

JUL 28 2009

No. 08-1423

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**In the Supreme Court of the United States**

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COSTCO WHOLESALE CORPORATION,

*Petitioner,*

v.

OMEGA, S.A.,

*Respondent.*

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

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**REPLY BRIEF FOR PETITIONER**

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## REPLY BRIEF FOR PETITIONER

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The central assertion of respondent's brief in opposition is that any product made abroad—even by the holder of the U.S. copyright—cannot be “lawfully made under” the Copyright Act and is, therefore, not subject to the first-sale doctrine. As *amici* suggest, the ramifications of such a rule would be breathtaking. Without the alienability imposed by the first-sale doctrine, manufacturers would command the right—with or without any contract—to bar resales, rentals, and even gifts of nearly every kind of product imaginable. They would retain that right in perpetuity because a product not originally “lawfully made under this title” cannot otherwise become subject to the first-sale doctrine. To avail themselves of that control, many would shift production overseas, just as U.S. unemployment hits new highs.

Respondent does not acknowledge these points. It does not have to. It takes shelter in an exception that eliminates most of these problems: A good made abroad is not “lawfully made under this title,” says the lower court, but if “an authorized first sale” occurs in the United States then that good is susceptible to the first-sale doctrine anyway. Pet. App. 9a. Problem solved.

Whether or not sensible as a matter of policy, that rule has no basis in the Copyright Act's text or legislative history. Both the Ninth Circuit and respondent implicitly recognize that their interpretation of the phrase “lawfully made under this title” is untenable without inventing an exception for goods sold into the United States, though neither makes any real effort to justify it. At the same time, they repeat arguments considered—and rejected—in *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

The interpretation advanced by petitioner—that a good is “lawfully made under this title” if it is made by the U.S. copyright holder, at home or abroad—has none of these flaws. It is grounded in the text of the Act and follows this Court’s guidance in *Quality King*. What is more, it permits a sustainable balance between the alienability of products and the monopoly rights of U.S. copyright holders by recognizing that, *through contract*, parties like respondent can exercise some downstream control over their products.

Given the economic importance of the issue, the doctrinal importance of a correct reading of *Quality King*, decades of struggle over this issue in the lower courts, and the very dubious nature of the doctrine the Ninth Circuit has developed, review by this Court is appropriate.

### **I. The Ninth Circuit’s Decision Ignores The Plain Text Of The Copyright Act And The Clear Lessons Of *Quality King***

Section 109(a) of the Copyright Act extends the first-sale doctrine to all goods “lawfully made under this title.” As explained in the petition (at 9-13), the most natural reading of this language is that it applies to all goods *made pursuant to, or in compliance with, the Copyright Act*. This encompasses goods made by the U.S. copyright holder, at home or abroad, as well as goods created pursuant to other licensing schemes contemplated under the Act.

Respondent repeatedly maintains that its interpretation follows the plain meaning of the statute. But it nowhere acknowledges that the phrase “lawfully made under this title” is used in other parts of the Copyright Act, or that its construction of the phrase renders those other sections nonsensical, or that when the Copyright Act is concerned with the

place of manufacturing—as it is in §§ 601 and 1004(b), for example—it simply says so explicitly. See Pet. 8-12.

In *Quality King*, this court addressed the “narrow[]” question “whether the ‘first sale’ doctrine endorsed in § 109(a) is applicable to imported copies.” *Quality King*, 523 U.S. at 138. The Court answered in the affirmative: the first-sale doctrine *does* apply to imported goods. The Court did not distinguish between the importation of copies manufactured abroad and the “re-importation” of goods originally manufactured in the United States; the holding applies equally to both. See 2 NIMMER ON COPYRIGHT § 8.12[B][6][c], at 8-176 (3d ed. 2007) (“[T]he entire way that the Court encapsulated the inquiry before it indicates that its ruling should be given a broad sweep, instead of being confined to the operative facts at play in that particular case.”).

It is deeply misguided to argue (Br. in Opp. 13-15) that the presumption against extraterritoriality shields goods made by U.S. copyright holders abroad from the first-sale doctrine. As the petition notes (at 18-19), the Court in *Quality King* addressed—and rejected—a virtually identical argument, holding that a defendant’s invocation of the first-sale doctrine’s “protection does *not* require the extraterritorial application of the Act any more than § 602(a)’s ‘acquired abroad’ language does.” 523 U.S. at 145 n.14 (emphasis added). That holding is perfectly sensible: The first-sale doctrine does not purport to regulate conduct abroad. It simply provides a defense to an infringement action brought in a U.S. court by a U.S. copyright holder. Respondent does not explain why the place of manufacturing implicates extraterritorial concerns even when, as this Court held, the place of sale does not.

