No. 08-1423

IN THE
# Supreme Court of the United States

COSTCO WHOLESALE CORPORATION, PETITIONER

v.

OMEGA S.A., RESPONDENT

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

## BRIEF OF EBAY INC., GOOGLE INC., NETCOALITION, THE COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, AND THE INTERNET COMMERCE COALITION AS AMICI CURIAE IN SUPPORT OF PETITIONER

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## QUESTION PRESENTED

Under the Copyright Act's first sale doctrine, 17 U.S.C. § 109(a), the owner of a copy "lawfully made under this title" may resell that copy without the authority of the copyright holder. In *Quality King Distribs., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135, 138 (1998), this Court held that "the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." In the decision below, the Ninth Circuit held that *Quality King* is limited to its facts, which involved goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

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## INTEREST OF THE AMICI[1]

**eBay, Inc.** operates the world's largest online marketplace. Founded in 1995, eBay created an online market to bring together buyers and sellers to trade in local, national, and global markets. eBay serves individual buyers and sellers, as well as businesses ranging in size from part-time proprietorships to household brand names. eBay's online platform permits secondary marketplace trade in a wide range of goods. Accordingly, eBay has an interest in ensuring that the threat of copyright infringement will not hamper the alienability of authentic goods in the secondary market.

**Google, Inc.** is a leading search engine and provides a wide range of services that empower millions of people around the world to find, create and communicate information. Google's products include copyright-protected software that is loaded with Google's authorization onto physical goods such as mobile telephone handsets and personal computers. Those physical goods may be manufactured outside of the territory of the United States, and lawful owners of those goods may seek to import them into the territory of the United States. Google, therefore, has an interest in establishing a clear rule for the alienability of those goods within the United States that benefits Google's consumers. Because its business is global, Google also has an interest in having

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[1] Pursuant to Supreme Court Rule 37.6, counsel for the amici curiae represent that they authored this brief in its entirety and that none of the parties or their counsel, nor any other person or entity other than the amici, their members, or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief. All parties have consented to the filing of this brief, and letters reflecting their consent have been filed with the Clerk.

clear rules regarding the applicability of United States and foreign copyright law.

**NetCoalition** serves as the public policy voice for some of the world's most innovative Internet companies on the key legislative and administrative proposals affecting the online world. NetCoalition provides legal and policy solutions to critical legal and technological issues facing Internet companies, the courts, and policymakers. It helps insure the integrity, usefulness, and continued expansion of this dynamic new medium. Its members include Amazon.com, Bloomberg LP, eBay, Google, IAC, Yahoo! and Wikipedia.

**The Computer & Communications Industry Association** (CCIA) is a non-profit trade association dedicated to "open markets, open systems and open networks." CCIA represents companies in the high technology products and services sectors, including computer hardware and software, electronic commerce, telecommunications and Internet products and services. CCIA members range in size from small entrepreneurial firms to the largest in the industry. CCIA's members use the intellectual property system regularly and depend upon it to fulfill its constitutional purpose of promoting innovation. A complete list of CCIA members is available online at <http://www.ccianet.org/members>.

**The Internet Commerce Coalition** (ICC) is a coalition of leading U.S. Internet Service Providers (ISPs), e-commerce companies, and technology trade associations. The ICC's mission is to achieve a legal environment that allows service providers, e-commerce companies, their customers, and other users to do business on the global Internet under reasonable rules governing liability and use of technology.

eBay, Google, NetCoalition, CCIA and ICC believe that once a consumer pays the copyright owner for a good in an authorized first sale, the purchaser should enjoy the right to freely distribute that good, irrespective of where the good was manufactured. The Ninth Circuit's strained imposition of a place of manufacturing requirement on the first sale doctrine will have a detrimental effect on e-commerce and secondary markets. The internet provides consumers with global access to information and goods, enabling innovation in international commerce. Consumers should be allowed to trade authentic goods unhindered by the threat of copyright infringement created by the Ninth Circuit's decision in this case.

