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I. INTRODUCTION

For hundreds of years, the "first sale" doctrine has been central to copyright law. It helps reconcile a fundamental tension between copyright owners' ability to exploit their creative expressions and property owners' right to control their own property. While copyright, as Lord Mansfield explained, is "a property in notion, and has no corporeal, tangible substance," copyrights receive protection only when embodied in physical objects. By creating an original work, a copyright owner is given the exclusive power to authorize, among other things, the distribution of that work and its importation into the United States.

But copyrighted works are also ordinary articles of property—books, paintings, compact discs, even bottles of shampoo—whose owners normally have the right to sell or distribute such personal property as they wish. This is where the first sale doctrine comes in. Where it applies, the doctrine gives priority to the prerogatives of the owner of the physical item over those of the copyright owner. As currently codified in the Copyright Act, the rule says that the owner of a particular copy "lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109.

In recent years, the conflict between the rights of copyright holders and property owners has been especially acute when it comes to bringing copyrighted works into the United States for resale. Section 602 of the Copyright Act says that "importation into the United States, without the authority of the copyright owner under this title, of copies … of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies" of the work.

Relying on this provision, many copyright owners seek to maximize revenue by dividing the market for their products geographically. They sell their works to the domestic market at one price, and then distribute cheaper foreign versions that are not authorized for importation into the United States. While common, these market-segmentation arrangements exist uneasily with the principle underlying the first sale doctrine, that once a given copy of a copyrighted work has been sold, the purchaser—rather than the copyright owner—is entitled to control the next sale or distribution of that copy.

Suppose, for example, that on a trip to Japan I find a valuable recording that hasn't been released in the United States. I buy several copies, bring them back into the United States, give a few to my friends, and sell the rest on eBay. Have I violated the Copyright Act, because I

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imported my copies into the United States without the permission of the copyright owner? Or am I protected from infringement claims because the first sale doctrine allows me to freely dispose of my own property?

II. *KIRTSAENG V. JOHN WILEY & SONS*

After vexing lower courts for decades, these questions were finally resolved by the Supreme Court in *Kirtsaeng v. John Wiley & Sons*. In its March 19, 2013 ruling, the Court held that the first sale doctrine applies regardless of where the copy in question happens to have been produced. The Court thus decisively backed the right of all property owners to import and sell their personal property even over the objections of copyright holders or in disregard of their market-division arrangements.

While that result may cause problems for some copyright holders, *Kirtsaeng's* refusal to limit the first sale doctrine geographically is correct. Had the Court decided the case the other way—and ruled that first sale protection extends only to copies made in the United States—it would have been a legal and practical disaster. A contrary result would have crippled secondary markets and arbitrarily punished numerous legitimate businesses, from used-book stories to used-car dealerships, public libraries to eBay.

Kirtsaeng arose from an effort by the publishers of academic textbooks to crack down on the so-called "gray market" for their works. This market emerged in response to the publishers' efforts at market division: they sold American editions of their textbooks at a premium, while producing cheaper foreign versions that were authorized to be sold only outside the United States. Seeing an opportunity for arbitrage, enterprising individuals—including Supap Kirtsaeng, a Thai student studying in the United States—obtained copies of the foreign editions from friends and family in Thailand and began reselling them in the United States. The publishers sued, alleging that Kirtsaeng had violated the Copyright Act by importing and distributing the books without permission. Kirtsaeng invoked the first sale doctrine, but the publishers argued that the doctrine did not apply to copies that were produced abroad.

The Second Circuit agreed with the publishers. The court held that the phrase "lawfully made under this title" in section 109 of the Copyright Act "refers specifically and exclusively to copies that are made in territories in which the Copyright Act is law, and not to foreign-manufactured works."[2] The first sale doctrine, on this account, is limited to goods produced in the United States. It offers no protection to copies made abroad, including the foreign-printed textbooks that Kirtsaeng had tried to import and resell.

The Second Circuit's geographical limitation of the first sale doctrine was something new. Never before had an appellate court withheld first sale protection based exclusively on where the copies at issue were created. If allowed to stand, the Second Circuit's ruling would have profoundly reshaped both copyright law and longstanding societal expectations by preventing those who purchase foreign-made copyrighted items from reselling those items without permission from the copyright owners.

[2] *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 222 (2d Cir. 2011).

Fortunately, however, the Supreme Court reached a different conclusion. By a 6-3 vote, the Court in *Kirtsaeng* held that "the 'first sale' doctrine applies to copies of a copyrighted work lawfully made abroad." The majority first observed that the text of the Copyright Act does not restrict the scope of the first sale doctrine based on where copies were made. As the Court explained, the words "lawfully made under this title" say nothing about geography, and reading them that way "bristles with linguistic difficulties." Likewise, nothing in the long common-law history of the doctrine, or its codification in earlier statutes, indicated that the rule should apply only to domestically produced items.

