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### The United States Supreme Court's Decision in *Kirtsaeng v. Wiley & Sons*: An "Inevitable" Step in Which Direction?

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## The United States Supreme Court's Decision in *Kirtsaeng v. Wiley & Sons*: An “Inevitable” Step in Which Direction?

Irene Calboli

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**Abstract** This opinion analyzes the decision of the Supreme Court of the United States in the case *Kirtsaeng v. Wiley & Sons*. In this decision, the Court ruled that the principle of copyright exhaustion as provided in Section 109(a) of the Copyright Act equally applies to products “lawfully made” in the United States as well as to products that have been “lawfully made” in foreign countries. This “revolutionary” decision came after almost two decades of conflicting positions, including two previous Supreme Court decisions that had failed to clarify the issue, notably *Quality King v. L’anza* and *Costco v. Omega*. Yet, a closer look at the decision, particularly at the concurring and dissenting opinions in the case, seems to show that Supreme Court’s position may have been a necessary step that the Court had to take in order to redress the ambiguities that continued to linger on the issue, especially in light of the additional uncertainty that the Court itself had injected into the interpretation of Section 109(a) with its decision in *Quality King*. Accordingly, more chapters may be awaiting to be written in this American saga on the territorial application of the principle of copyright exhaustion. As the concurring opinion in the case directly suggested, Congress could overrule the Supreme Court and clarify with a legislative amendment that the application of copyright exhaustion in the United States is not international but instead national exhaustion for all products. Calls for copyright reforms not surprisingly, started just days after the decision in *Kirtsaeng*. Furthermore, even if the Court’s decision would survive future reforms, copyright owners continue to have alternative means, such as contractual clauses

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and technical measures, to largely reduce the positive effects of the decision for international trade.

**Keywords** Copyright exhaustion · Copyright first sale · Parallel imports · Gray market goods · International trade

## 1 Introduction

On March 19, 2013, the Supreme Court of the United States issued its much awaited decision in *Kirtsaeng v. Wiley & Sons*.<sup>1</sup> To the joy of parallel importers, and the despair of copyright owners, the Court ruled that the principle of copyright exhaustion (or copyright first sale) as provided in Section 109(a) of the Copyright Act equally applies to products “lawfully made” in the United States as well as to products that have been “lawfully made” in foreign countries, and that copyright owners cannot turn to Section 602(1)(a) to prevent the importation of the products that have been “lawfully made” in foreign countries and were later imported into the United States. The decision came after almost two decades of conflicting positions, repeated litigation, judicial splits among different courts of appeals, and two previous Supreme Court decisions that failed to clarify the issue, notably the Court’s decisions in *Quality King v. L’anza* and *Costco v. Omega*.<sup>2</sup> Until *Kirtsaeng*, many thought that the United States followed a principle of national copyright exhaustion, but *Kirtsaeng* clarified that genuine (non-counterfeit) copyrighted products can legitimately be imported, or reimported, into the United States – in other words, that the United States follows a principle of international copyright exhaustion.<sup>3</sup>

Undoubtedly, the decision in *Kirtsaeng* represents one of the most relevant, perhaps revolutionary, copyright decisions of recent decades. Yet, a closer look at it, particularly at the concurring<sup>4</sup> and dissenting<sup>5</sup> opinions in the case, seems to show that the decision perhaps represented a necessary step that the Supreme Court had to take in order to redress the ambiguities that continued to linger in the interpretation of the legislative text of Sections 109(a) and 602(1)(a), especially in light of the additional uncertainty that the Court itself had injected into the interpretation of these provisions with its decision in *Quality King*. In that decision, the Court

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<sup>1</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013). See 44 IIC 472 (2013), doi:[10.1007/s40319-013-0048-z](https://doi.org/10.1007/s40319-013-0048-z).

<sup>2</sup> See *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135 (1998); *Costco Wholesale Corp. v. Omega, S.A.*, 131 S.Ct. 565 (2011).

<sup>3</sup> For a detailed analysis of the pre-*Kirtsaeng* ambiguities in the interpretation of the principle of copyright exhaustion in the United States, see Irene Calboli, “An American Tale: The Unclear Application of the First Sale Rule in United States Copyright Law (and Its Impact on International Trade)”, in Jan Rosen (ed.) *Intellectual Property at the Crossroads of Trade* p. 67 (2012) [hereinafter Calboli, “First Sale Rule in Copyright Law”]; Irene Calboli, “Corporate Strategies, First Sale Rules, and Copyright Misuse: Waiting for Answers from *Kirtsaeng v. Wiley* and *Omega v. Costco (II)*”, 11 NW. J. Tech. & Intell. Prop. 221, 227 (2013) [hereinafter Calboli, “Corporate Strategies”].

<sup>4</sup> *Kirtsaeng*, 133 S.Ct. at 1372 (Kagan J. concurring).

<sup>5</sup> *Id.* at 1384 (Ginsburg J. dissenting).

supported that the language “lawfully made under this title” in Section 109(a) should be interpreted as “lawfully made in the United States.”<sup>6</sup> This position, however, discriminated between products imported in the United States based on the national origin of the products and, almost paradoxically, favored foreign-made products (not subject to copyright exhaustion) against domestically made ones (subject to exhaustion). Not surprisingly, this position was untenable in a globalized economy, and the decision in *Kirtsaeng* resolved this product discrimination by stating that Section 109(a) equally applies to all products regardless of the place of manufacture. Hence, the decision of the Supreme Court may not be the end of the American saga on the territorial application of Section 109(a) of the Copyright Act.<sup>7</sup> Notably, as the same concurring opinion in the *Kirtsaeng* case seemed to advocate, Congress could ultimately overrule the Supreme Court and reinstate, with a legislative amendment, a system of national copyright exhaustion, this time for all products – nationally- and foreign-made. Interestingly, just one day after the decision in *Kirtsaeng* was issued, calls for copyright reforms were made by the United States Register for Copyright,<sup>8</sup> and a few weeks later, the Chairman of the House Judiciary Committee followed course and announced the possibility of an overall revision of the copyright system in the United States.<sup>9</sup> Accordingly, more discussion and perhaps a legislative amendment in this area cannot be excluded at this time.

