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I. INTRODUCTION

In *Kirtsaeng v. John Wiley & Sons, Inc.*,[2] the Supreme Court decided by a 6-3 margin that the "first sale" doctrine, codified at 17 U.S.C. 109(a), applies to legitimate copies that are made and sold overseas for distribution overseas.[3] Accordingly, despite the prohibition on unauthorized importation of copies acquired abroad, contained in section 602(a)(1) of the Copyright Act, a copyright holder generally has no right to prevent importation of foreign editions of copyrighted works. I am of the view (a view which I admit has been shaped by thinking about this issue on behalf of interested clients) that the case was wrongly decided.[4] It is cold comfort that five of the nine Justices of the Supreme Court seem to agree.[5]

With the decision on the books, the copyright policy problem, if there is a problem, is now firmly in the lap of Congress. Musings about the decision are therefore of primarily academic interest, but, as a professor of mine once commented, there are those who see that as a good thing.

II. THOUGHT NO. 1

Although the legal battle is lost, taking a look at why it was lost reveals something of pervasive importance to legal advocates: everything should be made as simple as possible but not simpler.

To review briefly how the issue in *Kirtsaeng* arose: The Copyright Act of 1976 includes a provision, Section 602(a)(1), which prohibits the unauthorized importation of copies acquired abroad. But the provision is written by reference to the exclusive right to distribute copyrighted works under Section 106(3) of the Copyright Act—that is, Section 602(a)(1) does not create a separate exclusive right to import but instead states that unauthorized importation violates the exclusive distribution right. No one has explained why the statute was written that way (for example, the Patent Act now gives patentees a right to exclude importation of a patented invention), but it was.

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[2] 133 S. Ct. 1351 (2013).

[3] The "first sale" doctrine refers to the idea that a copyright owner can control the first sale of a copyrighted work, but has no right under the copyright laws to control further distribution. I also use the term "exhaustion" to refer to the same idea—a copyright holder "exhausts" her exclusive distribution right with the first authorized sale of the copyrighted work.

[4] The author represented respondent in *Costco Wholesale Corp. v. Omega S.A.*, 131 S. Ct. 565 (2010), in which an equally divided Court affirmed the Ninth Circuit's decision that Section 109(a) does *not* apply to such copies.

[5] *SeeKirtsaeng*, 133 S. Ct. at 1372 (Kagan, J., concurring); *id.* at 1373 (Ginsburg, J., dissenting). Two of the Justices suggested that the case had to be wrongly decided because another case, *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998), was likewise wrongly decided; because it had started down that wrong road, the Court had no choice in *Kirtsaeng* but to continue down it. *See id.* at 1373 (Kagan, J., concurring).

Section 106(3) is subject to the "first sale" defense of section 109(a), which states that any copy "lawfully made under this title" and lawfully acquired by its owner, may be resold without infringing the copyright holder's exclusive distribution right. If your nephew gives you a copy of *Thinking Fast and Slow* to add to the copy you already own, you may re-gift it without qualm. That doctrine is at least a century old, and, as Justice Breyer suggested in *Kirtsaeng*, it has deep roots in the law's traditional hostility to restraints on alienation of personal property. (A bit more on that later.)

As everyone admits, fitting Section 602(a)(1) together with Section 109(a) creates challenges. Section 109(a) seems to say that any legitimate copy legitimately acquired can be resold without restriction. Section 602(a)(1) seems broadly to prohibit unauthorized importation of legitimate copies. If Section 602(a)(1) is subject to section 109(a), and if any sale of a legitimate copy triggers it, that provision ceases to do any real work: once a copy is sold abroad it is no longer subject to the exclusive distribution right under Section 106(3) and therefore importation of the copy would not infringe.

That is exactly where the law is now, but it took 16 years to get there. The first step was taken in *Quality King*, where the Court held that Section 602(a)(1) is indeed subject to the first-sale defense, but in which it also indicated that a critical fact in the case was that the copyrighted item (the label on a bottle of shampoo!) had been made in the United States. Seizing on the words "lawfully made under this title," the Court pointed out that a copy legitimately made in the United States is certainly "lawfully made" under the Copyright Act, while suggesting that a copy made overseas pursuant to some other country's copyright law would not be made "under" the Copyright Act.[6]

And this is where the copyright holders tried to make things too simple. Under *Quality King*, the crucial question is whether a copy is "lawfully made under this title"—if it is, it is subject to the first-sale doctrine, and a sale overseas extinguishes the copyright holder's exclusive distribution rights. Copyright holders therefore argued that if a copy is made overseas, it is not "lawfully made under this title" because the Copyright Act does not apply abroad; "lawfully made under this title" thus means "lawfully made in the United States." That is a simple, easy-to-understand construction of the phrase that gives the right result in the cases that were of concern to copyright holders.

