

U.S. Supreme Court Creates Challenges for International Producers of Copyrighted Works in *Kirtsaeng* First Sale Doctrine Decision

In a March 19, 2013 decision in *Kirtsaeng v John Wiley & Sons, Inc.*, the Supreme Court turned aside copyright owners' attempts to draw geographic limits around the application of the "first sale" doctrine, holding that the doctrine applies to copies of copyrighted works lawfully made outside the United States and then imported into the U.S. The outcome provides comfort to libraries, museums and resellers of copyrighted works in the U.S. who source materials from around the world. But the decision creates significant challenges for international producers and distributors of copyrighted works who provide targeted products or pricing to specific markets and try to limit the movement of those works outside those markets.

The factual background to the *Kirtsaeng* decision is relatively straightforward. John Wiley & Sons, Inc. is an international publisher of academic textbooks. The Court essentially viewed there as being two versions of a Wiley textbook: one made in, and priced for, the U.S. and one made in, and priced for, non-U.S. markets. The non-U.S. books included a legend stating that the book was only authorized for sale in specific territories and could not be exported outside those territories. Supap Kirtsaeng is a Thai citizen who went to school in the U.S. While in the U.S., he asked friends and family in Thailand to buy copies of books there, at low prices, and send them to him in the U.S. They did, and Kirtsaeng resold the books in the U.S. for a profit.

Wiley sued Kirtsaeng for copyright infringement, claiming the unauthorized importation of the books infringed Wiley's exclusive right to distribute works under Section 106(3) of the Copyright Act. Kirtsaeng responded that, since the books were "lawfully made" for purposes of Section 109(a) of the Act, the first sale doctrine applied and he was free to import and resell those copies of the books without Wiley's permission. The District Court held that the first sale doctrine did not apply because the books Kirtsaeng bought were made outside the U.S., and a jury proceeded to award Wiley \$600,000 in statutory damages for willful infringement. A split panel of the Second Circuit affirmed. The Supreme Court granted certiorari in light of different approaches to the issue taken by other Circuit Courts as well to clarify the impact of its 2008 affirmance by an equally divided Court of a Ninth Circuit opinion holding that Copyright Act's first sale doctrine applies to goods made outside the U.S. only if an authorized first sale occurs within the U.S. in *Omega S.A. v. Costco Wholesale Corp.*

Section 109(a) of the Copyright Act codifies the first sale doctrine by allowing the owner of a particular copy of a copyrighted work "lawfully made under this title" to sell or otherwise dispose of that copy without the copyright owner's permission. In a 6-3 opinion written by Justice Breyer, the Supreme Court in *Kirtsaeng* held that the books made outside the U.S. that Kirtsaeng resold within the U.S. had indeed been "lawfully made" under Section 109(a). The Court then proceeded to reverse the judgment below, applying the first sale doctrine to deem Wiley's copyrights exhausted and Kirtsaeng's reselling of the Thai-sourced books permitted under the Copyright Act.

The core focus of the Court's analysis was whether the phrase "lawfully made under this title" imposed a geographic limitation on the first sale doctrine. The majority found a non-geographic interpretation of the phrase supported by a plain English reading of Section 109(a), statutory interpretation principles, an analysis of legislative history and the "first sale" doctrine's common law roots. In doing so, the Court rejected as non-binding dictum a suggestion in its *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.* decision that Section 109(a) had a geographic limitation.

Importantly, the Court gave credence to a concern raised by Wiley that a non-geographic interpretation of “lawfully made under this title” would make “it difficult, perhaps impossible” for copyright owners to treat foreign and domestic markets differently. The Court conceded that that is a likely outcome of the case, but could find no justification for giving copyright owners the right to divide markets to maximize gain in either the Copyright Act or United States Constitution. Rather, it noted that that outcome is consistent with antitrust law principles ordinarily forbidding market divisions and specifically left to Congress whether copyright owners should have more than ordinary commercial power to divide international markets.

In her dissent, Justice Ginsburg noted that majority’s reading of Section 109(a) to broadly permit international exhaustion of copyrights is counter to the U.S.’s own position taken in World Trade Organization negotiations over the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”). There currently is no TRIPS consensus on international exhaustion, and the U.S. had favored a domestic exhaustion-only approach (consistent with a geographic limitation reading of Section 109(a)) in those discussions as being consistent with the U.S.’s long-term economic interests.

The immediate impact of *Kirtsaeng* will be felt most sharply by those copyright owners who currently do try to restrict the importation of copyrighted goods made overseas into the U.S. Common international manufacturing, distribution and control practices should be reviewed in light of the Supreme Court’s opinion. Those involved in acquiring works abroad and either displaying or reselling them – from libraries and museums to auctioneers – need to worry less about their ability to sell or dispose of those works.

Acquiring objects overseas and reselling them in the United States is still not a worry-free proposition, though. Under the current state of law, different international exhaustion principles may apply depending on the intellectual property right one is examining. Current Federal Circuit law, for instance, is that U.S. patents are not exhausted by the making and selling of products outside the United States. See *Jazz Photo Corp. v. U.S. Int’l Trade Comm’n*. A patent case questioning the vitality of that patent rule was pending at the Supreme Court when it decided *Kirtsaeng*. But the case, *Ninestar Technology Co. v. Int’l Trade Comm’n*, involved a collateral attack on the ITC’s enforcement of exclusion and cease and desist orders that were previously fully litigated through appeal to the Federal Circuit. For that, and other reasons, it probably provided a poor vehicle for deciding whether the principles announced in *Kirtsaeng* apply to U.S. patents too. So it was not surprising when, on March 25, the Supreme Court declined to grant certiorari in *Ninestar*.

Longer term, *Kirtsaeng* likely represents a further circumscribing of rights holders’ ability to restrict movement or use of goods they allow to be licensed or sold. The continued expansion of exhaustion principles by the Court, if continued, could work to undermine other common business practices rights holders commonly use to try to regionalize and maximize the potential of their intellectual property. To discuss further the potential impact of *Kirtsaeng* or the Court’s other decisions, please get in touch with your regular Ropes & Gray contact.