Copyright Alert: Second Circuit Negates First Sale Right for Foreign-Made Works of Authorship

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In a startling and potentially far-reaching decision, a divided panel of the Second Circuit held this week that the first sale doctrine of 17 U.S.C. § 109(a) does not apply to copies of works manufactured outside of the United States. *John Wiley & Sons, Inc. v. Kirtsaeng*, 2011 WL 3560003 (2nd Cir. Aug. 15, 2011) ("*Wiley*"). If followed, *Wiley* would alter established law on resale of books, electronic products and any other works that are commonly made abroad – or that could be if manufacturers decide they want to control or to entirely prohibit the re-sale of their copyrighted works. *Wiley's* broad holding is in conflict with a Ninth Circuit decision on the issue – one that the Supreme Court reviewed only last year, but affirmed based on a four-four split – so it seems almost inevitable that the issue will again be presented to the high court.

Publisher and copyright holder Wiley had designated certain editions of its texts as for sale only outside of the United States; the books at issue were printed abroad by Wiley Asia. Friends and family members of defendant Kirtsaeng purchased copies of the foreign editions in Thailand and shipped them to him in the United States, where he sold them on eBay. Wiley brought an action claiming that Kirtsaeng violated § 602(a)(1), which provides: "Importation into the United States, without the authority of the owner of copyright ..., of copies ... of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies [of the work]."

Kirtsaeng asserted that the first sale doctrine shielded him from liability. Section 109(a) provides that "the owner of a particular copy [of a work]... 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 ...."

The Second Circuit noted the tension between the two provisions. The court framed the issue broadly, as whether the first sale section can apply at all to copies manufactured abroad. The court found the wording of § 109(a) to be ambiguous, and sought an interpretation that comported with the purpose of § 602(a)(1) and with the U.S. Supreme Court's decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998). *Quality King* held that the first sale defense applies to unlawful importation claims concerning "round trip" goods, made-in-the-U.S. and exported by the copyright holder, then sold abroad, imported back into the United States and re-sold by unauthorized third parties.

Quality King involved goods made in the United States; the principal issue posed by *Wiley* was whether its first sale conclusion applied equally to foreign-made works. Wiley and Sons argued that it did not because § 109(a) requires that the copy of the work at issue be "lawfully made under this title," and that copies manufactured overseas were not "made under this title."

The *Wiley* majority noted that § 602(a)(1) is intended to allow manufacturers to control the circumstances in which copies of their works that are manufactured abroad can be brought into the U.S. The court reasoned that the protection to be afforded by the provision would have no force in most cases if the first sale doctrine were allowed as an exception to § 602(a)(1). The court also deemed its interpretation consistent with dicta in *Quality King*, and held that the first sale doctrine did not apply to copies manufactured abroad. Kirtsaeng anticipates filing a petition for rehearing en banc, and probably a petition for certiorari should the rehearing petition not avail.

The issue could have been framed more narrowly, since the issue posed by *Wiley* was only whether the claimed § 109(a) right represented a defense to § 602(a)(1). The court could have decided that § 602(a)(1) trumps § 109(a), and that the first sale doctrine is not a defense to an unauthorized and unlawful importation – but is a defense when the copies have been lawfully imported by the copyright holder itself. Instead the Second Circuit limited the scope of § 109(a), including in instances in which there has been *no* violation of § 602(a)(1) – that is, when the works at issue have been imported by or with the copyright holder's consent. Plainly, the stated policy concern – vindicating the copyright holder's right to control the terms of importation – would not be at issue in such cases.

The majority did not address or suggest any policy reason why Congress might have intended that the first sale doctrine not apply to goods manufactured outside the U.S. And although the court expressly acknowledged the force of Kirtsaeng's argument that its ruling would provide an incentive for outsourcing production and could result in the circumvention of the first sale right, it deemed this consideration irrelevant to its analysis.

In dissent, Judge Murtha focused on a close textual analysis, on the history of the first sale doctrine, and on the policies underlying it, and reached the opposite conclusion in a set of arguments that the majority did not address.

As the Second Circuit noted, these issues had been addressed by the Ninth Circuit. In *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), that court held (as does the Second Circuit in *Wiley*) that § 109(a) did not protect the unauthorized importer of foreign-made copies. But – unlike *Wiley* – *Omega* holds that the first sale doctrine *does* apply to items manufactured abroad when they are imported and first sold in the United States with the copyright holder's permission. The Supreme Court reviewed *Omega* and upheld the judgment when the court split four to four (with Justice Kagan recused). *Costco Wholesale Corp. v. Omega*, 131 S. Ct. 565 (2010). The Supreme Court's interest in the issue and the split between the two circuits on the scope of § 109(a) strongly suggest that the Supreme Court will soon reach this issue.

Meanwhile, for cases arising in the Second Circuit or other circuits influenced by its view, copyright holder/manufacturers have an expanded and stronger distribution right for foreign-made goods. So, for example, any publisher whose books were printed abroad can under *Wiley* bar the sale of used copies of those books, as an unlawful distribution to the public. But the significance of this right transcends used book stores and do-it-yourself resellers; since most electronic devices nowadays include firmware embedded with copyright-protected programming, and since most such products are made overseas, the distribution and resale of a wide range of products may now be subject to the control of the manufacturer.

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