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Importing Software and Copyright Law

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On March 19, 2013, the US Supreme Court held in *Kirtsaeng v. John Wiley & Sons, Inc.*¹ that copies lawfully made and first sold abroad could be imported into the United States and resold without the US copyright owner's consent. Supap Kirtsaeng imported books from Thailand and asserted the "first sale doctrine" as a defense when a US copyright owner, John Wiley & Sons, Inc., sued him for copyright infringement. Lower courts had rejected the defense based on territoriality considerations: The first sale doctrine did not apply, because the copies were not made in the United States and no authorized first sale had occurred in the United States.² The US Supreme Court reversed and found that a first sale outside the United States counts, too.

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The Supreme Court decided that copies of copyrighted books can be resold in the United States against the copyright owner's will, so long as they were lawfully made and first sold with the copyright owner's permission anywhere in the world. While *Kirtsaeng v. Wiley* was about books, the Supreme Court examined a variety of factors favoring international exhaustion of the copyright owner's exclusive right of distribution, including the implications for products other than books. Most products these days contain or come with some copyrighted materials.

[A]utomobiles, microwaves, calculators, mobile phones, tablets, and personal computers contain copyrightable software programs or packaging. (...) Many of these items are made abroad (...) A geographical interpretation would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software.³ The Court worries about the resale of foreign-made consumer goods 'contain[ing] copyrightable software programs or packaging.'⁴



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Copyright

What does this mean for software distribution in the United States? For decades, software companies have stressed that they only license—never sell—software copies and that the first sale doctrine cannot apply to software copies that the copyright owner never sold.⁵ In the United States, software companies have largely prevailed with this position, but not everywhere else.⁶ The EU Court of Justice, for example, has recently held in *Oracle v. UsedSoft* that transactions by which the user of a “copy receives, in return for payment of a fee, a right to use that copy for an unlimited period (...) involve the transfer of the right of ownership of the copy of the computer program in question.”⁷ According to the EU Court of Justice, the European first sale doctrine applies not only to a resale of software copies on DVDs, computers or cars, but allows even reproduction of downloaded software for the purpose of resale as well as assignments of licenses.⁸

One can buy, own, and resell a software copy in the European Economic Area (EEA) under *Oracle v. UsedSoft*. Now, a first sale outside the United States provides a defense to copyright infringement in the United States under *Kirtsaeng*. Does that mean that Kirtsaeng will next ask his family and friends in Thailand to send software copies first distributed in Thailand and then turn around and sell these copies in the United States? Is Vernor⁹ going to be back on eBay with software copies that he picks up at garage sales in Europe for resale in the United States?

Economics and Policy

Innovators receive exclusion rights under intellectual property laws as a reward and incentive to stimulate inventions, works of authorship, and investment in other intangibles. Intellectual property owners commercialize their rights in different ways. Some use the intellectual property in their business to make products or services. Others charge fees for licenses to use. Some sell their intellectual property rights outright. Copyright owners often distribute copies of their works for a fee. To maximize their return on investment, intellectual property owners design distribution models in ways to secure the maximum price a particular customer is prepared to pay. Given that customers in some jurisdictions and economic situations are willing and able to pay more than others, the intellectual property owner seeks to charge different prices and to control the distribution chain to prevent arbitrage in secondary markets.

This is true for drug companies that are willing to sell drugs at a cheaper price in developing countries with dire needs yet fewer funds available—so long as the same drugs do not come back to undermine price levels in developed countries where higher prices can

be obtained. This also is true for movies made primarily with an audience in one country in mind, but that also can be distributed at lower prices in other countries. According to the record of the facts in *Kirtsaeng v. Wiley*, this is true with respect to English language academic text books that Kirtsaeng was apparently able to resell on a part-time basis, while studying mathematics, to generate arbitrage profits on revenues of between \$900,000 and \$1.2M in only a few years.¹⁰

Price and value considerations are particularly relevant with respect to software products. A computer program can be of immense value for a large enterprise, which is consequently willing to pay hundreds of thousands of dollars for a license, whereas a student, an educational institution, or a small business can derive a much smaller economic benefit and afford to pay much less. If the software copyright owner had to charge each user the same price to recoup development costs, it would have to pick a price somewhere in the middle and miss out on prices large enterprises would be willing to pay while rendering the programs unaffordable for students. If the copyright owners charge different prices and do not control distribution, however, they create a potential for arbitrage. For example, a student or educational institution could buy a software copy at a low price, resell at a higher price to a large enterprise and pocket the arbitrage margin; the copyright owner misses out on an opportunity to sell at a higher price to the large enterprise. Or, a large enterprise could purchase multiple licenses at favorable volume prices and sell some copies to other businesses; the copyright owner misses out on an opportunity to sell single copies without discount. Given the relatively high potential for value differential with respect to computer programs and user bases, software companies have been particularly keen on controlling distribution and avoiding arbitrage.¹¹

Intellectual property owners design distribution models in ways to secure the maximum price a particular customer is prepared to pay.

