

No. 11-697

In the Supreme Court of the United States

SUPAP KIRTSANG 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 FOR GOODWILL INDUSTRIES
INTERNATIONAL, INC. AS *AMICUS CURIAE* IN
SUPPORT OF PETITIONER**

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QUESTION PRESENTED

Whether the first-sale doctrine, which is codified at Section 109(a) of the Copyright Act and allows the owner of a copy “lawfully made under this title” to sell or otherwise dispose of the copy without the copyright owner’s permission, precludes liability under Section 602(a)(1) of the Copyright Act, which makes it impermissible to import copies of a copyrighted work “without the authority of the owner.”

TABLE OF CONTENTS

QUESTION PRESENTED	i
INTRODUCTION AND INTEREST OF THE AMICUS CURIAE.....	1
STATEMENT	3
SUMMARY OF THE ARGUMENT.....	4
ARGUMENT	7
I. The Second Circuit’s Rule Would Make it Extremely Difficult To Run a Charity that Relies on the Donation of Secondhand Goods To Generate Revenue	7
A. The Decision Below Could Impact Goodwill's Ability To Support its Charitable Mission	8
B. The Decision Below Could Have a Chilling Effect on Donations	11
II. The Second Circuit’s Decision Misconstrues the Statutory Text, this Court’s Prior Decisions, and the Purpose of the First-Sale Doctrine	13
A. A Proper Reading of the Copyright Act Supports First-Sale Protection for Goods Manufactured and Purchased Abroad	15
1. The Language and History of Section 602 Support First-Sale Protection for the Sale of Goods Manufactured and Purchased Abroad	16
2. Congress Used the Phrase “Lawfully Made Under This Title” in Other Sections of Title 17 and Was Not Referring to a Domestic Manufacturing Requirement	19
3. Where Congress Considered the Place of Manufacture To Be Important, the Statutory Language Is Unequivocal.....	21

- B. The Second Circuit Misinterpreted Dicta from this Court’s Holding in *Quality King* 23
- C. Eliminating the First-Sale Doctrine for Goods Manufactured Abroad Would Frustrate the Purpose for Which the Rule Was Created 26
- III. The Decision Below Is Wrong as a Matter of Public Policy 28
 - A. The Second Circuit’s Rule Would Give Copyright Owners New Powers To Divide Markets at the Expense of Charities and Consumers 28
 - B. The Second Circuit’s Rule Would Create a Perverse and Unintended Incentive To Manufacture Goods outside the United States ... 31
- CONCLUSION 32

TABLE OF AUTHORITIES

	Page(s)
CASES	
<i>Bobbs-Merrill Co. v. Straus</i> , 210 U.S. 339 (1908).....	<i>passim</i>
<i>Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.</i> , 84 F.3d 1143 (9th Cir.), <i>cert. denied</i> , 519 U.S. 873 (1996).....	13, 14
<i>Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.</i> , 97 F.3d 377 (9th Cir. 1996).....	8, 18, 29
<i>John Wiley & Sons, Inc., v. Kirtsaeng</i> , 654 F.3d 210 (2d Cir. 2011), <i>cert. granted</i> , 132 S. Ct. 1905 (2012).....	<i>passim</i>
<i>Monster Communications, Inc. v. Turner Broadcasting System, Inc.</i> , 935 F. Supp. 490 (S.D.N.Y. 1996)	17
<i>Omega S.A. v. Costco Wholesale Corp.</i> , 541 F.3d 982 (9th Cir. 2008), <i>cert. granted</i> , 130 S. Ct. 2089, <i>aff’d by an equally divided court</i> , 131 S. Ct. 565 (2010).....	13, 28, 29
<i>Parfums Givenchy, Inc. v. Drug Emporium, Inc.</i> , 38 F.3d 477 (9th Cir. 1994).....	31
<i>Perfect 10, Inc. v. CCBill LLC</i> , 488 F.3d 1102 (9th Cir. 2007).....	10
<i>Powerex Corp. v. Reliant Energy Services, Inc.</i> , 551 U.S. 224 (2007).....	19

<i>Quality King Distributors, Inc. v. L'anza Research International Inc., 523 U.S. 135 (1998)</i>	<i>passim</i>
<i>Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093 (3d Cir. 1988)</i>	13, 23, 28, 29
<i>Sony Corp. of America v. Universal City Studios, Inc., 464 U.S. 417 (1984)</i>	26
<i>UMG Recordings, Inc. v. Shelter Capital Partners LLC, 667 F.3d 1022 (9th Cir. 2011)</i>	10
<i>United States v. Sealy, Inc., 388 U.S. 350 (1967)</i>	30

STATUTES

U.S. CONST. art. I, § 8, cl. 8.....	4
17 U.S.C. § 106	16, 17
17 U.S.C. § 106(3).....	11, 16
17 U.S.C. § 107	16
17 U.S.C. § 109(a).....	<i>passim</i>
17 U.S.C. § 109(c)	20
17 U.S.C. § 109(e).....	20
17 U.S.C. § 110	20
17 U.S.C. § 512(c)	10

17 U.S.C. § 601 (1976) (repealed 2010)	22
17 U.S.C. § 602(a).....	<i>passim</i>
17 U.S.C. § 602(a)(1)	1, 16, 17, 19
17 U.S.C. § 1001	20
17 U.S.C. § 1004	21
17 U.S.C. § 1006	20
17 U.S.C. § 1006(a)(1)(A)	21
Copyright Act of 1909, Ch. 320, § 41, 35 Stat. 1075 (1909).....	21

LEGISLATIVE HISTORY

H.R. Rep. No. 60-2222, 60th Cong., 2d Sess. (1909)	18
H.R. Rep. No. 94-1476 (1976), <i>reprinted in</i> 1976 U.S.C.C.A.N. 5659	18, 22, 23
H.R. Rep. No. 98-987 (1984), <i>reprinted in</i> 1984 U.S.C.C.A.N. 2898	18
H.R. Rep. No. 105-551, pt. 2 (1998).....	9-10
S. Rep. No. 105-190 (1998).....	9

OTHER AUTHORITIES

Jaime S. Gorelick & Rory K. Little, <i>The Case for Parallel Importation</i> , 11 N.C.J. INT'L L. & COMM. REG. 205 (1986)	28, 30
--	--------