In this Opinion, I recount the saga of the interpretation of the territorial application of the principle of copyright exhaustion in the United States before and after the decision in *Kirtsaeng*. In particular, in Part 2, I address the ambiguities that characterized the principle of copyright exhaustion in the United States before *Kirtsaeng*. In Part 3, I analyze the opinion of the majority in the case, and highlight that the position taken by the majority was likely a step that the Court had to take to untangle the post-*Quality King* confusing interpretation of Sections 109(a) and 602(1)(a). In Part 4, I turn to the concurring and dissenting opinions in *Kirtsaeng* and underscore how the concurring Justices seemed to advocate that Congress revisit the issue and (re)turn to a system of national copyright exhaustion. In this Part, I additionally stress that the dissenting opinion in *Kirtsaeng* correctly pointed out that national copyright exhaustion was the official position supported by the United States with respect to the Agreements on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and most recently with respect to international free trade agreements (FTAs), which reinforces the possibility of a legislative shift back to a system of national exhaustion. In Part 5, I conclude by highlighting that even if the decision would survive the ongoing copyright reforms, copyright owners may turn to alternative stratagems to control product distribution in the international marketplace, and thus largely reduce, in practice, the positive effects of the Supreme Court’s decision for international free trade.

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<sup>6</sup> *Quality King*, 523 U.S. at 152 (stating that the right to “sell or otherwise dispose of” an item includes the right to ship an item abroad and that, in turn, importation constitutes a first sale under the language of Sec. 109(a) of the Copyright Act).

<sup>7</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351, 1372 (2013) (Kagan J. concurring).

<sup>8</sup> See discussion *infra* Part 4.

<sup>9</sup> *Id.*

## 2 The Pre-*Kirtsaeng* Territorial Mess in United States Copyright Exhaustion

As I described in detail before,<sup>10</sup> the interpretation of the territorial application of the principle of copyright exhaustion in the United States was not clearly settled until the decision in *Kirtsaeng*. Historically, the debut of the principle of copyright exhaustion dates back to the Supreme Court decision in *Bobbs-Merrill v. Straus* in 1908, where the Court stated that “the purchaser of a book, once sold by the authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it.”<sup>11</sup> One year later, this principle was codified in the Copyright Act of 1909, under which “the exclusive [right] to ‘vend’ [a copy of a work] was limited to the first sale of the [copy of the] work.”<sup>12</sup> Under the rule of the Copyright Act of 1909, the application of the principle of exhaustion did not seem to be limited to the sales made in the national territory; at least the statute did not provide any specific provision in this respect. In 1976, when the current version of the Copyright Act was adopted, Congress confirmed the principle of copyright exhaustion in Section 109(a), which states that the owner of a copyrighted work “lawfully made under this title” is entitled “to sell or otherwise dispose of the possession of that [work]” without “the authority of the copyright owner.”<sup>13</sup> Here again, Congress did not clarify, in the text of Section 109(a), the territorial application of the principle of copyright exhaustion. Yet, Congress introduced a new provision, Section 602(1)(a), in the Copyright Act, which provides that “the importation into the United States” of a copyrighted work acquired outside the United States “without the authority of the [copyright]owner” is “an infringement of the exclusive right [of] distribut[ion].”<sup>14</sup> To many courts, including to some of the Supreme Court Justices, the adoption of this provision meant that the United States had opted for a system of national copyright exhaustion, in which copyright owners could invoke Section 602(1)(a) to prevent the unauthorized importation of gray market products.<sup>15</sup>

This interpretation, however, was not shared unanimously and, until the Supreme Court decision in *Kirtsaeng*, courts, lawyers, and businesses continued to fight over the correct interpretation of the combined language of Sections 109(a) and 602(1)(a) of the Copyright Act – notably whether Section 602(1)(a) limited the scope of Section 109(a) or vice versa. Because of the considerable interests at stake for the various parties, such conflicts did not come as a surprise.<sup>16</sup> Generally, on one

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<sup>10</sup> This Part summarizes the pre-*Kirtsaeng* analysis of the territorial application of the principle of copyright exhaustion that I elaborated in Calboli, “First Sale Rule in Copyright Law”, *supra* note 3, at 67; and Calboli, “Corporate Strategies”, *supra* note 3, at 225. Accordingly portions of this Part borrow from those earlier publications.

<sup>11</sup> *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

<sup>12</sup> *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 141–42 (1998) (“Congress subsequently codified our holding in *Bobbs-Merrill* that the exclusive right to ‘vend’ was limited to first sale of the work.”).

<sup>13</sup> 17 U.S.C. § 109(a).

<sup>14</sup> 17 U.S.C. § 602(a)(1).

<sup>15</sup> See, e.g., *Quality King*, 523 U.S. at 153 (Ginsburg J. concurring).

<sup>16</sup> For a detailed description of the various interests at stake with respect to gray market products, see Heath (1997) Cohen Jehoram (1999), Worth (1994).

side, copyright owners aim to strictly control product distribution and pricing in foreign markets, thus they naturally oppose gray market products because they fear the competition and resulting disruption of product pricing strategies (and loss of profits) that gray market products can create in the markets where these products are imported. Because of this, copyright owners traditionally argued that the language of Section 602(1)(a) forbids the importation of gray market products into the United States and that Section 109(a) does not apply to unauthorized imports. On the other side, wholesalers, many distributors, and retailers generally favor gray market products, as these businesses trade in these products and benefit directly from the competitive advantage that the lower price of gray market products offers them, compared to the higher price of the (same) products distributed under the authorization of copyright owners. Accordingly, these businesses generally argued that the importation right provided in Section 602(1)(a) does not limit the application of Section 109(a) to foreign imports of genuine products. Instead, they supported that it is Section 109(a) which limits Section 602(1)(a), and that the principle of copyright exhaustion extends to all “lawfully made” (i.e. genuine) products, regardless of the actual place where these products have been first sold in the global market. In particular, they underscored that, because Section 602(1)(a) is an extension of the rights granted to copyright owners under Section 106 and Section 109(a) limits the scope of Section 106, the language of Section 109(a) should thus be interpreted as limiting the scope of Section 602(1)(a).<sup>17</sup> On their side, consumer associations also favored the admissibility of gray market products due to the additional consumer choices and generally lower prices that these products bring about for consumers.

