

No. 11-697

In the Supreme Court of the United States

SUPAP KIRTSAENG
D/B/A BLUECHRISTINE99,

Petitioner,

v.

JOHN WILEY & SONS, INC.,

Respondent.

**On Writ Of Certiorari
To The United States Court Of Appeals
For The Second Circuit**

**BRIEF OF *AMICUS CURIAE* COSTCO WHOLESALE
CORPORATION IN SUPPORT OF PETITIONER**

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**BRIEF OF *AMICUS CURIAE* COSTCO
WHOLESALE CORPORATION IN
SUPPORT OF PETITIONER**

INTEREST OF THE *AMICUS CURIAE*¹

Costco Wholesale Corporation (“Costco”) operates a chain of more than 550 membership-warehouse clubs in the United States and abroad. With annual sales of more than \$70 billion, Costco is the third-largest retailer and the largest membership-warehouse club in the United States. More than 50 million cardholders shop at its warehouse locations.

Costco is known for selling genuine brand-name merchandise to its members at prices lower than its competitors. The first-sale doctrine plays an important role in Costco’s ability to do so. In the course of its business, Costco often sells copyrighted products that, although genuine, were not purchased directly from the copyright owner.

Costco has for years been sued on claims that its sales violate Section 602 of the Copyright Act. See, e.g., *Diseños Artísticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377 (9th Cir. 1996). It filed an *amicus* brief in support of the prevailing party in *Quality King Distribs., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135 (1998), and it was the petitioner when the question presented here was last before

¹ The parties’ letters of consent to the filing of this brief are lodged with the Clerk. No counsel or party wrote this brief, in whole or in part, or made a monetary contribution to fund the preparation or submission of this brief. No person other than the *amicus curiae* or its counsel made a monetary contribution to its preparation or submission.

this Court. *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010).

SUMMARY OF ARGUMENT

The first-sale doctrine, codified at 17 U.S.C. § 109(a), precludes distribution and importation liability for “the owner of a particular copy * * * lawfully made under this title.” The scope of the doctrine thus turns on the interpretation of those 11 words.

Petitioner correctly argues that the first-sale doctrine gives the owner of any copy of a work made consistent with the Copyright Act the right to dispose of that particular copy without facing liability for unauthorized importation or distribution. Under that view, the doctrine would apply where, as here, a particular copy was made and sold abroad by a U.S. copyright owner. But it would not apply where a copy either was made in a manner *not* recognized by the Act, such as under a foreign compulsory license, or was never sold, as in the case of bailments, rentals, and licenses. The court below conceded that petitioner’s interpretation is “consistent with a textual reading of § 109(a).” Pet. App. 24a. So did the United States when the issue was last before this Court. See Brief for the United States as *Amicus Curiae* 17 (No. 08-1423).

Petitioner’s interpretation is not merely grounded in the text of the Act, however. It also best reflects the historical sweep of the first-sale doctrine and the concerns of those who drafted Section 109(a). See *L.A. Westermann Co. v. Dispatch Printing Co.*, 249 U.S. 100, 109 (1919) (interpreting Copyright Act of 1909 by reference to “the reports of the committees on whose recommendation the act was passed”). Before 1976, the first-sale doctrine applied to “any copy of a copyrighted work the possession of which has

been lawfully obtained.” Pub. L. No. 60-349, § 41, 35 Stat. 1075, 1084 (1909). As respondent concedes, under that regime the first-sale doctrine undoubtedly would have applied to “the textbooks at issue here.” Br. in Opp. 23.

When the doctrine was rephrased in 1976, its scope was refined—but not in the manner that respondent contends. On the one hand, the doctrine was narrowed so that it would apply solely to “owners.” Although the significance of that change is often now overlooked, it reflected a central concern of the Act’s drafters. On the other hand, the doctrine was also expanded so that it would apply not only to copies made with the authority of a copyright owner, but *also* to copies made consistent with other provisions of Title 17—including copies “lawfully made under” the compulsory license provision in 17 U.S.C. § 115.²

Lacking any historical support for its interpretation of Section 109(a), respondent argues that the first-sale doctrine must be abrogated for copies made abroad in order to “preserve[] the congressional purpose in enacting an import limitation” codified at 17 U.S.C. § 602(a).³ Br. in Opp. 13. That importation

² Section 115 provides that, once a copyright owner records a composition and distributes it to the public, others are also entitled to record and distribute copies of that composition, subject to the payment of statutory royalties and other minimal requirements.

³ In October 2008, Congress amended Section 602. See Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 105(b), 122 Stat. 4256, 4259. The importation restrictions, formerly codified at Section 602(a), were renumbered as Section 602(a)(1). All citations

limitation, respondent claims, was “designed to permit copyright holders to treat international and domestic markets differently.” Br. in Opp. 13. Those arguments are wrong.

As this Court explained in *Quality King*, even if the first-sale doctrine applies (as here) to copies made and sold abroad by the U.S. copyright owner, Section 602(a) still “retain[s] significant independent meaning.” 523 U.S. at 148-49. Among other things, that provision bars the importation of piratical copies, copies held by nonowners, copies made in countries without copyright law, and copies authorized solely by foreign law. *Id.* at 146-47. Respondent concedes that petitioner’s interpretation does not render Section 602(a) superfluous, but protests that petitioner’s reading would render it inapplicable to the “vast majority of cases” involving copies made abroad today. Br. in Opp. 25. But that claim misses the mark. The frequency of Section 602(a)’s applicability *today* is not what is important. What matters, is that *at the time the section was drafted and enacted* there was considerable concern in Congress about copies made by those without any authority recognized by the Copyright Act, as well as about copies in the hands of nonowners, such as licensees and bootleggers. Those concerns, which animated the drafting of both Section 109(a) and Section 602(a), support petitioner’s argument about how the two sections work together.

