

No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,
Petitioner,

v.

OMEGA S.A.,
Respondent.

**On Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit**

BRIEF FOR RESPONDENT

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QUESTION PRESENTED

Whether the owner of a U.S. copyright forfeits its exclusive right to distribute copies domestically by making and selling copies abroad for distribution outside the United States.

CORPORATE DISCLOSURE STATEMENT

Pursuant to Rule 29.6 of the Rules of this Court, respondent Omega S.A. states the following:

Omega S.A. is a wholly owned subsidiary of a publicly held Swiss corporation, The Swatch Group, Ltd. The Swatch Group, Ltd. is the parent company of Omega S.A.

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INTRODUCTION

Respondent Omega S.A. (“Omega”) is a Swiss company that manufactures watches in Switzerland. Those watches bear laser-engraved copies of the Omega Globe Design, a work protected by copyright in the United States. The Copyright Act of 1976 gives Omega the exclusive right to distribute copies of the work in the United States. Petitioner Costco Wholesale Corporation (“Costco”) acquired OMEGA brand watches bearing copies of the copyrighted work that were manufactured and sold outside the United States for exclusive distribution outside the United States. The watches were imported without Omega’s authorization, and Costco distributed them in the United States.

Section 602(a)(1) of the Copyright Act provides that “[i]mportation into the United States, without the authority of the owner of the copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106.” 17 U.S.C. § 602(a)(1). There is no dispute that the importation of Omega watches bearing copies of the Omega Globe Design is covered by the literal terms of § 602(a)(1) and that Costco’s distribution of those watches therefore implicates the exclusive rights of Omega to distribute copies domestically under § 106, 17 U.S.C. § 106. The question in this case is whether the first-sale doctrine embodied in § 109(a) – which allows the owner of a copy “lawfully made under this title” to sell that copy without the authorization of the copyright owner, *id.* § 109(a) – provides Costco a defense to infringement. The question, in other words, is whether a U.S. copyright owner forfeits its exclusive right to distribute copies

in the United States by making and selling copies abroad for distribution outside the United States.

The language, structure, and history of the Copyright Act, as well as the history and logic underlying the first-sale doctrine, all make clear that a copyright owner does not forfeit the exclusive right to distribute copies domestically simply by making and selling copies abroad for distribution outside the United States. In *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998), this Court held that § 602(a)(1), like the distribution right in § 106(3), is subject to the first-sale doctrine embodied in § 109(a). The Court made clear, however, that the first-sale doctrine does not apply to copies that are “lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” *Id.* at 147. The Court explained that such copies – though authorized by the U.S. copyright owner – are not subject to § 109(a).

That same analysis applies here. The Copyright Act does not grant a copyright owner the right to reproduce copies *outside* the United States; Omega’s right to reproduce copies of its work in Switzerland is governed by Swiss law, not U.S. law. Nor did Omega exercise any of the exclusive rights granted under the Copyright Act by selling the copies abroad for distribution outside the United States.

The Court should give effect to the plain language of the statute, reaffirm the analysis underlying *Quality King*, and hold that a third party infringes a copyright owner’s exclusive rights by importing or distributing in the United States a copy that the copyright owner made and sold overseas exclusively for distribution outside the United States.

STATEMENT OF THE CASE

1. Omega manufactures watches in Switzerland. *See* JA 60. It owns a registered U.S. copyright on an original artwork, the Omega Globe Design, which is laser-engraved into Omega watches at the time of their manufacture at Omega's facility in Switzerland. *See* JA 60, 83-87.

Costco is a Fortune 50 corporation, with 2008 sales of \$71 billion. In 2003, Costco approached Omega to discuss Costco's interest in carrying OMEGA brand watches. *See* JA 94-100. Costco threatened that, if Omega did not agree to make specific models of watches available to Costco through authorized channels, on terms acceptable to Costco, Costco instead would obtain what it described as "indirect merchandise." *See* JA 94.

When Omega did not agree to Costco's terms, Costco arranged to acquire the watches from a source that Costco knew was obtaining the watches from sources outside the United States; Costco likewise knew that the watches were being imported into the United States without Omega's authorization. *See* JA 27, 54-57.¹ Costco then put the watches on sale in its retail stores. *See* JA 61, 65-66.

Omega purchased two watches from Costco retail stores. *See* JA 102-03. An investigation revealed that the watches had been sold overseas under distribution agreements that restricted resale to specific geographic territories outside the United States. *See* JA 67-78, 104; *see also* Declaration of Raynald Aesch-

¹ Indeed, Costco provided its supplier with a list of specific models that it wished to obtain, thus effectively ordering the importation of those articles. *See* C.A. E.R. 18-19 (describing Costco's "wish list").

limann in Support of Plaintiff’s Motion for Summary Judgment ¶¶ 10-11 & Exh. E.

2. Omega brought a one-count copyright infringement action under § 106 and § 602 of the Copyright Act, alleging that Costco had distributed copies of Omega’s copyright-protected works without Omega’s authorization or consent. *See* JA 31-41 (First Amended Complaint). The district court initially issued a preliminary injunction against Costco. *See* JA 26-29. Later, without explanation, the district court granted Costco’s summary judgment motion and vacated the preliminary injunction. *See* Pet. App. 18a-19a.

3. The Ninth Circuit reversed. It noted that, under circuit precedent, § 109 of the Copyright Act “provide[s] no defense to an infringement action under §§ 106(3) and 602(a)[(1)²] that involves (1) foreign-made, nonpiratical copies of a U.S.-copyrighted work, (2) unless those same copies have already been sold in the United States with the copyright owner’s authority.” Pet. App. 3a; *see id.* at 7a-10a. The court then explained that *Quality King* neither overruled those precedents nor “undercut[] the theory or reasoning underlying the prior circuit precedent in such a way that the cases are clearly irreconcilable.” *Id.* at 10a (internal quotation marks omitted).

² The relevant provision was originally adopted in the Copyright Act of 1976 as § 602(a) of Title 17. In 2008, § 602(a) was expanded to address importation and exportation of piratical copies, *see* Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b)-(c)(1), 122 Stat. 4256, 4259-60 (adding 17 U.S.C. § 602(a)(2)), and § 602(a) was recodified as § 602(a)(1); the exceptions to § 602(a) were codified at § 602(a)(3). We refer to the provision according to its current codification.

The Ninth Circuit held, first, that *Quality King* did not overrule prior precedent because that case “involved ‘round trip’ importation” – *i.e.*, a copy made inside the United States, sold from the United States to a third party overseas, and then shipped back into the United States. *Id.* As the court explained, “[t]he [Supreme] Court held that § 109(a) can provide a defense to an action under § 602(a)[(1)] in this context . . . [but], because the facts involved only domestically manufactured copies, the Court did not address the effect of § 109(a) on claims involving unauthorized importation of copies made abroad.” *Id.* at 10a-11a.

The Ninth Circuit next explained that the reasoning in *Quality King* did not undermine circuit precedent. Those earlier Ninth Circuit decisions had recognized that to deem a copy that was made overseas as “lawfully made under this title,” 17 U.S.C. § 109(a), “would violate the presumption against the extraterritorial application of U.S. law.” Pet. App. 11a. *Quality King*, the court noted, had “dismissed a similar concern that the triggering of § 109(a) by *foreign sales* would require an invalid extraterritorial application of the Copyright Act, explaining that merely recognizing the occurrence of such sales ‘does not require the extraterritorial application of the Act.’” *Id.* (quoting *Quality King*, 523 U.S. at 145 n.14). But “the application of § 109(a) to *foreign-made* copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not.” *Id.* at 13a (emphasis added). “To characterize the making of copies overseas as ‘lawful[] . . . under [Title 17]’ would be to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United

States Specifically, it would mean that a copyright owner's foreign manufacturing constitutes lawful reproduction under 17 U.S.C. § 106(1) even though that statute does not clearly provide for extraterritorial application." *Id.* (brackets and first ellipsis in original).

The Ninth Circuit observed that "significant parts of *Quality King's* analysis are also consistent" with circuit precedent. *Id.* "The Court found that copies of a work copyrighted under Title 17 are not necessarily 'lawfully made under [Title 17]' even when made by the owner of the copyright: The category of copies covered by § 602(a)[(1)], it was explained, encompasses 'copies that were "lawfully made" not under the United States Copyright Act, but instead, under the law of some other country.'" *Id.* (quoting *Quality King*, 523 U.S. at 147) (first alteration in original). "In short, copies covered by the phrase 'lawfully made under [Title 17]' in § 109(a) are not simply those which are lawfully made by the owner of a U.S. copyright." *Id.* at 14a (alteration in original).

The Ninth Circuit cited Justice Ginsburg's concurring opinion in *Quality King*, which expressly recognized that the Court's opinion did not address copies made outside the United States. *See id.* at 15a.