But that reading also leads to absurd results—lots of absurd results. To give just one illustration, if a copy is only "lawfully made under this title" if it is made in the United States, then a copyright holder can print copies abroad, import them, and sell them without being subject to the statutory first-sale doctrine. In *Costco*, the Ninth Circuit had recognized that that result was absurd, and indicated (without explaining why) that the first-sale doctrine would nevertheless apply in that circumstance.[7] But the Second Circuit had the courage of its

[6] *See Quality King*, 523 U.S. at 147-48.

[7] *See Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 989-90 (9th Cir. 2008). The United States took the position in *Quality King* that section 602(a)(1) is not subject to section 109(a); it supported the copyright holders in *Costco* and in *Kirtsaeng*, and it continues to take the position that *Quality King* was wrongly decided. Accepting *Quality King* as the law, the United States argued that the common-law first-sale doctrine addressed any absurdities

convictions and said that the first-sale doctrine would *not* apply in that circumstance, and that if Congress thought that was a problem, it could fix it. (Kirtsaeng's lawyers must have licked their chops.)

In fact, copyright holders would have been better off if they had never taken the position that "lawfully made under this title" means "lawfully made in the United States." But the legal advocacy challenge is that accurately describing what "lawfully made under this title" *does* mean in a post-*Quality King* world is hard and complicated. We took a crack at it in *Costco*: We said a copy is "lawfully made under this title" for purposes of the first-sale doctrine if the "copy carries with it authorization for sale in the United States by virtue of the copyright owner's affirmative exercise of exclusive rights."[8]

It's not a neat formulation, and a more clever lawyer may have been able to develop a better one. But the idea behind it is simply that if a U.S. copyright holder has exercised his rights with respect to a particular copy (usually either by authorizing the reproduction or sale of that copy in a transaction governed by the U.S. Copyright Act) the copy is subject to the first-sale doctrine.

This construction is not without weaknesses—for one thing, it suggests that a copy can *become* lawfully made after it is initially produced—but it works. And, along with a robust doctrine of implied license, it takes care of all the absurdities that the Court identified. But the Court never grappled with that construction of Section 109(a) in *Kirtsaeng* because none of the parties pursued it. Presumably they did not pursue it because it seems awfully complicated. But "lawfully made under this title" does not mean "lawfully made in the United States," and arguing that it does for the sake of simplicity makes for an ultimately unacceptable reading of the statute. And the Court did not accept it.

III. THOUGHT NO. 2

The Court's decision attaches great importance to the way copyright owners choose to organize ownership of their rights—a formalism that does little to recommend the Court's resolution of the statutory construction issue.

U.S. copyright law—like the copyright law of virtually every country in the world—affords strong domestic protection to works that were created abroad, a quid pro quo which ensures that an author can prevent unauthorized publication of her work, not just in her home country, but virtually anywhere in the world. Nevertheless, copyright laws are not undifferentiated: if a copyright owner wants to prevent publication of his work in the United States, he sues under United States law, because that is the governing law. That would be true whether the copyright owner wrote the work in the United States or in Togo. And, vice versa: United States copyright law does not give any author the right to prevent publication in Togo—it is Togolese law that applies there.

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that the limitations on the coverage of section 109(a) create. *See* Br. United States, *Kitsaeng v. John Wiley & Sons, inc.*, No. 11-697, at 27-29 (filed Sept. 2012).

[8] Resp. Br., *Costco Wholesale Corp. v. Omega S.A.*, No. 08-1423, at 36 (filed Aug. 31, 2010).