Equally flawed is respondent’s claim that Section 602(a) was intended to provide copyright protec-

[Footnote continued from previous page]

in this brief to “Section 602(a)” are to the prior version, now Section 602(a)(1).

tion to private, contractual agreements to divide markets. The matter was discussed, and pressed by industry representatives, but tellingly *no consensus was ever reached* on whether such a right should be granted or (if so) how it would interact with the first-sale doctrine. Respondent's assertions to the contrary distort the legislative record. In any case, respondent entirely fails to answer the central question raised by its position: If Congress truly intended to provide copyright owners a statutory power to divide international markets, why would it have made that power depend on making the copies abroad? Respondent has no answer, and no sensible answer exists. That may explain why, contrary to respondent's suggestion, 20 years of legislative history is silent on the matter.

The history of related sections of the Copyright Act of 1976 also supports petitioner's argument. The manufacturing provision formerly codified at 17 U.S.C. § 601, for example, explicitly was enacted to give greater copyright protection to copies made in the United States than to those made abroad. It was ultimately repealed so as to make the level of copyright protection not turn on the place of a copy's manufacture. Respondent's argument that copies *made abroad* should be given greater protection than those made at home therefore manages to be dissonant with the rationales for both enacting *and* repealing Section 601.

Petitioner's argument is also consistent with congressional action since 1976. When Congress did make changes to the first-sale doctrine, it took pains to ensure they were "narrowly drafted." H.R. REP. NO. 101-735, 101st Cong., 2d Sess. 4 (1990) ("1990 House Report"). For example, Congress chose to limit an owner's right to rent sound recordings and

computer software, but not audiovisual works like movies. That precision is simply inconsistent with the notion that Congress, before these long-debated amendments, had *already* excluded *all* of these works from the first-sale doctrine so long as they were copied abroad. Congress provided further confirmation in 1990, when it again amended the first-sale doctrine and again used the phrase “lawfully made under this title”—this time, to reach a copy of a U.S.-copyrighted video game that *was made and sold in Japan*, precisely the kind of copy respondent now incorrectly asserts is not subject to the first-sale doctrine at all.

I. THE FIRST-SALE DOCTRINE HISTORICALLY APPLIES WITHOUT REGARD TO PLACE OF MANUFACTURE

“The exhaustion of any rights by the first authorized sale is a basic tenet of our intellectual property law.” H.R. REP. NO. 98-781, 98th Cong., 2d Sess. 23 (1984). See also H.R. REP. NO. 98-987, 98th Cong., 2d Sess. 2 (1984) (“1984 House Report”) (“The first sale doctrine has its roots in the English common law rule against restraints on alienation of property.”).

This Court first applied the exhaustion principle to copyright law in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908), decided under the Copyright Act of 1891. There, as here, a publisher attempted to prevent the resale of genuine copies, lawfully obtained in the stream of commerce, for prices less than the manufacturer preferred. *Id.* at 341-43. The Court rejected the manufacturer’s claim that the resale violated the exclusive right to “vend” under Section 1(a) of the 1891 Copyright Act, explaining that the copyright owner had already “s[old] copies of the book in quantities and at a price satisfactory to it” when it

made its first sale into the stream of commerce. 210 U.S. at 343, 351. As the Court explained, “the copyright statutes while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose * * * a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract.” *Id.* at 350. Thus, “[t]he purchaser of a book, once sold by authority of the owner of the copyright, may sell it again.” *Ibid.*

The purpose of such a rule is clear. The law “accords the copyright owner the ‘right to control the *first* public distribution’ of his work, echo[ing] the common law’s concern that the author or copyright owner retain control throughout th[e] critical stage” before a good goes to market. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 555 (1985) (emphasis added) (citation omitted). Once a copyright owner has been rewarded for the sale of a particular copy, however, “the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation.” 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.12[A] (2008) (“NIMMER”). The first-sale doctrine embodies and effectuates the desired balance between those policy objectives. Indeed, “[t]he whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution.” *Quality King*, 523 U.S. at 152.

This “common law policy against restraints on trade and alienation is not limited by the place a chattel is manufactured.” *Pearson Educ., Inc. v. Liu*, 656 F. Supp. 2d 407, 413 (S.D.N.Y. 2009), permission to appeal denied, No. 10-894-mv (2d Cir. Nov. 18,

2011), petition for cert. pending, No. 10-708. “[A] prohibition against selling books manufactured in China is just as much a restraint on trade and alienation as a prohibition against selling books manufactured in Chicago.” *Ibid.* See also John A. Rothchild, *Exhausting Extraterritoriality*, 51 SANTA CLARA L. REV. 1187, 1238-39 (2011) (explaining why “interpreting the intellectual property laws so that exhaustion results from the sale of an article abroad does not amount to an extraterritorial application of these laws”).

“The early Copyright Acts reflect this principle.” *Liu*, 656 F. Supp. 2d at 413. Indeed, the first-sale doctrine apparently takes its name from the legislative history of the 1909 Copyright Act, which was enacted in the wake of *Bobbs-Merrill*. In codifying what had until then been only common law, legislators emphasized that “it would be most unwise to permit the copyright proprietor to exercise *any* control whatever over the article which is the subject of copyright after said proprietor has made the first sale.” H.R. REP. NO. 2222, 60th Cong., 2d Sess. 19 (1909) (“1909 House Report”) (emphasis added).

The 1909 Act broadly provided that “nothing in this Act shall be deemed to forbid, prevent, or restrict the transfer of any copy of a copyrighted work the possession of which has been lawfully obtained.” Pub. L. No. 60-349, § 41, 35 Stat. 1075, 1084 (1909). The statute on its face in no way limited the first-sale doctrine to goods made in the United States; nor would such a limit be consistent with Congress’s view that it would be “unwise” to perpetuate the “proprietor[’s]” control beyond the occurrence of the first sale. See *Quality King*, 523 U.S. at 152 (“There is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to

limit its broad scope.”). Indeed, the codification was “not intended to change in any way existing law” regarding the broad scope of the first-sale doctrine. 1909 House Report 19.