4. Petitioner's petition for rehearing and rehearing en banc was denied. *See* Pet. App. 20a-21a. The Court granted Costco's petition for certiorari.

SUMMARY OF ARGUMENT

Section 106(3) of the Copyright Act grants the “owner of copyright under this title” the “exclusive right[]” “to distribute copies . . . of the copyrighted work.” 17 U.S.C. § 106(3). Section 602(a)(1) extends that right by barring “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States.” *Id.* § 602(a)(1). Costco concedes for purposes of this Court’s review that it has intruded on those exclusive rights; the only question is whether it has a defense to infringement based on the first-sale provision, § 109(a), 17 U.S.C. § 109(a). The Ninth Circuit correctly concluded that it does not.

I. This Court’s construction of the Copyright Act in *Quality King* “mandates acceptance” of the Ninth Circuit’s holding. 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(7) (rev. ed. 2010). The *Quality King* Court made clear that, § 109(a) notwithstanding, § 602(a)(1) bars importation of foreign-made copies authorized by the U.S. copyright owner solely for sale outside the United States. The language, structure, and history of the Copyright Act, as well as the history and logic underlying the first-sale doctrine, all support that result.

A. Costco’s first-sale defense founders on the unambiguous language of § 109(a). *See Connecticut Nat’l Bank v. Germain*, 503 U.S. 249, 253-54 (1992). Under the plain meaning of § 109(a), a copy made overseas – with or without the permission of the copyright owner – is not, without more, “lawfully made *under this title*.” The emphasized language unambiguously distinguishes between copies the

making of which is governed by the exclusive rights granted under the Copyright Act and copies the making of which is not so governed. The making of a copy abroad for distribution abroad does not implicate *any* of the exclusive rights granted under § 106; such a copy is not lawfully made or unlawfully made “under this title.”

Costco argues that any copy made or authorized by a U.S. copyright owner is, without more and in all circumstances, “lawfully made under this title.” Costco Br. 16. That construction ignores the fact that “all the rights conferred under the Copyright Act relate to exploitation within this country.” 2 *Nimmer on Copyright* § 8.11[B][1], at 8-152.2. When a copy is made outside the United States for foreign distribution, its manufacture and sale are not governed by the Copyright Act, and it cannot be lawfully – or unlawfully – made “under this title.”

Costco also tries to create ambiguity by arguing that the Ninth Circuit’s construction of “lawfully made under this title” is incompatible with the use of the phrase elsewhere in the statute. Costco is mistaken. Under the decision below, just as an educational institution may not knowingly use a pirated copy, it may not knowingly use a copy that is unlawfully imported, which makes perfect sense. See 17 U.S.C. § 110. And the relevant provision of the Audio Home Recording Act of 1992 (“AHRA”) simply provides that a party may qualify for royalties if its sound recording was lawfully distributed in the United States (but not if the recording was authorized for distribution exclusively abroad). See *id.* § 1006(a)(1)(A). Again, that is perfectly sensible. As for the obligation to *pay* royalties under the AHRA, that depends on the importation of digital audio

recording *devices* and *media* – not recordings – a point that Costco simply misunderstands. *See id.* § 1004.

B. Costco’s construction of § 109(a) also conflicts with the Court’s reading of the statute in *Quality King*. The Court reasoned that the first-sale defense does not apply to copies that are “‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” 523 U.S. at 147. To show that the “category is not a merely hypothetical one,” *id.*, the Court cited the example of a U.S. copyright owner that grants rights under a foreign copyright to a foreign publisher. The Court stated that such copies – though authorized by the U.S. copyright owner – are not subject to § 109(a). That determination was not mere dicta, but integral to the Court’s construction of the Copyright Act and therefore entitled to precedential weight.

C. The construction of the first-sale provision that limits its application to copies “lawfully made under this title” is necessary to harmonize § 109(a) with § 602(a)(1), which broadly prohibits unauthorized importation of copies, including legitimate copies. *See Bilski v. Kappos*, 130 S. Ct. 3218, 3228 (2010) (statute should be construed to avoid rendering any provision superfluous or insignificant). That § 602(a)(1) undisputedly applies to *legitimate* copies made overseas disproves the broad claims of Costco and its *amici* concerning Congress’s supposed hostility to segmentation of international markets. The central purpose of § 602(a)(1) is to preserve the right of copyright owners to authorize foreign distribution of copies made outside the United States without simultaneously authorizing importation into the United States. This construction protects the U.S.

copyright owner's exclusive right to distribute copies domestically.

D. The understanding that a copyright owner may authorize overseas distribution without forfeiting exclusive domestic distribution rights is faithful to the roots of § 109 in this Court's decision in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). Underlying the "first sale" doctrine is the notion that, once a copyright holder has exercised its intellectual property rights upon the sale of a particular copy, it has exhausted those exclusive rights with respect to that copy. When a copy is manufactured abroad for sale abroad, however, the copyright holder has *not* exercised *any* of the exclusive rights granted under U.S. law with respect to that copy, and exhaustion does not apply.

E. The Ninth Circuit did not hold that *only* copies reproduced in the United States are lawfully made under Title 17 for purposes of § 109(a). This case does not present the question whether, for example, the authorized sale for domestic distribution of a copy made abroad would satisfy § 109(a). But the Ninth Circuit's indication that it would, *see* Pet. App. 16a, is consistent not only with the justification underlying the first-sale doctrine, but also with the language of § 109(a).

II. In seeking certiorari, Costco took the position that the Copyright Act gives the owner of a U.S. copyright the right to license another party to make and sell copies abroad without surrendering the protection that § 602(a)(1) provides, but that the copyright owner could not make such copies itself. Costco never expressly disavows its earlier position, but it argues now that the foreign copyright must be transferred to an unrelated third party for § 602(a)(1) to

apply; that is, it asserts that only “unrelated foreign copyright holders” can make or authorize legitimate copies that are subject to § 602(a)(1). *Costco Br.* 39.

That argument not only conflicts with *Quality King*; it also is at odds with the legal equivalence, under the Copyright Act, between the grant of an exclusive license and the assignment of an ownership interest in a copyright. *Costco* provides no reason that Congress would have intended to make the protection that § 602(a)(1) affords turn on precisely which rights a U.S. copyright owner transfers and in what manner. That reading of the statute – like *Costco*’s earlier proposal – would simply impose additional transaction costs without changing anything of substance. Because *Costco* admits that copyright owners have the right to prevent unauthorized importation of legitimate copies, its policy arguments carry no weight.

III. A. Sound policy considerations support the congressional decision to protect the domestic distribution right from unauthorized imports. Such market segmentation can prevent free-riding, thereby promoting investment in domestic distribution that benefits consumers. Furthermore, such segmentation allows copyright owners to develop their intellectual property rights more efficiently, ensuring that copyrighted works can be more widely available and helping to “promote the Progress of Science and useful Arts.” U.S. Const. art. I, § 8, cl. 8. “Calibrating rational economic incentives . . . is a task primarily for Congress, not the courts.” *Eldred v. Ashcroft*, 537 U.S. 186, 207 n.15 (2003); *see also Quality King*, 523 U.S. at 153.

B. *Costco*’s suggestion that application of § 109(a) and § 602(a)(1) as written would cause adverse policy

consequences is, to say the least, unsupported. The Ninth Circuit’s understanding of the Copyright Act reflects the state of the law as it has stood for a quarter century; no adverse consequences have arrived. Congress *intended* to provide U.S. copyright owners the right separately to authorize foreign and domestic distribution of legitimate copies – that is the core purpose of § 602(a)(1). Moreover, even Costco admits that U.S. copyright owners may do so, as long as they assign their foreign copyrights to a third party. In any event, if Costco’s goal is to change the law, it should petition Congress, not this Court.

ARGUMENT

I. THE FIRST-SALE PROVISION DOES NOT APPLY TO COPIES MADE ABROAD AND SOLD WITHOUT THE COPYRIGHT OWNER’S AUTHORIZATION TO IMPORT OR DISTRIBUTE IN THE UNITED STATES

This case presents the question whether a copyright owner can make and sell copies of its work abroad without surrendering the exclusive rights granted under § 106(3) and § 602(a)(1) of the Copyright Act to import and distribute copies domestically. A straightforward reading of the Act, confirmed by the Court’s analysis in *Quality King* and long-standing exhaustion principles, makes clear that the answer is yes.

