Black and White: A Path Toward Clarity for Copyright Law and Gray Market Goods

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A PATH TOWARD CLARITY FOR COPYRIGHT LAW AND GRAY MARKET GOODS

I. INTRODUCTION

United States copyright holders possess a broad array of exclusive rights, including the ability to make copies of their work, control the distribution of those copies, and to block the importation of unauthorized copies of their work. However, certain rights bestowed upon copyright holders are extinguished once an authorized copy of their work has been sold. This principle, known as the “first sale doctrine,” serves to balance the ability of copyright holders to seek profit from their creative efforts against the public’s ability to freely trade in goods.

Determining the scope of the first sale doctrine is key to understanding whether copyright law can be used to control so-called gray market goods. The central issue is whether the first sale doctrine applies to copyrighted goods manufactured abroad. If the first sale doctrine applies to such goods, then copyright holders are unable to control the distribution and importation of their works once they are subject to a lawful sale. On the other hand, if the first sale doctrine does not apply to these foreign-manufactured goods, then any unauthorized importation or distribution may be copyright infringement, even if the goods have changed hands several times. The answer to this question

2. 17 U.S.C. § 109(a) (2006) (“[T]he owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, 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 or phonorecord.”).
4. Id. at 1097.
involves core policy judgments regarding the purpose of the Copyright Act and has broad economic implications affecting domestic companies, consumers, and the American workforce.

In general, gray market goods are goods that are originally intended for sale in one market, but end up being sold in a different market. These goods are created when third parties, not the copyright holder’s authorized distributor, purchase domestic or foreign-manufactured goods abroad and import them into the United States for resale. Gray market goods become problematic for United States copyright holders when they are imported and compete with the copyright holder’s products that are sold domestically at higher prices.

While distressing to holders of valuable copyrights, such as large media companies, imported goods play a significant role in the United States economy. Those who engage in the trade of potential gray market goods include individual Americans, small businesses, and Internet marketplaces for goods, such as eBay. Additionally, many domestic consumers benefit from the trade of gray market goods, namely by gaining access to goods and creative content that may not otherwise be obtainable at lower prices.

In an attempt to control and suppress the gray market, United States companies previously turned to trademark and contract law, with unsatisfactory results. Frustrated, the focus turned toward

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copyright law and the uncertain scope of the first sale doctrine as a mechanism to control the unwanted of importation and sale of goods.\textsuperscript{10}

In response, courts have provided conflicting guidance. The first issue addressed by courts—that of copyrighted goods manufactured domestically, exported, and then re-imported—was discussed by the Third Circuit in \textit{Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.},\textsuperscript{11} and by the Supreme Court in \textit{Quality King Distributors, Inc. v. L'anza Research International, Inc.}\textsuperscript{12} In \textit{Sebastian}, the Third Circuit issued a broad holding, stating that the first sale doctrine applies in all sales not limited by contract, no matter where the sales take place or where the goods are manufactured.\textsuperscript{13} This broad holding gives copyright holders little recourse in controlling unwanted importation or distribution of their goods. Ten years later, the Supreme Court in \textit{Quality King} issued a more narrow ruling, stating that the first sale doctrine applies to the importation right, but limited its holding to domestically-manufactured goods.\textsuperscript{14} This partially affirmed \textit{Sebastian}, but the question regarding foreign-manufactured goods remained open outside the Third Circuit.

The issue of copyrighted goods manufactured domestically, exported, and then re-imported was addressed by the Ninth Circuit in \textit{Omega S.A. v. Costco Wholesale Corp.}\textsuperscript{15} and most recently by the Second Circuit in \textit{John Wiley & Sons, Inc. v. Kirtsaeng}.\textsuperscript{16} In \textit{Omega}, the Ninth Circuit held that the first sale doctrine did not apply to foreign manufactured goods, but made an exception once copyrighted works have been imported and sold domestically with the permission of the copyright holder.\textsuperscript{17} This holding gave copyright owners some recourse in limiting the importation of gray

\footnotesize{(regarding the shortcomings and judicial failures of companies attempting to control gray market goods using trademark and contract law).}

\textsuperscript{10} \textit{Id.} See also \textit{Hintz, supra} note 5, at 1188.
\textsuperscript{11} \textit{Sebastian}, 845 F.2d at 1094.
\textsuperscript{12} \textit{Quality King}, 523 U.S. at 138.
\textsuperscript{13} \textit{Sebastian}, 845 F.2d at 1099.
\textsuperscript{14} \textit{Quality King}, 523 U.S. at 138.
\textsuperscript{15} \textit{Omega}, 541 F.3d at 987.
\textsuperscript{16} \textit{Wiley}, 654 F.3d at 212.
\textsuperscript{17} \textit{Omega}, 541 F.3d at 990.
market goods that have been manufactured abroad, as such unauthorized actions would be infringement of the Copyright Act. The Second Circuit’s *Wiley* decision also found that the first sale doctrine does not apply to foreign-manufactured goods, but did not include *Omega*’s exception for goods that had been imported and sold domestically with the copyright owner’s permission. This holding would give copyright holders broad control of the importation and distribution of their works. Under *Wiley*, any unauthorized importation or sale of a copy manufactured abroad without the consent of the copyright holder would be considered an infringement of the Copyright Act; this would effectively give copyright holders perpetual control over copies of their work that were manufactured abroad. As of this writing, the Supreme Court granted the defendant-appellant’s petition for certiorari in *Wiley* and oral arguments were heard on October 29, 2012, presenting an opportunity for the issue to be definitively decided.

Disarray among the courts is attributable to the ambiguous meaning of the Copyright Act, particularly the phase “lawfully made under this title” as it appears in § 109(a). While courts have been consistent in holding that the importation right of § 602(a) is subject to § 109(a), division occurs in interpreting whether § 109(a)’s phrase “lawfully made under this title” means “made in the United States with the copyright owner’s consent” or merely “made with the copyright owner’s consent,” regardless of place of manufacture. The *Sebastian* and *Quality King* opinions discussed the phrase, but did not clearly define its meaning. However, *Omega* and *Wiley* both defined the phrase to mean “made in the United States with the permission of the copyright holder.”

18. *Wiley*, 654 F.3d at 221.

19. See *Sebastian*, 845 F.2d at 1098 n.1 (“We confess some uneasiness with this construction of ‘lawfully made’ because it does not fit comfortably within the scheme of the Copyright Act. When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern.”). In dicta, the *Quality King* Court stated “presumably only those made by the publisher of the U.S. edition would be ‘lawfully made under this title’ within the meaning of § 109(a).” *Quality King*, 523 U.S. at 148.

20. *Omega*, 541 F.3d at 988 (“In short, copies covered by the phrase “lawfully made under [Title 17]“ in § 109(a) are not simply those which are
Part II will trace the evolution of the first sale doctrine and how it has been interpreted in conjunction with the importation right in the Sebastian, Quality King, Omega and Wiley decisions. Part III will first examine the text of the Copyright Act and its legislative history, demonstrating that both are unclear in defining the meaning and interaction between § 109(a) and § 602(a). Second, with no clear directive to be found in the text or its legislative history, Part III will present the policy arguments in favor of reading the phrase “lawfully made under this title” to mean “made with the consent of the copyright holder” without any geographic qualifications. Finally, Part IV will present two options for resolving the current uncertainty to comport with the goals of the Copyright Act and broader United States economic policy. First, the Supreme Court should find in favor of the petitioners in Wiley and hold that the first sale doctrine applies to all copyrighted goods manufactured with the consent of the copyright holder, regardless of place of manufacture. Alternatively, if the Supreme Court affirms the Wiley court’s decision, Congress should promptly amend the Copyright Act to clearly state that the importation right is subject to the first sale doctrine, regardless of place of manufacture.

II. LEGISLATIVE AND JUDICIAL BACKGROUND

A. Exclusive Rights Under the Copyright Act

Among the rights enjoyed by copyright holders is the exclusive right to make and distribute copies of their work. This right is codified in the Copyright Act in § 106(3) which reads “[s]ubject to sections 107 through 122, the owner of copyright under this title has the exclusive rights... to distribute copies... of the copyrighted work to the public by sale or other transfer of 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.”; Wiley, 654 F.3d at 222 (“In sum, we hold that the phrase ‘lawfully made under this Title’ in § 109(a) refers specifically and exclusively to copies that are made in territories in which the Copyright Act is law, and not to foreign-manufactured works.”).
ownership, or by rental, lease, or lending."²¹ A subpart of this broader right to control the distribution of copies is the copyright holder's right to limit the importation of copies acquired outside of the United States. This right, found in § 602(a) is stated as:

[i]mportation into the United States, without authority of the owner of the 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 501.²²

Note that violation of this right of importation is described as an infringement of the broader right to distribute, found in § 106. Section 106, while offering control over the distribution of works, is limited “subject to sections 107 through 122.” Included among those sections is § 109, the first sale doctrine.

**B. Limitations on the Right of Distribution – The First Sale Doctrine**

As stated, the ability of copyright holders to control the distribution of their works is limited by the first sale doctrine. The first sale doctrine allows the purchaser of a legally made copy to sell, lease, or transfer ownership of the copy without the permission of the copyright holder.

