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Amelia Parsons

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AMELIA PARSONS*

A Race to Digitization?: *Kirtsaeng v. John Wiley & Sons* Impact on the Digital Publication Market

I. INTRODUCTION

THE SUPREME COURT'S HOLDING in *Kirtsaeng v. John Wiley & Sons, Inc.* changed the landscape of American copyright law.¹ The Court established an international copyright exhaustion regime, a system that applies the first sale doctrine of 17 U.S.C. § 109(a) to the first purchase of a copyrighted work manufactured outside of the United States.² The holding in *Kirtsaeng* resolved an ongoing dispute in the circuits as to whether a copyright holder's right to importation set out in 17 U.S.C. § 602(a)(1) is limited by the first sale doctrine.³ Copyright holders want the right to

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1. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013) [Hereinafter "*Kirtsaeng*"].

2. *Id.* at 1356, *see also* 17 U.S.C. § 109(a) (2010) ("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 such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.").

3. 17 U.S.C. § 602(a)(1) (2010) ("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

A RACE TO DIGITIZATION?

control importation of their copyrighted works in order to geographically segment markets and control prices; consumers of the copyrighted works want copyright holders to have fewer controls over importation and distribution so that consumers can benefit from access to low-cost grey market goods.⁴

The policy rationale behind copyright exhaustion is that once a copyright holder receives “just compensation” for the first legal sale of a copy of a copyrighted product, the copyright holder has no further right to exert ownership or collect compensation from subsequent sales of that copy.⁵ Therefore, after the first legal sale, the rights of the copyright holder to the particular product are terminated, or “exhausted.”⁶ After a careful analysis of the relevant statutory language, the Court in *Kirtsaeng* justified its holding by reasoning that copyright owners cannot wield unlimited control over subsequent sales of works.⁷ The Court’s ruling exhausts a copyright owner’s control over a particular copy after the first legal sale of that copy, regardless of where the copy is sold or manufactured.⁸

The Copyright Act provides copyright holders with six exclusive rights, including the rights to distribution and reproduction.⁹ The first sale doctrine restricts a copyright holder’s exclusive right to distribution articulated in § 106(3).¹⁰ In 1908, the Supreme Court first articulated the first sale doctrine in *Bobbs Merrill Co. v. Straus*, stating that a copyright holder’s control over a particular copy of a copyrighted work ends at the first lawful sale.¹¹ Since *Bobbs Merrill*, the Supreme Court’s holding in *Quality King Distributors v. L’Anza Research International* added to the confusion of the already ambiguous Copyright Act.¹² *Kirtsaeng* is the Court’s latest attempt to clarify questions left open by *Quality King*. While the Court succeeded in reaffirming the strength of the first sale doctrine in American

infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501.”).

4. Alexander B. Pope, Note, *A Second Look at First Sale: An International Look at U.S. Copyright Exhaustion*, 19 J. INTELL. PROP. L. 201, 206 (2011). Grey market goods are different from counterfeit or pirated materials because they are made with the authorization of the copyright holder and imported from a foreign state of manufacture. *Id.* at 205–06.

5. *Id.* at 204.

6. *Id.* at 206.

7. *Kirtsaeng*, 133 S. Ct. at 1362.

8. *Id.* at 1371.

9. 17 U.S.C. § 106 (2010).

10. 17 U.S.C. § 106(3) (2010) (“Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: . . . (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 . . .”).

11. 201 U.S. 339, 350-51 (1908).

12. 523 U.S. 135, 148 (1998).

copyright law,¹³ the holding may prove to be effectively insignificant in light of the general shift towards purely digital works.¹⁴

Digital technology has ushered in a shift from physical copies to cheaper digital works.¹⁵ Copyright holders may be able to avoid the pitfalls of *Kirtsaeng* completely by switching copyrighted products over to a digital format and offering consumers end user license agreements (“EULAs”).¹⁶ On one hand, a move towards EULAs restricting consumer uses could have a detrimental impact on consumers and negate the purposes of the *Kirtsaeng* ruling, but on the other hand, physical and actual ownership may be less important in a digital age, as demonstrated by the success of other product licensing platforms.

Kirtsaeng may very well speed up the process of a publisher crossover to predominately digital products,¹⁷ but this is not necessarily detrimental to consumers in the long-term. Part II of this paper outlines the origins of the first sale doctrine and the sections of the Copyright Act at issue in *Kirtsaeng*. Part III examines the impact of the Supreme Court’s ruling in *Quality King*, specifically, the resulting circuit split as to the treatment of copyrighted products manufactured outside the United States. Part IV explores the Supreme Court’s decision in *Kirtsaeng* as an attempt to remedy the conflict between the first sale doctrine and a copyright holder’s exclusive right to importation. Part V provides an overview of the grey market and the policy implications for different copyright exhaustion regimes. Finally, Part VI explains EULAs and the possible real-life implications of the holding in *Kirtsaeng*.

II. THE EXCLUSIVE RIGHT TO DISTRIBUTION

Article I § 8 cl. 8 of the United States Constitution grants Congress the power to issue copyrights to encourage the creative works of artists and authors.¹⁸ The codified copyright laws regulate how authors and consumers exercise their rights to create and purchase works. Copyright exhaustion ends the copyright holder’s ability

13. See generally, Clark D. Asay, *Kirtsaeng and the First-Sale Doctrine’s Digital Problem*, 66 STAN. L. REV. ONLINE 17 (2013) (describing the relationship between the holdings in *Quality King* and *Kirtsaeng*).

14. *Id.* at 23.

15. See Adrian Covert, *A decade of iTunes singles killed the music industry*, CNN MONEY, available at <http://money.cnn.com/2013/04/25/technology/itunes-music-decline/index.html> (April 29, 2013, 6:09 PM) (“By 2007 . . . those inexpensive digital singles overtook CDs – by a wide margin – generating 819 million sales to just 500 million for the CD.”).

16. Brian W. Carver, *Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies*, 25 BERKLEY TECH. L. J. 1887, 1895 (2010) (explaining that EULAs are often not subject to first sale doctrine limitations on a copyright holders exclusive right to distribution).

17. S. Zubin Gautam, *The Murky Waters of First Sale: Price Discrimination and Downstream Control in the Wake of Kirtsaeng v. John Wiley & Sons, Inc.*, 29 BERKLEY TECH. L. J. 717, 719 (2014).

18. US CONST. ART. I, § 8, cl. 8.

A RACE TO DIGITIZATION?

to control the sale or importation of a good into other markets after the first legal sale of the copyrighted product.¹⁹

A. *The Origins of the First Sale Doctrine*

The Supreme Court first articulated the first sale doctrine and the issue of copyright exhaustion in the 1908 case *Bobbs-Merrill Co. v. Straus*.²⁰ In *Bobbs-Merrill*, the publishing company Bobbs-Merrill Co. (“Bobbs-Merrill”) placed a notice in the cover of the book *The Castaway* stating that shall not be sold for less than one dollar per copy.²¹ Macy’s Stores bought copies of *The Castaway* from wholesale dealers and sold the copies for a retail price of eighty-nine cents per copy, despite the copyright notice stipulating the retail price of one dollar.²² The Supreme Court ruled that once a copy of a book was purchased, the publisher no longer had any right to control the resale price of such copies.²³ The right to publish and vend as permitted in the Copyright Act did not permit Bobbs-Merrill to impose restrictions on subsequent owners of the copies of the book.²⁴

In 1909, Congress revised the Copyright Act to codify the 1908 *Bobbs-Merrill* decision on copyright exhaustion. In 1976 the language was changed to its current version in 17 U.S.C. § 109(a), which reads: “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 such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”²⁵ The rewording of the first sale doctrine in § 109(a) and the addition of seemingly conflicting provisions explored further in the next section paved the way for *Kirtsaeng*.

