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INTELLECTUAL PROPERTY WITHOUT BORDERS? THE EFFECT OF COPYRIGHT EXHAUSTION ON GLOBAL COMMERCE

Diepirtye A. Anga*

Abstract

Can a U.S. corporation that resells foreign-manufactured goods obtained from a third party importer be held liable for copyright infringement? How about a student who buys a textbook during his or her travels overseas? Can he or she lawfully resell it in the United States? Does the first sale doctrine apply to lawfully made copyrighted works that are manufactured and distributed by the copyright owner outside of the United States and then subsequently imported into the United States? In 2010 and 2013, the Supreme Court decided two cases, Costco v. Omega and Kirtsaeng v. John Wiley & Sons, that raised these questions as well as other similar ones. This paper explores the broad implications of these decisions and considers the utility of copyright as an import control measure, as well as the potential effects of the decisions on consumers and the gray market.

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I. U.S. COPYRIGHT LAW AND THE FIRST SALE DOCTRINE

In order to fully understand the implications of the Costco and Kirtsaeng decisions, it is important to get a sense of the legal landscape surrounding them. As one of the central tenets of intellectual property law, copyright protects “original works of authorship fixed in a tangible medium of expression.” This form of protection covers both published and unpublished works, including, but not limited to: literary, dramatic, and musical. This form of protection also covers artistic works such as poetry, novels, movies, songs, computer software, and architecture. While it does not protect facts, ideas, systems, or methods of operation, copyright may protect the expression of these things.2

The United States Copyright Act of 1976 gives owners of copyrights the following exclusive rights: to reproduce the copyrighted work in copies or phonorecords; to prepare derivative works based upon the copyrighted work; 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; to perform the copyrighted work publicly (in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works); to display the copyrighted work publicly (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); and to perform the copyrighted work publicly by means of a digital audio transmission (in the case of sound recordings).3 These rights also give copyright owners the power to decide if and when to introduce their work into the market, thereby creating an incentive to create additional works. The law provides that importation of copyrighted works without the authorization of the copyright owners violates their exclusive right of distribution.4

These rights, however, are not limitless. In fact, they are limited quite severely by the first sale doctrine. The first sale doctrine, “simply put, is the principle that after the copyright owner has transferred a copy of the work, the new owner is free to do almost anything with the copy without the copyright owner's consent.”5 Essentially, in most circumstances under the first sale doctrine, the distribution rights extinguish once the copyright owner transfers ownership of a particular legal copy of their work to another person. Specifically, §109(a) of the Copyright Act provides, “notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any

2 Id.
4 See 17 U.S.C. § 602(a) (2006) (“Importation into the United States, without the authority of the owner of copyright under this title, of copies ... of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies ... under section 106.”).
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.”

The first sale doctrine provides a viable defense (or loophole) to copyright infringement. However, the doctrine is not universally applicable. As stated in §109(a), it only applies to the “owner of a particular copy.” A defendant may rely on the first sale doctrine as a defense to an alleged violation of the distribution right only if they are able to prove that they legally owned the copy they distributed. In §109(d) the act reiterates that “[t]he privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it.” This provision is helpful in that it illustrates an important aim of Congress; to allow copyright owners to enter into transactions that do not necessarily involve transfers of ownership and as a result do not constitute “first sales.”

Ultimately, the first sale doctrine not only serves to protect consumers who have legally purchased copies of copyrighted works, but also “rests on the principle that the copyright owner is entitled to realize the full value of each copy upon its disposition.” A theory behind the doctrine is that the price charged for the initial sale of a copyrighted work—a book, for example—would account for the purchaser’s ability to subsequently resell the book. As a result, the purchaser would then be able to resell or dispose of his copy as he sees fit. This theory is the entire premise behind websites like Amazon.com and Half.com.

II. COSTCO V. OMEGA – HOLDING AND ANALYSIS

It was with this information in mind that the United States Court of Appeals for the Ninth Circuit heard Costco Wholesale Corp. v. Omega S.A. The issue before the court was whether the first sale doctrine applied to lawfully made copyrighted works that were manufactured and distributed by the copyright owner outside of the United States and then subsequently imported into the United States. The respondent in the case, Omega S.A. (Omega), is a Swiss luxury watch company that manufactures watches in Switzerland. The petitioner, Costco Wholesale Corporation (Costco), is a membership warehouse retailer located in the United States. Costco, as part of its admitted sales strategy, sold genuine brand-name merchandise, such as Omega watches, at a significant discount. In 2003, Omega received a copyright (entitled Omega Globe

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7 Id.
10 Id.
11 Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982, 983 (9th Cir. 2008).
12 See id.
Design) of a small visual depiction of three Greek Omega symbols inside a circle. This design is engraved onto each watch at Omega’s facility in Switzerland.

