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How Much Should Control Turn On Ownership? The Alienation of Copyrighted Goods After *Kirtsaeng v. John Wiley & Sons*

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I. INTRODUCTION

In *Kirtsaeng v. John Wiley & Sons Inc.*, the Supreme Court held that the Copyright Act's first-sale doctrine applies to all copies of a copyrighted work made by or with the authorization of the U.S. copyright owner, regardless of where those copies were made.[2] That means that genuine copies made and sold abroad by a U.S. copyright owner can now be imported into the United States, where they can be resold or otherwise transferred freely—whether the copyright owner authorizes such activity or not. The decision would seem to end copyright owners' ability to use copyright law to enforce market segmentation and its attendant price discrimination.

As it turns out, however, that is not the case—or, at least, not entirely the case. Although the Court's opinion in *Kirtsaeng* severely restricts copyright owners' ability to use the Copyright Act to enforce market segmentation, it does not foreclose it. Indeed, under one condition, the decision actually reaffirms copyright owners' ability to exert control over goods already brought to market. That condition? That copyright owners merely license, as oppose to sell, their works. Licensees, *Kirtsaeng* makes clear, cannot avail themselves of the first-sale doctrine and licensors can, therefore, continue to use the Copyright Act to control the disposition of their works, even as against downstream parties with whom they are not in privity of contract.

This anomaly is not simply a function of the Court's decision. It is there in the plain text of the Copyright Act and may well reflect a compromise that Congress struck among competing interest groups in the years before the Act was amended. Does it matter? Certainly not for many types of goods. No one will ever license shampoo. But the distinction will likely prove significant with respect to others, such as the textbooks at issue in *Kirtsaeng*. The Court's decision, for example, may well speed the seemingly inexorable replacement of physical books (which are typically sold) with electronic ones (which are typically licensed). It is hard to believe Congress intended the Copyright Act to hasten such change, let alone that the Act's importation provisions should turn so meaningfully on them. But, absent legislative change, that is the landscape after *Kirtsaeng*.

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

II. THE FIRST-SALE DOCTRINE

The Copyright Act grants copyright owners a number of exclusive rights, among them the right—now codified in Section 106(3)—to control the distribution of their works.[3] That right has never been without limitation, however. With a nod to centuries-old common law, in *Bobbs-Merrill Co. v. Straus*, the Supreme Court held that the statutory right to "vend" in the Copyright Act of 1891—the precursor to the distribution right now codified in Section 106(3)—was exhausted by a copyright owner's first sale of a particular copy (in that case, of a book).[4] "[T]he copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose … a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract."[5] "The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again."[6]

After *Bobbs-Merrill*, Congress codified this so-called "first-sale doctrine." Indeed, the doctrine apparently takes its name from the legislative history of the 1909 Copyright Act, where legislators expressed the opinion that "it would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale."[7] The codification provided that "nothing in this title shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained."[8]

Bobbs-Merrill and the 1909 Copyright Act reflect what would seem to be an uncontroversial balance between the interests of copyright owners and users. As the Supreme Court explained in a different context, the distribution right protected by § 106(3) "accords the copyright owner the 'right to control the first public distribution' of his work, echo[ing] the common law's concern that the author or copyright owner retain control throughout th[e] critical stage" before a good goes to market.[9] But whereas § 106(3) is meant to protect a good *before* its entrance into the market, "[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."[10]

Thus, once a copyright owner has taken his product to market, the first-sale doctrine marks the moment when "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation."[11]

[3] 17 U.S.C. § 106(3).

[4] 210 U.S. 339 (1908).

[5] *Id*. at 350.

[6] *Id*.

[7] H.R. Rep. No. 2222, 60th Cong., 2d Sess. 19 (1909).

[8] Act of Mar. 4, 1909, ch. 320, § 41.

[9] *Harper & Row Publishers, Inc.* v. *Nation Enters.*, 471 U.S. 539, 555 (1985) (quoting H.R. Rep. No. 1476, 94th Cong., 2d Sess. 79, at 62 (1976).

[10] *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998).

[11] 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A], at 8-155 (2008).

III. KIRTSAENG V. JOHN WILEY & SONS

In *Kirtsaeng*, textbook manufacturer John Wiley & Sons sued Supap Kirtsaeng, the proprietor of an online bookstore, alleging that Kirtsaeng's resale of genuine copies of Wiley's textbooks violated the Copyright Act. Though at first glance identical to *Bobbs-Merrill*, the case differed in one critical respect: Whereas the books at issue in *Bobbs-Merrill* were originally made and sold in the United States, those at issue in *Kirtsaeng* were originally made and sold abroad before Kirtsaeng imported them into the United States for resale.

As a purely economic matter, there is no reason to think that the place where a particular copy was originally made and sold should matter for purposes of the first-sale doctrine: Either a copyright owner has taken a product to market and been compensated for a particular copy (in which case the doctrine should apply) or it has not. What then, was the basis for Wiley's assertion that the sale abroad of a foreign-made copy should be treated differently than one made and sold in the United States?

