

No. 08-1423

In The
Supreme Court of the United States

—————◆—————
COSTCO WHOLESALE CORP.,

Petitioner,

v.

OMEGA, S.A.,

Respondent.

—————◆—————

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

—————◆—————

**BRIEF OF *AMICI CURIAE* PUBLIC KNOWLEDGE,
AMERICAN ASSOCIATION OF LAW LIBRARIES,
AMERICAN FREE TRADE ASSOCIATION,
ELECTRONIC FRONTIER FOUNDATION,
MEDICAL LIBRARY ASSOCIATION, AND
SPECIAL LIBRARIES ASSOCIATION
IN SUPPORT OF PETITIONER**

—————◆—————

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INTEREST OF THE *AMICI CURIAE*

Public Knowledge, the American Association of Law Libraries, the American Free Trade Association, the Electronic Frontier Foundation, the Medical Library Association, and the Special Libraries Association respectfully submit this brief in support of Petitioner Costco Wholesale Corporation.¹ Public Knowledge is a non-profit public interest organization devoted to protecting citizens' rights in the emerging digital information culture and focused on the intersection of intellectual property and technology. Public Knowledge seeks to guard the rights of consumers, innovators, and creators at all layers of our culture through legislative, administrative, grass-roots, and legal efforts, including regular participation in copyright and other intellectual property cases that threaten consumers, trade, and innovation.

The American Association of Law Libraries ("AALL") is a non-profit educational organization with over 5,000 members nationwide. Our members serve the information needs of the legal community and the public at more than 1,900 academic, firm,

¹ No counsel for a party authored this brief in whole or in part, and no such counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than the *amicus curiae*, or its counsel, made a monetary contribution to its preparation or submission. Petitioner and Respondent have filed letters with the Court granting blanket consent for *amici*. Public Knowledge law clerks Anjali Bhat and Chris Reilly assisted in the preparation of this brief.

state, court and county law libraries nationwide. AALL's mission is to promote and enhance the value of law libraries, to foster law librarianship, and to provide leadership and advocacy in the field of legal information and information policy.

The American Free Trade Association ("AFTA") is a non-profit trade association of independent American importers, distributors, retailers and wholesalers of genuine and legitimate brand name consumer goods which are bought, sold, and distributed in the parallel marketplace. For more than twenty years, AFTA has been an active advocate for preservation of intellectual property laws which also foster the competitive pricing and distribution available through lawful parallel market distribution.

The Electronic Frontier Foundation ("EFF") is a non-profit civil liberties organization working to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 13,000 dues-paying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between intellectual property rights and the public interest.

The Medical Library Association ("MLA"), a non-profit, educational organization, comprises health sciences information professionals with more than 4,000 members worldwide. Through its programs and services, MLA provides lifelong educational opportunities, supports a knowledgebase of health information research, and works with a global network of

partners to promote the importance of quality information for improved health to the health care community and the public.

The Special Libraries Association (“SLA”) is a non-profit global organization for innovative information and knowledge professionals and their strategic partners. SLA serves some 10,000 corporate, academic, government, and other information specialists in seventy-five countries. SLA promotes and strengthens its members through learning, advocacy, and networking initiatives.

This case threatens the ability of consumers and businesses alike to control and dispose of *all* lawfully acquired goods that contain a copyrighted work made outside the United States. In an increasingly interconnected world, where the manufacturing of tangible products and knowledge goods can be distributed easily and widely, consumers should be confident that they retain the same rights to their belongings regardless of where those goods or their labeling were produced. The decision below provides a recipe for ensuring that all goods – consisting of copyrighted content or not – can no longer be lawfully resold, given away, or imported after a lawful sale abroad. It is critical for the law to be clear that 150 years of common law on personal property cannot be overridden by misconstruing a copyright statute thirty years after its passage. *See, e.g., Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908) (identifying the first sale doctrine and observing that “[t]o add to the right of exclusive sale the authority to control all future

retail sales, by a notice that such sales must be made at a fixed sum, would give a right not included in the terms of the statute”).

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SUMMARY OF ARGUMENT

The Ninth Circuit’s decision erroneously precludes the application of § 109(a) of the Copyright Act to copyrighted works and goods with copyrighted logos manufactured abroad. The results of upholding this decision could include suppression of secondary and parallel markets, which would cause pervasive damage to trade, innovation and the general public interest. Additionally, the Ninth Circuit’s interpretation of § 109 is incongruous with the text of Title 17 and congressional intent. Accepting the circuit court’s interpretation would lead to contradictory constructions of the statute and the United States Code. Moreover, despite the Ninth Circuit’s concerns, applying § 109 to goods manufactured abroad would not be an extraterritorial imposition of United States law.

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ARGUMENT

I. The Consequences of Allowing the Decision Below to Stand Include Far-Reaching Damage to Trade, Innovation, and the General Public Interest

Section 109’s codification of the first sale doctrine states that the copyright owner’s control over the

distribution of a particular copy of a work “lawfully made under this title” is exhausted after the first sale of that copy. 17 U.S.C. § 109(a) (2006). However, the Ninth Circuit interpreted “lawfully made under this title,” *id.*, to mean “copies legally made . . . in the United States.” *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008) (quoting *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991)) (internal quotations omitted). If this Court upholds the Ninth Circuit’s opinion, the copyright owner’s distribution right would never be exhausted under § 109(a) so long as the copy was manufactured outside the United States and the copyright owner never authorized its sale within the United States.² This restriction on § 109 would chill the entire secondary market for copyrighted goods in the United States, and potentially all foreign-produced goods that merely bear or contain a copyrighted image or logo. The decision below must be reversed in order to prevent far-reaching and negative consequences for trade, innovation, and the general public interest.

