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 *AMICI CURIAE* OF RETAIL LITIGATION CENTER, INC., NATIONAL ASSOCIATION OF CHAIN DRUG STORES, AMERICAN FREE TRADE ASSOCIATION, INTERNATIONAL IMAGING TECHNOLOGY COUNCIL, AND QUALITY KING DISTRIBUTORS, INC., IN SUPPORT OF THE PETITIONER

W. STEPHEN CANNON
SETH D. GREENSTEIN*
CONSTANTINE CANNON LLP
1301 K Street N.W.,
Suite 1050 East
Washington, D.C. 20005
(202) 204-3500
sgreenstein@
constantinecannon.com

* *Counsel of Record* — *Counsel for Amici Curiae*

JULY 9, 2012

242622

QUESTION PRESENTED

The first-sale doctrine embodied in § 109(a) of the Copyright Act, allows the owner of a copy "lawfully made under this title" to sell the copy without the copyright owner's permission. It is undisputed that this provision means that a copyright owner has no right to control downstream sales of a copy that was made in the United States. And this Court held in *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), that the same rule applies to copies that are imported into the United States. The court of appeals limited *Quality King* to a situation where the imported goods were made in the U.S.

The question presented is whether the copyright owner is entitled to control downstream sales just because it opts to manufacture the copies abroad.

TABLE OF CONTENTS

TABLE OF CITED AUTHORITIES

Page

CASES

Cited Authorities

Cited Authorities

STATUTES

LEGISLATIVE HISTORY

OTHER AUTHORITIES

Page

Cited Authorities

Cited Authorities

STATEMENT OF INTEREST[1]

The Retail Litigation Center, Inc. ("RLC") is a public policy organization that identifies and engages in legal proceedings that affect the retail industry. The RLC, whose members include some of the country's largest retailers, was formed to provide courts with retail industry perspectives on significant legal issues, and to highlight the potential industry-wide consequences of legal principles that may be determined in pending cases.

The National Association of Chain Drug Stores ("NACDS") represents 125 traditional drug store chains, supermarkets, and mass merchants with pharmacies – from regional chains with four stores to national companies. Chains operate 44,200 pharmacies, and employ more than 3.5 million employees. The total economic impact of all retail stores with pharmacies transcends their $900 billion in annual sales. Every $1 spent in these stores creates a ripple effect of $1.81 in other industries, for a total economic impact of $1.76 trillion, equal to 12 percent of GDP.

The American Free Trade Association ("AFTA") is a not-for-profit trade association that, for nearly 30 years, has advocated on behalf of the discount marketplace and the thousands of U.S. citizens engaged and/or employed in the parallel market. With members and contributors

1. The parties have consented to the filing of this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amici curiae*, their respective members, or their counsel made a monetary contribution to its preparation or submission.

throughout the country, AFTA gives voice in legislative, regulatory, and judicial fora, to the needs and concerns of all participants in the global supply chain, from importers and distributors to retailers and consumers. AFTA advocates for strong anti-counterfeiting enforcement tools and continues working aggressively to ensure that U.S. laws protect consumers against injury from counterfeit and infringing goods—without sacrificing the substantive benefits of a competitive, global marketplace.

The International Imaging Technology Council ("Int'l ITC") is a nonprofit trade organization comprised of members of the imaging supplies industry, including office-machine retail, office-supply retail, computer retail, repair and networking companies, and all related industry suppliers. Int'l ITC's member companies share a common business interest in restoring and remanufacturing imaging supplies in a free and fair market. Printer cartridge remanufacturing constitutes a $4.5 billion industry. The United States cartridge remanufacturing industry includes approximately 1,800 companies, employing approximately 33,650 people. Cartridge remanufacturing, considered the highest form of recycling by the U.S. Environmental Protection Agency, keeps more than forty-two thousand tons of plastic, metal and toner out of the waste stream, and provides a low-cost alternative to consumers and businesses to original manufactured cartridges.

Quality King Distributors, Inc. ("QKD") is a family-owned wholesale distributor of health, beauty, and cosmetics products, located in Bellport, N.Y. Founded in 1961 in a storefront in Queens, New York, QKD has become one of the largest privately-held businesses in the

New York metropolitan area. QKD's national customer base includes most of the mass retail chains including drug store chains, mass discount chains, grocery chains and independent stores. QKD was the petitioner in *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998) ("*Quality King*"), in which the Court last issued an opinion addressing the application of the first sale doctrine of the Copyright Act to imported goods incorporating ancillary copyrighted works.

These *amici* and their member companies include suppliers, importers, purchasers, and retailers with a vital interest, as to themselves and on behalf of their customers, in promoting robust commerce under the first sale doctrine of U.S. copyright law.[2] Members of the *amici* are among the largest sellers of books, DVDs, software, video games, and audio compact discs—the types of goods most obviously affected by the scope of the first sale doctrine and, hence, potentially restricted by the erroneous decision of the court of appeals here.

