

USA: No First Sale Doctrine For Works of Authorship Made Abroad

17 U.S.C. §§ 109(a), 602(a)(1)

Editor's Headnotes

1. The U.S. Copyright Act's right-to-control-imports provision (17 U.S.C. § 602(a)(1)) trumps the first sale right for copyrighted goods manufactured abroad – and for good measure does away entirely with the first sale doctrine of § 109(a) for foreign-made copies of works of authorship.

2. Copies manufactured outside the U.S. are not “made under this title,” hence owning such a copy bestows no right to resell or distribute.

Court of Appeals for the 2nd Circuit, decision of 15 August 2011 by *Cabranes* and *Katzmann* with *Murtha* dissenting

John Wiley & Sons, Inc. v. Kirtsaeng [Docket no. 09-4896-cv]

Summary & Comment

Facts

Like other manufacturers who price differentially in different markets, publisher John Wiley & Sons designated certain editions of its texts for sale only outside the U.S. and printed them overseas. Friends and family members of *Kirtsaeng* bought copies in Thailand and shipped them to him in the United States, where he sold them on eBay. Wiley brought an action claiming that *Kirtsaeng* violated § 602(a)(1), which provides: “Importation into the United States, without the authority of the owner of copyright ..., 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].”

Kirtsaeng asserted that the first sale doctrine shielded him from liability.

Held

A divided panel of the Second Circuit held that the U.S. Copyright Act's right-to-control-imports provision (17 U.S.C. § 602(a)(1)) trumps the first sale right for copyrighted goods manufactured abroad – and for good measure does away entirely with the first sale doctrine of § 109(a) for foreign-made copies of works of authorship.

Under § 109(a) the owners of copies “lawfully made under this title” may sell or distribute their legally acquired copies without the copyright holder's permission. The *Kirtsaeng* majority held, however, that copies manufactured outside the U.S. are not “made under this title,” hence owning such a copy bestows no right to resell or distribute.

The Second Circuit noted the tension between § 109(a) and § 602(a)(1), and framed the issue broadly, as whether the first sale section can apply at all to copies manufactured abroad. The court found the wording of § 109(a) to be ambiguous, and sought an interpretation that comported with the purpose of § 602(a)(1) and with the Supreme Court's decision in *Quality King Distributors, Inc. v. Lanza Research International, Inc.*, 523 U.S. 135 (1998). In that case, the court held that the first sale defense does apply to importation claims concerning “round trip” goods – those made-in-the-U.S. and exported by the copyright holder, then sold abroad, sent back into the United States and re-sold by unauthorized third parties.

The main issue posed by *Kirtsaeng* was whether *Quality King*'s conclusion that first sale protected unauthorized imports governs *foreign-made* copies, as well as those made in the U.S. Wiley argued that § 109(a) requires that the copy of the work at issue be “lawfully made under this title,” and that copies manufactured overseas were not “made under this title.”

The *Kirtsaeng* majority noted that § 602(a)(1) is intended to allow manufacturers to control the circumstances in which copies of their works that are manufactured abroad can be brought into the U.S. The court reasoned that the protection to be afforded by the provision would have no force in most cases if the first sale doctrine were allowed as an exception to § 602(a)(1). The court also deemed its interpretation consistent with dicta in *Quality King*, and held that the first sale doctrine did not apply to copies manufactured abroad.

The Second Circuit could have framed and decided the issue more narrowly. The court could simply have decided that § 602(a)(1) is controlling, not § 109(a), that the first sale doctrine is not a defense to an unauthorized and unlawful importation, but remains a defense to the resale of copies imported by the copyright holder itself. Instead the Second Circuit limited the scope of § 109(a), including its impact when there has been *no* violation of § 602(a)(1) – that is, when the works at issue have been imported by or with the copyright holder's consent.

The *Kirtsaeng* majority did not address or suggest any policy reason why Congress might have intended that the first sale doctrine not apply to goods manufactured outside the U.S. And although the court expressly acknowledged the force of *Kirtsaeng*'s argument that its ruling would provide an incentive for outsourcing production and could result in the circumvention of the first sale right, it deemed this consideration irrelevant to its analysis.

In his careful dissent, Judge *Murtha* focused on a close textual analysis, on the history of the first sale doctrine, and on the policies underlying it, and reached the opposite conclusion in a set of arguments that the majority did not address.

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Comments

The U.S. Court of Appeals decision in *John Wiley & Sons, Inc. v. Kirtsaeng*, 2011 WL 3560003 (2nd Cir. Aug. 15, 2011), represents the latest chapter of a long-running saga that could be titled, Gray Market Goods Try to Enter the Homeland.