The first sale doctrine is rooted in long-held common law rules regarding restraints on the alienation of property.²³ Those concerns shaped the reasoning of early judge-made rules in patent law cases of the mid-nineteenth century.²⁴

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²³. See generally JOHN CHIPMAN GRAY, RESTRAINTS ON THE ALIENATION OF PROPERTY (2d ed. 1895).
In 1908, the Supreme Court applied the first sale doctrine to copyright law in Bobbs-Merrill v. Strauss. In Bobbs-Merrill, the Supreme Court addressed the issue of whether a copyright owner could control the original and resale price of copies of the protected work. The work in question was the novel The Castaway, by Hallie Ermine Rives. The book's legend contained the following notice: "The price of this book at retail is one dollar net. No dealer is licensed to sell it at less price, and a sale at less price will be treated as an infringement of the copyright."

In finding for the resellers of the works, the Supreme Court noted that a purpose of the Copyright Act was to give authors the right to sell multiple copies of the works. Seizing on the statutory use of the word "vend," the Court found that although rights

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was found in Bloomer v. McQuewan, 55 U.S. 539 (1853). In Bloomer, the Court succinctly stated the basic principle of the first sale doctrine, "when the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly." Id. at 549. The strongest early statement of the first sale doctrine was found in Adams v. Burke, 84 U.S. 453 (1873). In Adams, the Court considered whether a manufacturer could limit the territory in which its products were resold. Id. at 457 (Bradley, J., dissenting). In finding against the manufacturer, the Court stated:

in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article, in the language of the court, passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees.

Id. at 456 (majority opinion).


26. Id. at 341.

27. Id. at 347-48 (citing Copyright Act of 1891, § 4952, 26 Stat. 1106, 1107 (stating that copyright owners had "the sole liberty of printing, reprinting, publishing, completing, copying, executing, finishing and vending" their copyrighted works. In subsequent versions of the Act, the right to "vend" was replaced with the right to "distribute.").)
holders had the exclusive right to sell original copies of the work, the right was exhausted once the first sale was made.\(^{28}\)

The exhaustion of the right of control after the first sale has been made was codified the following year in the 1909 Copyright Act. The 1909 Act stated “nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.”\(^{29}\)

In the 1976 Copyright Act, the first sale doctrine was codified in § 109(a).\(^{30}\) Section 109(a) reads:

\[
\text{[n]otwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of that copy or phonorecord.}\(^{31}\)
\]

Congress’ intent to codify the principles established by Bobbs-Merrill was made clear by the legislative reports accompanying the 1976 Act: “[s]ection 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means.”\(^{32}\)

Congress also explicitly stated that while the Copyright Act did not restrict the resale of copyrighted works, copyright holders retained the ability to restrict the resale of goods through contract:

\[
\text{[t]his does not mean that conditions on future dispositions of copies or phonorecords, imposed by}
\]

\(^{28}\) Id. at 350-51.


\(^{31}\) Id. (emphasis added).

a contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.\textsuperscript{33}

The tension between the first sale doctrine and the distribution and importation rights is evident in the text of these sections. Under the 1976 Act, unauthorized importation in violation of § 602(a) is an infringement of the distribution right of §106, while § 106 is explicitly limited by the first sale doctrine of § 109(a). However, the phrase “lawfully made under this title” in § 109(a) is not defined, making the extent of the first sale doctrine unclear. This open question and tension among the sections has been explored by the following four appellate decisions.

\textit{C. Judicial Interpretations of the First Sale Doctrine's Limitations}

Appellate courts have had few opportunities to review the interaction between the first sale doctrine of § 109(a) and the importation right found in § 602(a). The issue of copyrighted goods manufactured domestically, exported, and re-imported was addressed by the Third Circuit in \textit{Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.}\textsuperscript{34} and by the Supreme Court in \textit{Quality King Distributors, Inc. v. L'anza Research International, Inc.}\textsuperscript{35} Two other circuit courts have addressed the issue of the importation of foreign-manufactured copyrighted goods which were subsequently imported: the Ninth Circuit in \textit{Omega S.A. v. Costco Wholesale Corp.},\textsuperscript{36} and, most recently, the Second Circuit in \textit{John Wiley & Sons, Inc. v. Kirtsaeng}.\textsuperscript{37}

\begin{flushright}
\textsuperscript{33} S. REP. NO. 94-473, at 71-72 (1975).
\textsuperscript{34} Sebastian, 845 F.2d at 1094.
\textsuperscript{35} Quality King, 523 U.S.at 138.
\textsuperscript{36} Omega, 541 F.3d at 983.
\textsuperscript{37} Wiley, 654 F.3d at 212.
\end{flushright}
1. The Relationship between § 109(a) and § 602(a)(1) When the Copies are Legally Manufactured Domestically, Legally Purchased Abroad, and Re-Imported.


Faced with the scenario of copyrighted works manufactured in the United States, shipped abroad, resold, and then imported, the Third Circuit held in Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd. that the first sale doctrine applies in all sales not limited by contract, no matter where the sales take place or where the goods are manufactured. The copyrighted goods at issue in Sebastian were labels affixed to hair care products that were manufactured in the United States, exported and sold abroad, and then re-imported.

In its analysis, the court began by stating “[a]t first glance, section 602(a)—the importation clause—appears to clash with the first sale doctrine.” The court recognized that the interrelationship between § 602(a) and § 109(a) could be read two different ways, but that neither was conclusively supported by the statutory language or legislative history. First, § 602 could be read to give copyright holders a new right, separate from the distribution right found in § 106(3), which would free copyright owners from the limitations of the first sale doctrine of § 109(a). Conversely, § 602(a) could be read as merely an example of the rights still subject to the first sale doctrine. The court recognized that this reading would not give copyright owners the ability to

38. Sebastian, 845 F.2d at 1099.
39. Id. at 1094.
40. Id. at 1097.
41. Id.
42. Id. ("The first, and most sweeping, construction declares that in addition to the distribution rights conferred by section 106(3), section 602(a) grants copyright owners yet another direct right—one that frees them from the first sale right of section 109(a) . . . .").
43. Id. ("The second interpretation reconciles section 106(3) and 602(a) by reasoning that the importation prohibition does not enlarge the distribution rights, but serves as only an example of those rights subject still to the first sale doctrine.").
block the unwanted importation of copies sold in violation of foreign distribution agreements, but such unwanted imports are not explicitly infringement under the Act.44

To reconcile the competing views and reach its conclusion, the court looked to the text and underlying policies of the Copyright Act. First, the court recognized that the plaintiff received an adequate reward under its monopoly granted by the Copyright Act because there was a lawful sale and nothing in §602(a) suggests that a copyright owner should receive more than its just reward for selling copies abroad.45 Second, the court determined that the importation restrictions of § 602(a) do not create a new right, because the text specifically states that the violation of that section is an infringement of the distribution right of § 106(3).46 Further, because § 106(3) is specifically limited by the first sale doctrine of § 109(a), “it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive as to be infringed by importation.”47

In its conclusion, the court addressed the controversy regarding gray market goods, pointing out that although Sebastian was a copyright law case, the issues regarding gray market goods “really are dominant.”48 The court noted that manufacturers, having failed in their attempts to control gray market goods through contract law, were attempting to use copyright law to meet those ends, using labels affixed to products to control the sales of those products.49 It admonished such behavior, stating, “[w]e think the controversy over ‘gray market’ goods... should be resolved...
directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.”

b. Quality King Distributors, Inc. v. L'anza Research International, Inc.

The Supreme Court addressed the issue of “whether the ‘first sale’ doctrine endorsed in § 109(a) is applicable to imported copies” in *Quality King Distributors, Inc. v. L’anza Research International, Inc.* Addressing the issue of copies manufactured domestically, exported and then re-imported, a unanimous Court found that the first sale doctrine of § 109(a), operating together with the distribution right of § 106(3), limits the scope of the importation restrictions found in § 602(a). However, the Supreme Court did not issue the broad ruling issued by the Third Circuit in *Sebastian*. Instead, as Justice Ginsberg stressed in a concurring opinion, “we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.”

In its analysis, the Court did not struggle with perceived contradictions in the statute, as noted by *Sebastian* and later courts. The Court found that the language of the statute unequivocally supported the finding that the importation right in § 602(a) was limited by §109(a). To reach this conclusion, the Court found it significant that § 602(a) “does not categorically prohibit the unauthorized importation of copyrighted materials.” Instead, “it is an infringement of the exclusive right to distribute under ‘section 106.’” Therefore, because § 106 is limited by the first sale doctrine in §109(a), § 602(a) is subject to the limitations of the first sale doctrine.

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50. *Sebastian*, 845 F.2d at 1099.
51. *Quality King*, 523 U.S. at 138.
52. *Id.* at 145.
53. *Id.* at 154 (Ginsberg, J., concurring).
54. *Id.* at 144.
55. *Id.*
56. *Id.* (quoting 17 U.S.C.§ 602(a) (2006)).
57. *Quality King*, 523 U.S. at 144. Referring to the Court’s earliest first sale doctrine case regarding copyright law, the Court stated, “[l]ike the exclusive
Although the Court left open the question of the first sale doctrine's application to foreign manufactured goods, it did ponder the issue in *dicta*. Considering a hypothetical situation in which a British manufacturer imports copies of books in violation of a licensing agreement, the Court speculated, "presumably only those made by the publisher of the U.S. edition would be 'lawfully made under this title.'" The opinion noted, "although both the first sale doctrine embodied in § 109(a) and the exceptions in § 602(a) may be applicable in some situations, the former does not subsume the latter; those provisions retain significant independent meaning." As this passage appears in a unanimous opinion, it has been read as a definitive statement of the Court's opinion that the first sale doctrine does not apply to foreign manufactured copies. However, when the question of whether the first sale doctrine applies to foreign manufactured copies reached the Court later in *Omega*, the Court was split 4-4.