A. A Copy Is Not “Lawfully Made Under This Title” When Its Reproduction and Distribution Do Not Implicate Any Exclusive Rights Granted Under the Copyright Act

1. Section 109(a) permits “the owner of a particular copy . . . *lawfully made under this title*” “to sell or otherwise dispose of the possession of that copy.” 17 U.S.C. § 109(a) (emphasis added). The meaning of

the words “lawfully made under this title” is plain: a copy is lawfully made under Title 17 if the making of the copy is both *governed by* and *consistent with* the Copyright Act. If the making of the copy is not governed by the Copyright Act, the copy is not made “under this title” at all. *See Quality King*, 523 U.S. at 142 n.9 (“It is noteworthy that § 109(a) . . . does not apply to ‘any copy’; it applies only to a copy that was ‘lawfully made under this title.’”).

The Court need not go beyond the plain language of § 109(a) to affirm the judgment. *See Connecticut Nat’l Bank*, 503 U.S. at 253-54 (“[C]ourts must presume that a legislature says in a statute what it means and means in a statute what it says there. When the words of a statute are unambiguous, then, this first canon is also the last . . .”) (citations omitted). It is uncontested that Omega manufactured the copies that are at issue in Switzerland. For purposes of this Court’s review, it is likewise uncontested that Omega sold them overseas pursuant to contracts that restricted their distribution to areas outside the United States. *See* Pet. App. 17a (“There is no genuine dispute that the copies of the Omega Globe Design were sold in the United States without Omega’s authority.”). The Ninth Circuit was accordingly correct that the copies were not lawfully made *under Title 17*. *See id.* at 14a.

Section 106 of the Copyright Act enumerates the copyright owner’s “exclusive rights to do and to authorize” certain activities, including the right “to reproduce the copyrighted work.” 17 U.S.C. § 106(1). But those exclusive rights do not apply to conduct that takes place exclusively outside the United States. *See United Dictionary Co. v. G. & C. Merriam Co.*, 208 U.S. 260, 264 (1908); 4 *Nimmer on Copyright*

§ 17.02, at 17-19 (“[C]opyright laws do not have any extraterritorial operation.”); *cf. Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 454-55 (2007) (“United States law governs domestically but does not rule the world Foreign conduct is [generally] the domain of foreign law”) (internal quotation marks omitted; alteration in original); *Beechwood Music Corp. v. Vee Jay Records, Inc.*, 328 F.2d 728, 729 (2d Cir. 1964) (per curiam) (“It would be quite unreasonable to construe the condition of the compulsory license clause . . . as being satisfied by the manufacture of records in a foreign country, at least when these have not been brought into the United States.”) (internal quotation marks omitted). Accordingly, when a copy is manufactured outside the United States for sale outside the United States, it cannot be made “pursuant to, or in compliance with, the Copyright Act” – to use the definition urged by petitioner. Pet. 9. Nor can it be made in violation of the Copyright Act. The Copyright Act simply does not govern the conduct.

Costco argues that, “because Omega is the U.S. copyright holder, any copies that it makes are necessarily lawful according to 17 U.S.C. § 106(1), which provides the U.S. copyright holder with an exclusive right to make or to authorize copies.” Costco Br. 15-16. But Costco is simply mistaken in its assertion that § 106(1) gives Omega any right to make or to exclude others from making copies *in Switzerland*. See 2 *Nimmer on Copyright* § 8.11[B][1], at 8-152.2 (“[A]ll the rights conferred under the Copyright Act relate to exploitation within this country.”). Omega’s rights to reproduce and distribute copies in Switzerland are governed by the law of Switzerland – not by Title 17. See Berne Convention for the Protection of Literary and Artistic Works art. 5(1), revised at Paris

July 24, 1971, 25 U.S.T. 1341, 828 U.N.T.S. 221 (“Berne Convention”).

There is no dispute that the phrase “lawfully made under this title” should be understood “in light of ‘the normal meaning of the language chosen by Congress.’” Costco Br. 15 (quoting *Regents of Univ. of California v. Public Employment Relations Bd.*, 485 U.S. 589, 595 (1988)). Where, as here, a copy is alleged to be lawfully made solely on the basis of its manufacture (by the copyright owner), it can be lawfully made “under this title” only if the Copyright Act governs that act of manufacture. Accordingly, it contradicts the plain meaning of the provision to say that copies made in Switzerland for sale outside the United States are either lawfully or unlawfully “made *under this title*.”³ Because there is no other basis on which Costco claims that the copies at issue here were “lawfully made under this title,” the defense provided under § 109(a) is unavailable.

2. This straightforward understanding of “lawfully made under this title” is fully consistent with the pervasive use of the phrase “under this title” in the Copyright Act to specify rights or conduct governed by U.S. law. To give just a few examples, both § 106 and § 602(a) refer to the “owner of copyright under this title,” 17 U.S.C. §§ 106, 602(a)(1), (2) – *i.e.*, the holder of rights granted *under U.S. law*. Section 104 refers to works that “are subject to protection under this title,” *id.* § 104(a), (b) – *i.e.*, that are protected *under U.S. law*, as distinguished from, for example, protection solely under foreign law, *see*

³ By contrast, the copies at issue in *Quality King* were made in the United States by the copyright owner and therefore were “lawfully made under this title.”

id. § 104(c)-(d). Section 114(d)(4) refers to “remedies available under this title,” *id.* § 114(d)(4)(B)(iii), (C) – *i.e.*, remedies available under U.S. law. Section 503 refers to actions “under this title,” *id.* § 503(a)(1) – *i.e.*, actions based on the rights granted by the Copyright Act. The phrase is used throughout Title 17 in the same manner.

Costco seeks to create ambiguity by arguing that the Ninth Circuit’s construction of the phrase “lawfully made under this title” is “incompatible” with the use of the phrase elsewhere in the Copyright Act. No such incompatibility exists. The Ninth Circuit’s holding is that a copy made abroad that is sold without authorization to distribute the copy in the United States is not “lawfully made under this title.” That holding does not create any tension with the use of the same phrase in the two other locations in Title 17 where it appears. *See Barnhart v. Sigmon Coal Co.*, 534 U.S. 438, 461-62 (2002) (Court will not “alter the text” in the absence of “conflicting provisions or ambiguous language”).⁴

First, § 110 provides that certain educational performances and displays are “not infringements of copyright” unless they are “given by means of a copy that was not lawfully made under this title, and that the person responsible for the performance knew or

⁴ The tension that Costco attempts to find in the statute is based on the assertion that the Ninth Circuit held that “lawfully made under this title” *means* “lawfully made in the United States.” Costco Br. 11, 15. That is not the Ninth Circuit’s holding; as we explain below, it is consistent with the text of the statute that copies may be reproduced abroad but nevertheless be “lawfully made” because they carry authorization under U.S. law for lawful distribution in the United States. *See infra* Part I.E. In any event, there is no incompatibility based on what the Ninth Circuit held.

had reason to believe was not lawfully made.” 17 U.S.C. § 110(1); *see also id.* § 110(2). Under the Ninth Circuit’s holding, if such a performance were by means of a copy that was imported in violation of § 602(a)(1), and the responsible person or institution was aware of the violation, it would lose the protection afforded for performances by means of non-infringing copies. There is nothing “incompatible” (Costco Br. 16) in that.

Second, the use of the phrase in one provision of the AHRA is likewise entirely compatible with the Ninth Circuit’s holding. That statute requires payments of royalties, not by those who copy or distribute a work protected by copyright, but by vendors of digital audio recording devices and digital audio recording media. *See* 17 U.S.C. §§ 1003, 1004.⁵ Those royalties are paid into two funds and then distributed to songwriters, music publishers, record labels, and artists. *See id.* § 1006(b).

To qualify for royalties from these funds, an “interested copyright party” must have a “musical work or sound recording” that has been “embodied in a digital musical recording or an analog musical recording lawfully made under this title that has been distributed.” *Id.* § 1006(a)(1)(A). Under the Ninth Circuit’s holding, if a copyright owner had *not* authorized

⁵ In exchange, the statute provides that “[n]o action may be brought under this title alleging infringement of copyright based on the manufacture, importation, or distribution of a digital audio recording device, a digital audio recording medium, an analog recording device, or an analog recording medium, or based on the noncommercial use by a consumer of such a device or medium for making digital musical recordings or analog musical recordings.” 17 U.S.C. § 1008; *cf. Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005) (discussing indirect infringement).

importation and domestic distribution, that work would not qualify for royalty payments under § 1006(a)(1)(A). It makes perfect sense for Congress to provide royalties only in those circumstances where domestic distribution is authorized by the copyright owner; that result is in no sense “absurd” (Costco Br. 18).

Costco claims that, if “the phrase ‘lawfully made under this title’ referred only to copies manufactured in the United States, no royalty payments under § 1006 would be due on digital audio recording media manufactured abroad and imported into the United States.” *Id.* Costco misreads the relevant provisions. Section 1006(a)(1)(A) identifies the parties that are entitled to *receive* royalties. That has absolutely nothing to do with the basis for the *payment* of royalties under § 1004, which is based on the distribution of digital audio recording devices and media – not musical recordings, whether lawfully made under this title or otherwise.⁶ There is no inconsistency.

