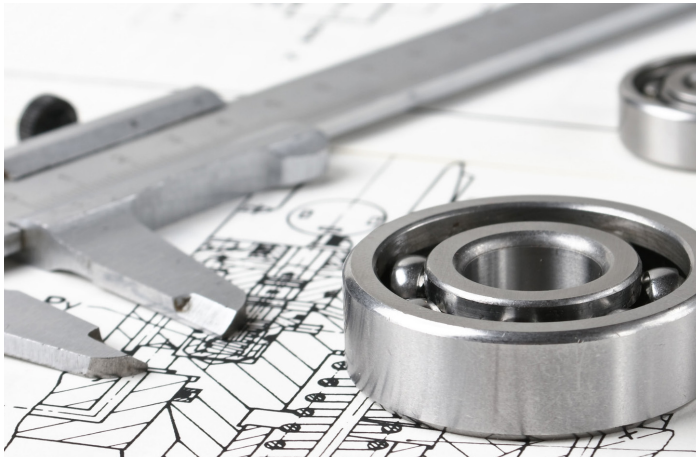


# Intellectual Property LEGALNEWS



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## CANADA'S LONG-AWAITED COPYRIGHT MODERNIZATION TAKES EFFECT

by [Paul E. Bain](#), Toronto office and [Christopher G. Graham](#), Student-at-Law

To much fanfare and after years of debate and consultation, the government of Canada passed the most important reforms to Canadian copyright law in several generations. The *Copyright Modernization Act* (the “CMA”) became law on November 7, 2012, with a stated policy of striking “the right balance between the needs of creators and users”.

In addition to bringing Canadian copyright law into compliance with two World Intellectual Property Organization (“WIPO”) treaties to which Canada is a signatory (the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty), the CMA brings Canada’s copyright laws into the 21st Century, recognizing technological advances since the last changes to the Copyright Act in 1997.

The changes are wide-ranging and significant.

The CMA greatly expands the concept of ‘fair dealing’ (ss. 29, 29.1 and 29.2), the Canadian equivalent of fair use, i.e. those uses of copyrighted material which would otherwise be considered infringements. Prior to the CMA, fair dealing was limited to research, private study, criticism or review, and news reporting. The CMA introduced three new fair dealing defences: education, parody, and satire. Of course, whether a given use can be considered to fall within one of the fair dealing exceptions is up to the courts.

The CMA also created four new categories of acceptable fair dealing, primarily for personal use: format shifting, time-shifting, backup copying and user-generated content. Subject to certain limitations, s. 29.22, the format-shifting exception allows an individual to reproduce non-infringing copyrighted materials that were legally obtained (but not borrowed or rented) by the individual. For example, a person who legally purchases a non-infringing CD may now transfer the music embodied in that CD to an MP3 player without liability. The reproduction must be for the individual’s private purposes and cannot be given away. Technological protection measures cannot be circumvented to make the reproduction.

With certain limitations, the time-shifting exception, s. 29.23, authorizes an individual to fix a communication signal or reproduce a work, recording or performance that is being broadcast, provided that the fixation or recording is only used for the individual’s private purposes.

This exception is premised upon the individual legally receiving the signal or broadcast, making only one recording, and not giving the recording away. The individual must not circumvent any technological protection measures and may only keep the recording as long as reasonably necessary to view or listen to it at a more convenient time.

Copying for the purpose of backing up is also now allowed under s. 29.24. A person may make such a copy if the sole reason for doing so is to guard against the copyrighted material being lost, damaged or otherwise unusable. As with the other exceptions, the original may not be an infringing copy, technological protection measures may not be circumvented, and the reproductions may not be given away.

Under the user-generated content provision (the so-called 'YouTube' exception), individuals can use existing work available to the public in creating a new work, and authorize dissemination of that new work, where the use and dissemination of the new work is solely for non-commercial purposes, the source material is mentioned in the new work where it is reasonable to do so, the individual had reasonable grounds to believe the existing work was not itself infringing copyright, and the use or authorization to disseminate the new work does not have a substantial adverse effect on the exploitation of the existing work. This provision enables, for example, the creation of "mash-ups" on YouTube.

The CMA introduces protection for technological protection measures. Generally, a technological protection measure is any technology, device or component that controls access to a work (access controls) or restricts the ability to exercise a copyright owner's exclusive rights (copy controls). This includes, for example, passwords or encryption. Subject to certain exceptions, the circumvention of access controls is prohibited. The creation or offering of services or devices that are designed to circumvent technological protection measures are also now illegal. The CMA similarly prohibits the knowing removal of rights management information, which includes information such as the identity of a work or its author.