Among the judiciary, the most vocal supporter of an “international” reading of Section 109(a) pre-*Kirtsaeng* was the Court of Appeals for the Third Circuit (Third Circuit). Notably, in its 1988 decision in *Sebastian International v. Consumer Contacts*, the Third Circuit adopted the position that the “first sale by the copyright owner extinguishes any right later to control importation of those copies regardless of the place of sale”<sup>18</sup> because copyright owners are already rewarded for their work in creating the copyrighted articles upon the first sale of these articles regardless of the geographical location of the place of sale.<sup>19</sup> The Third Circuit additionally noted that the Copyright Act did not state that the copyright owners who sell copies abroad should be rewarded more (by not having to be subject to the first sale rule) than copyright owners who sell domestically.<sup>20</sup> The Third Circuit’s position, however, remained isolated.<sup>21</sup> In contrast,

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<sup>17</sup> *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988).

<sup>18</sup> *Id.* at 1099.

<sup>19</sup> *Id.* 1096–7 [quoting *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964)].

<sup>20</sup> *Id.* (stressing that if Sec. 109(a) applied only to copies sold in the US, copyright owners selling copies abroad would receive a purchase price and a right to limit importation, whereas copyright owners selling copies domestically would only receive the purchase price).

<sup>21</sup> Prior to the Third Circuit’s decision in *Sebastian*, the District Court for the Eastern District of Pennsylvania had interpreted the “lawfully made under this title” language of Sec. 109(a) of the Copyright Act to mean “lawfully made in the United States.” The Third Circuit affirmed the decision without opinion. See *Columbia Broadcasting Sys., Inc. v. Scorpio Music Distribs., Inc.* 569 F. Supp. 47, 50 (E.D. Pa. 1983) aff’d without opinion, 738 F.2d 424 (3d Cir. 1984).

the other courts that confronted the issue generally supported the opposite view. In particular, the Ninth Circuit repeated in a line of cases that the first sale rule in copyright law applied only to domestic sales of copyrighted products and not to unauthorized imports. Specifically, in 1991, in *BMG Music v. Perez*, the Ninth Circuit held that Section 109(a) exhausts the distribution right of copyright owners only if the first sale occurred in the United States and construed the “lawfully made under this title” language of Section 109(a) to exclude copyrighted copies sold in foreign countries.<sup>22</sup> In 1994, in *Parfums Givenchy v. Drug Emporium*, the Ninth Circuit confirmed this interpretation and underscored that, should a different interpretation be given to the statutory language, it would amount “to deprive the US copyright holder of the power to authorize or prevent imports of the copies once the copies are sold abroad.”<sup>23</sup> Yet, the Ninth Circuit also conceded that, while copyright owners could prevent unauthorized imports until there has been a “first authorized sale” in the United States, they could not further control the circulation of their copyrighted products after that first authorized sale had taken place in the United States.<sup>24</sup> The Ninth Circuit confirmed this position again in *L’anza v. Quality King* in 1996<sup>25</sup> and *Omega v. Costco* in 2008.<sup>26</sup>

Because of the circuit split between the Third Circuit and the Ninth Circuit, the Supreme Court decided to grant certiorari in *Quality King*.<sup>27</sup> Yet, the 1998 Court’s ruling in that case ultimately complicated the issue rather than clarifying it. The facts in the case also did not assist, as *Quality King* was a case about copyrighted products that had been made and first sold in the United States, then exported abroad, and later re-imported into the country against the will of copyright owner L’anza. Ultimately, the Court ruled in favor of the distributor, Quality King, finding that the copyright in the products had been exhausted and that the imports were not infringing. Hence, the Court reached this conclusion only because the products were made and had first been sold in the United States<sup>28</sup> – in other words, Section 602(1)(a) did not apply to the case because this was a “round trip” for domestically, and thus lawfully made products under Section 109(a). In reaching its conclusion, the Court did not explicitly address, however, the territorial application of Section 109(a) and the interplay between Sections 109(a) and 602(1)(a) for all gray market products, in particular for those made and first sold abroad and only later imported into the United States.<sup>29</sup> Absent such important clarification, many read the decision as confirming that the United States was following a system of national copyright exhaustion, at least with respect to products that were made and first distributed abroad. Justice Ginsburg concurred with the majority precisely on the premise that the language “lawfully made under this title” meant “lawfully

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<sup>22</sup> *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991).

<sup>23</sup> *Parfums Givenchy, Inc., v. Drug Emporium*, 38 F.3d 477, 481 (9th Cir. 1994).

<sup>24</sup> *Id.* at 482–3.

<sup>25</sup> *L’anza Research Int’l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109 (9th Cir. 1996).

<sup>26</sup> *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 984 (9th Cir. 2008).

<sup>27</sup> *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135 (1998).

<sup>28</sup> *Id.* at 139.

<sup>29</sup> See generally Calboli, “First Sale Rule in Copyright Law”, *supra* note 3, at 79 (highlighting that the “Supreme Court fell short of addressing the territorial extent of the first sale rule in copyright law”).

made in the United States.”<sup>30</sup> Yet, as criticized by many, such reading of the statute implied that Section 109(a) would not apply to foreign manufactured goods, even after these goods had been distributed in the United States under the authority of the copyright owners. In 2010, amidst growing confusion post-*Quality King*, the Supreme Court attempted again to clarify the issue by granting certiorari in *Costco v. Omega*,<sup>31</sup> a case involving gray market watches manufactured and first distributed in Europe and later imported into the United States. Still, the interpretation of Section 109(a) continued to prove so divisive that, despite the trepidation of copyright owners, parallel importers, and consumer associations, the Court did not even reach *any* decision this time. With the newly appointed Justice Kagan recusing herself due to her previous involvement in the case as Solicitor General, the remaining Justices divided equally 4-4 and affirmed, in a nine-word *per curiam* decision without explanation,<sup>32</sup> the decision on appeal. As a result, after *Costco*, the interpretation favoring the position that the United States followed a principle of national copyright exhaustion continued to be prevalent.

