ISSUE BRIEF

The Impact of the Supreme Court's Decision in *Kirtsaeng v. Wiley* on Libraries

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On March 19, 2013, the US Supreme Court decided *Kirtsaeng v. Wiley* in a manner that favorably resolves the uncertainty concerning the applicability of the "first sale doctrine" to copies manufactured abroad. This ruling eliminates any doubt about a library's ability to circulate books and other materials manufactured outside of the United States. By a 6 to 3 vote, the Supreme Court ruled that the first sale doctrine applies to non-infringing copies, regardless of where they are made. This means that libraries throughout the country can continue their existing purchasing and circulation practices with new confidence that they will not infringe copyright by doing so. At the same time, it is possible that rights holders may request Congress to enact legislation overturning the decision.

This paper first provides background on this issue and an overview of the *Kirtsaeng* litigation. It then summarizes Justice Breyer's majority opinion, Justice Kagan's concurrence, and Justice Ginsburg's dissent, emphasizing the opinions' references to libraries. The paper next discusses the likely arguments of those who may seek to overturn the Court's decision and the shortcomings of those arguments. Finally, the paper concludes that the Supreme Court decision represents a complete victory for libraries, reaffirming the importance of libraries' engagement in policy debates.

I. Background

Section 106(3) of the Copyright Act grants the copyright owner the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by…

lending."[1] However, the first sale doctrine, codified at section 109(a) of the Copyright Act, terminates the copyright owner's distribution right in a particular copy "lawfully made under this title" after the first sale of that copy.[2] The House Judiciary Committee Report on the 1976 Copyright Act explains that under section 109(a), "[a] library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose."[3] The first sale doctrine thus is critical to the operation of libraries: "[w]ithout this exemption, libraries would be unable to lend books, CDs, videos, or other materials to patrons."[4]

There has been extensive litigation over the meaning of the phrase "lawfully made under this title" in section 109(a). Rights holders have generally argued that "lawfully made under this title" means "lawfully made in the United States." This interpretation would allow the rights holder to prohibit some "parallel imports" or "gray market goods"—that is, the rights holder could prevent a third party from importing legal but less expensive foreign-made copies. Conceivably, this interpretation would also allow the rights holder to prohibit the resale of foreign-made goods sold in the United States with the rights holder's authorization.

In 2010, this issue was before the Supreme Court in a case involving Costco, the discount retailer, and the Swiss watch company Omega. Costco purchased Omega watches from distributors in Europe and then imported them to the United States without the authorization of Omega. In response, Omega engraved a design of a globe on the

[1] 17 U.S.C. § 106(3).
[2] 17 U.S.C. § 109(a).
[3] H.R. Rep. No. 94-1476, § 109, at 79 (1976), *as reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.
[4] Carrie Russell, *Complete Copyright: An Everyday Guide For Librarians* 43 (2004).

back of its watches and registered the design with the Copyright Office. When Costco imported watches engraved with the design, Omega sued Costco for infringing its importation and distribution right in the design. Costco contended that the import and sale was permitted under the first sale doctrine, but Omega argued that the first sale doctrine did not apply to copies manufactured abroad. The Ninth Circuit agreed with Omega, holding that copies "lawfully made under this title" meant copies lawfully manufactured in the United States. Based on this interpretation, the Ninth Circuit ruled that the first sale doctrine did not apply to the designs engraved in Switzerland.

At Costco's request, the Supreme Court agreed to review the Ninth Circuit's holding. Justice Kagan, however, recused herself, presumably because she had filed a brief in support of Costco in an earlier phase of the case when she was still the Solicitor General. With Justice Kagan recused, the Court reached a 4-4 tie. The Court's decision was a one sentence order which contained no explanation of how each of the eight participating justices voted. The 4-4 tie left in place the Ninth Circuit's decision, but was not binding on courts outside of the Ninth Circuit. This set the stage for the *Kirtsaeng* case.