Software users in high price countries, however, do not tend to view price discrimination as favorably. Also, the development and operation of innovative global online market places provided by companies such as eBay and Amazon and used by businesses and consumers around the world is adversely affected by intellectual property owners' control over distribution of their products. Courts and legislatures are concerned about keeping markets for products efficient by minimizing the

existence of hidden restraints in the form of complex restrictions in license agreements. When a bookseller tried to use copyrights to dictate minimizing retail prices, the US Supreme Court first postulated the first sale doctrine for copyright law and held that distribution rights are exhausted after the copyright owner sold a particular copy.¹² When a shampoo manufacturer tried to prevent the unauthorized re-import (also known as “gray import” or “parallel import”) of shampoo bottles on the basis that this infringed distribution rights with respect to copyrighted labels, the US Supreme Court applied the first sale doctrine also to copies of works that are made and first sold in the United States for export and later re-imported.¹³ But, the US Supreme Court has not yet decided when a software distribution transaction qualifies as a sale.¹⁴

Software Distribution and First Sale Doctrine in the Land of the Free

In the United States, courts have largely upheld freedom of contract and deferred to the terms of written agreements to determine whether a software transaction qualifies as a sale and conveys ownership to a software copy. Most recently in *Autodesk v. Vernor*, the Court of Appeals for the Ninth Circuit postulated a three prong test to determine whether a software user is a licensee, rather than an owner of a copy:¹⁵

First, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user’s ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions.

Previously, the same court held in its 2006 decision in *Wall Data Inc. v. L.A. County Sheriff’s Dep’t*:¹⁶

Generally, if the copyright owner makes it clear that she or he is granting only a license to the copy of software and imposes significant restrictions on the purchaser’s ability to redistribute or transfer that copy, the purchaser is considered a licensee, not an owner, of the software.

When the issue was first raised with respect to software, in *MAI v. Peak*,¹⁷ the same court decided it with one sentence in a footnote: “Since MAI licensed its software, the Peak customers do not qualify as ‘owners’ of the software and are not eligible for protection under § 117.”

In the 2010 *Autodesk v. Vernor* decision, the Ninth Circuit largely upholds its 1993 view expressed in

MAI v. Peak, noting that other US courts have largely followed a similar approach. Weighing the various pros and cons from a policy perspective, the Court remained unswayed.¹⁸

Autodesk argues in favor of judicial enforcement of software license agreements that restrict transfers of copies of the work. Autodesk contends that this (1) allows for tiered pricing for different software markets, such as reduced pricing for students or educational institutions; (2) increases software companies’ sales; (3) lowers prices for all consumers by spreading costs among a large number of purchasers; and (4) reduces the incidence of piracy by allowing copyright owners to bring infringement actions against unauthorized resellers. SIIA argues that a license can exist even where a customer (1) receives his copy of the work after making a single payment and (2) can indefinitely possess a software copy, because it is the software code and associated rights that are valuable rather than the inexpensive discs on which the code may be stored. Also, the MPAA argues that a customer’s ability to possess a copyrighted work indefinitely should not compel a finding of a first sale, because there is often no practically feasible way for a consumer to return a copy to the copyright owner.

Vernor, eBay, and the American Library Association (ALA) have presented policy arguments against our decision. Vernor contends that our decision (1) does not vindicate the law’s aversion to restraints on alienation of personal property; (2) may force everyone purchasing copyrighted property to trace the chain of title to ensure that a first sale occurred; and (3) ignores the economic realities of the relevant transactions, in which the copyright owner permanently released software copies into the stream of commerce without expectation of return in exchange for upfront payment of the full software price. eBay contends that a broad view of the first sale doctrine is necessary to facilitate the creation of secondary markets for copyrighted works, which contributes to the public good by (1) giving consumers additional opportunities to purchase and sell copyrighted works, often at below-retail prices; (2) allowing consumers to obtain copies of works after a copyright owner has ceased distribution; and (3) allowing the proliferation of businesses.

