From Your Land to Mine: The Benefits of Applying the First Sale Doctrine to Goods Manufactured Abroad

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Introduction

A domestic manufacturer with an American copyright produces a good in the United States. The manufacturer then sells the good to a domestic retailer, who sells the good to consumers. If this case arose in any jurisdiction in the United States, the first sale doctrine codified in 17 U.S.C. § 109(a) would protect the retailer from copyright infringement. The first sale doctrine prevents a copyright owner who puts a product into the “stream of commerce” from possessing an exclusive statutory right to control subsequent distribution of that product.1

In a second situation, a foreign manufacturer with an American copyright produces a good. The manufacturer then sells the good to a retailer in the United States, who sells the good to consumers. The copyright owner sues the retailer for a copyright violation. If this case arose in the Third or Ninth Circuits, 17 U.S.C. § 109(a) would provide a first sale defense to the retailer; these circuits would rule that because the copyright owner already made an initial sale of the product in the United States, he or she could not claim copyright infringement on subsequent sales.2

In a final case, a foreign manufacturer produces a good with an American copyright. The manufacturer sells the good to a distributor abroad, who then sells to retailers and consumers in the United States. The copyright owner sues the distributor for copyright infringement. If this case arose in the Third Circuit, 17 U.S.C. § 109(a) would provide a defense to

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the distributor. However, if this case arose in the Second or Ninth Circuits, the copyright owner would prevail. If this scenario presented itself in any other circuit, both parties have an equal opportunity to triumph.

The highlighted discrepancy in appellate courts’ rulings on various fact patterns regarding copyrighted goods has been a recent point of contention in American courts. In the United States, it is well settled that the first sale doctrine protects sellers from violating copyrights once a domestic first sale has been made. According to the first sentence of § 109(a), which reads:

[notwithstanding the provisions of [§] 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, copyright owners cannot control the subsequent sales of their products once they are placed into the stream of commerce.

The current dispute revolves around whether § 109(a) should be read to apply extraterritorially. The language of the statute invites

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3 Sebastian Int’l Inc., 847 F.2d at 1098-99.
4 John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210, 222 (2d Cir. 2011); Omega S.A., 541 F.3d at 985.
5 Quality King Distribs., Inc., 523 U.S. at 136.
6 Section 106(3) reads as follows:

Subject to [§§] 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 . . . . 17 U.S.C. § 106(3) (2006).

7 “Phonorecords” are material objects in which sounds, other than those accompanying a motion picture; or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term “phonorecords” includes the material object in which the sounds are first fixed. 17 U.S.C. § 101 (2006).

9 Quality King Distribs., Inc., 523 U.S. at 152.
interpretation, specifically regarding the phrase “lawfully made under this title.” The circuit courts that have ruled on this issue have applied the statute differently, either interpreting the phrase to mean “lawfully made in America” or “lawfully made under an American copyright.” In evaluating these interpretations, the courts have also examined other sections of Title 17 where the phrase “lawfully made under this title” has applied to both domestic and foreign works. The Supreme Court has not yet resolved this circuit split.

This Note examines the circuit split with respect to the first sale doctrine. It proposes that circuit courts as well as the Supreme Court should allow the first sale doctrine to provide a defense to goods with American copyrights that are manufactured abroad and then imported into the United States, thereby reading “lawfully made under this title” as “lawfully made under an American copyright.” This will protect domestic consumers from paying higher prices for goods and from potentially engaging in copyright infringement. The proposed language will also reduce the risk that American jobs will be lost to outsourcing and decrease the incentive for American copyright owners to manufacture abroad.

In Part I, this Note examines 17 U.S.C. § 109(a) and how the circuit courts have interpreted this statute. In Part II, this Note analyzes how each interpretation affects copyright owners, consumers, and the American job market. Part III argues that the Third Circuit’s ruling, which extends the first sale doctrine to goods manufactured abroad and imported into the United States, is preferable and consistent with the purpose behind the Copyright Act. Part III also demonstrates how this interpretation benefits consumers and the American job market while ensuring that copyright owners benefit from their work as they deserve. Finally, Part IV offers a legislative solution that aligns with the preferable court ruling and clarifies how the statute should be interpreted.

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I. Background

A. The Copyright Act and the First Sale Doctrine

The Copyright Act originates from article I, section 8 of the Constitution. It gives Congress the authority “to promote the [p]rogress of [s]cience and useful [a]rts, by securing for limited [t]imes to [a]uthors and [i]nventors the exclusive [r]ight to their respective [w]ritings and [d]iscoveries.” The Copyright Act’s goal is to balance the interests of copyright owners with the interests of the public. The Copyright Act is aimed at encouraging creativity by ensuring that copyright owners control the terms by which their products enter the stream of commerce while also enabling members of the public to benefit from that creativity after exclusive control has ended. Under the Copyright Act, copyright holders can control and exploit their ideas while members of society can take advantage of the flow of commerce.

Chapter 5 of Title 17 of the United States Code contains remedies available to copyright owners who believe that they have been victims of copyright infringement. Section 501 states that “[a]nyone who violates any of the exclusive rights of the copyright owner as provided by §§ 106 through 122” or violates § 602 infringes on a copyright. The remedies available to copyright owners include injunctions, the impoundment and disposition of infringing articles, damages and profits, and costs and

14 U.S. CONST. art. I, § 8, cl. 8.
15 Sebastian Int’l Inc., 847 F.2d at 1095.
16 Stockalper, supra note 11, at 513.
17 Sebastian Int’l Inc., 847 F.2d at 1095.
18 Id.
attorney’s fees. According to the United States Copyright Office, copyright holders have the option of filing civil suits in federal district courts. Alternatively, if copyright owners believe that the alleged violator engaged in willful infringement for profit, a United States Attorney may choose to commence a criminal proceeding against the alleged infringer.

