alito, filed a concurring opinion. She concluded that the problem lay not in the current case, but in *Quality King*, which she suggested may have interpreted section 602(a)(1) in an overly restrictive manner. She suggested that Congress may wish to amend 602(a)(1) to permit infringement suits against importers alone, but not against US libraries, museums and retailers which purchase and resell goods manufactured abroad.

*Kirtsaeng* is likely to have noticeable consequences on the international market for copyrighted works and goods. The decision gives a green light to US businesses to purchase abroad, import and resell lower-priced “gray market” copyrighted goods. The decision will affect not only typical copyrighted goods as books and records, but also decorative and ornamental goods. It is likely to benefit wholesale stores and e-commerce businesses that can afford to operate in the international arena. Publishers can increase their selling price abroad to attempt to obtain more revenue, but this may lead to lower readership and greater copyright infringement in the affected countries. The decision may also force US trade representatives to retreat from the position against “international exhaustion” that they have taken in international trade negotiations.

Publishers may attempt to regain the upper hand by switching from a sale to a licensing model for their works. Section 109(a)’s first sale doctrine only applies to sales of authorized copies, not to licenses. This trend is already in place: today many consumers download e-books which are in fact licensed rather than sold, instead of purchasing physical copies. Sellers of book e-readers already use digital rights management to restrict device.
owners from downloading book content from servers outside the US. These kinds of restrictions are likely to be tightened and extended.

Publishers will undoubtedly seek changes in the law to restore their ability to divide international markets, perhaps urging Congress to enact Justice Kagan’s suggestion of a revision that allows unauthorized importers to be sued as infringers, but provides immunity to US purchasers of foreign-manufactured copyrighted goods. Wholesale stores, e-commerce merchants and consumer organizations will push back, arguing that the US public benefits from low prices and that overturning the decision would result in price discrimination against US consumers. This may be a situation where the strength of the opposing economic interests is roughly equal – a scenario that does not favor passage of new legislation.

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FROM THE ARCHIVE
Supreme Court corner, Q1 2013
Congress makes compliance with the confusing Video Privacy Protection Act easier


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