



IP Lawyers Weigh In On High Court's 1st-Sale Ruling

Law360, New York (March 19, 2013, 8:01 PM ET) -- The U.S. Supreme Court on Tuesday found that the Copyright Act's first-sale doctrine was not limited by geography and applied equally to goods made both in the U.S. and abroad, reversing a victory for John Wiley & Sons Inc. in the textbook publisher's copyright suit against a man who resold foreign editions of its books. Here, IP attorneys tell Law360 why the 6-3 ruling is significant.

Bruce Abramson, Rimon PC

"With this ruling, the Supreme Court ruled for the entrepreneur. Moving forward, life will be a bit harder for copyright holders seeking to exploit international markets fully, and a bit easier for enterprising arbitrageurs. Of course, as the dissent noted, this easing of the burden for arbitrageurs does not make everyone happy. It is entirely possible that Wiley and its allies will lobby Congress to impose the rights that they lost today. So stay tuned. In the world of digital and global copyrights, very little remains settled for long."

Bruce Baber, King & Spalding

"The decision in *Kirtsaeng* is a loss for publishers and other copyright owners who have sought to segment the global market for their works and to separately control and exploit different submarkets by manufacturing copies of the same work both within and outside the United States. It is a win for proponents of the free trade and movement of goods -- made with the authority of the copyright owner -- internationally. The decision removes one potential weapon from the arsenal available to companies seeking to prevent sale in the United States of "gray market" versions of their goods that have been manufactured and were intended for sale abroad."

Ilan Barzilay, Seyfarth Shaw

"Given the Supreme Court's *Kirtsaeng* decision that the first-sale doctrine applies to goods legitimately sold overseas, how can global operations stop lower priced goods intended for foreign markets from flooding into the U.S.? The answer was suggested by the court itself: Get Congress to change the law. If copyright holders need a stark division between U.S. and international markets, and such a division will promote the progress of science and useful arts, then the significant clout wielded by publishing organizations and other rights holders should be applied to incorporate the desired geographic limitations the Supreme Court was unwilling to read into the law. Until then, let the hand-wringing commence."

Jessica C Bromall and Rod S. Berman, Jeffer Mangels Butler & Mitchell LLP

"Today's decision clarifies a murky area of the law. It is contrary to the court's 2010 non-precedential decision in *Costco v. Omega* where a divided court affirmed a Ninth Circuit decision finding the doctrine was limited to copies lawfully made in the United States. Publishers may now question whether it is worthwhile to offer lower-priced versions abroad. But, undoubtedly, many retailers whose businesses rely on sales of copies obtained abroad are relieved. Perhaps this is an area of the Copyright Act that Congress could amend, if it agrees with Justice Ginsberg's position that the first sale doctrine should be limited to only copies lawfully made in the U.S. The decision does nothing, however, to change the scope of protection for U.S. works abroad."

Dale Cendali, Kirkland & Ellis

"The Kirtsaeng decision reflects some of the deep divides in copyright policy that we are currently seeing in a variety of cases. Clearly the Supreme Court was not of one mind on the subject. As a practical matter, the decision will benefit those who want to resell copyrighted works, whether used-book sellers or retail stores who might source goods overseas. 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 where higher prices can be charged. The decision could well lead to a debate in Congress about whether the Copyright Act should be amended to address more clearly the importation of copyrighted works."

Steve S. Chang, Banner & Witcoff

"Today's decision resolves the issue that was left open in *Costco v. Omega* (the court split 4-4 on the issue, with Justice Kagan recusing), but may create work for multinational distributors of copyrighted works. A U.S. copyright holder now needs to reconsider the pricing between equivalent versions sold in the U.S. and abroad. We may see an increase in the use of digital distribution of copyrighted works (an increase that is already under way for other reasons), since the 'always on' or key-activation approaches to content may allow greater control on redistribution and secondary sales."

James S. DeGraw, Ropes & Gray

"Kirtsaeng significantly impacts international production and distribution practices. Many companies distributing copyrighted goods work with different partners in different geographies. This can lead to different production standards and pricing, and copyright owners often try to restrict the movement of less expensive goods. Wiley did that here, marking the accused books with language saying they could not be exported outside their sales region. In broadly holding that Copyright's first sale doctrine overrides attempts at limiting imports, the Supreme Court expressly conceded that it will be 'difficult, perhaps impossible' for copyright owners to continue to treat US and foreign markets differently."