Romana Autry & Francisco Bova, <i>Gray Markets and Multinational Transfer Pricing</i> , Harv. Bus. School Accounting & Mgmt. Unit Working Paper No. 09-098 (Oct. 2009)	30
<i>U.S. International Trade in Goods and Services Highlights</i> , UNITED STATES CENSUS BUREAU (June 8, 2012), http://www.census.gov/indicator/www/ustrade.html	9

INTRODUCTION AND INTEREST OF THE *AMICUS CURIAE*¹

In the decision below, the Second Circuit held that the “first-sale doctrine” codified in Section 109(a) of the Copyright Act “applies only to copies manufactured domestically,” and for that reason does not foreclose liability under Section 602(a)(1) for “*import[ing]*, without the authority of the owner of the copyright . . . copies . . . of a work that have been acquired outside the United States.” In so holding, the Second Circuit effectively and without statutory warrant gutted the first-sale doctrine as applied not only to the unauthorized importation of copies acquired abroad, but also to subsequent *sales* of those works by bona fide purchasers in the United States.

The Second Circuit’s decision thus threatens the ability of charitable organizations, such as Goodwill Industries International, Inc. (“Goodwill”), the nation’s fourth largest charitable organization, to fund their missions. Every year, millions of people donate their used clothes, lamps, books, and countless other items to Goodwill. Goodwill resells these donated goods through over 150 domestic independent retail locations and through its website, www.shopgoodwill.com. Goodwill’s mission—to help individuals, families, and communities “reach their full potential through learning and the power of work”—depends directly upon the revenue generated from the sale of millions of donations made each year, which support job training and other

¹ The parties have consented to the filing of this brief, and their letters of consent are on file with the Clerk. No counsel for any party has authored this brief, in whole or in part, and no counsel or party has made any monetary contribution intended to fund the preparation or submission of this brief.

community-based services for people with challenges to employment.

In the last year alone, 79 million United States citizens donated their used goods to Goodwill, generating \$2.59 billion that went directly to support the creation of jobs in this country. As a result, Goodwill helped 189,000 people find jobs and provided job training to another 4.2 million people—work that was directly funded by Goodwill’s resale of donated items.

Goodwill’s charitable work is accomplished through the secondary market, with Goodwill acting as a nonprofit reseller for the betterment of the United States, its economy, and its workforce. Accordingly, the outcome of this case is of extraordinary importance to Goodwill, and to charitable endeavors across the country. Should the Second Circuit’s decision be affirmed and this Court determine that the first-sale doctrine does not include goods manufactured abroad, the change in the law will have a catastrophic effect on the viability of the secondary market and, consequently, on Goodwill’s ability to provide needed community-based services.

Accordingly, for the reasons explained below, Goodwill respectfully requests that the Court overturn the Second Circuit’s decision—either by reversing that decision outright, or by affirming on the alternative ground that, although the importation clause may create liability for those who impermissibly import a copyrighted good, the first-sale protection still attaches for subsequent sellers like Goodwill.

STATEMENT

This action arises from an individual's attempt to import and resell textbooks, manufactured and lawfully purchased abroad, in the secondary market. As a student at Cornell University, Petitioner Supap Kirtsaeng, a native of Thailand, subsidized his expenses by lawfully purchasing English-language textbooks in Thailand (either personally or through family members), shipping them to the United States, and reselling the textbooks on the Internet auction site eBay. P.A. 6-7a; J.A. 63, 80. In total, Mr. Kirtsaeng received \$37,000 in revenue from the sale of the copyrighted textbooks at issue here. J.A. 63.

Some of the textbooks sold by Mr. Kirtsaeng were copyrighted in the United States by Respondent John Wiley & Sons, Inc. ("Wiley"). J.A. 61-62, 197; S.A. 1-17. These textbooks were produced by Wiley through an Asian subsidiary for sale in specific Asian markets. J.A. 7-8, 65-66. They were, however, also expressly protected under United States copyright law. J.A. 179, 182, 184. Wiley sued Mr. Kirtsaeng in the United States District Court for the Southern District of New York claiming copyright infringement. P.A. 49a.

Mr. Kirtsaeng raised an affirmative defense predicated upon the first-sale doctrine. However, before trial the district court rejected Mr. Kirtsaeng's first-sale defense as a matter of law. P.A. 44-77a. The district court stated that a first-sale defense was "unavailable to goods manufactured in a foreign country." P.A. 59a. A jury found Mr. Kirtsaeng

liable for the willful infringement of eight of Wiley's works, and awarded Wiley \$600,000 in damages. P.A. 12a.

Mr. Kirtsaeng appealed the jury award to the Second Circuit. P.A. 12a. The majority of a divided panel held that "the phrase 'lawfully made under this Title' in § 109(a) refers specifically and exclusively to works that are made in territories in which the Copyright Act is law, and not to foreign-manufactured works." P.A. 27-28a.

However, Judge J. Garvan Murtha, sitting by designation, noted in his dissent that "the first-sale defense should apply to a copy of a work that enjoys United States copyright protection wherever manufactured." P.A. 34a. As we demonstrate below, Judge Murtha was correct.

SUMMARY OF THE ARGUMENT

The purpose of the Copyright Act is to "promote the Progress of Science and useful Arts, by securing, for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." See U.S. CONST. art. I, § 8, cl. 8. To safeguard this right, copyright holders are given a limited monopoly in their works.

The first-sale doctrine, first articulated by this Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908) further defines the scope of that monopoly. In *Bobbs-Merrill*, the Court mandated that, although copyright owners have the exclusive right to profit from the sale of their works, they cannot control future prices of goods in the stream of commerce after the first-sale. *Id.* This legal principle strikes a balance between the rights of copyright holders and of businesses, charities, and

consumers. The continued existence of the first-sale doctrine is essential because it makes the market for secondary goods possible—it allows resellers to sell goods at prices that people are willing to pay for them, free from the pervasive threat of a copyright infringement claim.