1. Range of Consequences

If followed, *Kirtsaeng* would alter established law and practice on resale of new and used works of authorship, allowing copyright holders to control or prohibit entirely unauthorized sales of books, electronic products and any other works of authorship (or goods containing them) that are made overseas.

While it is not clear which manufacturers would choose to exercise the power that *Kirtsaeng* affirms, an extraordinary range of products could fall within its ruling. In addition to obvious works of authorship, like books, musical recordings, films and computer software, myriad products include works protected by copyright. Virtually all electronic goods include integrated circuits containing copyright-protected software or firmware; so do microwave ovens, washing machines, telephones, blood pressure monitors, “intelligent” electric irons, automobiles and trucks, and probably most machinery. Other products, such as clothing, sheets and pillowcases, kitchen canisters and dishware, are commonly decorated with copyright-protected designs and hence within the resale control of the “copyright holder” if made overseas. Yet other goods obviously unprotected by copyright – like the shampoo and hair products at issue in *Quality King* – often bear labels or are sold inside of packaging with copyrightable designs or graphics.

The stocks of some shotguns are decorated with protectable graphics. Likewise, some coffins. A bicycle itself probably includes nothing protected as a work of authorship, but if the box containing the bike includes a maintenance manual, it could be an infringement to import the box. A simple made-in-China picture frame may not be protected by copyright, but the sample photo that is typically in the frame undoubtedly is. For that matter, a watermelon grown in Central America usually bears a small sticker label at the supermarket; including a copyright-protected graphic is not unimaginable.

You get the picture. Nearly everything that is sold does or can include a work of authorship if it is not one itself. Whether most manufacturers would want to exercise control over resale is not clear. But most goods sold in the United States are imported or could be. *Kirtsaeng* opens a new world of possibly unintended consequences.

At this writing, *Kirtsaeng*'s petition for rehearing en banc (filed Aug. 29) is pending, and his counsel has advised they will likely file for certiorari should rehearing be denied. *Kirtsaeng*'s broad holding conflicts with the reasoning of a Ninth Circuit decision on the issue – one that the Supreme Court reviewed only last year, but affirmed on a four-four split – so it seems almost inevitable that these issues will again be presented to the high court.

2. Contrasting Ninth Circuit Analysis and Possibility of Supreme Court Review

As the Second Circuit noted, these issues had been addressed by the Ninth Circuit. In *Omega S.A. v. Costco*

Wholesale Corp., 541 F.3d 982 (9th Cir. 2008), affirmed by 4-4 vote, 131 S. Ct. 565 (2010), the Ninth Circuit held (as does the Second Circuit in *Kirtsaeng*) that § 109(a) does not protect the unauthorized importer of foreign-made copies. But – unlike *Kirtsaeng* – the Ninth Circuit has opined that the first sale doctrine “can apply to copies not made in the United States so long as an authorized [importation and] first sale occurs here.” *Omega*, at 986 (“to give greater copyright protection to foreign-made copies than to their domestically made counterparts ... ‘would be untenable’”); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n. 8 (9th Cir. 1994).

It is not clear whether the Supreme Court would perceive the differences in analysis by the two courts as a “circuit split” on the importation right, since the Second and Ninth Circuits both concluded that § 602(a)(1) bars unauthorized importation of foreign-made copies and neither allowed § 109(a) as a defense. But *Kirtsaeng*'s different path to that conclusion would have profound implications for first sale rights and, if widely accepted or affirmed by the Supreme Court, could alter the terms of sale of a wide range of goods.

3. Shading the Fair Use Factors

We note that the unauthorized importation of a copyrighted shampoo label and some of the other “tail-wags-dog” instances might well be subject to a fair use defense; that defense does not appear to have been discussed in the cases addressing § 602(a)(1). Under U.S. copyright law, “fair use” is determined by more flexible and indefinite standards than “fair dealing” under U.K. or Commonwealth law, and is far less predictable.

Fair use is codified in 17 U.S.C. § 107, which sets forth four factors that courts consider in determining whether a use is fair. Below, we indicate the arguments that each side might make on this defense.

a) Arguments in Favor of Fair Use:

Factor one, “the purpose and character of the [claimed fair] use,” favors fair use because the use of an unauthorized importer is different and “transformative”: the original purposes of designs on the label were aesthetic and/or informational, to convey a mood effective in marketing or data regarding a product; the purpose in the context of importation is simply to accompany the underlying products and to confirm, for future purchasers, that they represent authentic goods.

Factor two, “the nature of the copyrighted work,” favors fair use because labels are typically at the low end of the creativity continuum, as works intended merely to identify and promote a product.

