February 2, 2015

Honorable Robert W. Goodlatte
Chairman, Committee on the Judiciary
U.S. House of Representatives
Washington, D.C. 20515

Honorable John Conyers, Jr.
Ranking Member, Committee on the Judiciary
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Goodlatte and Ranking Member Conyers:

I am writing to express the views of the Section of Intellectual Property Law of the American Bar Association (“the Section”) regarding a legislative resolution of the conflict between two important provisions of U.S. copyright law following the 2013 decision of the Supreme Court of the United States in Kirtsaeng v. John Wiley. These views have not been submitted to the American Bar Association’s House of Delegates or Board of Governors, and should not be considered as views of the Association.

Section 602(a) of the Copyright Act provides that importation into the United States, without the authority of the owner of the copyright, of copyrighted works acquired outside the United States is an infringement of the owner’s exclusive right to distribute. However, section 109 of the Act provides that it is not infringing when the owner of a particular copyrighted item lawfully made under the Copyright Act sells or otherwise disposes of the item. Section 602(a) is commonly referred to as “the importation right,” and section 109 is known as “the first sale doctrine.”

The Supreme Court first addressed the intersection of these two provisions in its 1998 decision in Quality King Distributors, Inc. v. L’Anza Research International, Inc, where the Court held that in the case of works manufactured in the United States under the authority of the copyright owner and then sold to foreign distributors, the first sale doctrine precluded copyright owners from using § 602(a) to block their re-importation into the United States.
Following the decision in *Quality King*, two federal circuit courts of appeal reached a contrary result when the works in question were not made in the United States, but made abroad with the authority of the copyright owner. The Second and Ninth Circuits held that foreign made works failed to qualify under the first sale doctrine, reasoning that only goods made in the U.S. meet the statutory requirement “lawfully made under this title.”

Both these decisions were reviewed by the Supreme Court. The Ninth Circuit decision was affirmed by an equally divided court in *Costco Wholesale Corp. v. Omega S.A.*, 562 U.S. ___ (S. Ct. 2010), with Justice Kagan not participating. Three years later, with all Justices participating, the Court reversed the Second Circuit decision. *Kirstaeng v. John Wiley & Sons*, 133 S. Ct. 1351 (2013).

In reaching its decision the Court determined that language limiting the applicability of the first sale doctrine to works “lawfully made under this title” did not impose a geographical limitation, but under a literal interpretation meant “in accordance with” or “in compliance with.”

Given the ambiguity of the language of the statute, the Court’s decision is understandable. However, it produces results that run contrary to U.S. policy and practice regarding exhaustion of rights under copyright law, and does not well serve U.S. copyright interests and our nation’s copyright regime. Substantially diminishing the ability of copyright owners to prohibit the unauthorized importation of their works that were made abroad produces undesirable results for both copyright owners and their customers. Allowing works manufactured abroad to flow unrestricted into the U.S. makes it difficult to use price differentiation to serve economically disadvantaged markets, thus reducing the marketing opportunities for copyright owners and the availability of works at affordable prices to customers in these markets. Fewer opportunities for flexible pricing and marketing are also likely to result in more demand for pirated versions of the works in question.

The Section of Intellectual Property Law believes that the undesirable results likely to flow from the *Kirstaeng* decision can be avoided by a statutory amendment to clarify the interaction between the importation right and the first sale doctrine. As noted by Justice Kagan in her concurring opinion, the undesirable result of *Kirstaeng* does not flow from that decision alone, but from the combination of *Kirstaeng* and the ruling in *Quality King* that the first sale doctrine trumps the right of importation when the two converge. This need not be the result, and two doctrines can be made to effectively coexist. The Section of Intellectual Property Law recommends that this be accomplished by amendment of U.S. copyright law to provide that notwithstanding the limitations on exclusive rights to sell or otherwise dispose provided in § 109 of title 17, United States Code, importation into the United States without the authority of the copyright owner of a copy or phonorecord not previously sold in the US with the owner’s authority is, subject to the limitations in §602(a), an infringement of the exclusive right to distribute under § 106 (3).
A more detailed analysis of the judicial developments leading to this recommendation and explanation of the recommendation are contained in the attached report of the Task Force established by the Section to study the issues and report its recommendations.