The Second Circuit’s decision, however, directly undermines the first-sale doctrine and the alienation rights it protects. Relying on nothing more than dicta and the “ambiguous” language of section 602(a), the Second Circuit found that the first-sale doctrine *never* applies to foreign-manufactured works. *John Wiley & Sons, Inc., v. Kirtsaeng*, 654 F.3d 210, 220-21 (2d Cir. 2011), *cert. granted*, 132 S. Ct. 1905 (2012) (P.A. 24a). Moreover, the Second Circuit reasoned that Congress intended to allow copyright owners to “treat differently the international and domestic markets for the particular copyrighted work.” P.A. 25a.

This interpretation makes it financially and organizationally impossible for a charitable organization like Goodwill to function. By limiting first-sale protection to only those items manufactured in the United States, the Second Circuit puts the onus of investigating the origin of goods in the secondary market on the purchaser—or as with Goodwill—the recipient of a donation. That approach diverts critical resources provided by the donating public to assist Goodwill in accomplishing its mission, and would require the redirection of Goodwill’s limited resources to internal policing and investigative activities.

What is worse, there is no sound legal basis for the Second Circuit’s interpretation. To the contrary, the Second Circuit misconstrued the statutory text of

the Copyright Act, by rendering Section 109(a) subject to Section 602(a). In doing so, it wholly mistook the interaction between the first-sale doctrine and the importation provision: As a matter of statutory construction, the importation provision must itself be subject to the first-sale doctrine with respect to goods manufactured and purchased abroad.

But even were the Court *not* to accept the principle that the importation provision is subject to the first-sale defense, the two sections of the Copyright Act *can* still exist in harmony: Copyright owners who object to the re-sale of foreign-manufactured goods in the United States can assert a claim for unlawful *importation* under Section 602(a) without invalidating the effect of the initial foreign sale of the goods as to subsequent purchasers. If the Court elects to affirm the judgment below, we urge the Court to do so on this basis rather than on the ground, embraced by the Second Circuit, that the first-sale doctrine does not apply at all to copies manufactured abroad.

The Second Circuit's improper interpretation, moreover, is based primarily on a misreading of this Court's decision in *Quality King*, a misreading that disserves the purpose of the first-sale doctrine entirely.

The Second Circuit's formulation of the Copyright Act is also wrong as a matter of public policy. In addition to the potential impact on the secondary market and charitable giving, the Second Circuit's analysis would skew the balance between copyright owners and lawful purchasers, allowing copyright owners wide latitude to control markets and utilize discriminatory pricing. As a result, copyright owners

who manufacture goods outside the United States would retain *more* control over their copyrighted works than owners who manufacture copies in the United States—thus perversely incentivizing copyright owners to move manufacturing overseas.

In essence, the Second Circuit's decision destroys first-sale protection for all copyrighted works manufactured abroad; allows copyright holders to control the price of a foreign-produced copyrighted work no matter how many times it is resold; and subjects every stakeholder in the economy to potential copy-right infringement liability for the resale of copyrighted works that happen to be manufactured abroad. The Second Circuit's rule thereby severely limits the viability of the secondary market for used goods, and thus threatens the ability of Goodwill and similar charities to carry out their charitable missions.

ARGUMENT

I. The Second Circuit's Rule Would Make it Extremely Difficult To Run a Charity that Relies on the Donation of Secondhand Goods To Generate Revenue

One serious and undoubtedly unintended consequence of the Second Circuit's decision is that it would increase the cost of operations for charities like Goodwill, who rely on the donation of secondhand goods, to a level that would make funding their charitable missions an extremely challenging. Today, to fund its charitable activities, over 150 Goodwill retail locations in the United States sell donated goods. See Goodwill Industries International, Inc., <http://www.goodwill.org> (last visited June 25, 2012). In 2011, 79 million people donated to Goodwill in the United States and

Canada. *Id.* That same year, Goodwill provided services to more than 4.2 million individuals, of which 189,000 found jobs. *Id.* Those placed into employment went on to earn \$2.95 billion in taxable income. *Id.* In addition to job training, Goodwill also provides a host of community-based programs, including childcare, financial education, free tax assistance, residential and medical services, transportation, and youth mentoring. *Id.*

This is supported by the sale of used goods in the secondary market—both at Goodwill’s retail locations and through its online platform, www.shopgoodwill.com.² Last year, Goodwill generated \$2.59 billion from the sale of used goods—money that was used directly to support the creation of jobs and provide other community-based services.

A. The Decision Below Could Impact Goodwill’s Ability To Support its Charitable Mission

If the Second Circuit’s decision is affirmed, every charity in the United States that relies on public donations would need to somehow investigate the origin of each donation or risk being sued for infringement. As the Ninth Circuit explained in *Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, “every little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American

² www.shopgoodwill.com is the nation’s first nonprofit internet auction site. Goodwill Industries International, Inc., <http://www.goodwill.org> (last visited June 25, 2012). The most valuable goods Goodwill collects are sold on this platform. *Id.* Since 1999, 5.6 million items have been auctioned and by 2010, there were 567,000 registered users internationally. *Id.* In 2011, www.shopgoodwill.com generated \$143 million in revenue that was used to support Goodwill’s ultimate mission. *Id.*

distributors, where unbeknownst to the gift shop proprietor, the copyright owner had attempted to arrange some different means of distribution several transactions back.” 97 F.3d 377, 380 (9th Cir. 1996). Even assuming an investigation into the millions of items received by Goodwill each year could successfully be conducted, Goodwill lacks the resources to determine whether a particular item were manufactured abroad and, if it was manufactured abroad, whether the item was imported into the United States with the copyright owner’s consent.³ Given the sheer number of donations made to Goodwill, conducting these investigations would be financially and operationally impossible. The potential added transaction costs from the Second Circuit’s ruling would do serious harm to Goodwill and adversely affect the running of its charitable operations.

Nor can Goodwill solve this problem by monitoring the origin of donated goods. Goodwill depends upon third parties to donate the items that help support the Goodwill mission, both at its retail locations and through its website, www.shopgoodwill.com. Congress has already espoused an interest in promoting the expansion of e-commerce, through the provision of safe harbors for Internet service providers in the Digital Millennium Copyright Act (“DMCA”). S. Rep. No. 105-190, at 1-2

³ Vast quantities of used goods pass through Goodwill’s charitable retail outlets every year. See Goodwill Industries International, Inc., <http://www.goodwill.org> (last visited June 25, 2012). Given that the United States currently has a trade deficit of approximately \$50 billion, there is a very high probability that a particular item donated to Goodwill was manufactured abroad. See *U.S. International Trade in Goods and Services Highlights*, UNITED STATES CENSUS BUREAU (June 8, 2012), <http://www.census.gov/indicator/www/ustrade.html>.

