Client**Alert**

Intellectual Property

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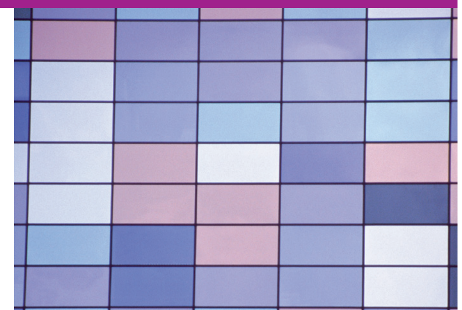

Supreme Court Applies "First Sale" Doctrine to Foreign-Made Copyrighted Goods

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The Supreme Court ruled in *Kirtsaeng v. John Wiley & Sons, Inc.* that copyright law does not prohibit the unauthorized importation and sale of copyrighted goods manufactured outside the United States. This decision, which interprets the "first sale" doctrine, has important implications across a number of industries, including for:

- US copyright owners who wish to segment the geographic markets in which they sell their products
- Manufacturers, distributors, and consumers of products that contain copyrighted software and packaging
- Retailers, importers and resellers of copyrighted goods
- Institutions like art museums that rely on the "first sale" doctrine to make copyrighted works available to the public

The *Kirtsaeng* decision may also have implications for the analogous patent law doctrine of exhaustion.

Background

The publisher John Wiley & Sons manufactures and sells textbooks outside the United States, often at prices significantly below what it charges in the United States for virtually identical books. To segment its geographic markets, Wiley prohibits the importation of its less-expensive foreign editions into the United States. Kirtsaeng, a graduate student from Thailand studying in the United States, arranged to import foreign editions of Wiley textbooks and resell them on eBay. Wiley sued Kirtsaeng for the unauthorized importation and sale, and the District Court found Kirtsaeng liable for copyright infringement. The Second Circuit affirmed.

The Issue

The Copyright Act provides that the owner of a particular copy "lawfully made under this title" is permitted to sell or otherwise dispose of that copy without the copyright owner's authorization. Known as the "first sale" doctrine, this allows owners of copyrighted goods to dispose of those goods in the marketplace without having to secure copyright permissions. The doctrine allows, for example, a person to buy a physical book at a Barnes & Noble

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bookstore and then resell that particular book to a used bookstore. At issue in *Kirtsaeng* was whether the words of the statute—"lawfully made under this title"—apply only to copies manufactured within the United States (Wiley's preferred reading), or whether they encompass all copies regardless of their nation of manufacture.

This issue is not new. In 2010, the Supreme Court in *Costco v. Omega* considered whether Costco's unauthorized importation and sale of foreign-made watches, which bore a copyrighted logo, was infringing. The Court failed to resolve the issue when it deadlocked 4 – 4 after Justice Kagan's recusal from the case. *Kirtsaeng* gave the Court the opportunity to squarely decide the issue.

The "First Sale" Doctrine Applies to Copies of a Copyrighted Work Lawfully Made Abroad

In a 6 – 3 opinion written by Justice Breyer, the Supreme Court reversed the Second Circuit and concluded that "lawfully made under this title" imposed no geographical limitation.

The Court ruled that the statute was properly read to mean "in accordance with" the Copyright Act, not in conformance with the Copyright Act in the United States where the Copyright Act is applicable. The Court reached its decision on a number of grounds, finding that the statutory text says nothing about geography; Wiley's preferred reading is linguistically more difficult, there is no indication Congress had geography in mind when writing the statutory provision, the previously governing common law contained no geographic distinctions, and Wiley's reading would result in extensive practical problems for art museums, libraries, used-book dealers, technology companies and consumer-goods retailers.

The majority also rejected Wiley's, and the dissent's, argument that the opinion would make pointless the Copyright Act prohibition on unauthorized importation. In the majority's view, the importation provision retains significance, for example by allowing a publisher to bar a foreign printer, which manufactured copies under license, from selling those copies in the United States without permission.

Implications

Kirtsaeng has significant implications:

- Copyright owners that make and sell goods outside the United States will have to reevaluate their pricing and marketing strategies in response to arbitrage by importers and resellers. In addition, copyright owners increasingly must rely on contract terms—a more limited tool—to protect their geographic markets.
- Companies that manufacture, import, distribute and resell products containing embedded copyrighted works face a lower risk of liability. As the Court noted, foreign-made mobile phones, tablets, personal computers, automobiles, microwaves, and calculators contain copyrighted software programs and packaging. The decision eliminates potential exposure for importing these products without the copyright owners' permission.
- *Kirtsaeng* could signal a change of direction for an analogous doctrine under patent law. Less than a week after releasing its *Kirtsaeng* decision, the Supreme Court refused to hear the appeal in *Ninestar Technology v. ITC*, where the issue presented was whether the initial authorized sale outside the United States of a patented item terminates all patent rights to that item; the Federal Circuit had found that such a sale had not exhausted the patent owner's rights. Applying *Kirtsaeng,* other courts may in the future reach a contrary result, possibly setting up a circuit split and significantly affecting the rights of patent holders.
- Art museums remain free to acquire, display, borrow and loan foreign-made artwork without having to seek permission from copyright owners.
- The battle now shifts to Congress. Justice Kagan's concurring opinion suggests one possible legislative change: prohibiting unauthorized importation to keep markets segmented, but allowing sales in the United States to eliminate downstream liability. How proposals such as these will fare is uncertain given the already-crowded agenda in Congress regarding the Copyright Act, including legislative initiatives on orphan works, copyright small claims and art resale royalties.

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