The *amici* also sell thousands of common household and personal products that also may be constrained by the Second Circuit's narrow reading of section 109(a). Many, if not the majority, of decided cases examining the intersection of the first sale doctrine and the importation

2. RLC, NACDS, AFTA and QKD submitted amicus briefs to this Court in the 2009 term in *Costco Wholesale Corp. v. Omega, S.A.*, ___ U.S. ___, 131 S. Ct. 565 (2010). *Amicus* AFTA filed an amicus brief supporting the right of parallel importation under trademark law in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), and under copyright law in *Quality King.* Int'l ITC submitted an amicus brief addressing the patent first sale doctrine in *Quanta Computer, Inc. v. LG Elecs., Inc.,* 553 U.S. 617 (2008).

right under title 17 involve attempts to leverage copyright claims over ancillary and often insignificant aspects of utilitarian retail goods (*e.g.*, packaging, labels, and use instructions), solely to thwart competition and price arbitrage made possible by parallel importation.

As a consequence of the decline of domestic manufacturing, a majority of the products retailers offer for sale in the United States may be produced, procured, and imported from abroad. Retailers and suppliers need confidence that non-piratical goods purchased from manufacturers, importers, and distributors can be resold in U.S. commerce free from claims of copyright infringement. And consumers deserve full value from their purchases, without restraints on title or alienation.

Therefore, the *amici* submit this brief to inform the Court of the potentially destructive impact of the Second Circuit (and Ninth Circuit) decision upon modern commerce, and to urge the Court to clarify the proper interpretation of the first sale doctrine: That copies made by or with the authorization of the United States copyright owner, anywhere in the world are "lawfully made under this title."

SUMMARY OF ARGUMENT

The first sale doctrine touches virtually every aspect of the multi-trillion dollar U.S. retail sector. This provision of the copyright law permits retailers to resell books, CDs, and DVDs; libraries to lend books; museums to display works of art; video stores to rent DVDs or video games; and consumers to give away, lend, or resell all of these copies of copyrighted works—all without the need

to obtain permission from copyright owners or to make additional royalty payments.

Beyond the books at issue here, or recorded music, motion pictures, video games, and other goods ordinarily envisioned as "copyrighted" goods, copyright can impinge upon sales of virtually any household product. The shape of a box, a tiny logo, pictures on a label, and the text of product inserts and instructions all can be covered by a registered copyright. As all of these products increasingly are manufactured overseas and imported into the United States, the question presented to this Court—the correct interpretation of the first sale statute as applied to foreign-made products—assumes concomitantly greater importance to the retail sector and their consumers' rights.

The Court's decision in *Quality King Distribs., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135 (1998) ("*Quality King*"), provided importers, distributors, and retailers welcome certainty that lawfully produced non-piratical goods could be imported and resold in the United States free from copyright infringement claims. And it benefited U.S. consumers through greater competition and lower prices from lawfully-made imported goods and, with the rise of the Internet, through opportunities to resell and buy previously-owned goods on sites such as eBay.com and craigslist.org.

Recent decisions from the Second and Ninth Circuits make a shambles of the first sale doctrine.[3] Both the

3. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011) ("*Kirtsaeng*"); *Omega S.A. v. Costco Wholesale Corp.*,

Second Circuit in *Kirtsaeng* and the Ninth Circuit in *Costco* ignore the plain language of section 109, and inject into that section a precondition that the first sale exception pertains only to copies made "in the United States." Although each court cites *Quality King* for its erroneous interpretation, *Quality King* nowhere compels that conclusion.

Each court admits that its interpretation of section 109 harms the interests of American businesses and consumers, and contravenes historical policies underlying the first sale doctrine. Yet each addresses these anomalous consequences in markedly different ways. The Ninth Circuit invents an extra-textual "escape hatch," permitting the first sale doctrine to apply if the imported goods are sold in the United States with the copyright owner's permission. The Second Circuit majority rejects that legal fiction, and holds that foreign-produced copies of copyrighted works *never* can benefit from the first sale doctrine. Although the majority acknowledges forceful policy concerns militate against its holding, they suggest Congress can cure any "undesirable" or "unpalatable" consequences of its draconian view. *Kirtsaeng*, 654 F.3d at 222 & n.44.

The *Kirtsaeng* dissent correctly interprets section 109. Judge Murtha's dissent gives "lawfully made under this title" its natural reading: "regardless of place of manufacture, a copy authorized by the U.S. rightsholder is lawful under U.S. copyright law." 654 F.3d at 226.

---

541 F.3d 982 (9th Cir. 2008), *aff'd by an evenly divided Court, Costco Wholesale Corp. v. Omega, S.A.*, ___ U.S. ___, 131 S. Ct. 565 (2010) ("*Costco*").

Thus, the dissent's interpretation of section 109 adheres most closely to the statutory language. That reading moreover avoids the policy pitfalls of the *Kirtsaeng* majority and *Costco*. By applying the first sale doctrine equivalently to domestic and foreign produced goods, this Court will assure that distributors and retailers will not face potentially crippling copyright liability for selling authentic goods.

For these reasons, as set forth below, the decision should be reversed.