Because the Court issued a narrow opinion in *Quality King* focused only on domestically manufactured copies, a definitive right to "vend" that was construed in *Bobbs-Merrill*, the exclusive right to distribute is a limited right. *Id.*

58. *Id.* at 148. The court considered the following hypothetical situation in *dicta*:

[i]f the author of [a] work gave the exclusive U.S. distribution rights—enforceable under the Act—to the publisher of the U.S. edition and the exclusive British distribution rights to the publisher of the British edition, . . . presumably only those made by the publisher of the U.S. edition would be 'lawfully made under this title' within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

*Id.*

59. *Id.* at 148-49.

60. In *Wiley*, the Second Circuit supported its holding that the first sale doctrine does not apply to foreign manufactured copies by referring to the *Quality King* dicta and observed that this construction is what the Supreme Court "appear[s] to have had in mind." *Wiley*, 654 F.3d at 221.

answer to the question regarding foreign manufactured goods remained open. The Court’s narrow holding also had the effect of leaving the broad holding of Sebastian—that the first sale doctrine applies regardless of place of manufacture—intact. The specific question of whether the first sale doctrine applies to foreign manufactured copies was addressed directly in the following two cases.

2. The Relationship between § 109(a) and § 602(a)(1) When the Copies are Legally Manufactured Abroad, Legally Purchased Abroad, and Imported.


In a case in which the copies at issue were manufactured abroad before being imported, the Ninth Circuit held in Omega S.A. v. Costco Wholesale Corp. that the first sale doctrine only applied to goods manufactured in the United States. Relying on earlier Ninth Circuit precedent stating that § 109(a) was limited to copies “legally made . . . in the United States,” the court found that the first sale doctrine was not a defense to an infringement action for importation under § 602(a). Therefore, the unauthorized importation of foreign manufactured goods bearing copyrighted material is infringement of the Copyright Act, even if the goods have changed hands multiple times. However, the court made an exception for goods manufactured abroad and subsequently sold lawfully within the United States. In those instances, the first sale doctrine would apply and the copyright holder could no longer control its distribution.

In reaching its decision, the Ninth Circuit declined to follow the reasoning of Quality King. Instead, noting that because the copyrighted goods in Omega were manufactured abroad, Quality

62. Omega, 541 F.3d at 988.
63. BMG Music v. Perez, 952 F.2d 318, 319 (9th Cir. 1991). See also Denbicare U.S.A. Inc. v. Toys "R" Us, Inc., 84 F.3d 1143, 1149 (9th Cir. 1996).
64. Omega, 541 F.3d at 990.
65. Id. at 988-89.
66. Id.
King did not directly overrule its previous decisions that found § 109(a)'s phrase "lawfully made under this title" to mean "legally made... in the United States."\(^{67}\) The court also reaffirmed its earlier ruling that the first sale doctrine would be a valid defense to copyright infringement once there was a lawful sale within the United States.\(^{68}\)

To bolster its reasoning, the Ninth Circuit relied on the extraterritoriality doctrine to limit the scope of § 109(a) to copyrighted goods manufactured in the United States. The court stated the presumption against extraterritoriality is that "a U.S. statute appl[ies] only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute."\(^{69}\) Applying a “more robust” version of this presumption to the Copyright Act, the Court held that “the Act presumptively does not apply to conduct that occurs abroad even when that conduct produces harmful effects within the United States.”\(^{70}\)

67. Id. at 987. In *BMG Music*, the Ninth Circuit found that “lawfully made under this title” meant “legally made... in the United States.” *BMG Music*, 952 F.2d at 319. The court argued that to find otherwise would “render § 602 meaningless as a tool against the unauthorized importation of nonpiratical copies because importation is almost always preceded by at least one lawful foreign sale that will have exhausted the distribution right which § 602(a) is premised.” Id. at 319-20. This interpretation has been reaffirmed in the Ninth Circuit. *Parfums Givenchy*, 38 F.3d at 482; *Denbicare*, 84 F.3d at 1149.

68. *Omega*, 541 F.3d at 989-990. After *BMG Music*, the court faced criticism suggesting that because copyrighted goods manufactured abroad would not be subject to the first sale doctrine, U.S. manufacturers would move production abroad in order to gain perpetual control over their copies. *Parfums Givenchy*, 38 F.3d at 482 n.8. In response, the court carved out an exception that “§ 109(a) can apply to copies not made in the United States so long as an authorized first sale occurs here.” *Omega*, 541 F.3d at 985.

69. *Omega*, 541 F.3d at 987-88 (quoting *RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 38 (1965)* (internal quotations omitted)).

70. Id. at 988. The court did not define or explain what it intended by the phrase “more robust,” nor did it recognize the portions of the Copyright Act that clearly are concerned with extraterritorial conduct. See infra, Part III.A.4.
On appeal, an equally divided Supreme Court affirmed *Omega* without comment in a *per curiam* opinion. Therefore, the *Omega* opinion created a circuit split with the Third Circuit's holding in *Sebastian* that the first sale doctrine is applicable regardless of the place of manufacture. A third irreconcilable holding followed in *Wiley*.

*b. John Wiley & Sons, Inc. v. Kirtsaeng*

The Second Circuit's recent decision in *John Wiley & Sons, Inc. v. Kirtsaeng*, also dealing with copies manufactured and sold legally abroad, found a more limited application of the first sale doctrine than the Ninth Circuit in *Omega*. The *Wiley* court held that § 109(a)'s phrase "lawfully made under this title" referred only to copies made in the United States. The court noted, but refused to endorse, the Ninth Circuit's *Omega* exception for copies subject to a lawful sale within the United States, due to lack of statutory support within the Copyright Act. Therefore, under *Wiley*, any unauthorized importation or distribution of copyrighted material manufactured outside the United States would constitute an infringement of the Copyright Act, regardless of how many times the copy was sold, even within the United States.

Analyzing the Act, the court found no clear meaning of the phrase "lawfully made under this title" in § 109(a). Similar to the *Sebastian* court, the court determined that, under a logical

71. *Omega*, 131 S.Ct. at 565. In cases when the Supreme Court is evenly split, the lower court's ruling is upheld, but the decision creates no nationwide precedent. See *Durant v. Essex Co.*, 74 U.S. (7 Wall.) 107, 110 (1869) ("[N]o affirmative action can be had in a cause where the judges are equally divided in opinion as to the judgment to be rendered or order to be made.").

72. *Wiley*, 654 F.3d at 224. The copyrighted goods at issue in *Wiley* were textbooks manufactured in the Philippines and intended only for foreign distribution. *Id.* at 213. The defendant's family and friends purchased the books overseas and shipped the books to Kirtsaeng in the United States. *Id.* Kirtsaeng then resold the books online, reimbursed his friends and family for the costs of the books and shipping, and retained the profits for himself. *Id.*

73. *Id.* at 222.

74. *Id.* at 221.

75. *Id.* at 218-20.
interpretation, the phrase could mean either copies made only in the United States, or could encompass all copies made with the authorization of the copyright holder, regardless of place of manufacture.\(^76\) Additionally, the court failed to find the extraterritoriality argument determinative, noting that “it is at least arguable that Congress intended ['lawfully made under this title'] to apply to works manufactured outside of the United States.”\(^77\)

To resolve the “utterly ambiguous text,” the court determined that the application of the first sale doctrine was limited to copies made domestically, reasoning that to hold otherwise would vitiate the meaning of the importation right “in the vast majority of cases.”\(^78\) In support of its holding, the court observed that its limited view of the first sale doctrine is what the Supreme Court “appear[s] to have had in mind” in its *Quality King* dicta, discussed above.\(^79\)

The dissenting opinion in *Wiley* reached the conclusion that “the first sale defense should apply to a copy of a work that enjoys United States copyright protection wherever manufactured.”\(^80\) The dissent first demonstrates that courts have been divided over the meaning of the phrase “lawfully made under this title.”\(^81\) To resolve this conflict, the dissent notes that “[t]he statutory text does not refer to a place of manufacture” and when place of

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\(^76\) *Id.* at 220.

\(^77\) *Id.* The court cites § 1006(a)(1)(A) of the Audio Home Recording Act that provides for royalty payments to be made to “any interested copyright party whose musical work or sound recording has been embodied in a digital musical recording or an analog musical recording lawfully made under this title that has been distributed . . .” 17 U.S.C. § 1006(a)(1)(A) (2006).

\(^78\) *Wiley*, 654 F.3d at 220-21.

\(^79\) *Id.* at 221. For the hypothetical situation referred to by the court, see *supra* note 57 and accompanying text.

\(^80\) *Id.* at 225 (Murtha, J., dissenting).

\(^81\) *Id.* at 226 (citing CBS, Inc. v. Scorpio Music Distrib., Inc., 569 F. Supp. 47, 49 (E.D. Pa. 1983), aff'd without opinion, 738 F.2d 424 (3d Cir. 1984); *Omega*, 541 F.3d at 988-89). Conversely, *Sebastian* “confess[ed] some uneasiness with this construction” and suggested “lawfully made under this title” refers not to the place a copy is manufactured, but to the lawfulness of its manufacture as a function of U.S. copyright law. *Sebastian*, 847 F.2d at 1098 n.1.
manufacture is important, it has been included in the text.\(^\text{82}\) Additionally, the first sale doctrine and its associated policies against restraints on trade have historically not had a geographic limitation.\(^\text{83}\) Therefore, "nothing in... the history, purposes, or policies in the first sale doctrine limit it to copies of a work manufactured in the United States."\(^\text{84}\) Finally, the dissent points out that the issue in this case was not before the Supreme Court when it issued its *dicta* in *Quality King*.\(^\text{85}\) Rather, when the issue at hand was squarely before it in *Omega*, the Court was equally divided.\(^\text{86}\)

The Defendant-Appellant filed a petition for writ of certiorari in the Supreme Court on December 7 2011. (Docket No. 11-697). The writ of certiorari was granted on April 16, 2012 and oral arguments were heard on October 29, 2012.