² A primary result of this interpretation is that domestically-made copies of works would receive less protection than foreign-made copies. The Ninth Circuit attempts to avoid this perverse result by inserting into its holding an exception, unsupported by the text of the statute, that an authorized sale within the United States somehow rehabilitates § 109’s application. *Omega*, 541 F.3d at 986.

A. The Inability to Resell Lawfully Purchased Goods Does Direct Harm to Consumers and Resellers

The uncertainty created by the Ninth Circuit's holding will harm used bookstores, libraries, yard sales, out-of-print book markets, movie and video game rental markets, and innumerable other secondary markets. Owners of copyright works or goods containing copyrighted elements manufactured abroad will be unable to dispose of these products without authorization at the risk of liability under copyright law's extensive damages provisions. *See* 17 U.S.C. § 504 (2006). Furthermore, the chilling effects of the Ninth Circuit's holding will extend beyond works manufactured abroad. Owners of copies of works will be unable to determine whether they are protected by § 109, as they will not always know where their goods were manufactured. Copyright holders will have little incentive to make clear the location of manufacturing of their copyrighted works,³ as greater uncertainty means a greater ability to sell the right to distribute the goods within the United States. Secondary market

³ Affirmative evidence of origin is not available on products as they move in commerce because U.S.-made goods are not required to be marked with their origin, with only very limited exceptions such as certain automobiles and products of textiles, wool, and fur. *See* 19 U.S.C. § 1304(a) (2006); 15 U.S.C. §§ 68, 69, 70 (2006); 49 C.F.R. Pt. 583 (2009). *See also* 15 U.S.C. § 45a (2006); Federal Trade Commission, *Enforcement Policy Statement on U.S. Origin Claims* (1997), <http://www.ftc.gov/os/1997/12/epsmadeusa.htm>.

sellers who cannot afford to purchase this right will be unable to do business unless they are prepared to engage in lengthy and expensive litigation with an uncertain result. A wide variety of important secondary markets in copyrighted works and goods with copyrighted elements will suffer without the protection of the first sale doctrine.

1. Eliminating First Sale for Copyrighted Works Harms Consumers, the Public Interest, and Resellers

Secondary markets are a significant part of the United States economy, providing consumers with ready access to affordable goods and providing economic incentives for valuable goods unwanted by their initial owners to remain in the stream of commerce. The Ninth Circuit's decision casts into doubt the viability of these markets, to the extent that goods are or contain copyrighted works manufactured abroad.

For instance, used booksellers will heavily bear the impact of the Ninth Circuit's limitations on the first sale doctrine. As of 2002, there were 7,198 used booksellers in the United States, who in 2003 earned estimated revenues of \$614 million. See Book Hunter Press, *The Quiet Revolution: The Expansion of the Used Book Market* (2003);⁴ Book Hunter Press, *A*

⁴ <http://www.bookhunterpress.com/index.cgi/survey1999-03.html>.

Portrait of the U.S. Used Book Market (2004).⁵ Nor are all resellers of books profit-seeking entities. Libraries frequently find themselves deaccessioning books from their collections, whether to make room for updated collections or in rare, regrettable cases as a fundraising measure. As a seller distributing the books not for its library lending or archival purposes, a library selling a book made outside the United States would face a far more uncertain legal situation than when its actions concerning foreign-produced books were clearly covered by § 109. If the Ninth Circuit's decision stands, any of these types of book-sellers could be effectively barred from re-selling foreign-printed books, or have to first find out whether earlier sales within the United States were authorized by the rights holder. Readers looking for affordable copies of works and collectors of rare books alike would have lawful access to a far more limited range of books. For example, without obtaining prior authorization, a bookshop would not be able to sell to a collector of rare books a 1924 inscribed copy of James Joyce's *Ulysses*, as it was printed abroad. See Bauman Rare Books, *Ulysses*, with Extremely Rare Inscription by James Joyce.⁶ Whether the foreign-produced book was sought by a private collector or by the acquisitions department of a library seeking to

⁵ <http://www.bookhunterpress.com/index.cgi/survey.html>.

⁶ <http://www.baumanrarebooks.com/rare-books/joyce-james/ulysses/52477.aspx> (last visited June 28, 2010).

improve the public's access to information and literature, the buyer's ability to find and afford those works would be severely curtailed. The Ninth Circuit's holding would increase costs for booksellers, decrease the universe of works in which they could trade, and have negative economic consequences.

Libraries' mission of lending books would similarly face a potentially riskier landscape of liability. Without the basic protections of § 109 for the lending of foreign-printed books, libraries would be constrained in their lending of these books to the more particular or specific exceptions carved out in 17 U.S.C. § 602(3) (2006), or the heavily-litigated provisions of the fair use doctrine in 17 U.S.C. § 107 (2006).