## SUMMARY OF ARGUMENT

The first sale doctrine has long been recognized as a defense to copyright infringement, striking a balance between the property rights of consumers and the promotion of progress in the sciences and useful arts that results from compensating copyright owners for the initial sale of the copyrighted good. This considered approach protects the alienability of goods embodying copyrighted works, enabling their resale unimpeded by the copyright owner's control. As this Court held over a century ago, "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 the owner of the copyright, may sell it again, although he could not publish a new edition of it." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

Section 109(a) of the Copyright Act codifies the first sale doctrine, providing 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 sell or otherwise dispose of the possession of that copy." 17 U.S.C. § 109(a). In *Quality King Distrib. v. L'anza Research Int'l*, 523 U.S. 135, 138, 154 (1998), this Court confirmed that the first sale doctrine is not limited by place of first sale and held that the first sale doctrine endorsed in § 109(a) may be applied to imported copies.

The Ninth Circuit nevertheless held below that the first sale doctrine only provides a defense to a copyright infringement action "where the disputed copies of a copyrighted work were either made or previously sold in the United States with the authority of the copyright owner." *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008).

In so holding, the Ninth Circuit imposed a place of manufacturing requirement on the first sale doctrine for goods manufactured abroad by United States copyright owners and imported and sold in the United States that lacks support in the text, structure, history, or purposes of the Copyright Act. In stark tension with the policy against restraints on alienation, the Ninth Circuit's rule affords manufacturers, like Omega, the ability to control the downstream sales of goods for which they have already been paid. The Ninth Circuit's rule will have significant adverse consequences for trade, e-commerce, secondary markets, small businesses, consumers, and jobs in the United States. Accordingly, this Court should reverse.

## DISCUSSION

### I. THE NINTH CIRCUIT'S PLACE OF MANUFACTURING REQUIREMENT IS INCONSISTENT WITH THE TERMS, STRUCTURE, HISTORY, AND PURPOSES OF THE COPYRIGHT ACT

This case concerns the Ninth Circuit's extratextual assertion that the first sale doctrine embodied in section 109(a) of the Copyright Act includes a place of manufacturing requirement that limits its application to goods manufactured in the United States. *Omega*, 541 F.3d at 983. Section 109(a) provides in pertinent part:

> 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.

17 U.S.C. § 109(a).

The Ninth Circuit reasoned that Congress's reference to copies "lawfully made under this title" can only be read to mean those copies "lawfully made *in the United States*." *Omega S.A.*, 541 F.3d at 987. But that reasoning is fundamentally flawed and would inject both significant textual anomalies and absurd consequences into the Act that Congress could not possibly have intended.

### A. "Lawfully Made Under This Title" Means Made According To Or In Conformance With The Copyright Act, Not Made In The United States

The phrase "lawfully made under this title" is not expressly defined in the Copyright Act. Both by common usage and context, its most natural meaning is made according to, or in conformance with, the Copyright Act. *See* WEBSTER'S THIRD NEW INT'L DICTIONARY 2487 (2002) (defining "under" as "in accordance with"). As the United States explained in its *amicus* brief in the *Quality King* case, "[t]he correct and more natural reading of the phrase 'lawfully made under this title' refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17." Br. of United States as *Amicus Curiae*, filed in *Quality King*, 30 n.18 (No. 96-1470).

In other words, copies are subject to the first sale doctrine if they were made consistent with the terms of the Copyright Act, which includes copies made by or with the consent of the United States copyright holder or otherwise authorized by the Act.

Omega argues that "when a copy is made outside of the United States for sale outside of the United

States, it cannot be made pursuant to or in compliance with the Copyright Act." Resp. Br. at 14. Omega's argument is nonsensical. An act may conform with numerous laws simultaneously. When Omega manufactures a watch in Switzerland, Omega's conduct is regulated by Swiss law, much as any future sale of the copy in the United States would be regulated by the law of the United States. Yet, Omega's manufacturing in Switzerland may conform with the copyright laws of both nations.

