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Kirtsaeng v. John Wiley & Sons, Inc.: Supreme Court Holds that the First Sale Doctrine Applies Regardless of Where a Work is Manufactured

AUTHORS

Matthew R. Farley
Krista S. Coons
Martin L. Saad

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The Supreme Court ruled last week in *Kirtsaeng v. Wiley*, a case that centered on the tension between copyright law's first sale doctrine, codified at 17 U.S.C. §109(a), and the importation restriction found in 17 U.S.C. §602(a). The express question before the Court was whether the first sale doctrine applies to works manufactured outside the United States. While the Second Circuit and the Ninth Circuit had each ruled, in some fashion, that the first sale doctrine was limited to works manufactured within the United States, the Supreme Court disagreed with them – and the Solicitor General, holding that the first sale doctrine applies regardless of where the works are manufactured.

The first sale doctrine, codified at 17 U.S.C. §109(a), provides that the owner of a particular copy of a work "lawfully made under this title" is entitled to sell or otherwise dispose of that particular copy of the work. Meanwhile, another Section of the Copyright Act, 17 U.S.C. §602(a), provides that the importation of a work into the United States without the permission of the copyright owner is an infringement of the copyright owner's exclusive distribution right.

The first sale doctrine and the importation restriction are in tension with another when it comes to gray market goods. Gray market goods are goods that are lawfully purchased overseas and brought back into the U.S. for resale. They are usually resold in the United States at a much cheaper price than products originally intended for sale in the U.S. Importation of these cheaper copies undercuts the copyright owner's ability to separately price the goods for the respective markets and successfully commercialize the work on an international scale. In 1998, the Supreme Court touched on this tension when it ruled in *Quality King Distributors, Inc. v L'Anza Research International*, 523 U.S. 135 (1998), that the importation ban is subject to the first sale doctrine. In other words, where a defendant buys a copy of a work that is "lawfully made under [the Copyright Act]" and later imports it, the defendant is protected by the first sale defense. However, that case involved goods made in the United States, so the Court never addressed whether the first sale doctrine also applies to imports that are made overseas.

In the years since *Quality King*, the issue regarding products first sold abroad has caused consternation in lower federal courts. For example, the Ninth Circuit and Second Circuit both addressed the open question of whether goods manufactured overseas are "lawfully made under this title" and, thus, subject to the first sale doctrine. Guided, in part, by *dicta* from *Quality King*, both Courts reached the same basic conclusion – that the phrase "lawfully made under this title" was geographic in nature, such that the first sale doctrine would only apply to works made in the United States (although the Ninth Circuit found that goods first sold in the United States would also qualify). Under those courts' precedents, then, the first sale doctrine did not shelter an importer of gray market goods manufactured overseas from copyright infringement liability for violating the importation restriction in 17 U.S.C. § 602(a).

Last week, the Supreme Court overturned the Second Circuit's ruling in *Kirtsaeng*, relying on the plain language of the statute, historical and contemporary statutory context, and practical considerations. The Court explained that a work "lawfully made under this title" refers to infringing versus non-infringing copies of a work -- that is, legitimate versus counterfeit copies -- and does not refer to a geographical limitation on the fair use defense. A significant portion of the Court's majority opinion, which was written by Justice Breyer and joined by 5 other Justices, focused on the practical import of the decision. For instance, the Court cited the American Library Association's *amicus* brief in the case, which argued that if the Court decided that the first sale doctrine did not apply to all works, regardless of geography, then public libraries would face the "insurmountable barrier" of having to obtain licenses for the 200 million foreign-published books in their collections, which would likely force them to close.

Interestingly, in her concurrence (joined by Alito, J.), Justice Kagan reasoned that the Court's decision

was mandated by its earlier ruling in *Quality King*, but called on Congress to clarify the intent of Section 602(a), stating: "I think John Wiley may have a point about what 602(a)(1) was designed to do; that gives me pause about *Quality King's* holding that the first sale doctrine limits the importation ban's scope." Thus, although the *Kirtsaeng* decision was joined by six Justices, at least two of those Justices expressed reservations about the ultimate conclusion.

Nonetheless, at the end of the day, the Supreme Court has settled the matter unless and until Congress steps in, effectively eliminating a copyright owner's right to address gray market goods through the use of the Copyright Act. As such, copyright owners, particularly those who sell hard goods – books, DVDs, CDs – on an international scale will need to give increased consideration to the ways in which their international distribution contracts (and subcontracts) may be able to provide protection against gray market imports.

For more information regarding the *Kirtsaeng* decision or to discuss any aspect of anti-counterfeiting or protecting your intellectual property, contact **Venable's Intellectual Property Group**.