Books are not the only market in copyrighted works that would be directly affected. The valuable market in movie and video game rentals will be harmed if the decision below stands. Movie and video game rental companies deal almost exclusively in copyrighted works for which the precise location of their manufacture may be unclear. If a service like Netflix or Blockbuster does not know where a movie was "pressed" (fixed) onto a DVD, it cannot rely on the protection of the first sale doctrine. The companies thus affected are of considerable size and commercial importance. In 2008, revenues in the movie and video game rental industry were \$9.5 billion. U.S. Census Bureau, U.S. Dep't of Commerce,

Service Annual Survey 2008, at 85 tbl.5.1 (2010).⁷ Video game rentals for 2008 alone totaled \$541 million. The Entertainment Merchant Association, EMA's 2009 Annual Report is Now Available.⁸ Netflix's 2009 revenues were \$1.67 billion, and Netflix has approximately 12 million subscribers. Netflix, Inc., *2009 Annual Report* 3 (2010).⁹ Industry leader Blockbuster earned approximately \$3.87 billion in revenue for rentals in 2008. Blockbuster Inc., *Annual Report 2008*, at 75 (2009).¹⁰ Calling into question the legality of millions of Netflix and Blockbuster transactions would chill these companies' purchase of movies and video games and subsequent rental to customers. Since the Ninth Circuit would only allow transfers of domestically manufactured works or authorized transfers of works, Netflix, Blockbuster, or any number of competing independent rental businesses would either have to find out where a particular copy was pressed or whether an authorized sale had occurred in the United States. These requirements would increase costs and drive some of these companies out of business. Consumers would be

⁷ available at <http://www2.census.gov/services/sas/data/Historical/sas-08.pdf>.

⁸ http://www.entmerch.org/annual_reports.html (last visited June 28, 2010).

⁹ available at http://files.shareholder.com/downloads/NFLX/956794187x0x364065/2add3064-3eea-4266-80c3-c6090d4bafc1/Netflix_-_2009_Annual_Report.pdf.

¹⁰ available at https://materials.proxyvote.com/Approved/093679/20090403/AR_39020/HTML2/blockbuster-ar2008_0081.htm.

denied a robust, competitive market in movie and video game rentals. As this market is so large, the economic effects of removing the protections of the first sale doctrine will be significant.

Other resellers, like pawnbrokers, auction houses, and online marketplaces would also suffer, fearing potential litigation by manufacturers eager to maintain resale price. Pawnbrokers wary of liability would have to perform inquiries with respect to any copyrighted work that they purchase from people who walk through their doors, which would remove the convenience and practicality that is a major attraction of their business. Auction houses would have to track the location of manufacture and sale history of every item they auction off. Classified pages and online exchanges like eBay, craigslist, and Amazon Marketplace would have to decide between their new liability exposure and the cost of investigating the hundreds of millions of items sold via their sites. Chilling such established facets of the secondary marketplace would have a corrosive economic impact and would not be in keeping with the aims of copyright law.

Charitable, testamentary, and other gift transfers also fall within the reach of the Ninth Circuit's holding. Since the 17 U.S.C. § 106(3) (2006) restriction on distribution covers far more than sales and vending, *all* transfers of foreign-made copyrighted works become infringements under the lower court's interpretation. People would be unable to donate their books to a book drive to benefit a library or a homeless shelter, for example, unless they knew that the book was printed in the United States or that the copyright owner had authorized a sale within the

United States. As a copyright infringement, the charitable donation would subject the donor to statutory damages under § 504 of the Copyright Act, with liability beginning at \$750 per infringing copy, and extending to as much as \$30,000, or \$150,000 in the case of willful distribution of the lawfully made, but foreign-made, copy. 17 U.S.C. § 504. Millions of books are donated to libraries and charities every year. *See, e.g.,* Reading Tree, Frequently Asked Questions;¹¹ First Book, Frequently Asked Questions;¹² Books for Africa, About Books for Africa.¹³ At \$750 per work, unauthorized donations of books manufactured abroad could create damages liability in the billions of dollars per year. These damages would have a strong deterrent effect on these everyday, not-for-profit transfers. The lack of § 109 protections would be felt in a testamentary context as well: under the Ninth Circuit's decision, the owner of a work of art cannot leave it to a family member after death, or give it away while still alive, if the work was made outside the United States and never sold within the United States with the copyright owner's authorization. The threat of copyright infringement and its consequent damages will thus harm not only commercial transactions, but also chill charitable, testamentary, and other gift transfers.

¹¹ <http://www.readingtree.org/faqs.aspx?id=181> (last visited June 28, 2010).

¹² <http://www.firstbook.org/site/c.lwKYJ8NVJvF/b.677523/k.C7A8/FAQ.htm> (last visited June 28, 2010).

¹³ <http://www.booksforafrica.org/about/about-bfa.html> (last visited June 28, 2010).

2. Applying the Rule Below to Goods Merely Containing a Copyrighted Work Allows These Harms to Spread Further

The Ninth Circuit's interpretation of § 109 will cause the aforementioned harms to spread beyond traditionally copyrighted works – books, art, music, and movies, for example – to all goods merely *containing* a copyrighted work, as the Omega watch does. The copyright holder may thus more tightly control, if not completely eliminate, the secondary market in the good. The Ninth Circuit's decision therefore potentially reaches every imaginable type of consumer product, such as the shampoo at issue in the *Quality King* case, in which the manufacturer, L'anza, sought to control through the use of the copyrighted label affixed to the bottle. *See Quality King Distribs. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998). Hence, virtually any product can be swept into the Ninth Circuit's decision given the ease with which a manufacturer can obtain a copyright registration on the labeling affixed to its products. This enables manufacturers to game the copyright system by adding a copyrighted work, manufactured abroad, to any good in order to seek control over its subsequent transfer or display. Manufacturers may also be incentivized to move manufacturing facilities and the jobs they provide outside of the United States simply to strengthen control over distribution. The harm caused by the Ninth Circuit's holding will be immediate, palpable, and great.