Very truly yours,

Lisa A. Dunner  
Section Chair  
American Bar Association  
Section of Intellectual Property Law
Report of the ABA Section of Intellectual Property Law
Task Force on Copyright First Sale/Exhaustion

Following the March 2013 decision of the U.S. Supreme Court in *Kirtsaeng v. John Wiley & Sons*, 133 S. Ct. 1351, ABA Section of Intellectual Property Law Chair Joe Potenza established a Section task force to study issues regarding copyright first sale, importation rights and exhaustion of copyright and to identify any appropriate response to the decision, including legislative action.

For reasons explained herein, the Task Force recommends that the Section seek approval within the Association to recommend that Congress amend U.S. copyright law to provide that notwithstanding the limitations on exclusive rights to sell or otherwise dispose provided in § 109 of title 17, United States Code, importation into the United States without the authority of the copyright owner of a copy or phonorecord not previously sold in the U.S. with the owner’s authority is, subject to the limitations in §602(a), an infringement of the exclusive right to distribute under § 106 (3).

The controversy finds its genesis in two seemingly irreconcilable provisions in title 17. One provision grants the owner of a copyrighted work authority to prohibit the importation into the United States of goods embodying that work that were acquired abroad. Another provision, known as the first sale doctrine, permits the owner of a copy of a copyrighted work that is lawfully made under U.S. law to dispose of it without authorization by the copyright owner. Through a series of cases over the past 15 years, the U.S. Supreme Court has considered the interplay of these two provisions and has determined most recently, based on a close reading of the statutory language and also on a sparse legislative record, that the first sale doctrine trumps the copyright owner’s right to control importation. The evolution of this issue in the United States can be traced through three Supreme Court cases: *Quality King*,¹ *Costco*,² and *Kirtsaeng*.³

**Quality King**

In *Quality King*, the Supreme Court held unanimously that where copies of a copyrighted work (in that case, labels on hair care products) were manufactured in the United States under the authority of the copyright owner and then sold to foreign distributors, the first sale doctrine precluded copyright owners from using § 602(a) to block their re-importation into the United States. In the Court’s view, unlawful importation is an infringement of the rights under § 106 of the Copyright Act, and the § 106 rights are subject to the exceptions provided in the Act, including the first sale doctrine.

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² *Omega S.A. v. Costco Wholesale Corp.*, 562 U.S. ___ (9th Cir. 2010).

The Court held, accordingly, that after the first sale of a copyrighted item "lawfully made under this title," whether to a domestic or a foreign reseller, the new owner of that copy is entitled to resell it. 523 U.S. 145. In other words, the first sale doctrine trumps the importation right with respect to such copies. The Court concluded that this rule should apply to goods "lawfully made under this title" even if the first sale took place abroad, and that such protection does not require extraterritorial application of the U.S. Copyright Act. Id. n. 14.

The parties and amici in their papers debated at some length the implications of the Quality King case for gray market goods and parallel importation, but the Court dismissed these arguments, stating that "... whether or not we think it would be wise policy to provide statutory protection for such price discrimination is not a matter that is relevant to our duty to interpret the text of the Copyright Act." Id. at 153.

In her concurring opinion, Justice Ginsburg emphasized that the case involved goods manufactured in the United States, stating "I join the Court’s opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad." Id. at 154.

Costco

In Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2008), the copyrighted work at issue was a registered design that Omega had placed on the underside of its watches. In this case, the copyrighted work was incorporated in watches which were manufactured abroad and authorized for distribution abroad. Third parties purchased the watches from foreign distributors and sold them to a New York distributor that in turn sold the watches to Costco. When Costco sold them in the United States, Omega filed suit claiming that Costco had acquired and sold the watches in violation of 17 U.S.C. § 106(3) and 602(a). As its defense, Costco claimed that under the first sale doctrine, Omega’s initial sale of the watches precluded any action with respect to those watches pursuant to § 602(a).

