Legally Speaking -- The First Sale Doctrine Under Attack?

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The “first sale doctrine” is a basic part of copyright law. It is this part of the copyright law that allows individuals and libraries to lend and resell books, music, and films. A recent decision in the 2nd Circuit Court of Appeals has attacked the very basis of this doctrine. Some say this is the equivalent of the file-sharing cases for the music industry. However, there is a difference. Some concerns may be overblown, and since the Supreme Court has not yet weighed in there may be further action. However, the biggest difference between first sale and file sharing is that only not would this new world of copyright be bad for libraries, it would also be bad for publishers.

**The First Sale Doctrine**

The copyright act distinguishes between ownership of the intellectual property rights and ownership of the physical item. There are a number of exclusive rights that are controlled by the copyright owner. These rights are enumerated in 17 U.S.C. Code § 106 as follows:

1. To reproduce the copyrighted work in copies or phonorecords;
2. To prepare derivative works based upon the copyrighted work;
3. To distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
4. In the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
5. In the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
6. In the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

However, there are exceptions to these exclusive rights, found in sections 107-122. For libraries, the most important exceptions found in sections 107-110. Section 107 is the fair use doctrine, of which much has been written in this publication. Section 108 contains a number of important exceptions available only to libraries and archives. Transmission of performances for distance education is the subject of § 110 (subsection 2 of that statute is known colloquially as the TEACH Act).

However, by far the most important exception for libraries is the first sale doctrine, found in 17 U.S. Code § 109. Because ownership of the physical object is separate from ownership of the copyright, subsection (a) allows copy owners to perform certain actions:

(a) Notwithstanding the provisions of section 106 (3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by the owner of such copy, under circumstances lawful under this title, or any person authorized by the owner of such copy, under circumstances lawful under this title, shall, within the United States, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Subsection (b)(1)(A) prohibits rental or lending for commercial purposes of computer programs or sound recordings. However, the statute goes on to state: “Nothing in the preceding sentence shall apply to the rental, lease, or lending of a phonorecord for nonprofit purposes by a nonprofit library or nonprofit educational institution.”

The first sale doctrine was initially created in 1908 by the U.S. Supreme Court case of Bobbs-Merrill Co. v. Straus in order to enforce antitrust statutes and defeat price controls. The principle was included in the 1909 and 1947 copyright acts, and eventually became §109 in the 1976 copyright act.

For all practical purposes, what section 109 does is to allow sale or lending of books, sound recordings, films, etc. It is section 109 that allows used bookstores to exist. And it is section 109 that allows libraries to lend.

**Chipping away at the First Sale Doctrine?**

The first sale doctrine was a not a concept that copyright experts expected controversy about. However, the first inkling of controversy came in the 2008 case of Costco Wholesale Corporation v. Omega. This case involved watches made by Omega. Although manufactured in Switzerland, the design was copyrighted in the U.S. The watch company controls its market by selling the watches through a tightly-maintained network of distributors. Because of currency fluctuations, sometimes it costs less to purchase the product in another country and then import to the U.S. The membership warehouse Costco obtained an inventory of Omega watches this way, and was able to sell them for less than Omega’s authorized retailers. This led to the watch company suing for copyright infringement.

Costco claimed that they were protected by the first sale doctrine in §109. However, the 9th Circuit Court of Appeals ruled against them. According to the decision, Costco infringed copyright because the goods had been imported without permission from the manufacturer. The court relied on 17 U.S. Code §602(a), which reads in part as follows:

1. Importation. Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under [17 U.S.C. § 106]. . . .

Prior to the Costco case, the most common interpretation of § 602(a) was that it dealt with items that were not lawfully made, such as goods that were counterfeit or not lawfully obtained. In fact, the most important case to deal with this issue, Quality King Distributors, v. Lanza Research International, was decided unanimously by the Supreme Court in favor of Section 109.

However, the 9th Circuit believed that the most important point was that Omega did not authorize the entry of the goods into the United States. While foreign distributors could legally sell the goods, their distribution agreements did not give the right to sell within the U.S.
Therefore, foreign purchasers could not legally bring the good into the country.  

When the Costco case reached the U.S. Supreme Court, newly seated Associate Justice Elena Kagan did not participate in the case because of her previous position as the Solicitor General of the United States. (The Solicitor General’s office had previously filed briefs in the case.) This led to a deadlocked court, with the Justices divided 4-4.  

In those rare cases where the court is equally divided, the ruling of the lower court is affirmed. However, this does not establish a precedent, and the ruling only applies to the parties in the case. Thus, while Omega won its case, the issue of the first sale doctrine was not yet settled.

While Costco and its battle of distributor licenses set the stage, the scene soon shifted to the publishing world. The case of John Wiley & Sons, Inc. v. Kirtsaeng directly involved the interplay between Sections 109 and 602(a) in a publishing context.