Reading Section 109(a) as applying to goods imported and sold in the United States without regard to their place of manufacture does not require the application of United States laws to conduct occurring outside the territory of the United States. The Copyright Act and the first sale doctrine it codifies are applicable to the instant dispute because the watches purchased by Costco were imported into and resold within the United States. Indeed, Omega invoked United States copyright law in instituting this suit. It is therefore no more "extraterritorial" than this Court's holding in *Quality King* that the first sale doctrine of Section 109(a) applies generally to goods imported under Section 602. For this reason, the presumption against extraterritoriality has no bearing on the question presented. *See Quality King*, 523 U.S. at 145 n.14 (stating that "the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act").[2]

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[2] The Ninth Circuit relied on reasoning expressly disclaimed in *Quality King*. In *Omega*, the Ninth Circuit relied on its prior interpretations of section 109(a), including its holdings in *BMG*. *Omega*, 541 F.3d at 985. In *BMG*, the Ninth Circuit

## B. The Copyright Act Is Structured Without Regard To Place Of Manufacturing

Reading Section 109(a) unlimited by place of manufacturing best accords with other provisions of the Copyright Act. As this Court has long recognized, "[s]tatutory construction . . . is a holistic endeavor." *United Sav. Ass'n of Texas v. Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988) (internal citations omitted).

Section 106 of the Copyright Act, which defines the rights afforded a copyright holder under United States law without regard to the place of manufacturing, counsels strongly against importing a place of manufacturing requirement into the first sale doctrine of Section 109(a). Section 106 provides in pertinent part:

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rationalized imposing a place of manufacturing requirement on the first sale doctrine as follows: "Construing [§] 109(a) as superseding the prohibition on importation set forth in . . . § 602 would render § 602 virtually meaningless." *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991) (quoting *CBS v. Scorpio Music Distribs.*, 569 F. Supp. 47 (E.D. Pa. 1983) (brackets omitted), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984). Such is not the case.

Section 602(a) operates separately from section 109(a), deeming the "[i]mportation into the United States, without the authority of the owner of copyright under this title" of copies "acquired outside of the United States" to be "an infringement of the exclusive right to distribute copies . . . under section 106." 17 U.S.C. § 602(a). As this Court held in *Quality King*, "since § 602(a) merely provides that unauthorized importation is an infringement of an exclusive right 'under section 106,' and since that limited right does not encompass resales by lawful owners, the literal text of § 602(a) is simply inapplicable to both domestic and foreign owners" of lawfully made products imported into the United States. *Quality King*, 523 U.S. at 145.

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted works in copies or phonorecords; . . . (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .

17 U.S.C. § 106(1) & (3). Reading section 109(a) with section 106, "made under this title" means simply made in conformance with the Copyright Act.

Tellingly, Congress has used the exact phrase "lawfully made under this title" in two additional provisions of Title 17. Only a straightforward reading of the phrase, unrestricted by place of manufacturing, permits a consistent, coherent construction of the title.

The Audio Home Recording Act ("AHRA") provides that royalty payments "shall . . . be distributed" to certain "interested copyright part[ies]," including, *inter alia*, "the owner of the exclusive rights under section 106(1) of this title to reproduce a sound recording of a musical work that has been embodied in a digital musical recording or analog musical recording *lawfully made under this title* that has been *distributed*." 17 U.S.C. § 1001(7) (emphasis added). The term "distribute" is limited specifically to distribution "in the United States." 17 U.S.C. § 1001(6). Thus, Congress used the concept of "in the United States" and "lawfully made under this title" distinctly — and did so in the same sentence. Additionally, if the phrase "lawfully made under this title" were given the Ninth Circuit's mean-

ing, royalties would never be distributed for recordings manufactured abroad.

Similarly, Section 110 provides that the "performance or display" of a copy for educational use is not an infringement of copyright unless the copy "was not lawfully made under this title." 17 U.S.C. § 110(1). The only logical interpretation of this provision is that Congress intended to dissuade teachers from displaying pirated works or works otherwise not made in accordance with the Copyright Act. *See* H.R. Rep. No. 94-1476 (stating that the exception to the exemption for copies "not lawfully made under this title" "deals with the special problem of performances from *unlawfully-made* copies") (emphasis added). Congress could not have intended to limit social studies, music and art teachers' curricula only to works created in the United States. Surely teachers are not responsible for determining where works were created in order to prepare their courses. Congress could not have intended to expose our nation's teachers to liability for copyright infringement for introducing their students to genuine artistic and educational performances simply because the works were manufactured abroad.