Costco received Omega’s watches through the “gray market,” also known as the parallel importation process. A “gray market” sale occurs when a non-authorized third party purchases a copyrighted work from an authorized distributor abroad, and then imports that work into the United States (or any other country). Costco had obtained and continued to obtain the Omega watches from third parties who had imported them into the United States. In this particular case, Costco obtained the watches from New York-based supplier ENE Limited. ENE Limited had acquired the watches from unknown third parties in other countries and imported them into the United States. These third parties bought the watches from authorized distributors in other countries to which Omega directly sold its watches. After Costco sold these watches to forty-three customers, Omega sued Costco for infringing on Omega’s right to distribute its copyrighted logo. Costco countered Omega’s infringement claim with the first sale defense.

On February 6, 2007, the United States District Court for the Central District of California granted Costco’s motion for summary judgment and vacated the previously issued preliminary injunction. The order did not provide any explanation for the ruling. Omega appealed to the Ninth Circuit, where a three-judge panel unanimously reversed the district court’s grant of summary judgment. In its reversal, the Ninth Circuit held that the first sale defense only applied to those items made and distributed in the United States, and not to those items (like Omega’s watches) that were originally made and distributed outside of the United States. The Ninth Circuit based its determination on its reading of its own precedent, as well as on the Supreme Court’s holding in Quality King Distributors v. L’anza Research International. In Quality King, the Court held that the first sale doctrine applied to so-called round trip copyrighted works (those copyrighted works made and distributed in the United States, exported to another country, and subsequently re-imported into the United States).

Initially, in adhering to its previous precedents, the Ninth Circuit stressed two concerns. First, the Ninth Circuit stressed that applying the first sale defense to Omega watches manufactured outside of the United States would violate the presumption against the extraterritorial
application of U.S. law. Second, the Ninth Circuit did not want to expand the first sale defense for fear that copyright infringement suits would become useless in preventing gray market distribution. An expansion of the first sale defense would allow authorized distributors to resell particular copies of their copyrighted works made outside of the United States to parties in the United States. The circuit court felt that this would disrupt the copyright owner’s ability to segregate different markets for its copyrighted goods. As a result, the Ninth Circuit concluded that Costco should not have prevailed on summary judgment.

The Ninth Circuit also concluded that its precedent was consistent with Quality King for three reasons. First, Quality King involved the category of round trip copyrighted works. By contrast, Costco sold Omega watches manufactured and initially distributed abroad. Thus, the watches were not lawfully made within the United States and not within the scope of §109. Second, the Ninth Circuit emphasized that its reading of Quality King was consistent with the view expressed by Justice Ginsburg in her concurring Quality King opinion. Finally, the Ninth Circuit repeated that extending the first sale defense to these circumstances would impermissibly extend U.S. copyright law in an extraterritorial manner. Given the widespread commercial implications of the issue, the Supreme Court granted certiorari on April 19, 2010.

Decision time rolled around and anticipation was thick in the air, not only in the legal community but also in commercial circles. The Supreme Court had the opportunity to resolve whether the first sale doctrine applies to copyrighted works made abroad, sold abroad, and later imported into the United States without the authorization of the copyright owner. The case was “about much more than cheap watches.” It was about (intellectual) property rights and market freedom. Would the Court rule for or against the American consumer?

As it turns out, the Court split evenly 4-4 in the Costco appeal, affirming de facto the judgment of the Ninth Circuit. Justice Kagan did not vote because she had worked on the case while serving as U.S. Solicitor General, so only eight of the nine justices voted. While the split did mean that the Ninth Circuit ruling stayed in place, it was neither an endorsement nor a rejection of the Ninth Circuit’s interpretation of the first sale doctrine. It also did not set a nationwide precedent. Since courts in other circuits were not and are not bound by Ninth Circuit precedent, it

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22 See Omega S.A., 541 F.3d at 987.
23 Id. at 986.
24 Quality King, 523 U.S. at 154 (Ginsburg, J., concurring).
25 Omega S.A., 541 F.3d at 987.
was unclear how they would apply the first sale doctrine to facts like those in Costco.