The ALA contends that the first sale doctrine facilitates the availability of copyrighted works after

their commercial lifespan, by *inter alia* enabling the existence of libraries, used bookstores, and hand-to-hand exchanges of copyrighted materials. The ALA further contends that judicial enforcement of software license agreements, which are often contracts of adhesion, could eliminate the software resale market, require used computer sellers to delete legitimate software prior to sale, and increase prices for consumers by reducing price competition for software vendors. It contends that Autodesk's position (1) undermines 17 U.S.C. § 109(b)(2), which permits non-profit libraries to lend software for non-commercial purposes, and (2) would hamper efforts by non-profits to collect and preserve out-of-print software. The ALA fears that the software industry's licensing practices could be adopted by other copyright owners, including book publishers, record labels, and movie studios.

These are serious contentions on both sides, but they do not alter our conclusion that our precedent from *Wise* through the MAI trio requires the result we reach. Congress is free, of course, to modify the first sale doctrine and the essential step defense if it deems these or other policy considerations to require a different approach.

Specifically, US courts are not moved by the fact that the software copyright owners generally are the ones that dictate the terms of license agreements. Also, US courts seem to endorse price discrimination as a means of doing business efficiently. If the software developer does not agree to transfer ownership to a software copy, then distributors, resellers, and users do not become owners of the software copy. Consequently, they cannot assert the first sale doctrine under § 109(a) or the "essential step" provisions of § 117(a) of the US Copyright Act.¹⁹

Software Distribution and First Sale Doctrine in Fortress Europe

In Europe, courts have taken a different view.²⁰ They tend to give much less weight to contract terms, particularly in standard contract terms imposed by software companies in the form of shrink-wrap or click-through license agreements.²¹ Moreover, EU law is decidedly opposed to allowing companies to segment the "Common Market" in the EEA. The EU Court of Justice, as the European Union's "engine of integration"²² strives to strengthen European economic unification. Given that copyrights are territorial and convey national rights in each of the 30 EEA states, copyright laws have a tendency to obstruct (or allow companies to obstruct), rather than support borderless

trade in Europe. Consequently, the EU Court of Justice has traditionally leaned towards standing up for defenses and exceptions under copyright law, rather than protecting intellectual property.

Based on this very different from the United States foundation in policy principles, on July 3, 2012, the EU Court of Justice held in *Oracle v. Usedsoft* that a software copyright owner cannot prevent the resale of software copies that are downloaded with the copyright owner's consent over the Internet, even if the initial acquirer agrees with the software copyright owner that the software copies are licensed only to the initial acquirer and shall not be resold.²³ The EU Court adopts the view, previously taken by German courts, that any transfer of possession without time limit for a lump sum fee constitutes a sale and triggers the first sale doctrine.

Many countries around the world do not consider intellectual property rights under their laws to be "exhausted" by sales in other jurisdictions.

The EU Court also expands this view to apply to software downloads and indicates that someone who acquires a software copy lawfully (from the copyright owner, with the copyright owner's consent or from a secondary distributor after exhaustion kicks in) may make and sell an additional copy so long as it deletes the original copy. Consequently, copies could be resold much more easily, because they can be freely separated from media or devices where they are originally installed. This means a serious set-back for the software industry's—and most developed countries'—fight against software piracy; pirates can claim that they were merely reselling legitimate copies of software and the copyright owners may have to prove that the original copies were not deleted fast enough, leading to increased uncertainty and practical difficulties.

Going even further, the EU Court indicates that after copyright exhaustion kicks in, secondary purchasers also may transfer licenses relating to software copies that are transferred in sales-like transactions. The legal basis for this assertion remains unclear, because neither the first sale doctrine nor other copyright law principles address the transfer of license agreements. Nevertheless, the EU Court of Justice seems to view such an expansion of the first sale doctrine as beneficial from a policy perspective, to ensure the doctrine has more force. Finally, the EU Court of Justice states that any contractual agreements to the contrary would not be enforceable, regardless of whether they

are negotiated and concluded between two sophisticated companies with similar bargaining strength.

Following the EU Court of Justice's decision, German courts already have blessed the resale of software copies that were licensed by educational institutions subject to heavy discounts and restrictive licenses and subsequently sold to Usedsoft for purpose of further resale and margin arbitrage.²⁴

International Exhaustion

Whether the policies of courts in the European Union or in the United States are better suited to advance innovation, commerce and greater goods is a complex question and far beyond the scope of this article. But, the summaries of the diverging positions in the two preceding sections of this article demonstrate that the views and considerations on both sides of the Atlantic on freedom of contract, market segmentation, and copyright exhaustion differ greatly.