### 3 The Inevitability of the Majority Decision in *Kirtsaeng*

It was not long, however, until the same issue was brought again in front of the courts in the case that later became known as *Kirtsaeng v. John Wiley & Sons*.<sup>33</sup> This time, the case concerned gray market books printed in Asia and imported from Thailand. Arriving from Thailand in 1997 to study at Cornell University, Thai citizen Mr. Supap Kirtsaeng decided to subsidize the cost of his education by asking friends and family to purchase copies of textbooks in Thailand, where the prices of books were considerably lower than in the United States, and ship the books to him in the United States. Once the books arrived in the United States, Mr. Kirtsaeng resold them on commercial websites such as eBay. Among the books that Mr. Kirtsaeng sold were eight books printed in Asia by a subsidiary of John Wiley & Sons (Wiley). Obviously unhappy with the happenings (and the profits made by Mr. Kirtsaeng), Wiley sued Mr. Kirtsaeng for copyright infringement based upon the violation of the importation right as per Section 602(1)(a). Hence, Mr. Kirtsaeng counter-argued that the books were not a violation of the importation right, but were instead “lawfully made” products in accordance with Section 109(a) of the Copyright Act, and thus he could import and resell them in the United States without the need of Wiley’s further consent. Despite this argument, both the United States District Court for the Southern District of New York on first instance and the

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<sup>30</sup> *Quality King*, 523 U.S. at 153 (Ginsburg J. concurring) (citing William F. Patry, *Copyright Law and Practice* (1997 Supp.) pp. 166–70 and 10; Paul Goldstein, *Copyright* (2d edn. 1998) Sec. 16.0, 16:1–16:2).

<sup>31</sup> *Costco Wholesale Corp. v Omega, S.A.*, 131 S.Ct. 565 (2010).

<sup>32</sup> *Id.*

<sup>33</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351 (2013). This Part incorporates with adaptations the analysis of the litigation in the case prior to the Supreme Court’s ruling, which I originally addressed, at different stages, in Calboli, “First Sale Rule in Copyright Law”, *supra* note 3, at 85; and Calboli, “Corporate Strategies”, *supra* note 3, at 233.



Second Circuit on appeal ruled against Mr. Kirtsaeng and in favor of Wiley. In particular, the District Court rejected the applicability of the first sale defense and held that “[t]here is no indication that the imported books at issue here were manufactured pursuant to the U.S. Copyright Act.”<sup>34</sup> In addition, the members of the jury found that Mr. Kirtsaeng was liable for willful infringement and imposed a stunning total of \$600,000 in statutory damages.<sup>35</sup> Mr. Kirtsaeng appealed, but a divided Second Circuit affirmed the District Court’s ruling and concluded that Section 109(a)’s “lawfully made under this title” language indicated that the principle of copyright exhaustion does not apply to copies of copyrighted works, which have been manufactured abroad.<sup>36</sup> Still, Mr. Kirtsaeng petitioned the Supreme Court, which decided to grant certiorari.

The decision on appeal was particularly problematic because the Second Circuit had relied on *Quality King* and interpreted the language “lawfully made under this title” in Section 109(a) as “lawfully made in the United States.”<sup>37</sup> The Second Circuit had departed, in particular, from the position previously held by the Ninth Circuit in *Parfums Givenchy* and following cases, in which the Ninth Circuit supported that the principle of copyright exhaustion applied to all copyrighted products after their first authorized domestic sale, regardless of where the products were made. Instead, the Second Circuit followed a stricter interpretation of the statutory language and stated that, “[w]hile perhaps a close call ... in light of its necessary interplay with Section 602(a)(1), Section 109(a) is best interpreted as applying only to works manufactured domestically.” This position was strongly criticized, however, including by a dissenting opinion in the case authored by Judge Murtha.<sup>38</sup> Like other critics, Judge Murtha highlighted that, due to the large number of products manufactured abroad and in circulation in the United States, the implications of the majority decision were very problematic – as later stated by the Supreme Court itself, the decision could lead to “a parade of horrors” if literally applied: that is, it would prohibit retailers, consumers, and even libraries and museums, from reselling, lending, or gifting foreign manufactured copyrighted products even after these products had been lawfully acquired in the United States. In his dissenting opinion, Judge Murtha also noted that this could paradoxically incentivize businesses to relocate their manufacturing facilities abroad to “escape” the application of the principle of copyright exhaustion because their products would thus be foreign-made and

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<sup>34</sup> *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 U.S. Dist. LEXIS 96520, at 37 (S.D.N.Y. Oct. 19, 2009).

<sup>35</sup> *John Wiley & Sons Inc. v. Kirtsaeng*, 654 F.3d 210, 224 (2d Cir. 2011) (noting that “[a]t trial the jury awarded \$75,000 in statutory damages per copyrighted work for Kirtsaeng’s willful infringement of eight works”).

<sup>36</sup> *Id.* at 210.

<sup>37</sup> *Id.* at 221 [relying on Justice Ginsburg’s concurrence in *Quality King Distrib., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 154 (1998)].

<sup>38</sup> *Id.* at 224–29 (Murtha J. dissenting) (noting that an interpretation of the language “lawfully made under this title” as “made in the United States” was incorrect since Sec. 109(a) of the Copyright Act does not make reference to the place of manufacture of the products, but instead focuses on whether the products are made “lawfully.”).

not locally-made.<sup>39</sup> Something that, as Judge Murtha stated, could hardly have been Congress' intent when enacting Sections 109(a) and 602(1)(a).