III. Kirtsaeng v. John Wiley & Sons – Holding and Analysis

A potential circuit split began to brew in 2009 when the United States Court of Appeals for the Second Circuit heard John Wiley & Sons, Inc. v. Kirtsaeng.29 The Second Circuit ended up coming to the same conclusion as the Ninth, albeit with different reasoning. The respondent in the case, John Wiley & Sons, Inc., an academic textbook publisher, would often assign to its wholly owned foreign subsidiary (Wiley Asia) rights to publish, print, and sell foreign editions of Wiley’s English language textbooks abroad. Wiley Asia’s books stated that they were not to be taken (without permission) into the United States. When petitioner Supap Kirtsaeng moved from Thailand to the United States to study mathematics at Cornell University, he asked friends and family to buy foreign edition English-language textbooks in Thai bookshops, where they sold at low prices, and to mail them to him in the United States. He would then sell the books on eBay and other websites, reimburse his family and friends, and keep the profit.30

The Second Circuit relied on Quality King to find that the first sale defense did not apply to copyrighted works manufactured abroad. However, they also acknowledged that relying on dicta was “an imperfect solution,” and that the application of the first sale doctrine in situations like in Costco is “a close jurisprudential question.”31 With no word from the Supreme Court, appeals courts remained in uncertainty regarding the application of the doctrine to imported goods manufactured abroad.

Finally, in April 2012, the Supreme Court agreed to hear Kirtsaeng v. John Wiley & Sons.32 The Supreme Court heard the case on October 2012 and decided the case on March 29, 2013. The Court reversed the lower court decisions and ruled that the first sale doctrine protected Kirtsaeng’s sale of books purchased overseas.33 The Court held that geography did not limit the protections and exceptions offered by the Copyright Act to works “lawfully made under this title.”34 Rather, these protections and exceptions apply to all copies legally made anywhere, not just in the United States.35 Justice Breyer wrote the opinion of the Court, stating the Court’s views right from the outset:

Putting section numbers to the side, we ask whether the “first sale” doctrine applies to protect a buyer or

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30 Id. at 213.
31 Id. at 228–229.
34 Id.
35 Id.
other lawful owner of a copy (of a copyrighted work) lawfully manufactured abroad. Can that buyer bring that copy into the United States (and sell it or give it away) without obtaining permission to do so from the copyright owner? Can, for example, someone who purchases, say at a used bookstore, a book printed abroad subsequently resell it without the copyright owner’s permission?

In our view, the answers to these questions are, yes. We hold that the “first sale” doctrine applies to copies of a copyrighted work lawfully made abroad.36

Justices Kagan and Alito wrote concurring opinions, while Justices Ginsburg, Kennedy, and Scalia dissented. The decision was hailed as “a major victory for American consumers.”37

IV. IMPLICATIONS FOR THE UNITED STATES

A. Intellectual Property Policy

There is no doubt that the Costco and Kirtsaeng decisions raise very important questions about intellectual property policy. Some of these questions include whether, and how, the Kirtsaeng decision will affect patent and trademark law, and whether a ruling in the other direction would have been feasible—should a copyright owner’s distribution rights exist into perpetuity for goods manufactured overseas?

In their amicus brief to the Omega case or similar wording,38 Public Knowledge, a Washington D.C. based intellectual property public interest group, commented on the impracticability of a ruling against the first sale defense.39 The group argued that the results of upholding the Ninth Circuit’s decision in Costco could include suppression of secondary and parallel markets, which would cause pervasive damage to trade, innovation, and the general public interest.40 Public Knowledge commented that if the Court ruled for Omega, copyright owners’ distribution rights would never be exhausted so long as the copy was manufactured outside of the United States, and the copyright owner never authorized its sale within the United States.41 This would mean that

36 Id. (joined by Chief Justice Roberts, Justice Thomas, and Justice Sotomayor).
38 Public Knowledge wrote their brief in association with the American Association of Law Libraries, the American Free Trade Association, the Electronic Frontier Foundation, the Medical Library Association, and the Special Libraries Association.
40 Id. at 4.
41 Id. at 5.
each time a new owner sought to sell the goods, he would have to get authorization from the copyright owner, a process that would continue indefinitely and would be a harm to society. Furthermore, this harm would extend beyond traditionally copyrighted works such as books, art, music, and movies. It would also affect goods merely containing a copyrighted work, like Omega watches.