B. *Quality King* Rejects Costco’s Construction of § 109(a)

1. The conclusion that § 109(a) applies only to copies made in a manner that implicates the exclusive rights granted by the Copyright Act also is mandated by *Quality King*. The Court’s reasoning

⁶ Digital audio recording media *cannot* be “musical recordings” – that is, recordings of copyrighted works – by definition. See 17 U.S.C. § 1001(4)(B)(i) (providing that “digital audio recording medium” “does not include any material object . . . that embodies a sound recording at the time it is first distributed by the importer or manufacturer”). The reference to “location of manufacturing” (Costco Br. 18) in § 1004(b) refers to digital audio recording media, not recordings of copyrighted works. *Cf.* Costco Br. 18-19.

“implies that it would endorse the prevailing law” providing that the first-sale doctrine is inapplicable to foreign-made copies sold for overseas distribution. 2 Paul Goldstein, *Goldstein on Copyright* § 7.6.1.2.a, at 7:144 (2010 Supp.); *see also* 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(7); American Bar Ass’n, Recommendation No. 109, at 8-9 (Feb. 2010) (“ABA Recommendation”) (“[I]t is apparent from the Supreme Court’s decision in *Quality King* that a copyright owner may, pursuant to § 602(a)[(1)], prevent the importation of certain copyrighted works lawfully made under the law of another country.”), *available at* www.abanet.org/leadership/2010/midyear/summary_of_recommendations/109.doc; *see also* U.S. Cert. Br. 14.

In rejecting the argument that § 602(a)(1) would be effectively superfluous if it were subject to the first-sale defense of § 109(a), the Court noted that, notwithstanding the first-sale defense, § 602(a)(1) nevertheless “applies to a category of copies that are neither piratical nor ‘lawfully made under this title,’” including “copies that were ‘lawfully made’ not under the United States Copyright Act, but instead, under the law of some other country.” *Quality King*, 523 U.S. at 147. In elaborating on the category of copies that would be both lawfully made and *not* subject to the first-sale doctrine, the Court noted that “a publisher of the United States edition and a publisher of the British edition of the same work” would “each . . . make lawful copies.” *Id.* at 148. The Court continued:

If *the author of the work* gave the exclusive United States distribution rights – enforceable under the Act – to the publisher of the United States edition and the exclusive British distri-

bution rights to the publisher of the British edition, however, presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a)[(1)] (or, for that matter, to an action under § 106(a)(3), if there was a distribution of the copies).

Id. (footnote omitted; emphasis added); *see also* 17 U.S.C. § 201(a) (“Copyright in a work protected under this title vests initially in the author or authors of the work.”). The Court’s example thus involves copies that are authorized by the owner of the U.S. copyright – *i.e.*, the author of the work – but that may not be imported without separate authorization.

Costco initially conceded that this is the correct reading of *Quality King*. In its petition, Costco conceded that, under this Court’s analysis, a copyright owner may grant distribution rights under the U.S. copyright to one licensee and distribution rights under a foreign copyright to others: “if a copyright owner gives exclusive American publishing rights to Person A, and exclusive British publishing rights to Person B, . . . B’s books are not lawfully made under the Copyright Act.” Pet. 14.

2. Costco nevertheless now argues that “any copies made (*or otherwise authorized*) by [the U.S. copyright owner] are ‘lawfully made under this title.’” Costco Br. 16 (emphasis added). But that argument not only is inconsistent with the position that Costco itself took in seeking review; it also is in conflict with *Quality King*. The Court’s analysis

depended on the understanding that it is *not* the case that any copy made under the authority of the U.S. copyright owner is subject to § 109(a). Instead, a copyright owner may grant distribution rights under the U.S. copyright to one licensee and distribution rights under a foreign copyright to others.⁷

Furthermore, the Court’s construction of § 109(a) was central to the Court’s holding that § 602(a)(1) is subject to the first-sale defense; it is no mere dicta. *See Seminole Tribe of Florida v. Florida*, 517 U.S. 44, 67 (1996) (“When an opinion issues for the Court, it

⁷ Under modern copyright law, national exhaustion (or, in the case of the European Union, community-wide exhaustion) – not international exhaustion – is the norm. *See* Ryan L. Vinelli, *Bringing Down the Walls: How Technology Is Being Used To Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights*, 17 *Cardozo J. Int’l & Comp. L.* 135, 148-51 (2009). Under a national exhaustion regime, a copyright owner may authorize a sale of a copy in one country without exhausting its right to bar distribution of that copy in another. *See* Theo Papadopoulos, *The First-Sale Doctrine in International Intellectual Property Law: Trade in Copyright Related Entertainment Products*, 2 *Ent. L.* 40, 50 (2003). U.S. law is consistent with the international norm.

Amici Retail Industry Leaders Association *et al.* argue that, “under the WIPO treaty, a sale or transfer authorized by the copyright owner triggers exhaustion, without limitation as to the place of manufacture.” Br. 27 n.32. This is not correct. The treaty specifically provides that whether, and under what circumstances, an initial sale will exhaust a copyright owner’s exclusive distribution right is a matter expressly reserved to determination under national law, not international law. *See* WIPO Copyright Treaty art. 6(2), Dec. 20, 1996, S. Treaty Doc. No. 105-17, 2186 U.N.T.S. 121 (“Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) [i.e., the distribution right] applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.”).

is not only the result but also those portions of the opinion necessary to that result by which we are bound.”); *Ashcroft v. ACLU*, 535 U.S. 564, 594 (2002) (Kennedy, J., concurring in the judgment) (statement that was “one rationale for the holding of the case” cannot be dismissed as dicta); *Freytag v. Commissioner*, 501 U.S. 868, 902-03 (1991) (Scalia, J., concurring in part and concurring in the judgment) (Court should “follow the course mapped out” in prior decision where earlier statement was “essential part of [the Court’s] reasoning”); *County of Allegheny v. ACLU*, 492 U.S. 573, 668 (1989) (Kennedy, J., concurring in the judgment in part and dissenting in part) (“As a general rule, the principle of *stare decisis* directs us to adhere not only to the holdings of our prior cases, but also to their explications of the governing rules of law.”). And it is well settled that “[c]onsiderations of *stare decisis* have special force in the area of statutory interpretation,” where “Congress remains free to alter what [this Court] ha[s] done.” *Patterson v. McLean Credit Union*, 491 U.S. 164, 172-73 (1989).

Congress recently has recodified § 602(a)(1). In doing so, it could have addressed any portion of the analysis in *Quality King* with which it did not agree. Congress instead maintained § 602(a)(1) unchanged. Indeed, the understanding that § 602(a)(1) bars importation of legitimate copies made and sold abroad for foreign distribution has been the prevailing law for nearly 30 years. See 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141. Congress has amended the Copyright Act more than 50 times since the district court for the Eastern District of Pennsylvania decided *CBS, Inc. v. Scorpio Music Distributors, Inc.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff’d*, 738 F.2d 424

(3d Cir. 1984) (table), which first held that the first-sale defense of § 109(a) was not available in the case of goods manufactured and sold abroad. Virtually every case to decide the issue in the subsequent decades – in circumstances involving all types of copyrighted works, including literary works, computer programs, and graphic works – has reached the same result.⁸ The long period of congressional inaction in the face of effectively unanimous judicial interpretation argues strongly against the adoption of the conflicting interpretation that Costco advocates. *Cf. Bragdon v. Abbott*, 524 U.S. 624, 645 (1998) (“When . . . judicial interpretations have settled the meaning of an existing statutory provision, repetition of the same language in a new statute indicates, as a general matter, the intent to incorporate its . . . judicial interpretations as well.”).

3. The Court’s determination that a U.S. copyright owner has the right to authorize a licensee to make and sell copies abroad without subjecting those copies to the first-sale doctrine likewise dictates that a copyright owner may make and sell copies abroad *itself* without surrendering its exclusive rights to distribute copies in the United States. The exclusive rights granted under § 106 – including the exclusive right to distribute copies – do not depend on whether the copyright owner exercises those rights or authorizes another to do so. To the contrary, § 106 grants

⁸ See *Omega Br. in Opp.* 7 n.2; see also, e.g., *Original Appalachian Artworks, Inc. v. J.F. Reichert, Inc.*, 658 F. Supp. 458, 463 (E.D. Pa. 1987); *CBS Inc. v. Casino Record Distribs., Inc.*, 654 F. Supp. 677, 678 (S.D. Fla. 1987); *Hearst Corp. v. Stark*, 639 F. Supp. 970, 976-77 (N.D. Cal. 1986); *Selchow & Righter Co. v. Goldex Corp.*, 612 F. Supp. 19, 25 (S.D. Fla. 1985); *Nintendo of Am., Inc. v. Elcon Indus., Inc.*, 564 F. Supp. 937, 943-44 (E.D. Mich. 1982).

copyright owners the right “to *do* and to *authorize*” certain things. 17 U.S.C. § 106 (emphases added). The claim that Congress intended, in this one context but no other, to draw a dramatic distinction between the consequences of “doing” and “authorizing” clashes with the nature of the rights granted by the Copyright Act. See U.S. Cert. Br. 15-16. Costco no longer contests the point. See Costco Br. 38 (“[I]t would seem exceedingly odd that copyright protection should turn on which party has furnished the physical stuff to which the copyrighted conception is affixed – with the protection lost if the author does not assume a role for which others are usually better suited.”) (quoting *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir. 1963) (Friendly, J.)).

