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# Finally, an Answer on Copyright, First Sale, and the Gray Market

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## Finally, an Answer on Copyright, First Sale, and the Gray Market

Prof. James Gibson, University of Richmond School of Law

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In two past entries in this series, [here](#) and [here](#), I discussed whether copyrighted goods manufactured abroad may be resold in the United States without having to get a new license from the copyright owner. When the goods are pirated – manufactured illegally – the answer is clearly no; that’s a classic black-market sale. But when the goods were manufactured abroad with the copyright owner’s consent, well, that’s different. In that case, the resale is what we call a gray-market sale. And there, the answer is less clear.

Or at least it was. But at long last, and after one [false start](#), the Supreme Court has finally weighed in. This month’s ruling in [Kirtsaeng v. John Wiley & Sons](#) tells us that gray-market goods are indeed different. For them, the answer is yes: One can resell them without getting a license from the copyright owner.

The defendant in the case, Supap Kirtsaeng, was a Thai student attending American universities. A few years ago, he decided to engage in a little arbitrage: He identified English-language textbooks that were sold at a low price in Thailand but at a high price in the United States. Then he arranged for friends in Thailand to buy the books there and send them to him, so he could resell them to U.S. customers for a profit.

John Wiley & Sons was one of those publishers who owned the copyrights in the textbooks. While Wiley had authorized the books’ manufacture and sale abroad, it was understandably upset about Kirtsaeng’s scheme. In Wiley’s view, if anyone were going to exploit the greater wealth of the U.S. customers, it would be the publisher.

Although the two parties were fighting over capturing that wealth, the case presented a broader policy issue. In theory, gray-market restrictions can make copyrighted goods more widely available, particularly to less wealthy consumers, because they inhibit arbitrage and facilitate price discrimination. But they do so by maximizing publisher profit at the expense of other consumers – and there other ways for the less wealthy to access such goods. Moreover, the Copyright Act was drafted in such a way that a win for Wiley would restrict the aftermarket in other, less justified ways, such as requiring art galleries to get a license to display the perfectly legal artwork they acquired in perfectly legal ways.

The outcome of this policy issue, however, depended on a complicated tangle of legalese and a thorny task of statutory interpretation. The key interpretive question was what the Copyright Act meant by the phrase “lawfully made under this title” in [17 U.S.C. § 109\(a\)](#). If copyrighted goods manufactured abroad with the copyright owner’s consent were “lawfully made under this title,” then under an earlier Supreme Court case, [Quality King v. L’Anza Research](#), the Copyright Act’s first sale doctrine permitted their unlicensed resale – a win for Kirtsaeng. If not, it would be a win for Wiley.

In *Kirtsaeng*, the Court examined the plain text of Section 109(a) and the historical context of its enactment. It found no basis for the assertion that the phrase was meant to draw distinctions based on the geographical location of the manufacture. It also cited the parade of horrors that a contrary ruling would produce: the aforementioned dilemma for art galleries, plus the consequences for libraries and used-book stores, which would somehow have to determine

which of the books on their shelves were printed abroad and then secure a license each time they sold one, or even lent it out. Indeed, the Court noted, a great variety of the \$2.3-trillion worth of foreign goods the United States imports every year – “automobiles, microwaves, calculators, mobile phones, tablets, and personal computers” – incorporates some sort of copyrighted work. Under Wiley’s approach to Section 109(a), each domestic resale of such goods would require a new license if the copyrighted goods had been manufactured outside the country.

In dissent, Justice Ginsburg (joined by Justice Scalia) challenged these examples, but her main disagreement with the majority concerned the implications of its ruling for a different statute, 17 U.S.C. § 602(a)(1). That statute forbids the unauthorized importation of copyrighted goods. But if Section 109(a) allows such importation as long as the copyright owner authorized the goods’ foreign manufacture, what exactly does Section 602(a)(1) prohibit? The importation of *pirated* goods? No, a separate provision applies to them. The majority’s answer was that imports by someone other than the owner of the lawfully made goods would violate the prohibition – an explanation at odds with dicta from *Quality King*, but that does preserve some role (albeit a small one) for Section 602(a)(1).

So, in short, the first sale doctrine applies to goods from the United States and abroad, as long as the copyright owner authorized their manufacture. That’s the answer we’ve been waiting for. Finally!

But is it really final? Perhaps not: In my next entry in this series, I will describe three ways in which the copyright owners might exert control over the international gray market despite the Supreme Court’s ruling. Stay tuned.

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