Given the significant differences in fundamental viewpoints regarding the first sale doctrine, many countries around the world do not consider intellectual property rights under their laws to be "exhausted" by sales in other jurisdictions. The EU Court of Justice, for example, decided in 1998 that a trademark owner could prevent the import and sale in the EEA of trademarked eyewear products that it had sold at lower prices in countries outside the EEA Common Market;²⁵ only a first sale within the EEA exhausts distribution rights. Also, the US government consistently has opposed international exhaustion in international trade negotiations.²⁶

There is no international consensus that the sale in one country of a good incorporating protected intellectual property exhausts the intellectual property owner's right to control the distribution of that good elsewhere. The members of the World Trade Organization (WTO), "agreeing to disagree," provided in Article 6 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) that "nothing in this Agreement shall be used to address the issue of...exhaustion."²⁷ WTO members agree that free trade principles require member countries to allow the importation of foreign-made products. But, they do not agree on importation of foreign-made policy decisions regarding intellectual property rights exhaustion.

Kirtsaeng could well affect the US position on this point and the question is how much? The Supreme Court held that US copyright owners cannot assert their distribution rights to prevent the importation of copies that they authorized to be made and sold only abroad. Has the Court also decided that US courts must import foreign law on whether a sale has occurred?

Kirtsaeng's Reach

Before *Kirtsaeng*, it was widely assumed that a sale abroad of copies made abroad would not exhaust distribution rights under US copyright law, because copyrights are territorial:

Section 109(a), properly read, affords *Kirtsaeng* no defense against Wiley's claim of copyright infringement. The Copyright Act, it has been observed time and again, does not apply extraterritorially.²⁸

The first sale doctrine, as codified in § 109(a) of the US Copyright Act does not actually use the term "sale." It is worded as follows:

Sec. 109. - Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy ... lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy (...).

The majority in *Kirtsaeng* emphasizes that the wording of the statute requires only that a particular copy is lawfully made under the US Copyright Act and that the defendant owns the copy. The plaintiff and dissent read the words "under this title" in the statute to mean that a copy at issue had to be made in the United States, because the US Copyright Act applies only on US territory; outside the United States, a copy cannot be made "under this title" because this title does not apply abroad. The defendant and majority, however, read the words "under this title" to mean only that the copies had to be made "in accordance with" or "in compliance with" the US Copyright Act—in the United States or elsewhere.²⁹

Whether the copyright owner had ever consented to a sale was not the focus of either side in *Kirtsaeng*. The statute does not use the words "sale" or "consent to a sale." Moreover, the Supreme Court had previously decided that US-made copies that had been sold abroad with the US copyright owner's authorization could be imported against the US copyright owner's will.³⁰

Also, the parties and the Supreme Court did not question whether *Kirtsaeng* owned the copies he sold in the United States. Book publishers historically have not tried to draw a distinction between ownership to the physical book and the copies of their copyrighted works embodied in the book. Unlike software companies, book publishers have been content selling copies of their works

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and have not required distributors and end users to accept license agreements that allow only certain uses and forbid transfers.³¹ Therefore, the question who owns a particular book tends to be determined based on traditional principles of property law pertaining to tangible goods, also known as chattels.

With that, the *Kirtsaeng* majority seems to find comfort in the fact that its interpretation of the first sale doctrine in contemporary US copyright law is aligned with the common law version of the first sale doctrine relating to the transfer of ownership to chattels that comes with “impeccable historic pedigree.”³² The Supreme Court cites to 17th Century opinions relating to property laws and notes:³³ “The ‘first sale’ doctrine also frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods.” Yet, a need for tracing will move to center stage if copyright owners challenge a defendant’s ownership of imported copies in cases where ownership would be viewed differently under US and foreign law or under copyright law and property laws pertaining to chattels. For illustration purposes, let us assume that among the books that *Kirtsaeng* sold in the United States were

1. Copies made without authorization from the copyright owner, in violation of foreign copyright laws or in a jurisdiction that does not recognize copyrights, and then sold and conveyed in accordance with foreign and US laws relating to tangible property.
2. Books made with authorization from the copyright owner, but then stolen from the factory, *i.e.*, never sold with authorization from or payments to the copyright owner.
3. Books made and sold with authorization from the copyright owner, but then stolen from a retailer.
4. Books made and sold with authorization from the copyright owner, but then lost and found or leased and sold in violation of the lease contract in a jurisdiction that allows a good faith buyer to acquire clean title, or transferred under a contract that is invalid under governing law due to a failure to meet local written form, recordal, or other requirements that may not exist in the United States.
5. Books sold subject to title retention to a buyer who never paid in full.
6. Highly valuable collector items that constituted community marital property, co-owned by a spouse whose

consent to the sale was required under foreign law but not granted.

7. Digital books on a DVD, secured by technical protection measures that require each reader to accept license terms according to which the books may only be used by students or educational institutions in Thailand, title to the copies does not transfer, the acquirer shall not become an owner and the copies may not be sold or transferred out of Thailand.