In October 2012, amidst much expectation, the Supreme Court heard the oral arguments in the case.<sup>40</sup> From the very first questions, the Justices visibly struggled in attempting to reconcile the outcome of the decision of the Second Circuit – confirming that Section 109(a) applies only to domestically made products – with Congress' intent in enacting Sections 109(a) and 602(1)(a). Echoing the concerns expressed by many parties, the Justices posited that Congress could not have intended a “horrible” system wherein foreign manufactured goods would not be subject to the principle of copyright exhaustion while domestically made products would.<sup>41</sup> Nevertheless, the Justices also showed reasonable concerns for the impact that a broader interpretation of Section 109(a) – a shift toward a system of international first sale in copyright law – could have on domestic businesses and their ability to price products differently across different jurisdictions.<sup>42</sup> Ultimately, in March 2013, the Supreme Court issued its decision and, with a majority of 6–3 votes, reversed the Second Circuit's decision finding in favor of Mr. Kirtsaeng.<sup>43</sup> In particular, in an opinion delivered by Justice Breyer for the majority, the Court rejected any “geographical application” of Section 109(a). Instead, the Court held that the foreign sales of copies of copyrighted works lawfully made abroad exhaust the rights in these works.<sup>44</sup> Against the position advocated by Wiley and other publishers that “lawfully made under this title” meant that copies had to be “made” in the United States, the opinion of the majority concluded that the language in Section 109(a) does not, and cannot, refer to the actual place where the products are manufactured. To the contrary, after a careful review of the legislative history of Section 109(a) and the common law history of the principle of copyright exhaustion as it was adopted by the Court in *Bobbs-Merrill*,<sup>45</sup> Justice Breyer's opinion adopted the position that the language in Section 109(a) should be interpreted as referring to any copies that have been “made” in a manner that meets the requirement of national copyright law. In particular, Justice Breyer wrote that the wording “lawfully made under this title” ought to be interpreted as “made with the permission of,” “in accordance with,” or “in compliance with” the copyright owners,<sup>46</sup> without any particular geographical limitation with respect to the actual place where these copies are made and first sold, whether nationally or internationally.

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<sup>39</sup> *Id.* at 226–27 (Murtha J. dissenting) (highlighting that it could not have been Congress' intent to provide more copyright protection to foreign goods than domestic ones).

<sup>40</sup> Transcript of Oral Argument, *Kirtsaeng v. John Wiley & Sons, Inc.*, No. 11-697 (S.Ct. argued Oct. 29, 2012), available at [http://www.supremecourt.gov/oral\\_arguments/argument\\_transcripts/11-697.pdf](http://www.supremecourt.gov/oral_arguments/argument_transcripts/11-697.pdf).

<sup>41</sup> *Id.* at 29–32.

<sup>42</sup> *Id.* at 32.

<sup>43</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351, 1358 (2013) (supporting that Sec. 109(a) establishes a defense against a copyright infringement claim based on unauthorized resale “where, as here, copies are manufactured abroad with the permission of the copyright owner.”).

<sup>44</sup> *Id.* at 1355–56.

<sup>45</sup> *Id.* at 1363–64.

<sup>46</sup> *Id.* at 1358.

Besides dismissing Wiley’s reading of Section 109(a), Justice Breyer’s opinion did not show much sympathy for the additional argument that a non-geographical interpretation of the provision would derail the international pricing strategies of American businesses – in other words, the possibility of price discrimination in different countries. It was quite clear to the majority, Justice Breyer wrote, that a “non-geographical interpretation” of Section 109(a) would make it “difficult, perhaps impossible for publishers (and other copyright holders) to divide foreign and domestic markets.”<sup>47</sup> Specifically, “a publisher may find it more difficult to charge different prices for the same book in different geographic markets.”<sup>48</sup> Yet, the majority of the Justices could not find a “basic principle of copyright law that suggests that publishers are especially entitled to such rights.”<sup>49</sup> To the contrary, Justice Breyer’s opinion emphasized that, at least at the national level, market segmentation was a practice inconsistent “with antitrust law that ordinarily forbids market division.”<sup>50</sup> Moreover, Justice Breyer stated that Congress had enacted the principle of copyright exhaustion following *Bobbs-Merrill* specifically to limit the ability of copyright owners to divide markets,<sup>51</sup> even though Congress did not elaborate whether the market at issue was solely the domestic or also the international market. Accordingly, nothing in the statute could be used, in the eyes of the majority, to justify an interpretation of Section 109(a) along the lines suggested by Wiley, that is, as a tool for market segmentation and price discrimination across foreign markets. Justice Breyer additionally underlined that the Solicitor General himself had stated that the consequences of affirming the Second Circuit’s decision (i.e., affirming “perpetual downstream control” for foreign made products) were worse than finding in favor of Mr. Kirtsaeng (i.e., ruling against the possibility of “restrict[ing] ... market segmentation”).<sup>52</sup> Lastly, the majority opinion rejected Wiley’s argument that a system of international exhaustion was unprecedented in the United States. Instead, Justice Breyer noted that the Court had already stated in *Quality King* that Section 109(a) “is a defense in U.S. courts even when ‘the first sale occurred abroad’.”<sup>53</sup> Even though in *Quality King* the Court had referred only to goods made domestically, exported, and later reimported into the United States, the Court’s precedent in *Quality King* had already “significantly eroded” the possibility that Section 109(a) only applies to national sales.<sup>54</sup> Ultimately, following the majority opinion in *Kirtsaeng*, the parade of “horribles” that could have derived from a Wiley victory was avoided – Americans could continue to safely host garage sales and sell their used foreign made

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<sup>47</sup> *Id.* at 1370.

<sup>48</sup> *Kirtsaeng*, 133 S.Ct. at 1370.

<sup>49</sup> *Id.*

<sup>50</sup> *Id.* at 1371.

<sup>51</sup> *Id.*

<sup>52</sup> *Id.*

<sup>53</sup> *Kirtsaeng*, 133 S.Ct. at 1371. Justice Breyer stated, specifically, that “our holding in *Quality King* that § 109(a) is a defense in U.S. courts even when ‘the first sale occurred abroad’ has already significantly eroded such principle.” *Id.* (citation omitted).