Ninth Circuit precedent developed prior to Quality King held that the words “lawfully made under this title” in § 109(a) meant that the first sale doctrine provided protection only to copies legally made and sold in the United States.5 541 F.3d at 986. There were two principal rationales for this precedent: (1) applying the first sale doctrine to copies made and sold outside the United States “would impermissibly extend the Copyright Act extraterritorially”; and (2) application of the first sale doctrine to foreign sales would

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4 See, e.g., BMG Music v. Perez, 952 F.2d 318 (9th Cir. 1991). In Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F. 3d 477 (9th Cir. 1994), the Ninth Circuit created an exception to BMG Music because it appeared to give greater protection to foreign-made copies than their domestically-made counterparts, holding that the first sale doctrine “can apply to copies not made in the United States so long as an authorized first sale occurs here.” 541 F.3d at 986. The court held in Costco that it was unnecessary to decide whether this exception survived Quality King because there was no dispute that the copyrighted works had been sold in the U.S. without Omega’s authority. Id. at 990.

5 See Costco, 541 F.3d at 990.
render § 602(a) largely ineffective in preventing the unauthorized importation of nonpiratical copies. Id.

The Ninth Circuit held that Quality King’s rejection of the “extraterritoriality” argument made there was reconcilable with the Ninth Circuit’s earlier cases. The court emphasized that the Costco case, unlike Quality King, involved foreign-made copies. It concluded that “the application of § 109(a) to foreign-made copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not.” Id. at 988. It went on to explain that to characterize the making of copies overseas as lawful under Title 17, “would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States, notwithstanding the absence of a clear expression of congressional intent in favor of extraterritoriality.” Id. It concluded:

In short, copies covered by the phrase “lawfully made under [Title 17]” in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright. Something more is required. To us, that “something” is the making of the copies, within the United States, where the copyright Act applies.

Id. (emphasis in original).

The Ninth Circuit’s decision in the Costco case was appealed to the Supreme Court, where an equally divided Court resulted in the Ninth Circuit’s decision standing, until this past year when the Court issued its ruling in Kirtsaeng.

Kirtsaeng

In the Kirtsaeng case, textbook publisher John Wiley & Sons, Inc. (“Wiley”), through its wholly owned foreign subsidiary, published English language textbooks for distribution outside of the United States. Wiley also published English language versions of these books in the United States for distribution in the United States. At the request of Petitioner Supap Kirtsaeng, his friends and family in Thailand purchased copies of Wiley books in Thailand at significantly lower prices and shipped them to Petitioner in the United States where he then sold them.

Wiley filed suit claiming that Petitioner’s actions were in violation of its exclusive distribution rights outlined in 17 U.S.C. §106(3) 5 and the importation rights outlined in 17 U.S.C. §602(a), 6 which allows the owner of a copyrighted work to prohibit

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5 17 U.S.C. §106(3) – “... the owner of copyright under this title has the exclusive right to do or authorize … distribut[ion] [of] copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending.”

6 17 U.S.C. §602 - Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under § 106, actionable under § 501.
importation of copies of that work if they were acquired abroad. Petitioner countered that Wiley’s exclusive distribution right, and therefore the importation right, was limited by the first sale doctrine. See 17 U.S.C. §109. The District Court held in favor of Wiley, a decision which was subsequently affirmed by a split panel of the Second Circuit.

Kirtsaeng sought, and obtained, review of the Second Circuit’s decision by the Supreme Court, which ultimately agreed with his arguments and ruled accordingly.

In reaching its decision the Court determined that language limiting the applicability of the first sale doctrine to works “lawfully made under this title” did not impose a geographical limitation, but under a literal interpretation meant “in accordance with” or “in compliance with”, 133 S. Ct. 1351,1358 (2013). The statute was thus interpreted as if the words “under this statute” did not meaningfully qualify the words “lawfully made,” because a copy lawfully made anywhere in the world was considered lawfully made under the U.S. Copyright Act. The Court also noted, that a strict application of first sale banning all unauthorized importations of copies lawfully made in other jurisdictions might cause significant problems for certain categories of users in specific cases, an issue which is discussed more fully below.

