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Kirtsaeng v. John Wiley & Sons, Inc.: A Brief History of a Long-Anticipated Case

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As we noted late last year in ***Kirtsaeng v. John Wiley & Sons: How the Supreme Court Will Decide the Fate of eBay, Libraries, and Yard Sales***, the Supreme Court is presently considering *Kirtsaeng v. Wiley*, a case that is expected to resolve the decades old 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). However, this won't be the first time that the Court has been confronted this issue – the intersection of these provisions has twice appeared before the Court in the past fifteen years alone.

As background, the first sale doctrine provides that the owner of a particular copy of a work "lawfully made under this title" is entitled to sell or otherwise dispose of the possession of that copy of the work. The first sale doctrine is the reason why people can loan books or DVDs to friends or sell those books and movies at a garage sale – it means that once a person lawfully acquires a copy of a work, the copyright owner is powerless to prevent the buyer from further distributing that work. Meanwhile, the importation restriction set forth in §602(a) states that the importation of a copyrighted work acquired outside the U.S. constitutes an infringement of the work (although there are exceptions to that rule for the importation of a single copy for strictly personal use, among other things).

The source of the tension is that, in many cases, a lawful sale will have occurred prior to the importation; that is, the person attempting to import the goods will have already lawfully purchased them from an authorized distributor outside the U.S. Such goods, once imported, are called gray market goods. Gray market goods hinder a copyright owner's ability to commercialize its work in the U.S. because the importer can often sell the gray market goods at prices far below what the copyright owner would otherwise charge in the U.S. after having purchased the goods at prices scaled for foreign markets. If the first sale doctrine trumps the importation restriction, copyright owners have no remedy in copyright law for the importation of gray market goods.

The Supreme Court addressed this conflict fifteen years ago in a case called *Quality King Distributors, Inc. v L'Anza Research International*, 523 U.S. 135 (1998). In that case, a beauty products manufacturer made products in the U.S. and sold them to distributors abroad for re-sale outside the U.S. The defendant lawfully purchased them outside the U.S. and brought them back into the country where they ended up for sale at local drug stores. The plaintiff sued for infringement under the importation restriction in §602(a) and the defendant claimed that it was protected by the first sale doctrine. The Supreme Court ultimately ruled in favor of the defendant, finding that the first sale doctrine applies when the imported goods were originally made in the U.S., or so-called "round trip" importation. However, in her concurring opinion, Justice Ginsberg foretold the need for at least one more case, stating "we do not today resolve cases in which the allegedly infringing imports were manufactured abroad." 523 U.S. at 154.

It took just over a decade for the issue flagged by Justice Ginsberg to come before the Court in *Costco Wholesale Corp. v. Omega S.A.*, 131 S.Ct. 565 (2010). This case involved Omega watches that were manufactured outside the U.S., in Switzerland, then sold to distributors around the globe and ultimately imported to the U.S. *Costco* came up through the Ninth Circuit where, building on prior circuit caselaw, the court held that the first sale doctrine did not apply because, unlike in *Quality King*, the goods at issue were made and sold abroad. Goods manufactured and sold entirely outside the U.S., the Court reasoned, are not "lawfully made under this title" as required by the first sale doctrine because they are not made subject to U.S. law. However, the Ninth Circuit went on to clarify that the first sale doctrine would apply to goods made overseas *if* an authorized first sale occurred in the U.S.

The defendant appealed that case to the Supreme Court, which would have given the Court an opportunity to resolve this issue but for a procedural hiccup: Justice Kagan recused herself because she had worked on the case as Solicitor General, urging the Court to uphold the Ninth Circuit's ruling.

With her recusal, the Court split 4-4 without an opinion, which technically affirms the lower court's decision but does not create national precedent. The case was remanded, was subsequently dismissed for copyright misuse and is currently on appeal again in the Ninth Circuit.

Finally, a full fifteen years after *Quality King*, we may be on the verge of resolution of the tension between these two provisions thanks to *Kirtsaeng v. John Wiley*. [\[insert hyperlink to earlier article\]](#) In the case below, the Second Circuit adopted the Ninth Circuit's ruling from *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) insofar as it held that the first sale doctrine does not apply to copyrighted works made outside of the United States, but it expressly rejected the Ninth Circuit's exception to that rule pertaining to goods manufactured abroad but first sold in the U.S. Because the books at issue in *Kirtsaeng* were manufactured and sold abroad by a U.S.-based publisher, the Court's ruling is likely to address this split.

The Supreme Court heard arguments in *Kirtsaeng* this past October and a decision will come sometime this term. If the Court finds that the first sale doctrine does not apply to goods made abroad, manufacturers of such goods will have to rely on their distribution contracts to prevent gray market goods from entering the domestic market. If the Court rules in favor of the publishers, online merchants and lending institutions may have to seek licenses for thousands of works in their inventories or risk liability for infringement. Whatever the outcome, this case is likely to have a lasting effect on the business practices of companies that participate in the manufacture, production or distribution of products on an international scale.