In the first hypothetical, the US court would find for copyright infringement if the books were made in the United States, because the copies were not “lawfully made under this title” for purposes of § 109(a) of the Copyright Act. Where books were made outside the US, however, finding for infringement would be harder to support because the US Copyright Act does not apply where the copies were made and thus, they were arguably made “in accordance with” and “in compliance with” the US Copyright Act based on the Supreme Court’s interpretation of § 109(a) of the US Copyright Act in *Kirtsaeng*.³⁴ Even a US court would find that *Kirtsaeng* cannot rely on the first sale doctrine with respect to such books for copyright law purposes, this finding would not be aligned with property law relating to chattels because *Kirtsaeng* could prove that he owned clean title to the books under laws relating to personal property in the United States and abroad.

In the second hypothetical, *Kirtsaeng* would not own clean title to the book under personal property laws in most jurisdictions, because it was stolen. Denying the first sale defense would align personal property and copyright law principles, because the copyright owner did not receive any compensation for the copy at issue. In the third hypothetical, *Kirtsaeng* would also not qualify as the owner of the book under personal property law, but it seems odd that this would result in an entitlement for the copyright owner to infringement remedies given that the copyright owner did receive as much compensation for the first sale of the copy as for copies that are not stolen from a retailer later on.

In hypotheticals 4, 5 and 6, *Kirtsaeng*’s ownership position under personal property law would likely be viewed differently in different jurisdictions based on complex analyses and policy considerations that are entirely unrelated to copyright law. Many foreign jurisdictions, for example, recognize the concept of title retention and conditional ownership transfers in the context of sales. The Uniform Commercial Code does not,³⁵ however, which could result in a US-based buyer

owning a book as a matter of US property law while not being the owner under the laws of foreign jurisdictions that do recognize title retention. Also, the rules on formal requirements vary from jurisdiction to jurisdiction. Some jurisdictions recognize good faith acquisition of lost goods while others do not.³⁶

Book publishers historically have not tried to draw a distinction between ownership to the physical book and the copies of their copyrighted works embodied in the book.

Finally, in hypothetical 7, Kirtsaeng could be the owner of the e-book copy under personal property and copyright laws of countries that apply the first sale doctrine as broadly as the EU Court of Justice does with respect to software copyright laws. But, Kirtsaeng would not own the e-book copy under the tests regularly applied by courts in the United States.

In light of these and many other possible conflicts between US and foreign laws on the one hand and on the other hand between copyright law and personal property law, which law should determine ownership of a copy for purposes of § 109(a) and § 117 of the US Copyright Act?

Conflicts of Law

The above hypotheticals illustrate two kinds of potential conflicts: (1) copyright law versus personal property law and (2) United States law versus foreign law. Courts can address the first conflict by distinguishing the different items at issue in copyright disputes: Different persons can own the copyrights, a particular copy of a copyrighted work and a physical medium on which the copy is fixed. Questions regarding the ownership of the physical medium are not determined by copyright law, but by personal property law. Personal property law alone determines who owns a DVD, computer or car—whether or not a software copy happens to be stored thereon. The US Copyright Act does expressly regulate ownership to copyrights,³⁷ but it does not expressly regulate ownership of copies. With respect to software copy ownership, US courts have stepped in and developed the rules summarized above in this article. Similarly, the EU Software Directive³⁸ does not expressly regulate ownership to copies and the EU Court of Justice has promulgated the rules also summarized previously in this article. Copyright law alone determines ownership of copies. Conflict resolved.

The fact that US and EU rules on ownership regarding software copies happen to be quite different shines a spotlight on the second potential conflict of law (United States law versus foreign law). Each jurisdiction has its own rules on resolving international conflicts of laws and these rules vary by subject matter. International conflicts of law rules regarding personal property tend to focus on *situs*, *i.e.*, where property is located at the time of a transaction or dispute, and *domicile*, *i.e.*, where the owner resides.³⁹ *Situs* is easier to determine regarding real property than chattels, debts, or claims and therefore courts often apply supplemental rules and exceptions, including tracing a chain of title under the laws of each jurisdiction where possession was transferred and various public policy considerations, particularly in the area of wills, trust, family law and securitization.⁴⁰ Courts have to look to local rules in their jurisdiction for purposes of determining which jurisdiction's personal property law they apply to the question whether Kirtsaeng owns title to a particular physical book—their own local laws or the laws of some or all the jurisdiction in which the book was sold and bought before Kirtsaeng gained possession.

Questions regarding the ownership of the physical medium are not determined by copyright law, but by personal property law.

