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- 5 Available at: www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.
- 6 The Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises and related frameworks also play a significant role in informing what constitutes 'responsible business' conduct.
- 7 Available at www.treasury.gov/resource-center/sanctions/Programs/Documents/burmag117.pdf.
- 8 Available at www.humanrights.gov/wp-content/uploads/2013/05/Responsible-Investment-Reporting-Requirements-Final.pdf.
- 9 A first report is required 180 days after the US\$500,000 threshold is met, and annually thereafter.
- 10 This includes the often-thorny issue of grievance mechanisms for employees and local communities.
- 11 This includes reporting on whether providers are members of the International Code of Conduct and/or implement the Voluntary Principles on Security and Human Rights, as well as whether they are subject to third-party auditing.
- 12 According to the Guidelines, reporting is required during the reporting year to 'each Government of Burma entity and/or any sub-national or administrative governmental entity or non-state group that possesses or claims to possess governmental authority over the submitter's new investment activities in Burma.' These payments are to be reported by type and include, but are not limited to, royalties, taxes, production-sharing arrangements, and fees.
- 13 A 'general licence' is not a permanent end to a sanction, but rather an authorisation to engage in otherwise-sanctioned activity that is made available to all persons subject to the sanctions regime. As such, OFAC retains enforcement authority over any persons availing themselves of the general licence.
- 14 Available at <http://burma.usembassy.gov/investment-reporting.html>.
- 15 See reports from Capital Guardian Emerging Markets DC Master Fund, Emerging Markets Growth Fund, Inc, and Capital Guardian Emerging Markets Restricted Equity Fund for Tax-Exempt Trusts.
- 16 Available at www.state.gov/r/pa/prs/ps/2013/05/209563.htm.
- 17 See www.treasury.gov/resource-center/sanctions/Documents/fr74_57593.pdf (OFAC Enforcement Guidelines) and www.treasury.gov/resource-center/faqs/Sanctions/Pages/answer.aspx (OFAC FAQs, in particular questions 73, 116, and 165.)
- 18 See www.ussc.gov/Guidelines/2010_guidelines/Manual_HTML/8b2_1.htm.

Jason Champion

Knobbe Martens Olson
& Bear, Irvine

jason.champion@knobbe.com

Copyright exhaustion in the US: what the *Kirtsaeng* and *ReDigi* decisions tell us about the future of the first sale doctrine and secondary markets for copyrighted goods

The concept of copyright 'exhaustion', or the 'first sale' doctrine, refers to the principle that once a copyright owner places a copyrighted item in the stream of commerce by selling it, they have exhausted their exclusive statutory right to control its distribution.¹ This issue has recently moved to the forefront of American copyright law in the wake of two recent decisions: *Kirtsaeng v John Wiley & Sons, Inc* and *Capital Records v ReDigi*. Together, the two cases highlight an increasing need for Congress to update the Copyright Act in order to keep pace with rapidly evolving digital media and an increasingly global economy.

Kirtsaeng v Wiley

Supap Kirtsaeng was a graduate student from Thailand who moved to the US in order to study Mathematics.² After realising that publishers sold foreign editions of textbooks significantly cheaper than US versions, he arranged for his family in Thailand to purchase textbooks from local bookstores and send them to him in the US, where he sold them for profit.³ One of the publishers, John Wiley & Sons, sued Kirtsaeng for copyright infringement, alleging that his actions violated the company's exclusive right to import and distribute its copyrighted

textbooks.⁴ In a surprise six-to-three decision, the US Supreme Court sided with *Kirtsaeng* and held for the first time that the importation and sale of copyrighted works lawfully acquired abroad is protected by the first sale doctrine.⁵ The Court explained that given the increasing amount of foreign trade to the US, allowing copyright owners to control downstream sales of all copyrighted goods manufactured or sold abroad could potentially wreak havoc on established secondary markets for books, movies, cars, electronics and other copyrighted works of art.⁶