II. The *Kirtsaeng* Litigation

Supap Kirtsaeng moved from Thailand to the United States for graduate studies. When he realized that publishers sold Asian editions of their textbooks at significantly lower prices than in the United States, Kirtsaeng arranged for family members in Thailand to purchase Asian editions of textbooks and send them to him in the United States. He then sold the books at a profit on eBay. One of the publishers, John Wiley & Sons, sued Kirtsaeng for infringement, alleging that he infringed its exclusive right to

import and distribute its textbooks. Kirtsaeng argued that because the copies he sold were made by Wiley, the first sale doctrine applied and he did not infringe copyright. The district court ruled, however, that the copies were not made in the United States, and thus were not "lawfully made under this title" as required by section 109(a). The jury then imposed $600,000 in statutory damages. Kirtsaeng appealed to the US Court of Appeals for the Second Circuit, which affirmed the trial court. Kirtsaeng then appealed to the Supreme Court.

The Supreme Court was presented with three choices as to the applicability of the first sale doctrine to foreign made copies. First, Wiley argued that the Second Circuit had correctly interpreted the phrase "lawfully made under this title" as meaning lawfully made in the United States. Second, Kirtsaeng argued that the phrase meant made in accordance with US copyright law, that is, was made without infringing copyright. Third, the Solicitor General (SG) offered a compromise approach. The SG agreed with the Second Circuit that "lawfully made under this title" in section 109(a) meant lawfully made in the United States, but asserted that the common law first sale doctrine applied more broadly to foreign made copies sold in the U.S. with the rights holder's authorization. In other words, the SG argued that the common law first sale doctrine articulated by the Supreme Court in the 1908 *Bobbs-Merrill* decision survived its codification in section 109(a) of the 1976 Copyright Act. Under this compromise approach, a rights holder would be able to prevent the unauthorized importation of copyrighted products, but would not be able to prevent the resale (or lending) of products that had been imported with its authorization.

The members of the Library Copyright Alliance—the American Library Association, the Association of Research Libraries, and the Association of College and Research Libraries—filed an amicus brief in support of Kirtsaeng, urging reversal of the Second Circuit. LCA argued that by restricting the application of section 109(a) to copies manufactured in the United States, the Second Circuit's decision threatened the ability of libraries to continue to lend materials in their collections. LCA explained that many of the materials in the collections of US libraries were manufactured overseas. Indeed, US publishers now print an increasing number of books in China and other countries with lower labor costs. Additionally, the Second Circuit's narrow interpretation of the first sale doctrine could limit the ability of US libraries to import materials for the development of their collections. LCA acknowledged the existence of "fallback" legal theories such as fair use, implied license, and a library exception to the importation right in section 602(a)(3)(C), but LCA identified shortcomings in each of these theories.

III. The Supreme Court's Decision

The majority of the Court, in a decision written by Justice Breyer and joined by Justices Alito, Kagan, Sotomayor, Thomas, and Roberts, reversed the Second Circuit and found the first sale doctrine was not geographically limited to copies made in the United States. Justices Kagan and Alito submitted a separate concurring opinion in which they explained that the Court's decision was a necessary consequence of the Court's decision in *Quality King v. L'anza*, but suggested that that case may have been incorrectly decided. Justice Ginsburg wrote a dissenting opinion, joined in whole by Justice Kennedy and in part by Justice Scalia. Justices Ginsburg and Kennedy agreed with the SG's compromise position, while Justice Scalia appears to have agreed with the Second

Circuit.[5] These various opinions are discussed below.

A. The Breyer Opinion

Justice Breyer's opinion closely examined the meaning of the five words "lawfully made under this title." After reviewing the context of those words in section 109(a) and the Copyright Act, the common law history of the first sale doctrine, the legislative history of section 109(a), and the Court's earlier decisions, Justice Breyer rejected the "geographical interpretation" of "lawfully made under this title" as meaning made in the United States. Instead, he found that the phrase meant manufactured in a manner that met the requirements of American copyright law, *e.g.*, manufactured with the permission of the rights holder.

Reinforcing this interpretation is the "parade of horribles" of what might ensue if the Court adopted the geographical interpretation. The first, and by far the most detailed, example Justice Breyer used was the potentially adverse impact on libraries.