That copyright holders would retain significantly greater control over works made abroad than those made at home is particularly dubious given that early U.S. copyright law did not protect the works of foreigners or even the works of U.S. authors if their books were printed abroad. See *infra* Point II.C (discussing language and history of manufacturing provision); WILLIAM F. PATRY, PATRY ON COPYRIGHT §§ 23:2, 23:72 (2012) (“PATRY”). See also *Golan v. Holder*, 132 S. Ct. 873, 879 (2012) (explaining that, “[u]ntil 1891, foreign works were categorically excluded from Copyright Act protection,” and that, “[t]hroughout most of the 20th century, the only eligible foreign authors were those whose countries granted reciprocal rights to U.S. authors and whose works were printed in the United States”). Indeed, copyright law was written expressly “to favor domestic publishing interests that escaped paying royalties to foreign authors,” a regime that “made the United States ‘the Barbary coast of literature’ and its people ‘the buccaneers of books.’” *Id.* at 879 n.2 (quoting S. REP. NO. 622, 50th Cong., 1st Sess. 2 (1888)). In light of that history, respondent’s position that copies made abroad would have enjoyed significantly *greater* copyright protection than those made at home is inconceivable.

II. THE HISTORY OF THE COPYRIGHT ACT OF 1976 CONFIRMS THAT CONGRESS DID NOT NARROW THE FIRST-SALE DOCTRINE TO EXCLUDE ALL COPIES LAWFULLY MADE ABROAD

Although the Copyright Act of 1909 was amended in relatively minor ways during the first half of the twentieth century, by the early 1950s “it became apparent that an intensive reexamination . . . was long overdue.” PATRY § 1:72. That reexamination began in 1955 with 34 studies of the copyright laws, which were synthesized into a 1961 report by the Copyright Office,⁴ which in turn was used as the basis for study and discussions by a panel of 29 copyright experts appointed by the Librarian of Congress.⁵ Those discussions by the panel of experts resulted in a “Preliminary Draft,”⁶ further debate,⁷ a “Revised Bill,”⁸ and yet more debate,⁹ before two

⁴ *Copyright Law Revision Pt. 1: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (Comm. Print 1961) (“CLR-1”).

⁵ *Copyright Law Revision Pt. 2: Discussion and Comments on Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (Comm. Print 1963) (“CLR-2”).

⁶ *Copyright Law Revision Pt. 3: Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments* (Comm. Print 1964) (“CLR-3”).

⁷ *Copyright Law Revision Pt. 4: Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law* (Comm. Print 1964) (“CLR-4”).

⁸ *Copyright Law Revision Pt. 5: 1964 Revision Bill with Discussions and Comments* (Comm. Print 1965) (“CLR-5”).

⁹ *Copyright Law Revision Pt. 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law* (Comm. Print 1965) (“CLR-6”).

identical revision bills were presented to Congress on May 13, 1965.¹⁰ Ten years and considerably more debate later, the Copyright Act became law in 1976. Pub. L. No. 94-553, 90 Stat. 2541 (1976). See *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 743 (1989) (“The Act, which almost completely revised existing copyright law, was the product of two decades of negotiation by representatives of creators and copyright-using industries, supervised by the Copyright Office and, to a lesser extent, by Congress.”).

The comprehensiveness of the revision process provides important context for the changes made by the 1976 Act. See *Reid*, 490 U.S. at 747 (“the legislative history of the Act is significant”). As explained below, certain matters, like the scope of the first-sale doctrine and the meaning of the phrase “lawfully made under this title,” were clear and engendered little debate. Others, like the purpose and scope of the importation restrictions, were contentious and failed to result in consensus. Tellingly, however, there is *no support* in the voluminous 20-year record for the view that copyright owners were granted a statutory power to enforce private, contractual agreements to divide international markets, but *only* for copies made abroad.

A. The History Of Section 109

In its 1961 report, the Copyright Office stated, unambiguously, that its review of the copyright laws began from the proposition that it “is well settled that * * * the right to vend pertains *only* to the initial sale of a copy; the purchaser of the copy is then free to resell or otherwise dispose of it.” CLR-1 at 21 (emphasis added). “This right,” the Copyright Office

¹⁰ See S. 1006, H.R. 4347, 89th Cong., 1st Sess. (1965).

explained, “is the historic basis of copyright and pertains to all categories of copyrighted works.” *Id.* at 22.

That “historic basis” was reflected in Section 5(b) of the Preliminary Draft, which provided, in pertinent part, that a copyright owner’s exclusive right to distribute “shall end with respect to a particular copy or sound recording as soon as its first sale or other transfer of ownership has taken place.” CLR-3 at 4. Like the 1909 codification, the proposal made no mention of place of manufacture. As Abe Goldman, General Counsel of the Copyright Office, explained, the provision simply “intended to make clear what * * * is true under the present law”—namely, “that the right [to distribute] * * * is exhausted with the first vending or first sale of a physical object, so that the purchaser of the physical object is free to dispose of it further.” *Id.* at 110.

The current articulation of the first-sale doctrine—including the phrase “lawfully made under this title”—was introduced in the Revised Bill. The fundamental purpose of the doctrine was to remain unchanged. As explained upon its introduction:

Section [109(a)] restates an existing principle * * * firmly established by the court decisions: that, when the copyright owner has sold or otherwise transferred ownership of a copy of the work, the person who has acquired ownership of that copy is entitled to dispose of it. * * * For example, once the owner of copyright in a book has sold a copy he cannot control the resale price or impose any other conditions on its future disposition.

CLR-6 at 28-29.

The 1976 Act did alter the scope of the first-sale doctrine, in two respects. Neither has anything to do with the place of manufacture.