An author automatically acquires copyrights in virtually every country in the world. But there is nothing that prevents an author from selling off her rights under the copyright law of a particular country. An author might sell her U.S. copyrights to a publisher, and keep the rest. Now, suppose that author publishes her work in Great Britain. Under *Kirtsaeng*, that copy could not be imported without the authorization of the U.S. copyright holder, because that British copy would not be made "with the permission of the [U.S.] copyright owner" and therefore would not be "lawfully made under this title."[9] But suppose instead of selling the U.S. copyright, the owner licensed one publisher to produce copies for sale in the United States and another publisher to produced copies for sale only overseas. One would think that the result of that division of rights should be the same—the copy produced by a foreign publisher for sale overseas should not be "lawfully made under this title"—but, under *Kirtsaeng*, apparently it is, because it is made with the "permission of the copyright owner," albeit only for sale abroad.

Is there any justification for denying an author the same right of exclusive distribution (that is, exclusive of foreign copies) that a purchaser of U.S.-only copyright would have? I cannot see one. International exhaustion may be a great idea—any copyright holder gets one sale, make it where she will—or domestic exhaustion may be better, all things considered. But it is hard to imagine why an author should be subject to international exhaustion only if she lacks the foresight to divide ownership of her various national-level rights.[10]

It is no surprise that the Supreme Court, in *Quality King*, endorsed the idea that an author may separately authorize a foreign edition of her work without automatically authorizing sale of that edition in the United States. That idea is old. As long ago as 1879, the writer of a leading copyright treatise anticipated that type of arrangement.[11] To hold, as the Supreme Court apparently did, that a copy made abroad for sale abroad is, in any sense, made under U.S. law, simply because the person who authorized the copy (under another country's laws!) happened to own the U.S. copyright—but not otherwise—seems odd.

This is not to say that domestic exhaustion rather than international exhaustion is better. Division of national markets is a type of price discrimination, and economists have recognized that price discrimination can be a good thing where it helps to increase output.[12] It would make

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[9] *Kirtsaeng*, 133 S. Ct. at 1358.

[10] It would seem consistent with the Supreme Court's opinion for an author to create a series of wholly owned corporations, each holding copyrights under one or more nation's laws, with the individual corporations authorizing manufacture and sales only in the nations where it owns copyrights. In that circumstance, there would be at least a plausible argument that the foreign-made copies were not made with the permission of the U.S. copyright owner, a different corporation. Courts may refuse to respect such arrangements—I do not know whether they have been attempted—but a rule of law that might make substantive rights turn on such formalities has some explaining to do.

[11] *See* Eaton S. Drone, *A Treatise on the Law of Property in Intellectual Productions in Great Britain and the United States* 336 (1879):

> [A]n American author, who on certain conditions can secure a copyright for his work both in the United States and in England, may make a valid assignment of the English copyright to one person, and either himself retain or assign to another the American copyright. . . . [I]n such case there is no division of copyright. The copyright granted by one government is wholly distinct from that conferred by another. When protection is secured for the same work in different countries, there is a separate and independent copyright for each country.

[12] There is a voluminous literature on price discrimination. For one perspective on its application in this context, see Robert D. Anderson *et al.*, *Intellectual Property Rights and International Market Segmentation in the*

sense that division of national markets would be good for authors (by allowing them to capture more consumer surplus), good for consumers in developing countries (by allowing for sale of copyrighted works at lower prices), and bad for consumers in rich economies (by preventing some arbitrage that undercuts high prices). But the relative magnitude of those effects—and the importance of price discrimination in preserving authors' incentives—are empirical questions that presumably have no simple answers. But that observation would tend to support the conclusion that it should be for Congress—not the Supreme Court—to make the move to international exhaustion.

IV. THOUGHT NO. 3

The idea, invoked by the Court, that traditional hostility on restraints on alienation provides support for the result in *Kirtsaeng* is, if not wrong, at least overstated.

As the Court explained, it has long been the law that a seller of personal property ("chattels") cannot restrict the buyer's ability to resell the property as and at the price the buyer chooses. That idea animates the first-sale doctrine—in construing what it means for a copyright owner to have the exclusive right to sell or distribute copies of the copyrighted work, it makes sense that Congress would not have intended to restrict a legitimate owner's right to resell a particular legitimate copy.