ARGUMENT

I. This Court Should Safeguard the First Sale Doctrine and Preserve Lawful Commerce in Genuine Parallel Imported Goods.

To retailers, wholesalers, and consumers of copyrighted works, the first sale doctrine is the Magna Carta of commerce.[4] Businesses need confidence that they can purchase and resell genuine goods in U.S. commerce free from claims of copyright infringement, whether the goods are of domestic or foreign provenance. Properly

4. Section 109, entitled "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord," provides in pertinent part:

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

interpreted, the first sale doctrine secures to businesses and individuals the right to acquire and resell goods produced by or under the authority of the holder of the U.S. copyright, regardless of whether the goods were made in the United States or abroad.

Because the first sale doctrine potentially touches all goods sold at retail, the size of the retail sector measures the impact of the first sale doctrine on the U.S. economy as a whole. In 2009, retail trade sales in the United States exceeded $3.6 trillion.[5] In 2011, the value of goods imported into the United States was $2.314 trillion.[6] Thus, if this Court interprets the first sale doctrine to exclude foreign-produced goods, more than half of the goods sold at retail by value potentially would remain under the control of the copyright owner. This contravenes historical prohibitions against restraints on title and this Court's holding under the first sale doctrine, more than a century ago, that "one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of

5. U.S. Census Bureau, U.S. Dep't of Commerce, U.S. Census Bureau, Statistical Abstract of the United States: 2012, Table 1055, Retail Trade Sales -- Total and E-Commerce by Kind of Business 2009, http://www.census.gov/compendia/statab/2012/tables/12s1055.pdf (last visited June 22, 2012). Online retail sales in 2009 totaled more than $145 billion, approximately 4.0% of all retail sales in the United States.

6. Central Intelligence Agency, The World Factbook, https://www.cia.gov/library/publications/the-world-factbook/fields/2061.html#97 (last visited, June 22, 2012).

the owner of the copyright, may sell it again… .” *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).[7]

1. The first sale doctrine applies to goods readily identifiable as copyright-protected, such as copies of the books involved in this case, Blu-Ray and DVD movie discs, and video games, and phonorecords of copyrighted sound recordings such as compact discs. According to government and industry estimates, in 2011:

- Retail commerce in copyrighted works sold in the United States (such as books, recorded music, motion pictures, and magazines) reached $221 billion[8]

- Consumers spent $14.6 billion to purchase and rent physical discs of movies[9]

---

7. “The first sale doctrine was originally adopted by the courts to give effect to the early common law rule against restraints on the alienation of tangible property.” S. Rep. No. 162, at 4 (1983).

8. U.S. Bureau of Economic Analysis, U.S. Dep’t of Commerce, National Economic Accounts, Table 2.4.5U. Personal Consumption Expenditures by Type of Product, http://www.bea.gov/iTable/iTable.cfm?ReqID=12&step=1 (last visited June 22, 2012).

9. Digital Entertainment Group, “DEG Report: U.S. Home Entertainment Consumer Spending,” http://www.degonline.org/pressreleases/2012/DEG_2011_US_CONSUMER_SPENDING_CHART.pdf (last visited June 22, 2012).

- Sales of recorded music in physical format exceeded $3.38 billion[10]

- Physical book sales reached $15.28 billion[11]

- The electronic game industry was estimated to constitute a more than $16 billion market segment in the United States.[12]

Amici and their members collectively sell annually hundreds of millions of copyrighted books, compact discs, DVDs, and video games, and are among the nation's largest retailers of these goods.

2. The first sale doctrine also affects commerce beyond goods whose value derives from the copyrighted works they embody. Under the low threshold for originality,[13] copyright can protect packaging, logos, labels, and product

---

10. Recording Industry Association of America, "2011 Year-End Shipment Statistics," http://76.74.24.142/FA8A2072-6BF8-D44D-B9C8-CE5F55BBC050.pdf (last visited June 20, 2012). That figure does not include more than $2.6 billion in sales of recorded music in digital formats.

11. U.S. Census Bureau, U.S. Dep't of Commerce, Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2011, at tab 2011, http://www.census.gov/retail/mrts/www/data/excel/mrtssales92-present.xls (last visited June 22, 2012).

12. Press Release, NPD Group, Inc., 2011 Total Consumer Spend on All Games Content in the U.S. Estimated Between $16.3 to $16.6 Billion (Jan. 12, 2012), https://www.npd.com/wps/portal/npd/us/news/pressreleases/pr_120116 (last visited June 22, 2012).

13. *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 345-346 (1991).

inserts and instructions for everyday packaged goods from floor cleaners and health and beauty products to breakfast cereals. Any of the products sold by the *amici* members could include ancillary materials, protected by copyright, whose value is immaterial to consumers' desire to purchase those products or to the price of the products themselves. And undoubtedly thousands of copyright registrations have issued as a means to protect these products.