C. The First-Sale Defense Cannot Apply to Authorized Copies, Made and Sold Abroad for Foreign Distribution, Without Depriving § 602(a)(1) of Significance

1. The conclusion that § 109(a) does not apply to foreign-made copies sold for distribution abroad is likewise necessary to avoid rendering § 602(a)(1) insignificant or superfluous. See *Bilski*, 130 S. Ct. at 3228 (avoiding construction that would “violate the canon against interpreting any statutory provision in a manner that would render another provision superfluous”); *New Process Steel, L.P. v. NLRB*, 130 S. Ct. 2635, 2640 (2010) (adopting construction as “the only way to harmonize and *give meaningful effect to* all of the provisions” in the statutory provision) (emphasis added); *Regions Hosp. v. Shalala*, 522 U.S. 448, 467 (1998) (Scalia, J., dissenting) (“[A] statute ought, upon the whole, to be so construed that, if it can be prevented, no clause, sentence, or word shall

be superfluous, void, or insignificant.”) (quoting *Washington Market Co. v. Hoffman*, 101 U.S. 112, 115-16 (1879)). That principle has particular force in this context, because § 109(a) and § 602(a)(1) were adopted as part of the same legislation, the Copyright Act of 1976. See *Bilski*, 130 S. Ct. at 3251 (Stevens, J., concurring in the judgment). As the United States has explained, “[i]f all copies made in foreign jurisdictions by or with the consent of the United States copyright owner are ‘lawfully made under this title’ within the meaning of Section 109(a), the category of copies whose importation could be blocked under Section 602(a)(1) would be extremely small.” U.S. Cert. Br. 14.

Section 602(a)(1) states that “[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . under section 106.” 17 U.S.C. § 602(a)(1). To make sense of this provision in the context of § 602 as a whole, it must be read to apply not only to unauthorized or piratical copies, but to authorized copies as well. See 2 *Goldstein on Copyright* § 7.5.2, at 7:130.1 (“Section 602(a)[(1)] encompasses both piratical and gray market goods, and provides that their unauthorized importation into the United States infringes section 106(3)’s exclusive right to distribute”). Indeed, the Court already reached this conclusion in *Quality King*. See 523 U.S. at 147.

The conclusion that § 602(a)(1) must apply to non-piratical copies made and sold abroad – notwithstanding the first-sale doctrine – is plainly correct. Sections 602(a)(2) and 602(b) provide remedies in the case of piratical goods that would entirely sub-

sume § 602(a)(1) if that provision were limited to unauthorized copies. Section 602(a)(2) provides that “[i]mportation into the United States . . . without the authority of the owner of copyright under this title, 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 . . . actionable under sections 501 and 506.” 17 U.S.C. § 602(a)(2). And § 602(b) prohibits importation of such copies, providing United States Customs and Border Protection authority to prevent importation of such piratical copies.

The Court in *Quality King* made clear that § 602(a)(1) applies to copies lawfully made under a foreign copyright, *see supra* Part I.B; it also noted, however, that, “even if § 602(a)[(1)] did apply only to piratical copies, it at least would provide the copyright holder with a private remedy.” 523 U.S. at 146. But § 602(a)(2) now provides that private remedy – a remedy that applies not only to importation but also to exportation – to complement the criminal and Customs-enforcement remedies provided in § 602(a)(2) and § 602(b). Section 602(a)(1) provides no additional remedy with respect to piratical copies; its sole purpose is with respect to copies lawfully made under some other law.

The Court also noted that, “because the protection afforded by § 109(a) is available only to the ‘owner’ of a lawfully made copy (or someone authorized by the owner), the first sale doctrine would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.” *Id.* at 146-47. But, as a leading commentator has noted, “[i]t may

be wondered whether such potential causes of action are more than theoretical” because, “[i]n a typical commercial transaction, . . . the shipper transfers “possession, custody, control *and title* to the products.”” 2 *Nimmer on Copyright* § 8.12[B][6][c], at 8-178.4(6) n.111.61 (citations omitted; emphasis added). If Congress intended § 602(a)(1) to apply only to copies imported by non-owners, it hardly would have used the broad phrase “acquired outside the United States.” See ABA Recommendation at 9 (“We share the view of the . . . court [in *John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 WL 3364037 (S.D.N.Y. Oct. 19, 2009)] that it would be troubling if th[e] category of works [subject to § 602(a)(1)] were limited to those held by bailees and similar possessors, in light of the statute’s broad language.”).

The understanding that § 602(a)(1) applies to legitimate copies is further reinforced by the fact that the other provisions of § 602 make clear that, when Congress intends to limit statutory coverage to piratical copies, it does so expressly. Congress designates unauthorized copies by referring to circumstances “where the making of the copies” “would have constituted an infringement of copyright if this title had been applicable.” 17 U.S.C. § 602(a)(2), (b). Had it intended to limit the coverage of § 602(a)(1) in that fashion, it could have done so.

2. The legislative history of § 602(a)(1) strongly reinforces the conclusion that the provision was intended to protect the right to domestic distribution granted in § 106(3) by prohibiting importation of legitimate copies without authorization from the owners of the copyright. From its inception, it was understood that “what was at issue” in the draft

provisions leading up to § 602(a)(1) was a copyright owner's ability "to grant a U.S. distributor an exclusive right to distribute copies of the work in the United States." 4 William F. Patry, *Patry on Copyright* § 13:42, at 13-89 (2010).

In legislative deliberations leading up to the adoption of the 1976 Copyright Act, the Copyright Office explained that the new provision would address foreign copies that, although lawfully made for distribution abroad, "if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States." Staff of H. Comm. on the Judiciary, 88th Cong., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* 203 (Comm. Print 1964). The Register of Copyrights clearly distinguished between the prohibition on importation of "piratical" copies in proposed § 602(b) – which would reach any "unauthorized edition" made abroad – from "importation for infringing distribution," *i.e.*, where "copies . . . were lawfully made but their distribution *in the United States* would violate the exclusive rights of the U.S. copyright owner." Staff of H. Comm. on the Judiciary, 89th Cong., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* 149-50 (Comm. Print 1965) (emphasis added). The Register stated specifically that the new provision would apply, for example, where "the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." *Id.* at 150.

The House Report likewise explains that "Section 602 . . . deals with two *separate* situations: importa-

tion of ‘piratical’ article[s] (that is, copies . . . made without any authorization of the copyright owner), and unauthorized importation of *copies . . . that were lawfully made.*” H.R. Rep. No. 94-1476, at 169 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5785 (emphases added).

3. Costco does not contest that § 602(a)(1) applies to legitimate copies in some circumstances, *see* Costco Br. 38-40, but it fails to acknowledge the importance of its concession. The fact that Congress barred importation of legitimate copies of a work protected by U.S. copyright establishes that Congress *intended* to permit the use of copyright to enforce the allocation of national markets among various rights holders. *See 4 Patry on Copyright* §§ 13:42, 13:44, at 13-88 to 13-89, 13-96.⁹ That decision is self-evidently within Congress’s power; furthermore, that policy choice (as discussed below) makes perfect sense in light of the constitutional purpose of copyright protection – to promote creative work by securing the reward of such work to its author. *See infra* Part III.A.

Costco argues that “the Act does not empower [a] copyright holder to divide markets.” Costco Br. 24. But the uncontested fact that § 602(a)(1) applies to legitimate copies means that the Copyright Act

⁹ The 1961 report of the Register of Copyrights initially recommended against enforcement of “agreements to divide international markets” under the Copyright Act. *Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law X-24* (July 1961). This history reinforces the conclusion that the choice to permit the use of copyright to protect domestic distribution rights against parallel imports was a deliberate one.

empowers copyright owners to do exactly that – as Congress intended.

D. The Ninth Circuit’s Judgment Is Consistent with Traditional Exhaustion Principles

As the Court made clear in *Quality King*, the scope of any first-sale defense is governed “not by judicial interpretation, but by an express statutory provision.” 523 U.S. at 142. Nevertheless, the conclusion that a copyright owner does not forfeit his exclusive domestic distribution right with respect to foreign-made copies made and sold for distribution abroad also is consistent with the history and policy underlying the first-sale doctrine.