The low burden of obtaining a copyright and the high value of absolute control over a product under the Ninth Circuit's holding makes this abuse of copyright law easy to implement. To obtain and enforce copyright protections, a manufacturer need only scribble a design somewhere on their product, deposit copies of the logo with the Copyright Office and pay a fee of \$35 or \$45. 2-7 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 7.18 (2009). The design need not add any value to the product, but would only have to meet the very low threshold of originality required by copyright law. See *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 345 (1991). After surmounting this low barrier, the manufacturer will obtain the controls afforded by copyright law, including the ability to enjoin importation of a good, as well as have it impounded or destroyed. 17 U.S.C. §§ 502-03 (2006). Under the Ninth Circuit's ruling, a manufacturer would obtain the right to control its product even after the first sale, and would maintain this right until it authorizes the product's sale within the United States. Buyers, in contrast, are left without the first sale doctrine to protect their subsequent disposition of the good.

Omega's actions reflect the type of improper behavior the Ninth Circuit's decision would encourage. Omega engraved the copyrighted globe logo on the back of its watch, *Omega*, 541 F.3d at 983, invisible when being worn and unknown to anyone except perhaps the wearer. The expressive elements of the copyrighted globe logo added little, if any, value to the

watch itself. However, under the Ninth Circuit's holding, the logo did enrich Omega with the power to control the ability of subsequent owners of the watch to dispose of it as they please. There are no substantive copyright or trademark issues at stake beyond the commercial control Omega is trying to exert via copyright law. The watches are genuine and unaltered. Omega is merely attempting to improperly leverage copyright law to use a minor, practically invisible logo to obtain absolute control over the disposal of a high value product. If the Ninth Circuit's holding is allowed to stand, it is likely that manufacturers of other goods, from cars to sports equipment to wine, will register some minor copyrightable element of their good *solely* to take advantage of the heightened control afforded by copyright law. As demonstrated by *Quality King*, common commercial products already bear such copyrighted elements, ready to serve under the Ninth Circuit's ruling as barriers to access to the actual commercial product. See *Quality King*, 523 U.S. 135.

The extension of copyright law controls to goods that merely contain a copyrighted work also means the extension of the above-noted damages regime afforded by copyright law. Violators are, at minimum, liable for actual damages. 17 U.S.C. § 504(b). If a work is registered, statutory damages of between \$750 and \$30,000 per work may be assessed, regardless of the value of the item. *Id.* § 504(c). In the

case of willful infringement, violators may be assessed statutory damages of up to \$150,000. *Id.* These statutory damages, intended to account for unique aspects of damages valuation in copyright infringement, are particularly ill-suited to a situation where the value of the copyrighted image itself (as opposed to the product that bears it) is at best a negligible portion of the product's value.¹⁴ Such a tortured use of copyright results in consequences far more likely to stifle the exchange of works than to promote their progress. *Cf. Lasercomb Am., Inc. v. Reynolds*, 911 F.2d 970 (4th Cir. 1990); *Practice Mgmt. Info. Corp. v. American Med. Ass'n*, 121 F.3d 516 (9th Cir. 1997); *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772 (5th Cir. 1999); *DSC Commc'ns Corp. v. DGI Techs., Inc.*, 81 F.3d 597 (5th Cir. 1996).

The effects of the Ninth Circuit's holding will chill the transfer of not only goods containing a copyrighted work manufactured abroad, but also those manufactured domestically. As discussed above with reference to copyrighted works, it is often difficult to determine where a good containing a copyrighted

¹⁴ Indeed, Omega makes the copyrighted Omega Globe Design available for no charge on its website. *See, e.g.*, Omega, Constellation Double Eagle Chron, *available at* <http://www.omegawatches.com/fileadmin/images/watches/additional/12162415013001-40.jpg> (last visited July 2, 2010). The Omega Globe Design is at the bottom of the watch image, around 7 o'clock on the watch's back.

work was manufactured. Uncertainty over whether § 109 applies can keep sellers from selling and buyers from buying (for fear of being unable to sell in the future). Furthermore, manufacturers have no incentive to clarify the location of manufacture because the uncertainty may give them *de facto* control over the disposition of goods.

This chilling effect on transfers will harm many large markets. For example, in 2009, 4.4 million cars were imported into the United States. *Service Annual Survey 2008*, at 85 tbl.5.1.¹⁵ Most, if not all, of these cars contained both the logo of their manufacturer in a number of places and software on internal electronics. If this logo or software is copyrighted, these 4.4 million cars may never, unless authorized by the manufacturer, enter the used car market – which in 2008 comprised the sales of 36.5 million cars at a total value of \$292 billion. Bureau of Transportation Statistics, U.S. Dep’t of Transportation, *National Transportation Statistics 2010* tbl.1-17 (2010).¹⁶ In 2008, approximately 64% of used car sales were through non-affiliated sellers. Nat’l Indep. Auto. Dealer’s Ass’n, *Used Car Industry Report 2009*, at 14 (2009). Any sales in these markets not explicitly authorized by manufacturers will be completely

¹⁵ available at <http://www2.census.gov/services/sas/data/Historical/sas-08.pdf>.

¹⁶ available at http://www.bts.gov/publications/national_transportation_statistics/.

undermined. Furthermore, manufacturers have an inherent economic interest in suppressing these markets, since fewer available used cars would drive consumers to buy directly from manufacturers. In addition, car rental companies, which earned an estimated \$20.46 billion in revenue in 2009, *Market Data: U.S. Car Rental Market*, Auto Rental News, Vol. 22, No. 8, at 4 (2009),¹⁷ will be unable to rent any of these foreign made cars (or cars bearing a foreign-made copyrighted work) for fear of violating copyright law. The same scenarios can easily play out in any number of large and important secondary markets for physical goods, with the Ninth Circuit's interpretation of § 109 affecting nearly all sectors of commerce in the secondary market.