(1998); H.R. Rep. No. 105-551, pt. 2, at 21 (1998) (the purpose of the DMCA is to “facilitate the robust development and world-wide expansion of electronic commerce, communications, research, development, and education in the digital age,” and “balance[] the interests of content owners, on-line and other service providers, and information users in a way that will foster the continued development of electronic commerce and the growth of the Internet.”). Goodwill is simply furthering the intent of Congress espoused in the DMCA by bringing charitable work into the Internet age through an online platform for the re-sale of donated goods.

Goodwill, like any online retailer, relies upon the assumption that people donating items to Goodwill are authorized to do so.⁴ Like service providers subject to safe harbor from copyright infringement liability under the DMCA, Goodwill and other charitable organizations are directly reliant upon the conduct of third parties for their very existence. Any duty to investigate the origin of each item donated to one of Goodwill’s over 150 retail locations in the United States would severely undermine the ability of Goodwill to provide services to those in need and achieve its mission.

⁴ In this respect, Goodwill is analogous to an Internet service provider that relies upon its users to upload or share only that content to which they have the requisite intellectual property rights. Under the DMCA, for example, parties at risk of infringement based upon the conduct of third parties are under no duty to investigate third party infringement. See, e.g., 17 U.S.C. § 512(c); *Perfect 10, Inc. v. CCBill LLC*, 488 F.3d 1102, 1114 (9th Cir. 2007) (finding that under 17 U.S.C. § 512(c)(1)(A)(ii) a service provider is not required to investigate potentially infringing conduct); *UMG Recordings, Inc. v. Shelter Capital Partners LLC*, 667 F.3d 1022, 1038 (9th Cir. 2011).

B. The Decision Below Could Have a Chilling Effect on Donations

Removing first-sale protection from foreign-manufactured goods would also undermine the willingness of consumers to donate their used items to charity. Without the protection of the first-sale doctrine, consumers themselves could be held liable for infringement for violating a copyright owner's distribution rights. A consumer would first "have to determine the origin of the copy—either domestic or foreign—before she could sell it [and] [i]f it were foreign made . . . she would need to receive permission from the copyright holder." See P.A. 40a (Murtha, J. dissenting). Just like charities and retailers, individuals typically lack the means to determine the manufacturing and sales history of the goods they buy and sell.

If first-sale protection is dependent upon the place of manufacture, consumers could be held liable for infringement even if items were purchased in the United States. For example, imagine an American consumer going to Britain on vacation and buying a musical album on compact disc that is also copyrighted in the United States. If she sells the British-manufactured album at a garage sale at some time after returning home, she could be held liable for copyright infringement under the ruling below. Likewise, if she decided to donate that same album to Goodwill instead of personally reselling it, she could be liable for infringement simply by making the donation, because under the Copyright Act, a copyright owner's exclusive right to distribute extends to any "transfer of ownership." 17 U.S.C. § 106(3). Because the physical CD was manufactured abroad, the first-sale doctrine would never apply.

Similarly, imagine that Ralph Lauren sold a license to a Chinese company to manufacture and distribute polo shirts in China. What if another Chinese company purchased the polo shirts in bulk, shipped them to the United States, and they were purchased by a consumer? If the consumer decided to donate her used polo shirt to Goodwill she could be held liable for copyright infringement—because the polo shirt was manufactured abroad, it would never be subject to first-sale protection.

Faced with potential copyright infringement liability, consumers would likely be significantly less generous in their donation of goods to charity. Threatened by litigation, the potential chilling effect on donation would make it impossible for Goodwill to run its retail operations and perform its core mission. The Second Circuit even acknowledged the disincentive its ruling places on consumers. As the court explained:

[T]he copyright holder would arguably enjoy the proverbial “best of both worlds” because, in theory, the consumer could not rely on the first-sale doctrine to re-sell the imported copy. In other words, the copyright holder would have an incentive to “outsource” publication to foreign locations to circumvent the availability of the first-sale doctrine as a defense for consumers wishing to re-sell their copies in the domestic market We acknowledge the force of this concern, but it does not affect or alter our interpretation of the Copyright Act.

P.A. 28a n.44.

What the court fails to discuss, however, is the devastating effect its decision has on the secondary market for goods, and charitable organizations in

particular. Absent first-sale protection for goods manufactured abroad, consumers will be discouraged not only from *reselling* used goods, but from *donating* used goods to Goodwill. Without support from individual donations, Goodwill will have great difficulty funding its charitable mission. And of course, Goodwill, a nonprofit reseller of many goods subject to copyright protection, would be placed in the untenable position of having to determine the origin of every donated item on pain of copyright liability. That risk is simply untenable.

II. The Second Circuit’s Decision Misconstrues the Statutory Text, this Court’s Prior Decisions, and the Purpose of the First-Sale Doctrine

There is no sound basis for the Second Circuit’s decision. By its terms, the first-sale doctrine protects any copy “lawfully made under this title.” 17 U.S.C. § 109(a). The disagreement among the circuits turns on how to interpret this phrase. See *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988); *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *cert. granted*, 130 S. Ct. 2089, *aff’d by an equally divided court*, 131 S. Ct. 565 (2010); P.A. 24a-28a; *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 519 U.S. 873 (1996). The Third Circuit chose the most reasonable interpretation, finding that a first sale by the copyright owner extinguishes any right of the owner to later control the importation or subsequent sale of the sold goods. See *Sebastian*, 847 F.2d at 1099. The Ninth Circuit invented an alternate approach and found that goods are subject to the first-sale doctrine only if they were imported and sold in the United States with the authorization of

the copyright owner.⁵ See *Denbicare*, 84 F.3d at 1150. But in the decision below, the Second Circuit took this position even further, finding for the first time that goods manufactured abroad are *never* subject to first-sale protection, regardless of how many times they are sold in this country. P.A. 24a-25a.

