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U.S. Supreme Court Upholds Importation and Re-Sale of Gray Market Goods Manufactured Abroad

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On March 19, 2013, in a decision eagerly awaited by the entertainment bar,[1] the United States Supreme Court, in *Kirtsaeng v. John Wiley & Sons*, ruled that, under the First Sale Doctrine, a person who buys lawfully made copyrighted goods outside the United States may re-sell those goods in this country. The result of this decision will be to take away from a copyright holder the ability to control redistribution of copies of the copyrighted work legally manufactured abroad, and to allow the free and unfettered importation of "gray market" goods into this country.

A fundamental precept of copyright law is that ownership of a copyright carries along with it a "bundle of rights" regarding exploitation of the copyrighted work. Among the exclusive rights controlled by a copyright owner are those provided for in Sections 106(3) and 602(a) of the Copyright Act to distribute copies of the work and to prohibit unauthorized imports of copies of the work.

For more than 100 years,[2] a notable limitation on a copyright owner's exclusive right of distribution has been the First Sale Doctrine, which allows the lawful owner of a copyrighted work to resell or distribute that copy.[3] The doctrine recognizes that a copyright owner does not have control over distribution of a particular copy of his work forever, but that the copyright owner's exclusive right under Section 106(3) to control distribution of a particular copy of his work ends with the work's first commercial sale. From that point forward, the copy can be resold without permission of the copyright's owner. John Wiley & Sons argued, based on its construction of the statutory language, that the First Sale Doctrine only protects the re-sale of goods if those goods were manufactured in the United States.

The facts presented to the *John Wiley* court are a testament to entrepreneurial spirit. Defendant Supap Kirtsaeng, a citizen of Thailand studying at Cornell University and the University of Southern California, saw that foreign edition English language textbooks were selling for a much lower price in Thai bookstores than the price in the United States of essentially equivalent versions of the textbooks. Recognizing a business opportunity when he saw one, Kirtsaeng asked friends and family to purchase and ship textbooks to him in the United States, where he re-sold hundreds of textbooks on eBay, realizing a substantial profit. The trial court found Kirtsaeng liable for copyright infringement, holding that the First Sale Doctrine did not protect Kirtsaeng because the textbooks were manufactured outside of the United States. Statutory damages of $75,000 per title, totaling $600,000, were awarded to the textbook publisher.

The language of Section 109(a) of the Copyright Act, which codifies the First Sale Doctrine, provides that "the owner of a particular copy or photo record lawfully made *under this title* . . . is entitled . . . to sell or otherwise dispose of the possession of that copy or photo record" (emphasis added). This language, which only became part of the First Sale Doctrine when the Copyright Act was re-written in 1976, gave rise to the argument that goods manufactured outside of the United States (and this, not protected under United States law) were not "lawfully made" under the Copyright Act and, thus, were not protected by Section 109(a). Also cited in support of this position was Section 602(a), which makes unlawful the importation of a copyrighted work without the copyright owner's permission.

Ruling 6-3,[4] the Supreme Court took a different approach, ruling that there was no geographical limitation on application of the First Sale Doctrine. The majority opinion, written by Justice Breyer, concluded that the language of the statute, the context of the law and the common law history underlying the First Sale Doctrine all spoke against implying a geographical limitation onto the doctrine. The Court seemed persuaded by the practical consequences of a contrary holding on buyers and sellers of all sorts of used copyrighted goods, including libraries, museums and retailers. As one example at oral argument, Justice Breyer asked whether a contrary holding would

prevent an owner of a used Toyota with a copyrighted sound system from re-selling that car in the United States. Similar "horribles" were cited in amicus briefs filed with the Court, including briefs filed by eBay, the Retail Industry Leaders Association, the American Library Association, Costco, Powell's Books, the Association of Art Museum Directors and Goodwill Industries.

The practical effect of the Court's holding will be to make it more difficult for manufacturers who frequently price goods differently in different areas of the world to maintain those prices. There will likely now be an attempt by copyright owners to use other legal structures to enforce pricing protocols, such as trademark law and patent law (which has its own first sale doctrine, called the "exhaustion" doctrine). Creators of content may also rely more on content *licensing* (rather than sale), a form of distribution commonly used by software makers.

1 This is the second time that this issue has been before the United States Supreme Court. The Court heard argument in 2010 on the applicability of the First Sale Doctrine to goods manufactures outside of the United States in *Costco Wholesale Corp. v. Omega*, S.A., 131 S.Ct. 565 (2010) (per curiam). But due to the recusal of newly appointed Justice Elena Kagan, the Court split 4-4 and could not reach a decision.

2 See, *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 349-51 (1908). The following year, the First Sale Doctrine was codified in Section 41 of the Copyright Act of 1909, and was repeated without material change in Section 27 of the Copyright Act of 1947. As discussed below, the current version of the doctrine, which did make significant language changes, is codified in Section 109 of the current Copyright Act of 1976.

3 The First Sale Doctrine extends only to distribution and display of tangible copies of a work, and does not apply to reproduction of the copyrighted works or to public performance or the preparation of derivative works.

4 The coalitions voting on different sides of this case is one rarely, if ever, seen on the current Supreme Court. Teaming up together in dissent were the left, right and middle of the Court: Justices Ginsburg, Scalia and Kennedy.

and his loan out company will be referred to simply as "Krutonog."

3 CAL. LABOR CODE §1700.5.

4 *Id*. at §1700.4(a).

5 *See, Marathon Entertainment Inc. v. Blasi* (2008) 42 Cal.4th 974, 986.

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