B. *The Sections of the Copyright Act at Issue in Kirtsaeng*

Kirtsaeng involves the interplay between three sections of the Copyright Act: § 106, § 109(a), and § 602(a)(1). The seemingly contradictory wording of § 109(a) and § 602(a)(1) caused confusion in the circuits as to how to treat copyrighted products manufactured outside the United States that are subsequently imported into the United States.

19. Alexander B. Pope, Note, *A Second Look at First Sale: An International Look at U.S. Copyright Exhaustion*, 19 J. INTELL. PROP. L. 201, 205 (2011).

20. 201 U.S. 339, 346 (1908).

21. *Id.* at 341.

22. *Id.* at 342.

23. *Id.* at 350.

24. *Id.*

25. 17 U.S.C. § 109(a).

Section 106 sets out the basic exclusive rights granted to copyright holders, including the right to reproduce and distribute copies of copyrighted products.²⁶ The words “Subject to sections 107 through 122” places limitations on the exclusive rights set out for copyright holders. One of those limitations is the first sale doctrine codified as § 109.²⁷ The first sale doctrine of § 109(a) states, “[the] owner of a particular copy or phonorecord lawfully made under this title, 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.”²⁸ Thus, under the Copyright Act, copyright holders possess the exclusive right to distribution of a particular copy of a copyrighted work until that copy is sold.

The confusion in *Kirtsaeng* arises because of the disconnect between § 109(a) and § 602(a)(1), which grants the copyright holder the exclusive right to importation of copyrighted works.²⁹ The section states that it is an infringement on the copyright holder’s exclusive right to distribution for a person to import a copy into the United States without the copyright holder’s authorization.³⁰ The conflict between the first sale doctrine and the exclusive right to importation is apparent: if a person purchases a copy of a copyrighted work outside the United States, and then subsequently resells the copy within the United States, it is unclear whether the first sale doctrine under § 109 protects the purchaser, or if the subsequent importation and resale is a violation of the exclusive right to distribution as outlined in § 602(a)(1).

III. QUALITY KING DISTRIBUTORS V. L’ANZA RESEARCH INTERNATIONAL: THE SUPREME COURT’S FAILED ATTEMPT TO CLARIFY THE COPYRIGHT ACT

26. 17 U.S.C. § 106 (2010). “Subject to [17 U.S.C. §§ 107 through 122], the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (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.”

27. *Id.*

28. 17 U.S.C. § 109 (2010).

29. 17 U.S.C. § 602 (2010). “(a) Infringing importation or exportation.—(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 section 106, actionable under section 501.

30. *Id.*

A RACE TO DIGITIZATION?

The Court in *Quality King* addressed the issue of international exhaustion of copyrights after the first legal sale of a copyrighted product, but failed to definitively settle the conflict between the right of first sale and the right of copyright owners to control unapproved imports.³¹ *Quality King* is distinguishable from *Kirtsaeng* because it deals with a product with copyrighted packaging as opposed to being a copyrighted product such as a book or piece of software.³² However, *Quality King* left open the question of whether or not a product manufactured outside the United States and subsequently imported into the United States would infringe on a copyright holder's § 602(a)(1) exclusive right to distribution through importation.³³

A. *Quality King* Answers One Question While Posing Another

The Supreme Court granted certiorari in *Quality King* to determine whether goods bearing copyrighted labels, which were manufactured within the United States and then shipped internationally, were barred from importation and sale in the United States because of the grant of the exclusive right to importation to a copyright holder under 17 U.S.C. § 602(a)(1).³⁴ The Court held that because the copyrighted material was on a product that had been manufactured within the United States, sold and shipped overseas, and then imported back into the United States, the first sale doctrine was a viable defense for the purchasers of the copyrighted product.³⁵

L'Anza Research International ("L'Anza") sold hair care products packaged in bottles with copyrighted labels to authorized salons and barbershops within the United States.³⁶ To distribute its products over seas, L'Anza contracted with international distributors to sell their products in foreign markets at a price 35-40% lower than retail prices within the United States.³⁷ Three cases of hair care products manufactured in the United States and packaged with L'Anza copyrighted labels were sold to an authorized distributor in the United Kingdom.³⁸ Through a series of transactions, the cases of L'Anza products were sold to a company in Malta.³⁹ The cases ultimately came back to the U.S. through a purchase by Quality King

31. See generally *Quality King Distrib. v. L'Anza Research Int'l*, 523 U.S. 135 (1998) (holding only that those products made within the U.S., legally sold to international distributors, and then sold again in the U.S. are subject to the first sale doctrine).

32. *Quality King Distrib. v. L'Anza Research Int'l*, 523 U.S. 135, 138 (1998).

33. See *infra* Part III A.

34. *Quality King*, 523 U.S. at 138.

35. *Id.* at 145.

36. *Id.* at 138.

37. *Id.* at 139.

38. *Id.*

39. *Id.*

Distributors, Inc. who sold them for below retail value to unauthorized retailers in the United States.⁴⁰

The Court held that the copyright holder's right to importation is not applicable to the lawful owner's resale of the copyrighted products, regardless of whether the resellers are foreign or domestic.⁴¹ Specifically, the Court found that "§ 602(a) applies to a category of copies that were 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 law of some other country."⁴² This statement seems to imply that copyrighted products lawfully made outside the United States and then imported without the copyright holder's authorization infringe on the copyright holder's right to control importation.

Furthering the ambiguity, the Court poses a hypothetical expressly stating that a distributor authorized to sell copyrighted works in a foreign country infringes on the copyright holder's rights of importation and distribution if the distributor subsequently sells the copyrighted products in the United States:

Even in the absence of a market allocation agreement between, for example, a publisher of the United States edition and a publisher of the British edition of the same work, each such publisher could make lawful copies. If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those made by the publisher of the United States 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).⁴³

Justice Ginsburg, in her concurring opinion, emphasized that the hypothetical posed is mere dicta and that the Court was only attempting to resolve a dispute regarding copyrighted products made in the United States, sold to a foreign distributor, and subsequently sold again in the United States.⁴⁴ She notes that, despite the hypothetical, the Court does not attempt to address cases in which alleged infringing imports were of copyrighted products manufactured abroad.⁴⁵

40. *Id.*

41. *Id.* at 145.

42. *Id.* at 147.

43. *Id.* at 148.

44. *Id.* at 154 (Ginsburg, J., concurring).

45. *Id.*

A RACE TO DIGITIZATION?

The hypothetical posed by the Court in *Quality King* caused a circuit split over the treatment of copyrighted goods manufactured abroad and imported to the United States for sale without the copyright holder's authorization.⁴⁶ The *Quality King* Court ultimately caused further confusion in the lower courts regarding foreign manufactured copyrighted products.