In the world of copyright owners, the publishing industry stands to lose most from the Supreme Court's decision, as it may now face a flood of parallel imports. The secondary market for music and movies, however, will likely remain unchanged as those industries rely primarily on technology or digital rights management (DRM) to prevent unauthorised importation and distribution. Due to the fact printed textbooks cannot be locked or protected with DRM, publishing companies will have to find ways to adapt if they want to continue to segment the markets. Plaintiff John Wiley & Sons recently announced plans to increase the international prices of some of its hardcopy titles to reduce incentives for parallel importers,⁷ and at least one other publishing company has already begun to implement a global pricing structure for all of its US-originated higher education titles.⁸ In addition to these pricing changes, publishing companies are also responding to the *Kirtsaeng* decision by trying to accelerate the transition to digital books and by creating unique foreign versions of their best selling textbooks.⁹ There has been some speculation that publishers may attempt to license foreign editions to readers by including a shrinkwrap agreement similar to those used by the software industry.¹⁰ In theory, such agreements could avoid the copyright exhaustion problem created by *Kirtsaeng*, as the 'first sale' doctrine is not applicable to licensing transactions.

Capital Records v ReDigi

ReDigi is a company whose goal is to create an online marketplace for 'used' digital music. In 2011, the company launched a website that allowed users to buy and sell legally obtained digital music files at discounted prices.¹¹ In order to sell their music on ReDigi's website, users are required to download and install ReDigi's Media Manager software.¹² Once

installed, the software prevents users from uploading or selling illegally obtained music files and ensures that no copies remain on the user's machine once he or she uploads a file and sells it to another user.¹³ Despite these precautions, Capital Records filed a suit against ReDigi alleging that the transfer of digital music files from one user to another infringed its exclusive reproduction and distribution rights.¹⁴ The District Court agreed with Capital and found copyright infringement based on the fact that a 'reproduction' occurs whenever a copyrighted work is fixed in a new 'material object' such as the ReDigi servers or the second user's hard drive.¹⁵ The Court rejected ReDigi's argument that its activities were protected by the first sale doctrine and held that such a defence was limited only to material items, such as records, placed in the stream of commerce by the copyright owner.¹⁶

Although this decision is a setback for the secondary market of digital goods, there is still hope that an online marketplace for 'used' digital media will eventually become a reality. For one, the District Court declined to grant Capital's request for a preliminary injunction and ReDigi's website and service still remain operational. Secondly, ReDigi plans to appeal the Court's decision and the question remains whether the District Court's analysis will hold up on appeal to the 2nd Circuit. It is interesting to note that in refusing to apply the first sale doctrine to ReDigi's activities, the District Court relied heavily on the Copyright Office's 2001 report on the Digital Millennium Copyright Act (DMCA).¹⁷ While that report does stress important differences between the physical and digital world as reflected in the Court's opinion (ie, physical copies degrade, must be transported and require additional time, space, effort and cost to resell), its ultimate conclusion that the first sale doctrine should not be applied to the digital domain was based largely on the rampant use of peer-to-peer file sharing and a lack of viable forward-and-delete technology:

'Again the striking popularity of Napster is a strong indication that many people will infringe copyright if the means to do so is at their disposal.'¹⁸

'In order to get around the fact that a transmission results in two copies, the analogy requires one of two things to happen: either a voluntary deletion of the sender's copy or its automatic deletion by technological means. Both are

unworkable at this time.¹⁹ ‘Relying on a “forward-and-delete” technology is not workable...[a]t present such technology does not appear to be available.’²⁰

Although the Court of Appeals has previously held that the DMCA report is entitled to deference, it is no longer 2001. Widespread use of peer2peer networks has been curbed and workable ‘forward-and-delete’ technology appears to be at hand with ReDigi’s Media Manager software. Despite the District Court’s decision, a secondary market for ‘used’ digital goods may be inevitable. Apple and Amazon have both filed patent applications for methods of re-selling digital content,²¹ and ReDigi has launched a new Media Manager that may circumvent the District Court’s ruling altogether. In addition, the European Court of Justice recently approved the resale of ‘used’ software under the principle of exhaustion,²² and at least one publishing company is now granting customers the right to lend and re-sell its e-books, provided the customer does not retain any copies.²³