<sup>54</sup> *Id.*

copyrighted articles, libraries could continue to lend foreign printed books, and so on.

#### 4 The Concurrent and Dissenting Opinions in *Kirtsaeng*: Setting the Stage for a “Return” to National Exhaustion?

Undoubtedly, while retailers, parallel importers, consumer associations, libraries, and museums celebrated the happy ending of Mr. Kirtsaeng’s story, the decision of the Supreme Court sent chilling waves across the boardrooms of multinational corporations, publishers, and the entertainment industry. Most likely, the decision in *Kirtsaeng* also sent chilling waves throughout the Office of the United States Trade Representative (USTR), whose official position on copyright exhaustion for the purpose of negotiating FTAs with other countries continued to be “national exhaustion,” at least for foreign manufactured products, also post *Quality-King*. This position, for example, was adopted in the FTAs with Morocco<sup>55</sup> and Jordan<sup>56</sup> and was more recently advocated as part of the negotiations for the Trans-Pacific Partnership Agreement (TPP).<sup>57</sup> Still, as I noted earlier, the opinion of the majority was not the only opinion issued by the Justices in the case. Instead, a concurring and a dissenting opinion were also issued in the case as additional reminders of the internal divisions within the Court and the tensions that continued, and continue to surround the territorial application of the principle of copyright exhaustion in the United States. Accordingly, as these additional opinions also seem to indicate, the Supreme Court’s decision in *Kirtsaeng* may not necessarily be the last chapter in the decade-long saga on the interpretation of Section 109(a) and the interplay between Sections 109(a) and 602(1)(a).

In particular, Justice Kagan, joined by Justice Alito, submitted a concurring opinion in *Kirtsaeng* wherein she explained that the majority decision was necessary in light of the Court’s previous decision in *Quality King*.<sup>58</sup> Yet, the concurring Justices did not seem fully convinced that Congress’ intent in enacting Section 109(a) was that of establishing a principle of international copyright exhaustion. More remarkably, they stated that now that the majority opinion in

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<sup>55</sup> Article 15.5(2), United States-Morocco Free Trade Agreement, U.S.-Morocco, June 15, 2004, 44 I.L.M. 544 (2005), available at [http://www.ustr.gov/Trade\\_Agreements/Bilateral/Morocco\\_FTA/Final\\_Text-Section\\_Index.html](http://www.ustr.gov/Trade_Agreements/Bilateral/Morocco_FTA/Final_Text-Section_Index.html).

<sup>56</sup> Article 4(11), Agreement Between the United States of America and the Hashemite Kingdom of Jordan on the Establishment of a Free Trade Area, U.S.-Jordan, Oct. 24, 2000, 41 I.L.M. 63 (2002), available at [http://www.ustr.gov/assets/Trade\\_Agreements/Bilateral/Jordan/asset\\_upload\\_file250\\_5112.pdf](http://www.ustr.gov/assets/Trade_Agreements/Bilateral/Jordan/asset_upload_file250_5112.pdf).

<sup>57</sup> See Articles QQ.G.3 and QQ.G.17 Trans-Pacific Partnership, Intellectual Property [Rights] Chapter, Consolidated Text, Aug. 2013, available at <https://wikileaks.org/tpp/static/pdf/Wikileaks-secret-TPP-treaty-IP-chapter.pdf> [hereinafter *TPP IP Chapter Draft Aug. 2013*]. As indicated in this draft, the United States opposes a system of international copyright exhaustion and proposes national exhaustion for negotiating members of the TPP. The TPP is currently being negotiated between Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States.

<sup>58</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351, 1372–73 (2013) (Kagan J. concurring).

*Kirtsaeng* had rectified the discriminatory application of the principle of copyright exhaustion that had resulted from *Quality King*<sup>59</sup> (neither Justice Kagan nor Justice Alito were sitting on the Court when it decided *Quality King*), Congress could step in and provide a comprehensive review of the principle of copyright exhaustion in the United States, including its territorial application. In particular, the concurring opinion highlighted that, as a result of the majority decision, the application of Section 602(1)(a) and the importation right granted to copyright owners had been “unavoidably diminish[ed] ... to a fairly esoteric set of applications”<sup>60</sup> and went on to suggest that, should this result not satisfy Congress, Congress could review the provision of Section 602(1)(a) and the application of copyright exhaustion to imported products in general.<sup>61</sup> In particular, Justice Kagan wrote that “if Congress thinks copyright owners need greater power to restrict importation and thus divide markets, a ready solution is at hand”—to clarify in the statute that Section 602(a)(1) applies to all products imported into the United States.<sup>62</sup> Still, Justice Kagan advocated that, should Congress decide to restrict the importation of products sold abroad, Congress should also clarify that the same rule applies to all products, regardless of the place of manufacturing, so as to avoid any future risk of discrimination between the products that are imported in the United States. In particular, the concurring opinion clearly opposed a discriminatory application of Section 109(a) only to products made in the United States as the Court had previously supported in *Quality King*. This position, Justice Kagan wrote, would ultimately “impos[e] downstream liability on those who purchase and resell in the United States copies that *happen to have been manufactured abroad*.”<sup>63</sup> Justice Kagan concluded that Congress’ action should instead “target importers alone” and not the “the ‘libraries, used-book dealers, technology companies, consumer-goods retailers, and museums’ with whom the Court today is rightly concerned.”<sup>64</sup>

Besides Justice Kagan’s concurrence, Justice Ginsburg also issued an opinion in the case, and this time, she dissented with the majority, joined by Justice Kennedy in full and by Justice Scalia in part.<sup>65</sup> Notably, Justice Ginsburg’s opinion repeated the position that the Justice had supported in her concurring opinion in *Quality King* – that copyright law is based on the territoriality principle and that the sale in one country of a copyrighted product does not exhaust the right of the copyright owner to control the distribution of that product in another country.<sup>66</sup> Based upon this premise, Justice Ginsburg stated that the majority’s interpretation of Section 109(a) in *Kirtsaeng* was “at odds with Congress’ aim to protect copyright owners against the unauthorized importation of low-priced, foreign-made copies of

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<sup>59</sup> *Id.* at 1372 (Kagan J. concurring).