With respect to the question whether a defendant owns a copy as a matter of copyright law, courts in most jurisdictions around the world will look only to the copyright law that applies in their own jurisdiction. The scope of protection under intellectual property laws is determined by the law of the country where the alleged infringement occurred.⁴¹ If protection is sought where the infringement occurred, the court can simply apply its local copyright law. It also is possible that protection is sought in one country for infringement that occurred in another, for example, because the infringer moved. In such cases, the court cannot decide the case based on its own substantive copyright law because such law does not apply where infringement occurred. The court would then have to either reject the case based on jurisdictional considerations (including *forum non-conveniens*) or apply foreign copyright law.

US courts generally are hesitant to decide cases based on foreign intellectual property laws even when the US court has personal jurisdiction over a defendant, because they do not want to interfere with the sovereignty of the foreign state that granted the intellectual property right.⁴² In some cases involving infringement in the

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United States of works created abroad, US courts have looked to foreign copyright law to determine copyright ownership, noting that the US Copyright Act does not contain express conflicts of law rules.⁴³ This results in a necessity to interpret and determine foreign laws regarding one part of the copyright law analysis (copyright ownership) and local laws regarding other parts (including copyrightability, infringement, and defenses) and produces a “hornets nest” with a “host of issues.”⁴⁴

Courts may feel compelled to consider foreign laws regarding ownership where the foreign jurisdiction has the most significant relationship to, and policy interests in, the ownership question. *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*⁴⁵ is one of the few cases in which a US court deferred to foreign law to determine the question of copyright ownership. In this case, the question arose whether copyrights to Russian newspaper articles republished in the United States were owned by the individual Russian authors or Russian newspapers, newspaper compilation services, news reporters, or a news reporter’s union. The answer depended on complex questions regarding contractual relations between newspapers and employees in Russia, which the US court was not comfortable deciding under principles of US law. While considering Russian law regarding copyright ownership, the court noted that US copyright law applied to all other questions, including infringement and defenses. “On infringement issues, the governing conflicts principle is usually *lex loci delicti*.”⁴⁶

With respect to copies sold in the United States, the United States tends to have the most significant relationship to and interest in the question of ownership regarding the particular copies sold. Therefore, in the context of copyright law disputes, a strong argument lies that US courts should decide the question whether *Kirtsaeng* owns a copy in each of the above hypotheticals in accordance with the rules developed under US copyright law, regardless of whether *Kirtsaeng* or his suppliers may be the owner as a matter of the laws of any other country where the copies at issue may have been licensed, sold, bought, stolen, or leased before *Kirtsaeng* gained possession. With respect to questions relating to ownership of software copies sold in the United States, the rules developed by US courts under US copyright law should generally prevail.⁴⁷

Conclusion

The Supreme Court held in *Kirtsaeng* that an owner of a copy lawfully made and first sold abroad can rely on the first sale doctrine under US copyright law. Whether this will materially affect software distribution in the United States will depend on whether US courts will apply US copyright law standards to determine if

the defendant owns the copy defendant seeks to sell. Courts in the United States do not consider a licensee an owner if the copyright owner distributed the software copy subject to a license agreement that makes clear that ownership to the copy shall not transfer and imposes meaningful restrictions that are incompatible with the concept of a sale, such as limitations on use for educational purposes only, prohibitions on transfers, and territorial restrictions.

Courts in the European Union, on the other hand, have classified software transactions as sales without much regard for license terms under which the copyright owner agreed to distribute a particular software copy, based on legal systems and policy considerations that differ significantly from those in the United States. Ownership of physical media on which a software copy is stored, such as a DVD, computer, or car, has to be determined based on personal property laws, which are subject to conflicts of law rules different from copyright law. Ownership of physical media does not conclusively determine ownership to software copies residing on such media. While personal property conflict of law rules focus on *situs*, domicile and policy considerations that frequently point to the application of foreign substantive property laws, copyright conflict of law rules tend to point to the substantive local law of the jurisdiction where infringement occurred and where typically protection is sought also. If a copyright owner sues an unauthorized importer in a US court for infringement of US copyrights, the court will generally apply US substantive copyright law to determine whether infringement occurred and defenses apply.

Based on *Kirtsaeng*, an owner of a foreign-made software copy may be able to rely on the first sale doctrine to import and sell such copy in the United States. The decision does not address, however, whether he can rely on foreign substantive copyright law for purposes of determining ownership of a copy. *Kirtsaeng* only addresses the importation of foreign copies, not the importation of foreign copyright law.