However, the majority below repeatedly expressed uncertainty about the meaning of the statute it interpreted and the law it relied on. According to the Second Circuit majority, there were no less than three separate possible meanings of Section 109(a):

“[L]awfully made under this title” could plausibly be interpreted to mean any number of things, including: (1) “manufactured in the United States,” (2) “any work made that is subject to protection under this title,” or (3) “lawfully made under this title had this title been applicable.”

P.A. 23a. As the majority explained, Mr. Kirtsaeng “would prevail if we adopted either of the latter two definitions,” both of which were “consistent with a textual reading of § 109(a).” *Id.* at P.A. 24a n.38. Yet, instead, the court adopted the first definition, despite its concern that its decision would allow a copyright owner to “completely control the resale of its product in United States” and “circumvent the availability of the first sale doctrine as a defense for consumers wishing to resell their copies in the domestic market.” *Id.* at P.A. 28a n.44. Because the

⁵ To the extent the rule envisioned by the Ninth Circuit would require Goodwill, or any charity reliant upon donated goods, to determine whether donations were imported with authorization would create a burden of investigation similar to the rule adopted by the Second Circuit. See *supra* Section I(A).

Second Circuit believed Section 109(a) was ambiguous, it relied on a mere implication gleaned from Section 602(a)—that 602(a) was “obviously intended to allow copyright holders some flexibility to divide or treat differently the international and domestic markets for the particular copyrighted work.” *Id.* at P.A. 25a.

As we now show, there is no reasonable statutory basis for the Second Circuit’s decision. Indeed, as illustrated by the dissent and the decisions of the Third and Ninth Circuits, Mr. Kirtsaeng has at least a reasonable argument that the first-sale doctrine in Section 109(a) works an exception to the portion of Section 602(a) creating liability for importers of goods manufactured abroad. But even if that were not true, the natural meaning of Section 109(a) is that the first-sale doctrine takes effect once a good is legally purchased—even where that good was both manufactured and sold abroad—and that it protects all subsequent owners of that good from infringement based on the *sale* of the good, even if the importer is liable under Section 602(a) based on the *importation* alone. A copyright owner may thus seek to enforce its rights under Section 602(a) without abrogating the first-sale doctrine at all, and without subjecting innocent subsequent owners of a good to unanticipated copyright infringement claims.

A. A Proper Reading of the Copyright Act Supports First-Sale Protection for Goods Manufactured and Purchased Abroad

The Second Circuit’s decision is untenable as a matter of statutory construction, for several reasons.

1. The Language and History of Section 602 Support First-Sale Protection for the Sale of Goods Manufactured and Purchased Abroad

First, although most courts interpreting the intersection between the first-sale doctrine and importation doctrine focus on the seemingly ambiguous phrase “lawfully made under this title” in Section 109(a), it is equally important to seek guidance from the language of Section 602(a)(1). The importation doctrine, codified in Section 602(a)(1), is expressly derivative of the rights and the limitations granted in Section 106. Section 602(a)(1) states that:

[i]mportation into the United States, without the authority of the owner of copyright under this title, of copies or . . . of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies . . . *under section 106.*

17 U.S.C. § 602(a)(1) (emphasis added). Section 106 of the Copyright Act grants exclusive rights to copyright owners. 17 U.S.C. § 106. One such right is the exclusive right “to distribute copies . . . of the copyrighted work to the public by sale . . . , rental, lease, or lending.” 17 U.S.C. § 106(3).

However, the exclusive right to distribute granted by Section 106 is not absolute. Rather, Section 106 is subject to the limitations enumerated in Sections 107 through 122. 17 U.S.C. § 106. For example, the right to distribute is limited by the right to fair use of copyrighted work. See 17 U.S.C. § 107. For this reason, the copyright owner of a videotaped boxing match featuring Muhammad Ali would have no right to stop the distribution of a biography about Muhammad Ali that included a copyrighted clip from

one of his matches—the clip is informational and thus a fair use. See *Monster Commc'ns, Inc. v. Turner Broad. Sys., Inc.*, 935 F. Supp. 490 (S.D.N.Y. 1996).

The first-sale doctrine, codified in Section 109(a), is another key limitation to the exclusive right to distribute provided by Section 106. Under the first-sale doctrine, a copyright owner has no further distribution rights after the first sale. 17 U.S.C. § 109(a). Since the importation doctrine of Section 602(a)(1) is expressly derived from limited rights granted in Section 106, it necessarily follows that the importation doctrine is also subject to the first-sale doctrine.

This Court reached that very conclusion in *Quality King Distributors, Inc. v. L'anza Research International Inc.*, 523 U.S. 135, 144 (1998). There, the Court explained that because “§ 106 rights are subject not only to the first sale defense in § 109(a), but also to all the other provisions of sections ‘107 through 120,’” § 602(a) cannot “function[] independently” of § 109. *Id.* at 150. The Court found that “the former [Section] does not subsume the latter; those provisions retain significant independent meaning.” *Id.* at 148-49.

The Court’s reasoning in *Quality King* cannot be reconciled with the rule adopted by the Second Circuit because the idea that the first-sale doctrine *never* applies to copyrighted goods manufactured abroad allows the first-sale doctrine to be completely subsumed by the importation prohibition. Rather than allowing both provisions to carry equal weight, a domestic manufacturing requirement places significant limits on the scope of goods that can receive first-sale protection. Anything from tooth-

brushes made in China to Mercedes-Benz sedans produced in Germany would be excluded from first-sale protection and—at the same time—copyright owners would have vastly increased powers to distribute these same goods in the stream of commerce. The Court “should not put [its] thumb on the legislative scale” and so drastically shift the balance of power in favor of copyright owners at the expense of consumers, charities, and businesses that rely on the secondary market. *Disenos Artisticos*, 97 F.3d at 380.

Moreover, nothing in the statutory history of Section 109 or 602 suggests that Congress intended to allow a copyright holder to control distribution of foreign-made products indefinitely. Congress acknowledged that “[t]he first sale doctrine has its roots in the English common law rule against restraints on alienation of property.” H.R. Rep. No. 98-987, at 2 (1984), *reprinted in* 1984 U.S.C.C.A.N. 2898, 2899. The stated rationale for the rule is 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. 60-2222, 60th Cong., 2d Sess. (1909). Nowhere did Congress suggest that the principle should be limited to goods produced in the United States.