Again, business focused generally on the secondary sales of goods will be heavily affected, and in markets ranging far beyond those for books, music, and other media. Auction houses, pawnshops, and online marketplaces like eBay, craigslist, and Amazon all deal in a wide variety of second hand goods – which do, or could easily, contain a copyrighted element – for which the location of their manufacture may be unclear. If these goods suddenly acquired copyright protection without the limitations of the first sale doctrine, the harm to these large markets could be staggering. eBay's secondary market in goods alone is

¹⁷ available at [http://arn.epubxpress.com/wps/portal/arn/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3iLkCAPEzcpIwMDL3NnA0-TICdzX2cnY_dQE_2CbEdFAFfPKi!/.](http://arn.epubxpress.com/wps/portal/arn/c1/04_SB8K8xLLM9MSSzPy8xBz9CP0os3iLkCAPEzcpIwMDL3NnA0-TICdzX2cnY_dQE_2CbEdFAFfPKi!/)

valued at approximately \$60 billion, with 175 million goods for sale at any time. Brief for eBay Inc. as *Amicus Curiae* in Support of Petitioner at 1, *Costco Wholesale Corp. v. Omega, S.A.*, No. 08-1423 (2009). Both sellers and buyers will be far less willing to transact over even the lowest value goods in these markets, with the risk of infringement and large statutory damages looming. With fewer buyers and sellers, these valuable markets would be greatly reduced.

As with copyrighted works, it is not just for-profit industries and for-value sales that suffer from restraints on alienation of goods containing copyrighted works. Thousands of people give away goods containing copyrighted works to charity, as gifts, or as part of testamentary transfers. For example, many articles of clothing come branded with some logo or design, be it visible to anyone but the wearer or not, that can be copyrighted. If the Ninth Circuit's decision were taken to its extreme, an owner could never donate foreign made clothes to any of the 25,000 thrift, resale and consignment stores in the United States without the potential risk of exposure to liability for copyright infringement. See Nat'l Ass'n of Resale and Thrift Shops, *Industry Statistics & Trends*.¹⁸ Goodwill Industries alone generates approximately \$1.9 billion in retail sales from its over 2,000

¹⁸ <http://www.narts.org/i4a/pages/index.cfm?pageid=3285> (last visited June 2, 2010).

not-for-profit stores. *Id.* However, donations to Goodwill would plummet if such transfers of clothing were held to be copyright infringement. Likewise, foreign made cars could not be donated to the Salvation Army. Many toys are made overseas. During the holidays, these toys could not, absent permission, be donated to Toys for Tots. General gift giving would also be restricted. A bottle of wine with a copyrighted label manufactured abroad could not be given as a gift at a dinner party, because this would infringe the copyright of the label maker or winery. A testamentary transfer of jewelry inscribed with the manufacturer's logo would also be prohibited. The Ninth Circuit's holding will drastically limit not only sales of goods, but a wide variety of gift, charitable, and testamentary transfers.

Defendants might assert defenses other than the first sale doctrine to such claims, such as arguing that the alleged infringement was *de minimis* or protected by the fair use doctrine. Nevertheless, the increased liability exposure and its attendant damages illustrates the problems with the Ninth Circuit's holding, and its potential to chill transfer of all goods with copyrighted works affixed to them, seriously damaging a wide variety of important secondary markets.

B. Manufacturers Can Deliberately Foreclose the Secondary Market by Manufacturing Abroad

Manufacturers can also ensure that they may exploit their new restrictions on secondary transfers by moving manufacturing operations overseas. Further, the entire good need not be manufactured abroad, but only the copyrighted element of a good. Thus, if a manufacturer desires to completely foreclose the secondary market in a good, it need only obtain the copyright and manufacture it abroad to render all subsequent unauthorized transfers of a good a violation of copyright law.

A publishing house may ensure that its books are printed abroad to eliminate the secondary market. Manufacturers will be driven to produce some part of their goods, be it just a small element like the Omega globe logo or the entirety of a book, outside of the United States to take advantage of the Ninth Circuit's holding. A company can create a small logo abroad, affix it to a good (which may be manufactured either in the United States or abroad), and thus argue that the first sale doctrine is pre-empted. This will encourage companies to try to game the copyright laws to foreclose secondary markets, in addition to driving manufacturing out of the country.

The Ninth Circuit's holding provides a clear strategy for a manufacturer seeking to foreclose secondary markets by obtaining absolute control over

its product, while also doing palpable damage to consumers, resellers, and the economy as a whole.

II. The Ninth Circuit's Interpretation Will Allow Enjoining of Parallel Imports, Contrary to Congressional Intent and Rational Policy

In addition to suppressing secondary markets, the Ninth Circuit's interpretation of § 109, if upheld, would also permit suppression of parallel imports (non-counterfeit goods imported without the manufacturer's permission). That result would violate congressional intent and have significant harmful effects on the economy.

A. By Co-Opting Copyright Law to Restrain Parallel Imports, the Ruling Below Violates Congressional Intent

The Ninth Circuit's opinion imports into copyright law a policy that Congress and the courts have rejected for trademark law. In an analogous trademark law case, the Ninth Circuit denied a trademark holder's attempt to use trademark law to enjoin parallel imports. *See NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987). As the Ninth Circuit pointed out in that decision, "This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an

American subsidiary with nominal title to its mark.”
Id. at 1511.

Similarly, § 602 of the Copyright Act does not offer foreign manufacturers a vehicle for establishing a worldwide discriminatory pricing scheme simply by registering a copyrighted logo with the Copyright Office and then manufacturing the copyrighted logos abroad. Nothing in the legislative history or case law surrounding § 602 suggests any policy to restrict imports of goods, create a system of international price discrimination, or give manufacturers control over the importation of goods that are not themselves copyrighted but merely have a copyrighted logo. As the Third Circuit said in a similar case:

Although this case turns purely on copyright law, we recognize that the underlying “gray market,” or “parallel importing,” issues really are dominant. Various economic factors – including the manipulation of global currency standards – encourage transactions in which goods are produced in this country, shipped and sold to foreign concerns, and then returned to the United States for resale at less than the domestic prices.