Congress first adopted a statutory first-sale defense as part of the Copyright Act of 1909 to codify the holding of *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). The Court there held that the statutory right to “vend” did not entail the right to impose, under the copyright statutes, restrictions on the terms under which downstream purchasers would be permitted to resell copies they acquired free of any contractual restrictions. Central to the Court’s holding was its determination that the copyright owner had, by selling the copies at issue in the United States, “exercised the right to vend.” *Id.* at 351 (emphasis added). The case thus reflects the notion that, “once the copyright owner first sells a copy of the work, his right to control its further distribution is exhausted.” 2 *Nimmer on Copyright* § 8.12[B][1][a], at 8-157.

The justification for the first-sale doctrine is that a copyright owner can, in general, realize the full value of his intellectual property rights upon an initial authorized sale. *See Bobbs-Merrill*, 210 U.S. at 351

(“The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it.”); 2 *Goldstein on Copyright* §§ 7.6.1.1.b, 7.6.1.2.a, at 7:134, 7:141; *cf. United States v. Univis Lens Co.*, 316 U.S. 241, 251 (1942) (“The reward [the patentee] has demanded and received is for the article and the invention which it embodies and which his vendee is to practice upon it.”).¹⁰ To the

¹⁰ A U.S. patent owner does not exhaust its right to exclude others from the use of its invention by making and selling an article under a foreign patent. Costco twice cites *LG Electronics, Inc. v. Hitachi, Ltd.*, 655 F. Supp. 2d 1036 (N.D. Cal. 2009), for the proposition that authorized foreign sales necessarily satisfy exhaustion without acknowledging that the case is bad law: the Federal Circuit (whose law governs this question) has recently reconfirmed that a sale by a patent owner under the law of a foreign country does not exhaust the patent owner’s rights to prevent infringing use (including importation) of the article sold. *See Fujifilm Corp. v. Benun*, 605 F.3d 1366, 1371 (Fed. Cir. 2010) (*per curiam*). *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S. Ct. 2109 (2008), is in no way inconsistent: that case involved an authorized sale by a licensee under the U.S. patent, not a foreign sale governed by foreign patent law. *See id.* at 2114 (describing broad license under U.S. patent).

Furthermore, *amicus* Intel Corp. is wrong that there is any inconsistency between the current rule and traditional patent exhaustion doctrine. In fact, it long has been settled (as the defendant-appellee in *Bobbs-Merrill* squarely conceded) that the owner “both of foreign and domestic patents for a particular invention” may “sell goods under the patent of a foreign country and reserve to himself the right to sell under the United States letters patent.” Brief for Appellee at 36, *Bobbs-Merrill Co. v. Straus*, No. 176 (U.S. filed Jan. 18, 1908) (citing *Dickerson v. Tinling*, 84 F. 192 (8th Cir. 1897); *Dickerson v. Matheson*, 57 F. 524 (2d Cir. 1893)); *see also Curtiss Aeroplane & Motor Corp. v. United Aircraft Eng’g Corp.*, 266 F. 71, 79 (2d Cir. 1920) (“[I]f the aeroplanes which are alleged to infringe had been built in Canada under a limited license, or under a Canadian patent, and then brought into the United States, infringement would

extent that a copyright owner is able to realize the full value of the intellectual property on first sale, there is less justification, at least for purposes of securing to the copyright owner the reward for his work, for allowing a copyright holder to restrict the terms of subsequent sales of the copy at issue.

Here, by making copies of its copyrighted work in Switzerland, Omega exercised none of its rights under the Copyright Act and thus could not exhaust them. Furthermore, when a copy is sold subject to the restriction that it is not authorized for importation and distribution in the United States, the copyright owner has not bargained for or received compensation for the value of U.S. rights. See Richard A. Epstein, *Notice and Freedom of Contract in the Law of Servitudes*, 55 S. Cal. L. Rev. 1353, 1360 (1982).¹¹ To the contrary, where such exclusive rights are granted to someone else (or exercised by the copyright owner itself), “competition with lower priced imports would inevitably prevent the United States copyright owner from realizing the full value of the copies . . . that it sells.” 2 *Goldstein on Copyright* § 7.6.1.2.a, at 7:141; see also *Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245, 1254 (S.D. Fla. 2006) (“Under Section 602(a)[(1)], Swatch had the right to prevent these products from entering the United States and competing with the identical products authorized to be distributed here.”).

have been made out.”); see also Intel Br. 10 (acknowledging that “a patentee may impose otherwise lawful contractual limitations at the time of sale”).

¹¹ *Amici* eBay Inc. *et al.* ignore the distinction between being “paid” for “goods,” Br. 5, and being compensated for the value of intellectual property rights granted.

Furthermore, there is nothing inconsistent with long-standing copyright principles about using a U.S. copyright to enforce the division of international markets among distributors of a work. As long ago as 1879, the writer of the leading treatise – extensively relied on by the Court in *Bobbs-Merrill* – observed:

[A]n American author, who on certain conditions can secure a copyright for his work both in the United States and in England, may make a valid assignment of the English copyright to one person, and either himself retain or assign to another the American copyright. . . . [I]n such case there is no division of copyright. The copyright granted by one government is wholly distinct from that conferred by another. When protection is secured for the same work in different countries, there is a separate and independent copyright *for each country*.

Eaton S. Drone, *A Treatise on the Law of Property in Intellectual Productions in Great Britain and the United States* 336 (1879) (emphasis added).

E. The Ninth Circuit’s Conclusion That § 109(a) Applies to Copies Sold in the United States with the Copyright Owner’s Authorization Is Compatible with the Statutory Text

Costco argues throughout its brief that limiting the first-sale defense strictly to copies made in the United States leads to results in hypothetical cases that Congress would not have intended. Specifically, Costco argues that under the decision below U.S. copyright holders could avoid the first-sale doctrine

altogether simply by manufacturing copies abroad before selling them in the United States.

These arguments all depend on the claim that the Ninth Circuit held that the phrase “lawfully made under this title” is “*synonymous with* ‘lawfully made in the United States.’” Costco Br. 15 (emphasis added); *see id.* at 11. That is not what the Ninth Circuit held. As noted above, the lower court’s holding addressed exclusively copies made by a U.S. copyright owner abroad and sold without authorization to import or distribute the copies in the United States. *See supra* note 4. That holding does not resolve the question whether copies manufactured abroad might, in other circumstances, be “lawfully made under this title” and therefore subject to § 109(a).

The Ninth Circuit did not hold that a copyright owner who has reproduced or authorized reproduction of a copy of a work in a foreign jurisdiction and *also* has authorized the U.S. sale of that copy (which Omega never did here) could later defeat a first-sale defense by arguing that the copy was not “lawfully made under this title.” To the contrary, Ninth Circuit law makes clear that, whenever a copyright owner has exercised its right to reproduce *or to distribute* copies in the United States, § 109(a) applies. Referring to its prior decisions in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996), the Ninth Circuit noted that “parties can raise § 109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred.” Pet. App. 16a.

That construction of § 109(a) is consistent with the statutory text and with the explication of that statutory text given above. Section 109(a) applies to

“a particular copy or phonorecord lawfully *made* under this title.” 17 U.S.C. § 109(a) (emphasis added). The term “made” does not correspond to any of the specific rights enumerated under § 106; there is no exclusive right to “make” a copy or phonorecord. There accordingly is no reason to understand “lawfully made under this title” as being limited to “lawfully *reproduced* under this title.” *See id.* § 106(1). Rather, a copy can be “lawfully made under this title” for purposes of the first-sale doctrine because it carries with it – by virtue of the rights granted to the manufacturer or distributor by the copyright owner, for example – a license under the Copyright Act to be distributed in the United States.¹² Such a license can be granted irrespective of where the copies are reproduced. And such a license *to distribute* necessarily implicates the rights granted under the Act – again, wherever the manufacturing process takes place. *See id.* § 106(3) (giving a copyright owner the right to authorize distribution). Accordingly, that reading of § 109(a) also is consistent with the rationale of *Bobbs-Merrill*: the owner of the exclusive U.S. distribution right has “exercised” that right with respect to the particular copy. 210 U.S. at 351.¹³

¹² This reading makes particular sense because the first-sale doctrine provides a qualification on the right to distribute copies, not on the right to reproduce copies. *See 2 Nimmer on Copyright* § 8.12[A], at 8-154.