Anderson Duff, Wolf Greenfield

"This reversal of the Second Circuit is surprising insofar as it seems to contradict congressional intent and undermine the United States in its negotiations over intellectual property at a time when intellectual property is incredibly important to the economy. Regardless of whether international exhaustion is good policy, adopting it should have been a decision left to Congress."

Mark A. Fischer, Duane Morris

"Today's Kirtsaeng opinion tilts in favor of copyright consumers who will be able to buy some books at lower prices. Consumers really didn't have a seat at the copyright table until recently. That's changed. As a result of this decision consumers may, however, have fewer choices. The Copyright Act's language probably favored the position of the publisher, John Wiley & Sons. Consumerism and internationalism favored Kirtsaeng. As publishers increasingly move to eBooks the true importance of this ruling (ostensibly involving text books) may actually be seen in other copyright fields. Given the importance of the copyright industries to the US economy, this is not a trivial issue. As Justice Kagan pointed out, Congress can amend the Copyright Act and reverse this decision."

David S. Gold, Cole, Schotz, Meisel, Forman & Leonard

"Addressing an issue that has divided the lower federal courts, today, the Supreme Court ruled that under the first-sale doctrine, copyrighted works legally produced abroad may be sold inside the United States, even by an individual or entity without express permission to do so. The opinion provided much needed clarity for many individuals and entities operating in the secondary resale market for books, music, fine art, software, and other protectable works. Those with the most to lose, namely international publishers and manufacturers who use pricing models based on particular geographic locations, will want to rethink those models to remain competitive in what is now a truly global marketplace."

Victor Johnson, Yarbrough Law Group PC

"Prior to today's holding, the United States had primarily favored a national exhaustion regime – domestic copyright owners had the right to prevent the unauthorized importation of copies of their work sold abroad. Kirtsaeng eliminates this right of copyright owners and places the United States as one of the first adopters of an international exhaustion regime — the authorized distribution of a copy anywhere in the world exhausts domestic copyright owner's distribution right in the United States with respect to that copy. While the holding may benefit consumers by placing lower-priced imports into the national trade, it may also discourage international distribution of copyrighted works by domestic copyright owners for fear of this importation."

Jeffrey A. Kobulnick, Ezra Brutzkus Gubner LLP

"The court's decision today underscores the importance of extending consistent copyright protection for all protectable works within the United States, regardless of where such works were created. While foreign authors may obtain copyright protection and enforce those exclusive rights in the U.S., the court has recognized the need for purchasers of copyrighted works to be able to resell those copies to whoever they choose, regardless of where the buyer may be geographically. That is, a copyright owner should not be able to stop the resale of lawfully created and purchased copies of a work. In rendering its decision, the court appropriately considered the language and legislative history of Section 109 of the Copyright Act, which makes no such geographical limitation as to where works protected under the first sale doctrine must be created."

Edwin Komen, Sheppard Mullin

"The 6-3 decision greatly simplifies the administration of the copyright system by drawing a bright line between infringing and non-infringing copies. In some respects, this may be seen as an extension of the Supreme Court's decision in *Quality King Distributors Inc. v L'anza Research Int'l Inc.* This appears to be the sense expressed by Justice Kagan's concurring opinion joined by Justice Alito. It may also be viewed as consistent with a traditional judicial view that generally disfavors restrictions on alienation of property regardless of the kind of property in question. Whether this is a good decision depends on one's point of view. However, as the decision is grounded in legislative interpretation, it is not clear whether there will be an attempt to legislatively alter the outcome or, if so, the likelihood that any such attempts will be successful. Also, the decision would not seem to affect our international copyright relations since it does not disfavor foreign authors or copyright owners but continues uniform national treatment of all authors within the United States' territorial boundaries."

Thomas Lane, Winston & Strawn

"We are pleased with the Supreme Court's decision in *Kirtsaeng v. John Wiley & Sons Inc.*, and the clarifying effect it has on the market for goods lawfully purchased in the secondary market. In many ways, the ruling simply reflects the way business is conducted daily at retail locations and on the Internet across the globe. For example, tens of millions of used goods are donated to our client Goodwill Industries International Inc. every year. It is highly unlikely that a consumer who donates products to charity stops to think that they could be committing infringement because the products they are donating were manufactured abroad. Likewise, entities like Goodwill, eBay, and Amazon cannot check to see whether all the goods listed on their websites were manufactured in another country for fear of committing infringement. We believe the court's decision refusing to limit the first sale doctrine geographically was correct — and indeed vital to protecting the flow of commerce, consumer choice, and the revenues of extraordinary organizations and charities such as Goodwill."