### III. ANALYSIS

#### A. Statutory Analysis

Looking to the plain meaning of the Copyright Act, the statute as a whole, and its legislative history, there is a strong case for

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82. *Wiley*, 654 F.3d at 226 (Murtha, J., dissenting). Specifically, the so-called "manufacturing requirement" provides: "[p]rior to July 1, 1986, and except as provided by subsection (b), the importation into or public distribution in the United States of copies of a work consisting preponderantly on nondonramtic literary material that is in the English language and is protected under this title is prohibited unless the portions consisting of such material have been manufactured in the United States or Canada." *Id.* (citing 17 U.S.C. § 601(a)(1) (2006) (emphasis in original) (repealed 2010)).

83. *Id.* at 227-28. The dissent notes that the common law policies behind the first sale doctrine expressed in *Bobbs-Merril* were not geographically limited. *Id.* at 227 (citing Pearson Educ. v. Liu, 656 F. Supp. 2d 407, 413 (S.D.N.Y. 2009)). Further, the first sale doctrine codified in both the 1909 and 1947 Copyright Acts applied to "any copy of a copyrighted work the possession of which has been lawfully obtained." *Id.* (quoting Pub. L. No. 60-349, 35 Stat. 1075, 1084 (1909), Pub.L. No. 80-281, 61 Stat. 652, 660 (1947) (emphasis added)).

84. *Id.* at 228.

85. *Id.*

86. *Id.*
interpreting the phrase "lawfully made under this title" to be without geographic limitations. However, looking to the same sources, the phrase may also be logically interpreted to mean, "made in the United States with the authority of the copyright holder." Considering these competing interpretations, as evidenced in the three different holdings in Sebastian, Omega, and Wiley, the current state of the law is unclear and warrants review by the Supreme Court, or in the alternative, a legislative remedy.

1. A Plain Meaning Reading of the Statute is Ultimately Inconclusive.

A recognized starting point for analyzing the meaning of terms in a statute is the statute itself, or the plain meaning of the language used. The phrase "lawfully made under this title" is not defined within the Copyright Act itself. If the meaning of a phrase is not defined by the statute, the Supreme Court "normally construe[s] it in accord with its ordinary or natural meaning." As discussed, when analyzing the plain meaning of the words "lawfully made under this title," the Third, Ninth, and Second Circuits have all reached divergent opinions.

In Sebastian, the Third Circuit read the phrase to mean that the first sale doctrine will apply if the copy was made consistent with the principles of the Act. This is perhaps the simplest and most direct reading of the phrase: essentially, that the copy was lawfully made if it was made with the permission of the copyright holder. This was the same position taken by the government in Quality King, where it argued "[t]he correct and more natural reading of the phrase 'lawfully made under this title' refers simply to any copy made with the authorization of the copyright owner as

87. Caminetti v. United States, 242 U.S. 470, 485 (1917) ("It is elementary that the meaning of a statute must, in the first instance, be sought in the language in which the act is framed, and if that is plain...the sole function of the courts is to enforce it according to its terms.").
89. This is supported by looking to other sections of the Copyright Act. For example, the copyright holder in 17 U.S.C. § 106 has the right "to authorize" any of its exclusive rights. 17 U.S.C. § 106 (2006).
required by Title 17, or otherwise authorized by specific provisions of Title 17.\textsuperscript{90}

Further, the plain meaning of the words “lawfully made under” do not on their face mean “manufactured in the United States.” The phrases themselves have different inherent meanings. The Third Circuit recognized this in \textit{Sebastian}, noting that “[w]hen Congress considered the place of manufacture to be important . . . the statutory language clearly expresses that concern.”\textsuperscript{91} In fact, the Copyright Act once used both the phrase “under this title” and “manufactured in the United States.”\textsuperscript{92} Finally, other statutes use the phrase “manufactured in the United States” when that is the intention rather than a vague self-referential phrase.\textsuperscript{93}

However, the phrase “lawfully made under this title” may also be interpreted to mean “lawfully made in the United States.”\textsuperscript{94} For example, in \textit{Wiley} the Second Circuit noted that the Supreme Court has previously defined “under” to mean “subject to” and “governed by.”\textsuperscript{95} The \textit{Wiley} court also found that this plain


\textsuperscript{91} \textit{Sebastian}, 845 F.2d at 1098 n.1.

\textsuperscript{92} The now expired “manufacturing requirement” read: “the importation into or public distribution in the United States of copies of a work consisting preponderantly of non dramatic literary material that is in the English language and is protected \textit{under this title} is prohibited unless the portions of such material have been \textit{manufactured in the United States} or Canada.” 17 U.S.C. § 601(a) (2006) (repealed 2010) (emphasis added).

\textsuperscript{93} \textit{See} 15 U.S.C. §1124 (2006) (banning the importation of goods that “bear a name or mark calculated to induce the public to believe that the article is \textit{manufactured in the United States},” (emphasis added)); 19 U.S.C. § 1673(I)(2) (2006) (penalizing a trading partner who “no longer prevents the suppression or undercutting of domestic prices of merchandise \textit{manufactured in the United States},” (emphasis added)); 14 U.S.C. § 97(a)(1) (2006) (“\textit{The Coast Guard may not procure buoy chain that is not \textit{manufactured in the United States};” (emphasis added)).

\textsuperscript{94} This was also the position taken by the United States in its amicus brief before the Supreme Court in \textit{Omega}. Brief for the United States as Amici Curiae Supporting Respondent, \textit{Omega}, 131 S.Ct. 565 (2010) (No. 08-1423), 2010 WL 3512773 at *5.

\textsuperscript{95} \textit{Wiley}, 654 F.3d at 219 n.31 (citing Ardestanti v. INS, 502 U.S. 129, 135 (1991) (defining the meaning of the word “under” in the Equal Access to Justice Act)). This was also the position taken by the United States in its amicus brief
meaning interpretation of the statute was valid, but found that a logical, contradictory reading could also be gleaned from the text.\textsuperscript{96} The court determined that because of these competing interpretations, it must look to other policy considerations to determine the meaning of the statute.\textsuperscript{97} Given this logical interpretation and considering the policy implications, the overall policy supports finding the first sale doctrine of § 109(a) applicable to the importation right of § 602(a).

2. \textit{Looking at the Statute as a Whole is Similarly Inconclusive.}

When the plain meaning of a term or phase is unclear, courts may examine the uses of the same language elsewhere in the statute for clarification.\textsuperscript{98} Following this analysis, other provisions of the Copyright Act strongly suggest that “lawfully made under this title” means goods manufactured with the consent of the copyright owner and not constrained by geographic barriers. Applying the \textit{Wiley} court’s reasoning that “lawfully made under this title” is equivalent to “manufactured within the United States” to other sections of the Act creates extreme, contradictory, or nonsensical results. However, a valid argument does exist for interpreting the phrase in accordance with the \textit{Wiley} opinion.

One such seemingly extreme result would occur when applying the \textit{Wiley} court’s interpretation of the phrase to the right to display works. The exclusive right to display a copyrighted work publicly “is subject to the limitations found in §§ 107 through 122.”\textsuperscript{99} One such limitation provides that the owner of a physical copy “lawfully made under” the Copyright Act may publically

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before the Supreme Court in \textit{Omega}. Brief for the Respondent, \textit{supra} note 93, at *15.
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\textsuperscript{96} \textit{Wiley}, 654 F.3d at 219–20.
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\textsuperscript{97} \textit{Id.} at 220.
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\textsuperscript{98} United Sav. Ass’n v. Timbers of Inwood Forest Ass’n Ltd., 484 U.S. 365, 371 (1988) (“A provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme—because the same terminology is used elsewhere in a context that makes its meaning clear, or because only one of the permissible meanings produces a substantive effect that is compatible with the rest of the law”).
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display the work.\footnote{Id. § 109(c).} Following the Wiley interpretation of the phrase "lawfully made under this title," an individual who had lawful title to a work protected by copyright that was manufactured abroad, and wished to display the work publically, would be subject to copyright infringement liability if the owner of the copyright did not consent to the display.