Notes

1. *Kirtsaeng v. John Wiley & Sons, Inc.*, 2013 US LEXIS 2371 (Mar. 19, 2013).
2. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. N.Y. 2011).
3. *Kirtsaeng* at *36.
4. *Id.* at *112 (dissent).
5. *Wall Data Inc. v. L.A. County Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir. Cal. 2006). Indeed, the first sale doctrine rarely applies in the software world because software is rarely “sold.” See *Adobe Sys. Inc. v. One Stop Micro, Inc.*, 84 F. Supp. 2d 1086, 1091

- (N.D. Cal. 2000) (“Virtually all end users do not buy—but rather receive a license for—software. The industry uses terms such as ‘purchase,’ ‘sell,’ ‘buy,’... because they are convenient and familiar, but the industry is aware that all software... is distributed under license.”).
6. Lothar Determann and Aaron X. Fellmeth, “Don’t Judge A Sale by its License: Software Transfers under the First Sale Doctrine in the United States and the European Community,” 36 *U.S.F. L. Rev.* 1 (2001); Raymond T. Nimmer, “Copyright First Sale and the Over-Riding Role of Contract,” 51 *Santa Clara L. Rev.* 1311 (2011); Brian W. Carver, “Why License Agreements Do Not Control Copy Ownership: First Sales and Essential Copies,” 25 *Berkeley Tech. L.J.* 1887 (2010); Nancy S. Kim, “The Software Licensing Dilemma,” 2008 *B.Y.U.L. Rev.* 1103; Andrew Chin, “Antitrust Analysis in Software Product Markets: A First Principles Approach,” 18 *Harv. J. Law & Tec* 1 (2004); Jean Braucher, “Contracting Out of the Uniform Commercial Code: Contracting Out of Article 2 Using a ‘License’ Label: A Strategy That Should Not Work for Software Products,” 40 *Loy. L.A. L. Rev.* 261 (2006); Michael J. Madison, “Reconstructing the Software License,” 35 *Loy. U. Chi. L.J.* 275 (2003); Gregory E. Maggs, “The Waning Importance of Revisions to U.C.C. Article 2,” 78 *Notre Dame L. Rev.* 595 (2003); David A. Rice, “Copyright and Contract: Preemption after *Bowers v. Baystate*,” 9 *Roger Williams U. L. Rev.* 595 (2004); John A. Rothchild, “The Incredible Shrinking First-Sale Rule: Are Software Resale Limits Lawful?,” 57 *Rutgers L. Rev.* 1 (2004); William W. Fisher, “When Should We Permit Differential Pricing of Information?,” 55 *UCLA L. Rev.* 1 (2007).
 7. Judgment of the European Court of Justice (Grand Chamber) of 3 July 2012, *UsedSoft GmbH v. Oracle Int’l Corp.* (Case C-128/11) (1), Official Journal 2012/C 287/16, at 44-46.
 8. Lothar Determann and William Batchelor, “Used Software Sales and Copyright Exhaustion,” *BNA Electronic Commerce Report*, 17 *ECLR* 2149 (2012).
 9. Vernor was the plaintiff in a dispute that was ultimately decided in *Autodesk v. Vernor*, 621 F.3d 1102, 1114 (9th Cir. 2010).
 10. *John Wiley & Sons, Inc. v. Kirtsaeng* at 215.
 11. Christian H. Nadan, “Software Licensing in the 21st Century: Are Software ‘Licenses’ Really Sales, and How Will the Software Industry Respond?,” 32 *AIPLA Q.J.* 555.
 12. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908).
 13. *Quality King Distributors Inc. v. L’Anza Research Int’l Inc.*, 523 U.S. 135, 45 U.S.P.Q.2d 1961 (1998).
 14. In *Autodesk v. Vernor*, 621 F.3d 1102, 1114 (9th Cir. 2010), the Ninth Circuit Court of Appeals notes that “the Supreme Court in *Bobbs-Merrill* made explicit that its decision did not address the use of restrictions to create a license.” *Id.* (“There is no claim in this case of contract limitation, nor license agreement controlling the subsequent sales of the book.”).
 15. *Vernor* at 1110-1.
 16. *Wall Data Inc. v. L.A. County Sheriff’s Dep’t*, 447 F.3d 769 (9th Cir. 2006).
 17. *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993).
 18. *Id.* at 1114-1115.
 19. See also *DSC Communications Corp. v. Pulse Communications Inc.*, 170 F.3d 1354, 1360 (Fed. Cir. 1999).
 20. Determann, *supra* n.6.
 21. James R. Maxeiner, “Standard-Terms Contracting in the Global Electronic Age: European Alternatives,” 28 *Yale J. Int’l L.* 109 (2003); Lothar Determann, Notice, “Assent Rules for Contract Changes after *Douglas v. US District Court*,” 12 *BNA Electronic Commerce & Law Report* 32 (2007); see also Mark A. Lemley, “Intellectual Property and Shrinkwrap Licenses,” 68 *S. Cal. L. Rev.* 1239, 1246, 1261, 1267-1284 (1995); Margaret J. Radin, “Reconsidering Boilerplate: Confronting Normative and Democratic Degradation,” 40 *Cap. U.L. Rev.* 617 (2012); Jessica Gallegos, “A New Role for Tortious Interference in the Digital Age: A Model to Enforce End User License Agreements,” 38 *Fla. St. U.L. Rev.* 411 (2011).
 22. See, e.g., Matthew Gabel and Clifford Carrubba, “The European Court of Justice as an Engine of Economic Integration: Reconsidering Evidence that the ECJ has Expanded Economic Exchange in Europe,” August 5, 2009, http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1444500 (accessed March 31, 2013).
 23. Judgment of the European Court of Justice (Grand Chamber) of 3 July 2012, *UsedSoft GmbH v. Oracle Int’l Corp.* (Case C-128/11) (1), Official Journal 2012/C 287/16, at 44-46.
 24. See, e.g., OLG Frankfurt am Main (German Court of Appeals), decision of November 6, 2012, Az. 11-U68-11 (Adobe v. Usedsoft).
 25. CJEU Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v. Hartdauer Handelsgesellschaft mbH* (1998).
 26. *Kirtsaeng* at *93 (dissent).
 27. Chiappetta, “The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things,” 21 *Mich. J. Int’l L.* 333, 346 (2000).
 28. *Kirtsaeng* at *70 (dissent).
 29. *Id.* at *13.
 30. *Quality King*, 523 U.S. 135, 45 U.S.P.Q.2d 1961.
 31. See, for example, the notice that the copyright owner in *Kirtsaeng* included in his books: “Copyright 2008 John Wiley & Sons (Asia) Pte Ltd. All rights reserved. This book is authorized for sale in Europe, Asia, Africa, and the Middle East only and may be not exported out of these territories. (...).” J. Walker, *Fundamentals of Physics*, p. vi (8th ed. 2008 Wiley Int’l Student ed.).
 32. *Kirtsaeng* at *32.
 33. *Id.*
 34. *Id.* at *74 (dissent). The importation of such copies is expressly prohibited in § 602(a)(2), because Section 602(a) provides: “Importation... without the authority of the owner of copyright... of copies... the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright if this title had been applicable, is an infringement (...).” [emphasis added]. Section 109(a), however, does not contain such “would have constituted” language and would therefore seem to apply even to entirely