The answer lies in two amendments made to the Copyright Act in 1976. The first was the addition of Section 602(a). That section provides, *inter alia*, that "[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies * * * that have been acquired outside the United States is an infringement of the exclusive right to distribute copies * * * under section 106."[12] The second was a change to the scope of the first-sale doctrine. Whereas, under the Copyright Act of 1909, the doctrine applied to "any copy * * * which has been lawfully obtained," the Section 109(a) of the Copyright Act of 1976 rendered it applicable only to "the owner of a particular copy . . . lawfully made under this title."[13]

According to Wiley, "the purpose of [Section 602(a)] was to permit copyright owners to segment international markets for their works, which would be impractical if (as under prior law) they could not prevent foreign copies from being imported and competing with domestic ones."[14] In support of that claim, Wiley pointed to complaints lodged by publishers in the years leading up to the Copyright Act's revision who found contractual remedies insufficient to protect territorial limitations on the distribution of their works.[15] This newly granted power to segment markets was recognized by the new articulation of the first-sale doctrine, Wiley continued, because its protections would apply only to works "lawfully made under this title"—and copies made outside the United States do not so qualify.[16]

By a 6-3 majority, the Court rejected Wiley's arguments. Relying on the text and history of the Copyright Act, Justice Breyer, writing for the majority, explained that the phrase "lawfully made under this title" refers not to the place where copy was created, but to the circumstances of its creation.[17] A copy is "lawfully made" under the Copyright Act when it is made consistent with

[12] 17 U.S.C. § 602(a)(1).
[13] *Id*. § 109(a).
[14] Brief for Respondent John Wiley & Sons, Inc. (No. 11-697), at 11.
[15] *Id*. at 39-40.
[16] *Id*. at 11.
[17] *Kirtsaeng*, 133 S.Ct. at 1357-60.

that Act, as is the case for any copy made by or with the authorization of the copyright owner—no matter where that happens.[18]

But what then of Section 602(a)? If the first-sale doctrine applies to non-piratical copies made overseas, with respect to what class of copies can importation be prohibited?

To answer that question, Breyer noted that "[t]he present version" of the first-sale doctrine—the one now codified in Section 109(a) —"covers only those who are *owners* of a 'lawfully made' copy."[19] "[A] lessee of a copy," in contrast, will *not* receive 'first sale' protection."[20] This statement means that, by virtue of Section 602(a), a copyright owner can prevent the importation of any copy that is merely leased, as opposed to sold, by its manufacturer.

This dichotomy, Breyer posited, is not happenstance. Rather, it likely reflects Congress's attempt to address concerns raised by movie producers who typically leased their works to theatres. "Because the theater owners had 'lawfully obtained' their copies, the earlier version [of the first-sale doctrine] could be read as allowing them to sell that copy," including to theatres in other countries, where a movie may not yet have premiered.[21] "Because the theater owners were lessees, not owners, of their copies," Breyer continues, "the change in language [in Section 109(a)] makes clear that they (like bailees and other lessees) cannot take advantage of the 'first sale' doctrine."[22] And because theatre owners cannot avail themselves of the first sale doctrine, producers could use the new Section 602(a) to control the importation of movies they debuted abroad.

IV. OWNERS VERSUS LICENSEES

The majority opinion in *Kirtsaeng* is a tour de force of statutory construction. It gives independent meaning and purpose to every word and phrase in Section 109(a) and Section 602(a), and it does so in a manner that appears consistent with the Copyright Act's drafting and legislative history. What is more, as Breyer himself notes, the rule announced by the Court at least appears to be "consistent with antitrust laws that ordinarily forbid market divisions."[23]

But is the result coherent? More specifically, why should *licensors* of copyrighted works be able to enforce downstream controls on their products with the power of copyright law, while *sellers* of comparable products cannot? The Court offers no explanation for this dichotomy. Indeed, though it goes on at length about the parade of horribles that would follow if a manufacturer could exert downstream control, the Court seems entirely unaware that the possibility remains, even after its decision.[24]

One response might be that the dichotomy is unexceptional because sales are different than licenses. Whereas the former historically connotes a transfer without restriction, the latter

[18] *Id.*

[19] *Id.* at 1361.

[20] *Id.*

[21] *Id.*

[22] *Id.*

[23] *Id.* at 1371. *See also ibid.* ("Congress enacted a copyright law that (through the 'first sale' doctrine) limits copyright owners' ability to divide domestic markets.").