A similar first sale doctrine exists in U.S. patent law. The patent exhaustion doctrine limits the extent to which patent holders can control an individual article of a patented product after an authorized sale. Under the doctrine, the purchaser is free to use or resell an article without restraint from patent law once the patent holder’s exclusive rights to control the use and sale of that article are exhausted. The purchaser is then free to use or resell that article without further restraint from patent law do to an unrestricted, authorized sale of a patented article. However, under current law, the patent owner retains the right to exclude purchasers of the articles from making the patented invention anew, unless it is specifically authorized by the patentee.

Recently, the Supreme Court addressed the exhaustion issue regarding patent law. On March 25, 2013, the Court denied a petition for a writ of certiorari in Ninestar Technology Co. v. U.S. International Trade Commission for review of the Federal Circuit’s ruling that U.S. patent rights are not exhausted by the first foreign sale of foreign-made products. However, in May of 2013, the Court heard another patent-exhaustion case: Bowman v. Monsanto Co. In this case, the question at issue was whether the authorized sale of one generation of a patented plant seed exhausts a patentee’s right to control subsequent generations of that seed. The Court unanimously affirmed the Federal Circuit’s ruling and held that patent exhaustion does not permit a farmer to reproduce patented seeds through planting and harvesting without the patent owner’s permission. The Court did not consider the issue in light of global commerce, or in light of any situation other than the one before it, stating, “[o]ur holding today is limited—addressing the situation before us, rather than every one involving a self-replicating product. We recognize that such inventions are becoming ever more prevalent, complex, and diverse.”

Accordingly, it is doubtful that the Costco and Kirtsaeng decisions will have any impact on patent law. The patent exhaustion doctrine does not currently apply to products that are manufactured and sold in a foreign country. Furthermore, this is unlikely to change anytime soon.

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45 See BOWMAN V. MONSANTO CO., 133 S.CT. 1761 (2013).
46 Id. at 1769.
47 Id.
simply because of the vast amounts of money (not only from a domestic but also from an international economic perspective) in balance in such a case. In some ways, it is easier to consider and discuss the implications of domestic sale of a foreign-produced, copyrighted book, or domestic re-use of domestically made seeds, than the domestic sale of foreign-manufactured patented pharmaceuticals.

Where U.S. trademark law is concerned,

It shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States.\(^\text{48}\)

Certainly, it would be equally unlawful to re-sell such merchandise in the United States in competition with the same domestic trademarked product. Public policy ideas behind this law serve to protect not just trademark owners and distributors, but consumers also. In addition to attempting to ensure fair pricing in the international market and avoid unfair competition with United States distributors, the law aims to protect consumers from foreign merchandise that may not have been manufactured in compliance with United States safety requirements.\(^\text{49}\)

Thus, it remains to be seen how Kirtsaeng and future U.S. Supreme Court decisions will affect domestic intellectual property policy in general, and related first sale and exhaustion doctrines under patent and trademark law, in particular. However, for now, one thing is clear —— the debate is far from over. As intellectual property policy becomes increasingly prominent in global economic discussions and development plans, balancing the interests of consumers versus those of rights holders will become more and more difficult.

B. Individual Property Rights

A second consideration is the impact that a rejection of international copyright exhaustion could have had on individuals’ real property rights. The first sale doctrine “ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner” by providing that owners of particular copies of a copyrighted work have the same right to sell, give away, or destroy those copies as they traditionally have with any other piece of personal property.\(^\text{50}\) However,
“[b]y giving copyright owners the authority to control disposition of their works even after selling them for full value, the Ninth Circuit’s decision cuts deeply into traditional rights of ownership and converts a wide range of otherwise innocent activities into copyright infringement.” Indeed, had a majority of the Supreme Court affirmed the Ninth Circuit’s decision, the backlash would have been truly unpleasant, to say the least. While it may be true that all property rights are merely controversial, theoretical constructs for determining who to attribute ownership of goods to, for the most part, they are constructs that work. Consequentially, the people’s rights to use, earn income on, and transfer ownership of goods could be severely impaired in countries and situations where international copyright exhaustion does not apply.