Joel Leviton, Fish & Richardson

"The significance is profound, as it completely eliminates territoriality and applies international exhaustion. This will impact content creators that create content for specific countries and do not want

that content coming back to the U.S., either because the content is not intended for the U.S. market or the content is sold at a lower price outside the U.S. On the other hand, the winners are retailers that resell goods obtained abroad that contain copyrighted content (which could be as simple as a design on a label) and others such as libraries that distribute foreign-made works. What does this mean? We will see more attempts to license content rather than sell it."

Ilaria Maggioni, R. Kunstadt, PC

"Today's Wiley decision declaring international exhaustion of copyrights may foreshadow similar exhaustion for trademarks (e.g., legitimizing pharmaceutical gray imports). The decision incentivizes publishers to phase out print publications in favor of digital distribution. Since digital works are traditionally brought to market under non-transferable personal-use licenses — not "sold" — the first-sale doctrine so far has been held inapplicable to licensed digital works."

Brad Newberg, Reed Smith

"This is a significant ruling and somewhat surprising given the court's 4-4 split (without Justice Kagan) in *Costco Wholesale Corp. v. Omega S.A.*, upholding a lower court decision that the first sale defense was inapplicable to works created abroad. The *Kirtsaeng* decision establishes that as long as the copy of the work was validly created and sold outside the United States, the copy can be resold in the United States without violating copyright law, including the prohibition on importing works. The court found that there was no geographic limitation on the first sale doctrine in the statute, so it was unwilling to read one into the law. This is important because as the economies of all businesses continue to increase in global scale, these issues are likely to come up more and more frequently. As the expense of shipping globally continues to decline, we can expect to see exponentially increasing sales in the U.S. of works originally meant for foreign markets by third parties."

Gloria Phares, Patterson Belknap Webb & Tyler LLP

"The dissent is correct; it rightfully describes the outcome as 'stunning.' The majority decision is completely contrary to the court's unanimous decision in *Quality King v. L'anza* [and] provides next to no explanation for ignoring *Quality King*. Worse, this legislative turnaround by the Supreme Court (probably explaining Scalia's presence in dissent) suddenly undercuts the United States' legislative position in world copyright negotiations. If there is to be a change in copyright policy, Congress, not the Supreme Court, should be making it."

Glenn Pudelka, Edwards Wildman Palmer

"This decision is a bit surprising based on the previous cases of *Quality King* and *Omega*. Ultimately, the geographic interpretation by the publishers of "lawfully made under this title" was difficult for the majority of the court to accept since it didn't work for all situations where those words were used in the Copyright Act. More importantly from a copyright perspective is the court's acknowledgement that Section 602(a)(1) is significantly diminished by this decision, and limited "to a fairly esoteric set of applications." The majority acknowledges that its decision causes problems for divided markets, but that the first sale doctrine isn't the way to solve those problems."

Elizabeth Rader, Alston & Bird

"The decision in *Kirtsaeng* preserves a balance between the rights of copyright owners and consumers. Moving forward, copyright owners may lobby Congress for more rights to control imports. Meanwhile, they will probably try to rely on contracts and licenses to control how a consumer uses content embodied in an item she buys. But also interesting is how this decision may bear on future patent jurisprudence with regard to foreign first sales: The first-sale doctrine in copyright is analogous to the doctrine of patent exhaustion in patent law even though they are codified in different acts."

Ryan Ricks, Snell & Wilmer

"Today's ruling in *Kirtsaeng* reaffirms the key market role played by the 'first-sale' doctrine. Consumers and organizations can freely give away, lend, or sell the genuine goods they own, regardless of where the goods were first manufactured. The cloud of doubt created by differing decisions for the sale of genuine goods in secondary markets thankfully has been removed. Copyright holders can no longer utilize copyright as a tool for preventing arbitrage when goods are sold via differential pricing. Copyright holders will need to develop updated pricing strategies, because a first sale is "one and done" irrespective of where that sale took place."