B. The Lower Courts Take Quality King Dicta to Heart

The Circuit Courts struggled over the dicta in *Quality King*. The Ninth Circuit in *Omega S.A. v. Costco Wholesale Corp.* struggled with the *Quality King* decision when it considered whether copyrighted goods manufactured abroad were protected by the first sale doctrine when the copyrighted goods were imported into the United States against the copyright holder's express instructions.⁴⁷ Similarly, the Second Circuit in *John Wiley & Sons, Inc. v. Kirtsaeng* faced the question of whether copyrighted textbooks manufactured abroad for sale outside the U.S. were protected by the first sale doctrine when an exchange student bought the copyrighted books in Thailand and subsequently sold them in the United States.⁴⁸

The plaintiff in *Omega*, Omega S.A. manufactures watches in Switzerland, which are inscribed with a copyrighted "Omega Globe Design."⁴⁹ Costco purchased the watches with the copyrighted design from overseas distributors of Omega without Omega's authorization.⁵⁰ Costco then sold the watches with the copyrighted design in California.⁵¹ The watches were authorized for foreign sale by Omega, but were not authorized for importation or sale in the United States.⁵² The Ninth Circuit attempted to reconcile the *Quality King* decision with its past decisions in *BMG Music v. Perez*, *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, and *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*⁵³

46. See *infra* Part II.B and associated footnotes.

47. *Omega S.A. v. Costco Wholesale Corp.*, 541 F. 3d 982, 984 (9th Cir. 2008), *aff'd sub nom.* Costco Wholesale Corp. v. Omega, S.A., 131 S. Ct. 565 (2010).

48. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F. 3d 210, 212 (2nd Cir. 2011).

49. *Omega*, 514 F. 3d at 983.

50. *Id.* at 984.

51. *Id.*

52. *Id.*

53. *Id.* at 987–88. See generally *BMG Music v. Perez*, 952 F. 2d 318 (9th Cir. 1991) (holding that foreign manufactured U.S. copyrighted goods are not subject to first sale defense to a § 602 claim of infringement on the copyright holder's importation right); *Parfums Givenchy, Inc. v. Drug Emporium, Inc.* 38 F. 3d 477 (9th Cir. 1994) (holding that importers of foreign manufactured goods could invoke the first sale defense for U.S. copyrighted goods manufactured abroad as long as there was an authorized first sale in the United States); *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.*, 84 F. 3d 1143 (9th Cir. 1996) (holding that the defendant was not liable for infringing on Denbicare's importation right when the foreign manufactured U.S. copyrighted goods at issue were imported to the U.S. by a third party).

AMELIA PARSONS

The court reasoned that if it were to allow the first sale doctrine to apply to foreign manufactured goods imported and sold in the United States without the manufacturer's authorization, it would be an impermissible extraterritorial extension of the United States copyright law.⁵⁴ The court found that "[C]opies covered by the phrase 'lawfully made under [Title 17]' in § 109(a) are not simply those which are 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."⁵⁵ The Ninth Circuit developed the rule that parties may only raise the first sale doctrine as a defense after a lawful first sale in the U.S. has occurred.⁵⁶ The court ultimately found that its decisions in past cases and *Omega* were not contradictory to the holding in *Quality King* because *Quality King* upheld the first sale doctrine as a defense to the unauthorized importation of copyrighted works manufactured abroad.⁵⁷

The Second Circuit in *John Wiley & Sons, Inc. v. Kirtsaeng* also grappled with the issue of how to apply *Quality King* to copyrighted books manufactured abroad and intended for sale outside the U.S.⁵⁸ John Wiley & Sons ("Wiley") publishes textbooks for sale in both U.S. and international markets.⁵⁹ Wiley owns a subsidiary, called John Wiley & Sons (Asia) Pte. Ltd. ("Wiley Asia"), which manufactures and sells English textbooks in foreign markets.⁶⁰ The textbooks manufactured and sold through Wiley Asia are limited to importation and sale in Europe, Asia, Africa, and the Middle East.⁶¹ Supap Kirtsaeng had friends and family

54. *Omega*, 514 F.3d at 988. ("Recognizing the importance of avoiding international conflicts of law in the area of intellectual property, however, we have applied a more robust version of this presumption to the Copyright Act, holding that the Act presumptively does not apply to conduct that occurs abroad even when that conduct produces harmful effects within the United States.") (citing *Subafilms, Ltd. v. MGM-Pathe Commc'ns Co.*, 24 F. 3d 1088, 1096–98 (9th Cir. 1994)).

55. *Id.* (emphasis in original).

56. *Id.* at 989 (citing *Drug Emporium*, 38 F. 3d at 481 and *Denbicare* 84 F. 3d at 1150).

57. *Id.* at 990 (citing 2 Goldstein on Copyright § 7.6.1, at 143–44).

58. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F. 3d 210, 212 (2nd Cir. 2011). The Second Circuit decision is hereinafter referred to as "*Wiley*."

59. *Id.* at 212.

60. *Id.* at 213.

61. *Id.* The legend marking the internationally distributed textbooks reads:

This book is authorized for sale in Europe, Asia, Africa, and the Middle East only [and] may not be exported. Exportation from or importation of this book to another region without the Publisher's authorization is illegal and is a violation of the Publisher's rights. The Publisher may take legal action to enforce its rights. The Publisher may recover damages and costs, including but not limited to lost profits and attorney's fees, in the event legal action is required. *Id.*

in Thailand send him the foreign edition textbooks sold through Wiley Asia and resold the textbooks online in the United States for a profit.⁶²

The Second Circuit found the wording of the first sale doctrine to be unclear.⁶³ The court relied on the dicta in *Quality King* stating, “[§ 602(a)(1)] ‘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 law of some other country.’”⁶⁴ The court found that the Supreme Court viewed “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’ insofar as that phrase is used in § 109(a) of our Copyright Act.”⁶⁵ After addressing the dicta in *Quality King*, the Second Circuit found that Kirtsaeng was not permitted to present a first sale doctrine defense and that “lawfully made” applies only to copyrighted goods that are manufactured where the Copyright Act governs.⁶⁶

The split between *Omega* and *Wiley* led the Court to grant certiorari to *Wiley* in order to resolve the issue. The Court ultimately resolved that copyrighted products manufactured and first sold abroad still exhaust the copyright holder’s exclusive right to distribution.⁶⁷

IV. THE SUPREME COURT FINALLY SETTLES CONTROVERSIES OVER THE FIRST SALE DOCTRINE IN *KIRRTSAENG V. JOHN WILEY & SONS, INC.*

In a 6-3 opinion, the Court in *Kirtsaeng* held that the first sale doctrine applies when copyrighted works are lawfully made and sold abroad before importation for sale in the U.S.⁶⁸ The opinion changed the scope of United States copyright law in favor of an international exhaustion regime.⁶⁹

A. *The Majority Opinion Rules for International Copyright Exhaustion*

62. *Id.* Kirtsaeng made approximately \$1.2 million in revenues through reselling the cheaper foreign textbooks in the U.S. market. *Id.* at 215.

63. *Id.* at 220.

64. *Id.* at 221 (quoting *Quality King Distrib. V. L’Anza Research Int’l*, 523 U.S. 135, 147 (1998)).

65. *Id.*

66. *Id.* at 222.

67. *See infra*, Part IV.

68. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1355–56 (2013). This ruling applies to actual copyrighted works such as books or works of art. Copyrights on box labels such as those at issue in *Denbicare U.S.A. v. Toys “R” Us*, 84 F. 3d 1143 (9th Cir. 1996), *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *Parfums Givency v. Drug Emporium*, 38 F.3d 477 (9th Cir. 1994), and other such cases may fall outside the scope of this ruling due to the crime of copyright misuse. This paper does not attempt to address those cases, but limits its reasoning to only legitimately copyrightable works.

69. *Id.* at 1371.