1. “The *owner* of a particular copy”

Whereas the first-sale doctrine codified in the 1909 Copyright Act reached “any copy of a copyrighted work the *possession* of which has been lawfully obtained,” Pub. L. No. 60-349, § 41, 35 Stat. 1075, 1084 (1909) (emphasis added), the Revised Bill limited the doctrine’s reach to “owners” of lawfully made copies. The change was made in response to the concerns voiced by industry representatives about the possibility that the doctrine might otherwise shield from liability either (i) a “lessee” who had “breach[ed] * * * the rental agreement with the copyright owner,” or (ii) “bootleggers who have acquired possession of thousands of copyrighted motion picture positive prints in 16mm. form, which are either lost, stolen, or illegally duped prints, and who are renting them for exhibition all over the United States.” CLR-3 at 131 (statement of Mr. Sargoy).

The new prerequisite of ownership was reinforced by the addition of what is now Section 109(d), which provides, in pertinent part, that “the privilege” created by Section 109(a) does not “extend to any person who has acquired possession of the copy * * * by rental, lease, loan, or otherwise, without acquiring ownership of it.” This “important qualification,” the drafting history makes clear, was added to ensure that, “[f]or example, where a person has rented a print of a motion picture from the copyright owner, he would have no right to lend, rent, sell, or otherwise dispose of the print without first obtaining the copyright owner’s permission.” CLR-6 at 30.

These changes captured a judicial gloss applied to the original codification of the first-sale doctrine, which, taken literally, would have granted the redistribution right to anyone who had lawfully obtained even a stolen or piratical copy. As Judge Friendly had noted only a few years earlier:

If lawful possession by another sufficed to deprive the copyright proprietor of his right to control the transfer of the copyrighted objects, any bailee of such objects could sell them without infringing the copyright, whatever his liability for conversion might be. * * * A literal reading of the clause would mean, moreover, that an innocent purchaser of a copy from a conceded pirate would be free to resell it without liability for infringement. Yet the cases to the contrary are legion.

Platt & Munk Co. v. Republic Graphics, Inc., 315 F.2d 847, 851 (2d Cir. 1963). As discussed below, industry concern over the activities of nonowners would arise repeatedly, both in the context of the importation restrictions and after the Act was passed in 1976.

2. “lawfully made under this title”

Even as the first-sale doctrine narrowed in one respect, it expanded in another. As Barbara Ringer, subsequently Register of Copyrights, explained, the phrase “lawfully made under this title” was used by the drafters to clarify that the doctrine would encompass not only copies “made under the authority of the copyright owner,” but also other types of copies, including those “made under a compulsory license.” CLR-5 at 66-67. No one suggested that the new articulation of the first-sale doctrine should, however, be limited to goods “made” *in the United States* “under the authority of the copyright owner.”

Rather, discussion by the drafters (including the panel of 29 copyright experts) focused on whether the doctrine would cover circumstances where, for example, pursuant to a compulsory license “someone could * * * make a tape recording of musical compositions without the authority of the copyright owner, and then engage in the business of renting the tapes while retaining ownership in them, thus making a continuous profit from the musical works without paying additional royalties.” CLR-5 at 66-67. The panel of experts believed that the first-sale doctrine would likely cover such situations as a natural implication of the breadth of the phrase “lawfully made under this title.” Although later amendments to the first-sale doctrine restricted this specific rental right, see *infra* n.14, the fact remains that the phrase “lawfully made under this title” never had anything to do with the place of manufacture.

Consistent with Barbara Ringer’s comments, the House Report on the bill passed a decade later notes that “lawfully made under this title” includes some types of copies that were “not necessarily [made] with the copyright owner’s authorization,” among them, copies “legally made under the compulsory licensing provisions of section 115.” H.R. REP. NO. 1476, 94th Cong., 2d Sess. 79 (1976) (“1976 House Report”). See also 1984 House Report 5 (“[T]he right of authorization accorded to copyright owners of recorded musical works under revised section 109(a) is subject to compulsory licensing under revised section 115.”).

The 1976 House Report, like the expert panel discussions before it, makes no mention of the situs of manufacture. Rather, the changes made to the first-sale doctrine in the 1976 Act clarified (as had the courts) that, for the first-sale doctrine to apply,

the copies at issue must be “lawfully made” (as opposed to infringing or lawfully obtained from an infringer) and possessed by an “owner.” If those conditions are met, “a copyright owner who unconditionally parts with a physical object embodying his work cannot restrain *any* later disposition of that physical object.” H.R. REP. NO. 92-487, 92d Cong., 1st Sess. 6 (1971) (emphasis added). To be sure, “[t]his does not mean that conditions on future disposition of copies or phonorecords, imposed by a contract between their buyer and seller”—as in the case of an agreement to divide international markets—“would be unenforceable between the parties as a breach of contract.” 1976 House Report 79. “[B]ut it does mean that they could not be enforced by an action for infringement of copyright.” *Ibid.*

Viewed against this backdrop, the scope of the first-sale doctrine and the provenance of the phrase “lawfully made under this title” are not in doubt. The doctrine simply does not, as respondent contends, turn on whether copies are lawfully made “in the United States.” If it did, that would have represented a historic upending of the first-sale doctrine *sub silentio*. That inference about congressional intent is highly implausible and well short of the clear expression of intent necessary to find such a change: “Under established canons of statutory construction, ‘it will not be inferred that Congress, in revising and consolidating the laws, intended to change their effect unless such intention is clearly expressed.’” *Finley v. United States*, 490 U.S. 545, 554 (1989) (quoting *Anderson v. Pacific Coast S.S. Co.*, 225 U.S. 187, 199 (1912)).

B. The History Of Section 602

Under the Copyright Act of 1909, customs officials were authorized to prohibit the importation of “piratical copies of any work copyrighted in the United States.” 17 U.S.C. § 30 (1909). The statute, however, failed to define the term “piratical.” See CLR-1 at 125. Customs officials and the Copyright Office took the position that “piratical” meant only “copies made without the authorization of the copyright owner.” *Ibid.* That definition was an irritant to many copyright owners who believed “that there ought to be an adequate definition of ‘piratical copy’ right in the copyright law, and that that definition should be broad enough to protect the U.S. copyright owner” not only from copies *made* without authority, but also from those simply *imported* without authority (*even if* lawfully made). CLR-2 at 213 (statement of Mr. Manges).