Factor three, “the amount and substantiality of the portion used in relation to the copyrighted work as a whole,” likely tilts against fair use, because the entirety of the “work” has been taken. However, it could be argued that this factor should not weigh heavily against fair use because “using” the entire label is necessary for the allegedly transformative purpose, and because the entirety of the label represents only a small, protectable part of a de facto larger “work” that is mostly unprotectable under copyright (e.g., a bottle of shampoo).

Factor four, “the effect of the use upon the potential market for or value of the copyrighted work,” would be

ISP Liability for Access to Copyright Infringing Website

argued to tilt in favor of fair use, because there is no distinct market for labels as works of authorship (as opposed to the underlying accompanying goods, which are not protected by copyright law), and because the importation of the labels does not impair the value of the copyrighted work itself (as opposed to the value of the unprotected goods).

b) Arguments Against Fair Use

The holders of the copyrights in the labels would argue *against* a finding of fair use as follows:

First, the use is for a commercial purpose, and the label plays precisely the same, non-transformative role when accompanying the goods for unauthorized importation and resale as in the original use – identifying and communicating the nature of the product, and promoting and encouraging sales of the product.

Second, although the purpose may be “merely commercial,” the labels themselves commonly embody highly creative graphic elements or designs.

Third, as mentioned above, the entirety of the works are taken, militating against fair use. That unprotected goods accompany the work would be argued to be irrelevant to the copyright analysis, just as it would be irrelevant that a protectable sculptural work is used as the base for a lamp.

Fourth, since the value of the copyrighted work resides, in the case of a label, precisely in its usefulness as a marketing tool (just as the value of aesthetic or educational work reside in their artistic or educational effectiveness), the unauthorized use of a copyrighted label could be said to impair the value of the work by undermining its economic function.

4. Unpredictable Flexibility

We will not judge between these two positions; the arguments sketched above illustrate the unpredictable nature of fair use analysis under American law. It cannot be said with a high level of confidence that a court could avoid the first sale issue by finding the importation of unprotected goods accompanied by copyrighted labels or packaging or incidentally accompanying works of authorship represents fair use.

Mitchell Zimmerman, Mountain View, California, who kindly formulated the editor's headnotes. Further information about the author at p. 160.

UK: ISP Liability for Access to Copyright Infringing Website

CDPA 1988 Sec. 97A

Editor's Headnotes

1. To justify the making of an injunctive order requiring that an ISP take steps to block access to a specified web site, it must be shown that the ISP had “actual knowledge” of the existence of illegal activities.

2. It is sufficient to establish “actual knowledge” to show that a court has established that users and oper-

ators of the website infringe copyright on a large scale and that the ISP has been informed that that the users of the website include subscribers to its own service.

3. Such determination of “actual knowledge” does not open floodgates for other rightholders to have the ISP's users' access to allegedly infringing websites blocked because each rightholder has to obtain a proper court order which will require considerable effort and expenditure.

High Court of Justice, Chancery Division, decision of 28 July 2011 by Justice *Arnold*

Twentieth Century Film Corporation and Others v. BT [(2011) EWHC 1981 (Ch); Case No. HC10C04385]

Summary & Comment

Facts

The site Newzbin is no stranger to the courts. Operating as a form of on-line members' club with users being required to pay subscription fees in return for access it provides information and technology which could (and by all the evidence is) used to make unlawful copies of copyright protected works. In 2010 a High Court ruling held that it was liable jointly with users for their acts of copyright infringement on the basis that the site owners knew full well what activities were going on and turned blind eyes towards this.¹

This initial High Court ruling effectively put Newzbin out of business. Web sites are not geographically dependent however and in a short period of time Newzbin2 was established and commenced operations from a base in Sweden. The present proceedings concerned the request by a range of copyright owners that the High Court grant an injunction ordering BT, which is currently the UK's largest Internet Service Provider, to use the same forms of filters which it already applied to block access to sites identified as containing child pornography to block access from the UK to Newzbin2.

As in a number of cases, much attention focused on the E-Commerce Directive and the immunities provided to Information Society Service Providers. These are based largely on the issue whether a service provider can be shown to have “actual knowledge” of the use of its facilities for unlawful purposes. Three questions were identified as being of critical importance:

- ▷ First, what must the service provider have “actual knowledge” of.
- ▷ Secondly, in what manner may a service provider be given “actual knowledge” of something which it did not know before?
- ▷ Thirdly, if some actual knowledge is proved, what is the scope of the injunction that may be granted against the service provider?

Held

The High Court of Justice held that BT's knowledge of all the facts and matters contained in *Twentieth Century*

¹ See at <http://www.bailii.org/ew/cases/EWHC/Ch/2010/608.html>.