C. Domestic Commerce

In both Costco and Kirtsaeng, the Supreme Court considered the potential impacts of ruling in favor of the first sale doctrine’s applicability to foreign-purchased copyrighted works. Of particular consequence was their decision’s effect on domestic and international commerce. Public perception held that a widespread application of Costco would mean that people could not, for example, sell their old iPhones on Amazon.com without violating copyright law. The Justices addressed this concern at oral argument in Kirtsaeng, by peppering Wiley’s counsel with questions regarding whether someone who brought a book home from abroad for their spouse would be violating the copyright laws, and whether someone who wished to sell a car that came with copyrighted source code installed could do so without permission of the copyright holder. Though the Court considered such hypotheticals, it is questionable whether copyright holders would likely pursue those types of violations. Both of the cases that came before the Court involved alleged bulk infringement, “not retail infringement by transfer of one or two items of foreign origin.”

Costco is a large U.S. corporation whose activities have a material impact on domestic commerce. In addition, Kirtsaeng received crates of Asia-edition textbooks from Bangkok and proceeded to sell them in competition with the publisher at campuses in the United States, generating hundreds of thousands of dollars in revenue. For this reason, many (but not all) of the amici curiae briefs filed in the cases focused on potential bulk infringements.

(“The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property.”).

53 Id.
For example, in the Retail Industry Leaders Association (RILA)’s amicus brief, it was argued that the first sale doctrine protects openness in commerce by enabling retailers and distributors to sell their goods on the market without fear of copyright liability:

Commerce in copies of copyrighted works constitutes a substantial part of the United States economy and culture. Copyright protection has a [broad] effect on commerce, in that copyright registrations also can cover mundane elements of designs or packaging ancillary to ordinary household goods. Robust commerce in copies of copyrighted works and such general merchandise depends on the confidence that retailers and consumers will be free from downstream restraints imposed by a copyright owner. That right is secured by the first sale doctrine.54

Moreover, RILA contended that the loss of first sale rights “[would] likely ... reduce purchasing in primary market sectors, both by reducing the initial incentive to purchase, and by denying consumers the proceeds from sales of used goods.”55 The slippery slope argument following such reasoning is copyright holders could more tightly control, if not completely eliminate, the secondary market in the goods in question. Thus, this would result in making it all but impossible for many middlemen to earn a living and for consumers to purchase “fairly” priced goods.

Further, “[a]s Google, eBay[,] and others also supporting Costco noted, letting Omega [and other copyright holders] control the resale price of goods manufactured and first sold abroad, but not the resale price of goods manufactured in the [United States] and first sold abroad ... provides a strong incentive (on top of any others [such as] cheaper labor [and weak to non-existent] environmental laws) to move manufacturing jobs out of the [United States].”56 Companies could simply shift production overseas to avoid the first sale doctrine. The repercussions would span a wide range of products, affecting everything from books, luxury watches, and jewelry, to electronics, cars, and DVDs. As one Washington, D.C. based law partner observed, “[t]he first-sale doctrine is basis of the DVD rental business. If [copyright owners] wanted to thwart Netflix all they’d have to do is produce DVDs in another country.”57

55 Id. at 13.
57 See Fisher, supra note 27.
Moreover, in Justice Ginsburg’s somewhat forceful dissent in *Kirtsaeng* (in which Justice Kennedy joined and Justice Scalia joined partially), she shed light on some of the potential negative consequences of not upholding the circuit court’s decision. Specifically, she reasoned that if Supap Kirtsaeng was permitted to import international editions of books, so could Amazon.com, or anyone else. Accordingly, this would cause a collapse in the price differential between intentionally lower priced books for consumers in less affluent countries, and the much higher prices in countries like the United States. Publishers’ reluctance to lower prices in certain (or all) countries, for fear of parallel importers, would be harmful to readers world-wide.\(^{58}\)

In addition, Ginsburg also pointed out that “[h]er position [was] consistent with the stance the United States has taken in international trade negotiations: intellectual property law is territorial in nature, which means that creators of intellectual property ‘may hold a set of parallel’ intellectual property rights under the laws of different nations.”\(^{59}\) She was adamant that the text of the Copyright Act demonstrates that Congress intended to provide copyright owners with a potent remedy against the importation of foreign-made copies of their copyrighted works, and that the text was hardly “inconclusive.”\(^{60}\)