The CMA establishes two new rights for copyright holders. First, the copyright holder in a sound recording has the exclusive right to make a recording available by public telecommunication in a way that allows members of the public access to that recording at any time. Second, the copyright holder, where the sound recording is a tangible object, has the exclusive right to sell or otherwise transfer ownership of the tangible object provided that object has never previously been transferred in or outside Canada with the copyright holder's authorization. The copyright holder of a sound recording in a performer's performance has similar rights.

The CMA also creates a new basis of liability for copyright infringement: enabling. An infringement arises in this situation where a person, through a digital network or the internet, provides a service with the primary purpose of enabling copyright infringement. Note that an actual infringement of copyright must have occurred as a result of use of the service.

The liability of persons who provide services related to the operation of the internet or another digital network (for ease of reference, ISPs) for copyright infringement is now limited. This is the case as no copyright infringement occurs when a person or entity provides a means for the telecommunication or reproduction of a work (including caching or hosting the work, subject to certain requirements) through the internet or other network and allegedly infringes copyright solely by reason of providing this service.

A copyright holder's only recourse in such a situation is under the notice system (note that this aspect of the CMA has yet to become law). This system will allow a copyright owner to send a notice to the ISP, in the prescribed form, claiming an infringement. The ISP is then required to forward the notice to the alleged infringer and keep records related to the identity of the infringer for a set amount of time. If the ISP fails to forward the notice, it will be liable to the copyright holder for statutory damages between \$5,000 and \$10,000.

Other significant changes include:

- Limits to injunctive relief with respect to alleged infringements by internet search providers;
- Moral rights in performances;
- Enhanced infringement defences for educational institutions;
- Mandated review of the *Copyright Act* every five years by a Senate or House of Commons committee; and
- Absent an agreement, photographers now hold copyright in photographs for commissioned photographs.

As always, the precise legal meaning of many of these changes may not be known for years to come as they will need to be tested and interpreted in Canadian courts.

## "LAWFULLY MADE UNDER THIS TITLE"

THE NEW, GLOBAL REACH OF U.S. COPYRIGHT LAW'S  
"FIRST SALE" DOCTRINE

*Matthew J Snider, Ann Arbor office*

The U.S. Copyright Act grants a copyright owner certain exclusive rights, including the right to distribute copies by sale or other transfer of ownership. 17 U.S.C. § 106(3). But while these exclusive rights are extensive, they are not limitless. Section 109(a), for one, sets forth the "first sale" doctrine:

"Notwithstanding the provisions of section 106(3), the owner of a particular copy...lawfully made under this title...is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a).

In effect, Section 109(a) exhausts the distribution right by permitting the owner of a particular copy to dispose of that copy as she wishes.

Notably, however, the first sale doctrine is itself qualified in that it only applies to copies **“lawfully made under this title.”** 17 U.S.C. § 109(a) (*emphasis added*). That this language applies to copyrighted works made and distributed in the U.S. is clear enough. A more difficult question is to what extent the first sale doctrine applies to works produced and/or acquired abroad.

The U.S. Supreme Court partly addressed Section 109(a)'s reach in *Quality King Distributors, Inc. v. Lanza Research International, Inc.*, 523 U.S. 135 (1998). In *Quality King*, the copyrighted works were **manufactured** in the U.S., but **first sold** abroad at prices 35% to 40% less than identical U.S. products. Some of the discounted foreign products were then imported back into the U.S. and sold to unauthorized retailers. The copyright owner sued alleging violation of the Copyright Act's importation provision, 17 U.S.C. § 602(a)(1) (then §602(a)), which makes importation of a copyrighted work without the authority of the copyright owner an infringement of the distribution right. The Supreme Court, however, found that the first sale doctrine exhausts the copyright owner's right to prohibit importation of U.S. produced works first sold abroad. In other words, the owner of a copy of a U.S. produced work acquired abroad is free to bring that copy into the U.S. without fear of retribution from the copyright holder.

Because *Quality King* involved only **U.S. produced** works – which are unquestionably “lawfully made under” the Copyright Act -- the Court had no need to consider any broader implications of Section 109(a). And so, the reach of the first sale doctrine in connection with works manufactured abroad remained in doubt after *Quality King*.