Similarly, the House Report discussing the 1976 act merely states that § 602(a)(1) covers situations where “copies . . . were lawfully made but their distribution in the United States would infringe the U.S. copyright owner’s exclusive rights.” H.R. Rep. No. 94-1476, at 170 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5786. The description in the House Report is entirely consistent with the first-sale doctrine: Section 602(a)(1) is intended to allow

copyright owners to prevent foreign distributors from licensing their products for sale abroad and then, in violation of the license agreements, selling the goods for the first time in the United States (the first-sale). The Court thus need not find that first-sale protection *never* applies to foreign-manufactured and purchased goods in order to give effect to Section 602(a).

Indeed, as previously noted, even if this Court elects to affirm the judgment below, it can and should do so on a narrower ground—that is, that the importation prohibition in Section 602(a)(1) overrides or avoids the first-sale defense only as to a claim for unlawful importation, but does not make that defense categorically unavailable for goods manufactured outside the United States. That conclusion can easily be reached simply by construing the phrase “sell or otherwise dispose of” in Section 109(a) as being limited to the act by which the owner of a copy disposes of his ownership interest. And because the mere “importation” of a copy does not by itself dispose of the owner’s interest, the first-sale rule in Section 109(a) would not extend to “importation” of a copy under Section 602(a)(1).

2. Congress Used the Phrase “Lawfully Made Under This Title” in Other Sections of Title 17 and Was Not Referring to a Domestic Manufacturing Requirement

Similar conclusions follow from an examination of other sections of Title 17 using the same phrase. Congress would not use the same phrase multiple times in the same Act and intend it to have more than one meaning. See *Powerex Corp. v. Reliant Energy Servs., Inc.*, 551 U.S. 224, 232 (2007)

“identical . . . phrases within the same statute should normally be given the same meaning”). The phrase “lawfully made under this title” appears six times throughout the Copyright Act. See §§ 109(a), 109(c), 109(e), 110, 1001, 1006. In each instance, application of Second Circuit’s definition would yield an absurd result.

For example, Section 109(c) provides that “. . . the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy publically” 17 U.S.C. § 109(c). Applying the Second Circuit’s interpretation of “lawfully made under this title” to Section 109(c), a purchaser of a painting made in New York could hang that painting in the lobby of his New York office building without fear of copyright infringement liability. However, the purchaser of a painting made in Montreal, outside of the geographic scope of the Second Circuit’s interpretation of “lawfully made under this title,” could not hang the painting in the lobby of the New York office building without the authorization of the copyright owner. It strains credulity that the same language, used in the same statute, could in one section apply only to works manufactured in the United States (§ 109(a)) and in another apply to works manufactured anywhere in the world (§ 109(c)).

The phrase “lawfully made under this title” is also used in the Audio Home Recording Act (“AHRA”), which regulates the importation of audio recording devices and requires that royalty payments be made to copyright owners from manufacturers, importers, or distributors of such devices. 17 U.S.C. § 1001. The AHRA provides that royalties are owed to

owners of copyrighted works “embodied in a digital musical recording or an analog musical recording lawfully made under this title that has been distributed.” 17 U.S.C. § 1006(a)(1)(A). Under the Second Circuit’s interpretation, royalty payments would only be distributed to copyright owners of physical copies made in the United States. But this result is in direct conflict with other sections of the AHRA, which explicitly provide for royalty payments on audio recordings imported into the United States. 17 U.S.C. § 1004.

If Congress intended § 109(a) to apply only to copies manufactured in the United States it would have written “lawfully manufactured in the United States.” See P.A 38a (Murtha, J. dissenting). Reading that same meaning into the phrase “lawfully made under this title” makes no sense.

3. Where Congress Considered the Place of Manufacture To Be Important, the Statutory Language Is Unequivocal

If Congress intended to limit the first-sale doctrine to copies manufactured in the United States, it could have explicitly done so in Section 109(a). The original first-sale doctrine did not state that a copy had to be “lawfully made under this title” before it could receive protection. Copyright Act of 1909 Ch. 320, § 41, 35 Stat. 1075, 1084 (1909). Rather, the original statute provided, “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.*” *Id.* (emphasis added). And as this Court has noted “[t]here is no reason to assume that Congress intended either § 109(a) or the earlier codifications of the doctrine to limit its broad scope.” *Quality King*,

523 U.S. at 152. Therefore, the slight change in the wording of the statute should not create a broad limitation on the goods covered by the first-sale doctrine.

Moreover, when Congress intended the place of manufacture to be relevant to the meaning of a section in the copyright law, it explicitly wrote the requirement into the statute. For example, the “manufacturing clause” formerly located at Section 601(a) stated that the importation of certain works were prohibited unless “such material have been manufactured in the United States or Canada.” 17 U.S.C. § 601 (1976) (repealed 2010). Under the manufacturing clause, “a book or periodical in the English language [had to] be manufactured in the United States in order to receive full copyright protection.” H.R. Rep. No. 94-1476, at 164 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5780. However, the manufacturing clause was phased out starting in the 1970s and eventually was repealed. 17 U.S.C. § 601 (1976) (repealed 2010). The legislative history reveals that even in the 1970s the manufacturing clause was both antiquated and a burden on economic progress. As the House Committee explained:

The manufacturing clause violates the basic principle that an author’s rights should not be dependent on the circumstances of manufacture. Complete repeal would substantially reduce friction with foreign authors and publishers, increase opportunities for American authors to have their works published, encourage international publishing ventures, and eliminate the tangle of procedural requirements now burdening authors, publishers, the Copyright Office, and the United States Customs Service.

H.R. Rep. No. 94-1476, at 165 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5781.

Furthermore, the Committee concluded that the provision placed “unjustified burdens on the author, who is treated as a hostage.” *Id.* For these reasons, the Committee took steps to gradually eliminate the provision from the Copyright Act. Had Congress intended the first-sale doctrine to be limited by a manufacturing requirement, it thus could certainly have written this requirement into Section 109(a). See *Sebastian*, 847 F.2d at 1098 n.1 (“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 it did not.