LicenseLogic, LLC, a U.S. software management products provider, made many of the same arguments in its amicus brief in support of Wiley. LicenseLogic contended that Kirtsaeng and his amici’s policy arguments regarding the extent to which copyright owners should be entitled to exercise control over their works, and the best interests of consumers had already been considered by Congress during its many years of deliberations leading up to the 1976 Act. LicenseLogic claimed that it was the role of Congress alone “to reconsider competing policy views, and amend the statute if it deems appropriate or necessary.”\(^{61}\) However, this argument is greatly flawed. If this were the case then LicenseLogic’s reasoning could be applied to any issues of statutory interpretation brought before the Supreme Court. Hence, under this reasoning, the Court would never be able to even attempt to clarify unclear legislation or “competing policy views” (the entire point of its existence). This would effectively nullify the government’s long-standing separation of powers and checks and balances model of operation. However, for the reconsideration of competing policy views is only up to Congress. Even though this would not necessarily mean that Congress’ view would always be the correct one, this is what LicenseLogic is implying.


\(^{60}\) *Kirtsaeng*, 133 S.Ct. at 1382 (Ginsburg, J., dissenting).

Next, the company went on to provide its own interpretation of the Copyright Act, writing that the phrase "made under this title" in §109(a) means that it governs copies of protected works made in the United States. If this were true then it would follow that copies made abroad are presumptively not governed by the U.S. Copyright Act (since they would be governed by the laws of whichever country or region they were made in), and that as a result, the U.S. first sale doctrine would not apply to them. LicenseLogic stated, "[i]t is well established that the application of U.S. copyright law is territorial." This argument holds a lot more water than the first. To explain, the United States appears to have always taken a position against international exhaustion, favoring only domestic exhaustion, thereby indicating the territorial nature of its intellectual property laws. That said, it is a well-known fact that the fluid nature of the law in general allows countries to change their minds to their benefit, regarding various policies when they deem it appropriate. As the interpreter of law, the Court cannot always defer to the United States’ past positions to determine what would be “just” going forward. As a result, it is very possible, as we see here, that a doctrine may apply to specific types of products or works (copyrighted) and not others (patented or trademarked) or that a previously held view may be altered in the name of public policy.

Finally, if there is one thing that each side of the debate agrees on, it is the fact that these questions and considerations have far-reaching implications for virtually every industry. For example, the “[a]ssociations of libraries, used-book dealers, technology companies, consumer-goods retailers, and museums point to various ways in which a geographical interpretation would fail to further basic constitutional copyright objectives, in particular ‘promot[ing] the Progress of Science and useful Arts.’ U. S. Const., Art. I, §8, cl. 8." The Kirtsaeng Court noted that libraries have pointed to the 200 million foreign-made works in their collections; used bookstores have purchased books made abroad and cannot always easily predict whether the copy was made domestically or abroad; and “automobiles, microwaves, calculators, mobile phones, tablets, and personal computers” contain copyrightable software that would prevent the resale of even cars without permission of the right holder of every copyrighted piece. Additionally, retailers noted that over $2.3 trillion worth of foreign-produced goods were imported in the United States in 2011 that may contain copyrighted packaging ($220 billion of which constituted traditional copyrighted work), and museums’ ability to display foreign made art would be impeded. So setting minor re-sales aside, had the Court rejected international exhaustion principles in Kirtsaeng, these are some of the much larger difficulties and consequences the Court and country would have faced.

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62 Id. at 2.  
63 CARLOS M. CORREA, TRADE RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS. A COMMENTARY ON THE TRIPS AGREEMENT at 78 (Oxford 88 (2007)).  
65 Kirtsaeng, 133 S.Ct. 1351 at 1365.
V. IMPLICATIONS FOR DEVELOPING ECONOMIES

A. Intellectual Property Policy

Differences in perception about intellectual property protection may be explained by the development gaps between countries like the United States and countries, for example, such as those in South America, Southeast Asia, and Sub-Saharan Africa. In terms of intellectual property policy, there was great inconsistency between developed and developing nations regarding the principle of exhaustion of intellectual property rights concerning parallel imported goods. This was true until the Kirtsaeng case, which perhaps tipped the scale, at least where copyright is concerned. Some developed countries, such as Japan, Australia, New Zealand, and now the United States (again where copyright is concerned) apply international exhaustion doctrines and allow parallel imports, but most do not. In contrast, most developing countries permit parallel importation, either implicitly by omission of prohibitions, or explicitly.

