The Supreme Court Holds that the First-Sale Doctrine Applies to Copyrighted Work Lawfully Manufactured Abroad and Subsequently Sold in the United States

Overview
On March 19, 2013, in a case closely followed by buyers and sellers alike, the Supreme Court reversed the Second Circuit’s decision that the first-sale doctrine only applies to copyrighted materials manufactured in the United States. Kirkstaeang v. John Wiley & Sons Inc., No. 11-697, slip op. (U.S. March 19, 2013). This decision resolves a long-standing ambiguity in the Copyright Act and makes clear that a copyright owner can only profit from the original authorized sale of a product regardless of where the product was manufactured.

Background
Supap Kirtsaeng, a student from Thailand, had an entrepreneurial idea while pursuing his education in the United States. Kirtsaeng v. John Wiley & Sons Inc., slip op. 32-33. After realizing that U.S. textbooks could be purchased substantially cheaper in Thailand, Kirtsaeng asked his friends and family members to buy him textbooks and ship them to the United States. Id. at 5. Kirtsaeng then resold the textbooks to pay for his school expenses. Id. The textbook publisher, John Wiley & Sons, sued Kirtsaeng, claiming that importing and reselling Wiley textbooks made for exclusive sale abroad violated the Copyright Act. Id.

Kirtsaeng asserted that his actions were lawful under the “first sale doctrine” of the Copyright Act. Id. at 5-6. This doctrine provides that a copyright holder can only profit from the original authorized sale of a product, and that once sold, the new owner is allowed to resell, lend or even give away the product. Id. Wiley argued that this doctrine does not apply to goods manufactured abroad and subsequently imported to the United States for resale. Id.

At trial, a Manhattan federal jury found for Wiley and awarded it $600,000. John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210, 215 (2nd Cir. 2001). The Second Circuit affirmed the jury verdict. Id. at 222. In its decision, the Second Circuit held that Kirtsaeng could not take advantage of the first sale doctrine because the verbiage of the Copyright Act limits the doctrine to goods “lawfully made under this title.” Id. at 221. The Second Circuit interpreted goods “lawfully made under this title” to refer only to goods manufactured in the United States. Id.
Kirtsaeng is the second time the Supreme Court has visited this issue in recent years. Two years ago, the Supreme Court heard a similar case in Costco Wholesale Corp. v. Omega, a case involving Costco’s sale of watches purchased abroad and thereafter resold in the United States. Costco Wholesale Corp. v. Omega, 131 S. Ct. 565 (2010). In that earlier case, the Supreme Court deadlocked in a 4-4 decision due to Justice Elena Kagan’s recusal. Id.

First-Sale Doctrine Question Resolved

In Kirtsaeng, the Supreme Court’s 6-3 decision resolved a long-standing question in federal copyright law, whether the first sale doctrine applies only to goods made in this country. Kirtsaeng, slip op. 32-33. The decision reversed the Second Circuit’s ruling and held that the first sale doctrine also applies to goods lawfully manufactured abroad and subsequently sold in the United States. Id.

Contrary to the arguments presented by the copyright owner, the Supreme Court declined to interpret the phrase “lawfully made under this title” as imposing a geographic limitation. Id. Justice Stephen G. Breyer, writing for the majority, expressed concerns that a geographical interpretation of the statute would adversely affect the ability of library associations, used-book dealers, technology companies, consumer-goods retailers and museums to promote the progress of science and the arts. Id. at 19. Moreover, “reliance on the ‘first sale’ doctrine is deeply embedded” in the practices of these entities. Id. at 23. The Court reasoned that ruling in favor of the copyright holder would require each of these entities to locate the copyright owner and request permission to loan or resell a product manufactured abroad. Id. at 20-24. Thus, the Supreme Court found the practical problems of a geographic limitation on the first sale doctrine to be “too serious” and “too extensive” to ignore. Id. at 24.

Significance of the Decision

The Supreme Court decision provides more protection to those who rely on the copyright law’s first sale doctrine, such as nonprofit organizations, buyers and sellers of used-goods, and retailers who resell goods lawfully manufactured abroad, by holding that a copyright holder can only profit from the original authorized sale of a product, regardless of where the product was manufactured.

In contrast, the decision limits the protections available to copyright owners who sell their products abroad at different price-points by ruling that it is legal for others to resell those products in the United States even if they were manufactured abroad and intended for a foreign market. As a result, copyright owners can no longer avail themselves of the protections of copyright law’s first sale doctrine when seeking to prevent the sale of “gray market” versions of their goods in the United States.

What Intellectual Property Owners Need to Know

Given that the Supreme Court’s ruling limits the protections available to copyright owners, it is now even more important for multinational companies to properly maintain and protect their trademarks in the United States. The Supreme Court’s decision does not affect intellectual property owners’ trademark rights, and trademark law still provides some protection to owners. For example, trademark owners continue to have some ability to impede the importation of unauthorized products that do not meet domestic quality control standards. As this “weapon” becomes more important, trademark owners must be vigilant in protecting their brands.
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