Thus, the first sale issue now before this Court also implicates circumstances where such ancillary copyrights are leveraged under section 602 solely to protect functional items with no intrinsic expressive value—and thereby stifle price competition from sales of authentic parallel-imported goods. Indeed, this factual context has provided the backdrop for numerous court opinions involving the interaction of sections 109 and 602,[14] including the last two copyright first sale cases before this Court. In *Quality King*, the plaintiff attempted to use a copyright on a label of hair care products to prevent discount-priced competition from lawfully-made re-imported products. And in *Costco*, the copyright owner engraved a minuscule copyrighted image on the back of the watch solely to prevent parallel importation of authentic watches (which

14. *See e.g. Denbicare U.S.A. Inc. v. Toys "R" Us*, 84 F.3d 1143 (9th Cir. 1996) (packaging for reusable diapers); *Parfums Givenchy v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994) (box for perfume); *Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988) (labels for beauty supplies); *Cosmair v. Dynamite Enters., Inc.*, 226 U.S.P.Q. 344, 1985 WL 2209 (S.D. Fla. 1988) (package label for cosmetics and fragrances); *Neutrogena Corp. v. Sec. of Treasury*, 7 U.S.P.Q. 2d 1900, 1988 WL 166236 (D.S.C. 1988) (packaging for cosmetics products).

Costco sold at $700 below the manufacturer's suggested retail price).

While defenses other than the first sale doctrine potentially can protect retailers against such abusive practices,[15] the primary and best affirmative defense for distributors and retailers remains the first sale doctrine. In today's global and online economy, it is impossible to overstate the potential disruptive impact on commerce if, under the threat of such "thin" copyrights, companies cannot import and sell goods lawfully made abroad consistent with U.S. copyright law, and consumers cannot transfer ownership of their property.

3. It is generally feasible for retailers to ensure that the goods they offer for sale are authentic, but far more difficult to ascertain where the goods were manufactured or how they were first acquired.

Retailers commonly acquire products through exporters, importers, and trading companies, not directly from the manufacturers. Goods bought from the manufacturer may be resold several times before reaching domestic retail shelves. Such intermediary sources help to promote effective competition in the global economy. They enable foreign manufacturers that lack their own distribution networks to reach customers worldwide, and allow retailers to procure name brand goods in smaller quantities than might be possible from manufacturers that allocate goods to the largest customers.

---

15. On remand, the district court adjudged Omega's actions to be copyright misuse and granted summary judgment to Costco. *Omega, S.A. v. Costco Wholesale Corp.*, CV 04-05443 TJH (E.D. Cal. Nov. 9, 2011) (Order and J.).

Many retailers purchase authentic "gray market" goods for resale from wholesale importers and distributors at arbitrage, to take advantage of lower foreign pricing. As a result, consumers buy the same high quality goods at competitive prices.[16] The value of such parallel imported goods sold annually in the United States represents a multibillion-dollar benefit to American consumers.[17]

4. The first sale doctrine also creates aftermarkets for sale and rental of "used" copies of copyrighted works. These aftermarkets facilitated by the first sale promote the public interest by enabling more consumers to acquire and enjoy a greater number of copyrighted works. Video rental – a paradigm industry made possible by the first

16. For example, *amicus* QKD purchases name-brand products at lower prices in foreign markets, and resells these imported goods to U.S. wholesalers and retailers. QKD often sells these discount-priced goods in competition with the same, higher-priced goods from manufacturers or "authorized" distributors. Those were the facts of *Quality King*.

17. A 2008 white paper prepared by KPMG for an organization opposed to parallel importation estimated $58 billion annually in parallel importation activity. KPMG LLP, KPMG Gray Market Study Update, "Effective Channel Management is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line," http://www.agmaglobal.org/press_events/press_docs/KPMG%20AGMAGrayMarketStudyWebFinal071008.pdf (last visited June 29, 2012). *See also,* Alvin Galstian, *Protecting Against the Gray Market in the New Economy*, 22 Loyola L.A. Int'l & Comp. L. Rev. 507, 509 (2000) ("The annual U.S. and U.K. gray market economies exceed $10 billion and £ >1.62 billion, respectively, and are driven by the countries' relatively open economic markets and their peoples' insatiable appetites for consumer products.").

sale doctrine[18]—achieved $6.579 billion in revenues in 2010.[19] According to the Book Industry Study Group, the used book market segment in 2004 constituted $2.2 billion in overall sales, with some $1.6 billion in sales of used textbooks.[20]

5. The Second Circuit opinion in *Kirtsaeng* denies first sale protections to *any* foreign-produced goods. The Ninth Circuit decision in *Costco* conditions application of the first sale doctrine to foreign-made goods on an authorized distribution in the United States. Given the

---

18. Film producers in fact sought unsuccessfully to stifle the then-incipient independent video rental business by amending section 109 to prevent commercial rental of videotapes. H.R. 5707, 97th Cong. (1982). *See* Peter S. Menell, *The Property Rights Movement's Embrace of Intellectual Property: True Love or Doomed Relationship?*, Paper 36 (2007), eScholarship Repository, Berkeley Center for Law and Technology, http://repositories.cdlib.org/bclt/lts/36. Because the motion picture industry failed to narrow the first sale doctrine, entrepreneurs created a new multi-billion dollar industry segment for video rental that enabled millions of consumers to rent movies they could not have afforded to purchase.

19. U.S. Census Bureau, U.S. Dep't of Commerce, Annual Services Report, Table 5.1. Rental and Leasing Services (NAICS 532) – Estimated Revenue for Employer Firms: 2001 Through 2010, http://www2.census.gov/services/sas/data/53/2010_NAICS53.xls (last visited June 22, 2012).