> The American Library Association tells us that library collections contain at least 200 million books published abroad (presumably, many were first published in one of the nearly 180 copyright-treaty nations and enjoy American copyright protection under 17 U.S.C. §104, see supra, at 10); that many others were first published in the United States but printed abroad because of lower costs; and that a geographical interpretation will likely require the libraries to obtain permission (or at least create significant uncertainty) before circulating or otherwise distributing these books. Brief for American Library Association et al. as Amici Curiae 4, 15–20. [6] Cf. id., at 16–20, 28 (discussing limitations of potential defenses, including the fair use and archival exceptions, §§107–108). See also Library and Book Trade Almanac 511 (D. Bogart ed., 55th ed. 2010) (during 2000–2009 "a significant amount of book printing moved to foreign nations").

[5] Because four Justices voted to reverse the Ninth Circuit in *Costco*, but five Justices (other than Justice Kagan) voted to reverse the Second Circuit here, at least one of the Justices who voted to affirm the Ninth Circuit must have switched his or her vote in this case.

[6] The brief Justice Breyer refers to as the American Library Association brief is the brief submitted jointly by ALA, ARL, and ACRL, referenced above.

> How, the American Library Association asks, are the libraries to obtain permission to distribute these millions of books? How can they find, say, the copyright owner of a foreign book, perhaps written decades ago? They may not know the copyright holder's present address. Brief for American Library Association 15 (many books lack indication of place of manufacture; "no practical way to learn where [a] book was printed"). And, even where addresses can be found, the costs of finding them, contacting owners, and negotiating may be high indeed. Are the libraries to stop circulating or distributing or displaying the millions of books in their collections that were printed abroad?[7]

Additionally, Justice Breyer discussed the harm a geographical interpretation could inflict on used book-sellers, resellers of cars, retailers, and museums. Justice Ginsburg in her dissent dismissed the parade of horribles, indicating that they had not occurred in the 30 years courts had been articulating a geographical interpretation of the first sale doctrine. Justice Breyer responded that the law had not been settled sufficiently to cause entities to change longstanding practice. Moreover, rights holders may have been reluctant to assert their geographically based resale rights in the face of this legal uncertainty. Justice Breyer then expressed the decision's most far-reaching statement concerning copyright policy:

> a copyright law that can work in practice only if unenforced is not a sound copyright law. It is a law that would create uncertainty, would bring about selective enforcement, and, if widely unenforced, would breed disrespect for copyright law itself.[8]

In sum, Justice Breyer concluded that the problems identified by Kirtsaeng and his amici are "too serious, too extensive, and too likely to come about for us to dismiss them as insignificant—particularly in light of the ever-growing importance of foreign trade to America."[9]

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[7] Slip Op. at 19–20.
[8] Id. at 24.
[9] Id.

Justice Breyer also responded to the main policy thrust of the Ginsburg dissent that the Court's rule would make it difficult for rights holder to segment markets. Justice Ginsburg noted that if a rights holder could prevent unauthorized importation, it could charge lower prices in foreign markets with less affluent consumers—in this case, Thailand. But if importers could engage in arbitrage,[10] as Kirtsaeng did here, rights holders would have to raise prices above levels that could be sustained in foreign markets, thereby losing foreign sales. Justice Breyer replied that there is no inherent right under copyright law to price discriminate and segment markets:

> the Constitution's language nowhere suggests that its limited exclusive right should include a right to divide markets or a concomitant right to charge different purchasers different prices for the same book, say to increase or to maximize gain.…We have found no precedent suggesting a legal preference for interpretations of copyright statutes that would provide for market divisions.[11]

Justice Breyer acknowledged that his interpretation was difficult to square with some dicta in the *Quality King* decision. He dismissed this dicta, asking rhetorically: "Is the Court having once written dicta calling a tomato a vegetable bound to deny that it is a fruit forever after?"[12]

B. Justice Kagan's Concurring Opinion

Justice Kagan's concurrence, which Justice Alito joined, also focused on the *Quality King* decision. In that case, the Supreme Court decided that because section 602 stated that importation was a form of distribution, the importation right was subject to the limitations on the distribution right, including the first sale doctrine. Justice Kagan questioned whether the unanimous *Quality King* Court reached the correct conclusion.