Nor is respondent correct when it claims (Br. in Opp. 16) that a good is made “under foreign law”—and not “made under this title”—simply because it is made abroad. The two are not mutually exclusive. This Court’s hypothetical example in *Quality King* acknowledges that “[i]f the author of [a] work gave the exclusive United States distribution rights . . . to the publisher of the United States edition[,] . . . those [copies] made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a).” 523 U.S. at 148. That statement does not refer to the place of manufacture, only to “rights” granted. As the petition explains (at 14), it makes no sense to conclude that, if the publisher given the U.S. distribution rights happened to manufacture its copies in England, then those copies are not “lawfully made under this title.” Indeed, if that publisher had also been given English distribution rights, it is manifestly the case that its works would be *both* “lawfully made under this title” *and* lawfully made under English law. There is nothing odd about that.

For the same reason, respondent is incorrect when it asserts (Br. in Opp. 15) that petitioner’s interpretation renders meaningless the words “under this title.” Were that true, a copy made in a country that permitted piracy would fall within § 109(a). Plainly, that is not what petitioner urges. Indeed, petitioner’s interpretation that that a copy “lawfully made under this title” means one made by the U.S. copyright owner no more renders that language meaningless than respondent’s assertion that it means “made in the United States.”

Respondent’s reliance on legislative history (Br. in Opp. 21) to suggest that § 602 bars the unauthorized importation of any good acquired abroad even if it is “lawfully made” is both wrong and irrelevant. That argument was squarely rejected as the *core*

*holding of Quality King*: § 602(a) does not bar the importation of goods if they are “lawfully made under this title.” And the legislative history cited by respondent sheds no light on the definition of that phrase, which is the only matter at issue here.

Respondent urges this Court to ignore petitioner’s straightforward reading of the statute because of a supposed “loophole” that would enable certain U.S. copyright owners to avoid the first-sale doctrine through corporate reorganization. Br. in Opp. 2. That is entirely speculative: Such reorganization is not without cost, and it is not clear why any company would engage in such restructuring when the cheaper and more expedient path is simply to enter into contracts that bar certain redistributions and pursue companies that violate those terms. Moreover, this is not an issue without precedent in the intellectual property laws: The trademark laws, for example, extend the first-sale doctrine to goods made by a separate subsidiary when the mark holder has no “real independence from the foreign manufacturer.” See, e.g., *NEC Electronics v. CAL Circuit Abco*, 810 F.2d 1506, 1509 (9th Cir. 1987). See also 19 CFR § 133.23(a)(2) (doctrine extends to goods made by “a parent or subsidiary of the U.S. owner, or a party otherwise subject to common ownership or control”). Later courts can address these issues, if necessary; they are not before the Court here.

Respondent’s concern with holes in § 109(a) is ironic, given that its preferred reading of the statute creates an incredibly large and exceedingly troublesome one. As the lower court itself recognizes, its own interpretation of the statute—which ties the first-sale doctrine to the place of manufacturing—“would provide substantially greater copyright protection to foreign-made copies of U.S.-copyrighted works.” Pet. App. 15a. Indeed, the Ninth Circuit has acknowledged more broadly that its case law pro-

duces “absurd and unintended results,” *Parfums Givenchy v. Drug Emporium*, 38 F.3d 477, 482 n.8 (9th Cir. 1994).

Those results should have prompted the court to reexamine its flawed reading of the statute; for example, reading “lawfully made under this title” to mean “made by the holder of U.S. copyright” does not suffer from these glaring problems. Instead, however, the lower court sought shelter from absurdity in “an exception” to the otherwise plain and succinct language of § 109(a), one that applies the first-sale doctrine “to copies not made in the United States so long as an authorized first sale occurs here.” Pet. App. 9a.

That exception was created in a footnote of one pre-*Quality King* opinion. See *Drug Emporium*, 38 F.3d at 482 n.8. It is based on neither the text of the Copyright Act nor its legislative history. Indeed, the *Drug Emporium* panel went to great lengths to emphasize that the exception “should not be read as an endorsement” of the rule that goods made abroad are not subject to the first-sale doctrine, *ibid.*, but simply a reflection of the fact that the panel could not itself overrule *BMG Music v. Perez*,<sup>1</sup> *id.* at 482 n.8. Although the logic of *BMG Music* was overruled in *Quality King*, the lower court did not reexamine whether *Drug Emporium*’s exception was foreclosed as well. Pet. App. 17a.

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<sup>1</sup> As explained in the petition (at 6-7), *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), is the Ninth Circuit origin of the rule that goods made abroad are not subject to the first-sale doctrine. That opinion rested on the incorrect conclusion, explicitly overruled by *Quality King*, “that construing [§] 109(a) as superseding the prohibition on importation set forth in § 602 would render § 602 virtually meaningless.” *Id.* at 319 (internal citation and punctuation omitted).

In *Quality King*, this Court directed the lower courts to “[r]ead literally” the text of § 109(a). 523 U.S. at 145. Whatever the merits of a rule that would deny first-sale protection to goods made abroad but then re-apply the doctrine if those goods are later authorized for domestic sale, such a rule has absolutely no basis in the text of the Copyright Act.