The Supreme Court carefully considered the language, background, and policy interests behind § 109(a) and § 602(a)(1). The Court determined that the right of first sale applied to all lawful copyright transactions regardless of where the transactions took place.⁷⁰ In its decision, the Court struck down a geographical interpretation of the right of first sale by determining that if Congress intended the act to apply only to national sales, the wording of the statute would include limiting language to that effect.⁷¹

First, the Court examined the phrase “lawfully made under this title” to determine its statutory meaning.⁷² Reading the word “under” to have its most common meaning, the Court found that none of the words in the phrase mean “where.”⁷³ A geographic interpretation, according to the majority, is problematic because a case where a product could be unlawfully made under Title 17 cannot be conceived.⁷⁴ Thus, the majority concluded that a nongeographic interpretation is the only one that makes linguistic sense.⁷⁵

The majority then turned to the history of the first sale doctrine and its codification in the 1909 Copyright Act and concluded that the first sale doctrine never had a geographic interpretation.⁷⁶ The Court established that change in language from the 1909 act stating “lawfully obtained” and the current wording of “lawfully made under this title” prevents lessees or bailees from reselling works they had not purchased and then claiming a defense under the first sale doctrine.⁷⁷ Further, the Court found that the removal of a geographic requirement to the importation of copyrighted works published outside the U.S. provides evidence that the right of first sale also applies to the importation of copyrighted works manufactured outside the U.S.⁷⁸ The Court’s inspection of the Copyright Act demonstrated that when the language “lawfully made under this title” was used in other sections of the Act, it did not place geographic limitations on the rights conferred in those sections.⁷⁹

70. *Id.* at 1359–64.

71. *Id.* at 1360.

72. *Id.* at 1358 (observing that section 109 does not explicitly state that there is a geographic limit to its interpretation).

73. *Id.* at 1359. Because the everyday use of “under” does not describe a geographic location, the court rejected John Wiley’s argument concerning geographic restrictions. *Id.*

74. *Id.*

75. *Id.* at 1360.

76. *Id.*

77. *Id.* at 1362. The Court also reasoned that there was no intended geographic limit to the right of first sale in section 109 because the geographic limitations of the manufacturing clause had been removed from the copyright statutes. The manufacturing clause, before removal, limited the importation of copyrighted products printed outside the U.S. *Id.*

78. *Id.* at 1361–62.

79. *Id.* at 1362.

A RACE TO DIGITIZATION?

The Court then turned to the legislative history and surrounding sections of the Copyright Act, finding no indication that § 109 is limited as a defense only to products made within the United States.⁸⁰ With no Congressional record qualifying application of the first sale doctrine, the Court concluded that the first sale doctrine must limit the copyright owner's exclusive right to importation.⁸¹

The Court considered several policy arguments when determining that the first sale doctrine should terminate the copyright holder's interest in downstream control after the lawful first sale of a copyrighted product regardless of geography. According to the majority, the first sale doctrine relieves the courts of determining whether the importation or sale of untraceable copyrighted goods is lawful.⁸² Additionally a geographic interpretation of § 109 could prevent libraries from importing rare foreign copies of books, or allow third parties to challenge a library's ownership of an imported work.⁸³ Allowing copyright owners to maintain control of subsequent sales of gray market goods would restrict the sale and distribution of works of art, books, and possibly even cars with copyrighted mechanisms unless the consumers obtained individual permission to sell those items from copyright holders.⁸⁴ The majority determined that this restriction would be contrary to the Constitution's grant to Congress to promote the sciences and arts.⁸⁵

In addition to the impact a national copyright regime would have on libraries and second-hand booksellers, the majority opined that Copyright holders could then exert downstream control even when importation is authorized.⁸⁶ In a concurring statement, Justice Kagan agreed that a geographic interpretation of the Copyright Act would encourage manufactures to move their businesses abroad.⁸⁷

The Court held that the wording of § 109 indicates that the first sale doctrine should apply to all legal sales of copyrighted works despite their place of manufacture. The exclusive right to importation codified in § 602(a)(1) continues to provide a statutory remedy for copyright holders preventing the importation of

80. *Id.* at 1370. The Court turned to the legislative history and a report stating that the copyright owner's right to distribution does not impact anyone who lawfully purchases a copyrighted work and then wishes to transfer that work to someone else. *Id.* The Court also concluded that the draft of § 602(a) making unauthorized importation copyright infringement is limited by the first sale doctrine because it does not reference § 106 at all. *Id.*

81. *Id.*

82. *Id.* at 1363.

83. *Id.* at 1364.

84. *Id.* at 1365. Discussing a list of horrible outcomes, the Court hypothesizes, "[a] geographical interpretation would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software." *Id.*

85. *Id.* at 1364.

86. *Id.* at 1366.

87. *Id.* at 1372 (Kagan, J., concurring).

pirated works or sales by licensees.⁸⁸ The right of first sale protects consumer interests in their ability to control products legally purchased and owned.⁸⁹

B. The Dissenting Opinion Rejects International Copyright Exhaustion as an Adequate Compromise Between Consumers and Copyright Holders

Justice Ginsburg, joined by Justices Kennedy and Scalia, wrote the dissenting opinion in *Kirtsaeng*. Justice Ginsburg in the dissent asserts that the Court's ruling is contrary to the purpose of the copyright statute to protect the interests of copyright holders.⁹⁰ Justice Ginsburg claims that § 602(a)(1) supports a national exhaustion regime due to its limitation on unauthorized importation of copyrighted goods.⁹¹ An international exhaustion regime greatly favors the rights of consumers over those of copyright holders.⁹²

In the dissent, Justice Ginsburg further argues that copyright owners possess an economic incentive in segmenting markets and establishing price discrimination in various international regions.⁹³ *Quality King* provided an interpretation of the copyright statutes that provides protection of copyright holders who oppose the importation of goods made specifically for international markets.⁹⁴ National copyright regimes, Justice Ginsburg argues, provide the most incentive for copyright owners to produce creative works because it ensures the copyright holder will be sufficiently compensated.⁹⁵ Consumer interest in obtaining low-cost products is secondary to the policy of promoting the creation of creative works through payment incentives for copyright holders.⁹⁶

Justice Ginsburg further argues that § 602(a)(1) provides "vertical restraints" on distributors to sell copyrighted works.⁹⁷ This allows copyright holders and distributors to benefit from exclusive sales and distribution agreements.⁹⁸ Allowing the first sale doctrine to prohibit an unauthorized importation argument under § 602(a)(1) potentially discourages copyright holders from creating new works due to

88. *Id.* at 1368.

89. *Id.* at 1361.

90. *Id.* at 1373 (Ginsburg, J., dissenting).

91. *Id.* at 1384.

92. *See infra* Part V.

93. *Kirtsaeng*, 133 S.Ct. at 1374 (Ginsburg, J., dissenting).

94. *Id.* In *Quality King*, the Court hypothesized that a U.S. distribution company with exclusive rights to sell a British work would have a claim against a U.K. distributor that attempted to sell the same work in the United States. 523 U.S. 135, 148 (1998).

95. *Id.* at 1384.

96. *Id.*

97. *Id.* at 1385.