In addition to remedies for copyright owners, Title 17 of the United States Code also provides protection to retailers and consumers. The first sentence of § 109(a) is commonly known as the “first sale doctrine.” In Quality King Distributors, Inc. v. L’anza Research International, Inc., the Supreme Court explained the rationale behind the first sale doctrine, stating that when a copyright owner puts a product into the “stream of commerce” by making an initial sale of the item, the owner “has exhausted his exclusive statutory right to control its distribution.”

The first sale doctrine prohibits copyright owners from regulating the transfer of their products once those goods have entered the market. It enables those who have lawfully purchased a copyrighted work to resell it unlimitedly. Consumers and retailers can confidently participate in commerce and benefit from copyright owners’ ideas and products by knowing that these owners will not hamper their market exchanges.


26 Id.


28 See John Wiley & Sons, Inc., 654 F.3d at 212 n.1.


30 Id. at 152.


32 John Wiley & Sons, Inc., 654 F.3d at 211-12.

The American judicial system has protected the first sale doctrine for over a century. In *Bobbs-Merrill Co. v. Straus*, the Supreme Court held that “the exclusive statutory right to vend applied only to the first sale of the copyrighted work.” The Court explained that copyright holders do not have a right to control future sales of their products. This ruling prohibited copyright owners from controlling prices on subsequent sales of their items. This holding is now codified in § 109(a) of Title 17 of the United States Code.

**B. The Circuit Split Surrounding the First Sale Doctrine**

The confusion regarding the interpretation of the first sale doctrine revolves around the phrase “lawfully made under this title.” Courts differ on whether this phrase means “lawfully made in the United States” or “lawfully made under an American copyright.” The differences in interpretation have led some courts to hold that the first sale doctrine only applies to goods manufactured within the country, while other courts believe that the doctrine also extends to goods manufactured abroad.

In 1988, the Third Circuit was presented with a case that required it to interpret the first sale doctrine. In *Sebastian International Inc. v. Consumer Contacts (PTY) Ltd.*, the plaintiff produced goods in the United States and sold them to the defendant abroad. The defendant then re-sold

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34 210 U.S. 339 (1908).

35 Quality King Distribs., Inc., 523 U.S. at 141.

36 *Bobbs-Merrill Co.*, 210 U.S. at 351.

37 *John Wiley & Sons, Inc.*, 654 F.3d at 212 (explaining the ruling in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908)).

38 *Id.* at 212 n.1.

39 *Id.* at 225-26 (Murtha, J., dissenting).

40 Stockalper, *supra* note 11, at 533.

41 *John Wiley & Sons, Inc.*, 654 F.3d at 224; Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 985, 990 (9th Cir. 2008).


43 847 F.2d 1093 (3d Cir. 1988).

44 *Id.* at 1094.
the goods in the United States.\textsuperscript{45} The Third Circuit held that “when [the] plaintiff made and then sold its copies, it relinquished all further rights ‘to sell or otherwise dispose of possession of the copy’” because the copyright owner had already received compensation through the purchase price.\textsuperscript{46} Under this ruling, when goods are manufactured abroad, American copyright owners are prohibited from benefiting twice by receiving compensation from purchasers while also limiting importation into the United States.\textsuperscript{47}

Twenty years later, the Ninth Circuit faced its most recent opportunity to interpret the first sale doctrine. In \textit{Omega S.A. v. Costco Wholesale Corp.},\textsuperscript{48} Omega sold its copyrighted watches to distributors abroad.\textsuperscript{49} Third parties then sold the watches to a company in the United States; the company sold the watches to Costco, who then sold them to consumers.\textsuperscript{50} Omega, arguing that it did not authorize the importation of the watches back into the country, sued Costco.\textsuperscript{51} The Ninth Circuit held for Omega, ruling that § 109(a) does not apply to goods manufactured abroad.\textsuperscript{52}

The Ninth Circuit used several rationales to justify its ruling. First, the court considered its precedent, including \textit{BMG Music v. Perez};\textsuperscript{53} the court in \textit{BMG Music} originally held that “lawfully made under this title” only extends first sale protection to copies made and sold in the United States.\textsuperscript{54} Secondly, the court in \textit{Omega S.A.} did not want to allow the Copyright Act to apply extraterritorially.\textsuperscript{55} Extraterritoriality prevents

\begin{itemize}
\item \textsuperscript{45} Id.
\item \textsuperscript{46} Id. at 1098-99.
\item \textsuperscript{47} Id. at 1099.
\item \textsuperscript{48} 541 F.3d 982 (9th Cir. 2008).
\item \textsuperscript{49} Id. at 984.
\item \textsuperscript{50} Id.
\item \textsuperscript{51} Id.
\item \textsuperscript{52} Id. at 985.
\item \textsuperscript{53} 952 F.2d 318 (9th Cir. 1991).
\item \textsuperscript{54} \textit{Omega S.A.}, 541 F.3d at 985-86.
\item \textsuperscript{55} Id. at 986.
\end{itemize}
American courts from using American law embodied in the Copyright Act to regulate conduct that occurs abroad.\textsuperscript{56} According to the Ninth Circuit,

\begin{quote}
[t]o characterize the making of copies overseas as “lawful[. . .] under [Title 17]” would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States, notwithstanding the absence of a clear expression of congressional intent in favor of extraterritoriality.\textsuperscript{57}
\end{quote}

