Last Rights for First Sale Doctrine?

Attention all sellers of anything that might have a copyright attached to it, including online resellers (Craigslist, eBay, etc.), pawn shops, homeowners holding garage sales and literally anyone selling her legally owned possessions. You may just find yourself liable for up to $30,000 in statutory damages per item sold, depending on the outcome of the Supreme Court case *Supap Kirtsaeng v John E. Wiley & Sons*, argued on October 29.

Kirtsaeng addresses the operation of the so-called first sale doctrine under the Copyright Act as applied to goods manufactured outside the U.S. In August 2011, the U.S. Court of Appeals for the Second Circuit upheld a lower court's ruling that the first sale doctrine applied only to U.S. made goods. The impact of this ruling is that a copyright owner can *forever* control any foreign-made product having copyrighted content, even after the product enters the U.S, but the same product made in the U.S. cannot be controlled after its first sale. The United States has filed an amicus brief in which it takes the position of the Second Circuit. This is on its face an extremely odd result with potentially bizarre consequences.

The first sale doctrine is a limitation on the owners of patents, trademarks and copyrights that "exhausts" these rights in products incorporating such intellectual property subsequent to a first sale authorized by the owner of the intellectual property right at issue. The doctrine plays out in different ways among these three forms of IP. In general, under trademark law and patent law, the doctrine has been well fleshed out by decisional law and its parameters are well defined. The two major issues that come into play with this doctrine tend to be how to deal with products crossing national borders and the limits placed on the doctrine as a result of various forms of product repairs, modifications or re-packaging by a defendant relying on the doctrine.

Before turning to the case at issue, let's look at how trademark law deals with the first sale doctrine. First and foremost, the law abhors any attempt at a trademark owner controlling downstream sales of "genuine products" in any manner. The first sale doctrine has proven to be an absolute bar on such attempts, however creatively the trademark owner has tried to circumvent it.[i] In cases involving product modification, the courts have resolved such cases solely on the basis of avoiding consumer confusion.[ii] Only when under the specific facts of a case the evidence suggests that an appreciable number of consumers will be confused by material differences between the genuine product and the resold product, will a court allow the trademark owner to enjoin such resale.[iii] In cases of repaired products and repackaged used products, disclosure of the true facts will usually prohibit a trademark owner from preventing resale of its repaired or used products, even in non-original packaging and, in one case, where defendant reapplied the trademark on its own.[iv]

The parallel to these kinds of trademark cases in the copyright world turns on whether or not a defendant has created a derivative work. This is a rare fact scenario (most copyright infringement cases involve copying, as opposed to reselling, a copyrighted item) but has arisen in the case law a few times in the context of someone adding something to a copyrighted work of art, such as an ornamental frame. The issue is whether this is merely a resale covered by the first sale doctrine or instead, the sale of an infringing derivative work.[v]

Turning to the territorial issue, under trademark law it is now well settled that items first placed on the market by or under the authority of the trademark owner outside the United States may be imported into and resold in the U.S, but only where there are not material differences between the product sold in the U.S. and the one intended for sale outside the U.S.[vi]

At the heart of the controversy surrounding the operation of copyright's first sale doctrine in the context of cross-border transactions is the interplay between three separate provisions of the Copyright Act.[vii] The question presented by *Kirtsaeng* is whether copyrighted goods that are manufactured and first sold outside the U.S, under the authority of the copyright holder and then imported into the U.S. can be legally resold in the U.S. In other words, does the first sale doctrine in 109(a) provide a defense to a claim under the importation right in 602(a)(1)? It is undisputed that 602(a)(1) provides an importation right to the copyright owner when there has not yet been a first sale anywhere (e.g. a foreign publisher breaking its contract by selling into the U.S.).

The meaning of the words "lawfully made under this title" in Section 109 in connection with foreign made copyrighted goods determines whether reselling such goods in the U.S. is protected by the first sale doctrine or is instead a violation of Section 602(a)(1). It has already been determined by the Supreme Court that where copyrighted goods are manufactured in the U.S, exported outside the U.S, and then re-imported into the U.S, that the first sale doctrine cuts off the importation right because of the first sale in the U.S. (albeit to another country).[viii]

At its core, *Kirtsaeng* presents a competition between two possible constructions[ix] of the phrase "lawfully made under this title" in § 109(a):

1. Petitioner's reading is that a copy is "lawfully made under this title"—and the seller gets the benefit of the first-sale doctrine—if the copy was made "consistent with" the Copyright Act.

2. At the other end of the spectrum - the argument that a copy is "lawfully made under this title" only if it was manufactured on United States soil. This is the opinion from the Second Circuit for which the Supreme Court granted cert.

Under the first construction, as long as a copy is made anywhere by or under the authority of the copyright owner, any first sale of that copy extinguishes the copyright owner's right to restrict any further resale in the U.S. This is the position taken in the amicus briefs filed by several parties, such as eBay, for whom free trade in used copyrighted goods in the U.S. is critical. The second construction, which is argued by the United States in its amicus brief, sets up a situation whereby producers of copyrighted goods will be motivated to move their manufacturing overseas in order to avoid the consequences of the first sale doctrine for each and every resale in the U.S. (akin to a perpetual monopoly on every resale of the copyrighted good). An example of a consequence of this position is that one or two big movie producers, like Sony or Universal, could demolish movie rental services like Netflix and Blockbuster through the simple device of manufacturing DVDs in Mexico. Also, a car manufacturer could prohibit or control resale of all automobiles. It would simply have them manufactured abroad and be sure to include onboard computer systems containing copyrighted software.

It should be clear that this case has many parties very seriously concerned about the viability of existing markets in used goods, and also the prospect of moving the manufacturing of many types of goods away from U.S. soil.

Gene Bolmarcich, Esq. is a trademark attorney and Principal of the Law Offices of Gene Bolmarcich in Babylon, NY, with a national clientele. He is a member of the SCBA's Solo Practice and Intellectual Property Committees and operates a virtual trademark registration service at www.trademarksa2r.com . He can be contacted at gxbesq1@gmail.com

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[i] *McDonald's Corp. v. Shop at Home, Inc.,* 82 F.Supp.2d 801(M.D. Tenn. 2000)

[ii] *Karl-Storz Endoscopy-America, Inc. v. Surgical Tech, Inc.,* 285 F. 3d 848 (9th Cir. 2002)

[iii] See *Davidoff & Cie, SA v. PLD Int'l Corp.,* 263 F.3d 1297 (11th Cir. 2001)

[iv] *Nitro Leisure Products, L.L.C. v. Acushnet Company,* Case No., 2003 U.S. App. LEXIS 17822 (Fed. Cir. Aug. 26, 2003)

[v] See *Mirage Editions, Inc. v. Albuquerque ART Co*., 856 F.2d 1341, 1343 (9th Cir. 1988)

[vi] *Matrix Essentials, Inc. v. Emporium Drug Mart, Inc. of Lafayette*, 988 F.2d 587, 593 (5th Cir. 1993)

[vii] 17 U.S.C. § 106 provides in pertinent part:

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (3) to distribute copies or phonorecords of the copyrighted work to the

public by sale or other transfer of ownership, or by rental, lease, or lending…

17 U.S.C. § 109(a) provides in pertinent part:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

17 U.S.C. § 602(a)(1) provides in pertinent part:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.

[viii] *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998)

[ix] The Ninth Circuit has taken an intermediate stance, holding that a first sale in the United States of foreign made goods cuts off the copyright owner's rights inside the United States (unlike the Second Circuit's holding that a copy made abroad is never subject to the first-sale defense, even after it is imported into the United States with the copyright owner's permission and no matter how many times it changes hands.