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 AMICUS CURIAE PUBLIC CITIZEN IN SUPPORT OF PETITIONER

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INTEREST OF AMICUS CURIAE[1]

Public Citizen is a national consumer-advocacy organization based in Washington, D.C. Public Citizen is active before Congress, administrative agencies, and the courts on a wide variety of consumer-protection issues. For the past decade, Public Citizen has been concerned about the effect on consumers of expansive and unjustified claims of intellectual property rights and has represented people subjected to anticompetitive claims of copyright and trademark infringement. In Public Citizen's experience, companies in recent years have attempted, like Omega here, to bypass the first-sale doctrine by abusing their copyright to retain control of downstream sales. Such practices expand the scope of copyright far beyond its intended bounds, unfairly restrict the right of consumers to dispose of their personal property, and ultimately lead to higher prices by eliminating the secondary market for used works. Public Citizen files this brief to highlight the irrational and harmful consequences that the Ninth Circuit's decision below, if allowed to stand, would have for consumers.

BACKGROUND

This case is about Omega's effort to exploit its copyright to control distribution of its watches even after it has sold them for full value. Omega manufactures watches in Switzerland and sells them to foreign distributors around the world. JA 60. Third-party importers brought some of the watches to the United States, where Costco purchased them and sold them to consumers at

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[1] Pursuant to this Court's Rule 37.6, counsel states that this brief was not authored in whole or in part by counsel for a party and that no one other than amicus curiae and its counsel made a monetary contribution to the preparation or submission of this brief. Letters from each of the parties consenting to the filing of all amicus briefs are on file with the Clerk.

prices below Omega's suggested retail price. JA 61, 66. In response to complaints from other distributors about Costco undercutting their prices, Omega began stamping a tiny engraving of a globe on the back of its watches and registered the symbol with the United States Copyright Office. JA 46-52, 60, 116-17. When Costco continued selling the watches, Omega sued for copyright infringement, claiming that resale of engraved watches that had been imported without its permission infringed its distribution and importation rights under 17 U.S.C. §§ 106(3) and 602(a).

The district court granted summary judgment to Costco, but the Ninth Circuit reversed. The court acknowledged that the first-sale doctrine embodied in § 109(a) of the Copyright Act allows "the owner of a particular copy . . . lawfully made under this title" to "sell or otherwise dispose" of the copy "without the authority of the copyright owner." Pet. App. 7a. But the court considered itself bound by circuit precedent holding that a work is "lawfully made" under the Copyright Act only if the copy is "legally made and sold in the United States." Pet. App. 8a (citing *BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991)). Because Omega makes its watches in Switzerland, the court applied its decision in *BMG Music* to conclude that Costco's resale of the watches in the United States constituted infringement. Pet. App. 9a.

The court rejected Costco's argument that excluding foreign-made goods from the first-sale doctrine conflicts with this Court's holding that the doctrine "is applicable to imported copies." *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998). The court concluded that *Quality King* is consistent with an exception to the *BMG Music* rule created by *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994). Pet. App. 13a. Recognizing that eliminating the first-sale doctrine for all foreign-manufactured goods would be "absurd" and "untenable," *Parfums Givenchy* held that a work is "lawfully made" (and therefore protected by the first-sale doctrine) even if manufactured abroad, as long as the copyright owner sold or authorized a sale of the work in the United States. *Id.* at 482 n.8. Here, Omega sold the watches to foreign distributors rather than to distributors in the United States. The court therefore held that a finding of infringement was not "clearly irreconcilable" with *Quality King*. Pet. App. 15a.

ARGUMENT

I. The Ninth Circuit's Rule Upsets the Balance Created by the First-Sale Doctrine.

Omega does not claim that Costco produced or sold counterfeit watches. Rather, Omega argues that Costco's resale of authentic, lawfully purchased watches infringes its exclusive right to "distribute" copyrighted works under the Copyright Act. 17 U.S.C. § 106(3). Omega's theory—and the rule adopted by the Ninth Circuit—is that stamping a tiny copyrighted image on the back of the watches turns every subsequent sale, rental, loan, or gift into copyright infringement, subjecting the infringer to statutory damages and potential criminal penalties. *See* 17 U.S.C. §§ 504, 506.

To be sure, Omega's ability to control downstream sales might allow it to more effectively control prices among different markets. But protection of Omega's preferred business model is not an interest that the Copyright Act protects. Copyright "has never accorded the copyright owner complete control over all possible uses of his work." *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 432 (1984). Rather, the Copyright Act creates a careful balance between the interests of copyright owners and consumers. *See Stewart v. Abend*, 495 U.S. 207, 228 (1990). The purpose of that balance is not to serve copyright holders' marketing interests, but to advance the public's interest in the authorship of new creative works. *See Sony Corp.*, 464 U.S. at 429 ("The monopoly created by copyright thus rewards the individual author in order to benefit the public.").