[10] "Arbitrage" is the economic term for exploiting the price differentials in different markets, *e.g.*, making a profit by buying a product in a low price market and selling it in a higher price market.
[11] Slip. Op. at 32.
[12] Id. at 27.

(*Quality King* was decided before she and Justice Alito joined the Court.) While she wholeheartedly agreed with the majority opinion's rejection of the geographical interpretation of section 109(a), she wondered whether section 109(a) should apply to the importation right in the first place, as *Quality King* held.[13] Thus, if Congress is concerned about rights holders' diminished ability to price discriminate against US consumers, the starting place for its analysis should be the applicability of the first sale doctrine to the importation right.

C. Justice Ginsburg's Dissenting Opinion

Justice Ginsburg looked at the same statutory context, legislative history,[14] and judicial precedents as Justice Breyer, but reached the opposite conclusion: that Congress intended for "lawfully made under this title" to mean "lawfully made in the United States." Justice Ginsburg buttressed her interpretation by noting that the Majority was adopting an "international exhaustion" rule (that the distribution is exhausted by the first sale of a product anywhere in the world, not just in the United States) that the US government had rejected in international negotiations and that would make it difficult for rights holders to price discriminate in favor of foreign, less wealthy consumers.

As noted above, Justice Ginsburg was not frightened by the parade of horribles. She adopted the SG's position that while section 109(a) did apply only to copies *made* in the United States, the common law first sale doctrine applied to copies imported with the

[13] Justice Kagan noted that under *Quality King* and the geographic interpretation of section 109(a), "to prevent someone like Kirtsaeng from reimporting the books—and so to segment the Thai market—John Wiley would have to move its printing facilities abroad. I can see no reason why Congress would have conditioned a copyright owner's power to divide markets on outsourcing its manufacturing to a foreign country." Kagan Concurrence at 3, n. 2.

[14] As is his tradition, Justice Scalia did not join the part of the opinion that discussed legislative history.

rights holder's authorization and *sold* in the United States.[15] As a practical matter, this would eliminate the most adverse effects of the geographic interpretation. Rights holders would not have the incentive to relocate overseas their manufacturing of products destined for the US market because the first sale doctrine would still apply to products sold with their authorization in the United States. Likewise, the rights holders would not be able to restrict the resale of products distributed in the US market with their permission.

Additionally, Justice Ginsburg identified other legal theories, such as fair use and implied license, which would diminish the possible harm a geographical interpretation might cause to consumers of products manufactured abroad. For example, fair use would allow a museum to display a sculpture created in Europe without infringing the display right.

Justice Ginsburg also specifically addressed the library exception in section 602. 17 U.S.C. § 602(a)(3)(C) states that the section 602(a) prohibition on importation does not apply to

> importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes….

In their amicus brief, the library associations pointed out that although the section 602(a)(3)(C) exception clearly permits a library to *import* five copies for "its library lending or archival purposes," the exception by its terms does not actually permit the library to *lend* those copies. In other words, section 602(a)(3)(C) creates an exception to

[15] Justice Scalia also did not join in this part of Justice Ginsburg's dissent. Thus, Justice Scalia supported full affirmance of the Second Circuit's decision.

the section 602(a) importation right, but not explicitly to the entire section 106(3) distribution right. The libraries were concerned that a court might conclude that section 602(a)(3)(C) does not permit the lending of the imported copies. In a footnote, Justice Ginsburg discussed this issue:

> A group of amici representing libraries expresses the concern that lower courts might interpret §602(a)(3)(C) as authorizing only the importing, but not the lending, of foreign-made copies of non-audiovisual works. See Brief for American Library Association et al. 20. The United States maintains, and I agree, however, that §602(a)(3)(C) "is fairly (and best) read as implicitly authorizing lending, in addition to importation, of all works other than audiovisual works." Brief for United States as Amicus Curiae 30, n. 6.[16]

IV. What Next?

Groups such as the Association of American Publishers and the Software and Information Industry Association reacted negatively to the decision and suggested that Congress may want to examine this issue. However, these groups have not yet announced that they will seek to overturn the Court's decision. Nonetheless, it is likely that some rights holders will seek to do so; the amount of money that may be at stake is simply too large.