Elsewhere in the Copyright Act, applying the reasoning of the Wiley court would frustrate the intention of Congress regarding a provision concerning the public performance of video games. Section 109(e), added in 1990, states, "the owner of a particular copy of a [game] lawfully made under this title is entitled, without the authority of the copyright owner of the game, to publically perform or display that game in coin-operated equipment."\footnote{Id. § 109(e) (emphasis added).} This section was enacted specifically in response to Red Baron-Franklin Park, Inc. v. Taito Corp., 883 F.2d 275 (4th Cir. 1989), a decision that found that the first sale doctrine did not apply to the public performance of Japanese-manufactured video games.\footnote{U.S. COPYRIGHT OFFICE, DMCA SECTION 104 REPORT 25 n.54 (2001), available at http://www.copyright.gov/reports/studies/dmca/sec-104-report-vol-i.pdf ("[Section 109(e)] was enacted as part of the Computer Software Rental Amendments of 1990 in order to overturn the result in Red Baron-Franklin Park, Inc. v. Taito Corp.... a case which held that a copyright owner could prevent the purchase of gray market circuit boards containing a copyrighted videogame from performing the videogame in a video arcade.").} In Red Baron, the court found that the first sale doctrine did not apply, not because of foreign manufacture, but because the first sale doctrine applied only to the distribution right and not the public performance right.\footnote{Red Baron-Franklin Park, Inc. v. Taito Corp., 883 F.2d 275, 280-81 (4th Cir. 1989).} In response, § 109(e) expands the first sale doctrine to apply to the public performance right. However, if the Wiley court's reasoning were followed, the first sale doctrine would not apply to a situation similar to Red Baron, since the games were manufactured abroad. Such a result would be in direct opposition to the congressional intent to overrule Red Baron and ensure that lawfully purchased copies of such games could be
When applying the *Wiley* court's reasoning to other portions of Title 17, another apparent contradiction arises. The Audio Home Recording Act ("AHRA") uses both the phrases "lawfully made under this title" and "manufactured and distributed within the United States." The AHRA requires the manufacturers of audio recording devices to pay royalties to copyright owners. The statute defines the copyright holders who should receive royalties as those whose compositions or sound recordings have been "embodied in a digital musical recording *lawfully made under this title* that has been distributed."104 Following the reasoning of the *Wiley* court, this would mean that royalties would only be paid on digital recordings that were manufactured domestically. However, elsewhere the AHRA directs royalty payments to "each digital audio recording medium imported into and distributed in the United States or manufactured and distributed within the United States."105 Following the Second Circuit's reading of the phrase "lawfully made under this title" would cause these two provisions to be in conflict with one another, and would frustrate the intentions of the drafters of AHRA.

Conversely, while interpreting "lawfully made under the title" to mean "with the consent of the copyright owner" does not produce these types of contradictory or nonsensical results, other interpretations favorable to the defendants in *Wiley* are fraught with problems. The *Wiley* court notes that plausible interpretations of "lawfully made under this title" include not only "manufactured in the United States," but also "any work made that is subject to protection under this title," or "lawfully made under this title had this title been applicable."106 While the Second Circuit notes that the latter two interpretations would produce a favorable result for the defendant, they also have problems when the statute is viewed as a whole.107 Specifically, the phrases "work protected under this title" and "if this title had been applicable" both appear elsewhere

105. *Id.* § 1004(b).
107. *Id.* at 220 n.38.
in the Copyright Act.\textsuperscript{108} Therefore, if Congress intended either of those meanings to apply to “lawfully made under this title,” Congress could have used that explicit language instead.

3. The Legislative History of the First Sale Doctrine is Inconclusive

When the plain meaning of the statute is unclear and reading the statute as a whole does not provide an answer, principles of statutory construction permit consulting the statute’s legislative history for elucidation.\textsuperscript{109} Unfortunately, the legislative history of the Copyright Act is similarly murky and produces strong conflicting arguments regarding the effect and limitations of both the first sale doctrine and the importation right.

The current Act, enacted in 1976, began with studies commissioned in 1955, and the first draft of the legislation appeared in 1964.\textsuperscript{110} This long history discloses a seemingly unbroken support for the first sale doctrine since its inclusion in the 1909 Act, but a mixed record on the significance given to foreign manufacture and its relation to the first sale doctrine.

As discussed, the first sale doctrine was first applied to copyright law in \textit{Bobbs-Merrill Co. v. Strauss} in 1908, and was subsequently added to the Copyright Act the following year. In

\textsuperscript{108} See 17 U.S.C. § 401(a) (2006) (“Whenever a work protected under this title is published in the United States or elsewhere by authority of the copyright owner, a notice of copyright as provided by this section may be placed on publically distributed copies from which the work can be visually perceived . . .”) (emphasis added); 17 U.S.C. § 602 (b) (2006) (“In a case where the making of the copies an phonorecords would have constituted an infringement of copyright if this title had been applicable, their importation is prohibited.”) (emphasis added).

\textsuperscript{109} Wirtz v. Bottle Blowers Ass’n, 389 U.S. 463, 468 (1968) (“[P]roper construction [of a statute] frequently requires consideration of [the statute’s] wording against the background of its legislative history and in the light of the general objectives Congress sought to achieve.”).

\textsuperscript{110} See generally H.R. REP No. 94-1476, at 64 (1976), \textit{reprinted in} 1976 U.S.C.C.A.N. 5659, 5660-63 (describing the early history of the bills that became the 1976 Act). The first draft of the 1976 Copyright Act can be found at H.R. 11947, 88th Cong. (1964) and S. 3008, 88th Cong. (1964).
Bobbs-Merrill, the Supreme Court plainly stated, “the copyright statutes, while protecting the owner of the copyright, in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.”\[111\] The Court reached this conclusion without considering any geographic limitations on this principle. Further, the Court noted the “owner of the copyright [sold a quantity of books] at a price satisfactory to it. It has exercised [its] right to vend.”\[112\] This is particularly significant because, regardless of geographic limitations, the plaintiff publisher in Wiley also sold copies in quantity at a satisfactory price.

This principle of exhaustion of control without regard to geographic limitations was codified the following year. The Copyright Act of 1909 applies the first sale doctrine to “any copy of a copyrighted work the possession of which has been lawfully obtained”\[113\] This provision was added without any geographic limitations on the place of manufacture and has not been amended to include any such language since. It is thus clear that when the first sale doctrine was codified, the primary concerns regarding restrictions on the alienation of goods were considered broadly without geographic limitations.

Further, where Congress deemed place of manufacture important, it has been included in the text, such as the so-called manufacturing clause of § 601(a). This clause, as codified in the 1909 Act, stated:

[t]hat in the case of a book, the copies so deposited shall be accompanied by an affidavit . . . duly made by the person claiming copyright . . . setting forth that the copies deposited have been printed from type set within the limits of the United States or

\[111\] Bobbs-Merrill, 210 U.S. at 350.
\[112\] Id. at 351.
from plates made within the limits of the United States from type set therein . . . .114

These geographic requirements were inserted into the Copyright Act to protect the economic interests of "American typographers and bookbinders against foreign competition."115 This prejudicial stance against foreign manufacture "exemplifie[d] short-sighted and parochial tendencies that [proved] destructive of the best interests of both copyright creators and users."116 Thus realized, Congress phased out the manufacturing clause beginning with the 1976 Act.117 In doing so, Congress concluded that "there is no justification on principle for a manufacturing requirement in the copyright statute, and altogether there may have been some economic justification for it at one time, that justification no longer exists."118

It is significant that the removal of the manufacturing clause occurred at the same time Congress reaffirmed and codified the first sale doctrine without geographic limitations. The phasing out of the manufacturing clause indicates that Congress was disregarding the place of manufacture as a determining factor on whether goods protected by copyright could be distributed domestically. At the same time, Congress reaffirmed the first sale doctrine in § 109(a) without geographic limitations. The Supreme Court has recognized that "few principles of statutory construction are more compelling than the proposition that Congress does not intend sub silentio to enact statutory language that it had earlier discarded."119 Therefore, it is difficult to infer that Congress intended to read a geographic manufacturing restriction into § 109

115. 2-7 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 7.22 (Matthew Bender, Rev. Ed., 2012).
116. Id.
at the same time it was phasing out other limitations tied to foreign manufacture and reaffirming and restating the first sale doctrine without explicit restrictions.\textsuperscript{120}

However, it has been argued that the legislative history § 602(a) indicates that Congress intended § 602(a) to operate independent of limitation imposed by the first sale doctrine of § 109(a).\textsuperscript{121} Initially, the Register of Copyright opposed liability for unauthorized importation of lawfully acquired works.\textsuperscript{122} This was followed by pressure from the publishing and music industry to restrict importation of foreign manufactured copies.\textsuperscript{123} Following these efforts, a provision was inserted into the 1964 draft of the Copyright Act that prohibited the importation of non-piratical copies acquired abroad and imported for distribution and gave U.S. Customs the authority to seize such items at the border.\textsuperscript{124}

\textsuperscript{120} Further complicating the matter, the legislative history states bluntly the § 602 “has nothing to do with the manufacturing requirements of § 601” as they address two distinct problems. H.R. REP NO. 94-1476, 169 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5785. It is unclear what effect this statement has on interpreting the interaction between § 602(a)(1) and § 109(a).

\textsuperscript{121} See Mohr, supra note 8, at 566 (arguing that § 602’s importation restrictions, unchecked by the first sale doctrine, offer manufacturers a stronger tool than trademark or contract law to control the importation of goods).

\textsuperscript{122} Copyright Law Revision, Part 1: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law Before the H. Comm. on the Judiciary, 87th Cong. 126 (1965). The Register saw no reason “to impose the territorial restriction in a private contract on a third person with no knowledge of the agreement.” Id.

\textsuperscript{123} In a hearing in response to the Register of Copyright’s report, publishing and music industry representatives noted that the proposed language would not apply to copyrighted goods manufactured abroad, sold, and then imported. Copyright Law Revision, Part 2: Discussion and Comments on Report of Register of Copyrights on the General Revision of the U.S. Copyright Law Before the H. Comm. on the Judiciary, 87th Cong. 212 (1965). Specifically, a music industry representative noted that a copyrighted item could be imported without infringing the contract rights of the owner because a foreign publisher could sell the item to a third party, who could then in turn import the item. Id.