20. Edward Wyatt, *Internet Grows as Factor in Used Book Business*, N.Y Times, Sept. 29, 2005, http://query.nytimes.com/gst/fullpage.html?res=9D05E2DA1230F93AA1575AC0A9639C8B63 (citing Book Industry Study Group, Inc., *Used-Book Sales: A Study of the Behavior, Structure, Size and Growth of the U.S. Used-Book Market* (Sept. 2005)).

realities of international commerce, the interpretations of section 109 both by the majority in *Kirtsaeng* and the Ninth Circuit panel in *Costco* impose impossible burdens and transaction costs on suppliers and retailers.

The absurdity of denying first sale rights to imported goods becomes apparent when considering the consequences to commerce and society from such a rule:

- Imported copies of foreign-made copyrighted works—whether a British version of a P.D. James book imported by an individual under the §602(a)(2) "suitcase exemption,"[21] a Joan Miro fine art print purchased from a foreign art dealer, or a foreign-made classical compact disc bought in a foreign department store—could not lawfully be resold, loaned, or given away without committing copyright infringement.

- Libraries could not lend foreign language texts produced abroad.

- Museums could not display works by foreign artists,[22] and galleries and auction houses could not sell or resell foreign-made art works.

---

21. Congress exempted from infringement under 17 U.S.C. §602(a)(2) the "importation . . . for the private use of the importer . . . and not for distribution, by any person with respect to no more than one copy or phonorecord of any one work at any one time, or by any person arriving from outside the United States with respect to copies or phonorecords forming part of such person's personal baggage."

22. Section 109(c) provides a right of public display to the owner of a copy that is "lawfully made under this title."

- Imported cars could not be resold because their engines are controlled by copyrighted software;[23] and if they bore a copyrighted design they could not be leased or rented either.

- Movie disc rental businesses such as Netflix and Redbox, and shops that resell used DVDs, CDs, and video games, all of which owe their existence to the first sale doctrine, could be shut down merely by shifting disc duplication to Mexico or Canada.

These are the precise kinds of noxious restraints on disposition of personal property that the first sale doctrine was intended to prohibit: "To add to the right of exclusive sale the authority to control all future retail sales … would give a right not included in the terms of the statute and, in our view, extend its operation, by construction, beyond its meaning… ." *Bobbs-Merrill Co. v. Straus*, 210 U.S. at 351. Yet, that is the precise result under the first sale doctrine as misinterpreted by *Kirtsaeng* and *Costco*.

II. *Kirtsaeng* Is Wrongly Decided as a Matter of Law and Policy, and Should be Reversed.

A. The Majority Opinion Misinterprets Section 109; the Dissent Faithfully Interprets It.

The *Kirtsaeng* panel faced "an issue of first impression in our Court." *Id.*, 654 F.3d at 212. Deeming the five-word

23. An exception to an exception to the first sale doctrine allows the rental, lease, or lending of a computer program embodied in a machine or product, such as a car. 17 U.S.C. §109(b)1(B)(i). There is no hint in the statute or legislative history that Congress meant to apply this provision only to domestically-produced vehicles.

phrase "lawfully made under this title" to be "simply unclear" and "utterly ambiguous," the panel majority found the text susceptible to three plausible meanings: "(1) 'manufactured in the United States'; (2) 'any work that is subject to protection under this title'; or (3) 'lawfully made under this title had this title been applicable.'" *Id.*, at 220 (footnote omitted). The first interpretation gave primacy to a copyright owner's ability to exclude importation of authentic foreign-made copies under section 602(a). Either of the latter two interpretations maintained a broader scope of the first sale doctrine under section 109.[24]

The court described the question as "perhaps a close call," but in the end chose the first interpretation. *Kirtsaeng*, 654 F.3d at 221. The court acknowledged that its interpretation found no direct support in the statutory text; and that if Congress had meant section 109(a) to apply only to copies made in the United States "it could have easily written the statute to say precisely that," as Congress had done in other sections of title 17.[25]

The central flaw in the Second Circuit analysis is that it mistakenly divides the universe of copyrighted copies into two exclusive categories: those made in the United States, and those made in another country. *See Kirtsaeng*, 654 F.3d at 221. That analysis erroneously omits a third category which is most pertinent here: copies made in a foreign country by or with the authority of the U.S. copyright owner.

---

24. *See Kirtsaeng*, 654 F.3d at 220 & n.38.

25. *Id.* at 220.