This practice has led to complaints by manufacturers seeking a fair return on their costs of promotion and servicing of warranties in this country. Equally vocal are consumer advocates asserting the desirability of access to identical goods at lower costs. Because contractual remedies have proved inadequate, *see Johnson & Johnson Products v. DAL Int’l*

Trading Co., 798 F.2d 100 (3d Cir. 1986), domestic manufacturers now invoke the copyright law to advance their economic interests. This twist has created the anomalous situation in which the dispute at hand superficially targets a product's label, but in reality rages over the product itself. We think that the controversy over "gray market" goods, or "parallel importing," should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly.

See Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd., 847 F.2d 1093, 1099 (3d Cir. 1988).

Furthermore, statutes passed since the creation of § 602 have expressed a continued understanding that parallel imports are legal. *See, e.g.*, Stop Counterfeiting in Manufactured Goods Act, Pub L. No. 109-181, § 1(b)(3)(B), 120 Stat. 285, 287 (codified as amended at 18 U.S.C. § 2320(e)(b) (2006)) (explicitly exempting authorized uses of marks from the act's prohibitions on the import of "counterfeit marks"); 151 Cong. Rec. H3699-05 (2005) (statement of Rep. Lofgren) ("We now have a bill that protects manufacturers, targets illegitimate actors, protects consumers, and leaves the legitimate parallel market unscathed."). Congressional intent, as reflected in the text of § 602 and subsequent statutes, was to permit parallel imports. There is no basis for using copyright law to hamstring this market. Copyright law grants a monopoly over the copyrighted work to the copyright holder. The purpose of this monopoly is not to allow

manufacturers to control trade, but rather to promote creative activity. See, e.g., *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). As such, the Ninth Circuit's interpretation of § 109 and § 602 is ill-advised, as it imports an alien policy – which the court previously rejected in the trademark law context – into copyright law.

B. Restraining Parallel Imports Will Harm Consumers, Resellers, and the Economy at Large

By restraining parallel imports, the decision below will harm consumers, resellers, and the economy at large. The parallel market enables lower-cost alternatives to flow to consumers and resellers, encouraging competition, efficiency, and an increase in overall economic welfare. Ryan L. Vinelli, *Bringing Down the Walls: How Technology is Being Used to Thwart Parallel Importers Amid the International Confusion Concerning Exhaustion of Rights*, 17 *Cardozo J. Int'l & Comp. L.* 135, 143 (2009).

Both the value of the parallel market and the amount of savings it affords consumers are large. The value of the parallel market has steadily grown over the past quarter-century. In 1985, *Time Magazine* reported that the United States parallel market was valued at approximately \$5.5 billion of the nation's retail trade. Raji Samghabadi & Dan Goodgame,

Inside the Gray Market, Time Magazine, Oct. 28, 1985.¹⁹ By 2000, the United States parallel market had grown to “somewhere between \$10 and \$20 billion a year.” Olga Kharif, *The Global Economy’s Gray-Market Boom*, BusinessWeek Online, Nov. 30, 2000.²⁰ Recently, the parallel market in information technology alone was estimated to be more than \$40 billion a year. Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing 1* (Harv. Bus. Sch., Working Paper No. 09-098, 2009).²¹ By enabling manufacturers to use copyright law to restrict parallel imports, the Ninth Circuit’s decision will inhibit further growth and development of the parallel market.

The amount of savings consumers enjoy and profits resellers are able to make thanks to the parallel market is also large, but will be harmed by the decision below. The parallel market “saves consumers billions of dollars each year.” 151 Cong. Rec. H3699-05 (2005) (statement of Rep. Conyers). Consumers enjoy the benefits of the parallel market at stores such as “T.J. Maxx, Marshall’s, Ross, and Loehmann’s[, that] sell billions of dollars of gray market designer clothing, shoes, perfumes, luggage, jewelry, china, and other goods every year . . . for lower prices

¹⁹ available at <http://www.time.com/time/magazine/article/0,9171,960231,00.html>.

²⁰ http://www.businessweek.com/bwdaily/dnflash/nov2000/nf20001130_555.htm.

²¹ available at <http://www.hbs.edu/research/pdf/09-098.pdf>.

than in department stores or boutiques.” Kimberly Reed, *Levi Strauss v. Tesco and E.U. Trademark Exhaustion: A Proposal for Change*, 23 Nw. J. Int’l L. & Bus. 139, 165 (2002) (citation omitted). Taking advantage of the gray market, these resellers have become large and profitable. In 2009, the TJX Companies, Inc., which owns T.J. Maxx and Marshalls, made over \$20 billion in sales. The TJX Companies, Inc., *2009 Annual Report* 21 (2010).²² Likewise, in the same year, Ross Stores made over \$7 billion in sales. Ross Stores, Inc., *2009 Annual Report* 2 (2010).²³ Both the savings enjoyed by consumers and the success enjoyed by resellers will be jeopardized by the Ninth Circuit’s decision.

Restraining parallel imports will harm consumers and resellers alike. In the current economy, consumers rely on the competition provided by parallel imports to keep prices affordable. The Ninth Circuit’s removal of § 109 protections will eliminate the ability of resellers to obtain parallel imports and provide a steady supply of lower cost goods to consumers. With both consumers struggling to afford goods and resellers unable to acquire cheaper goods due to price discrimination, the economy as a whole will further suffer.