98. *Id.*

an inability to control the sales and distribution of their products.⁹⁹ Although international copyright frameworks opens copyrighted goods to competition from inexpensive imports and benefits consumers, national copyright exhaustion expands the monetary incentive for copyright holders to create new works.¹⁰⁰

Additionally, Justice Ginsburg argues that interpreting the first sale doctrine as inapplicable to the unauthorized importation of copyrighted works makes § 602(a)(1) superfluous and does not meet Congress' intention for including the section.¹⁰¹ The Copyright Act already provides protections for libraries and museums so that they do not need the first sale doctrine to defend their right to exhibit or lease copyrighted works.¹⁰² The exceptions under § 602(1)(3) for governmental, scholarly, educational, and religious importation of copyrighted works protect libraries and museums from copyright holders contesting the importation of their foreign manufactured works.¹⁰³ Justice Ginsburg argues that the majority's holding makes those provisions of the Copyright Act superfluous.¹⁰⁴ The dissent concludes that the majority's holding eliminates all relevancy of § 602, not just the importation protections under § 602(a)(1).¹⁰⁵

Justice Ginsburg asserts that the Court imposed an international exhaustion regime on the United States despite there being no precedent in favor of this regime.¹⁰⁶ The new Copyright Act interpretation provides no protection for those copyright owners who wish to manufacture lower quality products for sale in foreign markets for reduced prices in order to make products available worldwide.¹⁰⁷

The inability to control prices through restricted importation of copyrighted goods to the United States could cause copyright holders to find new ways to control the downstream market and maximize profits.¹⁰⁸ However, the majority opinion in *Kirtsaeng* indicated a new avenue that some copyright holders with the ability to switch to digital media may employ: the first sale doctrine of § 109(a) does not apply to licensees.¹⁰⁹

99. *Id.* at 1384.

100. *Id.*

101. *Id.* at 1378. Justice Ginsburg concludes that the court strips all meaning from § 602(a) because it offers no protection to copyright owners as a remedy for unlawful importation of works. *Id.* at 1388.

102. *Id.* at 1379.

103. *Id.*

104. *Id.*

105. *Id.* at 1388.

106. *Id.* 1386–88.

107. *Id.* at 1388.

108. *See, supra* Part III.B.

109. *Kirtsaeng*, 133 S. Ct. at 1368.

V. KIRTSAENG AND THE GREY MARKET

At issue in *Kirtsaeng* was the legal treatment of copyrighted grey market goods imported into the United States, also called parallel imports. Parallel importation is the practice of importing foreign manufactured goods without authorization from the copyright holder; the grey market is a common term for reselling parallel imports in the United States.¹¹⁰ The United States Copyright Act grants copyright holders of copyrighted goods the exclusive right to distribution of the copyrighted goods, subject to the first sale doctrine.¹¹¹ However, the Copyright Act also grants copyright holders the exclusive right to importation of copyrighted works in § 602(a)(1).¹¹² When a copyrighted product is sold, the copyright holder's right to distribution of that particular work is exhausted, ending the copyright holder's ability to control the sale or importation of that work.¹¹³

The process of importing goods a copyright holder manufactures and sells outside the U.S. is called "parallel importation" because the copyrighted goods are introduced into markets parallel to the authorized distribution channels of the copyright holder.¹¹⁴ Different countries and regions have developed various approaches to copyright exhaustion, limiting exhaustion to the first sale nationally, regionally, or internationally.¹¹⁵ The different copyright exhaustion schemes offer different levels of control to copyright holders, and therefore different benefits to consumers.¹¹⁶

International exhaustion terminates the copyright owner's interest in a copyrighted product after the first lawful sale anywhere in the world, regardless of place of manufacture or where in the world the transaction takes place.¹¹⁷ Regional exhaustion limits the termination of copyrights to the first sale within a particular region, but allows copyright holders to maintain control over sale of the copyright for sales outside the established region.¹¹⁸ National exhaustion works similarly to regional exhaustion, ending the copyright holder's interest in the product after the first sale in a particular country, but allows the copyright owner to maintain control

110. Gautam, *supra* note 17, at 724.

111. 17 U.S.C. § 109(a) (2010).

112. 17 U.S.C. § 602(a)(1) (2010).

113. Pope, *supra* note 4, at 205.

114. *Id.*

115. *Id.* at 207.

116. *Id.* at 206.

117. *Id.* at 207.

118. Irene Calboli, *Article: Corporate Strategies, First Sale Rules, and Copyright Misuse: Waiting for Answer from Kirtsaeng v. Wiley and Omega v. Costco (II)*, 11 NW. J. TECH. & INTELL. PROP. 221, 224–25 (2013).

of copyrights when legal sales happen outside the nation.¹¹⁹ Nations employ each of the three exhaustion schemes to achieve their unique market objectives.¹²⁰

Varying public and economic policy objectives determine how a country will construct its copyright exhaustion regime and stance on parallel imports.¹²¹ Copyright holders in developed nations generally oppose the importation of grey market goods because the parallel imports sell at a lower price than the same goods explicitly authorized for sale in a developed country's market.¹²² Copyright exhaustion seeks to balance the interests of copyright owners and the U.S. policy of allowing the public to access the lowest priced goods through free movement of legitimate products.¹²³ Copyright holders generally oppose international copyright exhaustion because restricting importation of copyrighted goods through unauthorized channels permits copyright holders to segment international markets.¹²⁴ The segmentation allows copyright holders to implement price discrimination and other customization techniques.¹²⁵ Price discrimination allows copyright holders to sell copies of a copyrighted work more cheaply in developing markets than in more developed markets.¹²⁶

There are several ways to implement price discrimination between international markets.¹²⁷ Third-degree price discrimination is the practice of charging different prices to buyers based on external circumstances, such as geography.¹²⁸ This practice is only feasible if arbitrage is limited between the two markets.¹²⁹ Second-degree price discrimination—or versioning—requires the copyright holder to sell different versions of the product for different prices and hope that consumers will

119. *Id.* at 224.

120. *See generally* Pope, *supra* note 4, at 216. The Canadian Copyright Act Article 27 states that importers of parallel goods can be found guilty of infringement. *Id.* at 220. If plaintiffs can prove that importers should have known that if the product had been manufactured in Canada, the manufacture would have infringed on the copyright, then the import can be barred. *Id.* Australia explicitly carves out qualifications to a copyright owner's control over importation of certain types of goods. *Id.* Books manufactured in signatory countries to the Berne Convention or the Universal Copyright Convention can be imported as parallel imports, while books first published in Australia and then exported cannot be imported again without infringing on the copyright owner's right to distribution. *Id.* The European Union employs a regional copyright exhaustion regime, extinguishing a copyright holder's control over products after the first legal sale within the EU, but permitting the copyright holder to control sales of the work made outside the EU. *Id.*

121. Calboli, *supra* note 118, at 224.

122. *Id.*

123. *Id.* at 226.

124. Pope, *supra* note 4, at 206.

125. *Id.*

126. Guy A. Rub, *The Economics of Kirtsaeng v. John Wiley & Sons, Inc.: The Efficiency of a Balanced Approach to the First Sale Doctrine*, 81 *FORDHAM L. REV. RES GESTAE* 41, 44 (2013).