Copyright

- unauthorized copies based on the interpretation favored by the majority in *Kirtsang*.
35. UCC § 1-201 (37): “The retention or reservation of title by a seller of goods notwithstanding shipment or delivery to the buyer (§ 2-401) is limited in effect to a reservation of a ‘security interest.’”
 36. See, for example, Alan Schwartz and Robert E. Scott, “Rethinking the Laws of Good Faith Purchase,” 111 *Colum. L. Rev.* 1332 (2011).
 37. See, for example, §§ 201–205 of the US Copyright Act.
 38. Directive 2009/24/EC of 23 April 2009 on the legal protection of computer programs, L 111/16 Official Journal of the European Union 5.5.2009.
 39. See, for example, California Civil Code § 946. “By what law governed. If there is no law to the contrary, in the place where personal property is situated, it is deemed to follow the person of its owner, and is governed by the law of his domicile.”
 40. See, Restatement of the Law, 2nd, §§ 6, 244 *et seq.*; Raymond T. Nimmer and Lorin Brennan, “Modernizing Secured Financing Law for International Information Financing: A Conceptual Framework,” 6 *Hous. Bus. & Tax L.J.* 1, 46 (2005); Michael Finch, “Choice-of-law and Property,” 16 *Stetson Law Review* 257, 271 *et seq.* (1996).
 41. Nimmer on Copyright, § 17.05; Nimmer, *supra* n.40; Hanns Ullrich, “TRIPS: Adequate Protection, Inadequate Trade, Adequate Competition Policy,” 4 *Pac. Rim L. & Pol’y J.* 153, 158 (1995).
 42. Nimmer on Copyright, § 17.03, noting that this should be less of a concern with respect to copyrights because copyright ownership does not usually depend on an express grant or act by a government agency, unlike in the case of patents or trademarks.
 43. *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 89 *et seq.* (2d Cir. 1998).
 44. Nimmer on Copyright, §17.05[B][3] with illustrative examples.
 45. *Itar-Tass Russian News Agency*, 153 F.3d 82.
 46. *Id.* p. 91.
 47. These rules are summarized in the section of this article entitled “Software Distribution and First Sale Doctrine in the Land of the Free.”