

COPYRIGHT LAW — FIRST SALE DOCTRINE — SECOND CIRCUIT HOLDS THAT THE FIRST SALE DOCTRINE DOES NOT APPLY TO IMPORTED WORKS MANUFACTURED AND FIRST SOLD ABROAD. — *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011).

The first sale doctrine limits a copyright holder's exclusive right of distribution of a copy of a work once it has been sold, leaving the buyer free to resell or dispose of his copy as he chooses.¹ Additionally, the Copyright Act of 1976² defines the importation of protected works without the rights holder's consent as infringement.³ The two provisions conflict when a covered work is first sold outside the United States, then imported or reimported for resale. Manufacturers value protection from such "parallel imports," or "gray market" goods, as a means to maintain global price discrimination schemes, whereby product pricing varies by country.⁴ In *Quality King Distributors, Inc. v. Lanza Research International, Inc.*,⁵ the Supreme Court held that the first sale doctrine applied to goods manufactured in the United States that had been exported, sold, and reimported prior to their final sale in the United States,⁶ but, as Justice Ginsburg noted in a concurrence, the decision did not resolve the issue for goods manufactured abroad.⁷ Recently, in *John Wiley & Sons, Inc. v. Kirtsaeng*,⁸ the Second Circuit held that copyright holders could prevent domestic resale of protected works manufactured and first sold abroad.⁹ The first sale doctrine did not apply because the court, looking to suggestive dicta in *Quality King*, found that it would unduly narrow the scope of the import restriction.¹⁰ Such a reading of the first sale doctrine promotes copyright as a primary tool of international pricing regulation. Copyright, however, is ill suited to this use: it is context insensitive, over- and

¹ 17 U.S.C. § 109(a) (2006) ("Notwithstanding the provisions of section 106(3) [giving a copyright holder the exclusive right to distribute copies], 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 . . .").

² Pub. L. No. 94-553, 90 Stat. 2541 (codified as amended at 17 U.S.C.).

³ 17 U.S.C. § 602(a)(1) ("Importation into the United States, without the authority of the owner of copyright 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 . . . under section 106, actionable under section 501.").

⁴ For an explanation of the economics of price discrimination specifically in the context of copyright-protected works, see William W. Fisher III, *Property and Contract on the Internet*, 73 CHI.-KENT L. REV. 1203, 1234-40 (1998).

⁵ 523 U.S. 135 (1998).

⁶ *See id.* at 145.

⁷ *Id.* at 154 (Ginsburg, J., concurring).

⁸ 654 F.3d 210 (2d Cir. 2011).

⁹ *See id.* at 221-22.

¹⁰ *See id.* (citing *Quality King*, 523 U.S. at 147).

underinclusive, and overprotective. Given the unclear statutory language and the failure of traditional tools of interpretation, the court could reasonably have decided either way. However, had it looked to the policies animating the common law background against which Congress legislated, the court would have found persuasive reasons to apply the first sale doctrine.

John Wiley & Sons publishes textbooks, on which it holds U.S. and foreign copyrights.¹¹ The textbooks sold domestically generally are of a higher quality and price than those sold abroad.¹² Wiley assigned its rights to reprint and sell English-language foreign editions of its books in Southeast Asia to a subsidiary but retained U.S. publishing rights.¹³ Supap Kirtsaeng moved to the United States from Thailand in 1997 to attend college and graduate school, receiving a Ph.D. in 2009.¹⁴ To finance his education, he resold Wiley's foreign-edition textbooks that friends and family had purchased abroad and mailed to him.¹⁵ Wiley sued Kirtsaeng, claiming, *inter alia*, federal copyright and trademark infringement, as well as unfair competition under New York state law, and sought statutory damages for copyright infringement.¹⁶ Kirtsaeng raised the first sale doctrine as a defense, but the district court refused to provide a jury instruction to that effect.¹⁷

The district court began by noting the apparent conflict between the first sale doctrine and the import restriction of the Copyright Act.¹⁸ The court identified the meaning of "lawfully made under this title" in the language of the first sale doctrine as the key to determining whether that provision can apply to goods manufactured and first sold outside the United States. The court saw two potential meanings: (1) goods made in a manner consistent with the Act or (2) goods made within U.S. borders.¹⁹ Judge Pogue analyzed the first sale doctrine's statutory context and legislative history, concluding that neither was dispositive.²⁰ He added that public policy rationales could be employed to support either interpretation.²¹ As a result of the indeterminacy, he explicitly relied on "the dicta in *Quality King*"²² to hold that

¹¹ *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834(DCP), 2009 WL 3364037, at *1 (S.D.N.Y. Oct 19, 2009).