The Court also relied on the historical and statutory context of §109 in reaching this conclusion by noting previous iterations of the first sale doctrine did not reference a geographical limitation, and that the current version of U.S. copyright law phased out the manufacturing clause. Id. at 1361. The Court also gave credence to the claims of libraries, used-book dealers, technology companies, consumer-goods retailers, and museums that “a geographical interpretation would fail to further basic constitutional copyright objectives…” Id. at 1364.

In the end, the Court concluded that Petitioner’s “nongeographical interpretation of the words ‘lawfully made under this title’ [were] more persuasive.” 133 S.Ct. at 1371. In her Concurrence, Justice Kagan agreed the Court’s opinion “substantially narrows § 602(a)” but pointed to Congress to fix the problem. Id at 1372.

Subsequent Decisions

Cases decided subsequent to Kirtsaeng, have reflected a strict reading of that decision. See Pearson Education v. Kumar,523 Fed. Appx. 16 (Cir. 2 2013), (vacating summary judgment and remanding with direction to enter judgment for defendant under similar facts); TechnoMarine SA v. Jacob Time, Inc. 2013 WL 5231471,*7 (S.D.N.Y. 2013) (“defendant cannot bear the burden of tracing the chain of title where no record evidence—none—indicates that the [works] at issue were anything other than genuine”); and AFL Telecommunicatios LLC v. SurplusEQ.com Inc., ____ F.Supp.2d ____ , 2013

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7 17 U.S.C. §109 (a)“Notwithstanding the provisions of 106(3), the owner of a particular copy or phonorecord lawfully made under this title, … is entitled, without the authority of the copyright owners, to sell or otherwise dispose of the possession of that copy or phonorecord.” (emphasis added)
WL 2211629, *10 (D. AZ. 2013), (“... authorization of that initial foreign sale triggered the first sale doctrine, which qualified its otherwise ‘exclusive rights’ ‘to distribute copies ... of [a] copyrighted work.’”) But see Rosebud Entertainment, LLC v. Professional Laminating LLC, 2013 WL 5420977, LLC, ___F.Supp.2d _____, 2013WL 3873276, (D.Md. 2013), (laminating magazine covers constituted a derivative work and therefore the first sale doctrine did not apply); and Capitol Records v. RiDigi, 934 F.Supp. 2d 640 (S.D.N.Y. 2013) (licensed products are not subject to the first sale doctrine); and FireSabre Consulting LLC v. Sheehy, 2013 WL 5420977(S.D.N.Y.), (genuine issue of material fact exists as to whether the copyrighted material was transferred via a gift, or whether it was licensed, which would take it out of the first sale doctrine.) See also pending cases Kornrumpf v. Adobe Systems Inc., (No. 12-16616 CA9) (digital first sale); and The Sam Francis Foundation v. Christies (No.12-56067CA9) (whether the California Resale Royalty Act is preempted by the first sale doctrine.)

Policy Considerations for National Treatment of the Copyright First Sale Doctrine

As Justice Ginsberg pointed out in her dissent in the *Kirtsaeng* case, the United States has historically favored national treatment in international trade negotiations. *Id.* at 1383. The United States has steadfastly taken the position in international trade negotiations that domestic copyright owners should have the right to prevent the unauthorized importation of copies of their work sold abroad. It has advanced this position in multilateral trade negotiations, including the negotiations on the TRIPS Agreement. And it has taken a dim view of our trading partners’ adoption of legislation incorporating elements of international exhaustion. The United States is presently engaged in negotiation of two significant international trade agreements – the Trans-Pacific Partnership negotiations and the Transatlantic Trade and Investment Partnership negotiations. The subject of national vs. international treatment of exhaustion is a topic of discussion in both negotiations and, although there is some suggestion that the United States Trade Representative continues to favor national treatment, at present it does not appear that the USTR has taken an official position on the subject in either negotiation.

1. National exhaustion makes it possible to use price discrimination to serve economically disadvantaged markets; that is, it makes it possible to set prices in each market according to what that market can afford. Without national exhaustion, the risk of diversion (this is, re-exportation from low-priced markets to higher-priced markets may well outweigh the diminution in profits from the loss of sales into those low-priced markets, in which event access to the same goods in the same form at a price that is affordable in the low-priced market may be withdrawn.