Kirtsaeng is a critically important case both for copyright law and the broader economy. It puts an ends the idea that the right to resell personal property depends on where an item happens to have been made. Under the Court's decision, the owner of a given copy may dispose of it as she sees—no matter where that copy was produced, where it was purchased, or where the owner wants to sell it. Property owners, along with those who rely on or operate secondary markets, breathed an enormous sigh of relief when the Court's ruling was announced.

While *Kirtsaeng* makes a powerful statement about the first sale doctrine, its outcome was far from certain. In large part, that was because just three years earlier, in *Costco v. Omega*, the Supreme Court had divided 4-4 on the identical issue. With Justice Kagan not participating in *Omega*, there was no one to cast the deciding vote, and the question of whether the first sale doctrine applied to foreign-made copies was left unresolved. When the Court again took that issue up in *Kirtsaeng*, most Court watchers were predicting a 5-4 ruling. As it turned out, however, at least one Justice changed his vote, and the decision was not as close as most had anticipated.

In truth, that should not have been a surprise. Limiting the first sale doctrine to copies produced in the United States simply does not make legal or practical sense. As discussed below, it would have led to a number of pernicious consequences that Congress could not possibly have intended and that no impartial observer would think appropriate.

III. CONFRONTING *QUALITY KING V. L'ANZA RESEARCH*

To see why *Kirtsaeng* had to come out as it did, we need to look at the legal landscape that the Supreme Court confronted, in particular the Court's 1998 decision in *Quality King v. L'anza Research*, 523 U.S. 135 (1998). Like *Kirtsaeng*, *Quality King* arose out of an arbitrage effort. L'anza manufactured shampoo and other hair care products that were sold in bottles that had copyright labels attached to them. It charged higher prices to distributors authorized to sell its products in the United States than to distributors allowed only to sell abroad. Quality King obtained bottles authorized for foreign sale, imported them into the United States without L'anza's permission, and resold them to domestic retailers. L'anza sued but, like the publishers in *Kirstaeng*, its effort to use the Copyright Act to protect a market-segmentation arrangement was defeated by the first sale doctrine.

Because the shampoo bottles were manufactured in the United States, there was no issue in *Quality King* about the geographical scope of the doctrine. Instead, the Court addressed a more fundamental question: Does the first sale rule even apply to the prohibition on importing copyrighted works without the authority of the copyright owner? A unanimous Court held that it did.

That result was based on the text of the statute. Rather than categorically banning unauthorized importations, section 602 of the Copyright Act says that an importation without the authority of the copyright owner is "an infringement of the exclusive right to distribute copies" of the work. And the distribution right, in turn, is expressly limited by the first sale doctrine. Thus, the Supreme Court concluded, "the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L'anza's products who decide to import them and resell them in the United States." The first sale doctrine as interpreted in *Quality King* thus includes a right not just to resell a lawfully purchased copy, but also to bring that copy into the United States over the objection of the copyright owner.

In so holding, the Supreme Court rejected the argument that the "importation" regulated by section 602 is distinct from the sale or disposal of a work protected by the first sale doctrine. With little elaboration, the Court announced that an "ordinary interpretation of the statement that a person is entitled 'to sell or otherwise dispose of the possession' of an item surely includes the right to ship it to another person in another country." That is debatable. One can sell an item without importing it, after all, just as one can import the item without actually selling. While the two transactions are often linked, there is no necessary reason that they must be. And conflating the two concepts in this way leaves little practical work for the importation ban to do.

Under the Court's construction, the importation provision does not bind anyone who lawfully purchases the item in question. The only people actually subject to its restrictions are those who illegally acquired pirated copies or those have taken only temporary possession of the item from the copyright owner (such as a bailee or a licensee). Once an item is lawfully sold, the copyright owner forfeits any right to prevent it from being imported into the United States. By giving the importation provision such limited breadth, *Quality King* made it more difficult to enforce market divisions and left the door wide open for arbitrage.

That decision also significantly limited the Court's options in *Kirtsaeng*. *Quality King* foreclosed any argument that the first sale doctrine did not extend to importation. If the doctrine applied to the textbooks at issue, Kirtsaeng had the right to bring them into the United States. The only way for the publishers to win would have been for the Supreme Court to limit the first sale doctrine geographically as the Second Circuit had done and withhold its protection from all copies made outside the United States.