¹² *Id.*

¹³ *Id.* at *2.

¹⁴ *Id.*

¹⁵ *John Wiley*, 654 F.3d at 213.

¹⁶ *Id.* at 213–14.

¹⁷ *Id.* at 214.

¹⁸ *See John Wiley*, 2009 WL 3364037, at *3.

¹⁹ *Id.* at *5–6.

²⁰ *See id.* at *6–8.

²¹ *Id.* at *8.

²² *Id.* at *9. Particularly persuasive for Judge Pogue was *Quality King*'s statement that the import protection of § 602(a) would "appl[y] to a category of copies that are neither piratical nor

“lawfully made under this title” should be interpreted to limit the application of the first sale doctrine to goods manufactured within the United States — thus denying Kirtsaeng’s defense.²³

The Second Circuit affirmed.²⁴ Writing for a divided panel, Judge Cabranes²⁵ noted that the tension between the Copyright Act’s two sections was an issue of first impression for the Second Circuit²⁶ and that it was “a particularly difficult question of statutory construction.”²⁷ Judge Cabranes described how the unanimous *Quality King* decision clarified that the first sale doctrine limits the scope of the import restriction but noted that its applicability remained unclear when the goods are both manufactured and first sold abroad.²⁸ He also observed that the Supreme Court had an opportunity to resolve this issue in *Costco Wholesale Corp. v. Omega, S.A.*²⁹ by turning the *Quality King* dicta into a holding but that it failed to do so with its 4–4 vote.³⁰

Having established that there was no direct precedential holding, Judge Cabranes analyzed the text of the first sale limitation.³¹ Like the district court, he focused on the meaning of the phrase “lawfully made under this title” with particular emphasis on the meanings of “made” and “under.”³² After critiquing Wiley’s argument concerning the extraterritorial application of the Copyright Act from textual and structural perspectives,³³ he concluded that “[t]he relevant text is simply unclear” and could “mean any number of things.”³⁴ He proposed three credible readings: any work (1) “manufactured in the United States”; (2) subject to the Copyright Act; or (3) lawfully made according to the Copyright Act, had it been available.³⁵ In light of the ambiguity, he sought to reconcile the text of the first sale limitation with the import restriction, as well as with the dicta of *Quality King*.³⁶ Reason-

“lawfully made under this title” — that is, goods that were made under the law of another country. *Id.* (alteration in original) (quoting *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 147 (1998)) (internal quotation mark omitted).

²³ *Id.*

²⁴ *John Wiley*, 654 F.3d at 222.

²⁵ Judge Cabranes was joined by Judge Katzmann. District Judge Murtha of the District of Vermont, sitting by designation, dissented.

²⁶ *John Wiley*, 654 F.3d at 212.

²⁷ *Id.* at 222.

²⁸ *See id.* at 217 (citing *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 154 (1998) (Ginsburg, J., concurring)).

²⁹ 131 S. Ct. 565 (2010) (per curiam) (Justice Kagan took no part in considering or deciding the case).

³⁰ *John Wiley*, 654 F.3d at 218.

³¹ *See id.* at 218–20.

³² *See id.* at 219.

³³ *See id.* at 219–20.

³⁴ *Id.* at 220.

³⁵ *Id.*

³⁶ *See id.* at 220–22.

ing that interpreting the first sale doctrine to apply to foreign-made works would significantly reduce the applicable scope of the import restriction, he favored the limited first reading.³⁷ Based on this preference and the *Quality King* dicta, he held that Kirtsaeng could not rely on the first sale doctrine as a defense because the textbooks in question were manufactured and first sold outside the United States.³⁸

Judge Murtha dissented, reading the first sale limitation to apply to works manufactured and first sold abroad if such manufacture was authorized by the U.S. copyright holder pursuant to the Copyright Act.³⁹ He noted that courts have split on the meaning of the first sale doctrine in the context of the import restriction.⁴⁰ Pointing out that Congress used “manufactured in the United States” to make geographic restrictions explicit in some portions of the Act, he argued that “lawfully made” and “under this title” describe the scope of the rights granted by the Act, rather than its geographic boundaries.⁴¹ He further criticized the majority’s reliance on dicta from *Quality King*, arguing that the majority had overstated the dicta’s applicability to the facts at hand.⁴²