<sup>60</sup> *Id.*

<sup>61</sup> *Id.*

<sup>62</sup> *Id.*

<sup>63</sup> *Kirtsaeng*, 133 S.Ct. at 1372 (Kagan J. concurring) (emphasis added).

<sup>64</sup> *Id.*

<sup>65</sup> *Id.* at 1373 (Ginsburg J. dissenting).

<sup>66</sup> *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 153 (1998) (Ginsburg J. concurring).

their copyrighted works.”<sup>67</sup> She also seemed to suggest that the petitioner and the majority had exaggerated the “parade of horrors” that a reading of Section 109(a) as suggested by Wiley would have on retailers, museums, and manufacturers. Instead, she emphasized that if the Court had applied the *Quality King* analysis in the case, the outcome would have favored Wiley because “lawfully made under [Title 17]” is a prerequisite for application of Section 109(a). Since the copies in question were not “lawfully made under [Title 17],” Section 109(a) would not apply because Kirtsaeng’s unauthorized imports would have been correctly considered as infringing copies under Section 602(a)(1).<sup>68</sup> Justice Ginsburg also noted, correctly, that the position of the majority in the case was in conflict with the position repeatedly taken by the United States in international trade agreements, that copyright owners should have the right “to prevent the unauthorized importation of copies of their work sold abroad.”<sup>69</sup>

Ultimately, based on the language of both the concurring and the dissenting opinions, it did not come as a surprise that, within just a few days of the issuing of the decision in *Kirtsaeng*, calls for copyright reforms started to be heard. Perhaps only a (nevertheless remarkable) coincidence, on March 20, 2013, Maria Pallante, the United States Register of Copyrights, publicly stated that the time had come for Congress to undertake necessary copyright reforms and bring American copyright law in line with the challenges of the twenty-first century.<sup>70</sup> A few weeks later, in April 2013, Representative Goodlatte responded to this call and announced that Congress was considering a major and comprehensive review of the Copyright Act.<sup>71</sup> Hearings on comprehensive copyright reforms started in

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<sup>67</sup> *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S.Ct. 1351, 1373 (2013) (Ginsburg J. dissenting) (noting that “the Court’s bold departure from Congress’ design is all the more stunning, for it places the United States at the vanguard of the movement of “international exhaustion” of copyrights – a movement that the United States has steadfastly resisted on the world stage”).

<sup>68</sup> *Id.* at 1377.

<sup>69</sup> *Id.* at 1384. The United States was in fact one of the countries supporting the principle of national exhaustion (at least for patents and copyrights) during the negotiations leading to the adoption of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) in 1994 – for lack of consensus among TRIPs members, TRIPs finally left members free to adopt their preferred position on the issue. See Art. 6, Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, *Legal Instruments – Result of the Uruguay Rounds* Vol. 31, 33 I.L.M. 83 (1994). Article 6 provides that nothing in the Agreement can “be used to address the issue of the exhaustion of intellectual property rights.” See also S.K. Verma, “Exhaustion of Intellectual Property Rights and Free Trade—Article 6 of the TRIPs Agreements”, 29 IIC 534, 539 (1998). See also *supra* notes 55–57.

<sup>70</sup> Maria Pallante testified, on March 20, 2013, before the House Subcommittee on Courts, Intellectual Property and the Internet, urging Congress to consider comprehensive legislation reforms. See Statement of Maria A. Pallante, Register of Copyrights of the United States, Subcommittee on Courts, Intellectual Property and the Internet Committee on the Judiciary, United States House of Representatives 113th Congress, 1st Session March 20, 2013, available at <http://judiciary.house.gov/hearings/113th/03202013/Pallante%20032013.pdf>.

<sup>71</sup> On April 24, 2013, the House Judiciary Committee Chairman Bob Goodlatte (R-Va.) announced that the Judiciary Committee will conduct a comprehensive review of U.S. copyright law over the coming months. The announcement is available at [http://judiciary.house.gov/news/2013/04242013\\_2.html](http://judiciary.house.gov/news/2013/04242013_2.html).

May 2013 and are ongoing in Congress at this time.<sup>72</sup> Although Ms. Pallante or Mr. Goodlatte did not single out the decision in *Kirtsaeng*, the issue of the territorial application of copyright exhaustion certainly remains an important part of a possible proposal on copyright reforms. In particular, as advocated by Justice Kagan’s concurring opinion, Congress will certainly discuss the post-*Kirtsaeng* application of the importation rights as per Section 602(1)(a), which now essentially applies only to counterfeited products. It also remains a fact that the position supported by the United States at the international level and adopted in several FTAs no longer aligns with the post-*Kirtsaeng* interpretation of Sections 109(a) and 602(a)(1) of the Copyright Act.<sup>73</sup> Thus, calls to realign national law with the international obligations that the United States has taken may also soon be starting and ultimately push Congress to overrule *Kirtsaeng* to comply with those obligations.