The dissenting judge in *Kirtsaeng* understood the importance of this distinction. Judge Murtha observed that Congress elsewhere in title 17 had inserted a domestic manufacturing requirement where it so intended, hence there was no justification to graft that restriction onto the words "lawfully made." 654 F.3d at 225-226.[26] Congress also used the phrase "under this title" in multiple sections of the Copyright Act to describe the scope of rights created under title 17. *Id.* Moreover, the dissent noted, foreign entities can exercise U.S. copyright rights (*i.e.*, can act "under this title") acting either as or with the authority of the U.S. copyright owner. *Id.* Therefore, the dissent gave the phrase its natural reading, and held that a copy "lawfully made under this title" means that "regardless of place of manufacture, a copy authorized by the U.S. rightsholder is lawful under U.S. copyright law." *Id.* at 226.[27]

---

26. For example, section 601 prohibited certain importation of copies of books protected "under this title" unless they were "manufactured in the United States or Canada"; and contains a detailed description of what "manufacture" means in that context. Had Congress meant section 109 also to be so limited, undoubtedly they would have defined similarly explicit conditions, since both provisions were concurrently being enacted in the 1976 Act. Moreover, it would be anomalous to imply broad domestic manufacturing conditions into section 109 when, in the same Act, Congress found such requirements to be unjustified and sunset them. H.R. Rep. No. 94-1476, at 166 (1976).

27. Although not pertinent to this case, the phrase "under this title" is broader than "by or with the authority of the copyright owner" as it includes copies made under the authority of title 17 without the authority of the copyright owner; for example, phonorecords made under the section 115 compulsory license. H.R. Rep. No. 94-1476, at 79 (1976).

Under the dissent's interpretation, the phrase "lawfully made under this title" has a consistent text-based meaning. Regardless of whether a copy is produced in the United States or abroad, if the copy is made by or under the authority of the U.S. copyright owner, the owner and all subsequent owners of that copy are protected under the first sale doctrine.

B. *Quality King* Does Not Support the Second Circuit Majority's Flawed Interpretation.

In *Quality King*, this Court analyzed the interaction of sections 106, 109, and 602 of the Copyright Act, and held the importation prohibitions of section 602(a) are "simply inapplicable" to both domestic and foreign owners of lawfully-made products that import and resell them in the United States. *Id.*, 523 U.S. at 145. After the first sale, even unauthorized resales do not infringe the copyright owner's exclusive right to distribute. *Id.* at 143. "The 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." *Id.* at 152.[28]

Quality King gave full force to the first sale doctrine, and placed retailer and consumer first sale rights beyond the reach of the copyright owner:

> After the first sale of a copyrighted item "lawfully made under this title," any subsequent

28. *Cf. Quanta Computer, Inc. v. LG Elecs, Inc.*, 553 U.S. at 625 ("[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item").

> purchaser, whether from a domestic or from a foreign reseller, is obviously an "owner" of that item. Read literally, §109(a) unambiguously states that such an owner "is entitled, without the authority of the copyright owner, to sell" that item.

Id., 523 U.S. at 145. By affirming the primacy of the first sale doctrine over the importation ban, the Court granted a crucial victory to commercial businesses and consumers alike.

The majority in *Kirtsaeng* relied upon a misreading of this Court's opinion in *Quality King*. In *dicta*, the Court there considered a scenario in which a U.S. copyright owner assigned publishing and distribution rights separately to British and U.S. publishers under their countries' respective laws. *Quality King,* 523 U.S. at 148. Under those facts, the Court posited that the British publisher (which presumably possessed the right to manufacture only under British law) could not distribute that book in the United States pursuant to a first sale defense. Thus, the key fact in this hypothetical was not the *place* of manufacture but rather the *right* to manufacture under title 17.[29] That is not the scenario presented here

29. *Cf. Boesch v. Graff,* 133 U.S. 697 (1890) (importation of foreign lamps lawfully made in Germany by one who had no rights under the United States patent infringed rights of United States patent assignee). Several other courts have misread this passage in *Quality King* as if it turned on the place of manufacture. *See Pearson Educ. Inc. v. Arora*, 717 F. Supp. 2d 374, 379 (S.D.N.Y. 2010) ("[t]his Court has—albeit unenthusiastically—followed the Supreme Court's suggestion that the 'first sale' rule does not apply to works copyrighted in the United States, manufactured

or in *Costco*, where the copies were produced by the U.S. copyright owner or its authorized subsidiary.

III. Both the *Kirtsaeng* Majority and *Costco* Ignore the Policies Underlying the First Sale Doctrine, Putting at Risk Retailers, Their Suppliers, and Their Customers.

1. The Second Circuit majority not only made parallel importations of copies of copyrighted works unlawful; it negated first sale privileges even for copies manufactured abroad, or imported and sold in the United States, by or under the authority of the copyright owner. While the majority acknowledged that its interpretation created undesirable real world results, it did nothing to ameliorate them. The Ninth Circuit in *Costco* attempted a band-aid solution to these anomalous consequences. But neither resolves the adverse impact of their respective rules upon United States retail commerce—an impact completely avoidable by adopting the interpretation of section 109(a) by the *Kirtsaeng* dissent.

The *Kirtsaeng* majority creates two major impediments to lawful retail commerce.[30] First, retailers cannot feasibly ascertain whether particular goods are protected by

---

abroad, and subsequently imported and sold in the United States"); *Pearson Educ. Inc. v. Liu*, 656 F. Supp. 2d 407, 416 (S.D.N.Y. 2009) ("[t]his Court therefore holds, *dubitante*, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad").

