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Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

EXPERT ANALYSIS

Sea Change For Import And Sale Of Foreign-Made Goods

The March 19 U.S. Supreme Court decision in favor of a nongeographic interpretation of the first sale doctrine will have major implications for the sale of secondhand goods in numerous markets that involve copyrighted materials, such as consumer electronics, home entertainment and the like. The decision will also raise interesting questions over the interplay between existing international copyright regimes, say attorneys with Latham & Watkins LLP.

Perry Viscounty
Latham & Watkins

Rick Bress
Latham & Watkins

Charles Courtenay
Latham & Watkins

Katherine Twomey
Latham & Watkins

Law360, New York (March 19, 2013, 8:06 PM ET) -- The U.S. Supreme Court ruled on March 19, in a 6 to 3 decision, that "the "first sale" doctrine applies to copies of a copyrighted work lawfully made abroad." Kirtsaeng v. John Wiley & Sons Inc., No. 11-697, Slip op. at 3. As both the majority and the dissent recognized, the decision has significant practical consequences for copyright owners and subsequent purchasers of goods containing copyrighted material that are manufactured overseas.

The facts are straightforward. The copyright holder and plaintiff below, John Wiley & Sons Inc., publishes academic textbooks in the United States and typically assigns to a foreign subsidiary the rights to publish and sell its English language textbooks overseas, where they are sold for considerably less. The defendant below, Supsap Kirtsaeng, is a Thai citizen who moved to the United States in 1997 to study. While in the United States, Mr. Kirtsaeng asked friends and family to purchase copies of foreign edition English-language textbooks in Thailand and to mail them to him in the United States. He would then sell the textbooks for a profit in the United States.

In 2008, Wiley brought suit for copyright infringement, claiming that Kirtsaeng illegally imported the textbooks, in violation of 17 U.S.C. §602(a), and infringed its exclusive right to distribute the textbooks, in violation of 17 U.S.C. §106(3). Kirtsaeng defended his actions on the basis of the "first sale" doctrine,

which creates an exception to the copyright owner's exclusive right to distribute the copyrighted work. The "first sale" doctrine, 17 U.S.C. §109(a), provides:

"Notwithstanding the provisions of [17 U.S.C. §106(3)], 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."

The district court held that the defense did not apply because it does not apply to "foreign-manufactured goods" and thus, at trial, the jury found that Kirtsaeng had willfully infringed Wiley's copyrights and assessed damages of $600,000. The Second Circuit affirmed, agreeing that the "first sale" doctrine did not apply because the textbooks were manufactured abroad and thus were not "lawfully made under" the Copyright Act.

The Supreme Court reversed. Justice Stephen Breyer delivered the majority opinion, joined by Chief Justice John Roberts and Justices Clarence Thomas, Samuel Alito, Sonia Sotomayor and Elena Kagan. Justice Kagan filed a separate concurrence, in which Justice Alito joined. Justice Ruth Bader Ginsburg filed a dissent, in which Justice Anthony Kennedy joined and Justice Antonin Scalia joined in part.

Relying on the text of §109(a), its context, the common-law history of the "first sale" doctrine, and the practical implications of a contrary ruling, the court concluded that §109(a) imposes no geographical limits on the application of the "first sale" doctrine.

In construing the five words "lawfully made under this title" the Supreme Court disagreed with the Second Circuit's restriction of the "first sale" doctrine to copies "'made in territories in which the Copyright Act is law,'" and disagreed with the solicitor general's proposed construction limiting the "first sale" doctrine to copies "'made subject to and in accordance with [the Copyright Act, i.e. copies] made in the United States.'" Slip op. at 7.

Instead, the court adopted Kirtsaeng's nongeographical reading of §109(a) to mean simply made "'in accordance with'" or "'in compliance with'" the Copyright Act — finding this to be the "better reading of the Act." Id. at 8.

- The court found that the literal language of §109(a) favors the nongeographic reading, which is "simple, it promotes a traditional copyright objective (combating piracy), and it makes word-by-word linguistic sense," in contrast to the geographic interpretation, which "bristles with linguistic difficulties." Id. at 9.

- Similarly, placing §109(a) in its statutory and historical context, the court found nothing suggestive of a geographical limitation in the section's predecessors and nothing in the language introduced by Congress in §109(a) that would have "implicitly introduced a geographical limitation that previously was lacking." Id. at 12 (emphasis in original).

- The court recognized the "impeccable historic pedigree" of the "first sale" doctrine, stemming as it does from the common law's refusal to permit restraints on the alienation of chattels, and the court found no common-law geographical limitation to the "first sale" doctrine. Id. at 17-18.

- Finally, the court took note of the parade of horribles that would result if a geographic limitation were found to exist. Examples include (1) the need for American libraries to clear copyright on their holdings of over 200 million foreign published books before circulating or otherwise distributing them; (2) the need for owners of foreign made "'automobiles, microwaves, calculators, mobile phones, tablets and personal computers'" to gain permission of the copyright holders of each piece of copyrighted software contained within their product before

re-selling them; and (3) the need for art museum directors to obtain copyright owners' consent before displaying any foreign-made artwork. Id. at 19-24.

The Supreme Court also addressed the impact of the nongeographic construction on the Copyright Act's importation provision, §602(a)(1), which bars importation into the United States "without the authority of the owner of the copyright." Wiley and the dissent argued that this provision would become superfluous if there was no geographic limitation on the "first sale" doctrine because the Supreme Court decided in Quality King Distributors Inc. v. L'anza Research Int'l Inc. 523 U.S. 135, 148 (1998), that the "first sale" doctrine limits the prohibition on importation.

The court found that its view of the "first sale" doctrine would not render the importation provision superfluous, giving examples of where the importation provision would still be applicable. Slip op. at 26-27. The court dismissed as dicta its statement in Quality King that suggested the "first sale" doctrine did not apply to books published abroad. Id. at 27.

The court did "concede" — in agreement with Wiley's argument — that the nongeographic interpretation will make it very difficult for copyright holders to divide foreign and domestic markets, acknowledging that "a publisher may find it more difficult to charge different prices for the same book in different geographic markets" but finding "no basic principle of copyright law that suggests that publishers are especially entitled to such rights." Id. at 31.

In her concurring opinion, Justice Kagan considered the restrictive impact of the combination of this decision with Quality King on the importation provision. She found that it is Quality King and not this decision that is the culprit, and therefore refused to "misconstrue §109(a) in order to restore §602(a)(1) to its purportedly rightful function of enabling copyright holders to segment international markets." Justice Kagan concluded by inviting Congress to reconsider the issue: "If Congress thinks copyright owners need greater power to restrict importation and thus divide markets, a ready solution is at hand — not the one John Wiley offers in this case, but the one the Court rejected in Quality King."

This decision in favor of a nongeographic interpretation of the first sale doctrine overturns existing precedent in both the Second Circuit and the Ninth Circuit and thus signifies a considerable sea change in the law relating to the importation and sale of foreign-made goods. It will have major implications for the sale of secondhand goods in numerous markets that involve copyrighted materials, such as consumer electronics, home entertainment and the like. The decision will also raise interesting questions over the interplay between existing international copyright regimes.

--By Perry J. Viscounty, Rick P. Bress, Charles Courtenay and Katherine I. Twomey, Latham & Watkins LLP

Perry Viscounty is a partner in Latham & Watkins' Orange County and Silicon Valley, Calif., offices. Rick Bress is a partner in the firm's Washington, D.C., office. Charles Courtenay is an associate in the firm's Los Angeles office. Katherine Twomey is an associate in the Washington office.