²² available at <http://thomson.mobular.net/thomson/7/2968/4250/>.

²³ available at https://materials.proxyvote.com/Approved/778296/20100326/AR_57653/HTML1/default.htm.

III. The Ninth Circuit’s Interpretation of § 109 is Erroneous

In order to reach its holding that § 109 does not apply to foreign-made works, the Ninth Circuit interpreted the phrase “lawfully made under this title” as a geographic limitation rather than a legal one. This interpretation of § 109 is inconsistent with the purpose of the statute, congressional policy towards parallel imports, the text of Title 17 and this Court’s precedent. Accepting the Ninth Circuit’s holding will lead to absurd contradictions in statutory interpretation, showing that the lower court’s decision is in need of reversal.

A. Properly Read, “Lawfully Made Under This Title” Allows § 109 to Apply to Sales of Works Made Outside the United States

The Ninth Circuit held that the phrase “lawfully made under this title” precludes application of 17 U.S.C. § 109 to works made outside the United States. For several reasons, this finding is neither necessary nor reasonable.

1. A Reasonable Reading Allows § 109 to Apply to International Sales Without Requiring Extraterritorial Application of the Law

The phrase “under this title” is used throughout Title 17 to mean “under the terms of the statutes

within.” The laws of the United States Code only apply within the country’s geographical limits, but reading “under this title” as synonymous to “within this country” requires a large and unnecessary logical leap. Firstly, if Congress had wished to limit the statute’s application to works made within the United States, there are several verbal configurations that would easily and unambiguously convey that meaning. “Within the United States” is the simplest and most obvious such configuration. Indeed, the phrase “within the United States” is used in 17 U.S.C. § 1309 (2006). A basic search reveals that the phrase occurs several thousand times elsewhere in the United States Code.²⁴

Reading § 109’s condition of “lawfully made under this title” as a legal restriction rather than a geographic one does not require extraterritorial application of United States law. Congress may grant protections contingent upon certain actions that may occur abroad, such as the original creation of a work, or whether a work was “acquired abroad.” *Quality King*, 523 U.S. at 145 n.14, *accord Omega*, 541 F.3d at 987. Other provisions of Title 17 rely on actions and occurrences abroad. For example, 17 U.S.C. § 104(b) (2006) states that published works are “subject to protection under this title” if the work was first published in any nation that is a “treaty party.” Any

²⁴ See, e.g., http://www.google.com/search?as_q=%22within+the+United+States%22&as_sitesearch=http%3A%2F%2Fwww.law.cornell.edu%2Fuscode%2F&as_qdr=all.

work created in Switzerland (a “treaty party,” since it is a party to the Berne Convention and the WIPO Copyright Treaty, among others) is “under [Title 17]” according to § 104. This section grants a protected status to certain works based on an event (their publication) that occurs outside the geographic boundaries of the United States. Section 104 does not extend American law extraterritorially. Rather, it acknowledges the publication of a foreign work as a relevant *fact* that bears upon the legal status the work enjoys *within* the United States. Similarly, § 109 can regard as relevant facts either the legal status of a work under the laws of another country, or set of facts that would govern whether the work would have been lawfully made had it been made in the United States.

Indeed, the Ninth Circuit itself found that works manufactured abroad could be “lawfully made under this title” within the meaning of § 109. The Ninth Circuit has held that a copy of a work manufactured abroad but sold within the United States is protected by § 109, thus implicitly recognizing that § 109’s language applies to works made abroad. *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994). Furthermore, the statutory language “lawfully made” appears to have always been intended to apply to situations in which the goods were made outside the United States, including “where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country.” *Supplementary Report of the Register of*

Copyrights on the General Revision of the U.S. Copyright Law: 1965 Revision Bill, 89th Congress, 1st Sess., 148-50 (Comm. Print 1965), reprinted in 4 *Omnibus Copyright Revision Legislative History* (Grossman ed. 1976), at 150, cited with approval in *Cosmair, Inc. v. Dynamite Enters., Inc.*, 1985 WL 2209, at *4 (S.D. Fla. Apr. 5, 1985). Despite the implied overruling of some portions of *Drug Emporium* in *Quality King*, *Drug Emporium* and the legislative history of the Copyright Act both illustrate an understanding that Congress can take note of a work's sale or legal status in another country without applying United States law extraterritorially. When Congress does so, it does not in any way affect the rights of parties conducting business under foreign law. Determinations of § 109's applicability only affect the application of United States law within the boundaries of the United States.

2. The Ninth Circuit's Reading Contradicts This Court's Precedents

In addition to being contrary to congressional intent and good policy, the Ninth Circuit's holding runs contrary to this Court's precedent.

As earlier discussed, the Ninth Circuit's holding would have far-reaching negative ramifications. In order to mitigate some of the negative effects of its interpretation of § 109, the Ninth Circuit added an exception to *Drug Emporium*, 38 F.3d 477. In *Drug Emporium*, the Ninth Circuit held that first sale

applies to § 602 if copyrighted works were manufactured abroad when “there has been a ‘first sale’ in the United States.” *Drug Emporium*, 38 F.3d at 481 (emphasis removed). The Ninth Circuit added this complication because it recognized in *Drug Emporium* that removing § 109 protections from copyrighted works manufactured abroad “would lead to absurd and untenable results,” including the fact that “foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States.” *Drug Emporium*, 38 F.3d at 482 n.8.