Respondent asserts that, having heard these complaints, the Copyright Office eventually endorsed “the ability of copyright holders to enter into agreements to divide international markets,” Br. in Opp. 23, and that this new power accordingly must be read to limit the first-sale doctrine. History shows otherwise.

1. The 1961 Report

In its 1961 Report, the Copyright Office took the position that no meaningful changes to the importation restrictions were necessary, in part because, as Barbara Ringer later explained, making such changes would be “very, very complicated.” CLR-2 at 194. The complexity of fashioning new importation restrictions was confirmed when the matter came up for panel discussion. Though industry representatives were vocal in seeking some form of relief from

unauthorized imports, the nature of the problems they were trying to solve varied.

To be sure, one panelist, who represented book publishers, believed the foremost problem was that, when “a U.S. book publisher enters into a contract with a British publisher to acquire exclusive U.S. rights for a particular book, he often finds that the English edition, for instance, of that particular book finds its way into this country.” CLR-2 at 212 (statement of Mr. Manges). This Court in *Quality King*, 523 U.S. at 148 n.20, took note of Mr. Manges’s concern. But the solution he proposed was a *never-enacted* provision for recording and enforcing contracts: “[B]y recording his contract, [a copyright owner] ought to be able to enforce, by way of an injunction, any illegal use by anyone who violates the territorial agreement here.” CLR-2 at 212.

A second panelist, who represented record labels, noted the “[v]ery frequent[]” problem posed by works “publi[shed] in a country where there is no copyright protection of any sort,” which are then put “into the free stream of commerce, so that [they] may be shipped to the United States.” CLR-2 at 213 (statement of Mr. Diamond). This, the panelist explained, was but one of “many situations in which it is not necessarily a question of the inadequacy of a contract remedy.” *Ibid.* Finally, a third panelist voiced concern over

a similar situation with respect to motion picture prints, which are sent all over the world – legitimate prints made from the authentic negative. These prints get into illicit hands. They’re stolen, and there’s no contractual relationship. There’s a situation up in Canada, for example, where Canadian Customs made a seizure for im-

proper importation into Canada, and found the importer had a library of 150 U.S. feature pictures. And we found he was sending them into the United States for bookings here.

Ibid. (statement of Mr. Sargoy). This last issue was recurring because, “[u]ntil the later advent of the videocassette era, motion picture companies rarely expressly ‘sold’ or transferred title in [their] prints. Instead, the usual mode of motion picture exploitation was through the rental of prints.” 2 NIMMER § 8.12[B][1].

2. The 1964 Preliminary Draft

The Librarian of Congress, Abraham Kaminstein, acknowledged that these were “very troubl[ing] problem[s],” and offered to think further about them. CLR-2 at 213. By the release of its Preliminary Draft, the Copyright Office had “shifted a little bit” in its views. CLR-4 at 203 (statement of Mr. Goldman). The Draft now included a section that “deals with the matter of the importation for distribution in the United States of foreign copies that were made under proper authority but that, 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.” *Ibid.* To address these concerns, the Preliminary Draft provided (in a precursor to Section 602(a)) that:

Importation into the United States of copies or records of a work for the purpose of distribution to the public shall, if such articles are imported without the authority of the owner of the exclusive right to distribute copies or records under this title, constitute an infringement of copyright
* * *

CLR-3 at 32. It was anything but clear, however, what exactly that proposal covered, and how it would interact with the first-sale doctrine.

The proposal undoubtedly addressed concerns about the importation of certain copies legally made abroad, including copies merely licensed or rented (such as motion pictures), copies in “illicit hands” (such as stolen books), copies made pursuant to foreign compulsory licenses, and copies made “in a country where there is no copyright protection of any sort.” CLR-2 at 213 (statement of Mr. Diamond). See, e.g., CLR-4 at 214 (“[I]n the case of motion pictures we have difficulty with stolen films that have gone abroad and are coming back in again. Again we have this problem of lawful making which would be obviated by [the] suggestion, which I think is a very good one.”) (statement of Mr. Whicher).¹¹

There was no consensus at all, however, as to whether the proposed provision would provide copyright protection to private, contractual agreements to divide international markets. The Copyright Office conceded that it “was not sure this ha[d] been thought through” fully, CLR-4 at 206 (statement of Mr. Goldman), and one panelist called for a wholesale “re-examination of the concept,” *id.* at 205

¹¹ As this Court would later explain in *Quality King*, the importation restrictions (now in Section 602(a)) can reach these scenarios in a manner consistent with the first-sale doctrine because Section 602(a) applies now only to works in the hands of an “owner” – leased, rented, or stolen copies are excluded – and only to copies “lawfully made under this title” (which does not include copies made with no legal authorization, or copies made solely pursuant to a foreign compulsory license). See *T.B. Harms Co. v. Jem Records, Inc.*, 655 F. Supp. 1575, 1577 (D.N.J. 1987).

(statement of Mr. Kaye). Foremost among the issues that clearly had *not* been contemplated was the new provision's interplay with the longstanding first-sale doctrine.

As Irwin Karp, of the Authors League of America, questioned: "If a German jobber lawfully buys copies from a German publisher, are we not running into the problem of restricting his transfer of his lawfully obtained copies?" CLR-4 at 211. Indeed, Mr. Karp added that it was hard to see how one could reconcile (on the one hand) "saying that [a copyright holder] can't sell a copy with a restriction attached that it may not be rented," but (on the other) permitting "the situation where he sells a copy, disposes of it completely, but says that you may not resell it in another country." *Ibid.* The second situation, like the first, cannot be permitted because "the very first sale here is a perfectly legitimate and legal sale, and that brings into play the very basic concept of copyright law that, once you've sold a copy legally, you can't restrict its resale." *Id.* at 212 (statement of Mr. Karp).