## 5 Conclusion

After decades of controversies and uncertainty, the Supreme Court in *Kirtsaeng* provided clear guidance on the territorial application of the principle of copyright exhaustion in the United States. Specifically, it clarified in *Kirtsaeng* that the language “lawfully made under this title” in Section 109(a) should not be read as “made in the United States” but rather as “made with the permission of,” “in accordance with,” or “in compliance with” the copyright owners. Still, only time will tell whether the Supreme Court’s decision will survive possible copyright reforms or whether Congress will overturn the decision in the near future. For the time being, *Kirtsaeng*’s clear shift towards an “open border” trade in copyrighted products undoubtedly remains good news for consumers and independent distributors, libraries and museums. Thanks to the rise of wholesale and discount stores and the increased ease with which products can be purchased online in a foreign country, cheaper products can now “lawfully” be imported into the United States, and consumers may benefit from the additional competition that these products create for copyright owners. Besides the United States market, the decision in *Kirtsaeng* also represents a positive development for free trade in general. Since the United States now follows a principle of international copyright exhaustion, it has become more challenging for the USTR (lobbied by copyright owners) to demand that other countries shift their domestic copyright policies from international to national exhaustion – this request was made, for example, to New Zealand, Singapore, and other countries with respect to the ongoing TPP

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<sup>72</sup> On May 16, 2013, the House Judiciary Committee held the first hearing on “A Case Study for Consensus Building: The Copyright Principles Project.” Materials, witness list and statements, and the statement of Chairman Bob Goodlatte are available at [http://judiciary.house.gov/hearings/113th/hear\\_05162013.html](http://judiciary.house.gov/hearings/113th/hear_05162013.html).

<sup>73</sup> See *supra* notes 55–57.

negotiations.<sup>74</sup> Yet, precisely because these overall (negative in the view of copyright owners) effects of *Kirtsaeng* on copyright owners' global marketing and pricing schemes, copyright owners' lobbying pressure to convince Congress to overrule *Kirtsaeng* will certainly grow stronger in future months. In the long term, it will certainly become harder and harder for Congress to resist this pressure.

Still, even in the instance that Congress would not overrule *Kirtsaeng*, copyright owners would certainly resort to alternative means to (continue to) secure control over the distribution of their products across national borders. Notably, changes in business practices and technology advancement in the past decades have already eroded the application of the principle of copyright exhaustion, not only with respect to cross border trade, but also for products circulating within national markets. Licensing agreements – one of the most common types of contracts for distribution chains and franchises involving intellectual property rights – frequently include clauses prohibiting licensees from further distributing copyrighted products, and the violation of these clauses amounts to breach of contract. Likewise, sales of copyrighted products such as, for example software, music, or books are increasingly combined with clauses restricting products' subsequent re-sale, and again those who do not respect these clauses could be liable under contract law.<sup>75</sup> Even though these clauses may not pass the scrutiny of antitrust law and be found anticompetitive, it is undeniable that these clauses have become common practice in the business world as an alternative means to control product distribution in the market place. Besides contractual measures, technical measures have also become ubiquitous as an alternative instrument to partition national and international markets. These measures include, for instance, digital rights management (DRM) measures such as “unlocking codes” to access software or videogames, which are often given only to the initial buyers or can otherwise restrict the transfer of the copyrighted products at issue.<sup>76</sup> In addition, differences in national standards (regional DVD

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<sup>74</sup> New Zealand adopts, since 1998, the principle of international copyright exhaustion. See Copyright (Removal of Prohibition on Parallel Importing) Amendment Act 1998, Publication Act 1998 No. 20, May 19, 1998, available at <http://www.legislation.govt.nz/act/public/1998/0020/latest/DLM426040.html>. In 2003, New Zealand introduced some limitations to this principle, in favor of films, due to pressure from the United States. See Alberto Cerda, “USTR New Exclusive Right for Copyright Holders: Importation Provision in the TPPA”, Knowledge Ecology International, July 5, 2011, available at <http://keionline.org/node/1176>. Similarly, Singapore follows the principle of international copyright exhaustion. See Singapore Copyright Act of 1987, Secs. 32, 25(3) (Sing.) (as amended by the Copyright Amendment Act of 1994). The Amendment followed a leading decision of the Singapore Court of Appeals issued by the Chief Justice of Singapore in the case *PP v. Teo Ai Nee*. See *PP v. Teo Ai Nee*, 1 SLR 452 (1994). See also Ng-Loy (2004). Should the TPP ultimately impose national obligations to permit copyright owners to prevent gray market goods, New Zealand and Singapore could be obliged to review their current law altogether. See *TPP IP Chapter Draft Aug. 2013*, *supra* note 57.

<sup>75</sup> See, e.g., *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010) (holding that software can be sold subject to contract provisions restricting further transfers).

<sup>76</sup> For a detailed summary of the alternative tools that copyright owners have to circumvent the ruling of the Supreme Court in *Kirtsaeng*, see Eric Goldman, “The Supreme Court’s First Sale Ruling Will Spur Price Competition in the Short Run, But Enjoy It While It Lasts”, *Forbes*, March 20, 2013, available at <http://www.forbes.com/sites/ericgoldman/2013/03/20/the-supreme-courts-first-sale-ruling-will-spur-price-competition-in-the-short-run-but-enjoy-it-while-it-lasts/>.



codes for instance) or national languages can also nullify the effects of international copyright exhaustion – parallel importers may no longer be legally liable for importing DVDs from Italy into the United States, for example, yet they have little incentive to do so because these DVDs cannot be played by most DVD players in the United States homes; likewise, parallel importers may not find it economically convenient to import foreign printed books in a foreign language due to the limited demand for those books in the United States.

In conclusion, even in the case that *Kirtsaeng* survives future copyright reforms, copyright owners could still reduce the impact of the decision by relying on alternative, legal and technology-related instruments. Copyright owners are well aware of these alternative means and will certainly continue to plan their distribution strategies to prevent as much as possible gray market products, not only into the United States but generally across the globe. Copyright owners have too much at stake (in their views) to abandon the fight against the international arbitrage of their copyrighted products sold in foreign national markets. Likewise, parallel importers and countries (developing and developed) that could benefit from parallel trade and “open border” national trade policies will certainly continue to turn to national courts (or even to competition law national authorities), requesting that courts rule in their favor against copyright owners. In the United States, in particular, it would thus not come as a surprise that more chapters may still be awaiting to be written by Congress and/or the judiciary in this decade-long American saga on the territorial application of the principle of copyright exhaustion. At least for the time being, however, gray marketers and consumers can nonetheless enjoy the (positive for this author) effects of *Kirtsaeng* in the United States as well as in foreign markets currently following the principle of international exhaustion (despite the pressure of the USTR to modify their stance on the issue).

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