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Does The Copyright Act's First Sale Doctrine Permit Infringement Claims For Importing Genuine Works Made Outside The United States?

Supreme Court and Second Circuit Considering Issue in Cases Involving Textbooks and Luxury Goods

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Among the rights enjoyed by copyright owners is the right to block importation into the United States of infringing goods. 17 U.S.C. § 602. Among the rights enjoyed by lawful purchasers of copyrighted articles is the right to resell that article to others, codified in the first sale doctrine. 17 U.S.C. § 109.

What rule controls when someone buys a copyrighted article outside the United States and then imports it? Is the importation an act of infringement under § 602, or permitted activity under the first sale doctrine of § 109? These questions are presented in cases now pending before the U.S. Supreme Court and the U.S. Court of Appeals for the Second Circuit, and the answer may depend on whether the article was manufactured in the United States or manufactured overseas.

In the Second Circuit, the conduct at issue might be called textbook arbitrage. Because U.S. editions are sometimes more expensive than foreign editions of the same work, it is possible to profit by purchasing copies of a foreign edition overseas, bringing them to the U.S., and reselling them in competition with the more expensive U.S. edition. That's what Mr. Supap Kirtsaeng did with textbooks printed by the publisher John Wiley & Sons, which sued him for copyright infringement. The success of Wiley's suit and the propriety of Kirtsaeng's actions turned in large part on the scope of the first sale doctrine, which applies to copies "lawfully made under this title [i.e., the U.S. Copyright Act]." 17 U.S.C. § 109. Wiley contended that its foreign editions were not made "under" the provisions of the U.S. copyright laws because they were printed overseas, *i.e.*, outside the territorial scope of the U.S. copyright laws. Kirtsaeng countered that the first sale doctrine was not so limited, and that copyright law cannot prohibit the purchaser of a legitimate copy of a tangible copyrighted item from reselling the item.

In the case now pending at the Second Circuit, the trial court ruled in Wiley's favor and entered judgment against Kirtsaeng for \$600,000 for willful infringement of the copyrights on eight

Wiley textbooks. Briefing on the appeal has been completed, with oral argument on May 19, 2010.

After briefing was completed in the *Wiley* case, the Supreme Court accepted an appeal in a different case that concerns the same issue. In that case, the retailer Costco bought genuine Omega watches outside the U.S. and imported them to sell at its discount stores. By purchasing the watches overseas, Costco was able to undersell Omega's authorized U.S. distributors. Omega sued Costco for copyright infringement based on a small decorative emblem engraved on the watches that Omega had registered with the Copyright Office. The U.S. Court of Appeals for the Ninth Circuit, like the trial court in the *Wiley* case, rejected the first sale defense and held that importation of the watches was an act of infringement.

Costco asked the Supreme Court to hear an appeal from the Ninth Circuit's judgment. Before deciding whether to take the case, the Court invited the U.S. Solicitor General to file a brief expressing the views of the government. The Solicitor General responded that the Court should not hear the appeal because the legislative history of the Copyright Act supported Omega's position that the first-sale doctrine does not apply to goods manufactured abroad. The Solicitor General also stated that the Ninth Circuit's decision was consistent with the Supreme Court's 1998 decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, in which the Court held that copyrighted goods that are manufactured in the United States, exported, purchased overseas, and then reimported were subject to the first sale doctrine. As the Solicitor General explained, the Court's emphasis in *Quality King* on the place of manufacture supported the opposite result in the *Costco* case, where the watches were manufactured overseas.

The Supreme Court nevertheless decided to hear Costco's appeal. Briefing will occur in the following months, and the Court will hear oral argument in Fall 2010.

Case citations

John Wiley & Sons, Inc. v. Supap Kirtsaeng, Number 09-4896-cv (Second Circuit), on appeal from 93 U.S.P.Q.2d 1432 (S.D.N.Y. 2009).

Costco Wholesale Corp. v. Omega SA, Number 08-1423 (Supreme Court), on appeal from 541 F.3d 982 (9th Cir. 2008).

Quality King Distrib., Inc. v. L'anza Research Int'l, Inc., 523 U.S. 135 (1998).

Further reading

The authors of this article submitted an amicus brief on behalf of the New York Intellectual Property Law Association in *Wiley v. Kirtsaeng* that analyzes the Copyright Act and its legislative history, concluding that because works

manufactured overseas are not “lawfully made” under the laws of the United States, they are not covered by the first sale doctrine. The brief is available on the Association’s website at www.nyipla.org.

The Solicitor General's amicus brief in *Costco v. Omega* argued that the Supreme Court should deny cert because the legislative history of the Copyright Act supported the position that the first sale doctrine does not apply to goods manufactured abroad, the Ninth Circuit’s ruling was consistent with Supreme Court precedent and because there was no evidence that the potential consequences of the decision argued by Costco had “materialized.” The brief is available on the Justice Department’s website at www.justice.gov/osg/briefs/2009/2pet/6invt/2008-1423.pet.ami.inv.pdf.