Finally, the court stated that applying § 109(a) to foreign-made goods would make 17 U.S.C. § 602\textsuperscript{58} meaningless.\textsuperscript{59} Section 602(a) concerns the importation of copyrighted goods, and states that importing these products without a copyright owner’s permission is a copyright infringement.\textsuperscript{60} The Ninth Circuit argued that § 602(a) would no longer be necessary if § 109(a) applied to goods produced abroad “because importation is almost always preceded by at least one lawful foreign sale that will have exhausted the distribution right on which § 602(a) is premised.”\textsuperscript{61}

The Ninth Circuit created an exception to its holding that has not been followed by the other circuits. This exception allows § 109(a) to provide first sale protection to goods manufactured abroad if the first sale occurs domestically.\textsuperscript{62} Short of that exception, the Ninth Circuit holds that § 109(a) should not be applied to goods manufactured abroad.\textsuperscript{63} In this case, Omega first sold its copies abroad, so the exception did not apply.\textsuperscript{64} Therefore, to rule in alignment with its binding precedent and its view

\begin{quote}
\textsuperscript{56} Stockalper, supra note 11, at 529.
\textsuperscript{57} Omega S.A., 541 F.3d at 988.
\textsuperscript{58} Section 602 is utilized “as a tool against the unauthorized importation of nonpiratical copies.” Id. at 986.
\textsuperscript{59} Id.
\textsuperscript{61} Omega S.A., 541 F.3d at 986.
\textsuperscript{62} Id.
\textsuperscript{63} Id. at 990.
\textsuperscript{64} Id. at 984-85, 986.
\end{quote}
against extraterritoriality, in Omega S.A. the Ninth Circuit held that the first sale doctrine did not provide a defense for Costco.65

Recently, the Second Circuit had the opportunity to rule on the issue of “whether the first sale doctrine . . . applies to copyrighted works produced outside of the United States but imported and resold in the United States.”66 In John Wiley & Sons, Inc. v. Kirtsaeng,67 the Second Circuit interpreted the phrase “lawfully made under this title” to mean “lawfully made in the United States,” thus failing to extend the first sale doctrine to goods manufactured abroad.68

In conducting its analysis, the court in John Wiley & Sons, Inc. examined other parts of Title 17 in which the phrase “under this title” applied to both domestic and foreign works.69 The court explained that § 104(b)(2),70 which also contains the phrase “under this title,” applies copyright protection to works published both domestically and abroad.71 In addition, § 1006(a),72 which concerns royalty payments under the Audio Home Recording Act, also utilizes the phrase “lawfully made under this title.”73 When considering the interpretation of § 1006(a), the court

-id. at 985.
66 John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210, 212 (2d Cir. 2011).
67 654 F.3d 210 (2d Cir. 2011).
68 Id. at 224.
69 Id. at 219-20.
70 “The works specified by [§§] 102 and 103, when published, are subject to protection under this title if . . . (2) the work is first published in the United States or in a foreign nation that, on the date of first publication, is a treaty party . . . .” 17 U.S.C. § 104(b)(2) (2006).
72 The royalty payments deposited pursuant to § 1005 shall, in accordance with the procedures specified in § 1007, be distributed to any interested copyright party- (1) whose musical work or sound recording has been- (A) embodied in a digital musical recording or an analog musical recording lawfully made under this title that has been distributed, and (B) distributed in the form of digital musical recordings or analog musical recordings or disseminated to the public in transmissions, during the period to which such payments pertain; and (2) who has filed a claim under [§] 1007. 17 U.S.C. § 1006(a) (2006).
73 John Wiley & Sons, Inc., 654 F.3d at 220.
analyzed how the United States Copyright Office expects the distribution of royalty payments to apply to recordings manufactured both in and out of the United States.\textsuperscript{74}

These interpretations of other sections of Title 17, however, did not persuade the Second Circuit to rule in favor of applying § 109(a) to goods manufactured abroad. In explaining its decision, the Second Circuit conceded that “[t]he relevant text is simply unclear”\textsuperscript{75} and questioned why Congress did not explicitly state in § 109(a) that the statute should only apply domestically.\textsuperscript{76} Ultimately, the court decided that § 109(a) should not provide protection to goods manufactured outside of the United States.\textsuperscript{77} The court concluded that “lawfully made under this title” means lawfully made where the Copyright Act is applicable and thus § 109(a) does not apply to goods manufactured abroad.\textsuperscript{78}

C. The Supreme Court’s Failure to Resolve the Circuit Split

Currently, the circuit courts have ambiguous guidance but not a binding ruling from the Supreme Court. The Supreme Court has faced this issue twice, but has yet to lay down a law regarding whether or not § 109(a) should apply to goods manufactured abroad.

In \textit{Quality King Distributors, Inc. v. L’anza Research International, Inc.}, the Court answered the question of “whether the ‘first sale’ doctrine endorsed in § 109(a) is applicable to imported copies” in the affirmative.\textsuperscript{79} The situation in \textit{Quality King Distributors, Inc.} was similar to that in the Third Circuit case \textit{Sebastian International Inc.}. In \textit{Quality King Distributors, Inc.}, the goods in question were first manufactured domestically by L’anza and then sold to a foreign purchaser.\textsuperscript{80} The goods

\textsuperscript{74} \textit{Id.}

\textsuperscript{75} \textit{Id.}

\textsuperscript{76} \textit{Id.} at 220 n.38.