IV. ISSUES WITH STRIPPING FIRST SALE PROTECTION FROM FOREIGN-PRODUCED GOODS

Focusing just on the facts of *Kirtsaeng*, it may have been tempting to go that route and gut the first sale doctrine. Grey-marketers are hardly the most sympathetic defendants, and the copyright owners strenuously argued that arbitrage was harming their bottom lines. But the Court was right to resist the temptation. Gutting the first sale doctrine as the publishers urged would have inflicted massive collateral damage on innocent property owners, legitimate secondary markets, and even the manufacturing sector of the U.S. economy.

That is because stripping first sale protection from foreign-produced goods does far more than prevent unauthorized importation. It affects many other rights than have nothing to do with the gray market. Under the Second Circuit's ruling, the lawful owner of any copyrighted item that happened to have been manufactured abroad—books, CDs, paintings, even wristwatches,

cars, and countless other consumer goods—would have no right to sell, lend, or give away their property without the consent of those who held the copyright(s) embodied in those items. That would be true even if the item had been originally sold and lawfully purchased in the United States.

A Supreme Court decision adopting that interpretation would have cast a legal shadow over countless everyday commercial transactions. A yard sale might be illegal if the items being sold had been made outside the United States. Lending a foreign-made book or record to a friend could amount to copyright infringement. Entire categories of businesses would likewise be at risk. Used-book and record stores could no longer sell items that had printed abroad unless they went through the significant cost and effort of securing permission from the relevant copyright owners. The rights of auction houses and libraries to sell or lend foreign-made material would similarly be in doubt. Car dealerships would risk infringement liability if they resold cars with copyrighted software or design elements that happened to have been produced in foreign factories. And prominent online marketplaces for second-hand goods, such as eBay and Amazon, would have to significantly limit their operations, lest they face liability for permitting their users to resell items that may have been manufactured abroad. All of this would significantly raise transactions costs and needlessly clog, if not altogether freeze, secondary markets.

It is no answer to say that copyright owners often would not object to such transactions. Experience has shown that rights holders are willing to flex whatever legal muscles they have in order to extract maximum value from their works. Giving them broad rights to limit the secondary distribution of all foreign-made items on the expectation that they will exercise that power sparingly is naïve and dangerous.

In any event, the whole point of the first sale doctrine is to free up commerce by allowing property owners to transfer their possessions as they wish, without the need to bargain with or secure the permission of third parties. For copyright owners to have downstream control of the distribution of their works after they have already been sold is precisely the harm that the first sale doctrine was designed to prevent.

Even if some exception from that principle were warranted, moreover, it would make no sense to give such control based merely on where the copy at issue was manufactured, much less to do so in a way that affords greater copyright protection to works made abroad than to those made in the United States. Beyond all its other consequences, that result threatens the domestic economy. If by moving production of copyrighted work overseas, copyright owners could avoid the first sale doctrine altogether, that would have created a powerful incentive to outsource production and take jobs away from American workers. An understanding of the Copyright Act that privileged foreign-made goods in this way, and harmed domestic manufacturing in the process, is contrary to any plausible understanding of congressional intent.

This parade of horribles is reason enough to support the Supreme Court's decision in *Kirtsaeng*. But what makes these consequences all the more intolerable is that limiting the first sale doctrine geographically, as the publishers urged, is actually quite an ineffective way of preventing arbitrage. That approach does nothing about goods made in the United States. As *Quality King* illustrates, copyright owners often produce goods domestically, which they then

export to be sold cheaply abroad on the condition that they not be imported back into the United States. But those market-division arrangements would have been unprotected even if *Kirtsaeng* had come out the other way. U.S.-made items still would have been covered by the first sale doctrine and thus still could have been imported over the objections of copyright owner.

If we really want to crack down on the gray market, therefore, allowing copyright holders to sue over unauthorized importation only where the goods happen to have been manufactured abroad is an ill-advised way of achieving that goal. It doesn't go far enough to actually prevent the underlying wrong, while simultaneously imposing a host of unwarranted hardships on legitimate market participants.

V. CONCLUSION

In short, *Kirtsaeng* was a case in which the proposed cure was far worse than the actual disease. Given the state of the law, there simply was no way for the publishers to prevail without inflicting incalculable harm on ordinary commerce—as well as on copyright law itself. Even those troubled by the gray market should cheer the Supreme Court's ruling.

The decision to reject a geographically limited first sale doctrine was profoundly wise, even if it leaves copyright owners with fewer weapons in the fight against arbitrage. They will find ways to cope, whether through contractual arrangements, technological innovation, or by making adjustments to their business models. But even if those efforts prove less successful, that is a price worth paying. We should be willing to accept a few more Kirtsaengs if it means saving secondary markets from ruin and defending the values that the first sale doctrine has protected for centuries: "Trade and Traffic, and bargaining and contracting between man and man."[3]

[3] 1 Edward Coke, Institutes of the Laws of England § 360 (1628)