Moreover, this Court should be particularly wary of imposing a place of manufacturing requirement on section 109, given that Congress was quite willing to structure protection under United States copyright law in explicit geographic terms. The Copyright Act devotes an entire section to "National Origin," discussing the nationality of authors, among other geographic considerations. 17 U.S.C. § 104. In section 104, the Copyright Act affords protection in expressly geographic terms by providing that a work may be "subject to protection under [Title 17]" based on the place of the work's first publication. However,

section 104 does not provide for protection on the basis of place of manufacturing, nor does the section limit its protections on that ground. Although section 104 may not be dispositive of the interpretative question before this Court, the absence of any reference to place of manufacturing in Congress's focused consideration of the relevance of the origin of a work weighs against reading a place of manufacturing limitation into the law.

As these other provisions of the Copyright Act make clear, the first sale doctrine of Section 109(a) is applicable to goods embodying copyrighted works that are imported into and sold in the United States, regardless of their place of manufacture. As this Court concluded in *Quality King*, neither section 109(a) nor earlier codifications of the first sale doctrine were intended by Congress to "limit [the first sale doctrine's] broad scope." *Quality King*, 523 U.S. at 152. This Court should not now read into section 109(a) just such a limitation.

### C. At The Time Congress Adopted Section 109(a) It Removed A Longstanding Place Of Manufacturing Provision From The Copyright Act

Had Congress intended to limit application of the first sale doctrine to copies made "within the United States," Congress would have said so. Indeed, at the same time it adopted Section 109(a), Congress began phasing out a longstanding place of manufacturing requirement from the Copyright Act.

Section 601(a) of the Act, the so-called "manufacturing clause," provided: "Prior to July 1, 1986,[3] and

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[3] *See* Public Law 97-215, 96 Stat. 178 (1982) (substituting "1986" or "1982").

except as provided by subsection (b), the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited *unless the portions consisting of such material have been manufactured in the United States or Canada.*" 17 U.S.C. § 601(a) (emphasis added). Thus, not only was Congress generally capable of specifying the relevance of an activity's occurrence "in the United States," Congress expressly specified the relevance of manufacturing in the United States in the Copyright Act. *See Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) ("When Congress considered the place of manufacture to be important, . . . the statutory language clearly expresses that concern.").

In stark contrast, Congress did not include such a place of manufacturing requirement in section 109(a). When Congress includes language in one section of an Act and excludes that language from another, "Congress' silence" in the latter section "speaks volumes." *U.S. v. Shabani*, 513 U.S. 10, 14 (1994).

Moreover, Congress's handling of Section 601(a)'s express manufacturing requirement demonstrates the absurdity of the Ninth Circuit's construction of Section 109(a). That express manufacturing requirement *protected* U.S. publishers from foreign competition. It first "came into the copyright law as a compromise in 1891." H.R. Rep. No. 94-1476. As codified in the 1909 Act, the "manufacturing clause" required "[t]hat in the case of the book the copies so deposited shall be accompanied by an affidavit . . . duly made by the person claiming copyright . . . setting forth that the copies deposited have been

printed from type set within the limits of the United States or from plates made within the limits of the United States from type set therein . . . ." Act of Mar. 4, 1909 § 16, 35 Stat. 1080-1081 (1909). This place of manufacturing requirement was intended to protect "American typographers and bookbinders against foreign competition." 2 NIMMER ON COPYRIGHT § 7.22.

However, "the manufacturing clause exemplifie[d] short-sighted and parochial tendencies that [proved] destructive of the best interests of both copyright creators and users." *Id.* Accordingly, in the 1976 Copyright Act, Congress chose to phase out the place of manufacturing requirement. *See* 17 U.S.C. § 601 (stating that the manufacturing clause would remain in effect until July 1, 1986).

The legislative history of the Copyright Act demonstrates that Congress carefully considered place of manufacturing requirements and found such requirements wanting. Congress concluded that "[t]he manufacturing clause *violates the basic principle that an author's rights should not be dependent on the circumstances of manufacture*." H.R. Rep. No. 94-1476 (emphasis added). Congress was concerned that authors were held "hostage" by the manufacturing requirement, which "unfairly discriminate[d] between American authors and other authors." *Id.* Additionally, Congress emphasized the need to "eliminate the tangle of procedural requirements . . . burdening . . . the United States Customs Service." *Id.* *See also* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 877 (1987) ("The Copyright Office, the Justice Department, the State Department, and the Commerce Department all opposed the manufacturing clause.").