\textsuperscript{77} \textit{Id.} at 221.

\textsuperscript{78} \textit{Id.} at 222.


\textsuperscript{80} \textit{Id.} at 139.
were later imported back into the United States and re-sold domestically without L’anza’s authorization.81

The Court ruled in line with the Third Circuit in Sebastian International Inc., holding that because the domestic distributors legally owned copies of L’anza’s goods, the distributors did not infringe on L’anza’s copyright by reselling them.82 However, in her concurrence, Justice Ginsburg emphasized that the Court did not solve the problem of potential copyright infringement when goods are manufactured abroad and then sold domestically; this case involved goods that were manufactured in the United States, sold abroad, and then re-imported back into the country.83 Therefore, even though the Court could have issued a ruling that would have affected the application of § 109(a) to goods manufactured abroad, it chose not to do so in this case.

Despite the fact that the Supreme Court’s decision in Quality King Distributors, Inc. did not directly solve the issue of first sale protection when goods are manufactured overseas, the Court offered dictum84 that has been interpreted by various courts in subsequent § 109(a) cases.85 The dictum mentioned a hypothetical in which the Court determined that if an author gave exclusive American distribution rights to one publisher and exclusive British distribution rights to another, “only those [goods] made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a).”86 Thus, some circuits have

81 Id.

82 Id. at 143.

83 Id. at 154 (Ginsburg, J., concurring).

84 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). Id. at 148 (majority opinion).


86 Quality King Distribrs., Inc., 523 U.S. at 148.
interpreted this hypothetical to mean that the first sale doctrine does not protect American copyrighted goods that are manufactured abroad.87

The Supreme Court faced this issue again twelve years later, when the Ninth Circuit case of Costco Wholesale Corp. v. Omega S.A.88 appeared before the Court. Unfortunately, the Court also failed to establish a binding precedent in this case, since an equally divided Court affirmed the Ninth Circuit’s ruling.89 Therefore, unless the Court decides to deliver an authoritative rule on this subject, the circuit courts still have the freedom to interpret § 109(a) as they choose.

III. Analysis

A. Rulings’ Effects on Copyright Owners, Consumers, and the American Job Market

1. The Effect of the Second and Ninth Circuits’ Rulings on Copyright Owners

The Second and Ninth Circuits’ rulings do not provide a first sale defense if an American copyrighted good is manufactured abroad, initially sold abroad, and then imported into the United States.90 Therefore, this interpretation gives copyright holders an incentive to manufacture their products abroad instead of domestically91 because doing so gives them the power to control importation of their products.92 This interpretation also provides broader copyright protection to goods manufactured abroad compared to those manufactured domestically.93

Justice Ginsburg noted the potential desire of copyright owners to manufacture abroad in her question to Omega during oral argument in

87 John Wiley & Sons, Inc., 654 F.3d at 218.

88 131 S. Ct. 565 (2010), aff’d by an equally divided court.

89 Id. at 565.

90 John Wiley & Sons, Inc., 654 F.3d at 222; Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 985 (9th Cir. 2008).

91 John Wiley & Sons, Inc., 654 F.3d at 227-28 (Murtha, J., dissenting).


93 Omega S.A., 541 F.3d at 989.
Omega S.A. when she asked: “what earthly sense would it make to prefer goods that are manufactured abroad over those manufactured in the United States?” Counsel for Omega responded that “it doesn’t create any sort of a preference,” yet he was unable to provide any evidence showing why there would be no partiality towards goods manufactured abroad. The Ninth Circuit attempted to resolve this issue by creating an exception that enables retailers and consumers to use the first sale defense when foreign-manufactured copies are initially sold lawfully and domestically. This exception provides first sale protection to retailers and consumers who sell goods that are produced abroad but initially sold in the United States. However, the Ninth Circuit still does not provide protection to these sellers if an initial lawful sale occurs abroad.

The Second and Ninth Circuits’ interpretations will encourage and enable copyright holders to engage in price discrimination, which can “maximize investment in different markets in terms of advertising and distribution and may allow manufacturers to eke every last cent out of their goods” at the expense of American consumers. These decisions enable copyright holders to charge higher prices in the United States than abroad without fear that imported goods will force prices down. On the contrary, if first sale protection applies to goods manufactured abroad, copyright owners can still sell their products for lower prices in international markets, but American consumers can also benefit by purchasing these less expensive goods from the American market once lower-priced goods are imported. Finally, the Second and Ninth Circuits’ rulings also give copyright owners control over importation, and enable copyright owners to control American distribution rights even if a product has been sold multiple times abroad.

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95 Id. at 34.