30. The Ninth Circuit adds a third, equally unknowable, condition of whether each importation was authorized by the copyright owner.

a copyright. A copyright owner is under no obligation to place a copyright notice on goods,[31] and notices pertaining to ancillary copyrights, such as packet inserts or the reverse of a watch, may be placed inside product packaging where they are not visible at the time of purchase. It is no solution to suggest that a distributor or retailer should presume that every product is copyright-protected, as the costs and risks of doing so would make normal commerce impossible. Second, neither a mass market retail chain that imports billions of dollars of goods for resale each year, nor a local shop that purchases its inventory from importers and distributors in the middle of the supply chain, can know for certain the actual place of manufacture of all the lawfully-made imported goods they purchase for resale. *Supra*, at 13-14.

The *Kirtsaeng* dissent correctly recognized that the majority's interpretation would impose insupportable economic burdens on retailers and consumers alike: "Granting a copyright holder unlimited power to control all commercial activities involving copies of her work would create high transaction costs and lead to uncertainty in the secondary market."[32] Retailers simply have no acceptable recourse under the majority's view.

---

31. Pursuant to the Berne Convention Implementation Act of 1988, copyright protection no longer relies on the formality of giving notice, which under section 401(a) now is permissive. Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988).

32. *Id.* at 227. *See also Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) ("The impracticality of the burden [plaintiff] would have us impose on the retailers gives us pause about whether its reading of *Parfums Givenchy* and *BMG Music* is correct.").

They cannot independently investigate the provenance or copyright status of tens of thousands of products without unacceptably increasing transaction costs and the price of goods paid by consumers. And boilerplate contractual representations, warranties, or indemnifications as to origin and copyright status offer far less protection against infringement claims than does the comprehensive legal defense afforded by the first sale doctrine.

This Court acknowledged in the patent context how the first sale doctrine promotes commerce and personal property rights, and protects legitimate businesses against the uncertain risks of infringement liability:

> one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. … *The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.*[33]

Businesses that rely on exceptions to intellectual property rights need bright line rules to avoid the "disastrous or even lethal consequences" of infringement suits:

> businessmen are certainly entitled to know when they are committing an infringement. … But to what avail these congressional precautions if this Court, by its opinions, would

33. *Keeler v. Standard Folding-Bed Co.*, 157 U.S. 659, 666-667 (1895) (emphasis added).

> subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them.…[34]

The Ninth Circuit similarly acknowledged how an overbroad interpretation of section 602(a) and a narrow scope of section 109 would impose undue burdens and financial risks upon lawful commerce:

> [E]very little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back.[35]

The principles announced in *Quality King* relieve retailers from unknown and unknowable infringement litigation risks that could jeopardize their businesses. But the *Kirtsaeng* majority and the Ninth Circuit in *Costco* ignored these consequences. As a result, the *Kirtsaeng* majority and *Costco* decisions cause undue disruption and uncertainty for retailers and distributors, who confront the risks of selling virtually any imported product that could have a copyrightable label, logo, or insert—risks as far-reaching as injunctive relief, seizure and loss of inventory, statutory damages (ranging from $750 to

---

34. *Aro Mfg. Co. v. Convertible Top Replacement Co.,* 365 U.S. 336, 358-359 (1961) (Black, J., concurring).

35. *Disenos Artisticos*, 97 F.3d at 380.

$150,000), and payment of plaintiff's (and its own) costs and attorneys' fees.[36]

2. The *Kirtsaeng* majority recognized that a domestic manufacturing requirement also creates perverse incentives for U.S. copyright owners to produce all copies of their copyrighted works outside the United States. The court recognized the "force" behind concerns that its interpretation would reward copyright owners that moved manufacturing offshore—a result that Congress could not have intended.[37] No copyright or public policy is served by the attendant losses of jobs and tax revenue, or the manifest disadvantages to consumer and commercial interests.

---

36. *See Parfums Givenchy, Inc.*, 38 F.3d at 482 ("the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer"); *Am. Int'l Pictures, Inc. v. Foreman*, 576 F.2d 661, 664 (5th Cir. 1978) ("even an unwitting purchaser who buys a copy in the secondary market can be held liable for infringement if the copy was not the subject of a first sale by the copyright holder").

37. *See Kirtsaeng*, 654 F.3d at 228 (Murtha, J. dissenting) ("I do not believe Congress intended to provide an incentive for U.S. copyright holders to manufacture copies of their work abroad."). That very concern led the Ninth Circuit to criticize its own prior holding on the scope of the first sale doctrine in *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991). *See L'anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1115 (9th Cir. 1996), *rev'd on other grounds*, 523 U.S. 135 (1998) (noting leading commentators' criticism of *BMG Music*); *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d at 1149-50 (noting "widespread criticism" of *BMG Music*); *Parfums Givenchy v. Drug Emporium*, 38 F.3d at 482 n.8 (characterizing as "absurd and unintended" to give "foreign manufactured goods . . . greater copyright protection than goods manufactured in the United States").