Significantly, the following year, The Copyright Office had the opportunity to directly address the question of the effect of the first sale doctrine on the importation right. In a panel discussion before the House Judiciary Committee, a representative from the Copyright Office was presented a hypothetical question from a participant representing authors regarding the sale and subsequent importation of lawfully produced copies abroad.125 Unfortunately, the representative from the Copyright Office did not provide a definitive answer regarding how the first sale doctrine would affect this transaction either with regard to wholesale importers or individual purchasers.126

Following further revisions, additional House Committee Reports can be interpreted to understand that the right to limit importation was not meant to be subject to the first sale doctrine. For example, a House Judiciary Committee Report accompanying the 1964 draft of the Act states that the importation of a copyrighted work authorized for distribution abroad would be

two nearly identical drafts differed only in the powers of U.S. Customs to stop infringing copies at the border.

125. Copyright Law Revision, Part 4, Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law Before the H. Comm. on the Judiciary, 88th Cong. 210-11 (1964). The exchange between the authors’ representative (Karp) and the Copyright Office representative (Goldman) was as follows:

KARP: ... If a German jobber lawfully buys copies from a German publisher, are we not running into the problem of restricting his transfer of his lawfully obtained copies?
GOLDMAN: I would suppose that the whole answer depends on whether the distribution would take place in the United States would itself constitute an infringement of copyright. When you apply this rule about the effect of the first sale of a copy exhausting the right to control the further distribution of that copy, your question would be whether this represents a sale of the copy that does exhaust the right.
KARP: You are right, Abe.
GOLDMAN: This could vary from one situation to another, I guess. I should guess, for example, that if a book publisher transports copies to a wholesaler, this is not yet the kind of transaction that exhausts the right to control disposition.

Id.

126. Id.
infringement. Further, exceptions were made for “educational, personal, and religious use,” but without mentioning the first sale doctrine, suggesting that these were the only exceptions to the right to limit importation. Finally, because there were no substantial changes between the 1967 draft and the final version enacted in 1976, it can be inferred that the breadth of § 602(a) was firmly established, and without significant opposition.

Ultimately, there is no specific language in the legislative history that addresses directly the proper interaction between § 602(a) and § 109(a). Although the first sale doctrine is firmly embedded in the statute, the scope of its reach is unclear from Congressional reports. At times, Congress certainly favored restrictions on items manufactured abroad and treated such items differently, however it also has scaled back and questioned utility of these efforts. This lack of clarity further reinforces the need for either the Supreme Court or the legislature to speak definitively to the issue.

4. Should the Principles of Extraterritoriality Define the Meaning of § 109(a)?

In finding the phrase “lawfully made under this title” to apply only to domestically manufactured copies authorized by the copyright holder, the Ninth Circuit in Omega relied on the principles of extraterritoriality. As stated by the Ninth Circuit,

127. Copyright Law Revision, Part 6, Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law Before the H. Comm. on the Judiciary, 89th Cong. 149-50 (1965). The report states: “[i]n the second situation covered by § 602, the copies ... were lawfully made but their distribution in the United States would violate the exclusive rights of the U.S. copyright owner. This would occur, for example, where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country.” Id. Note however, that this concerns violating a contractual distribution requirement, but does not address the issue if the copies were lawfully sold abroad and then imported. This is essentially the same hypothetical posed by the Supreme Court in Quality King. See supra note 57 and accompanying text.
129. Mohr, supra note 8 at 604-05.
"[t]he common understanding of the presumption against extraterritoriality is that a U.S. statute ‘appl[ies] only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute.’"130 While the Omega court relied on this principle in arguing for a limited application of the first sale doctrine, there is evidence that at least some portions of the Copyright Act do apply to actions occurring outside the United States.

Considering the principles of extraterritoriality, the Ninth Circuit determined that “lawfully made under this title” could not refer to copies manufactured outside the United States because it would extend the reach of the Copyright Act “in the absence of a clear expression of congressional intent in favor of extraterritoriality.”131 In citing an earlier decision on the scope of the Copyright Act, the Ninth Circuit boldly proclaimed, “[t]here is no clear expression of congressional intent in either the 1976 Act or other relevant enactments to alter the preexisting extraterritoriality doctrine.”132

The government made a similar argument in support of Wiley in its amicus brief filed with the Supreme Court. The government’s brief plainly states that “[b]ecause the Copyright Act does not apply outside the United States, foreign-made copies are not ‘made under’ Title 17.133

However, this stance by the Ninth Circuit and the government oversimplifies and incorrectly states the scope of the Copyright Act. Although it also found that “lawfully made under this title” is limited to copies manufactured domestically, the Second Circuit in Wiley recognized that “certain provisions in Title 17 explicitly take account of activity occurring abroad.”134 Specifically, the Wiley court noted that § 104(b)(2) provides that “the works specified by

130. Omega, 541 F.3d at 987-88 (quoting RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 38 (1965)).
131. Id. at 988.
132. Id. (quoting Subafilms, Ltd. v. MGM-Pathe Commc’ns Co., 24 F.3d 1088, 1096, (9th Cir. 1994) (en banc)).
133. Brief for the United States at 6, Kirtsaeng v. John Wiley & Sons, Inc., 654 F.3d 210 (2011) (No. 11-697); See also id. at 12 (“It is well established, however, that the Copyright Act does not apply outside the United States.”).
134. Wiley, 654 F.3d at 219.
sections 102 and 103, when published, are subject to protection under this title if the work is first published in the United States or in a foreign nation that, on the date of first publication, is a treaty party." 135 Here, the Wiley court recognized that because § 104(b)(2) provides copyright protection for works published abroad, "lawfully made under this title" could reasonably be interpreted to mean "any work that is subject to protection under this title." 136

Commentator William Patry, who concludes that § 109(a) should not apply to copies made abroad explains, "[s]ince title 17 does not [generally] apply extraterritorially 'lawfully made under this title . . . .'" does not apply to copies made overseas, either with or without the copyright owner's permission. 137 However, if some parts of the Act are clearly extraterritorial and others are not, the meaning and scope of § 109(a) seems unclear at best and extraterritoriality is an improper principle to define its bounds. If anything, introducing the principle into the analysis only further obscures the proper application of the first sale doctrine.

5. Will Subjecting § 602(a)(1) to the Limitations of the First Sale Doctrine Strip All Meaning From the Section?

There are competing views on whether applying the first sale doctrine of § 109(a) will vitiate the meaning of § 602(a). Courts and commentators have argued that interpreting §109(a) to apply to § 602(a) would strip all the meaning from the latter provision. 138 Yet, the two sections can be read in harmony with § 602(a) retaining meaningful value even after subjecting it to the limitations found in §109(a). While reading § 109(a) to apply to § 602(a) certainly gives the latter section less force, the section still has utility and would be in line with the clear original intent of the first sale doctrine.

In Wiley, the Second Circuit began with the premise that § 602(a) "is obviously intended to allow copyright holders some

136. Id. at 219-20.
137. WILLIAM F. PATRY, 4 PATRY ON COPYRIGHT § 13:22 (2012).
138. See generally Hintz, supra note 5.
flexibility to divide or treat differently the international or domestic markets for the particular copyrighted work."  

Under the court’s analysis, the importation right “would have no force in the vast majority of cases if the first sale doctrine was interpreted to apply to every copy that was manufactured abroad that was either made ‘subject to protection under Title 17,’ or ‘consistent with the requirements of Title 17 had Title 17 been applicable.’” Specifically, the court notes that this reading of § 602(a) would only give copyright holders the ability to control importation of their works when either “(i) the individual importing the copy of the work does not legally ‘own’ the copy in question, or (ii) the work in question was produced in a country where the United States copyright is not protected.”

To support its broader reading of § 602(a), the Wiley court relied on what the Supreme Court “appear[s] to have had in mind when deciding Quality King.” The Wiley court turning to a passage in dicta in Quality King that stated § 602(a) “applies to a category of copies that are neither piratical nor ‘lawfully made under this title.’ That category encompasses copies that were ‘lawfully made’ not under the United States Copyright Act, but instead under the laws of some other country.”

The Wiley court used that passage to draw the conclusion that “copies ‘lawfully made’ under the laws of a foreign country—though perhaps not produced in violation of any United States laws—are not necessarily ‘lawfully made’ under the meaning § 109(a) . . . .” This argument was repeated by the government before the Supreme Court in Wiley, stating “the Court

139. Wiley, 644 F.3d at 221.
140. Id.
141. Id. at 221 n.40.
142. Id. at 221.
143. Id. (quoting Quality King, 523 U.S. at 147).
144. Id. The Wiley court also noted that elsewhere in Quality King, the Supreme court suggested that § 602(a) is broader than § 109 “because it encompasses copies that are not subject to the first sale doctrine—e.g. copies that are lawfully made under the laws of another country.” Id. at 221 n.42 (citing Quality King, 523 U.S. at 148).
in Quality King drew a sharp distinction between copies ‘made under’ Title 17 and copies ‘made under’ foreign law.”

However, this line of reasoning is flawed because the statements were made in *dicta* in a case that did not directly address copies manufactured abroad. In *Quality King*, the Court considered only copies manufactured domestically, exported, and re-imported. In her concurrence, Justice Ginsburg delineated the two issues, “recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.”

The weight given to *dicta* by the Wiley court should be qualified by the Supreme Court’s later action in *Costco Wholesale Corp. v. Omega*. In *Omega*, the Supreme Court dealt directly with the issue of whether § 109(a) qualified the importation right in § 602(a). There, rather than affirm its earlier statements in *Quality King*, the Court was divided 4-4. An equally divided court, ruling on an issue briefed and argued squarely before it, surely diminishes the impact of earlier *dicta* in a case pertaining to a tangential issue.