[24] *Id.* at 1364-67.

does not. That is true so far as it goes—which is not very far. Outright sales are often made with conditions. The original, overseas sales in *Kirtsaeng*, for example, came with export restrictions on purchasers—restrictions Wiley can continue to enforce under contract law, even after the Court's decision. At the same time, the traditional notion of a license as a mechanism for short-term lending has disintegrated. It is now quite common for licenses to grant perpetual rights, sometimes with only minimal restrictions on use. Digital content purchased from Amazon's Kindle Store, for example, comes with "a non-exclusive right to view, use, and display such Kindle Content an unlimited number of times."[25]

But even if the line between sales and licenses were not blurring, the existence of the distinction does not actually answer the question: Why should the private contractual terms of a license be backed by copyright law when the private contractual terms of a sale are not? Why should the movie producers in Breyer's example be afforded more protection for their works than Wiley's book publishers? What is more, even if there were some reason to treat licensors differently than sellers, why should the distinction be limited to works that happen to be copyrighted? Why should the rental of a movie (which is typically copyrighted) be treated differently than the rental of a tuxedo (which typically is not)?

A different response might be that the dichotomy raised here is relatively inconsequential because the class of goods that can be copyrighted is small, and the subset of those that realistically can be licensed (as opposed to sold) is smaller yet. But even if that were once true, it is no longer.

The Copyright Act grants protection to works of any kind that have even the smallest modicum of creativity.[26] The result is that objects that may not seem susceptible to copyright easily can be rendered so by the inclusion of a small element that *is* copyrightable. In *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, for example, the Supreme Court evaluated the scope of the first-sale doctrine in a case involving hair products, such as shampoo and conditioner.[27] L'Anza, the copyright owner, was interested in using the distributions rights granted by the Copyright Act to "protect[] the integrity of its method of marketing [its] products," and it did so by simply "copyright[ing] the labels that [were] affixed to those products."[28] The manufacturer in *Costco v. Omega* had the same idea, and attempted to avail itself of copyright protection by imprinting a small copyrighted design on the underside of its luxury watches.[29]

As the Supreme Court has made clear, although copyright law was developed with "familiar copyrighted materials such as sound recordings or books" in mind, it "appl[ies] equally

[25] Kindle Store Terms of Use as of September 6, 2012, *available at* http://amzn.to/15cfgiK.

[26] *See, e.g.*, *Universal Athletic Sales Co. v. Salkeld*, 511 F.2d 904, 908 (3d Cir. 1975) ("even a modicum of creativity may suffice for a work to be protected"). *See also Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 250 (1903) (Holmes, J.) (Even "a very modest grade of art has in it something irreducible, which is one man's alone. That something he may copyright unless there is a restriction in the words of the act.").

[27] 523 U.S. 135 (1998).

[28] *Id*. at 140, 138.

[29] *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008), *affirmed by an equally divided Court*, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010).

to a case involving" goods that "have only a limited creative component."[30] The result is that most products could likely be brought within the ambit of copyright law if the manufacturer had sufficient incentive to do so.

Nor is it necessarily the case that most copyrighted goods must be sold, rather than licensed. The hair care products at issue in *Quality King*, of course, will likely always be sold. But not so the textbooks at issue in *Kirtsaeng*. Readership of electronic books has soared in recent years.[31] And as the Terms of Use for Amazon's Kindle Store inform you, those books are "licensed, not sold, to you by the Content Provider."[32] Similar trends are underway in the music and movie industries.

And it is hardly the case that the shift towards licensing is limited to intangible works that can be digitized. The much anticipated Google Glasses, for example, come with terms that seem very much like a license (even as they are labeled "Terms of Sale").[33] Can a new generation of licensed luxury watches, like the ones at issue in *Costco*, be far behind? Given the incentives that exist post-*Kirtsaeng*, it is not hard to imagine. Just as manufacturers were given incentives to add largely valueless copyrightable elements to their products in order to avail themselves of the added power of copyright law, they now seem to have every reason to move from sales to licenses in order to retain those powers.

V. CONCLUSION

Copyright owners will forever be in search of the Holy Grail: Perpetual downstream control of their works, even after first sale. And who can blame them? Such control would permit market segmentation and minimum resale price maintenance, among many other things any manufacturer would understandably desire.

The Court's decision in *Kirtsaeng* forecloses one path to this regime. No longer will downstream control over copies turn on where those copies were originally made. As the Court recognized, such a regime is consistent with neither the text nor the history of the Copyright Act.

In foreclosing one path, however, the Court may have opened another. As the Court emphasized, the text of Section 109(a) draws a clear distinction between owners and licensees; the first-sale doctrine is available to the former, but not the latter. And Congress seems to have had something specific in mind—likely movies—when it drew this distinction. But movies are not the only works that can be licensed, and copyright owners now have every incentive to shift from sales to licenses in order to gain the control they covet. What, if anything, the Court may do about this shift is difficult to predict—but the viability of the first-sale doctrine may once again turn on it.

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[30] *Quality King*, 523 U.S. at 140.

[31] *See* Anthony W. Marx, *E-Books and Democracy*, THE NEW YORK TIMES (May 1, 2013).

[32] Kindle Store Terms of Use as of September 6, 2012, *available at* http://amzn.to/15cfgiK.

[33] *See* http://www.google.com/glass/terms/. *See also* John Villasenor, *The Demise of Ownership*, SLATE (April 23, 2013), *available at* http://slate.me/13UmKWy.