127. *Id.*

128. *Id.*

129. *Id.* Arbitrage is the practice of purchasing items in developing nations and reselling them in developed markets. *Id.*

pay more for the most up to date version.¹³⁰ Copyright holders then sell the most up to date versions at higher prices in developed nations, and outdated versions to developing markets at a lower price.¹³¹ However, this system of versioning can be expensive because it requires copyright holders to keep two or more versions of a copyrighted product in circulation.¹³²

Implementing an international exhaustion regime and prohibiting copyright holders who sell in the United States from segmenting that market could have a negative impact on markets worldwide.¹³³ In such a regime, copyright holders are unlikely to sell their goods at a uniform price that is inexpensive enough for consumers in developing nations to afford because the copyright holder will see a striking decline in revenue.¹³⁴ For that reason, copyright holders are likely to increase the price of their goods in all markets, thereby harming consumers in developed nations facing a considerable price increase.¹³⁵ Producers of copyrighted goods that have larger markets in the developed world are even more likely to increase the price of their products worldwide to match the price of their goods sold in developed countries.¹³⁶ For example, copyright holders of textbooks are more likely to implement a worldwide pricing scheme that matches the price of textbooks in the United States because most native English speakers live in the United States.¹³⁷ Increased international arbitrage in the U.S. is likely to increase the price of goods worldwide because copyright holders will likely seek the highest price for their goods at the detriment of consumers in developing markets.¹³⁸

Another reason limiting copyright exhaustion to national or regional regimes is preferable over implementing international regimes, is that through market segmentation copyright holders sell lower quality versions of their goods in developing markets for prices accessible to consumers. Pearson Education manufactures textbooks in foreign markets that are of a lower quality than those manufactured and sold within the United States, which allows them to sell English-language textbooks to foreign markets at reduced prices.¹³⁹ Thus, regional and national regimes allow publishers like Pearson Education to have a certain prestige in American markets without being tarnished by lesser quality grey market goods that may otherwise be sold within the United States under an international

130. *Id.* at 45.

131. *Id.*

132. *Id.*

133. *Id.* at 46.

134. *Id.*

135. *Id.*

136. *Id.* at 47.

137. *Id.*

138. *Id.*

139. Pearson Educ. Inc., v. Liu, 656 F. Supp. 2d 407, 408 (S.D.N.Y. 2009).

regime.¹⁴⁰ Pearson textbooks manufactured for sale in the United States are printed with hardcover bindings and are accompanied by academic supplements such as CD-ROMs.¹⁴¹ In contrast, the textbooks manufactured for foreign markets are printed on lower quality paper, contain lower quality photographs and graphics, and do not come with academic supplements.¹⁴² This market segmentation stems from a copyright holder's ability to control importations of copyrighted works between the markets and is destroyed in an international copyright regime.¹⁴³

Proponents of international copyright exhaustion argue that market segmentation and price discrimination have a negative impact on developing nations and prevents consumers from accessing legitimate goods at lower prices.¹⁴⁴ Market segmentation is often seen as price gouging because products are significantly higher in developed markets.¹⁴⁵ International copyright exhaustion supports the interests of consumers because it terminates the copyright holder's control after the first legal sale, regardless of place of manufacture or sale.¹⁴⁶

Additionally, geographically limiting the first sale doctrine's application to goods manufactured within the United States presents legitimate concerns. In his dissent to *John Wiley & Sons, Inc. v. Kirtsaeng* in the Second Circuit decision, Judge Murtha notes that preventing the first sale doctrine from applying to lawfully copyrighted works manufactured abroad could create high transaction costs and "lead to uncertainty in the secondary market."¹⁴⁷ For example, copyright holders who manufactured copyrighted goods outside the United States and sold them within the United States could maintain control over the sale of particular copyrighted

140. *Id.*

141. Pearson Educ., Inc. v. Kumar, 721 F. Supp. 2d 166, 171 (S.D.N.Y. 2010).

142. *Id.* at 172.

143. See generally, Pope, *supra* note 4, at 207. Business Software Alliance wrote in its brief to the court that ruling in favor of the first sale doctrine's application in *Kirtsaeng* would deprive foreign markets of affordable goods. Eduardo Porter, "Copyright Ruling Rings with Echo of Betamax," *New York Times* (March 26, 2013) available at <http://www.nytimes.com/2013/03/27/business/in-a-copyright-ruling-the-lingering-legacy-of-the-betamax.html?pagewanted=all&r=0>.

144. Pope, *supra* note 4, at 208. Governments take different stances on grey market goods based on varying circumstances in their nation, taking into account the economic and public policy interests. *Id.*

145. Doug Kari, "How an eBay bookseller defeated a publishing giant at the Supreme Court", *ArsTechnica* (March 22, 2015) available at <http://arstechnica.com/tech-policy/2014/11/how-an-ebay-bookseller-defeated-a-publishing-giant-at-the-supreme-court/1/>.

146. Pope, *supra* note 4 at 204. The Southern District of New York found that copyright owners who control all commercial transactions of products would produce higher transaction costs, undermining the plaintiff's argument that 17 U.S.C. § 109 should not apply to parallel imports of books manufactured outside the U.S. *Pearson Educ. Inc., v. Liu*, 656 F. Supp. 2d 407, 413 (S.D.N.Y. 2009). The court further reasoned that although products manufactured and sold in foreign markets receive less compensation for those products sold within the U.S., the vendors are not required to sell products in foreign markets or at lower prices. Companies that sell discounted or second-hand items experience a negative impact from a copyright holder's control over the importation of grey market goods. *Id.*

147. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210, 227 (2nd Cir. 2011).

works even after the first sale, giving those copyright holders more control than domestic copyright holders.¹⁴⁸

The Supreme Court in *Kirtsaeng* attempted to create a consumer-friendly copyright regime that ensured unlimited access to cheaper grey market goods.¹⁴⁹ However, because the Court stated that license agreements are not subject to the first sale doctrine, the opinion permits the use of coercive EULAs to subvert the purpose of international copyright exhaustion.¹⁵⁰

VI. THE RISE OF END USER LICENSE AGREEMENTS IN THE DIGITAL AGE

The Supreme Court noted in *Kirtsaeng* that § 602(a)(1) enables copyright holders to restrict licensees of copyrighted products from importing the copyrighted products without authorization.¹⁵¹ This permits copyright holders to exert downstream control of products by issuing licenses to, rather than selling, copyrighted goods.¹⁵² Although a switch to licensing digital goods as opposed to selling physical works may give copyright holders more downstream control by preventing consumers from copying or transferring the copyrighted products, it is likely the detriments to consumers will be minimal in the long-term due to a switch in the current digital market.¹⁵³

A. Licenses and the First Sale Doctrine

Digital works are generally sold with EULAs, asserting that purchasers are “licensees” of the product rather than “owners.”¹⁵⁴ Drafting a license agreement precludes the application of the first sale doctrine to the transaction because no transfer of title has taken place.¹⁵⁵ Therefore, through the use of well-written EULAs, copyright owners can retain title to their works and restrict a purchaser from selling, leasing, or modifying the product.¹⁵⁶ Holders of valid licenses cannot assert the first sale doctrine as a defense.¹⁵⁷

In order to avoid a party asserting the first sale doctrine’s protections, the EULA must be a valid license agreement, and not a disguised sale. In *Vernor v. Autodesk*,

148. *Id.*

149. *See supra* Part IV.A.

150. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1368 (2013).

151. *Id.*

152. Carver, *supra* note 16, at 1889.

153. *See infra* Part V.

154. Aaron Perzanowski and Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889, 901–02 (2010).

155. Carver, *supra* note 16, at 1889.

156. *Id.* at 1895.

157. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102, 1107 (9th Cir. 2010) “The first sale doctrine does not apply to a person who possesses a copy of the copyrighted work without owning it, such as a licensee.” *Id.*

Inc. the Ninth Circuit Court of Appeals employed a two-prong test to determine whether the transferee of software was an owner or a licensee.¹⁵⁸ First, the court stated, “Thus, under *Wise*, where a transferee receives a particular copy of a copyrighted work pursuant to a written agreement, we consider all of the provisions of the agreement to determine whether the transferee became an owner of the copy or received a license.”¹⁵⁹ The court went on to find three considerations to determine when a software user is a licensee rather than an owner: (1) “specifies that a user is granted a license”; (2) “significantly restricts the user’s ability to transfer the software”; and (3) “imposes notable use restrictions.”¹⁶⁰

The Ninth Circuit in *UMG Recordings, Inc., v. Augusto* determined that perpetual possession made an EULA more like a sale than a license.¹⁶¹ In that case, the plaintiff, UMG Recordings, sent out promotional CDs but never attempted to retrieve them and nothing on their packaging indicated the CDs needed to be returned.¹⁶² Additionally, the CDs were not numbered and UMG did not attempt to track the CDs use or location.¹⁶³ Therefore, Augusto could invoke the first sale doctrine as a defense to his resale of the software because the indefinite nature of the “license” agreement made the transaction more like a sale.¹⁶⁴

Other courts have determined whether a license agreement is actually a sale by evaluating several factors. In *DSC Commc’ns Corp. v. Pulse Commc’ns, Inc.*, the Federal Circuit Court of Appeals upheld a license agreement because the agreement provided sufficient restrictions to avoid First Sale Doctrine application as it restricted transfer of the software, prohibited the use of the product on hardware not manufactured by DCS, and limited the use of the software to employees on a “need to know basis.”¹⁶⁵ Similarly, in *Novell, Inc. v. Unicom Sales, Inc.* the District Court for the Northern District of California determined that the purchaser, Unicom, was a licensee rather than an owner because the software bought from Frederick County Public Schools was to be returned to the copyright holder after a year.¹⁶⁶ Another set of software sold to Frederick County Public Schools provided

158. *Id.* at 1109. The court then considered “(1) whether the agreement was labeled a license and (2) whether the copyright owner retained title to the copy, required its return or destruction, forbade its duplication, or required the transferee to maintain possession of the copy for the agreement’s duration.” *Id.*

159. *Id.* In *United States v. Wise*, the Ninth Circuit “considered whether the agreement (a) was labeled a license, (b) provided that the copyright owner retained title to the prints, (c) required the return or destruction of the prints, (d) forbade duplication of prints, or (e) required the transferee to maintain possession of the prints for the agreement’s duration.” *Vernor*, 612 F.3d at 1108 citing *United States v. Wise*, 550 F. 2d 1180, 1190–91 (9th Cir. 1977).

160. *Vernor*, 612 F. 3d at 1110–11.

161. 628 F.3d 1175, 1183 (9th Cir. 2011).

162. *Id.* at 1177–78.

163. *Id.* at 1180.

164. *Id.* at 1183.

165. 170 F.3d 1354, 1361–62 (1999).

166. No. C—03—2785 MMC, 2004 U.S. Dist. WL 1839117 *1, *8 (N.D. Cal. Aug. 17, 2004).

that the school could use the software indefinitely but had to destroy or return it if any of the license terms were breached.¹⁶⁷ The court found that this requirement of returning or destroying the software copies received was sufficient to construe a license rather than sales agreement.¹⁶⁸ At least one court has considered factors other than length of the agreement's term. In *Krause v. Titleserv, Inc.* the Second Circuit Court of Appeals held that if a purchaser of a work could fix software if it had problems, destroy or throw it away, and make a backup copy, then there were enough incidents of ownership present to construe the license agreement as a sales contract.¹⁶⁹

A court has wide discretion when determining whether an EULA is a license agreement, in which title remains with the copyright holder, or a sale, in which title vests with the purchaser. The distinction between a license and a sale determines how much control over subsequent transfers the copyright holder retains, because a sale is subject to the first sale doctrine protections, while a license is not.

B. EULAs Provide More Control to Copyright Holders

The *Kirtsaeng* holding weakened a copyright holder's ability to control the importation of physical copyrighted goods, but digital media is still subject to market segmentation.¹⁷⁰ Copyright holders may still retain control of distribution by switching to digital formats and offering EULAs so that, pursuant to the license agreement, the textbooks or other digital media cannot be transferred.¹⁷¹

The terms and conditions of EULAs for digital copyrighted works overwhelmingly favor copyright holders.¹⁷² For example, despite removing digital rights management mechanisms ("DRM") from its content in 2009,¹⁷³ iTunes still limits copies of its digital media to personal use only, restricts the number of permitted devices, and limits the number of times files can be copied on to a CD.¹⁷⁴ Amazon and Google also limit users' rights to transfer ownership of the digital media.

The permissibility of market segmentation permits copyright holders of digital works to sell purely digital media at higher prices in different markets. For

167. *Id.* at *10.

168. *Id.* at *12.

169. 204 F.3d 119, 123–24 (2nd Cir. 2005).

170. See John Villasenor, *Rethinking a Digital First Sale Doctrine in a Post-Kirtsaeng World: The Case for Caution*, 2 CPI ANTITRUST CHRONICLE 1, 10 (2013).

171. Rub, *supra* note 126, at 45.

172. See Damien Riehl & Jumi Kassim, *Is "Buying" Digital Content Just "Renting" for Life? Contemplating a Digital First-Sale Doctrine*, 40 WILLIAM MITCHELL L. REV. 783, 808 (2014).

173. *Id.* at 805. Apple was pressured to remove its DRM due to pressure from the music industry's diversification in allowing Amazon and Google to sell the same digital music files. *Id.* at 804–05.

174. *Id.* at 808.

example, Apple was investigated for antitrust violations when it was revealed the company sold songs at a higher price in the U.K. than elsewhere in Europe.¹⁷⁵ Digital goods such as songs, iPhone applications, and whole albums were found to cost forty-six percent more in Australia than the same digital works cost in the United States.¹⁷⁶ By contrast, goods in the Mexico iTunes store cost less than those sold in the United States.¹⁷⁷ Apple is able to segment markets and avoid international arbitrage because its digital goods are licensed rather than sold.

The transfer of purely digital copyrighted works implicates a different right under the Copyright Act than those at issue in *Kirtsaeng*.¹⁷⁸ Transferring digital works violates a copyright holder's exclusive right to reproduction rather than distribution.¹⁷⁹ Licenses to purely digital works provide restrictions of sale because each digital copy is a perfect copy, unmarred by use or time.¹⁸⁰ Copying digital works and sending them to friends allows the original purchaser to keep a copy of the work also, an issue wholly different from the sale and transfer of a copyrighted physical product.¹⁸¹ Therefore potentially violating the copyright holder's exclusive right to reproduction.

Secondary markets for digital works are currently unworkable because transferring digital works violates a copyright holder's exclusive right to reproduction. For example, in *Capitol Records, LLC v. ReDigi Inc.*, the District Court for the Southern District of New York held that a secondary market for digital music was an infringement of copyright holder's reproduction and distribution rights, and therefore received no protection from the first sale doctrine.¹⁸² In *ReDigi*, the website allowed users to upload songs and offer them for sale, then once a song is offered for sale, the seller's access to the file is terminated.¹⁸³ While users were required by ReDigi to delete the music files sold, the files are not deleted automatically and users are left to delete the files themselves after an upload.¹⁸⁴ The court determined that users made unauthorized copies of the works in order to

175. Villasenor, *supra* note 170, at 11. Apple subsequently agreed to make prices uniform across the European Union. *Id.*

176. *Id.* at 12.