Congress concluded that "there is no justification on principle for a manufacturing requirement in the copyright statute, and although there may have been some economic justification for it at one time, that justification no longer exists." H.R. Rep. 94-1476, at 166. That is not to say that Congress considered the economic concerns of the U.S. printing industry irrelevant. Quite the opposite. Because Congress "recognize[d] that immediate repeal of the manufacturing requirement might have damaging effects in some segment of the U.S. printing industry," Congress chose to phase out the manufacturing requirement through the use of a sunset provision. *Id.*

The abrogation of the manufacturing clause makes clear that Congress in 1976 intended to remove place of manufacture as a relevant factor in the determination of whether the distribution of goods embodying copyrighted works within the United States violates the Copyright Act. It defies reason that Congress would at the same time, in the same Act, insert by mere implication and without comment a "reverse manufacturing clause" that greatly re-tilts the playing field, this time to the benefit of *foreign* publishers and manufacturers at the expense of their domestic counterparts by creating a strong incentive to manufacture copies abroad. Rather, by phasing out the pro-domestic publishing manufacturing clause, Congress meant to eliminate the discriminatory impact that previously flowed from copyright's focus on place of manufacture. Omega's argument flies in the face of this congressional goal.

"Few principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded." *INS v. Car-*

*doza-Fonseca*, 480 U.S. 421, 442-443 (1987). It would therefore be incongruous, to say the least, for this Court to impose a place of manufacturing limitation in Section 109, when, at the time Congress drafted and enacted Section 109, it simultaneously excised a longstanding place of manufacturing requirement from our copyright law.

## II. EXEMPTING GOODS MANUFACTURED ABROAD FROM THE FIRST SALE DOCTRINE WOULD BE DETRIMENTAL TO THE UNITED STATES ECONOMY

Reading section 109(a) to impose a place of manufacturing requirement on the first sale doctrine would negatively impact commerce in the United States. A place of manufacturing requirement will create incentives for off-shore manufacturing. Copyright protection is enshrined in our Constitution "[t]o promote the progress of science and useful arts," not to permit manufacturers to price discriminate and manipulate markets to the detriment of competitors and consumers. U.S. CONST. art. 1 § 8. These public policy concerns weigh strongly against the Ninth Circuit's reading of section 109(a).

### A. Imposing A Place Of Manufacturing Requirement On The First Sale Doctrine Infringes on Consumers Rights to Redistribute Goods

Producers of consumer goods have "waged a full-scale battle in legislative, executive, and administrative fora" for regulations that would grant them power to control the downstream importation of secondary market goods into the United States. *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 295 (1988) (Brennan, J., concurring in part and dissenting in part). "Having lost in other fields of law, manufac-

turers are now realizing that copyright may furnish a supplemental vehicle for protection." 2 NIMMER ON COPYRIGHT § 8.11[B][4] (2009). As a result, manufacturers, like Omega, who have already been compensated for these goods, are now attempting to use copyright law to hamper the ability of consumers' and resellers' to re-distribute goods and comparison-shop from different vendors.

The Ninth Circuit's opinion will encourage the producers of consumer goods to stamp their products with copyrighted symbols in order to control downstream sales of the otherwise non-copyrighted products into the United States. In so doing, the Ninth Circuit permits companies to use copyright law like a "weapon against gray market goods." Donna K. Hintz, *Battling Gray Market Goods with Copyright Law*, 57 ALB. L. REV. 1187, 1191 (1993-1994). Reducing consumer rights in this dramatic way is inconsistent with the purposes of copyright law and should not be endorsed by this Court.

### B. The Ninth Circuit's Rule Will Stifle Secondary Markets

Exempting foreign consumer goods from the first sale doctrine could unsustainably burden secondary markets. "The essential trade in the Copyright Act is monopoly and policing: the grant of exclusivity comes with the duty to protect it. The Act does not grant the holder the windfall of both monopoly and reimbursement for its maintenance." *Sony Discos Inc. v. E.J.C. Family P'ship*, No. 4:02-cv-03729, 2010 WL 1270342, at 5 (S.D. Tex. Mar. 31, 2010). It is impossible for secondary market participants to identify each alleged copyright and make a determination regarding its legal status. Moreover, secondary market participants would have no means to determine where the goods were manufactured,

whether and where a prior sale occurred and whether the copyright owner had authorized the prior sale.