Traditional tools of statutory interpretation could not provide a clear basis for decision in this case. First, though Judge Cabranes suggested that reading the first sale limitation to apply to goods manufactured abroad would unduly limit the import restriction,⁴³ significant applications would nonetheless remain. For instance, copyright holders could hold responsible the importers of unauthorized, foreign-made works when the manufacturer would otherwise be unamenable to process. Additionally, as the dissent noted, the restriction would still cover works that have not yet been sold but have been imported without the permission of the copyright holder.⁴⁴ While these are narrower avenues through which the import restriction could work, they do not render it meaningless. Second, the majority’s resort to dicta to resolve the statutory ambiguity speaks to the complexity of the interplay between the import restriction and the first sale doctrine, but it is also a troubling tactic. The dicta in question involved a hypothetical posed by Justice Stevens in which he imagined U.S. and British publishers

³⁷ *Id.* at 221.

³⁸ *Id.* at 222.

³⁹ *See id.* at 226 (Murtha, J., dissenting).

⁴⁰ *Id.* at 225–26. Judge Murtha cited, among others, *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 987 (9th Cir. 2008), as interpreting “lawfully made under this title” to mean lawfully manufactured within U.S. borders, *John Wiley*, 654 F.3d at 226 (Murtha, J. dissenting), and he cited *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988), for the interpretation of the same clause as meaning the “lawfulness of its manufacture as a function of U.S. copyright law,” *John Wiley*, 654 F.3d at 226 (Murtha, J., dissenting).

⁴¹ *John Wiley*, 654 F.3d at 226 (Murtha, J., dissenting).

⁴² *See id.* at 228.

⁴³ *See id.* at 221 (majority opinion).

⁴⁴ *Id.* at 228 (Murtha, J., dissenting).

each producing lawful regional editions.⁴⁵ Justice Stevens suggested that in such a case, the British publisher would run afoul of the import restriction should it attempt to sell its copies in the United States.⁴⁶ This hypothetical, however, did not involve a set of facts fully parallel to those in *John Wiley*, in which there was a sale made abroad before import. Finally, the derivation of precedent from dicta is a questionable step in most cases,⁴⁷ but it seems especially so in the context of a circuit split with international trade implications.

Rather than relying on dicta to resolve this statutory ambiguity, the court should have turned to the policy considerations of the common law background as a gauge of congressional intent. A danger of interpreting the first sale doctrine as excluding application to goods manufactured abroad is that it condones the use of the Copyright Act's blunt framework as a primary regulatory tool of international price discrimination.⁴⁸ Had the court read the doctrine to apply in this case — foreclosing copyright infringement claims as a potential avenue for remedy — it would have channeled future litigation over parallel imports toward other means of enforcement, such as tortious interference and breach of contract claims. These alternatives lack copyright's level of certainty, but they could avoid the context insensitivity, over- and underinclusiveness, and unbalanced incentives endemic to copyright.

A breach of contract claim would stem either from a contractual relationship a party like Wiley has with its foreign distributor or manufacturer or from a license attached to the good itself that binds the end user.⁴⁹ Such licenses have often been discussed as mechanisms for enforcing price discrimination regimes,⁵⁰ and though they would be grounded in copyright, their use would have the effect of moving import disputes from the realm of copyright to breach of contract.⁵¹ Un-

⁴⁵ See *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 148 (1998).

⁴⁶ *Id.*

⁴⁷ See Judith M. Stinson, *Why Dicta Becomes Holding and Why It Matters*, 76 BROOK. L. REV. 219, 221 (2010) (“To the extent that courts treat dicta as holding, they are more likely to reach incorrect decisions, to exceed their judicial authority, and to generate illegitimate results.”).

⁴⁸ See Nancy T. Gallini & Aidan Hollis, *A Contractual Approach to the Gray Market*, 19 INT'L REV. L. & ECON. 1, 1 (1999) (“[T]rademark and copyright laws are inappropriate for enforcing restrictions against parallel imports . . .”).

⁴⁹ See, e.g., *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996) (enforcing license conditions that facilitate price discrimination in software sales).

⁵⁰ See, e.g., Wendy J. Gordon, *Intellectual Property as Price Discrimination: Implications for Contract*, 73 CHI.-KENT L. REV. 1367, 1378–86 (1998) (criticizing *ProCD* and expressing skepticism about the value of price discrimination); cf. Gallini & Hollis, *supra* note 48, at 16 (discussing licensing deals with distributors). But see Andrew B. Chen, Note, *Shopping the Gray Market: The Aftermath of the Supreme Court's Decision in Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 19 LOY. L.A. ENT. L.J. 573, 595–98 (1999) (discussing the failure of contract law to prevent the formation of gray markets).