96 Omega S.A., 541 F.3d at 989.

97 Id. at 986.


100 E.g., Omega S.A., 541 F.3d at 989.
2. The Effect of the Second and Ninth Circuits’ Rulings on Domestic Consumers and the American Job Market

As the dissent in John Wiley & Sons, Inc. discusses, giving copyright holders “unlimited power” to regulate and direct all transactions regarding copies of their products would “create high transaction costs and lead to uncertainty in the secondary market.”\(^\text{101}\) Before selling a product in the United States, an owner would have to determine if a copy of the product originated in the United States or abroad.\(^\text{102}\) If the copy was made abroad, the first sale protection would not apply and the potential seller would have to seek out and receive permission from the copyright holder before selling the product, which would be difficult and burdensome.\(^\text{103}\)

Retailers and consumers who do not know where a product was made would risk being liable for copyright infringement when they sold and bought any product that was manufactured abroad, even if the good was “manufactured and authorized for unrestricted sale by the [American] copyright owner.”\(^\text{104}\) Consumers would be burdened by the fact that they might not know where goods were made and therefore not know if they are violating copyright when purchasing certain goods, perhaps causing them to buy less so as to not risk a lawsuit.\(^\text{105}\)

While it may seem as though individual purchasers will not change their buying habits and only corporate consumers will fear a potential lawsuit, the prosecution of illegal downloads of music may shed some light on how copyright infringement by individuals can also be punished. Individuals have been the defendants in lawsuits and subsequently punished for illegally downloading music; for example, in Arizona, a college student received a sentence that included a $5400.00 fine for illegally downloading music and movies from the Internet.\(^\text{106}\) In 2009, another individual was


\(^{102}\) Id.

\(^{103}\) Id.

\(^{104}\) Brief for Retail Indus. Leaders Ass’n, supra note 33, at 18.

\(^{105}\) Aldridge, supra note 99, at 338-39.

fined $1.9 million for illegally downloading music. These cases show that individuals can be, and are, prosecuted for widespread copyright infringement. While not every individual who illegally downloads music faces a lawsuit, every illegal downloader bears a risk that he or she may be punished for the violation. Similarly, individuals who engage in copyright infringement by buying and selling goods manufactured abroad without permission from the copyright owner may also be prosecuted. The threat of a lawsuit may cause potential consumers to think twice before buying and selling items that may have been produced abroad. If these lawsuits occur frequently, commerce in the American market may be hampered.

The Second and Ninth Circuits’ rulings will also harm American consumers by forcing them to pay higher prices for goods produced within the United States. Even though copyright owners sell their products more cheaply in other countries, American consumers will not benefit from those lower prices if the goods cannot be imported into the United States. Domestic consumers would ultimately pay higher prices if retailers are not allowed to sell cheaper imported goods in the domestic market. American consumers, then, would not be able to buy goods at competitive prices. Additionally, the Second and Ninth Circuits’ interpretation of the first sale doctrine may cause copyright holders to produce more abroad so that they can control importation into the United States, thereby sending American jobs overseas and negatively impacting the American job market.

As a result of the Second and Ninth Circuits’ rulings, retailers and consumers will not know whether they are protected by the first sale doctrine unless they can confirm that goods were manufactured


108 Aldridge, supra note 99, at 338.

109 Yedor, supra note 98, at 139.

110 Aldridge, supra note 99, at 338.

111 Stockalper, supra note 11, at 532.

112 Aldridge, supra note 99, at 341.

353
domestically.\textsuperscript{113} In addition, Americans may lose jobs to workers overseas as more copyright holders choose to produce their goods abroad.\textsuperscript{114}

3. The Effect of the Third Circuit’s Ruling on Copyright Owners, Domestic Consumers, and the American Job Market

A significant portion of goods sold domestically are originally produced abroad and then imported into the United States.\textsuperscript{115} For example, from January to December in 2011, approximately 2.67 trillion dollars\textsuperscript{116} worth of goods were imported into America.\textsuperscript{117} The Third Circuit’s ruling will enable retailers to continue to purchase and resell these foreign-manufactured goods in the United States without liability arising from copyright infringement.\textsuperscript{118}

The American economy thrives on an “aftermarket.”\textsuperscript{119} Aftermarkets, which result from the resale of goods, enable consumers to buy and resell used items to others.\textsuperscript{120} Usually, consumers who resell items do so at lower prices than the wholesale market price.\textsuperscript{121} American


\textsuperscript{114} Aldridge, \textit{supra} note 99, at 341.

\textsuperscript{115} Brief for Retail Indus. Leaders Ass’n, \textit{supra} note 33, at 9.

\textsuperscript{116} This amount reflect[s] the movement of goods between foreign countries and the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and U.S. Foreign Trade Zones. They include government and non-government shipments of goods and exclude shipments between the United States and its territories and possessions, transactions with U.S. military, diplomatic and consular installations abroad, U.S. goods returned to the United States by its Armed Forces, personal and household effects of travelers, and in-transit shipments.


\textsuperscript{117} Id.

\textsuperscript{118} Brief for Retail Indus. Leaders Ass’n, \textit{supra} note 33, at 9.

\textsuperscript{119} \textit{See id.} at 11.

\textsuperscript{120} \textit{See id.} at 11-12.

\textsuperscript{121} See id.
consumers purchase numerous items through resale every day, including books, compact discs, DVDs, and video games.\textsuperscript{122} It is estimated that in 2009, retail commerce in copyrighted works reached $881 billion; the purchase and rental of DVDs reached $16.4 billion; and book sales reached $16.7 billion in the United States.\textsuperscript{123} In addition to consumers who themselves resell goods that they no longer need or use, stores such as T.J. Maxx and Marshalls, as well as pawnbrokers, auction houses, and online marketplaces, also resell goods.\textsuperscript{124}

These participants in the aftermarket are able to confidently engage in the reselling of items because they know that they are protected from copyright infringement by the first sale doctrine.\textsuperscript{125} The aftermarket spreads commercial items across socioeconomic levels and allows consumers to benefit from the cheaper sale of used products.\textsuperscript{126} The Third Circuit’s ruling would encourage the continuance and growth of the aftermarket by relieving the fear that by reselling their items, consumers will potentially be engaging in copyright infringement. Individuals have been sued for copyright infringement by the music industry,\textsuperscript{127} so it is very possible that individuals will be prosecuted for copyright infringement because of their participation in aftermarkets as well.

