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FRIDAY, NOVEMBER 30, 2012

Chicago Daily Law Bulletin®

Volume 158, No. 235

Protecting copyright distribution rights brings 'exhausting' problem

When it comes to the rules that govern a copyright holder's ability to control the distribution of his or her work, the only word that comes to mind is "exhausting." With pun intended, the international rules governing the exhaustion of a copyright owner's ability to control how, when and where a work is distributed after the first lawful sale are undergoing a rapid change.

That change has come into sharp focus with the U.S. Supreme Court's recent decision to re-examine the rights of U.S. authors to prohibit the unauthorized importation of gray-market versions, or parallel imports, of their works. In *Kirtsaeng v. John Wiley & Sons, Inc*, the Supreme Court is examining once again the relationship between first sale rights and import (distribution) controls under U.S. copyright law. Briefly, *Kirtsaeng* involves a relatively simple plan by a medical student to finance his education by importing and selling in the U.S. foreign-published editions of various textbooks. The success of the plan was due primarily to the price differences between generally higher-priced U.S. published works and their cheaper foreign versions.

The resulting legal furor has put into sharp relief conflicting views regarding the extent to which a copyright owner should be able to control the international distribution of goods incorporating his work once those goods lawfully enter the stream of commerce. Although the Supreme Court's decision in *Kirtsaeng* will undoubtedly be focused on U.S. law, its international implications could be profound.

The right to prohibit the importation of pirated works has been an international mainstay since the earliest bilateral copyright treaties. Yet the express recognition of a right to control the distribution of copyrighted works was only formally established in 1996 with the creation of the WIPO Copyright Treaty (WCT). Article 6 of the WCT expressly recognized that authors have "the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership."

Despite this recognition, distribution rights have long been subject to numerous limitations. Most critically, they have been subject to principles of exhaustion. As embodied in Section 109(a) of the U.S. Copyright Act, copyright owners have no right to control the subsequent "sale or other transfer" of "a particular copy ... lawfully made under this title." At the heart of *Kirtsaeng* is the question of how broadly this exhaustion principle applies. Can copyright owners defend their segmentation of the global marketplace or does that ability end with the first legitimate sale of a copyrighted good?

Market segmentation is a strong feature of current copyright distribution schemes. Globalization may have expanded the market for foreign books and films, but often the copy of a work sold in one country is distinctly different from that sold in another. Such changes are often made for perceived cultural or linguistic distinctions. Thus, J.K. Rowling's first Harry Potter book in the United Kingdom was entitled "Harry Potter and the Philosopher's Stone." In the U.S., it was entitled "Harry Potter and the Sorcerer's Stone." Differences between the two editions also included different spellings.

Technology has made it easier for copyright holders to defend market segmentation. As anyone who has picked up a DVD in Heathrow Airport on the way home to Chicago has discovered, DVDs produced for the U.K. market are encoded to be played on a system (PAL) completely incompatible with the U.S. NTSC system. Even music streaming providers such as Spotify and Pandora provide different music to different countries. Yet such market segmentation is increasingly perceived as contrary to growing demands for unlimited global access to copyrighted works.

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Platform limitations for downloadable music, such as restricting iTunes downloads to Apple-compatible formats, have largely disappeared in response to both consumer demand and legal action in various countries, including France, which threatened to treat such limitations as anti-competitive acts.

By contrast, exhaustion limitations have expanded. National exhaustion, where national law limits their ability of copyright owners to control post-sale distribution of goods put into commerce in the home country, has expanded to regional (multinational) exhaustion. Thus, when goods are placed into commerce in any country of the European Union (EU) with the consent of the copyright owner, the copyright owner's ability to control further distribution is exhausted throughout the EU.

> ***"National exhaustion undoubtedly strengthens market segmentation but it also mandates production outsourcing ..."***

It is a small step from regional to international exhaustion. In fact, many Asian-Pacific countries, including Hong Kong, Australia, Singapore and New Zealand favor it. Problematically for copyright owners, such international exhaustion does not violate current norms.

Because of the clear economic impact that market segmentation can have on copyright owners, customers and even downstream resellers, both Trade-related Aspects of Intellectual Property Rights (TRIPs) and the WCT left open the scope of copyright exhaustion. Article 7 of TRIPs and Article 6(2) of the WCT expressly defer decisions regarding the scope of any such exhaustion to each member country. Consequently, international obligations do not limit the Supreme Court from interpreting Section 109(a) to apply solely to goods that have been produced (lawfully made) in the U.S.

They also do not prevent the court from deciding that Section 109(a) represents a more expanded view of exhaustion principles — one that would apply with equal force to foreign-produced works so long as the production is lawfully made in accordance with U.S. copyright principles.

Reading the transcript of last month's oral arguments in *Kirtsaeng*, it is clear that the justices are plainly aware of the potential impact of national versus international exhaustion. It is less clear, however, which option the court will select.

National exhaustion undoubtedly strengthens market segmentation but it also mandates production outsourcing that could have a dire impact on this country's economic recovery. It could also put resale markets into disarray — the parade of "horribles" of Justice Stephen G. Breyer's questions. Yet international exhaustion may be one step too far for the court to go without clearer congressional guidance. Whatever the outcome, its impact will be felt around the world.