⁵¹ See *ProCD*, 86 F.3d at 1453–55 (distinguishing rights created by copyright and rights created by contract).

der tortious interference, a manufacturer could bring a claim against a reseller like Kirtsaeng on the basis that the third party purchased the goods intended for exclusive distribution in a foreign market in knowing violation of an agreement between the domestic licensor and foreign manufacturer, causing measurable economic harm. These common law alternatives grant less certainty to the price discriminator, but they provide a more individualized form of regulation and an improvement over copyright's incentives to overprotect discrimination in the global market — something that is not protected at all domestically — under the Second Circuit's reading in *John Wiley*.

First, both types of common law claims would focus the judicial inquiry on factors more pertinent to global price discrimination regulation than the considerations of copyright infringement. Liability for copyright infringement is strict⁵² — ignoring the intent of and relationship between the parties. A successful tortious interference claim, by contrast, must show (1) that the defendant “intentionally and improperly interfere[d] with the performance of a contract” and (2) that the resulting breach caused the plaintiff damage.⁵³ The judicial inquiry, then, would focus on the actions of the defendant, his relationship with the plaintiff, and the actual harm caused by his actions (the value wrongfully captured from the international price differentials).⁵⁴ A breach of contract claim, in turn, would focus on any specific agreements made by the parties, either between the plaintiff and the overseas distributor or between the plaintiff and a license-bound reseller. The judicial inquiry would focus on the parties' intent to set up a particular pricing model and the defendant's actions in undermining it in breach of their agreement. As a regulatory framework, then, the common law avenues provide significant protection against parallel importers, albeit with higher evidentiary barriers than copyright. For instance, it should not have been difficult for Wiley to show intentional interference on the part of Kirtsaeng as well as clear economic damage, based on Wiley's practice of marking its textbooks with contractual language⁵⁵ and the substantial sum Kirtsaeng reaped from his sales.⁵⁶

⁵² See *Cartoon Network LP, LLLP v. CSC Holdings, Inc.*, 536 F.3d 121, 130 (2d Cir. 2008) (noting that, although “copyright is a strict liability statute,” something more must be found in cases addressing the automatic copying at issue in that case (quoting *Religious Tech. Ctr. v. Netcom On-Line Commc'n Servs., Inc.*, 907 F. Supp. 1361, 1370 (N.D. Cal. 1995))).

⁵³ RESTATEMENT (SECOND) OF TORTS § 766 (1977).

⁵⁴ The focus on intent would also avoid copyright's strict liability overbreadth problem. For example, an individual who buys a book while on vacation abroad and resells it upon returning home runs afoul of the Copyright Act under the court's interpretation. A process that considers the parties' intent, however, would be able to weed these defendants out.

⁵⁵ See *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834(DCP), 2009 WL 3364037, at *1 (S.D.N.Y. Oct. 19, 2009).

⁵⁶ Memorandum of Plaintiff in Support of Its Application for a Preliminary Injunction and an Order of Prejudgment Attachment at 8, *John Wiley*, No. 08 Civ. 7834(DCP) (S.D.N.Y. Oct. 19,

Second, in the context of international price discrimination, copyright is both under- and overinclusive. It is an underinclusive tool for price discrimination because it excludes manufacturers that do not produce goods that can be protected by copyright. For example, in *Omega S.A. v. Costco Wholesale Corp.*,⁵⁷ the watchmaker relied on the copyright-protected “Omega Globe Design” engraved on the underside of its products to make a claim of infringement based on the import restriction.⁵⁸ If Omega had omitted that copyright-protected design, its claim would have vanished, yet the merits of its global price discrimination scheme would remain the same. However, given copyright’s core purpose of monopolizing specific categories of intellectual products for societal benefit, *Omega* also demonstrates how copyright can be overinclusive. A watch — never intended to benefit from copyright’s strict liability and statutory damages scheme — is able to slip into protection through the formality of a decorative feature. This overinclusiveness has channeled price discrimination disputes that are not, at their core, legitimate copyright claims into copyright litigation. This simultaneous over- and underinclusiveness demonstrates that copyright is an inexact tool for generalized price-protection regulation.