Because it will not hinder importation, the Third Circuit’s ruling will enable domestic consumers to access more affordable goods while requiring retailers to lower prices.\textsuperscript{128} If § 109(a) can apply to goods manufactured abroad and initially sold either domestically or abroad, copyright owners will not be able to successfully engage in price discrimination.\textsuperscript{129} If copyright owners sell their goods abroad for less, and those goods can be imported into the United States at cheaper prices, then retailers will be forced to lower their prices at home to remain competitive members of the

\textsuperscript{122} Id. at 10.
\textsuperscript{123} Id. at 10-11.
\textsuperscript{124} Brief for Pub. Knowledge, supra note 113, at 11, 26-27.
\textsuperscript{125} Id. at 11, 26.
\textsuperscript{126} Brief for Retail Indus. Leaders Ass’n, supra note 33, at 11-13.
\textsuperscript{127} E.g., Friend, supra note 107; Teen Convicted of Illegal Net Downloads, supra note 106.
\textsuperscript{128} Aldridge, supra note 99, at 338.
\textsuperscript{129} Id. at 337.
market. The opportunity to buy imported goods at lower prices saves consumers billions of dollars annually. These savings will be protected if other circuit courts and the Supreme Court follow the Third Circuit’s ruling.

Additionally, copyright owners receive compensation for a good regardless of whether it is sold domestically or abroad. Therefore, the owners do not need the power to limit importation as a form of compensation because they have already received compensation through the purchase price from the initial buyer. Thus, by adopting the Third Circuit’s interpretation, the courts will not disadvantage copyright owners. Finally, if the courts forbid the first sale doctrine from applying to goods manufactured abroad, manufacturers will have incentives to move facilities and jobs overseas “to strengthen control over distribution.” The Third Circuit’s ruling, however, will remove the incentive to produce goods abroad and may ultimately keep jobs in the United States.

B. The Proper Application of the First Sale Doctrine

Courts have conceded that § 109(a) can be interpreted in two different ways due to the lack of jurisprudence and in the absence of congressional action. By following the Third Circuit’s interpretation, courts will protect retailers’ and consumers’ abilities to purchase and sell goods in a competitive market while prohibiting copyright holders from taking advantage of and expanding the Copyright Act to obtain a double profit. The following analysis supports the conclusion that the Third Circuit’s ruling can, and should, apply to American goods manufactured abroad.

1. The Original Intent of the Copyright Act

The purpose behind the Copyright Act is to allow copyright owners to control the terms by which their goods enter the market; therefore, it does

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130 Id. at 338.


134 See id.

135 See John Wiley & Sons, Inc. v. Kirtsaeng, 654 F.3d 210, 220 (2d Cir. 2011); Sebastian Int’l Inc., 847 F.2d at 1097.
not follow that owners should also have the right to control the movement of those goods once they have entered the stream of commerce. The goal of the Copyright Act is to protect copyrighted goods, yet copyright owners are now trying to utilize copyright law to obtain a double profit. The courts should not allow copyright owners to manipulate the Copyright Act in this way at the expense of retailers, consumers, and the American economy.

The 94th Congress considered the first sale doctrine when it revised the Copyright Act in 1976. The Senate and the House reports explained that the first sale doctrine allows the transfer of goods once a copyright owner makes an initial sale. The reports did not specify that the first sale doctrine could only be a defense when goods with an American copyright are manufactured domestically. Therefore, Congress did not consider restricting the first sale defense to only apply to goods manufactured in the United States.

2. The Plain Language of the Statute

Section 109(a) does not explicitly refer to a product’s place of manufacture. Rather, it focuses on whether a copy was legally made under American copyright law contained in Title 17 of the United States Code. Therefore, as Judge Murtha articulated in his dissent in *John Wiley & Sons, Inc.*, “the lawfulness of the manufacture of a particular copy should be judged by U.S. copyright law.” According to the Supreme Court, the plain language of a statute should be followed unless that reading would result in absurd consequences that Congress could not have intended. As seen in the House and Senate reports, Congress did not

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137 Brief for Retail Indus. Leaders Ass’n, *supra* note 33, at 34.


140 *John Wiley & Sons, Inc.*, 654 F.3d 210, 226 (2d Cir. 2011) (Murtha, J., dissenting).

141 *Id.*

142 *Id.*

intend for the first sale doctrine to only apply domestically. Additionally, absurd results do not arise by following the plain language of this statute, but by interpreting it to apply only to goods manufactured in the United States. Congress could have worded § 109(a) to read “lawfully made under this title in the United States,” but it did not, and therefore the product’s place of manufacture is explicitly excluded from the text. While copyright owners would prefer to block the importation of goods they manufacture abroad, the statute does not expressly give them the authority to do so.

In addition, under the common law, restraints on trade have never been limited by the place of manufacture, and therefore should not be restricted now when the statute does not require it. In order to protect consumers and prevent copyright owners from obtaining a double reward, § 109(a) should be interpreted to apply the protection of the first sale doctrine to goods manufactured domestically and abroad, and “lawfully made under this title” should be read as “lawfully made under an American copyright.”