2. The ability to set prices on a market-by-market basis allows the works to be offered at a price that that market can bear and lessens the demand for pirated versions of the works in those markets.

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8 The United States is presently engaged in negotiation of two significant international trade agreements – the Trans-Pacific Partnership negotiations and the Transatlantic Trade and Investment Partnership negotiations. The subject of national vs. international treatment of exhaustion is a topic of discussion in both negotiations and, although there is some suggestion that the United States Trade Representative continues to favor national treatment, at present it does not appear that the USTR has taken an official position on the subject in either negotiation.
3. Under an international exhaustion system the inability to offer works that are market differentiated is likely to drive rights holders to business models based on licenses rather than sales of the works.

4. International exhaustion applied to any authorized first sale of a copyright work anywhere in the world arguably conflicts with policies favoring territoriality of laws and alienability of personal property and undermines the value of U.S. copyrights. The United States is without authority to legislate and adjudicate outside its territorial boundaries, subject to such exceptions as may be agreed by treaty. Thus, application of the U.S. Copyright Act is generally limited to activities in the US -- e.g., ownership of U.S. copyrights establishes exclusive rights to copy, to distribute, to publicly display or perform the subject work in the United States, but not elsewhere.

5. Copies of works produced specifically for non-U.S. markets may be produced to conform to local manufacturing standards and consumer expectations which are different from those in the United States and which may result in works that do not conform to U.S. consumer expectations. If copyright owners are not empowered to restrict re-importation of copies intended only for distribution outside the United States, U.S. consumers may be duped into purchase of copies of works that do not conform to their reasonable expectations.

6. International approach to first sale might frustrate the ability of an author to exercise effectively his/her statutory right of termination under US law (inasmuch as only the grant of US rights can be terminated and any remaining grant of international rights, without import control, might result in the terminated publisher’s displacement of domestic sales by the author).

Publishers’ Response to the Kirtsaeng Decision

The publishing industry quickly responded to the Kirtsaeng decision. Members of the task force canvassed more than half a dozen large publishers in the educational, scholarly, and professional publishing sectors in the months following announcement of the Kirtsaeng decision and each of them reported that they had adopted a combination of strategies, including some mix of the following:

a) Some have stopped selling certain titles in certain markets that pose a higher risk of diversion;

b) Some have migrated international business from print books to e-books (the latter are still subject to re-distribution control through end-user licenses and as a likely consequence of the ReDigi decision,⁹ but they require an installed

⁹In the ReDigi decision __ F. Supp. 2d __, No. 12 Civ. 95(RJS), 2013 WL 1286134 (S.D.N.Y. Mar. 30, 2013), the court considered the "lawfully made under this title" requirement in section 109(a) and found that a phonorecord purchased and downloaded from iTunes could not be resold because it was 'impossible' for the purchaser to resell her "particular" phonorecord and concluded that the first sale defense is limited to "material items" (and because the actual mechanics of transfer involved exercise of the reproduction right rather than the distribution right). Unless sold with the device, a work first purchased by download to a device is thus not entitled to "first sale" treatment and cannot be resold. The impossibility of transferring the purchased copy apart from the device was not contemplated when 109(a) was enacted -- at that time such a conclusion would have required transfer of the record player with the vinyl record. Autodesk and
base of devices for viewing that is not well developed in the countries most in need of low cost copies);
c) Some have reduced price differentiation (i.e., they are now offering much smaller discounts on sales in certain markets to reduce the risk of diversion);
d) Some are differentiating product (international editions are being redesigned to include different or re-organized content, making them less useful as substitutes for their US counterparts); this increases production costs and may not be feasible where margins are the thinnest; and,
e) Some are imposing strict and often burdensome requirements on their international distributors (requiring, for example, that a distributor provide advance proof of a bona fide adoption before the distributor’s order will be filled and/or requiring distributors to enter written agreements prohibiting them from reselling books to arbitrageurs or suspected arbitrageurs).

Other similar cases make much of the difference between software acquired by sale or license in determining whether a first sale has occurred. In these cases, sale and transfer of title to a copy is not sufficient to establish first sale if the vendor calls it a license.