Third, the remedies produced at common law have greater potential to reach more economically relevant damage levels than the Copyright Act’s statutory damages model. Damages for tortious interference take into account (1) “the pecuniary loss of the benefits of the contract,” (2) “consequential losses,” and (3) harm to the plaintiff’s reputation.⁵⁹ Additionally, the plaintiff may collect punitive damages when appropriate.⁶⁰ Damages for breach of contract vary depending on the nature of the agreement, but the effect would be to make the plaintiff whole and transfer any benefit of the breach. In contrast, § 504 of the Copyright Act provides the plaintiff two options for damages at his election: (1) actual damages and profits of the infringer⁶¹ or (2) statutory damages ranging from \$750 to \$150,000 per infringement.⁶² The second option creates a harmful incentive for the plaintiff to choose statutory damages, especially in cases where even the broadly defined harm caused by the parallel importer falls below \$750 per infringement. The result can be a substantial windfall to the copyright

2009), 2009 WL 1618433, at *13 (noting that Kirtsaeng had received \$1,199,483.13 from sales on PayPal).

⁵⁷ 541 F.3d 982 (9th Cir. 2008).

⁵⁸ *Id.* at 983–84.

⁵⁹ RESTATEMENT (SECOND) OF TORTS § 774A (1977).

⁶⁰ *Id.* § 774A cmt. a.

⁶¹ 17 U.S.C. § 504(a)(1) (2006 & Supp. IV 2011).

⁶² *Id.* § 504(a)(2), (c). While the statute allows courts to drop damages to \$200 per infringement if the defendant “was not aware and had no reason to be aware” that he was infringing, *id.* § 504(c)(2), such a finding would be unlikely for gray market participants.

holder instead of damages reflecting the actual economic benefit of the broken price discrimination scheme, supplemented by punitive damages when necessary.⁶³ For instance, Wiley would receive far more from Kirtsaeng than its lost profits from the undermined price discrimination scheme under copyright's statutory damages, but it would receive an award better approximating that amount under the common law approaches.

Relying on contract and tort actions to regulate global price discrimination is far from perfect and will at times fail to protect manufacturers as thoroughly as copyright. In some instances, plaintiffs will not clear the high bar of tortious interference claims,⁶⁴ and often there will be no privity of contract between the goods producer and the relevant reseller. Further, though copyright's strict liability regime is simpler than one in which the plaintiff must prove intent and damages, the efficiency of a strict regime must be balanced against the value of a more coherent regulatory mechanism. Finally, some parties may claim that the Copyright Act preempts any breach or interference claim, though such an approach is not likely to succeed.⁶⁵ Certainty provides the best justification for continued reliance on copyright. Yet with the uncertainty of the common law comes the broader economic benefit of an individualized approach that can modulate the liability, level of damages, and deterrence based on the particularities of each case.

John Wiley underscores the difficult position of courts faced with genuinely ambiguous statutory language. Instead of relying on dicta when traditional tools of statutory interpretation were exhausted, the court should have looked to the comparative policy implications of existing common law protections. In doing so, it could have shown greater deference to Congress's legislative choices against the background of common law structures. Given the remaining circuit split and the implications for international trade, it seems only a matter of time before this question reaches the Supreme Court once again.

⁶³ Cf. Pamela Samuelson & Tara Wheatland, *Statutory Damages in Copyright Law: A Remedy in Need of Reform*, 51 WM. & MARY L. REV. 439, 497 (2009) ("[T]he U.S. statutory damages regime has been applied in a manner that often results in arbitrary, inconsistent, unprincipled, and grossly excessive awards . . ."); John Tehranian, *The Emperor Has No Copyright: Registration, Cultural Hierarchy, and the Myth of American Copyright Militancy*, 24 BERKELEY TECH. L.J. 1399, 1407 (2009) ("Absent any proof of actual damages . . . plaintiffs can elect statutory damages that quickly create the possibility of a multi-million dollar judgment in their favor.")

⁶⁴ See, e.g., *H.L. Hayden Co. of N.Y. v. Siemens Med. Sys., Inc.*, 879 F.2d 1005, 1024 (2d Cir. 1989) (finding that the plaintiff had not established pecuniary injury).

⁶⁵ See, e.g., *Altera Corp. v. Clear Logic, Inc.*, 424 F.3d 1079, 1090 (9th Cir. 2005) (holding that copyright law does not preempt a claim for intentional interference with contract); *Davidson & Assocs. v. Jung*, 422 F.3d 630, 638 (8th Cir. 2005) (holding that copyright law's fair use doctrine does not preempt shrink-wrap license terms).