Section 106(1) of the Copyright Act establishes the key incentive for the creation of new works by granting copyright owners the exclusive right to reproduce those works, thus allowing them to demand payment for each copy sold. The distribution right on which Omega relies is a corollary to the reproduction right, intended to make that right "effectual" by granting copyright owners recourse against distributors of pirated copies. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350-51 (1908). Section 106(3) of the Copyright Act thus "accords the copyright owner the right to control the first public distribution of his work, echo[ing] the common law's concern that the author or copyright owner retain control throughout th[e] critical stage" before a good goes to market. *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 555 (1985) (internal quotation omitted).

To effectively protect the copyright owner's reproduction right, however, the distribution right needs to protect only the right to distribute each copy *one time*. Thus, the distribution right does not include "the authority to control all future retail sales." *Bobbs-Merrill*, 210 U.S. at 351; *see Quality King*, 523 U.S. at 140 & n.4. Under the first-sale doctrine, "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; *see* 17 U.S.C. § 109(a).

This fundamental limit on the scope of the distribution right reflects Congress's judgment that the right to control downstream sales is not a necessary incentive to promote the creation of new works. *See Brilliance Audio, Inc. v. Haights Cross Commc'ns, Inc.*, 474 F.3d 365, 373-74 (6th Cir. 2007) ("Once a copyright holder has consented to distribution of a copy of that work, [the copyright] monopoly is no longer needed because the owner has received the desired compensation for that copy."). Any marginal incentive that would be created by expanding the right to cover downstream sales would not be worth the corresponding intrusion into the public's countervailing ownership interests. At that point, "the policy favoring a copyright monopoly for authors gives way to the policy opposing restraints of trade and restraints on alienation." 2 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 8.12[A] (2009).

The right to control importation set forth in § 602 of the Copyright Act is a subset of the distribution right and is thus subject to the same limitations. *See Quality King*, 523 U.S. at 138 (holding that the first-sale doctrine "is applicable to imported copies"). Like the distribution right, the importation right is designed not to convey a broad new authority to control commerce, but to strengthen and protect the copyright owner's reproduction right. Some measure of control over importation is essential to protect the reproduction right because, without it, pirates could bypass the Copyright Act by making copies in countries with lax or nonexistent copyright protections and then importing those copies into the United States. The importation right prevents such circumvention of U.S. law by providing the copyright owner with a private remedy against importers of pirated copies and copies that, while "produced lawfully under a foreign copyright," would be unlawful if produced in the United States. *Id.* at 146-47.

The logic behind the importation right, however, does not apply to importation of genuine, authorized copies of a work that the copyright owner lawfully produces and sells for full value, regardless of where the production and sale occur. In such circumstances, "continued control of the distribution of copies is not so much a supplement to the intangible copyright, but is rather primarily a device for controlling the disposition of the tangible personal property that embodies the copyrighted work." *Nimmer on Copyright* § 8.12[A].

The Ninth Circuit's exception to its rule for cases where an authorized sale occurs in the United States, set forth in *Parfums Givenchy*, 38 F.3d at 482 n.8, only makes the rule more illogical. The exception's arbitrary distinction between first sales in the United States and first sales abroad has no foundation in the text of § 109(a), which never mentions the location of the first sale. Moreover, the exception does nothing to further the Copyright Act's purpose of promoting creative expression. It makes no sense to provide more stringent copyright protection under U.S. law to copies sold outside the United States than to copies sold domestically. Just as pirates are not entitled to bypass U.S. copyright protection by moving their operations overseas, copyright owners should not be allowed to bypass the first-sale doctrine's limit on the scope of their rights by making their first sales abroad.

II. The Ninth Circuit's Rule Undermines Consumers' Personal Property Rights and Would Severely Harm the Secondary Market for Used Works.

The first-sale doctrine embodied in § 109(a) is a crucial component of the balance of interests created by the Copyright Act, reflecting "the traditional bargain between the rights of copyright owners and the personal property rights of an individual who owns a particular copy." *Brilliance Audio,* 474 F.3d at 373–74. The doctrine "ensures that the copyright monopoly does not intrude on the personal property rights of the individual owner" by providing that owners of particular copies of a copyrighted work have the same right to sell, give away, or destroy those copies as they traditionally have with any other piece of personal property. *Id.*; *see Sebastian Int'l v. Consumer Contacts*, 847 F.2d 1093, 1096 (3d Cir. 1988) ("The first sale rule is statutory, but finds its origins in the common law aversion to limiting the alienation of personal property.").