Moreover, Congress’ reasoning in repealing the manufacturing requirement shows that Congress disfavored geographic limitations that restrained trade and economic progress. Adding a judicially created manufacturing requirement to the first-sale doctrine would create far worse economic problems than the manufacturing requirement ever did. Such a requirement would not only restrain trade for works of literature, but it would also wreak havoc across every industry that depends upon the importation of foreign copyrighted goods, including the charitable work of Goodwill.

B. The Second Circuit Misinterpreted Dicta from this Court’s Holding in *Quality King*

The Second Circuit’s improper conclusion is based largely on misinterpreted dicta from this Court’s opinion in *Quality King*. In *Quality King* the Court decided, as a matter of law, that “the first sale doctrine endorsed in § 109(a) is applicable to imported copies.” 523 U.S. at 138. The Court made

clear that the limited rights granted by the importation doctrine in Section 602(a) did not apply to the “resale by lawful owners” of copyrighted products. Therefore, there was no copyright violation when goods intended for sale abroad were resold in the United States. *Id.* at 145. The Court explained that “the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of [the plaintiff’s] products who decide to import them and resell them in the United States.” *Id.*

Unfortunately, the Second Circuit ignored the Court’s holding in *Quality King* and instead relied upon dicta. First, the Second Circuit relied on what it believed to be a “key factual difference at work in *Quality King*”—that the copyrighted items had been manufactured in the United States, sold abroad, and made a “roundtrip back.” P.A. 17a. However, although Justice Ginsburg’s concurring opinion referenced this difference, it was not the basis for the Court’s holding. *Id.* P.A. at 43a. Rather, the Court held that the first-sale doctrine applied to imported foreign copies and therefore trumped the importation doctrine entirely. *Quality King*, 523 U.S. at 144-45. The majority opinion did not once mention the place of manufacture in its holding.

The Second Circuit also placed substantial weight on a hypothetical discussed in *Quality King*. In the Court’s hypothetical, “a publisher of the United States edition and a publisher of the British edition of the same work [were each given] . . . exclusive United States distribution rights.” *Quality King*, 523 U.S. at 148. The Court stated that “presumably only those [copies] made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a) [and therefore] [t]he first sale doctrine would not provide the

publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a)” *Id.* This hypothetical turned into a principal basis for the majority’s holding below.

However, the Second Circuit majority twisted the meaning of this Court’s hypothetical. The hypothetical presents a distinct situation in which a United States copyright holder licensed its products to both an American distributor and a distributor in Britain. If the British distributor decided to sell its copyrighted goods to consumers in the United States in violation of its contract it would be an infringement under Section 602(a) because the British distributor sold its copyrighted products into the United States before there was a first-sale. Therefore, the copyright holder would be able to sue the British distributor for infringement under Section 602(a). However, if copies sold in Britain were eventually donated to Goodwill in the United States, the first-sale doctrine would bar any infringement suit because the books would have been acquired in the secondary market.

The Second Circuit’s overly broad interpretation of the hypothetical in *Quality King* led to the improper conclusion that goods manufactured abroad are never subject to first-sale protection. But in fact, the Court’s hypothetical scenario shows that the two Sections can coexist, each having an independent effect and purpose: The first-sale of a good manufactured and purchased abroad protects a purchaser, and a subsequent purchaser, from future copyright infringement liability based upon the *resale* of that good—but does not necessarily insulate the importer from liability for the improper *importation* of that good in violation of Section 602(a)

Under that understanding, the dictum in the hypothetical need not be seen as overriding the Court’s holding—that Section 602(a) is expressly limited by the first-sale doctrine, which applies to all goods, regardless of where they are manufactured.

C. Eliminating the First-Sale Doctrine for Goods Manufactured Abroad Would Frustrate the Purpose for Which the Rule Was Created

The decision below is also contrary to the purpose of the Copyright Act, which does not allow the owner of a copyright to control the downstream flow of goods produced abroad. As this Court has noted, “[t]he monopoly privileges” authorized by the Act are not designed to “provide a special private benefit.” *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). Rather, the “monopoly privileges” are a limited grant aimed at achieving a “public purpose”—“to motivate the creative activity of authors and inventors by the provision of a special reward and to allow the public access to the products of their genius after the limited period of exclusive control has expired.” *Id.* For this reason, copyright owners’ monopoly privileges are limited and balanced against “society’s competing interest in the free flow of ideas, information and commerce.” *Id.*

The first-sale doctrine is an embodiment of this important balancing act: It allows copyright holders to receive a benefit for the *initial* copy of this idea or work released into the stream of commerce while allowing the public to benefit from the resale of that idea or work, free from any further influence by the copyright owner. See *Bobbs-Merrill*, 210 U.S. at 350 (“the copyright statutes . . . do not create the right to impose, by notice . . . a limitation at which the book

shall be sold at retail by future purchasers, with whom there is no privity of contract”). Yet under the Second Circuit’s holding, as long as a copyrightable product is manufactured abroad, the copyright owner would retain the right to control the price and distribution of that good indefinitely, even if the item is donated to a charity like Goodwill and resold. That fact alone should have given the Second Circuit pause before it shifted the balance of power underpinning our copyright law and undermined four centuries of common law and more than 65 years of statutory authority.

Indeed, the ruling below is contrary to this Court’s decision in *Bobbs-Merrill*, which first articulated the first-sale doctrine over a century ago. There, the plaintiff publisher sought to control the cost of the book it produced by printing a notice mandating that it could not be sold for less than \$1. *Id.* at 341. Siding with consumers, the Court found that the notice could not be enforced because it violated the very purpose of the copyright law—to balance the limited rights of owners with the promotion of “the progress of science and useful arts” conferred on the public at large. *Id.* at 346, 350-51. Similarly here, the publisher of the textbooks at issue placed a notice in its books requiring that they only be sold abroad. P.A. 5a-6a. In both cases, the publisher put a price restriction on alienation. And the *only* difference between the two cases is that in this case the book was manufactured abroad. *Id.* at P.A. 6a. But as a matter of principle and policy, there simply is no reason why that difference should matter, and the Second Circuit’s decision to give that difference dispositive weight should be rejected.

III. The Decision Below Is Wrong as a Matter of Public Policy

Beyond its effect on organizations like Goodwill that sell used goods in the secondary market, the decision below makes no sense as a matter of policy.