Imposition of such a substantial and unmanageable burden is likely to stifle commerce in the secondary market. This burden would translate into higher costs for consumers. Such a result in the current difficult economic environment would be particularly troubling. *See, e.g.*, U.S. Dept. of Labor, Bureau of Labor Statistics, Econ. News Release, *Mass Layoff- April 2010* (May 21, 2010), *available at* http://www.bls.gov/news.release/archives/mmls_05212010.pdf ("The national unemployment rate was 9.9 percent in April 2010, seasonally adjusted, up from 9.7 percent the prior month and from 8.9 percent a year earlier."); Nat'l Bureau of Econ. Research, *NBER Committee Confers: No Trough Announced* (Apr. 12, 2010), *available at* http://www.nber.org/cycles/april2010.pdf (determining that it is premature to the determine a trough date to mark the end of the recession).

The Ninth Circuit's rule also could stifle commerce in the secondary markets generally and in the international secondary markets specifically. Such a result would significantly impact the economy. The volume of commerce in the international secondary markets is substantial. In 2009 alone, the United States imported $10,430,362,000 of used or second-hand goods. U.S. Census Bureau, U.S. Int'l Trade Statistics, *Value of Exports, General Imports, and Imports for Consumption by (NAICS - 920) Used or Second-hand Merchandise* (May 25, 2010), *available at* http://censtats.census.gov/naic3_6/naics3_6.shtml. By March 2010, the United States had already imported an additional $3,474,199,000 worth of used or second -hand goods. *Id.* This market is of

significant value to our economy and should be allowed to thrive.

### C. The Ninth Circuit's Rule Will Stifle E-commerce

E-commerce companies are exemplars of American innovation and ingenuity and make significant contributions to the United States economy and job market. The Ninth Circuit's rule substantially threatens the increasingly important e-commerce sector of the economy, particularly secondary market e-commerce. International e-commerce is growing rapidly. In the first quarter of 2010, there were approximately $38.7 billion in retail e-commerce sales in the United States. U.S. Census Bureau, News, Quarterly Retail E-Commerce Sales 1st Quarter 2010 (May 18, 2010), *available at* http://www.census.gov/retail/mrts/www/data/pdf/10Q1.pdf. These first quarter sales represent a 14.3 percent increase from the first quarter of 2009. *Id.* E-commerce has increased from approximately 1.2% of total retail sales in 2001 to approximately 4.0% of total retail sales in 2010. *Id.* E-commerce "benefits consumers by helping them enjoy lower prices and more choices." Yannis Bakos, *The Emerging Landscape for Retail E-commerce*, 15 J. ECON. PERSPECTIVES 69, 78-79 (2001). No misinterpretation of copyright law should be allowed to hinder the growth of this market.

### D. The Ninth Circuit's Rule Will Harm Small Businesses

Likewise, small businesses would be particularly burdened by increased transaction costs. As the Ninth Circuit previously recognized, without the first sale doctrine, "every 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." *Disenos Artisticos E Industriales S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996). Imposing a place of manufacturing requirement on section 109(a) may well impose unsustainable costs on small businesses, which may translate into the loss of additional jobs. Small businesses that have weathered the economic downturn should not now be subjected to such risk.

### E. The Ninth Circuit's Rule Will Further Depress The Job Market In The United States

If section 109(a) is interpreted to exempt foreign consumer goods from the first sale doctrine, goods stamped with copyrighted material and manufactured overseas will be afforded greater protection under the Copyright Act than goods manufactured domestically. This Court should not endorse the Ninth Circuit's graft of a place of manufacturing requirement onto section 109(a) because such a requirement creates incentives for off-shore manufacturing, striking yet another blow to the American worker.

When repealing the manufacturing requirement, Congress was sensitive to creating incentives for overseas manufacturing and creating a trade imbalance. Congress concluded that, "although there may have been some economic justification [for the manufacturing requirement] at some time, that justification no longer exists." H.R. Rep. 94-1476. Far from concluding that the economic consequences of its rule were irrelevant, Congress simply concluded that the economic justification no longer existed in the

context of book publishing. Given Congress's sensitivity to trade imbalances and economic concerns, Congress could not have intended an interpretation of section 109(a) that would exacerbate trade imbalances and motivate overseas manufacturing.