In a telling response, Abe Goldman, General Counsel of the Copyright Office, conceded that, in light of the first-sale doctrine, application of the proposed importation restrictions "could vary from one situation to another." CLR-4 at 211. Falling back on the uncontroversial proposition that the importation restrictions would reach lawfully made copies in the hands of *nonowners*, he "guess[ed], for example, that if a book publisher transports copies to a wholesaler, this is not yet the kind of transaction that exhausts

the right to control disposition.” *Ibid.*¹² But neither he, nor anyone else at the Copyright Office, proposed that the importation restrictions would trump the first-sale doctrine for lawfully made copies actually sold abroad. Goldman ultimately concluded that “[t]here are too many issues as to what rights are involved and too many controversies as to whether this is or is not in violation.” *Id.* at 212. Kaminstein concurred: “I suggest that pretty obviously further study is needed, and that we let this go over and see if we can come up with an acceptable solution.” *Id.* at 215.

3. The Revised Bill and Final Act

That further study does not seem to have occurred. Nevertheless, the Revised Bill reflected a small, but important, change to the text of the importation provision that clarified, as had Karp’s comments to the Copyright Office, that its application must be subject to the first-sale doctrine.

Whereas the Preliminary Draft provided that importation “without the authority of the owner of the exclusive right to distribute copies” would itself “constitute an infringement of copyright,” CLR-3 at 32, the Revised Bill—virtually identical to what became Section 602(a)—clarified that importation “without the authority of the owner of copyright under this title” should be treated as “an infringement of the exclusive right to distribute copies or phonorecords under section [106], actionable under section [501].” CLR-5 at 25 (Section 44(a)).

¹² Indeed, this was exactly the scenario raised by *Platt & Munk*, 315 F.2d at 851, the case that foreshadowed the first-sale doctrine’s shift in applicability from lawful possessors to lawful owners. *See supra* p. 14.

As this Court held in *Quality King*, that change “is significant.” 523 U.S. at 144. Rather than “categorically prohibit[ing] the unauthorized importation of copyrighted materials,” Section 602 instead “provides that such importation is an infringement of the exclusive right to distribute copies ‘under Section 106’—which itself “expressly states that all of the exclusive rights granted by that section * * * are limited by,” among other things, the first-sale doctrine. *Ibid.*

The Revised Bill thus addressed Karp’s concerns by clarifying that, whatever the scope of the new importation provision, it would be subordinate to the first-sale doctrine—which (as shown above) did not turn on where a copy was made.

The reports that accompanied the new language support this view. The 1965 Supplementary Report, for example, noted that the importation restriction was intended to reach copies that “were lawfully made but [whose] distribution in the United States would violate the exclusive rights of the U.S. copyright owner,” as “for example, where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country.” CLR-6 at 149-150. Similar language was used in the 1976 House Report that accompanied the final version of the Copyright Act, which noted that Section 602(a) covers the situation where “copies or phonorecords were lawfully made but their distribution in the United States would infringe the U.S. copyright owner’s exclusive rights.” 1976 House Report 170.

Because the first-sale doctrine *extinguishes* a copyright holder’s exclusive rights to distribute, the most natural reading of these reports is that Sec-

tion 602(a) is simply meant to reach those copies over which a copyright holder still maintains a distribution right after a particular copy is disposed of abroad—those being the many classes of copies that are not eligible for first-sale protection (*e.g.*, copies made under foreign compulsory licenses, rentals, stolen copies, etc.). Section 602(a) would not, however, reach copies legally made and sold abroad with the authority of the copyright owner because “[w]here there has been an authorized sale or transfer of ownership, this exclusive ‘distribution’ right *no longer exists*.” CLR-3 at 128 (statement of Mr. Sargoy) (emphasis added).

In *Quality King*, this Court held that a copyright owner is *not* entitled to use copyright law to divide the markets for a work whose copies are made in the United States. 523 U.S. at 153. That means that if, as respondent contends, the Copyright Act does provide such a power, it does so *only* for copies made abroad. However one reads the voluminous drafting and legislative history of the provisions at issue here, one thing is clear: There is not a single mention—not one—of making the power to divide markets turn on where copies are manufactured. Nor, for that matter, is there a single mention—not one—of the obvious and absurd implications of such a rule. “[I]f Congress had such an intent, Congress would have made it explicit in the statute, or at least some of the Members would have identified or mentioned it at some point in the unusually extensive legislative history of the” Copyright Act. *Chisom v. Roemer*, 501 U.S. 380, 396 (1991).

C. The Manufacturing Provisions

For most of the twentieth century—and throughout the revision period leading up to enactment of

the 1976 Act—copyright law provided that “the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited unless the portions consisting of such material have been *manufactured in the United States or Canada*.” 17 U.S.C. § 601 (emphasis added). That provision demonstrates that copies “under this title” can be manufactured outside the United States (*i.e.*, in Canada). It also confirms that “under this title” cannot refer to a location, because that would result in two different and inconsistent provisions regarding the location of a copy’s manufacture within the same sentence. See *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) (“When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern.”).

But the manufacturing provision is even more instructive as to the purpose of the importation restrictions. As the United States correctly observed in *Quality King*, “it is distinctly unlikely that Congress would have provided [copyright owners] an incentive to manufacture abroad at the same time it was shielding the domestic printing industry under Section 601.” Brief for the United States as *Amicus Curiae* 30 & n.18 (No. 96-1470). In fact, the logic of respondent’s position conflicts with *both* the rationale for the manufacturing provision *and* the rationale for its repeal.

In support of the provision, legislators noted that Congress did not want the Copyright Act to

create a condition whereby work can be done under the most degraded working conditions in the world * * * and thus exclude American manufacturers from the market. * * * [That] could destroy small businesses, bring chaos to the industry, and catch manufacturers, whose labor costs and break-even points are extremely high, in a cost-price squeeze at a time when expenditures for new equipment have reduced profits to a minimum.