177. *Id.*

178. Jonathan C. Tobin, *Licensing as a Means of Providing Affordability and Accessibility in Digital Markets: Alternatives to a Digital First Sale Doctrine*, 93 J. PAT. & TRADEMARK OFF. SOC'Y 167, 172 (2011).

179. *Id.*

180. Maria A. Pallante, *The Next Great Copyright Act*, 36 COLUM. J. L. & ARTS 315, 332 (2013).

181. Kristin Cobb, Note, *The Implications of Licensing Agreements and the First Sale Doctrine on U.S. and EU Secondary Markets for Digital Goods*, 24 DUKE J. COMP & INT'L L. 529, 536 (2014). The reproduction right is articulated as: "Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted work or phonorecords[.]" 17 U.S.C. § 106(1).

182. 934 F. Supp. 2d 640, 656 (S.D.N.Y. 2013).

183. *Id.* at 646.

184. *Id.* at 645.

upload the digital music file to the ReDigi website.¹⁸⁵ These copies infringed upon the copyright holder's exclusive right to reproduction of their copyrighted works.¹⁸⁶ Because a new copy of the file was created on ReDigi's website after the music was uploaded, the court determined that the works were not "lawfully made under this title" and deserved no first sale doctrine protections.¹⁸⁷

The lack of first sale protection for transfers of digital works and the added infringement of a copyright holder's exclusive right to distribution makes digital media an attractive option for copyright holders looking to maintain market segmentation and control. The *ReDigi* court found the possibility of a digital secondary market is currently unworkable, providing copyright holders a safe medium for offering copyrighted works.¹⁸⁸

C. Is the Switch to Digital Media Necessarily Bad for Consumers?

The move to digital media had demonstrated a shift in how purchasers consume copyrighted digital products.¹⁸⁹ A shift from "ownership" to "use" may make the holding of *Kirtsaeng* irrelevant in a market where unlimited streaming subscriptions and other forms of licensure give consumers access to vast libraries of digital content without the consumers ever purchasing a single copyrighted digital work.¹⁹⁰ Copyright holders choosing to sell textbooks or other copyrighted goods that can be sold in a digital format may be able to control distribution and still provide content under terms that are acceptable to consumers.

Recently, services providing paid subscriptions to vast libraries of copyrighted digital content have emerged across digital media: Netflix provides streaming of movies and television shows, Spotify and Pandora provide streaming of music, and Scribd allows subscribers to access a library of e-books.¹⁹¹ These type of subscriber based services provide reliable streams of regular income for copyright holders.¹⁹² Consumers paying for monthly subscriptions do not own the content they access on the website, but the ability to access and use libraries of digital content removes the necessity of ownership.¹⁹³

Despite the court's finding in *ReDigi* that secondary markets in purely digital goods unworkable, Apple and Amazon are working on ways to create a secondary

185. *Id.* at 649–50.

186. *Id.* at 651.

187. *Id.* at 655.

188. *Id.* at 655–56.

189. Riehl, *supra* note 172, at 807.

190. *Id.*

191. *Id.*

192. *Id.* at 810.

193. *Id.*

market for their digital content. Amazon already permits users of e-books to lend books to their friends, provided the publisher has opted to allow this service.¹⁹⁴ Its digital resale patent is based on the current model of lending e-books between users.¹⁹⁵ If an e-book user on Amazon decided to “sell” an e-book to another user, the original user will no longer be able to use the e-book after the sale.¹⁹⁶ The book will remain on the original user’s device until it is manually deleted, but the original user will not be able to access the content.¹⁹⁷ Apple has also filed a patent application for a service that would allow the resale of digital content bought through iTunes.¹⁹⁸ Apple’s patent provides a mechanism for sending some of the proceeds of the sale of digital media on the secondary market to the copyright holder.¹⁹⁹ These secondary digital marketplaces would give consumers resale rights over their licensed digital media.²⁰⁰ However, Apple and Amazon would maintain control over the secondary marketplace, resale pricing, and copyrights of the digital works by implementing license agreements dictated by the copyright holders and moving away from true ownership.²⁰¹

Furthermore, in the textbook market, consumers may be less disturbed by market “lock in” or the inability to switch freely between devices because students often have little choice in their textbooks.²⁰² The trend towards renting physical copies of books, rather than retaining permanent ownership, is apparent through universities offering textbook rentals and the success of companies such as Chegg.²⁰³ For the limited market of textbook publishing, a switch to licensing digital copies of books used in a single medium may have only a minimal impact on the current consumer textbook market.

Although the *Kirtsaeng* ruling may accelerate the publishing industry’s move to join music and movies in the digital realm, the transition may not harm consumers as drastically as was once assumed. Subscription services have become popular

194. Marcus Wohlsen, *Amazon Wants to Get into the Used E-Book Business – Or Bury It*, WIRED (Feb. 8, 2013, 6:30 AM) available at <http://wired.com/business/2013/02/amazon-used-e-book-patent/> (describing the service as “[c]urrently if a publisher grants Amazon the rights, when a Kindle customer “buys” a book, they have the option to loan the access rights to that digital file to friends or family that are also Kindle users. While the book is on loan, the original owner of the book is unable to access the e-book on any Kindle device. It’s still on those devices, but the access rights to the book have been transferred temporarily to the person with the loaned e-book”).

195. *Id.*

196. *Id.*

197. *Id.*

198. Riehl, *supra* note 172, at 806.

199. *Id.*

200. *Id.* at 807.

201. *Id.*

202. Gautam, *supra* note 17, at 747 n. 153.

203. See generally, Miguel Helft, *We Rent Movies, So Why Not Textbooks?*, NEW YORK TIMES (July 4, 2009) available at http://www.nytimes.com/2009/07/05/business/05ping.html?_r=0.

AMELIA PARSONS

among consumers and removed the need for absolute ownership of works. Similarly, despite not actually “owning” the digital media, mechanisms allowing users to transfer files through Apple and Amazon services may allow users more freedom and incentive to purchase in the digital marketplace, and allow the subscription providers to have a secondary market.

VII. CONCLUSION

The Supreme Court drastically modified the law when it ruled in *Kirtsaeng* that the first sale doctrine applied to works manufactured outside the U.S., purchased, imported to the United States, and subsequently sold for profit.²⁰⁴ By adopting an international regime system of copyright exhaustion the Court’s decision seemingly protects consumer interests because importers can now purchase copyrighted works in cheaper foreign markets, import them, and sell them at a lower price relative to licensed U.S. distributors.²⁰⁵ Purchasers of these grey market goods are able to take advantage of the relatively cheaper prices to the detriment of copyright owners.²⁰⁶ This holding may incentivize publishers to switch to primarily digital formats for their textbooks in order to take advantage of the control offered by EULAs.²⁰⁷ While copyright holders of media subject to EULAs may switch to a digital market to maintain more control over their goods, a switch in the consumer marketplace to subscription services and the development of a digital secondary market may make the switch to digital media irrelevant.²⁰⁸ As consumers become more concerned with access to wider collections of digital content through subscription services or digital media rentals, lack of actual ownership of the products, and therefore lack of copyright holder control, may not drastically harm consumers.²⁰⁹

204. See *supra* Part IV.A.

205. See *supra* Part IV.A.

206. See *supra* Part V.

207. See *supra* Part VI.B.

208. See *supra* Part VI.C.

209. See *supra* Part VI.C.