"The loss of well-paying manufacturing jobs has harmed the U.S. economy. Declines in manufacturing employment reduce over-all consumer demand in the United States and limit the economy's potential for expansion." Thomas A. Piraino, Jr., *A Proposed Antitrust Approach to Buyers' Competitive Conduct*, 56 HASTINGS L.J. 1121, 1123-24 n.10 (2005) (citations omitted). However, employment prospects in the manufacturing sector are improving, as "[s]izable employment gains occurred in manufacturing" when the sector added 44,000 jobs in April. Indeed, the manufacturing sector has added 101,000 jobs since December. U.S. Dept. of Labor, Bureau of Labor Statistics, Econ. News Release, *Employment Situation Summary*, (May 7, 2010), http://www.bls.gov/news.release/archives/empsit_05072010.pdf. These gains are significant and should not be counteracted by a strained interpretation of section 109(a) that motivates additional off-shore manufacturing.

The imposition of a place of manufacturing requirement on section 109(a) would also likely lead to job losses in the secondary market. As increased transaction costs may curtail trade, importers and resellers may face a diminishing market and concomitant job loss.

The United States already faces an overall trade deficit in goods and services. In March 2010, the United States trade deficit for goods and services was $40.4 billion. U.S. Census Bureau, U.S. Bureau of Econ. Analysis News, *U.S. Int'l Trade in Goods*

*and Services March 2010* (May 12, 2010), *available at* http://www.bea.gov/newsreleases/international/trade/2010/trad0310.htm. The United States increased the trade deficit for goods to $52.9 billion. *Id.* The deficit in consumer goods was even more stark. Whereas the United States exported approximately $ 14,942 million in consumer goods, the United States imported approximately $ 37,193 million in consumer goods[4] — roughly $2.50 of imported goods for every $1 exported. U.S. Dept. of Commerce, Bureau of Econ. Analysis, International Econ. Accounts, *U.S. Trade in Goods* (June 14, 2010), *available at* http://www.bea.gov/agency/uguide1.htm#_1_19. Consumer goods include televisions, stereo equipment, toys, sporting goods, appliances, and jewelry — all goods that can easily be stamped with a copyrighted image. *Id.* If this Court interprets section 109(a) to afford greater protections to foreign consumer goods, an even greater percentage of consumer goods will likely be produced overseas.

### F. The United States Agrees That A Place Of Manufacturing Requirement Will Have "Adverse Policy Consequences"

The United States agrees that "the court of appeals' reasoning could result in adverse policy consequences, particularly if carried to its logical extreme." United States br. on pet. for certiorari, at 5. The United States recognizes that "[t]he potential implications of excluding foreign-made copies of a copyrighted work from Section 109(a)'s coverage are indeed troubling." *Id.* at 18. In fact, the United States identified "higher unemployment," "encour-

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[4] The import volume does not even include automotive imports.

age[ing] companies to move manufacturing overseas," and the hesitation of downstream retailers "to sell a variety of products for fear that the sale could be deemed infringing" as "legitimate concerns." *Id.* at 17-18.

Yet, in its amicus brief on petition for certiorari, the United States argued that this Court should not concern itself with these "legitimate concerns" because "some of the potential adverse policy effects . . . are a direct . . . consequence of Congress's decision in 1976 to expand Section 602's ban on unauthorized importation beyond piratical copies [which] segment[ed] domestic and foreign markets." *Id.* at 18. This argument misses the mark. That Congress allowed for the segmentation of domestic and foreign markets to some degree is hardly evidence that Congress intended the exacerbated market segmentation that would follow from exempting foreign manufactured items from the first sale doctrine.

"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." *Quality King*, 523 U.S. at 152. The first sale doctrine should not be interpreted to discriminate between domestic and foreign consumer goods. Regardless of the place of manufacturing, once a copyright owner had sold his property, "he has exhausted his exclusive statutory right to control its distribution." As the United States recognizes, holding otherwise would precipitate a host of adverse policy results.

## CONCLUSION

For the foregoing reasons, the judgment of the United States Court of Appeals for the Ninth Circuit should be reversed.

Respectfully submitted.

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