Even if the first sale doctrine applies to the right to limit importation under § 602(a), that section still retains utility for copyright holders. First, the section would provide an extra enforcement tool against publishers or manufactures where international markets are divided by contract. For example, suppose a copyright holder such as Wiley had exclusive publication and distribution agreements with publishers in Asia and the United States. If the Asian publisher begins exporting and selling its copies to the United States, it would clearly be a violation of the exclusive contract. However, even if the first sale doctrine applies to § 602(a), it would also be an act of copyright infringement, enforceable through all the remedies available under

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146. *Quality King*, 534 U.S. at 1135 (Ginsburg, J., concurring).
147. See 2-8 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[B][6][d] (Matthew Bender, rev. ed. 2012) (noting that with as many votes on the Supreme Court to accept the reasoning of *Omega* as there were to reject it, the line of reasoning that limits the first sale doctrine to apply only to copies manufactured within the United States “must therefore be regarded as wobbly”).
the Act.148 These remedies include injunctive relief, the infringer’s profits, statutory damages, impoundment, and costs and attorneys fees.149 Here, § 602(a) is hardly toothless in supporting the rights of copyright holders.

Additionally, § 602(a), as limited by the first sale doctrine, also provides a powerful enforcement tool against importers of counterfeit goods manufactured abroad. Counterfeit goods are by definition not made with the consent of the copyright holder. Furthermore, importers such as shipping companies or e-retailers may not actually own the goods to be transferred. In this instance, § 602(a) gives copyright owners the ability to seek an infringement action against these players in the trade of counterfeit goods and subject them to the remedies discussed above. Also, this encourages these intermediaries to be diligent in policing the goods of their trade, further suppressing the counterfeit market.

In concluding its analysis on the interaction between § 109(a) and the § 602(a), the Second Circuit “freely acknowledge[s] that this is a particularly difficult question of statutory construction . . . but [that its] holding is supported by the structure of Title 17 as well as the Supreme Court’s opinion in Quality King.”150 As

148. In fact, this is the very hypothetical scenario that the Supreme Court incorrectly analyzes in Quality King:

[If the author of [a] work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the U. S. edition and the exclusive British distribution rights to the publisher of the British edition . . . presumably only those made by the publisher of the U.S. edition would be ‘lawfully made under this title’ within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

Quality King, 523 U.S. at 148.

In this scenario, the first sale doctrine would not relieve the British publisher of liability because there has been no sale. Thus, the British publisher in this hypothetical would be subject to an infringement action as well as breach of contract, regardless of the scope of § 109(a).


150. Wiley, 654 F.3d at 222.
shown, the structure and language of Title 17, including its legislative history, provide no clear guidance on the interaction between § 109(a) and § 602(a). Further, the Second Circuit has misread the Supreme Court. For these reasons, either the Supreme Court or Congress must act definitively to clarify the meaning of the statute.

6. Conclusion of Statutory Analysis.

When analyzing the plain meaning of the statute, looking at the statute as a whole, and considering the legislative history of the statute, there are clear and defensible reasons for interpreting the phrase “lawfully made under the title” to apply to copies of goods regardless of place of manufacture. However, it is also clear by the decision of the Wiley court that there are valid alternative meanings based on the above analyses. This confusion only bolsters the need to have Supreme Court review for the Wiley case, or for a legislative solution.

B. Policy Considerations

Concluding its opinion in Wiley, the Second Circuit recognized the potential policy implications of its ruling, stating “[i]f we have misunderstood Congressional purpose in enacting the first sale doctrine, or if our decision leads to policy consequences that were not foreseen by Congress or which Congress finds unpalatable, Congress is of course able to correct our judgment.” Relying entirely on textual analysis, the Second Circuit did not consider the policy ramifications of its decision. This section will demonstrate how, in light of the ambiguous meaning of the statute, the policy considerations are paramount and weigh heavily in favor of interpreting the first sale doctrine of § 109(a) to apply to the importation right in § 602(a).

First, because the first sale doctrine furthers the Copyright Act’s policy of dissemination, any limitation of its application runs counter to the purpose of the Act. Second, any geographic

151. Id.
limitations of the first sale doctrine are contrary to long established policies against restraints on trade. Finally, limiting the first sale doctrine's application to domestically manufactured copies could have detrimental effects on the economy, including the chilling of secondary markets, higher costs to consumers and the loss of American jobs.

1. The Reasoning of Omega and Wiley is Contrary to the Purposes of the Copyright Act.

The Constitution empowers Congress "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." To meet that directive, the Supreme Court has stated that Congress may "determine the intellectual regimes that, overall, in that body's judgment, will serve the ends of the Clause." It has been debated whether this directive means that Congress should create schemes merely to encourage the creation of new work or whether encouraging the distribution of works also furthers this purpose.

The Supreme Court recently emphasized the dissemination rationale behind the Copyright Act, observing that "the creation of at least one new work, however, is not the sole way Congress may promote knowledge and learning" and "[e]vidence from the founding suggests that inducing dissemination—as opposed to creation—was viewed as an appropriate means to promote science." This policy was embodied in its most basic form in the pre-1976 requirement that copies of works be filed with the Library of Congress to receive protection. This policy continues in the requirement that copies must be submitted with

152. U.S. CONST. art. 1, § 8, cl. 8.
156. Id. at 855.
registration. These requirements encourage dissemination by ensuring that in exchange for protection under the Copyright Act, the works must be publicly available. Further, while authors may create new works, it is through distribution under the exclusive rights granted in the Act that rights holders may profit from their creations.

In the controversy surrounding the scope of the first sale doctrine, interpreting the doctrine to be applicable to copies made overseas with the consent of the copyright holder furthers the dissemination policy of the Copyright Act. The first sale doctrine is a driving force behind the dissemination of copyrighted works. The first sale doctrine allows libraries to provide access to millions of volumes of copyrighted works, encourages individuals to buy and sell copies of works after they have exhausted their useful life in the hands of the original owner, and encourages friends, families, and charitable donors to share knowledge embodied in lawfully obtained copies of copyrighted works. This makes the existence of the first sale doctrine central to the core purpose of the Copyright Act, and any limitations placed on the first sale doctrine frustrate the core purpose of the Act.

If the phrase "lawfully made under this title" is read to apply only to domestically-manufactured copies, as held by the Second Circuit in Wiley, copyright holders would be able to move manufacturing abroad to control the importation and distribution of their works regardless of how many times the copy changes hands. If this reading of the phrase is upheld, it could encourage copyright holders to move the manufacture of copies of their work overseas and gain this perpetual control. With such control, the dissemination of works would certainly be impeded. For instance, libraries and schools could not lend and distribute educational material protected by copyright that was lawfully purchased without first obtaining the permission of the copyright holder. To do otherwise would subject them to potential liability for copyright infringement. Further, the secondary sale of works would also need approval from the copyright holder, likely chilling the

157. 17 U.S.C. § 408(a) (2006). However, under current law, registration is only permissive and not mandatory. Id.
reselling of copies of copyrighted material from garage sales to neighborhood bookstores to large resellers in the secondary marketplace such as eBay. The net effect of this requirement would be a decline on the distribution of creative works. These extreme results run counter to the core dissemination purpose of the Copyright Act.

To be sure, a broad reading of the first sale doctrine will lessen the rights that copyright holders enjoy under the reasoning of Omega and Wiley. However, the constitutional directive behind the Copyright Act is not to enrich and reward creative individuals with broad property rights; rather, it is “to promote the Progress of Science and useful Arts.” This is a directive to craft legislation that benefits the whole of society, not just creators. Reading the phrase “lawfully made under this title” to apply to all copies made with the permission of the copyright holder, without regard to geographic location, may not provide copyright holders with the desired control over their works, but it will satisfy the constitutional directive to enrich society as a whole and ensure copyright holders receive a monetary reward for the first sale of each authorized copy of their work.

2. There is a Long-Held General Policy Against Restraints on the Transfer of Goods.

The first sale doctrine is rooted in long-held common law rules regarding restraints on the alienation of property.\(^{158}\) This policy was incorporated into copyright law under Bobbs-Merrill, and has consistently been part of federal copyright law since 1909. These roots were based on general principles regarding trade and the free flow of goods, and were not proscribed by any geographic limitations. The reasoning of the Omega and Wiley courts runs counter to this established policy.

This recent about-face has coincided with a push by media companies and consumer goods manufacturers to control the

importation of secondary market goods. Such companies have "waged a full-scale battle in legislative, executive, and administrative fora" for regulations to grant them control over such imports.\textsuperscript{159} Failing elsewhere, "manufacturers are now realizing that copyright may furnish a supplemental vehicle for protection."\textsuperscript{160} Copyright owners that have profited from the first legal sales or their work are thus trying to take control over the secondary marketplace in opposition to the policy against these types of restraints on trade.

In order to satisfy the long held policy of free exchange of goods, the first sale doctrine must apply to all copies of copyrighted works created with the consent of the copyright holder. To interpret the interplay between § 109(a) and § 602(a) otherwise would run contrary to centuries-old policy. It would allow copyright holders to use the law like a "weapon against gray market goods,"\textsuperscript{161} maximizing the control of goods and prices to the detriment of consumers. It bears repeating that the constitutional directive behind the Copyright Act is to benefit society through promoting "the progress of Science and Useful Arts," not the private interests of rights-holders.


In addition to the inherent aims of the Copyright Act and the broader economic policy against restraints on the alienation of goods, the limitation of the first sale doctrine to only copies manufactured within the United States could have specific negative economic effects. These interrelated effects could be the chilling of secondary markets, higher costs for consumers, the movement of manufacturing abroad, and the loss of American jobs.