1976 House Report 165-66. Ultimately, Congress chose to let the provision expire because legislators concluded that it “violate[d] the basic principle that an author’s rights should not be dependent on the circumstances of manufacture,” and specifically *where* an author happens to make a copy; “there is no justification on principle for a manufacturing requirement in the copyright statute.” *Ibid.* Cf. *Golan*, 132 S. Ct. at 882 (describing other, contemporaneous changes to the Copyright Act whose purpose was to “place[] foreign works on an equal footing with their U.S. counterparts”).

Respondent’s position manages to be at odds with both concerns: It makes rights turn on the place of manufacturing, but in a way that affirmatively hurts American business interests.

III. CONGRESSIONAL ACTION SINCE 1976 CONFIRMS THE CONTINUING BREADTH OF THE FIRST-SALE DOCTRINE

That Congress did not intend the importation restrictions to abrogate the first-sale doctrine is confirmed by later amendments to the statute. Cf. *Bowen v. Yuckert*, 482 U.S. 137 (1987) (subsequent statu-

tory amendments shed light on original scope of legislation).

A. The Rental Amendments Of 1984

As explained earlier, one the great challenges confronting Congress during the copyright revision process was the lending or rental (as opposed to resale) of copies that were legally made and sold by a copyright owner. See, *e.g.*, CLR-3 at 134 (statement of Mr. Karp) (“[S]omebody is profiting from [lending] the author’s work to that audience. The author is losing considerably by it, and he should have a right, as he has all these other rights, to share in that income.”). This was a problem that spanned borders: the movie industry, for example, was just as concerned about video-rental shops that purchased movies lawfully made and sold in Canada as it was about those made and sold in the United States. See *supra* pp. 18-19.

“Despite nearly a century of the first sale doctrine remaining largely undisturbed, Congress made a drastic change in 1984.” Ryan Vacca, *Expanding Preferential Treatment Under the Record Rental Amendment Beyond the Music Industry*, 11 LEWIS & CLARK L. REV. 605, 613 (2007). Specifically, it took up debate on two bills, the purpose of which was to narrow the first-sale doctrine to preclude the lending or rental of both sound recordings and audiovisual works (*e.g.*, movies), even by lawful owners of particular copies. See S. 32, H.R. 1027 (Record Rental Amendment Act) and S. 33, H.R. 1029 (Video Rental Amendment Act), 98th Cong., 2d Sess. (1984). As the Copyright Office later explained, these bills were “the earliest statutory breach in the ‘first sale’ doctrine.” U.S. Copyright Office, *The Computer Soft-*

ware *Rental Amendments Act of 1990* (1994), at http://www.copyright.gov/reports/software_ren.html.

Congress held extensive hearings on both proposals and heard testimony on the specific threats faced by the movie and music industries. See generally *Audio and Video First Sale Doctrine: Hearings on H.R. 1027, H.R. 1029 and S. 32 Before the Subcomm. on Courts, Civil Liberties and the Admin. of Justice of the House Comm. on the Judiciary*, 98th Cong., 1st Sess. 729 (1984, 1985) (“AV Hearings”). After doing so, however, Congress chose only to limit the rental of sound recordings. See Pub. L. No. 98-450, 98 Stat. 1727 (1984) (amending the first-sale doctrine to include what is now § 109(b)(1)(A)).¹³ Copies of audiovisual works, like all other works, remained subject to lending or rental once they had been sold by the copyright owner.¹⁴

Congress’s efforts, and the evident care it took in deciding how to amend the first-sale doctrine in 1984, are inconsistent with the position, taken by respondent, that Congress had already—eight years earlier—*entirely* exempted *all* kinds of works from the first-sale doctrine if the copies of those works had

¹³ As Nimmer notes, “[i]t was obvious [to everyone at the hearings] that virtually everyone obtaining phonorecords by rental did so for the sole purpose of making audio tape reproductions of the rented material.” NIMMER § 8.12[B][7]. The same was not then considered true of movies. See AV Hearings 238-239 (testimony that people do not usually watch movies repeatedly and therefore would be significantly less likely to make illegal copies of rental tapes).

¹⁴ Congress also provided for copyright owners to share in revenue from the rental of works made under a compulsory license, 17 U.S.C. § 115(c)(4), addressing concerns that emerged early in the revision process, when the phrase “lawfully made under this title” was introduced. See *supra* p. 15.

been made abroad. Indeed, that seems particularly unlikely given the sustained congressional examination of overseas rentals.¹⁵

B. *Red Baron v. Taito* And The Computer Software Rental Amendments Act Of 1990

Congress amended the first-sale doctrine again in 1990, this time to preclude the lending or renting of computer software. See Computer Software Rental Amendments Act of 1990, Pub. L. No. 101-650, § 803, 104 Stat. 5089. Again, Congress emphasized that, because the first-sale doctrine is “[o]ne of the most important limitations on copyright owners’ exclusive rights,” exclusions from the doctrine must be “narrowly drafted.” 1990 House Report 7, 4. And again Congress made no mention of a wholesale exclusion for copies lawfully made abroad. Were there any doubt about the question, however, Congress reaffirmed that the phrase “lawfully made under this title” does *not* refer to place of manufacture when, as part of the Act, it enacted 17 U.S.C. § 109(e) specifically to reverse the Fourth Circuit’s holding in *Red Baron-Franklin Park, Inc. v. Taito Corp.*, 883 F.2d 275 (4th Cir. 1989).