¹³ An author could grant a single manufacturer worldwide distribution rights under the copyright laws of various countries. In that case, the copies could well be made under both U.S. copyright law (because the copies are lawfully made for distribution in the United States) and the copyright law of other countries as well. Contrary to Costco’s contention (at 35), neither Omega nor the court below ever has suggested that the “concepts of being lawfully made ‘under the law of some

Costco’s claim (at 53) that the Ninth Circuit’s understanding that the first-sale doctrine applies to copies that are lawfully sold in the United States is “atextual” reflects Costco’s failure to distinguish between the tangible copy and the intangible intellectual property rights that are governed by the Copyright Act. *See* 17 U.S.C. § 202 (“Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied.”). There is no linguistic obstacle to the conclusion that a copy can be “lawfully made under this title” for purposes of the first-sale doctrine because that copy carries with it authorization for sale in the United States by virtue of the copyright owner’s affirmative exercise of exclusive rights.¹⁴

At the same time, when a licensee makes a copy overseas, the author also may *withhold* authorization to distribute the copy in the United States – as this Court noted in *Quality King*. *See supra* pp. 19-20. Such a copy does not carry with it the legal authority to distribute the copy in the United States and therefore is not “lawfully made under this title.” Likewise,

other country’ and being ‘lawfully made under this title’ are . . . mutually exclusive.”

¹⁴ *Amici* Entertainment Merchants Association *et al.* argue (at 21-23) that the Ninth Circuit declined to recognize the distinction between a copyrighted object and the exclusive rights under the copyright. In fact, it is *amici* that claim that the law permits no distinction between the physical copy of a copyrighted work and the copyright owner’s intellectual property, by failing to recognize the undisputed fact that a legitimate copy may embody a copyrighted work yet not be authorized for lawful distribution in the United States. That is true even though the copy may be physically indistinguishable from a copy that has been authorized for domestic distribution.

when a copyright owner reproduces a copy in Switzerland, it has not (yet) exercised any rights under the Copyright Act; if it then sells the copy without authorization to import or distribute it in the United States, it still has not exercised any rights, and the copy is not, in any sense, “lawfully made under this title.”

In any event, Costco’s criticisms overlook the fact that its own interpretation of the statute produces precisely the same (supposed) textual difficulty. As set forth in more detail below, *see infra* pp. 38-39, Costco acknowledges that a copyright owner could (by transferring foreign copyrights to a third party) create a situation in which copies of a work are lawfully reproduced under foreign law but not under the Copyright Act. The U.S. copyright owner could, after the copies were reproduced, authorize domestic distribution of those foreign-made copies. We submit that such copies – once authorization to distribute in the United States is granted – are “lawfully made under this title.” Costco by contrast would be compelled to take the position that the first-sale defense never would apply to such copies even if distribution in the United States is later authorized by the U.S. copyright owner.

II. COSTCO’S PROPOSED CONSTRUCTION OF THE STATUTE – WHICH WOULD BAR UNAUTHORIZED IMPORTATION ONLY OF COPIES MADE OR AUTHORIZED BY UNRELATED FOREIGN COPYRIGHT HOLDERS – CONFLICTS WITH THE COPYRIGHT ACT

Costco now argues that legitimate copies made abroad are subject to § 602(a)(1) – notwithstanding § 109(a) – if they are “made and sold abroad *by un-*

related foreign copyright holders” and imported into the United States without the authority of the U.S. copyright owner. Costco Br. 39.

This construction represents a sharp departure from the construction of the statute that Costco advocated in its petition. There, Costco squarely argued that a copy made abroad by a *licensee* under a foreign copyright – in a case where the license was granted by the U.S. copyright owner – would not be “lawfully made under this title” for the correct reason that such a license would not involve the exercise by the U.S. copyright holder of any rights granted under the Copyright Act. *See* Pet. 14. But that construction of the statute, as discussed above, creates an untenable distinction between copies that a copyright owner makes itself and copies that the copyright owner authorizes another to make. *See supra* pp. 23-24. Presumably for that reason – and despite the fact that, as Costco previously acknowledged, the licensee example is central to the Court’s analysis in *Quality King* – Costco now abandons that distinction.

Instead, Costco now insists that § 602(a)(1) applies only in the case where there are separate and unrelated entities holding any U.S. copyright, on the one hand, and any relevant foreign copyright, on the other. As noted above, under U.S. and foreign law, the initial owner of a copyright is the author of the work.¹⁵ Unrelated entities generally would hold copyrights on the same work only in cases where ownership of one or more of the relevant copyright or copyrights were transferred. Under Costco’s current reading, then, a transferee who obtained foreign

¹⁵ *See* 17 U.S.C. § 201(a); *see also, e.g.*, Berne Convention art. 2(6).

rights from a U.S. copyright owner could make and sell copies abroad that would be subject to infringing importation under § 602(a)(1) but not the first-sale defense of § 109(a).¹⁶

That construction of the statute contradicts the structure of the Copyright Act; it makes substantive rights turn on meaningless formalities; it depends on the assertion, which is directly contrary to *Quality King*, that a copy lawfully reproduced in the United States is nevertheless not “lawfully made under this title”; and it eliminates any policy basis for Costco’s proposed reading of § 109(a).

First, just as the Copyright Act recognizes the essential equivalence, as a matter of the exclusive rights a copyright owner enjoys, between *doing* and *authorizing*, the Copyright Act expressly establishes the equivalence of granting an exclusive license and transferring ownership of exclusive rights. Section 101 of the Act defines a “transfer of copyright ownership” to include “an assignment, . . . exclusive license, or any other conveyance . . . of a copyright or of any of the exclusive rights comprised in a copyright.” 17 U.S.C. § 101; *see also id.* § 203(a) (providing for termination (under certain conditions) of “the exclusive or nonexclusive grant of a *transfer or license of copyright or of any right under a copyright*”) (emphasis added). Moreover, the Act makes clear that a copyright owner is free to divide up its exclusive rights in whatever manner it chooses. *See id.* § 201(d)(2) (“Any of the exclusive rights comprised in a copyright, including any subdivision of any of the

¹⁶ Alternatively, the copyright owner could transfer the U.S. copyright to a separate entity and continue to make and sell copies abroad that could not be imported without authorization of the U.S. rights holder.

rights specified by section 106, may be transferred . . . and owned separately.”); see *Faulkner v. National Geographic Enters. Inc.*, 409 F.3d 26, 39 (2d Cir. 2005) (citing *Tasini v. New York Times Co.*, 972 F. Supp. 804, 815-16 (S.D.N.Y. 1997) (Sotomayor, J.), *rev’d on other grounds*, 206 F.3d 161 (2d Cir. 1999), *aff’d*, 533 U.S. 483 (2001)).¹⁷ It conflicts with the basic structure of the Act to draw any distinction between the rights of a copyright owner depending on whether it has granted an exclusive license (perhaps for a limited time) or transferred rights by assignment, yet that appears to be Costco’s position.¹⁸

Second, like the position Costco staked out in its petition (but has now abandoned), Costco’s new position would elevate form over substance by making substantive rights turn on meaningless distinctions of title. Costco concedes that, if a U.S. copyright owner transfers ownership of the foreign copyright to a work, it could sue the seller of a copy of the work

¹⁷ Does anyone really believe that one single allocation of rights to produce and use works best for movies, records, books, architectural plans, photographs, software, and so on? The domain of copyright is vast. The most anyone can hope for in a law is to create a framework – that is, to endow authors with a set of property rights – and let people work out the details for themselves. This is of course the fundamental point in Ronald Coase’s essay *The Problem of Social Cost*, nicely amplified by Calabresi and Melamed in *Liability Rules and Property Rules*.

Frank H. Easterbrook, *Contract and Copyright*, 42 *Hous. L. Rev.* 953, 961 (2005).

¹⁸ See generally Alice Haemmerli, *Why Doctrine Matters: Patent and Copyright Licensing and the Meaning of Ownership in Federal Context*, 30 *Colum. J.L. & Arts* 1, 7-20 (2006).

published overseas and imported without authorization. *See* Costco Br. 39. But it claims that, if the same copyright owner instead maintains ownership of the foreign rights (or transfers ownership to an insufficiently “unrelated” entity), it loses the protection of § 602(a)(1). There is no reason of law or policy for drawing such a distinction in the face of the Copyright Act’s broad definition of copyright ownership and its express recognition of the power of copyright owners to subdivide their exclusive rights.

Third, Costco’s reading depends on the claim that “works made by the holder of British distribution rights would [not] be subject to the first-sale doctrine if those works were printed in the United States.” Costco Br. 37. But, because a U.S. copyright owner has the exclusive right to reproduce copies of a work in the United States, the owner of a foreign copyright could *not* authorize reproduction of copies of a work subject to U.S. copyright in the United States, even if for distribution overseas. *See* 17 U.S.C. § 106(1). If the manufacturer did have a right to reproduce copies in the United States, they unquestionably would be “lawfully made under this title,” as *Quality King* makes clear. *See* 523 U.S. at 143.