The United States government has even acknowledged these negative policy concerns as a result of a limited first sale doctrine.

\textsuperscript{160} MELVILLE B. NIMMER & DAVID NIMMER, 2-8 NIMMER ON COPYRIGHT § 8.11(B)(4) (Matthew Bender, Rev. Ed. 2009).
\textsuperscript{161} Hintz, supra, note 5 at 1191.
In its brief supporting the copyright holders in *Omega* before the Supreme Court, the government noted that "the court of appeals' reasoning could result in adverse policy consequences, particularly if carried to its logical extreme."\(^{162}\) The government conceded, "[t]he potential implications of excluding foreign-made copies of a copyrighted work from § 109(a)'s coverage are indeed troubling."\(^{163}\) The government's brief noted specifically that "higher unemployment," "encouraging companies to move manufacturing overseas," and the potential hesitation among secondary retailers "to sell a variety of products for fear that the sale could be deemed infringing" were concerns.\(^{164}\)

\(a.\) *Following the Reasoning of the Omega and Wiley Courts May Stifle Secondary Markets.*

If the Supreme Court affirms the reasoning of *Wiley* and *Omega*, the secondary market sector of the economy may suffer greatly. Granting copyright holders not just a monopoly of the first sale of the goods, but control over each subsequent transfer, could impose enormous costs, chilling the secondary market.\(^{165}\)

Interpreting the first sale doctrine to apply only to goods manufactured in the United States would create a tremendous burden on those in the secondary market that would be effectively


\(^{163}\) *Id.*

\(^{164}\) *Id.* at *17-18. Even though the government recognized the potential negative policy ramifications, it supported a limited view of the first sale doctrine because it considered the effects a "direct... consequence of Congress's decision in 1976 to expand § 602's ban on unauthorized importation beyond piratical copies [which] segment[ed] domestic and foreign markets." *Id.* at *18. However, it is unclear how the logical conclusion of Congress allowing further domestic and foreign market segmentation would require a geographic limitation to be read into the first sale doctrine for the first time.

\(^{165}\) See *Sony Discos Inc. v. E.J.C. Family P'ship*, No. H-02-3729, 2010 WL 1270342, at *5 (S.D. Tex. Mar. 31, 2010) ("The essential trade in the Copyright Act is monopoly and policing: the grant of exclusivity comes with the duty to protect it. The Act does not grant the holder the windfall of both monopoly and reimbursement for its maintenance.")
impossible to comply with. Such an interpretation would require those in the secondary market to identify each good covered by copyright and ascertain its legal status, based on where it was manufactured, perhaps where it had previously been sold, and whether the copyright owner consented to its distribution. Such activities would have to be undertaken by all secondary merchants from neighborhood used book and record shops to large international resellers, such as eBay. To do otherwise, any secondary retailer would risk an action for copyright infringement.

The economic effect of this burden could be devastating to the secondary marketplace. The costs associated with investigating the legal status of each item of merchandise will surely drive up business costs, resulting in higher costs for consumers, less profits, potential job losses, or even forced exits from the marketplace. The effect on the growing international secondary market could also potentially be damaging. Over the last three years, the value of secondhand goods market has increased from $5,205,218,000 in 2009 to $6,401,858,000 in 2010 and $7,082,062,000 in 2011. Limiting the scope of the first sale doctrine could thus impede a multi-billion dollar and growing sector of the economy.

b. Following the Reasoning in Wiley Could Negatively Effect Consumers

Interpreting the phrase “lawfully made under this title” to apply only to goods made in the United States with the copyright holder’s permission could have a potential negative impact on consumers. If copyright holders are given perpetual control over the distribution of copies made overseas, they could effectively end the secondary market for their previously sold copies, only authorizing sales at established prices. Furthermore, the increased costs incurred by secondary sellers to investigate the copyright status of their goods could drive up the costs to consumers.

In its amicus brief in support of Wiley, the government dismissed concerns about these potential harms to consumers by noting that the perpetual control possible under the Second Circuit’s opinion in Wiley has not yet occurred.167 Furthermore, it suggested that the burden should be on consumers to police overzealous copyright holders if they attempt to fully exercise the breadth of the Second Circuit’s opinion.168

C. A Narrow View of the First Sale Doctrine Could Encourage U.S. Manufacturing to Move Overseas, Resulting in a Loss of American Jobs

If the holding in Wiley is followed and upheld, copyright holders may also adversely affect the United States economy by driving the manufacture of more goods abroad. If copyright holders gain perpetual control over the transfer of goods manufactured abroad, there will be less incentive to manufacture goods that incorporate copyrightable matter domestically. Following the Wiley court’s reasoning could thus cause American workers to lose their jobs and their ability to contribute to the economy. The position of the President is that the key to improving the economy is to create and encourage “an economy built on American manufacturing.”169 Following the reasoning of the Wiley court would undermine this principle, potentially having a negative impact on the economy. These results, either individually or together, could lead to the loss of American jobs. With the United States economy in a slow and precarious recovery, a policy that could potentially reduce the American workforce could have far-reaching negative economic consequences.

167. Brief for the United States at 26, Kirtsaeng v. John Wiley & Sons, Inc., No. 11-697 (2012) (“Petitioner identifies no instance in which a copyright owner has actually sought to exercise such control”).

168. Id. (“The application of Section 602(a)(1) to [consumer goods] raises distinct policy concerns that are best addressed under legal theories, such as the doctrine of copyright misuse, that are specifically targeted at that alleged abuse.”).

IV. PROPOSED SOLUTIONS

In order to resolve the current instability and unpredictability regarding the situation of gray market goods, either the Supreme Court should find in favor of the petitioners in *Wiley* or Congress should take legislative action. Due to the immediacy of the problem and the opportunity for fast resolution, a ruling in favor of the petitioners in *Wiley* is preferred. If the Supreme Court rules in favor of the respondents, Congress should Act quickly in order to resolve or avoid the potential negative outcomes.

A. Supreme Court

The Supreme Court has granted a writ of certiorari in *Wiley* and oral arguments were heard on October 29, 2012. The question presented by the petitioners is:

> [c]an a foreign-made product *never* be resold within the United States without the copyright owner’s permission, as the Second Circuit held in this case? Can such a foreign-made product *sometimes* be resold within the United States without permission, but only after the owner approves an earlier sale in this country, as the Ninth Circuit held in *Costco*? Or can such a product *always* be resold without permission within the United States, so long as the copyright owner authorized the first sale abroad, as the Third Circuit has indicated?\(^{170}\)

By holding that foreign-made products under copyright protection are “lawfully made under this title” and that they can always be resold without permission of the copyright holder, the Supreme Court can clarify inherently conflicting sections of the copyright act, bring certainty to the secondary marketplace, and further the larger aims of the Copyright Act.

The policy arguments enumerated in Section III may not be persuasive to the court. A unanimous court in *Quality King* recognized the potential far-reaching policy implications surrounding the controversy of gray market goods. However, the Court stated, “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.” 171

**B. Congress**

If the Supreme Court does not find in favor of the petitioners in *Wiley*, Congress should amend the Copyright Act to plainly state that the first sale doctrine applies to all copies made with the consent of the copyright holder – without regard to place of manufacture. In doing so, Congress can resolve these judicial disputes, reaffirm the principles behind the first sale doctrine and unequivocally support the broader aims of the Copyright Act. 172

Congress may make this change in a number of ways, some likely more clear and effective than others. First, Congress may add a simple phrase to the beginning of § 602(a): “Subject to § 109(a).” This prefix would clearly indicate that the importation right is subject to the first sale doctrine and would be in line with the Supreme Court’s reasoning in *Quality King*. However, it would still leave unresolved the meaning of the phrase “lawfully made under this title,” and while courts could interpret § 602(a) to be subject to § 109(a), they may still read a geographic restriction into the phrase.

A preferred solution would be to add the phrase “lawfully made under this title” to the definitions found in 17 U.S.C. § 101. In doing so, it should define “lawfully made under this title to mean “any work that is subject to protection under this title.” This change would confirm that any copy of a copyrighted work, (i)

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172. Such action would not be without precedent, as Congress amended § 109(e) in the wake of the *Red Baron* decision to reinforce its intent that some foreign-manufactured works are subject to the first sale doctrine. *See supra*, Part IV.A.
made with the authorization of the copyright holder, (ii) regardless of location, and (iii) when the other requirements of the statute are met, would be subject to the first sale doctrine. Additionally, this would not change the meaning of other sections in Title 17 that use the phrase "lawfully made under this title."

In order to strongly support the commitment to a broad reading of the first sale doctrine, it is recommend that, in the absence of Supreme Court finding in favor of the petitioners in Wiley, Congress enact legislation to amend the Copyright Act to include both of the proposed changes above. Such a change would clearly subject the importation right to the limits of the first sale doctrine and reaffirm the doctrine’s broad scope.

V. CONCLUSION

United States companies attempting to thwart importation of goods intended to be sold in foreign markets have turned to copyright law to stop these imports. There is currently a circuit split among the Third, Ninth, and Second Circuits regarding the ability of United States copyright holders to block the importation of goods legally made and sold abroad. While the text and legislative history of the Copyright Act is unclear regarding this question, the principles behind the Copyright Act and broader economic policies favor the importation right to be limited by the first sale doctrine. This issue should thus either be resolved by the Supreme Court in Wiley or remedied by Congress by an amending the Copyright Act.

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