Conclusion

In sum, both *Kirtsaeng* and *ReDigi* have significantly altered the landscape and the application of the first sale doctrine in the US. It remains to be seen how long these decisions will be implemented. In resolving both of these novel applications of the first sale doctrine, the Supreme Court and New York District Court all but invited Congress to weigh-in and decisively resolve the issues with new legislation. As suggested by Justice Kagan’s concurrence in *Kirtsaeng*, if Congress wants copyright owners to have the power to segment the international market, the solution is to amend the copyright act and strengthen the right of copyright owners to restrict foreign imports.²⁴ Whether or not Congress will intervene remains to be seen. The Register of Copyrights has recently called on Congress to update US copyright law,²⁵ and the lobbying power of copyright owners cannot be underestimated. As to the issue raised by *ReDigi*, the inconvenience of a secondary market for digital works composed entirely of iPods and hard drives seems

unlikely to spur Congressional action any time soon. That being said, concerns over anti-competitive activity and Apple’s recent attempt to price-fix e-books may provide sufficient motivation to create a digital first sale doctrine.²⁶ Indeed, it was the price-fixing of books that led to the creation of the first sale doctrine in the first place.²⁷

Notes

- 1 *Quality King Distribs, Inc v Lanza Research Int’l, Inc*, 523 US 135, 152 (1998).
- 2 *Kirtsaeng v John Wiley & Sons, Inc*, 133 S Ct 1351, 1356 (2013).
- 3 *Ibid*.
- 4 *Ibid*.
- 5 *Ibid*, at 1355–56.
- 6 *Ibid*, at 1365–67.
- 7 John Wiley & Sons, Q4 2013 Earnings Call Transcript at 7 (18 June 2013), available at <http://seekingalpha.com/article/1508522-john-wiley-sons-management-discusses-q4-2013-results-earnings-call-transcript?part=single>.
- 8 Lisa Campbell, ‘Cengage Adopts Global Pricing After Kirtsaeng’, *The Bookseller*, 10 June 2013, available at www.booksellerandpublisher.com.au/DetailPage.aspx?type=item&id=27325.
- 9 See note 7 above.
- 10 Steven Seidenberg, ‘Supreme Court Allows Sale of Gray Market Goods Over Publishers’ Objections’, *Inside Counsel*, 22 May 2013, available at www.insidecounsel.com/2013/05/22/supreme-court-allows-sale-of-gray-market-goods-ove.
- 11 *Capital Records, LLC, v ReDigi Inc*, 2013 US Dist LEXIS 48043 at 2 (SDNY 30 March 2013).
- 12 *Ibid*, at 3.
- 13 *Ibid*.
- 14 *Ibid*, at 7.
- 15 *Ibid*, at 16.
- 16 *Ibid*, at 32.
- 17 *Ibid*, at 35.
- 18 United States Copyright Office, Library of Cong, DMCA Section 104 Report at 100 (August 2001).
- 19 *Ibid*, at 97.
- 20 *Ibid*, at 98.
- 21 US Patent Application No 13/531,280, Publication No 20130060616 A1 (published 7 March 2013); US Patent No 8,364,595 (issued 29 January 2013).
- 22 Case 128/11, *UsedSoft GmbH v Oracle Int’l Corp*, ECJ (3 July 2012).
- 23 O’Reilly Books & Videos, *Ebook Usage, Devices, and Formats*, available at <http://shop.oreilly.com/category/customer-service/ebooks.do>.
- 24 133 S Ct at 1372–73 (Kagan, J, concurring).
- 25 Maria Pallante, Statement to the House, Subcommittee on Courts, Intellectual Property and the Internet. *The Register’s Call for Updates to U.S. Copyright Law*, 20 March 2013.
- 26 Julianne Pepitone, ‘Apple found to have conspired to raise e-book prices’, *CNN Money*, 10 July 2013, available at http://money.cnn.com/2013/07/10/technology/apple-ebook-ruling/index.html?hpt=hp_t3.
- 27 See *Bobbs-Merrill Co v Straus*, 210 US 339 (1908).