KIRKLAND **ALERT**

March 2013

First Sale Defense Applies to Works Made Abroad

On March 19, 2013, the U.S. Supreme Court held that the "first sale" doctrine applies to copies made abroad. When copyright holders authorize foreign manufacture of copies of their works, lawful owners of those copies may import and resell them without permission of the copyright owner. The Court's ruling is likely to be welcomed by international consumers and by lenders and retailers of secondhand goods, such as libraries and eBay, and arguably removes the incentive to move manufacturing overseas, but may also erode sales of copyrighted works in foreign countries.

The case, *Kirtsaeng v. John Wiley & Sons, Inc.*, considered the domestic resale of foreign-made textbooks. While studying at American universities, Supap Kirtsaeng resold in the United States textbooks that his friends and family had first purchased in Thailand, Kirtsaeng's native country. John Wiley & Sons, Inc. held U.S. copyright in at least eight of the titles Kirtsaeng imported and resold.

Suing for copyright infringement in the Southern District of New York, Wiley contended that Kirtsaeng's importation and sale of Wiley's textbooks violated Wiley's exclusive right to distribute its works under Section 106(3) of the federal Copyright Act as well as Wiley's right to control importation under Section 602(a)(1). In defense, Kirtsaeng argued that the first sale doctrine, codified in Section 109 of the Act, permitted him to import and resell his lawfully owned copies. The district court found the first sale defense inapplicable, and the Second Circuit Court of Appeals affirmed.

Because Section 109(a) limits the first sale defense such that purchased copies that are "lawfully made under this title" may be resold without recourse by the copyright owner, the question before the Supreme Court was ostensibly one of statutory construction: Are copies made abroad "lawfully made under this title"? The same question had reached the Supreme Court in 2010 in *Omega S.A. v. Costco Wholesale Corp.*, but the Court split 4–4, with Justice Kagan recused, leaving the Ninth Circuit Court of Appeals ruling in place. Whereas the Second Circuit in *Kirtsaeng* held that the first sale defense did not apply to copies made abroad, the Ninth Circuit in *Costco* had held that the first sale defense did apply to copies made abroad so long as those copies were first sold in the United States.

Reversing the Second Circuit, the Court found more persuasive Kirtsaeng's "nongeographical" interpretation of the phrase to mean "lawfully made in accordance with the Copyright Act." Justice Breyer, writing for a six-member majority, noted that the statutory phrase implies no geographical limitations and that Kirtsaeng's interpretation gives due meaning to each word and is consistent with other sections of the Act. Breyer found further support in the legislative history and common-law origins of the first sale defense.

Justice Ginsburg authored a vigorous dissent, joined by Justice Kennedy and, in part, by Justice Scalia. Ginsburg argued that the statutory text, legislative history, and common law support the Second Circuit holding that copies lawfully manufactured abroad are not lawfully made under the U.S. Copyright Act but under foreign law. Such a reading, Ginsburg contended, respects the territoriality of copyright law and the parallel rights copyright owners hold in various countries.

The Court noted that a geographic reading of the first sale defense would burden American libraries with identifying, contacting, and obtaining distribution permission from copyright owners for the more than 200 million library-circulated books that were published abroad. Secondhand dealers, museums, and many retailers would face similar problems, and resale of complex technological items, such as cars, would also require permission of numerous copyright holders. The Court found such practical considerations "too serious, too extensive, and too

likely to come about" to be dismissed. Granting copyright holders such "absurd" downstream control of foreign-made copies would also arguably create a perverse incentive for copyright holders to move manufacturing overseas — an issue that was raised in the briefings but not directly addressed by the Court. Instead, applying the first sale doctrine to foreign made goods, Breyer wrote, furthers the basic constitutional goal to "promote the Progress of Science and the useful Arts."

Counterbalancing these concerns, Ginsburg stressed that the Court's opinion whittles the application of the Section 602 importation ban to "insignificance," relevant only for a few esoteric instances of importers in lawful possession, but not lawful ownership, of the imported copies. Such severe constriction of the importation right, Ginsburg argued, contravenes Congress's intent to allow copyright holders to segment global markets and differentiate price. Wiley's Asia-published textbooks were nearly identical to its U.S. versions, but given the economic differences between Thailand and the United States, the Thai copies were cheaper. Kirtsaeng's arbitrage undercut Wiley's domestic sales.

In some instances, copyright holders may enforce market segmentation through alternate means, including trademark law or contractual restrictions, but these alternatives are imperfect substitutes. Many works protected by copyright, such as most books, are not protected by trademark. Similarly, contractual restrictions can prevent arbitrage by distributors in privity but, as Justice Ginsburg noted, will be less effective against arbitrageurs like Kirtsaeng who lawfully purchase foreign copies from a third party. Given the Court's ruling, copyright holders like Wiley may reconsider the benefits of selling lower-priced copies of their works in less wealthy countries.

The practical implications of the decision and the split in the Court's views may well portend debate by Congress. In fact, Justice Kagan's brief concurrence, joined by Justice Alito, directly advises that "if Congress views the shrinking of §602(a)(1) as a problem," it should disentangle the first sale defense from the importation right: the former, Kagan argues, only grants owners the right to "sell" or "dispose" of copies — not import them. Thus, copyright holders could segment markets through control over importation under Section 602, regardless of the first sale defense, but the first sale defense would continue to prevent downstream control, regardless of the place of manufacture.

The Justices' opinions clearly reflect some of the deep divides in copyright policy currently seen in a variety of cases. As an immediate matter, *Kirtsaeng* benefits those who want to resell copyrighted works, but it will also require copyright owners to make difficult decisions as to whether to sell their works in poorer countries at a reduced price if such sales might risk sales in more prosperous countries.

If you have any questions about the matters addressed in this *Kirkland Alert*, please contact the following Kirkland authors or your regular Kirkland contact.

Dale Cendali
Kirkland & Ellis LLP
601 Lexington Avenue
New York, NY 10022
www.kirkland.com/dcendali
+1 (212) 446-4846

Claudia Ray
Kirkland & Ellis LLP
601 Lexington Avenue
New York, NY 10022
www.kirkland.com/cray
+1 (212) 446-4948

Barry F. Irwin
Kirkland & Ellis LLP
300 North LaSalle
Chicago, IL 60654
www.kirkland.com/birwin
+1 (312) 862-2423

Brian Leary
Kirkland & Ellis LLP
601 Lexington Avenue
New York, NY 10022
www.kirkland.com/bleary
+1 (212) 446-5939