

Copyright “First Sale” Doctrine

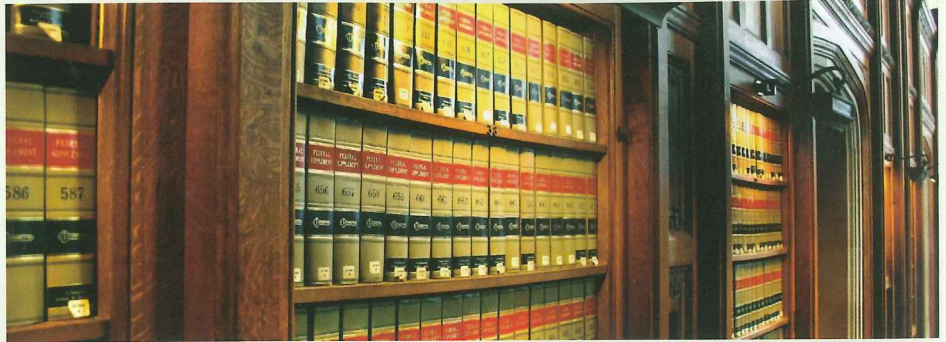
Q: I understand the Supreme Court recently decided a copyright case involving re-selling. Are associations affected?

A: The U.S. Supreme Court recently ruled that copies of books lawfully sold outside the United States may be re-sold in the United States under the “first sale” doctrine of copyright law.

The “first sale” doctrine essentially provides that, once a legally-produced copy of a work (e.g., a book) is given or sold to someone, the purchaser or owner of the actual book can give it away or even re-sell it without having to get permission from the original copyright owner. The first sale doctrine enables copyrighted works such as books and videos to be distributed freely, including through library lending, gift-giving, video rentals and secondary markets for copyrighted works (for example, allowing individuals to sell their legally purchased books or CDs to others).

The copyright in the work itself (including the right to display the work and make derivative works) remains with the copyright owner (e.g., the author of the book). The person who purchases a copy of the book will *not* be able to make new copies of the book, but may give away the book or books that he or she legally owns, or may rent, sell, or destroy the book(s) as he or she sees fit.

In the case, *Kirtsaeng v. John Wiley & Sons*, publisher John Wiley & Sons, Inc. owned copyright in and published textbooks outside the United States through foreign subsidiaries. A student living in the United States asked family members in Thailand to buy and send him the lower-priced foreign version of the textbooks, which the student then resold at a profit on websites in the United States. Wiley sued the student, alleging infringement of its exclusive distribution right (as the copyright holder), and the student claimed that his actions did not constitute infringement under the first sale doctrine.



The Supreme Court held that the first sale doctrine applied to copies of a copyrighted work lawfully made anywhere in the world. In other words, Kirtsaeng did not infringe copyright when he purchased books lawfully published outside the United States, imported them and then sold them at a profit.

For libraries (buying books overseas), museums (displaying foreign paintings), resellers (selling used books), sellers of imported used cars (with copyrighted software), and U.S. consumers buying books, videos and CDs, the decision is a welcome one because it confirms the protections of the first sale doctrine.

For publishers, including many associations, the court’s decision limits their ability to profit from publishing and selling different (meaning higher- and lower-priced) versions of books and other products within and outside the United States. For example, an association that publishes lower-priced books outside the United States in order to reach foreign markets with its products and services could lose the benefits of such differential pricing. The court’s decision has clarified that anyone can buy legally-made copyrighted works outside the United States and import them into the United States for sale at a profit, undercutting the copyright holder’s direct sales in the United States.

The Supreme Court’s decision is an important reminder about the first sale doctrine: A copyright owner cannot prevent someone from re-selling a work. So, an organization that charges different

prices for the same copyrighted product such as a book or CD (e.g., member and non-member prices, group purchase discounts) takes a risk that purchasers will either give away or re-sell their products at a higher price. Thus, the first sale doctrine could substantially affect an organization’s ability to segment its market in sales of published works.

One way to minimize the effects of the first sale doctrine for association publishers is to impose limits on distribution (e.g., through group discount sales contract terms that prohibit free distribution or re-sale of copyrighted works).

Another approach is to license, not sell, copyrighted works. Courts have held that the first sale doctrine only applies to copies that are “sold” and that a copy of a work (such as a digital copy) that is “licensed” does not fall under the first sale doctrine. In other words, an organization that sells digital works such as e-books, software and digital music may want to consider licensing, not selling, the rights to use those copies under terms that expressly limit further re-sale or sub-licensing.

Stay tuned for potential developments in copyright law, the first sale doctrine and importation rights, as several reforms to the U.S. Copyright Act have already been proposed in the wake of the Supreme Court’s decision. ▣

The answers provided here should not be construed as legal advice or a legal opinion. Consult a lawyer concerning your specific situation or legal questions.