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COUNSEL COMMENTARY

IP: Supreme Court applies first-sale doctrine internationally

THE HIGH COURT'S DECISION WILL PREVENT A "PARADE OF HORRIBLES"

Recently an unusual collection of *amici* argued that the Supreme Court should not allow copyright owners to prevent U.S. resale of works authorized for sale by the copyright owner in a foreign country because it would be impractical and would exceed the proper scope of protection provided by statute. The court agreed and held in *Kirtsaeng v. John Wiley & Sons, Inc.* that the first-sale doctrine allows the owner of a particular copy of a work that was lawfully made anywhere in the world to sell or otherwise dispose of that copy.

The plaintiff, academic textbook publisher John Wiley & Sons Inc., authorizes publication of a foreign edition of its English language textbooks that include an express authorization for sale of that edition in Europe, Asia, Africa and the Middle East only and prohibits export out of those territories. Wiley sells the U.S. editions of its textbooks at a higher price than the foreign editions. The defendant, Supap Kirtsaeng, received copies of one of Wiley's foreign editions from family and friends who purchased the books in Thailand. He resold them on eBay while he was studying math in the U.S. Wiley filed a copyright infringement action.

Kirtsaeng argued that the first sale of any copyrighted work authorized by the copyright owner, regardless of where the first sale occurred, exhausted the copyright owner's rights to restrict resale and distribution. Wiley responded that the first-sale doctrine is limited to those goods that are "lawfully made" under the U.S. Copyright Act, and argued that this must be restricted geographically to locations where the act applies (i.e. within the U.S.).

The district court agreed with Wiley and concluded that the first-sale doctrine does not apply to goods made outside the U.S. The court then found that Kirtsaeng had willfully infringed Wiley's American copyrights. On appeal, the 2nd Circuit agreed.

Although linguistically analyzing and revisiting the history and purpose of the first-sale doctrine, the Supreme Court's majority opinion seems to have been heavily influenced by the practical difficulties created by Wiley's argument on historic business practices identified by the *amici*. A broad array of stakeholders—including the American Library Association, used-book dealers, retailers, art museum directors, and technology companies addressing copyrightable aspects of automobiles, microwaves, calculators, mobile phones, tablets, and personal computers—filed *amicus* briefs on Kirtsaeng's behalf.

The used-books sellers explained that American readers have bought used books printed and published abroad since the time of Benjamin Franklin and Thomas Jefferson. They have operated for centuries on the assumption that the first-sale doctrine applies. Libraries asked how they could possibly obtain

permission to distribute the millions of foreign published books in their possession, many of which provide no practical information to identify the copyright owner. The technology companies argued that removal of the first-sale exception would prevent owners of foreign cars from selling their used vehicle without the permission of the holder of the copyright on each piece of copyrighted automobile software. Art museum directors asked how they could obtain permission from copyright owners who have already donated or sold their works of art to a foreign museum. Citing to the heavy reliance on the first-sale doctrine in the business practices of each of the nonparty interested industries, the majority rejected the geographic limitation promoted by Wiley. The court found that these harms are "too serious, too extensive, and too likely to come about" to be ignored. The court even went so far as to call the copyright owner's efforts to exercise downstream control of an authorized first sale as an "absurd result."

The court also explicitly held that the copyright statute does not provide publishers a right to divide domestic and international markets and to charge different prices in different geographic markets, finding no "basic principle of copyright law that suggests that publishers are especially entitled to such rights."

Although these practical difficulties appear to have swayed the majority, Justice Ruth Bader Ginsberg, joined by Justices Anthony Kennedy and Antonin Scalia in part, found the "parade of horribles" listed by the *amici* to be largely imaginary. The opinion notes that, in the three decades since the first district court limited the first-sale doctrine to copies made in the U.S., no case has ever had to address any of the allegedly inevitable obstacles created by that limitation. The dissent also recognized that economic conditions and demand for particular goods vary across the globe, providing a financial incentive for copyright owners to offer different prices in different geographic regions.

This same financial incentive is likely to provoke copyright owners to explore alternative methods of restricting importation and controlling geographic pricing. The publishing industry has relied heavily on the ability to segregate the market, and eliminating this practice entirely may require an extreme shift in business model. The industry may test options including heightened contractual restrictions on authorized foreign distributors, increased use of digital copies that can be licensed rather than sold, or lobbying for revised copyright laws.

Many observers expected that the Supreme Court would apply its exhaustion analysis to a patent law case, *Ninestar Technology Co. Ltd. v. ITC*, involving refilled ink-jet printer cartridges imported into the U.S. The Federal Circuit held that authorized foreign sales do not exhaust patent rights. However, the Supreme Court denied Ninestar's petition for *certiorari* on March 25. Consequently, it remains unclear if the court's copyright decision will influence patent exhaustion.

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