3. Reconciliation with § 602(a) of the Copyright Act

Courts have expressed concern that § 109(a) is at odds with § 602(a) of the Copyright Act. One interpretation of the relationship between the two statutes is that § 602(a) allows copyright holders to prevent the importation of copies of their products into the United States. The second interpretation, which the Third Circuit chose to follow, reasons that § 602(a) does not expand a copyright holder’s importation rights, but

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145 Brief for Retail Indus. Leaders Ass’n, supra note 33, at 27.


147 John Wiley & Sons, Inc., 654 F.3d at 227 (Murtha, J., dissenting).

148 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 §[106], actionable under §[501]. 17 U.S.C. § 602(a) (2006).

149 See Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 986 (9th Cir. 2008); Sebastian Int’l Inc., 847 F.2d at 1097.

150 Sebastian Int’l Inc., 847 F.2d at 1097.
“serves only as a specific example of those rights subject still to the first sale limitation.”

By interpreting § 109(a) to apply to goods manufactured abroad under a lawful American copyright, § 602(a) will not be rendered meaningless as some courts fear. Rather, § 602(a) will still apply to piratical copies, to copies of products that have not had an initial sale, and to copies that were not manufactured under Title 17 of the United States Code. Additionally, nothing concerning § 602 suggests that the statute is meant to restrict or give copyright holders control over importation. Therefore, copyright owners should not be given that power.

4. Reconciliation with the Quality King Distributors, Inc. Dictum

If the courts interpret § 109(a) to apply to goods manufactured abroad, they will not contradict the dictum in Quality King Distributors, Inc. First, the dictum does not reference a product’s place of manufacture and thus should not be considered in cases where goods were produced abroad. Secondly, in the Quality King Distributors, Inc. hypothetical, the Court examined a situation in which a copyright owner gave American distribution rights to one publisher and British distribution rights to another publisher. In the scenario, the British publisher’s rights fell under British copyright law. In the cases at hand, however, the goods manufactured

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151 Id.

152 See Omega S.A., 541 F.3d at 986 (“[T]he application of § 109(a) after foreign sales would ‘render § 602 virtually meaningless’ as a tool against the unauthorized importation of nonpiratical copies because importation is almost always preceded by at least one lawful foreign sale that will have exhausted the distribution right on which § 602(a) is premised.”).


154 “Piratical” articles are “copies or phonorecords made without any authorization of the copyright owner.” S. Rep. No. 94-473, at 151 (1975).

155 John Wiley & Sons, Inc., 654 F.3d at 228 (Murtha, J., dissenting).


157 John Wiley & Sons, Inc., 654 F.3d at 228 (Murtha, J., dissenting).


159 Brief for Retail Indus. Leaders Ass’n, supra note 33, at 32.
abroad are affixed with American copyrights and therefore still come under American copyright law. Additionally, rather than conflicting with Supreme Court rulings, the application of § 109(a) to goods manufactured abroad as well as domestically will align with the Court’s century-old intent as it was stated in Bobbs-Merrill Co.

5. Consistency with Other Sections of Title 17 of the United States Code

Other sections of Title 17 utilize the phrase “under this title” and apply to products manufactured both at home and overseas. For example, § 104(b)(2) applies copyright protection to works published domestically and abroad. The language in § 104(b)(2) explicitly reads that works are protected “under this title” if they are “first published in the United States or in a foreign nation that, on the date of first publication, is a treaty party.” In addition, § 1006(a)(1)(A) applies to recordings manufactured both in and out of the United States. Section 1006(a)(1)(A), which concerns royalty payments, contains the language “lawfully made under this title,” and under this statute the United States Copyright Office does not restrict its distribution of royalties just to recordings produced domestically.

The text of § 109(a) should not be interpreted differently than other statutes in Title 17 of the United States Code. Since other statutes in Title 17 contain the phrase “under this title” and are applied to domestic and foreign-made goods, § 109(a) should have the same application. A different interpretation should not be followed especially when the results would be more harmful than beneficial. Congress could have added “lawfully manufactured under this title” to § 109(a), but it did not. Therefore, it did

1. See John Wiley & Sons, Inc., 654 F.3d at 212 (explaining Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908)) (“[T]he owner of a copyright could not impose price controls on sales of a copyrighted work beyond the initial sale.”).

2. Id. at 219-20 (explaining 17 U.S.C. § 104(b)(2) (2006)).


7. Id. at 226 (Murtha, J., dissenting).
not intend to limit the application of the first sale doctrine just to works manufactured domestically.\textsuperscript{168}

6. Copyright Owners and Double Compensation

Copyright owners must be fairly compensated for their work.\textsuperscript{169} However, they receive adequate compensation regardless of whether the first sale of their product occurs at home or abroad.\textsuperscript{170} The Third Circuit recognized this when it stated that “[n]othing in the wording of [§] 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a ‘reward for his work.’”\textsuperscript{171}

Additionally, nothing in Title 17 of the United States Code implies that copyright holders should receive a larger award if their products are initially sold abroad rather than domestically.\textsuperscript{172} However, this windfall would occur if copyright owners receive both the purchase price of their goods and an importation limitation privilege.\textsuperscript{173} The best way to remove the opportunity for copyright holders to obtain a double profit at the expense of retailers and consumers is to apply the first sale doctrine to goods manufactured domestically and abroad.