The Wiley case came about because the defendant, Supap Kirtsaeng, purchased copies of textbooks published by the plaintiff in Asia. The books specifically stated that they were only for sale in Europe, Asia, Africa, and the Middle East, and that they were not to be exported to another region without authorization. Kirtsaeng brought the books into the U.S. and sold them on eBay. Wiley brought suit under § 602(a), and also alleged trademark infringement under 15 U.S. Code § 1114(a), as well as a state law claim of unfair competition.

There are some differences between the product as produced in the U.S. and the textbooks sold abroad. “While the written content of books for the domestic and international markets is often similar or identical, books intended for international markets can differ from the domestic version in design, supplemental content (such as accompanying CD-ROMs), and the type and quality of materials used for printing, including ‘thinner paper and different bindings, different paper and jacket designs, fewer internal ink colors, if any, [and] lower quality photographs and graphics.’”

At trial, the judge did not allow Kirtsaeng to introduce the first sale doctrine as a defense, stating: “There is no indication that the imported books at issue here were manufactured pursuant to the U.S. Copyright Act . . . [and,] [i]t[o] the contrary, the textbooks introduced as evidence purport, on their face, to have been published outside of the United States.” Kirtsaeng was found liable for willful infringement, and Wiley was awarded statutory damages.

The appellate court was thus tasked with interpreting the proper balance between Sections 109 and 602(a). The Quality King case was different, because the items had originally been manufactured in the U.S. before being sold abroad.

The true crux of the case is whether the items were “lawfully made” under U.S. copy-right law. This is a more difficult question than most, because it depends not only on whether U.S. law can go beyond the borders, but also on ratified international treaties. The court also found that the language of section 109 is ambiguous, and could be interpreted in any of the following ways: “(1) ‘manufactured in the United States’, (2) ‘any work made that is subject to protection under this title,’ or (3) ‘lawfully made under this title had this title been applicable.’”

Relying on principles of statutory interpretation, as well as dicta in the Quality King case, the majority ruled that “while perhaps a close call, we think that, in light of its necessary interplay with § 602(a)(1), § 109(a) is best interpreted as applying only to works manufactured domestically.”

The appellate panel decided the case 2-1. Judge J. Garvan Murtha wrote a spirited dissent, in which he used a different type of statutory interpretation. Judge Murtha argued that § 602(a) can only prohibit unauthorized importation because distribution is one of the exclusive rights reserved by § 106(3). Since § 109 specifically states that it applies “Notwithstanding the provisions of section 106(3),” the dissent argues that the first sale doctrine should apply regardless of country of origin.

Judge Murtha believes that the question should be whether the copy was lawfully manufactured and lawfully acquired, rather than where it was manufactured. He also relied on the Supreme Court opinion in Bobbs-Merrill, the original first sale case from 1908.

Interpretation of Opinion

Why did the court rule as it did? This author believes that there are two reasons, neither of which has to do with the actual copyright issues at play. The court was forced to grapple with conflicting statutory provisions. Meanwhile, there are also issues of moral rights and trademark versus copyright that play in the background of this case.

The most important issue in this decision is the proper statutory interpretation of ambiguous language and conflicting provisions. Does §602(a) stand alone, or does it rely on § 106(3) for authority? This question needed to be resolved by the appellate court. It was not the only issue, but certainly was a major factor in both the majority and dissenting opinions.

Non-attorney observers often tend to confuse the underlying facts (and effects) with the questions of interpretation. For example, the U.S. Supreme Court case Dartmouth v. Woodward has sometimes been characterized as a judicial attack on the state university movement. In fact, the issue had nothing to do with the desirability of state control of higher education. It was purely a question relating to contracts.

Similarly, the issues of statutory interpretation in this case are unrelated to the ultimate issue of whether foreign-manufactured books should be imported into the U.S. This is definitely the question, but the way in which the court goes about deciding is based on the relationship between § 106(3), § 109, and § 602(a). It is these issues that needed to be resolved by the court, with policy discussions saved for a later day.

Meanwhile, lurking in the background are issues of moral rights and the trademark equivalent of dilution. Recall that during the trial, Wiley also alleged trademark infringement under 15 U.S. Code § 1114(a). Although neither trademark nor moral rights are legally applicable to this situation, this author believes that they played a part in the interpretation of the court.

During the trial, Wiley’s allegation of trademark infringement was based on 15 U.S. Code § 1114. They did not cite the trademark dilution statute, 15 U.S. Code § 1125(c). Nor did they mention moral rights in copyright (which are only applicable to works of visual art, anyhow). However, both the trial court and the appellate majority placed an emphasis on the fact that the foreign goods were of lower quality than those manufactured in the U.S. My speculation is that the judges were troubled by the possibility of potential purchasers associating Wiley with inferior products that they had not intended for sale in this market.