Intellectual property rules, however, permit the imposition of many restraints on the use and disposition of personal property that would not have been possible at common law—that would seem to be close to the heart of what makes intellectual property valuable. For example, it is common for sellers to place restrictions on the use that a buyer may make of the goods the buyer purchases, but those restrictions are generally contractual, and therefore would not apply to a subsequent purchaser. A seller of genetically modified seeds might require all purchasers to agree not to retain or to sell any seeds produced through cultivation of the original generation of seeds. Such a contractual restriction, however, has obvious limitations, because if the original buyer resells the seeds, the subsequent purchaser would not generally owe any contractual duty to the original seller. And a suit against the direct purchaser might not be an effective way to enforce the original seller's rights, for a variety of reasons (including that the direct purchaser may not be financially responsible).

As the Supreme Court recently held, intellectual property rules—that is, the right that a patent holder has to restrict the "making" of a patented good, even when the patent holder sells an article for a patented "use"—address this problem.[13] When the direct purchaser *or* a subsequent purchaser uses patented seeds to make subsequent generations of seeds, they infringe the patent, and that is true whether or not they owe any contractual duty to the patent-holder. That result made sense to a unanimous Supreme Court—and could be squared with the law's traditional hostility to restraints on alienation—because the original purchaser did not acquire the right to make the patented article, only to use it, and therefore it could not sell to any subsequent purchaser what it did not own.

North American Free Trade Area, in *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* 397 (Robert D. Anderson & Nancy T. Gallini, eds., 2007).

[13] *See Bowman v. Monsanto Co.*, No. 11-796, 2013 WL 1942397 (U.S. May 13, 2013).

But that brings us back to the question of import restrictions. A publisher has always had the ability to restrict, by contract, the location of sale of copies that it sells to a distributor.[14] But the legislative history reflects that publishers found such contractual restrictions inadequate, because subsequent sellers were under no limitation. Importation of foreign editions could thus undercut the value of the reproduction and distribution rights granted to domestic publishers under U.S. law. Section 602(a)(1) was adopted to address that perceived problem.

In granting the copyright holder the right to exclude unauthorized imports, Congress was relying on a core aspect of intellectual property—namely, that the intangible right to use an article in a certain way may not be part of what is conveyed with the article itself. Rather, an intellectual property owner may retain certain rights, which restrict the permissible uses of the article. And a further sale of the article will not relieve the subsequent owner of that restraint—after all, one cannot sell what one does not own.

Wiley sold textbooks abroad that were sold (in Thailand) subject to the express limitation that they were not authorized for sale in the United States; Kirtsaeng bought them in bulk and imported them to the United States—the very situation that Section 602(a)(1) was intended to address. There is no dispute that when Wiley sold the foreign editions of the textbooks that Kirtsaeng imported, Wiley thought it had sold them subject to the restriction that the article could not be imported into the United States (subject to certain statutory exceptions)—a restriction that Congress seemingly allowed Wiley to impose. What the original purchaser bought, then, was a book that could be permissibly used (and, presumably, resold) in Thailand (and perhaps in many other jurisdictions) but that could not be validly sold in the United States, because the United States copyright holder did not convey any rights for the copy to be sold in the United States.

The Supreme Court, of course, held that Wiley's attempt to retain these U.S. distribution rights was invalid. But to justify that decision by reliance on the law's hostility to restraints on alienation seems circular. There are many situations in which intellectual property owners are permitted to divide up their rights as they wish—and what was at issue in *Kirtsaeng* was the *initial* division of rights, not any restriction on subsequent sale of an article made pursuant to an exercise of those rights. Wiley did not exercise its U.S. copyrights when it reproduced and sold a foreign edition of a work for distribution overseas. It did not need any U.S. rights to do either of those things.

What makes the *Kirtsaeng* decision notable is that it makes the exhaustion of U.S. rights depend on the exercise of foreign rights alone. No prior decision of which I am aware adopts such a broad view of exhaustion doctrine. If extended to patent law,[15] that principle of international exhaustion will bring an even more dramatic change to existing law.

[14] Although in theory there might be antitrust objections to such vertical restraints, a challenge to the validity of contractual restrictions under U.S. law would have to demonstrate actual harm to competition, and it is fair to say that such a standard could rarely be met in the case of copyrighted works.

[15] Current law provides that the sale by a patent owner under the law of a foreign country does not exhaust the patent owner's right to prevent infringing use – including importation – of the article sold. *See Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (per curiam).