Although bearing U.S. copyrights, the particular video games at issue in *Red Baron* “were originally manufactured, marketed and sold in Japan” by the U.S. copyright holder. *Red Baron-Franklin Park, Inc. v. Taito Corp.*, No. 88-0156-A, 1988 WL 167344,

¹⁵ See, e.g., 1984 House Report 2 n.6 (“[T]he committee also received testimony that in Japan, commercial record rental establishments represent 20 percent of all record retailers, seriously hurting record sales.”); AV Hearings 33 (testimony that 97% of renters in Japan made illegal copies of sound recordings).

at *1 (E.D. Va. Aug. 29, 1988), rev'd, 883 F.2d 275 (4th Cir. 1989). As with the copies at issue here, those in *Red Baron* were sold to third parties overseas (in Japan) who imported them into the United States and then resold them “at a price lower than the price at which the boards [were intended to be] available in the United States.” *Ibid.* The copies contained a notice that the video “game[s] [were] for use in Japan only,” and the copyright owner brought suit against the downstream purchaser for copyright infringement. 883 F.2d at 277.

The district court held that, because the “exclusive right [to distribute] is specifically limited by the first sale provisions of § 109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.” 1988 WL 167344, at *3. That is no less true of copies made abroad than those made in the United States, the court explained, because “it [is] difficult to accept that Congress would have given foreign corporations greater protection under the copyright laws than it has provided to domestic copyright holders.” *Ibid.* Although the Fourth Circuit reversed, it did so on the ground that playing the video games at issue in public was an infringement of a copyright holder’s rights under 17 U.S.C. §§ 106(4)-(5) to control the public performance and display of its works.

To reverse the Fourth Circuit’s holding, Congress added a new subsection to the codification of the first-sale doctrine. That subsection provides, in pertinent part, that “the owner of a particular copy of such a game *lawfully made under this title*, is entitled, without the authority of the copyright owner of the game, to publicly perform or display that game in coin-operated equipment.” 17 U.S.C. § 109(e) (em-

phasis added). In adding that provision, Congress was well aware that the video games at issue were made overseas. Indeed, the accompanying House Report noted explicitly that the lower court had held that “the first sale provisions of section 109(a) of the Copyright Act permitted a U.S. arcade game operator to purchase, in Japan, a circuit board containing the game and to then import the circuit board for insertion into a coin-operated arcade game in the United States.” 1990 House Report 8. Congress nevertheless again used the phrase “lawfully made under this title” to *expand* the first-sale doctrine to cover the display and performance of those very video games, made and sold abroad by a U.S. copyright holder. It is inconceivable that Congress intended that phrase to mean “made in the United States” because then Section 109(e) would have been ineffective with respect to the very copy of the video game, made in Japan, that gave rise to the amendment in the first place. Thus, if there were any doubt about whether Section 109 applied to works made abroad, it was laid to rest in 1990.

* * *

Although the text of the Copyright Act supports petitioner’s interpretation, this Court has not hesitated to resolve textual ambiguities in the Copyright Act by looking to “the lengthy history of negotiation and compromise which ultimately produced” it, particularly when that history shows that a particular meaning or intent “remained constant” throughout the revision process. *Reid*, 490 U.S. at 743. As we have shown (*supra* Part I), at common law, the applicability of the first-sale doctrine did not turn on the place of a copy’s creation. The early copyright laws—including the Copyright Act of 1909, from which the first-sale doctrine apparently takes its

name—explicitly reflected this bedrock rule. Respondent concedes this, as it must. Br. in Opp. 23.

Although the Copyright Act of 1976 “almost completely revised existing copyright law,” certain principles remained undisturbed. *Reid*, 490 U.S. at 743. The first-sale doctrine, which the Copyright Office characterized as the “historic basis” of copyright, was one such principle. CLR-1 at 22. The new “Section 109(a) restates and confirms” the first-sale doctrine established by prior case law. 1976 House Report 79. As this Court acknowledged in *Quality King*, “[t]here is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit [the] broad scope” of the first-sale doctrine. 523 U.S. at 152.

That is not to say the scope of § 109(a) was identical to its predecessors. Rather, it differed in two respects. *First*, Congress clarified that the doctrine reached only the “owners”—as opposed to the bailees, lessees, or renters—of a particular lawfully made copy, a gloss already given by the courts. *Second*, Congress expanded the doctrine to reach *not only* those copies “made under the authority of the copyright owner,” *but also* other types of copies “lawfully made under this title,” among them those “made under a compulsory license” pursuant to Section 115. CLR-5 at 66-67. Consistent with its common law origins, however, the doctrine had nothing to do with the *place* a copy was made; indeed, that notion is entirely absent from 20 years of legislative history.

Congressional concern with copies in the hands of nonowners, as well as copies made *neither* with the authority of the copyright owner *nor* pursuant to other provisions of Title 17, manifested themselves

in other aspect of the new copyright law. Among them was Section 602, which granted copyright owners the right to prevent the importation of such copies, which by the terms of Section 109 were not subject to the first-sale doctrine. Contrary to respondent's unsubstantiated assertions, however, Congress did not grant copyright protection to private contractual agreements to divide international markets for copies that *were* made by or with the authorization of a U.S. copyright owner and that *were* subject to the first-sale doctrine. Such a power was discussed, but the voluminous record lacks any clear statement that Congress "intended such a change" to the "settled" domain of the first-sale doctrine, much less that it intended to do so *only* for copies that happened to be made abroad. *Green v. Bock Laundry Mach. Co.*, 490 U.S. 504, 521 (1989).

Nothing has changed in the nearly four decades since. Though Congress has revisited the first-sale doctrine on a number of occasions, each time to make only "narrowly drafted" changes, 1990 House Report at 4, neither text nor legislative history has *ever* mentioned that the doctrine turns on the place of a copy's manufacture. To the contrary, Congress has repeatedly emphasized the opposite—that the first-sale doctrine is "[o]ne of the most important limitations on copyright owners' exclusive rights" precisely because it "prohibits [those] owners from controlling the terms and conditions of further distribution of lawfully made copies of a work once the initial authorized distribution of those copies has taken place." *Id.* at 7. In *Quality King*, this Court acknowledged that this is "[t]he whole point of the first sale doctrine." 523 U.S. at 152. It should do so again here.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted.

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