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US Supreme Court Renders *Kirtsaeng* Decision

On March 19, 2013, the US Supreme Court issued its highly-anticipated decision in *Kirtsaeng v. John Wiley & Sons, Inc.* The Court expressly held that the first sale doctrine protects the owner in the US of a copy of a copyrighted work that was lawfully made and purchased abroad. The 6-3 decision resolves the scope of the Copyright Act's first sale doctrine, which had split the Court 4-4 just two terms ago in *Costco Wholesale Corp. v. Omega, S.A*. *Kirtsaeng* provides clear authority that will protect retailers and technology companies that regularly sell copies of foreign-made goods containing copyrighted materials. The decision also protects libraries and museums that wish to display or distribute foreign-made copyrighted materials. Conversely, *Kirstaeng* provides another road block for content-generating companies that seek to price their goods differently in different geographic regions.

Background

John Wiley & Sons, Inc. (Wiley) publishes academic textbooks, selling them both in the US and abroad. The international editions contain the following copyright notice:

> *Copyright © 2008 John Wiley & Sons (Asia) Pte Ltd[.] All rights reserved. This book is authorized for sale in Europe, Asia, Africa, and the Middle East only and may be not [sic] exported out of these territories. Exportation from or importation of this book to another region without the Publisher's authorization is illegal and is a violation of the Publisher's rights. The Publisher may take legal action to enforce its rights. . . . Printed in Asia.*

Wiley's English-language versions of textbooks are more expensive in the US than overseas, but the contents of each versions are otherwise essentially equivalent.

Supap Kirtsaeng is a Thai citizen who came to the US to attend college and, later, to obtain his Ph.D. He had his family and friends in Thailand purchase English-language textbooks in Thailand and mail them to him in the US. Kirtsaeng then sold the textbooks, reimbursed his friends and family and pocketed the resulting profits.

Wiley sued Kirtsaeng for copyright infringement, asserting that Kirtsaeng infringed its copyrights by importing the foreign-made and purchased goods and selling them in the US. Kirtsaeng claimed that his activities were protected by the first sale doctrine, codified in section 109(a) of the Copyright Act. Section 109(a) provides that "the owner of a particular copy or phonorecord lawfully made under this title ... is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord."

Both the district court and a divided Second Circuit panel sided with Wiley. Those courts held that Kirtsaeng infringed Wiley's copyright by importing and selling textbooks purchased in Thailand because the first sale doctrine is geographically limited to the US.

The circuit courts have been divided about the scope of section 109(a). For example, the Third Circuit had held that a geographic limitation did "not fit comfortably within the scheme of the Copyright Act."[1] The Ninth Circuit was closer to the Second Circuit.[2] The Supreme Court reviewed the issue in the *Omega v. Costco* case, but was unable to resolve the issue in an equally split 4-4 decision (Justice Kagan was recused because she had filed a brief in the case as the Solicitor General of the United States).

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The Court's Decision in *Kirtsaeng*

The Supreme Court's *Kirtsaeng* decision holds blankly that "the 'first sale' doctrine applies to copies of a copyrighted work lawfully made abroad." The key issue in the case was the meaning of the phrase "lawfully made under this title" in section 109(a). Wiley (and its supporters) argued that the phrase meant that the particular copy had to be "made subject to and in compliance with the Copyright Act" which, they argued, "are copies 'made in the United States.'" The majority rejected this interpretation and instead held that the phrase meant that the copy need be made "in accordance with" or "in compliance with" the United States Copyright Act.

The Court buttressed this reasoning by examining the revision to the Copyright Act's earlier codification of the first sale doctrine to the version in section 109(a). The earlier version of the first sale doctrine applied to a copy that was "lawfully obtained" by the individual, while the current version applies to the "owner of a particular copy . . . lawfully made under" the Copyright Act. The Court explained that the reasoning behind this change was not to somehow impose a geographic restriction on the doctrine, which the Court noted had its roots in common law and at common law had no geographic restriction, but rather was to preclude the first sale doctrine from applying to lessees of works (as many movie theater owners "leased" copies of films in the 1970s).

The Court also acknowledged arguments raised by a number of technology companies who explained that many products (from cars to microwaves to tablet computers) are manufactured abroad and contain numerous copyrighted software programs. These companies argued that a geographic restriction to the first sale doctrine would prevent the resale of a car, for example, without the permission of the copyright holder of each and every piece of copyrighted software in that car.

Additionally, the Court expressed concern for the owners of copies of works, such as libraries, museums, book sellers and other retailers "who have long relied upon [the first sale doctrine's] protection." The Court felt that its decision would protect these businesses and organizations.

Justice Breyer delivered the Court's opinion. Justice Kagan wrote a separate concurrence, joined by Justice Alito (although both fully joined in the majority opinion).

Justice Ginsberg dissented, joined by Justice Kennedy (in full) and by Justice Scalia (except for the portions of the dissent discussing legislative history). The dissent reasoned that "Congress intended to grant copyright owners permission to segment international markets by barring the importation of foreign-made copies into the United States[,]" and therefore concluded that "[r]ather than adopting the very international-exhaustion rule the United States has consistently resisted in international-trade negotiations, I would adhere to the national-exhaustion framework set by the Copyright Act's text and history."

Kirtsaeng's Likely Impact

The Court's decision in *Kirtsaeng* provides powerful protection to retailers and other businesses that sell products containing copyrightable material lawfully made abroad. In today's modern world, where computers are becoming ever present in our cars, home appliances and phones, a contrary decision could have had significant ramification for sellers of any "high tech" goods in addition to traditional retailers.

Likewise, the Court's holding benefits museums and libraries. In its decision, the Court noted that imposing a geographic decision "would require the museums to obtain permission from the copyright owners before they could display the work . . . even if the copyright owner has already sold or donated the work to a foreign museum." The Court noted the conundrum the museums would face:

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"What are the museums to do . . . if the artist retained the copyright, if the artist cannot be found, or if a group of heirs is arguing about who owns which copyright?" The Court similarly noted the issues libraries would face in attempting to identify, locate and obtain permission from the copyright holders of the "at least 200 million books published abroad" contained in library collections.

On the other hand, the decision presents significant issue for businesses that attempt to price products differently in different geographic markets. These companies may need to rethink their pricing strategies or to consider more mundane approaches such as customizing their products (where possible) to a particular region. The decision could see some content providers shift more to an electronic distribution model where content is licensed rather than owned by the user and, thus, not subject to the first sale doctrine.

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[1] *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098, n. 1 (3d Cir. 1988).
[2] *Omega S. A. v. Costco Wholesale Corp.*, 541 F.3d 982, 986 (9th Cir. 2008) (holding that the first sale doctrine only applies to copies manufactured abroad if an authorized first sale occurs within the US).