The holding in *Drug Emporium*, however, is no longer good law and its use by the Ninth Circuit in this case is improper. In *Quality King*, this Court explicitly held 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 sale occurred abroad.” *Quality King*, 523 U.S. at 145 n.14 (emphasis added). The Ninth Circuit’s limitation on the first sale doctrine in *Drug Emporium* is in direct contradiction with this holding. As such, the Ninth Circuit’s holding in *Drug Emporium* is “clearly irreconcilable” with this Court’s precedent in *Quality King* and is no longer controlling in the Ninth Circuit. See *Miller v. Gammie*, 335 F.3d 889, 893 (9th Cir. 2003) (holding that “in circumstances . . . where the reasoning or theory of our prior circuit authority is clearly irreconcilable with the reasoning or theory of intervening higher authority, a three-judge panel should consider itself bound by the later and controlling authority”). The Ninth Circuit,

however, chose not to address this issue in the case below, see *Omega*, 541 F.3d at 990, instead choosing to apply *Drug Emporium*'s conflicting holding.

If, somehow, the holding of *Drug Emporium* does survive, its mitigating effect on the widespread negative consequences of the holding below will only be minor. Resale, lending, display, gifting, and other methods of disposing of copyrighted works or goods with copyrighted elements manufactured abroad will still be unlawful if first sold abroad. As it will be impossible or impractical for owners to determine whether the first sale occurred domestically or abroad, the chilling effects of the holding below will inhibit transfers of works regardless of where the first sale occurred. Furthermore, manufacturers need only ensure that all first sales occur abroad to completely foreclose secondary markets. Likewise, parallel imports will still be completely eliminated as, by definition, these occur without the copyright owner's consent. Finally, the Ninth Circuit's application of *Drug Emporium* does not rectify the absurdity that, under the holding below, foreign manufactured works receive greater protection than domestically manufactured works. According to the Ninth Circuit, works manufactured in the United States are subject to the first sale doctrine, while goods manufactured elsewhere are not, so long as the first sale does not occur in the United States. The mitigating effect of the *Drug Emporium* decision will be extremely limited, and the negative consequences of the decision below will still be far-reaching and great.

This Court should insist upon a proper reading of § 109 to align the law with its precedents and eliminate the negative ramifications of the holding below.

B. The Ninth Circuit’s Interpretation of “Lawfully Made Under This Title” is Inconsistent with its Use Throughout Title 17

The full phrase “lawfully made under this title” appears in two other contexts within Title 17. In each of these cases, using the Ninth Circuit’s interpretation of this phrase would lead to absurd results. On the other hand, understanding the phrase to mean “made not in contravention of Title 17” would allow a logically consistent reading.

Section 110 provides exceptions from infringement for certain types of performances and displays. 17 U.S.C. § 110 (2006). In particular, § 110(1) allows for the performance or display of copyrighted works in course of teaching at educational institutions. However, this exception is conditioned on a two-part test. First, the copy used must be “lawfully made under this title.” 17 U.S.C. § 110(1). Second, the person responsible must not “kn[o]w, or ha[ve] reason to believe” that the copy “was not lawfully made.” *Id.*

Under the Ninth Circuit’s interpretation of “lawfully made under this title,” a teacher could not show copies of works manufactured abroad, so long as the teacher knew or had reason to believe that the

copy was not lawfully made. Furthermore, this interpretation leads to the strange scenario in which a teacher may be liable for infringement for displaying a lawfully foreign-made work with the mistaken belief that it was unlawfully made. Under the Ninth Circuit's interpretation, a work lawfully made abroad still triggers the first prong of the test, as it would not be "lawfully made under this title." Thus, under one reading of the statute, a teacher need only mistakenly believe that a work is an infringing copy to be liable. This absurd disconnect between the necessary *scienter* and the necessary facts for culpability is a product of the Ninth Circuit's mistaken interpretation of "lawfully made under this title."

If, instead, a court were to interpret the second prong's "lawfully made" as meaning the same as the first prong's "lawfully made under this title," the Ninth Circuit's reading of that phrase would suggest that the teacher would be liable simply for displaying an audiovisual work she knew to be made outside of the United States, an even stranger result leading to a situation – the stronger protection for foreign works than domestic ones – that the Ninth Circuit has attempted to avoid in the § 109 context.

Likewise, the Ninth Circuit's interpretation creates absurd results when applied to the Audio Home Recording Act, which requires domestic manufacturers and importers of digital audio recording devices and media to pay a royalty to the Register of Copyrights, who distributes the funds to copyright

holders whose works or recordings have been embodied in a recording “lawfully made under this title.” Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (codified at 17 U.S.C. §§ 1001(7), 1006(a) (1992)). Under the Ninth Circuit’s interpretation, a would-be “interested copyright party” under §§ 1001(7)(A) or (B) (2006) would be ineligible to receive royalties if the musical recordings that embodied his work were all made outside the United States. Thus, royalty payments from sales of digital audio recording devices and digital audio recording media would cease to flow to artists whose sound recordings were embodied in musical recordings made anywhere but in the United States, regardless of where copies of those recordings were eventually distributed. Such a result is plainly not the purpose of the Audio Home Recording Act and is evidence of the improper interpretation of the Ninth Circuit.²⁵

The Ninth Circuit’s interpretation of “lawfully made under this title” is inconsistent with its use throughout Title 17. Its reading of the statute would create absurd results. As such, the Ninth Circuit’s interpretation should be rejected.



²⁵ The definitions within the confines of Audio Home Recording Act of “distribute” and “manufacture” both define those actions as taking place “in the United States,” 17 U.S.C. §§ 1001(6), (8), further supporting the proposition that in this context, Congress expresses a geographic limitation on a statute’s application thusly, and not by using the phrase “lawfully made under this title.”

CONCLUSION

For the aforementioned reasons, the Court should find for the Petitioner.

Respectively submitted,

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