It is enlightening to note where various countries fall in relation to parallel importation, especially since the Agreement on Trade Related Aspects of Intellectual Property Rights (more commonly known as TRIPS) does not regulate copyright exhaustion and leaves it completely to member states to decide. For example, in Supap Kirtsaeng’s home country of Thailand, the copyright legislation neither grants importation rights to the copyright owner nor makes any provisions for the exhaustion doctrine. Under Thai copyright law, there are two categories of infringement: direct and secondary. A direct infringement occurs when one exercises a right exclusively reserved for a copyright owner without their permission. A secondary infringement occurs when one imports or sells the infringing copies with knowledge or reasonable basis to know about the infringement. The Act does not include any provisions prohibiting the importation of genuine copyrighted goods.

Another example is The Economic Community of West African States (ECOWAS), which did not have any known policies about exhaustion until 2008. The current ECOWAS Competition Rule encourages the free flow of goods and services at the lowest prices amongst member states at the regional level. The rule directs member states to take all necessary measures to reform legislation inconsistent with the policy. For this reason, the Nigerian Copyright Act specifies that “Copyright is infringed by any person who without the license or

67 Thailand Copyright Act B.E. 2537 (1994), art. 15.
68 Id. at art. 31.
authorization of the owner of the copyright ... imports or causes to be imported into Nigeria any copy of a work which if it had been made in Nigeria would be an infringing copy under this section of this Act.”

Much like the Copyright Act of Thailand, it does not mention any sanctions on the importation of legally manufactured copyrighted works or goods, thereby implicitly endorsing international (and certainly regional) exhaustion.

A look at the copyright laws in South American countries shows a similar pattern. A section of Brazil’s copyright law states that:

Any person who, for the purposes of sale or the securing of direct or indirect gains, advantages or profits for himself or for another, sells, displays for sale, receives and conceals, acquires, distributes, keeps on deposit or uses a fraudulently reproduced work or phonogram shall be jointly liable with the infringer in terms of the foregoing Articles; if the reproduction has been carried out abroad, the importer and the distributor shall answer for the infringement.

Again, no mention is made of legally produced works. These sections of law demonstrate what was probably an intentional move by these governments to support consumer welfare and the free movement of goods into their countries.

Developing nations do not have the luxury of creating the situation that the Ninth Circuit did with its decision in this matter. It would be economically impractical for these countries, with internal necessity on one side, and pressures from external manufacturers and distributors on the other. To follow the logic of the Ninth Circuit regarding copyright could bring a grinding halt to the retail boom gripping the continent of Africa.

Africans especially are often regarded as “big consumers and small producers,” despite the fact that the continent is rich in resources.

While countries like the United States are including intellectual property as part of their GDP calculations, most Sub-Saharan African countries do not address intellectual property issues in their national development plans. It appears that these developing nations lack the desire or ability...
to address and implement intellectual property policies beyond fundamental legislation. This trend prevents industries in these countries from developing to levels of globally competitiveness and ensures that they continue to be reliant on foreign economies for a wide range of products. At the very least, these countries continue to be implicit supporters of intellectual property exhaustion.  

B. Global Commerce

While the examination of individual countries often results in mere speculation of motives, the effect of the aforementioned intellectual property policies are more readily apparent on a global scale. Generally, in order to maximize their profit in each national market, intellectual property owners charge different prices for the same good based on consumers’ wealth. Due to cost differences, intellectual property right owners benefit from lower production costs in developing countries by setting up a subsidiary or by granting a license for its goods to be manufactured locally. Profits are made by exporting these goods back to the home country. For example, if a good costs $50 to make in the United States and is sold for $90 in the United States, the rights owner would much prefer to have it made in a developing country where it might only cost $30 to make and is sold for $80. If the rights owner sets up a subsidiary in that country and imports the goods back to the United States, the owner makes a greater profit.

Parallel imports (as seen in Costco and Kirtsaeng), like in the example above, are simply “an arbitrage response to international price discrimination that a supplier tries to sustain via exclusive distribution territories over different markets.” In general, there are three essential conditions for international parallel imports: (1) a supply of goods that are readily available in other markets, (2) minimal barriers to trade, and (3), price differentials that are sufficiently large to make a profit. The golden question (the Costco and Kirtsaeng question rephrased) for the purpose of commerce in open economies is this: to what extent can rights holders retain control over the distribution of protected goods once they have been placed on a national market for initial sale? Or, should parallel traders be allowed to operate?

