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LITIGATION

'First sale' doctrine applies to gray market

By Timothy J. Toohey

A couple of weeks ago I moderated a lively debate about the first sale doctrine and "gray-market" goods at the USC IP Institute in Beverly Hills. The debate centered on the case of *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697, then pending before the U.S. Supreme Court, and whether the petitioner, Supap Kirtsaeng, was liable for copyright infringement for reselling in the U.S. textbooks published by Wiley that were first sold in Thailand. The decision of a New York district court that the first sale doctrine did not apply and that Kirtsaeng was liable for statutory damages for copyright infringement was affirmed by the 2nd U.S. Circuit Court of Appeals. At the center of the Supreme Court case was whether the first sale doctrine in Section 109(a) of the Copyright Act (17 U.S.C. Section 109(a)), which provides that an "owner of a particular copy or phonorecord lawfully made under this title" was entitled without permission of the copyright owner "to sell or otherwise dispose of the possession of that copy or phonorecord," applies to copies first sold outside the U.S., such as Wiley's textbooks.

One of my panelists, who had authored an amicus brief on behalf of Kirtsaeng for companies buying and selling technology products containing copyrightable elements manufactured outside the U.S., argued vigorously in favor of the position that the first sale doctrine had no geographical limitation, i.e., that a copyright owner's rights to restrict sale are cut off by a sale anywhere in the world. He saw Kirtsaeng as something of a hero. By realizing that he could make a profit from textbooks sold abroad and imported into this country, Kirtsaeng embodied the American dream and had acted as have millions of other consumers who resell copyrighted goods on eBay, Craigslist or in garage sales. To allow copyright owners to control the resale of items first sold outside of the U.S. would be to enshrine a restraint on alienation contrary to long-standing and widespread behavior and to create enforcement nightmares.

My other panelist, who had authored an amicus brief in favor of the respondent Wiley for owners of copyrighted materials, naturally had a very different view of the case. She pointed out the fact that the textbooks sold by Kirtsaeng bore a clear legend stating that they were to be sold only in certain territories (including Asia) and were not to be exported. In placing such restrictions on resale, Wiley was exercising its right under Section 602(a)(1) of the Copyright Act (17 U.S.C. 602(a)(1)), which allows a copyright owner to prohibit importation into the U.S. of copyrighted materials without its permission. My panelist also stated that Wiley was rightfully segmenting the market for its textbooks by charging different prices for books sold in non-U.S. markets, where purchasers could not pay the high prices paid in the U.S. If the first sale doctrine were to be expanded to works first sold outside the U.S., copyright owners would be deprived of a valuable right and Section 602(a)(1) would be eviscerated.

On March 19, the Supreme Court settled this debate by rendering its decision in the *Kirtsaeng* case in favor of petitioner Kirtsaeng and the first sale doctrine. In a 6-3 opinion authored by Justice Stephen Breyer, the court found that Section 109(a) has no geographical limitation. The court based its ruling on its view that the words "lawfully made under this title" in Section109(a) meant copies lawfully made in accordance with the Copyright Act (as opposed to those that are not lawfully made) without regard to *where* the copies are made. According to the court, the approach urged by Wiley, which interpreted the words "lawfully made" as being limited to copies made in the U.S., would create "linguistic problems." The court stated that its interpretation was consistent with the common law's refusal to permit restraints on alienation of chattels, dating back to the estimable Sir Edward Coke (1552-1634).

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The court also found that its nongeographical interpretation of the first sale doctrine freed "courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods" and would avoid the "intolerable consequences" that would be caused by not allowing the first sale doctrine to apply to goods first sold abroad. In support of this point, the court cited some of the concerns raised by the numerous *amici* in Kirtsaeng regarding a geographical interpretation of Section 109(a). For example, librarians feared that they would be forced to obtain permission from copyright owners to circulate books made outside the U.S. Used book dealers also raised concerns regarding the resale of foreign books and retailers worried that geographical limitations could prevent the resale of a car without permission of the owners of copyrighted software in the vehicle.

In a dissenting opinion, Justice Ruth Bader Ginsburg, joined by Justices Anthony Kennedy and Antonin Scalia, made light of the majority's "imaginary ... parade of horribles." The dissent pointed out that the adverse consequences cited by the majority had failed to materialize in actual cases against libraries, retailers or consumers. The dissent stated that the more natural reading of Section 109(a) would restrict the first sale doctrine to titles made lawfully under the Copyright Act where the act applied, i.e., the U.S. The dissent also found that its interpretation comported with the right to control importation under Section 602(a)(1), which would otherwise be rendered a nullity under the majority's view of the applicable statutes.

Reaction to the court's *Kirtsaeng* decision has largely been along industry party lines. Those with an interest in selling or distributing foreign-made goods have praised the decision and copyright owners have decried it. The decision is said by some to be a realistic reflection of the global marketplace and by others as giving copyright owners an incentive to remove works from foreign markets lest they be imported into the U.S. after their first sale abroad. Writing in the New York Times, Eduardo Porter suggested that the decision "might even hasten the near-demise of print — spurring publishers into a digital world where they can license their books rather than sell them, adding some bells and whistles while gaining some protection from the first-sale clause."

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Although it is too soon to predict the long-term impact of Kirtsaeng, it is likely that most consumers will, as before, continue to believe that they have the right to resell copyrighted goods, whether or not they were first sold in the U.S. As Sir Edward Coke wrote in his famous Institutes of the Laws of England: "[If] a man be possessed of ... a horse, or of any other chattel ... and give or sell his whole interest ... therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest ... is out of him." Although consumers are now more likely to resell electronics than horses, their belief that they have the right to do so has, as the Supreme Court stated in *Kirtsaeng*, an "impeccable historic pedigree" in the common law.

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