It is unlikely that the rights holders will attempt to push for codification of the geographical interpretation; it makes absolutely no policy sense. Even the Second Circuit agreed that there was no logical reason to give foreign-made copies more protection that US-made copies, as it would encourage the export of jobs. Also, as Omega's lawyer conceded at a recent event at American University Law School, this approach would grant rights holders too much control over the transfer of property, given the large

[16] Ginsburg Dissent at 28, n. 22.

amount of goods that are foreign-made and sold in the United States with the rights holder's authorization.

Thus, rights holders are more likely to push a domestic exhaustion rule along the lines of what Justice Kagan suggested: exempting the importation right from the first sale doctrine, thereby applying the first sale doctrine only to copies sold in the United States. The policy argument in favor of domestic exhaustion is that it helps rights holders to price discriminate—to charge US consumers higher prices than foreign, less wealthy, consumers—by preventing arbitrage. This benefits consumers in less developed countries. It also allows rights holders to derive profits from these foreign sales, although presumably the profit margins are less than they would be on US sales.

To carry the day in Congress, the rights holders would have to demonstrate that these foreign sales benefit the US economy. Rights holders probably will claim that the additional production for foreign markets means more jobs in the United States. Additionally, the profits from the foreign sales would be reinvested here in the development of new products.

But this argument makes two significant assumptions. First, it assumes that the copies are manufactured in the United States. But for many copyrighted products, this is not the case. Even if the underlying work was created in the U.S., the manufacturing of copies occurs in other countries with lower labor costs. Thus, the jobs resulting from increased production are not in the United States. A book might be written in the United States, but the copies are printed abroad (in this case, in Thailand). So, the increased production of books to keep up with foreign demand leads to more production jobs in Thailand, not the United States.

Second, this argument assumes that the rights holders are US companies that will reinvest the profits in the United States. But again, in many instances, this is not true.[17] Although in this case John Wiley & Sons is based in the United States, four of the six largest English language trade publishers, which sell 70% of the popular books in the U.S., are foreign owned. Four of the five largest science, technical, medical, and professional publishers are foreign owned. Two of the three major record labels are foreign owned. Omega, the plaintiff in the previous first sale case in the Supreme Court, is a Swiss company. Pearson, which has brought several cases against book importers, is a British company. Indeed, Justice Ginsburg in her dissent said that "the Court embraces an international-exhaustion rule that could benefit US consumers but would likely disadvantage *foreign* holders of US copyrights."[18] It is hard to see how US consumers paying higher prices to benefit foreign workers and corporations benefits the US economy.

Moreover, there is a long history of copyright law, through the first sale doctrine, limiting a rights holder's ability to price discriminate and segment markets within the United States. If a rights holder does not have the ability to force a consumer in New York or California to pay higher price for the book than a consumer in Mississippi or West Virginia, why should the rights holder have the ability to force a US consumer to pay a higher price for a book than a Thai consumer? If competing with resellers is a well-established feature of the domestic market, why is it unacceptable in international markets?

[17] *See* Jonathan Band and Jonathan Gerafi, "Foreign Ownership of Firms in IP Intensive Industries," March 2013, *available at* http://infojustice.org/archives/28840.
[18] Ginsburg Dissent at 22–23 (emphasis supplied).

Finally, even after *Kirtsaeng*, rights holders will still be able to price discriminate and segment foreign markets—it just will not be as easy to do so. They can use contracts to prohibit foreign wholesalers from importing to the United States. They can restrict the number of copies distributed in any country to meet local demand. They can engage in modest product differentiation sufficient to discourage domestic consumption (*e.g.*, different pagination). In short, they can act exactly as every other business that cannot rely on copyright to enforce price discrimination.

V. Conclusion

The Supreme Court decision in *Kirtsaeng v. Wiley* represents a complete victory for libraries. The decision eliminates the uncertainty about the permissibility of libraries' importing and circulating materials manufactured abroad. Additionally, the majority and the dissent's concern about the impact of the decision on libraries demonstrates the central role of libraries in the American way of life, as well as the importance of libraries' engagement in policy debates.

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