By giving copyright owners the authority to control disposition of their works even after selling them for full value, the Ninth Circuit's decision cuts deeply into traditional rights of ownership and converts a wide range of otherwise innocent activities into copyright infringement. Thus, under the Ninth Circuit's rule, a tourist who mails a postcard into the United States from abroad would be potentially liable for copyright infringement. So too would a traveler who purchases a novel overseas intending to read it on the flight home and then sell it at a yard sale, donate it to a library, or give it to a friend after returning to the United States. In these cases, the copyright owner's distribution right under § 106(3) would be implicated even if the works were given away rather than sold because the distribution right includes control over *all* forms of transfer, "whether by sale, gift, loan, or some rental or lease arrangement." H.R. Rep. No. 94-1476 at 52 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5675-76; *see also* 17 U.S.C. § 101 (right includes distribution "by sale *or other transfer of ownership*, or by rental, lease, or lending") (emphasis added).[2]

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[2] The "suitcase exemption" of the Copyright Act permits importation of copies of copyrighted materials without the authorization of the copyright holder when they are in the personal baggage of a traveler, but not if the traveler intends to distribute the copy or copies to others. 17 U.S.C. § 602(a)(2).

The Ninth Circuit's rule creates potential liability even for many goods purchased domestically. Because copyright infringement would occur *each time* there is a transfer of ownership, the Ninth Circuit's holding means that individual consumers would be liable for copyright infringement whenever they sell, give away, or donate a product that was originally sold abroad. A copy of a Harry Potter book, for example, could be given as a gift if it were printed in the United States, but not if it were printed in Britain and sold in the United States by a third-party distributor. Similarly, any consumer who purchased an authentic Omega watch at Costco could not give it as a graduation gift, donate it to a charity auction, or sell it to a secondhand jewelry shop without violating the Copyright Act.

To avoid the risk of liability, consumers would be forced to trace the chain of title of a book or other copyrighted work to ensure that it was produced in the United States or, under the Ninth Circuit's *Parfums Givenchy* exception, sold here by the copyright owner. But unlike real property, for which transfer of titles are recorded, there is no practical way for a purchaser of consumer goods to obtain such information. Moreover, a mistake in determining the work's ancestry could subject the purchaser to severe liability, including attorneys' fees and up to $150,000 in statutory damages per infringing work. *See* 17 U.S.C. § 504. Such costly burdens on the stream of commerce are the basis for the common law's hostility to restrictions on alienation.

The negative effects of Omega's position are further exacerbated by its attempt to use copyright to restrict distribution of a useful article that would not ordinarily be entitled to copyright protection. Omega added the tiny globe design on the back of its watches for the sole purpose of preventing resale. Pet. Br. at 3. The design adds little or no value to the watch and likely goes unnoticed by many consumers. Even consumers who do notice the symbol would not know that it is a copyrighted work registered in the United States, because the symbol is not accompanied by a copyright notice. *See* Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, § 7, 102 Stat. 2853 (1988) (eliminating the requirement that copyrighted materials carry a notice of copyright).

Omega is not the only manufacturer that has sought to control the distribution of its products by slapping a copyrighted label or symbol on its otherwise uncopyrightable product. *Quality King* involved a copyright in the label on a shampoo bottle, 523 U.S. at 138, and federal case law contains many other examples, including copyrighted perfume boxes, *Parfums Givenchy*, 38 F.3d 477, and diaper packaging, *Denbicare U.S.A. Inc. v. Toys R Us, Inc.*, 84 F.3d 1143 (9th Cir. 1996). The upshot is that, unbeknownst to the ordinary consumer, the distribution of any product accompanied by a logo or label holds the potential for copyright liability.

Giving copyright owners the right to restrict downstream distribution would also harm consumers by limiting the secondary market for copyrighted works. The first-sale doctrine ordinarily exerts a downward pressure on prices by forcing copyright owners to compete with used, rental, and library copies of their own goods. These secondary markets promote both competition and the distribution of copyrighted works. *See* John A. Rothchild, *The Incredible Shrinking First Sale Rule*, 57 Rutgers L. Rev. 1, 79-80 (2004). But the Ninth Circuit's holding allows copyright owners outside the United States to restrict resale entirely. *Id.* Textbook publishers, for example, could prohibit sale of their books at used book stores and online sites like eBay, thereby requiring students to buy only new copies at a higher price.

The inevitable outcome of the Ninth Circuit's rule, if adopted by this Court, would therefore be an increase in the price of copyrighted works. *See id.* at 15; R. Anthony Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C. L. Rev. 577, 627 (2003) ("[T]he presence of such partial competition by means of the first sale doctrine may result in lower price and greater quantity—that is, increased affordability of copyrighted works."). Such an outcome would harm consumers while advancing none of the copyright owner's legitimate interests under the Copyright Act.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

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