Joshua Rosenkranz, Orrick

"This is an important win for the American consumer. For 400 years, the law has been that if you bought it, you own it. Somehow manufacturers have managed to persuade courts that this sensible rule does not apply to foreign-made goods that have copyright protection — which is practically everything these days. The Supreme Court has restored balance to this very large sector of commerce. If manufacturers want to gouge U.S. customers with higher prices, they have to accept the reality that the marketplace will respond — as it always does — by buying the goods where they are cheap and selling them where they are more expensive."

Anthony Rufo, Foley Hoag LLP

"*Kirtsaeng* is a game-changing decision. For years, copyright owners have relied upon an apparent presumption of national exhaustion in order to prevent the parallel importation of copyrighted goods. The international exhaustion rule announced by the court, seemingly, reverses this course. Now, the ability to exclude parallel imports under trademark law is perhaps more important than ever."

Joshua D. Saviano, Morrison Cohen LLP

"The Supreme Court closed a loophole many U.S.-based consumer product companies were hoping would combat the gray goods marketplace. By interpreting the phrase 'lawfully made under this title' in a non-geographically limiting way, the court held that the first-sale doctrine does apply to goods that are manufactured outside of the U.S., essentially confirming the current practice of allowing for the purchase of goods overseas at cheaper prices and then undercutting the U.S. retail market. While a huge win for U.S. consumers, who can benefit from the discounted pricing, one unintended consequence may be to reduce the incentive to move production offshore."

Wade Savoy, Rimon PC

"This is also a victory for retailers because the gray market just got significantly less gray. U.S. retailers can now import copyrighted goods that are bought abroad without fear of being sued by copyright owners. This extends from obvious things like books to less obvious things like Christmas ornaments. Copyright owners often sell their products in other countries for less than the price charged in the U.S. Retailers can now buy cheaper international versions and sell them in the U.S., undermining the copyright owner's global pricing scheme."

Tony Schoenberg, Farella Braun + Martel

"The *John Wiley* decision is a victory for parties involved in secondary markets, including online retailers, online auctions, booksellers and libraries. Had the decision gone the other way, it would have given copyright owners the ability, with respect to products manufactured overseas, to exert a level of control over their works that was not envisioned by the first sale doctrine under the common law or, the Supreme Court has now told us, the first sale doctrine as codified in the Copyright Act."

Matthew W. Siegal, Strook & Strook & Lavan

"The dissent points out the majority's mistake of treating the Copyright Act as an act of permission, as opposed to an act of exclusion. The power of the Copyright Act is forcing someone to stop infringing

your US copyright. Lawful under the Act means not unlawful. As the dissent recognizes, both the sale of a pirate work in Thailand and one by the US copyright owner are equally not unlawful under the Copyright Act. It may be lawful to purchase a pirate DVD in some third world country, and that sale is not prohibited by the Copyright Act, but one could not argue that such sale was 'lawful under the act.' Under the new rules it may become very hard for the less fortunate in less prosperous countries to afford copyrighted works. The copyright owners will have to quickly adopt measures to stem the flow of grey goods, which were priced to what the local economy could bear, into United States markets."

Chuck Sims, Proskauer

"The Supreme Court's decision is likely to harm U.S. educational publishers who presently enjoy profits from sales abroad, and in the longer term lead to higher prices domestically, as publishers find that they can no longer supplement their domestic revenues with revenues abroad without cannibalizing their U.S. sales. When books sold abroad are likely to return to the US and displace sales domestically, publishers will exit those markets and replace the lost revenues here at home. The court essentially chose to privilege the first-sale doctrine over the statutory provision giving copyright owners an exclusive right to import. Doing so will harm the U.S. position in copyright negotiations abroad, and impair the incentives that encourage authors and publishers to create educational works for students at home and abroad."

Evan Witt, Kirton McConkie PC

"Today's Supreme Court decision may limit copyright owners from engaging in country-by-country market segmentation and charging different purchasers different prices for the same copyrighted product. The decision, however, clears the way for a secondary market of copyrighted goods so long as the goods are not counterfeit copies. The decision only applied the first-sale doctrine to copies of copyrighted works. The same doctrine exists for patented products, so the Court's decision may impact resale in the United States of patented goods purchased abroad."

--Editing by Sarah Golin.

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