7. Prevention of Large Lawsuits

Copyright violators may be liable for damages of up to $150,000.00.\textsuperscript{174} Therefore, the amount of money that retailers or consumers could pay in damages if they lost a copyright infringement suit would be significant, which may be “highly disruptive to commerce generally.”\textsuperscript{175} The threat of such large lawsuits outweighs the profit that retailers may obtain by importing cheaper goods from abroad and selling them in the

\textsuperscript{168} Id. at 226-27.


\textsuperscript{170} Id. at 1099.

\textsuperscript{171} Id.

\textsuperscript{172} Id.

\textsuperscript{173} Id.

\textsuperscript{174} Brief for Pub. Knowledge, supra note 113, at 15-16.

\textsuperscript{175} Brief for Retail Indus. Leaders Ass’n, supra note 33, at 18-19.
United States. Therefore, businesses will likely cease importing goods, or at least do so less frequently, and will no longer offer discounted goods to consumers.

Retailers and consumers may buy and sell less, especially low-value goods, if the risk of copyright infringement is high. The fear of these lawsuits may not have stopped people from engaging in commercial transactions yet, but this may change if copyright holders file more cases and the Supreme Court or the majority of the circuit courts start ruling in favor of them. By allowing the first sale doctrine to apply to goods manufactured abroad, consumers will be able to purchase goods in a competitive market with competitive prices and resell goods that they no longer need to those who can benefit from them.

A copyright holder can simply obtain a copyright by paying a fee of under $50.00. In addition, a copyright holder does not even need to copyright an entire product, but just an element of it, to potentially acquire the rights over the importation market of the product. Once a person secures a copyright, the holder potentially has a “high value of absolute control over [his or her] product” if the product is manufactured abroad unless the courts interpret § 109(a) to apply a first sale protection to goods produced overseas.

8. Ability to Contract

While there are numerous alternative remedies available to copyright owners who want to control future distribution of their goods, they have the option to contract with buyers before releasing their products into the market. Then, even if § 109(a) protects a retailer or consumer who agreed not to sell a product in the United States, the copyright owner might have a remedy under contract law. For example, a United States

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176 Id. at 19.
177 Id.
179 Id. at 14.
180 Id. at 21.
181 Id. at 14.
182 See Stockalper, supra note 11, at 539-44.
copyright owner may produce a product abroad and sell it to a retailer abroad. The two parties can form a contract prohibiting the retailer from selling the product in the United States. If the retailer sells the product domestically in spite of the contract, the first sale doctrine may protect the retailer from copyright infringement. However, the copyright owner may have a remedy under contract law.

Justice Sotomayor recognized this at oral argument in Omega S.A. when she suggested that “if foreign manufacturers are concerned about receiving compensation for the right to sell their goods in the United States, they could address this using contract law.” The 94th Congress also recognized this in its 1976 report, stating that buyers and sellers can contract regarding further distribution of goods. Therefore, the first sale doctrine does not need to be misinterpreted to resolve this issue since contract law provides a remedy.

While copyright owners can contract to protect their interests regarding future sales of their goods, retailers and consumers cannot similarly contract to protect themselves from potential copyright infringement lawsuits. This further supports the conclusion that in order to balance copyright holders’ and consumers’ interests, the courts should allow the first sale doctrine, which is a consumer’s greatest defense against potential copyright infringement, to apply to goods manufactured abroad.

C. A Legislative Solution

The best solution may lie not with the courts, but with Congress. In Quality King Distributors, Inc., the Supreme Court emphasized that it is the duty of the courts to interpret the Copyright Act as it is written. Additionally, even when they decide on different interpretations, the circuit courts agree that Congress should clarify the statute if it is unhappy with their rulings. Therefore, it may be necessary for Congress to amend the statute to allow the courts to rule in a way that protects consumers and the American economy. If Congress does choose this course of action, the first sentence of 17 U.S.C. § 109(a) should be re-written as follows:

184 Yedor, supra note 98, at 135.
185 H. Rep. No. 94-1476, at 79.
Notwithstanding the provisions of § 106(3), the owner of a particular copy or phonorecord lawfully made in the United States, or lawfully manufactured in a foreign country and imported into the United States, with a United States copyright, 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.

This amendment will provide clarity to the courts while protecting American consumers and the American job market.

**Conclusion**

The Supreme Court may or may not ultimately rule that § 109(a) provides first sale protection to goods manufactured abroad. Therefore, other circuits can take advantage of this uncertainty to enforce a rule that is consistent with the plain language of the statute, protects consumers’ rights, and weakens the control that copyright owners have over goods that are manufactured abroad. This preferable interpretation is consistent with the application of other sections of Title 17 of the United States Code that contain the same language. It also prevents copyright holders from obtaining privileges that they were not meant to have while still allowing them to benefit from their work. Unlike other interpretations that overly benefit copyright owners while harming consumers, the Third Circuit’s interpretation of the first sale doctrine protects retailers, consumers, and the American job market without harming copyright owners.

Thus, without further guidance, the courts should consider how the Third Circuit’s interpretation balances the interests of both copyright owners and the public. Alternatively, to guarantee the proper interpretation, Congress should amend the statute to include the words “lawfully made in the United States, or lawfully manufactured in a foreign country and imported into the United States, with a United States copyright.” This interpretation of the first sale doctrine aligns most closely with the purpose behind the Copyright Act while positively impacting the American economy.