A. The Second Circuit's Rule Would Give Copyright Owners New Powers To Divide Markets at the Expense of Charities and Consumers

First, eliminating the first-sale doctrine for goods produced abroad would give copyright owners the power to fix prices in different geographic markets at the expense of charities and consumers. The result would be “a blatantly anticompetitive international system [sponsored by our copyright laws, in which companies] engage in vertical territorial allocations or price discrimination among different countries.” Jaime S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C.J. INT'L L. & COMM. REG. 205, 228 (1986).

Indeed, in every case interpreting the application of the first-sale doctrine abroad, the copyright owner was already compensated for each imported copy. See *Quality King*, 523 U.S. at 139; *Sebastian*, 847 F.2d at 1094; *Costco*, 541 F.3d at 984. The copyright owners in those cases were unconcerned with their right to collect a fair price for copyrighted goods. Instead they sought to undermine the first-sale doctrine to “protect[] the integrity of [their] method of marketing,” namely, selling goods at much higher prices in United States and at a greatly discounted rates elsewhere. *Quality King*, 523 U.S. at 140. In fact, in all of the recent federal circuit decisions discussing the interaction between the first-sale doctrine and the importation requirement, the

plaintiff was attempting to use copyright law to charge discriminatory prices in the United States. See *Quality King*, 523 U.S. at 139 (The plaintiff’s “prices to foreign distributors are 35% to 40% lower than the prices charged to domestic distributors.”); *Sebastian*, 847 F.2d at 1094 (“This case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a domestic manufacturer to prevent the importation of its own products by the ‘gray market.’”); *Disenos Artisticos*, 97 F.3d at 378 (explaining that the plaintiff’s “business strategy in the United States is to market [its products] only to select up-scale retailers”).

In essence, copyright owners are turning to copyright law to prevent any form of arbitrage—purchasing goods from one locale where they are cheaper and selling them at a higher price in a locale where the price is inflated. But arbitrage is a natural consequence of price differences that exist in every conceivable market. And absent congressional authorization, it makes no sense to invoke copyright law to eliminate that practice.

To accomplish their goal, copyright owners register small symbols that are not truly means of expression, but are rather tools to prevent low-cost competition from parallel-imported goods manufactured abroad. For example, in *Costco*, the copyright owner placed a small symbol on the back of its foreign-produced watches to prevent parallel importation of the exact same watches it sold for substantially more in the United States. 541 F.3d at 983-984. Similarly, in *Quality King* the plaintiff argued that the existence of the copyrighted label on its hair care products gave it the right to prohibit the importation of its products lawfully purchased abroad. 523 U.S. at 135-136. But copyright owners

should not be allowed to shield their businesses from international trade, using U.S. copyright law to artificially inflate the price of goods. See Jaime S. Gorelick & Rory K. Little, *The Case for Parallel Importation*, 11 N.C.J. INT'L L. & COMM. REG. 205, 205 (1986).

This is exactly the sort of anticompetitive behavior struck down by this Court in *Bobbs-Merrill*. There, the book “The Castaway” contained this notice: “The price of this book at retail is \$1 net. No dealer is licensed to sell it at a less price, and a sale at a less price will be treated as an infringement of the copyright.” *Bobbs-Merrill*, 210 U.S. at 341. R. H. Macy & Company purchased copies of the book at a wholesale price to sell for less than a dollar. *Id.* at 341-42. Holding that the right to “vend” did not allow the copyright owner to control distribution indefinitely, the Court made two important findings. *Id.* at 350-51. First, the Court reasoned that “[t]he owner of the copyright in this case [already sold] copies of the book in quantities and at a price satisfactory to it.” *Id.* at 351. Second, the Court found that the right to control distribution indefinitely would “extend [the statute’s] operation . . . beyond its meaning . . . [and beyond] the legislative intent in its enactment”—to promote progress. *Id.* Price restrictions do not promote progress; instead they impede it. See *United States v. Sealy, Inc.*, 388 U.S. 350, 355-56 (1967) (agreements to divide markets and fix prices are *per se* illegal).

In stark contrast, the secondary market provides a \$40 to \$60 billion benefit to consumers, allowing them to buy used goods at lower prices. See Romana Autry & Francisco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School

Accounting & Mgmt. Unit Working Paper No. 09-098, at 1 (Oct. 2009). Moreover, interpreting the copyright law to allow owners to control the distribution of foreign-made goods indefinitely would devastate the secondary market because every resale would require the consent of the copyright owner. Allowing price discrimination to flourish while denying consumers a functional secondary market is so irrational that it could not possibly be what Congress intended. See *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 482 n.8 (9th Cir. 1994).

B. The Second Circuit's Rule Would Create a Perverse and Unintended Incentive To Manufacture Goods outside the United States

Applying the first-sale doctrine only to domestically produced goods would also result in foreign manufactured goods having greater copyright protection than goods manufactured in the United States. This is because the copyright holder would retain control over the importation, distribution, and the price at which foreign-made goods are sold, even after they are imported and lawfully purchased in the United States. Consequently, the rule adopted by the Second Circuit financially incentivizes copyright owners to outsource all of their manufacturing operations. See P.A. 28a n.44. As the Ninth Circuit has explained, "such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation." *Parfums Givenchy*, 38 F.3d at 482 n.8.

At a time when U.S. unemployment rates are already high, instigating a mass exodus of manufacturing jobs (along with the associated tax

and business revenue that would be lost) could not be what Congress intended by passing a statutory first-sale protection. Such a result would have extreme and devastating economic and societal effects, even as it impedes Goodwill's ability to put Americans to work.

CONCLUSION

Like many other charitable organizations, Goodwill depends on the donation and sale of secondhand goods to help provide jobs and achieve its mission. Abolishing the first-sale doctrine for all goods produced abroad would fundamentally frustrate and undermine Goodwill's mission and harm the futures of millions of people that Goodwill helps every year. The first-sale doctrine has balanced copyright owners' limited rights with the interests of the public, charities, and businesses for over a century. It is the legal cornerstone of the secondary market and an economic necessity in the modern age. Inserting a domestic manufacturing requirement into the first-sale doctrine is contrary to the history, spirit, and plain language of the Copyright Act, and it should be rejected.

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