Moral rights are an old concept in Europe, but a new one in U.S. copyright law. They only entered the copyright act in 1990. Section 106A provides that: “independent of the exclusive rights provided in section 106 [17 USCS § 106], the author of a work of visual art — (1) shall have the right — (A) to claim authorship of that work, and (B) to prevent the use of his or her name as the author of any work of visual art which he or she did not create; (2) shall have the right to prevent the use of his or her name as the author of the work of visual art in the event of a distortion, mutilation, or other modification of the work which would be prejudicial to his or her honor or reputation; and (3) subject to the limitations set forth in section 113(d) [17 USCS § 113(d)], shall have the right— (A) to prevent any intentional distortion, mutilation, or other modification of that work which would be prejudicial to his or her honor or reputation, and any intentional distortion, mutilation, or modification of that work is a violation of that right, and (B) to prevent any destruction of a work of recognized stature, and any intentional or grossly negligent destruction of that work is a violation of that right.

Moral rights in copyright are analogous to trademark law. The rights to claim authorship of created work and to disclaim authorship of works not created by the artist are similar to “palming” and “reverse palming” in trademark law. The right of integrity works in a very similar fashion as dilution and blurring in trademark. In effect, Section 106A gives visual artists some of the same rights that trademark owners have enjoyed for years.

However, moral rights only apply to works...
of visual art. This provision is not available for books. Also, only the original artist can assert the rights; licensees and copyright purchasers (such as publishing companies) do not have standing to assert moral rights. Nonetheless, it appears that the court was troubled by Wiley’s reputation. This could very well have played a part in the decision.

Finally, there is a question of licensing and inherited rights. The books that Kirtsaeng bought contained a “license” stating that they were only to be sold in “Europe, Asia, Africa, and the Middle East,” and were not to be exported to another region without authorization. Under normal licensing principles, a licensee cannot grant more rights to a subsequent licensee than he or she has. Thus, if the licensee cannot export to North America, he or she cannot grant a North American right to subsequent licensees. Of course, this type of analysis depends on a finding that § 109 does not apply to the goods, or that the work was licensed rather than sold. In fact, it is clear that the works were indeed sold. However, I believe that the Wiley majority was influenced in their thinking by these licensing principles.

Effects of Opinion

The Wiley case may only be the law for now in the 2nd Circuit (New York, Connecticut, and Vermont). However, it has attracted national attention and caused warnings of dire consequences. Both the majority and dissenting opinions cited the possibility that printing and manufacturing of books will henceforth be outsourced. Others have discussed the implications for libraries and used bookstores. In fact, non-profit libraries can rely on 17 U.S.C. § 602(a)(3)(C), which reads in part:

This subsection does not apply to — (C) importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes, unless the importation of such copies or phonorecords is part of an activity consisting of systematic reproduction or distribution, engaged in by such organization in violation of the provisions of section 108(g)(2) [17 USCS § 108(g)(2)].

This means that libraries would still be able to lend foreign-manufactured books. However, used bookstores would be out of luck, as would individuals. Some students might find themselves unable to resell used textbooks.

This author suspects that the case will be further considered by the U.S. Supreme Court, so the appellate decision may not hold.

However, I believe it would not be good for publishers to substantially restrict the first sale doctrine.

The book publishing industry is very different from music, drama, or film performances. When performing music or films, it is important to obtain rights. However, these industries have an organized structural mechanism in place to deal with royalties. If I want to perform a piece of music, I can make a standardized payment to ASCAP or BMI in order to receive permission.

Similarly, statutory fees exist for the broadcasting, cable, and satellite industries. Even article publishers make substantial use of the Copyright Clearance Center.

However, no such comprehensive system of rights clearances exists for the book publishing industry. In fact, the judicial rejection of the Google Books Settlement earlier this year was based in part on the fact that current copyright law did not allow for such a system of royalty payments. The proposed settlement would have involved standardized royalties with a plan similar to that in place for the music industry.

Certainly the Wiley interpretation will cause substantial printing to move to other countries. The U.S. already sends a significant amount of its printing to countries such as Canada and China. Both the majority and dissent mention this possibility. So Wiley may have a negative economic effect on the U.S. printing and book manufacturing industries.

In the opinion of this author, overly restrictive readings of Sections 602(a) and 109 would actually cause publishers to lose some business. If there are questions about the manufacturing provenance of books, used bookstores will become reluctant to purchase works. Similarly, the used market for college textbooks will dry up.

I believe that this chilling effect will migrate upstream to the market for new books as well. If consumers and organizations are confused about the resale status of a book, they may bypass purchases. In the case of mass-market fiction, this will probably lead to more library use (since libraries are exempt), but will cause declining sales for trade publishers. Similarly, textbook publishers will probably face a backlash over restrictions on resale of used textbooks.

Conclusion

The Wiley case will probably spawn a number of law review articles. The Supreme Court will eventually weigh in, whether in this case or in the future. There are multiple reasons why the majority decided as it did, and almost as many reasons for the reasoning in the dissent. In many ways this is a close call.

However, this is not the book publishing industry’s file-sharing moment. The situation is very different. And although this decision will probably result in more book printing and manufacturing taking place outside of the U.S., I believe that the overall impact on the publishing industry will be negative. Libraries, bookstores, distributors, and publishers should oppose this reading of Sections 602(a) and 109 in order to ensure a wide-open market for printed books. This case is not a replay of NAPSTER. Rather, it is an ill-considered response to an egregious situation.