As a graduate student in California, Supap Kirtsaeng (“Kirtsaeng”) learned that publishers often sell their U.S. textbooks for substantially more than the identical books in Thailand. Seeing an opportunity, Kirtsaeng had friends purchase textbooks in Thailand and mail them to the U.S. where he sold them on EBay. By this simple arbitrage, Kirtsaeng generated roughly \$900,000 before one of the publishers, John Wiley & Sons, Inc. (“Wiley”), sued.

Wiley claimed that Kirtsaeng's unauthorized importation of the foreign-produced textbooks violated Wiley's distribution right via the Copyright Act's importation prohibition. Unlike in *Quality King*, however, Wiley argued that the first sale doctrine did not exhaust its rights because its foreign version textbooks were produced and distributed **entirely outside** the U.S., and thus were not “lawfully made under [the U.S. Copyright Act],” as required by Section 109(a).

Kirtsaeng countered that “lawfully made under this title” merely means “made in accordance with U.S. copyright law,” i.e., made without infringing copyright. According to Kirtsaeng, because Wiley had **authorized** the production and distribution of its foreign produced textbooks, they were “lawfully made under [U.S. copyright law]” and thus the first sale doctrine applied. In other words, Kirtsaeng argued, Section 109(a) works a global exhaustion of the copyright holder's distribution right.

The Supreme Court found -- after considerable discussion of statutory construction and the common law history of the “first sale” doctrine

-- that the phrase “lawfully made under this title” has no geographic significance. Rather, the first sale doctrine applies to copies of works that are lawfully made anywhere in the world. Thus, Section 109(a) effects a global exhaustion of the Copyright Act's distribution right and the lawful owner of any lawfully made copy, wherever produced and wherever acquired, is free to bring that copy into the U.S. and dispose of it as she wishes.

The Court's non-geographical interpretation of the first sale doctrine likely will have far reaching effects.

On the one hand, organizations such as libraries, used book dealers, and museums view the *Kirtsaeng* ruling as a victory because it clarifies that they will not have to seek permission from copyright holders to lend or sell their books or display their artwork acquired from foreign sources. Additionally, the Court's majority believes its holding will protect the right of American consumers to resell a broad range of foreign produced products that contain copyrighted software.

On the other hand, in the Digital Age, where it is easy to shop for, purchase and ship products globally, *Kirtsaeng* will greatly limit a copyright holder's ability to maintain geographic price disparities, as historically necessitated by regional economics. Consequently, one effect of *Kirtsaeng* may be a trend toward global price equilibration, at least for internationally interchangeable products, such as books. Some goods, however, such as technology products, may be less affected by *Kirtsaeng*, where various regulations outside of copyright law tend to make the products less internationally fungible.

*Kirtsaeng* may also foretell a rise in leases or rentals. By its terms, Section 109(a) extends first sale protection to the “owner of a particular copy.” 17 U.S.C. § 109(a) (*emphasis added*). Lessees are unprotected. So, a copyright holder can circumvent the effects of Section 109(a) by renting works to its customers. In the Internet age, where myriad products can be delivered, consumed, and deleted digitally, rental rather than sale may be an attractive way for some industries to protect current pricing structures.

Moreover, the *Kirtsaeng* decision may have implications for the exhaustion doctrine under U.S. patent law. Similar to the first sale doctrine, the exhaustion doctrine limits a patent owner's exclusive rights in a particular item upon the first authorized sale. In 2005, the Federal Circuit Court of Appeals explained that the exhaustion doctrine only applies to the first sale in the U.S. because the U.S. patent system “does not provide for extraterritorial effect.” *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.*, 394 F.3d 1368, 1376 (Fed. Cir. 2005). *Kirtsaeng*, however, casts that reasoning in doubt. While the Supreme Court recently denied certiorari in a case that would have reexamined the exhaustion doctrine, it is widely expected that the Federal Circuit will at some point revisit the issue in light of *Kirtsaeng*.

Finally, in the wake of *Kirtsaeng*, one would expect certain rights holders to pressure Congress to rewrite Section 109(a). After *Quality King*, copyright holders were successful in getting the House to pass a proposed amendment that would have limited Section 109(a) to copies authorized for distribution in the U.S. This proposed “domestic

exhaustion” amendment, however, ultimately died in reconciliation. Only time will tell whether copyright holders could ultimately prevail to blunt the impact of *Kirtsaeng*.

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