

Client Alert

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Supreme Court Holds that “First Sale” Doctrine Applies to Copies of a Copyrighted Work Lawfully Made Abroad: *Kirtsaeng v. John Wiley & Sons, Inc.*

By Marc A. Hearron and Craig B. Whitney

The Supreme Court of the United States issued its much-anticipated decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, holding that the “first sale” doctrine protects a buyer or other lawful owner of a copy of a copyrighted work that was lawfully made abroad, following a lawful first sale. The 6-3 decision resolves a contested issue of copyright law on which the Supreme Court had been equally divided 4-4 two Terms ago. *Kirtsaeng* may be relied upon to protect businesses such as retailers and technology companies that regularly sell copies of foreign goods that contain copyrighted materials.

BACKGROUND

John Wiley & Sons, Inc. is an academic textbook publisher that sells textbooks both in the United States and abroad. Each copy of its textbooks sold outside the United States contains a disclaimer that the copy may be sold only in a particular geographic region and may not be exported to the United States without permission. The contents of the American version and the foreign versions of the textbooks are essentially equivalent.

Supap Kirtsaeng is a citizen of Thailand who moved to the United States to attend undergraduate school. Kirtsaeng's family and friends in Thailand purchased copies of foreign versions of Wiley textbooks in Thailand, where the textbooks were sold at lower prices than the American versions were sold in the United States, and sent them to Kirtsaeng. Kirtsaeng then resold the copies in the United States, making a profit for himself.

Wiley sued Kirtsaeng for copyright infringement, claiming that the importation into and resale of the textbooks in the United States constituted copyright infringement. Kirtsaeng claimed that his activities were protected under the “first sale” doctrine, 17 U.S.C. § 109(a).

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.”

A divided panel of the Second Circuit held that Kirtsaeng's importation and resale infringed Wiley's copyrights, holding that the “first sale” doctrine did not apply to copies of American copyrighted works manufactured abroad. The federal courts of appeals were divided over the question whether the “first sale” doctrine protects owners of copies of works that were made lawfully outside the United States. The Supreme Court previously had granted review in *Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423, to decide this question. In *Costco*, however, the Court was unable to resolve the issue because it was divided equally by a 4-4 vote. (Justice Kagan was recused

Client Alert

in *Costco* because she had filed a brief in the case on behalf of the United States when she was Solicitor General, arguing that the Court should not grant review.)

THE SUPREME COURT'S DECISION

In a 6-3 decision, the Supreme Court held in *Kirtsaeng* that the “first sale” doctrine applies to copies of copyrighted works that were lawfully manufactured outside the United States. The Court explained that the “language of § 109(a) read literally” does not support a geographical limitation to the “first sale” doctrine. The phrase “lawfully made under this title,” the Court reasoned, does not mean lawfully made in the United States, but rather “in accordance with” or “in compliance with” the Copyright Act, wherever the copy was made.

Moreover, the Court believed “that Congress, when writing the present version of § 109(a), did not have geography in mind.” Section 109(a)'s predecessor statute referred to works that were “lawfully obtained.” The Court explained that Congress changed that wording to “lawfully made under this title” not to impose a geographic limitation but for other reasons, including to make clear that a lessee of a copy will not receive protection and to exclude copies that were pirated.

The Court also was concerned with implications for owners of copies of works, stating that “reliance upon the ‘first sale’ doctrine is deeply embedded in the practices of those, such as book sellers, libraries, museums, and retailers, who have long relied upon its protection.”

Justice Breyer delivered the Court's opinion. Justice Kagan filed a separate concurring opinion, joined by Justice Alito, although both Justices fully joined the Court's opinion.

Justice Ginsburg dissented, joined by Justice Kennedy in full and by Justice Scalia with respect to all but the discussion of legislative history. In their view, “Congress intended to grant copyright owners permission to segment international markets by barring the importation of foreign-made copies into the United States.”

KIRTSAENG'S SIGNIFICANCE FOR BUSINESSES

Kirtsaeng provides a measure of assurance to businesses that distribute products containing components lawfully made abroad. The Court noted that many businesses rely extensively on the “first sale” doctrine to import and sell products that contain copyrighted components: “Technology companies tell us that ‘automobiles, microwaves, calculators, mobile phones, tablets, and personal computers’ contain copyrightable software programs or packaging.” A geographical limitation to the “first sale” doctrine “would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software.” Moreover, “over \$2.3 trillion worth of foreign goods were imported in 2011,” many of which “bear, carry, or contain copyrighted” materials.

The Court's holding also benefits businesses such as museums, as well as libraries. In reaching its decision, the Court considered the issue that a geographical interpretation of the phrase “lawfully made under this title” might require art museums that display foreign-produced works (e.g., paintings by Pablo Picasso) pursuant to Section 109(c)—which contains the same “lawfully made under this title” language as Section 109(a)—“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.” Likewise, the Court observed that “library collections

Client Alert

contain at least 200 million books published abroad,” and a geographic limitation to the “first sale” doctrine “will likely require the libraries to obtain permission ... before circulating or otherwise distributing these books.” *Kirtsaeng*, as a result, protects these entities with respect to works lawfully made abroad, following a lawful first sale.

On the other hand, companies that price products differently across geographic markets may wish to revisit their pricing strategies in view of *Kirtsaeng*, and may seek to tailor products, where possible, to the needs of a particular region. The *Kirtsaeng* decision may also impact a company’s decision to distribute content electronically, rather than in print.

Finally, while the analysis in *Kirtsaeng* rests primarily on statutory interpretation of Section 109 of the Copyright Act, it is worth noting that the result in *Kirtsaeng* is markedly different from the Federal Circuit’s controversial precedent in the *Jazz Photo* cases on patent exhaustion and will likely reignite the debate in that area.

Contact:

Marc A. Hearron

(202) 778-1663

mhearron@mofo.com

Craig B. Whitney

(212) 336-4122

cwhitney@mofo.com

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