The proponents and detractors of international copyright exhaustion both have strong opinions in this regard, but there seem to be more points in favor of this policy than against it. Proponents of international exhaustion point to the benefits of parallel importation for consumers in


Boonfueng, supra note 66, at 28 (quoting David Malueg and Marius Schwartz, Parallel Imports, Demand Dispersion, and International Price Discrimination, Economic Analysis Group, Antitrust Division, U.S. Department of Justice, Paper 93-6, 19 (Aug. 25, 1993)).
developing markets. Parallel importation gives these consumers greater product and price selection and essentially increases their economic welfare because goods that were not previously available in the home market can be made so through this method. 79 Harry Potter books are an excellent example. Today, they are legally available at bookstores in 68 languages in over 200 countries, 80 but several years ago, this was not the case. Back then, it was not uncommon to hear of people purchasing several copies of the books to resell in their home countries. Indeed, this practice continued well after the books became available worldwide because of the speed with which they would sell out. While Harry Potter books are not an essential commodity, they demonstrate one of the main benefits of parallel importation for consumers in developing countries. This is true not only of books, but also of more essential goods such as baby formula or cereals, which may include copyrighted designs on their containers.

Supporters also point to the potential of parallel importations to reduce market collusion, which occurs when authorized distributors of products in the same country reach an unvoiced agreement to raise the unit price of a product. The lower price of products through parallel imports inhibits the market effects caused by the product price collusion. 81 Yet another argument in favor of parallel importation involves the role that some believe it can play in promoting export-oriented economies in developing countries. International exhaustion policies enable firms in developing countries to “purchase competitive products from foreign industries, and then export them to other countries, including the domestic market of the manufacturer, without any fear that the manufacturer would use intellectual property rights to block exports from entering the domestic market.” 82

The principle argument of opponents of parallel imports is that developed countries benefit more from this than consumers in developing countries. 83 However, this is not necessarily true. Where there is insufficient domestic supply, the availability of parallel imports offers consumers a wider selection. Restrictions prohibiting parallel imports do the opposite, harming consumers by limiting their purchasing options.

VI. CONCLUSION

It is clear that the Kirtsaeng decision and international exhaustion debate are likely to have noticeable consequences on the international market for copyrighted works and goods. The Kirtsaeng Court paved the

79 See id.
82 Id. at 195.
83 Id.
way for United States groups and individuals to purchase abroad, to import, and to resell lower-priced gray market copyrighted goods. The decision will affect not only “typical” copyrighted goods such as books and records, but as we have seen, a host of other products that had not been previously considered. The decision will not only benefit people and businesses that can afford to operate in the international arena, but the many libraries, museums, websites, and schools that can continue to operate without fear of suit, and of course, consumers. The decision may also force U.S. trade representatives to retreat from the position against international exhaustion that they had previously taken in international trade negotiations.\textsuperscript{84}

In international commerce, copyright owners may attempt to increase their sale prices abroad to attempt to obtain more revenue or to regain the upper hand by switching from a sale to a licensing model for their works. As it is, there is already a trend in this direction via e-books, which are licensed rather than sold. Sellers of book e-readers such as Kindles and Nooks already use digital rights management processes to restrict device owners from downloading book content from servers outside the United States. These kinds of restrictions are likely to be tightened and extended.\textsuperscript{85}

The Kirtsaeng case serves as an important reminder that the copyright monopoly must be limited to its constitutional purpose of “promot[ing] the Progress of Science and useful Arts.”\textsuperscript{86} The Court further stated: “American law ... has generally thought that competition, including freedom to resell, can work to the advantage of the consumer.”\textsuperscript{87} The exemptions and defenses provided by our copyright laws are just as essential as the rights to exclude for which they provide. “Laws should not be created to protect monopolies and raise costs, whether they are for books or for prescription drugs.”\textsuperscript{88} In the coming years, different countries, rights holders, businesses, and consumers will fight to either widen or narrow the application of regional and international exhaustion doctrines. While the debate surrounding copyright exhaustion may seem to be over, the truth is that as with many things related to the Supreme Court, it is just getting started.

\textsuperscript{85} Id.
\textsuperscript{87} Id. at 1363.
\textsuperscript{88} Id.