Fourth, because Costco ultimately is forced to admit that Congress has authorized U.S. copyright owners to use the exclusive rights granted under § 106(3) and § 602(a)(1) to prevent importation of genuine copies, all of the supposed policy arguments that Costco and its *amici* muster are a sham. Even under their reading of the statute, a U.S. copyright owner, as long as it structures the transactions correctly, always will be able to ensure that copies manufactured abroad cannot be lawfully imported without authorization. Costco’s rule thus could

increase transaction costs – by requiring authors and other copyright owners to create increasingly complicated contractual arrangements to preserve the enforcement rights granted under § 602(a)(1) – and would create traps for the unwary or unsophisticated author or publisher. It also would create enormous uncertainty as a result of Costco’s atextual improvisation. But it would not alter the fact that § 602(a)(1) ultimately is available to protect exclusive domestic distribution rights against unauthorized imports.¹⁹

III. SOUND POLICY CONSIDERATIONS SUPPORT THE CONGRESSIONAL JUDGMENT TO PROTECT DOMESTIC DISTRIBUTORS FROM UNAUTHORIZED IMPORTS

A. The Market Segmentation Authorized by Congress Benefits Consumers and Meaningfully Benefits Copyright Owners

There are many legitimate reasons that the owner of a copyright may wish to prevent copies made for sale in one country from entering the United States to compete with copies made for domestic distribution. Companies routinely sell their products in different markets at different prices to reflect varying demand conditions and product distribution strategies. *See generally* William J. Baumol & Daniel G. Swanson, *The New Economy and Ubiquitous Compet-*

¹⁹ “Should it make a difference whether the copyrighted goods were manufactured by the U.S. copyright holder itself, rather than by a licensee of the copyright holder? . . . [S]uch a result would be unfortunate. For it would engender further uncertainty into this difficult area by having importation rights turn on the precise legal relationships among manufacturers, middlemen and distributors.” 2 *Nimmer on Copyright* § 8.12[B][6][b], at 8-178.4(2); *see* ABA Recommendation at 6.

itive Price Discrimination: Identifying Defensible Criteria of Market Power, 70 Antitrust L.J. 661, 665 (2003). Such market segmentation brings important benefits to both consumers and producers, particularly with respect to goods that have a significant intellectual property component.²⁰ For example, international market segmentation preserves incentives for location-specific investments in product promotion and distribution by preventing free-riding. *See Business Elecs. Corp. v. Sharp Elecs. Corp.*, 485 U.S. 717, 731 (1988) (explaining that price-cutting that depends on “free riding” on services provided by other dealers may not benefit consumers).²¹

Furthermore, market segmentation allows for more efficient exploitation of intellectual property rights by allowing rights holders to authorize distribution in lower-priced markets without undercutting the value of distribution rights in markets with less elastic demand.²² Such price discrimination enhances

²⁰ *See generally* Robert D. Anderson *et al.*, *Intellectual Property Rights and International Market Segmentation in the North American Free Trade Area*, in *Competition Policy and Intellectual Property Rights in the Knowledge-Based Economy* 397 (Robert D. Anderson & Nancy T. Gallini eds., 2007).

²¹ “If a distributor cannot realize the full benefits of its investment (because of parallel imports . . .), it has an incentive to reduce its investment, and the value of the manufacturer’s product is not enhanced.” *Id.* at 402. “Without market segmentation, . . . the domestic consumer would not receive the same level of product quality and variety, service, and information that would prevail under market segmentation.” *Id.*

²² *See John Wiley & Sons, Inc. v. Kirtsaeng*, No. 08 Civ. 7834 (DCP), 2009 WL 3364037, at *8 (S.D.N.Y. Oct. 19, 2009); Shanker A. Singham, *Competition Policy and Stimulation of Innovation: TRIPS and the Interface Between Competition and Patent Protection in the Pharmaceutical Industry*, 26 Brooklyn J. Int’l L. 363, 407 (2000).

the value of a creator's U.S. copyright (and enhances the welfare of consumers in lower-priced markets).

The purpose of copyright (and patent) law is to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.” U.S. Const. art. I, § 8, cl. 8. Congress made the quite reasonable judgment that protecting the value of U.S. distribution rights would help to promote creative efforts – benefiting all consumers. That is a judgment entirely within Congress's power to make. See *Eldred*, 537 U.S. at 207 n.15; see also *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984) (noting that courts are deferential to Congress's judgment regarding copyright).²³

B. After Nearly Three Decades, There Is No Evidence That the Rule Reaffirmed by the Ninth Circuit Has Caused Any Adverse Consequences

Costco (at 46-52) and its *amici* predict adverse consequences from the application of § 602(a)(1) and § 109(a) according to their terms. In particular, they warn that the Ninth Circuit's decision invites copyright owners to place restrictions on resale of copies despite having authorized distribution of those copies in the United States; they also argue that, to take advantage of this expanded distribution right, copyright holders will shift manufacture overseas. Their

²³ For purposes of this Court's analysis, it does not matter whether the original artwork engraved on Omega's watches has a great “creative component” or a more “limited” one. *Quality King*, 523 U.S. at 140. “[O]ur interpretation of the relevant statutory provisions would apply equally to a case involving more familiar copyrighted materials such as sound recordings or books.” *Id.*

claims are without any empirical basis and contrary to common sense.²⁴

Virtually all of the policy arguments are based on the assertion that, under the decision below, the first-sale doctrine would not apply to copies that were imported and distributed *with* the authorization of the copyright owner. But that is not the case: the Ninth Circuit reaffirmed that a copy that is sold domestically with the copyright owner's authorization is subject to § 109(a), *see* Pet. App. 16a, and that conclusion is fully consistent with the Ninth Circuit's reading of the statutory text. *See supra* pp. 33-36.

More broadly, the arguments of Costco and its *amici* ignore the fact that the rule applied by the Ninth Circuit below has been prevailing law for more than a quarter century – that is, since the district court's decision in *Scorpio*, which was followed nearly unanimously both before and after this Court decided *Quality King*. *See supra* note 8. If the Ninth Circuit's interpretation of the Copyright Act invited bad consequences, they would have arrived long ago. But the supposed problem of assertion of exclusive distribution rights against downstream purchasers of copies that were lawfully sold in the United States simply does not exist. We are aware of no reported case (at least since *Bobbs-Merrill*) in which a copyright owner sought to enforce restrictions on resale of a copy sold pursuant to the copyright owner's acknowledged authorization, and Costco cites none. More revealing: *amici* represent thousands of businesses, owning hundreds of thousands of retail loca-

²⁴ Moreover, as noted above, *see supra* pp. 41-42, the same supposed "Troubling Implications," Costco Br. 46, arise under Costco's interpretation of the Copyright Act.

tions, and include some of the most powerful corporate interests in America. If any copyright owner had asserted the right to control resale of a copy that was sold in the United States pursuant to the copyright owner's authorization, *amici* would be aware of it. *Amici* offer neither any evidence that such a thing has occurred in the past nor any plausible scenario in which it might occur in the future. *See also* U.S. Cert. Br. 19 (noting that Costco “cites no case in which a copyright owner has sought to extract royalties at multiple stages of an otherwise lawful distribution chain within the United States”).

The claim that the Ninth Circuit's decision will provide an incentive to shift manufacturing overseas likewise is unfounded. As noted, the rule reaffirmed by the Ninth Circuit has been settled law for more than 25 years. *See id.* (“[T]he phrase ‘lawfully made under this title’ in Section 109(a) has been understood for a quarter-century to exclude foreign-made copies.”). Yet petitioners cannot cite a single example of manufacturing operations that have been moved overseas to take advantage of the protection provided under § 602(a)(1).²⁵

Costco also warns that libraries may be unable to lend foreign-language books; that travelers that take advantage of the “suitcase exemption” in § 602(a)(3) may commit copyright infringement by making a gift of a foreign edition; and that neighborhood garage sales will become things of the past. Costco Br. 51.

²⁵ Indeed, Costco argues (at 50) that merchants may shun copyrighted goods manufactured abroad out of concern that such goods may have been imported without the copyright owner's authorization. One could just as plausibly argue that such concerns will lead manufacturers of copyrighted goods to move their operations *into* the United States.

Some of these hypotheticals depend on extending or distorting the Ninth Circuit's holding, but all of them are just that – hypothetical. The law has stood much where the Ninth Circuit left it for nearly 30 years. None of these phenomena exists. If they did, Congress could (if it wished) address them through legislation.

It is perfectly legitimate for Costco to address to Congress its disagreement with the congressional decision to authorize U.S. copyright owners to block unauthorized imports. It is not legitimate to ask, as it does in this case, for judicial repeal of § 602(a)(1).

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted,

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