3. The Ninth Circuit in *Costco* recognized these same policy considerations, and the absurd results flowing from a domestic manufacturing requirement.[38] Its judicially-created solution would apply the first sale doctrine where the sale in the United States of foreign-made copies was authorized by the copyright owner.[39]

Rather than interpret section 109(a) to avoid such absurd results, or adopt the extra-statutory rule invented by the Ninth Circuit, the *Kirtsaeng* majority stuck by its draconian view. It instead suggested that "[i]f we have misunderstood Congressional purpose in enacting the first sale doctrine, or if our decision leads to policy consequences that were not foreseen by Congress or which Congress now finds unpalatable, Congress is of course able to correct our judgment." *Id.* at 222.

The *Kirtsaeng* dissent also rejected the Ninth Circuit's "imperfect solution," which "finds no support in the statutory text" and conflicts with the teaching of *Quality King* that the place of the sale "is irrelevant for first sale purposes." *Id.* at 228. Indeed, conditioning the first sale doctrine on the consent of the copyright owner reads out of section 109(a) its most fundamental attribute

---

38. *See Omega SA v. Costco*, 541 F.3d at 989: "A U.S. copyright owner, for example, would be unable to exercise distribution rights after one lawful, domestic sale of a watch lawfully made in South Dakota, but, without the limits imposed by §109(a), the same owner could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland."

39. "[P]arties can raise §109(a) as a defense in cases involving foreign-made copies so long as a lawful domestic sale has occurred." *Id.* (citations omitted).

-- that the owner of a copy is entitled to the benefits of the first sale doctrine "*without* the authority of the copyright owner" (emphasis added).[40]

As a matter of policy, the Ninth Circuit's approach does little to soften the blow against retailers and distributors. Given the practical difficulties of assuring the lineage of the goods they sell, retailers would remain at risk whenever buying and selling imported goods. Moreover, the requirement of an "authorized" domestic sale deprives the retail chain of the competitive benefits of broader distribution and arbitraged pricing of authentic foreign-made goods. Thus, both the *Kirtsaeng* majority and the Ninth Circuit *Costco* decisions subjugate retailer competition to copyright owner price controls, resulting in fewer goods offered in fewer retail outlets at artificially inflated prices.[41]

3. Applying the first sale doctrine only to domestically-produced goods also unfairly advantages foreign owners of U.S. copyrights over U.S. copyright holders. In *Parfums Givenchy,* the Ninth Circuit concluded that denying first

---

40. Thus, the Ninth Circuit in *Costco* committed two paradoxical errors of statutory interpretation. It read *into* section 109(a) a requirement of manufacture "in the United States," and read *out* of the text the express requirement that the doctrine applies "without the authority of the copyright owner."

41. The enormous cumulative impact of that price discrimination cannot be justified by copyright policy, inasmuch as it may have little or nothing to do with the value of the asserted copyrighted work. Taking *Costco* as an example, no one reasonably could contend that the $700 difference between Omega's U.S. MSRP and Costco's retail price bore any relation to the one-centimeter engraving on the back of the watch.

sale rights to foreign made goods would contravene both the language of the statute and public policy:

> This would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States. We agree that such a result would be untenable, and that nothing in the legislative history or text of §602 supports such an interpretation.[42]

No rule of statutory interpretation suggests that Congress intended to give greater rights to foreign manufacturers than to U.S. manufacturers—particularly where even the Second Circuit found the text readily susceptible to interpretations that created no absurd policy results.

4. Under both the *Kirtsaeng* majority and *Costco*, any purchaser of a foreign-produced copyrighted work—even if made with the express authority of the copyright owner—could lose the right to dispose of the property in any manner of resale, gift, or lending, without being branded an infringer. The result is a multibillion dollar drain on consumers and the American economy, through higher prices paid for goods that could have been purchased at lower arbitraged prices. That impact

---

42. *Parfums Givenchy*, 38 F.3d at 482 n.8 (citing *BMG Music*, 952 F.2d at 319).

will become more pervasive, and more costly, given the rapid growth of parallel importation by distributors and retailers. And it could similarly affect commerce in used imported goods via popular online retail and resale sites such as amazon.com, eBay.com, and craigslist.org, by subjecting consumers and resellers to the threat of infringement suits, and increasing prices.

5. In sum, the high economic and social costs of the decisions of the *Kirtsaeng* majority and the Ninth Circuit in *Costco* further support their reversal. If the interpretation of the first sale statute by either of these courts is allowed to stand, the retail industry will have little confidence to stock authentic goods acquired from an independent exporter, importer, or distributor, and less ability to protect themselves against the threat of infringement liability. And consumers will unnecessarily pay higher prices and suffer losses of competition for reasons wholly unrelated to the expressive value of a copyrighted work.

This Court should articulate a clear interpretation of section 109(a), consistent with the statutory text, that applies the first sale doctrine to any copies of copyrighted works that are made by or with the authority of the copyright owner or title 17—*i.e.*, that are "lawfully made under this title."

CONCLUSION

The decision of the Second Circuit should be reversed.

Respectfully submitted,

W. Stephen Cannon
Seth D. Greenstein*
Constantine Cannon LLP
1301 K Street N.W.,
Suite 1050 East
Washington, D.C. 20005
(202) 204-3500
sgreenstein@
constantinecannon.com

Counsel for Amici Curiae

* *Counsel of Record*