In contrast, petitioner’s interpretation—that “lawfully made under this title” encompasses both goods made by the U.S. copyright holder and those made pursuant to other Title 17 licensing schemes—needs no judicially created “exception” to save its logic. It is true to the text and history of § 109(a), the lessons of *Quality King*, and the rationale for the first-sale doctrine. As this Court observed, “[t]he 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.” 523 U.S. at 152.

## II. The Question Presented Is Of Great Economic Significance

The centrality of the *Drug Emporium* exception to the lower court’s opinion cannot be overstated. Respondent everywhere emphasizes that the opinion below is without “any significant impact” (Br. in Opp. 9) and “of little importance” (Br. in Opp. 2). It is able to make those claims *only* because of *Drug Emporium*, an opinion whose logic and mode of analysis was undermined by *Quality King*, and whose raison d’être (working around *BMG Music*) no longer exists. Without that exception, however, Omega “could seemingly exercise distribution rights after even the tenth sale in the United States of a watch lawfully made in Switzerland,” an absurdity

even the lower court acknowledges. Pet. App. 16a. But that is simply the tip of the iceberg.

*Amici*, which represent a varied and diverse group of business and consumer interests, are unified in their view that denying first-sale treatment to goods made abroad by U.S. copyright holders has severe consequences for the nation's economy. Among the most devastating effects:

- The decision creates considerable incentives for U.S. copyright holders to transfer manufacturing operations abroad. *See* Brief for Public Knowledge 13-14.
- The decision will depress the \$58 billion secondary market for lawfully-produced goods. *See* Brief for Retail Industry Leaders Ass'n *et al.* ("RILA") 8 n.3.
- The decision creates considerable confusion about the legal regime governing digital media purchased over the internet. *See* Brief for Ent. Merchants Ass'n and Nat'l Ass'n of Recording Merchandisers 10-13.
- The decision dramatically restricts the ability of consumers to rent and even gift a large class of common goods. *See id.* at 8-10; Brief for Public Citizen 6-10.

As the petition notes (at 23-24), these effects manifest themselves in unreasonable ways that could not possibly reflect Congress's intent. Respondent has no meaningful explanation or response for any of them. Respondent concedes, for example, that under its proposed rule a tourist could not resell, lend, or even give away copyrighted souvenirs lawfully purchased abroad but suggests the whole matter should be overlooked because enforcement "would be exceedingly unlikely." Br. in Opp. 22-23.

Respondent simply assumes away other absurdities with wordplay. Of course there is “no obstacle” to the sale, rental, or lending of foreign-made compact discs, texts, or DVDs if they are “lawfully imported.” But such conclusory statements beg the question presented here: Is a foreign-language text or recording made abroad by a U.S. copyright holder “lawfully imported” when imported by a lawful overseas purchaser? Respondent believes that the answer is no and, as a result, must find it illegal for a library to lend a foreign-language work made abroad. It is no surprise that respondent tries to obfuscate this point.

Respondent sidesteps the remaining problems—examples involving fine art and automobiles—by asserting that the parties could simply contract around them. Br. in Opp. 23. This is undoubtedly true. So true, in fact, that it is easy to miss the larger point: If a U.S. copyright holder wants to restrict the later importation of goods made and sold abroad it can simply do so by contract and enforce those rights against distributors in breach. Respondent, which claims that it made such contracts with the distributors whose watches were later sold by petitioner (Br. in Opp. 3 n.1), could pursue its contractual remedies. The Copyright Act need not be twisted in knots simply to create a new remedy against a different party.

### **III. The Question Presented Has Troubled Lower Courts For Years**

Respondent pretends that the Ninth Circuit’s decision simply “applies the law as it already has stood for at least a quarter century” (Br. in Opp. 1). That is a gross overstatement. Commentators and courts agree that the law is particularly unsettled. *See, e.g.*, 2 NIMMER § 8.12[B][6][c], at 8-178.3 n.111.83 (concluding that “a unanimous Supreme Court opinion

has now addressed the copyright gray market, without leaving any clear guidance as to what the status is of pedestrian gray market goods manufactured abroad and sought to be imported into the United States”).

Even before its reversal in *Quality King*, the Ninth Circuit had expressed doubts about its own precedent. In addition to *Drug Emporium*, the Ninth Circuit acknowledged in *Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996), that its precedent could lead to liability for “every little gift shop in America” that doesn’t know the precise origin of its merchandise. As already emphasized, the Ninth Circuit never fully confronted these problems, choosing instead to create the lawless exception that props up respondent’s position here.

That exception is anything but “widely understood” to be correct (Br. in Opp. 9). Indeed, as the petition notes (at 25-26), there is no doubt that the decision below is in conflict with the reasoning of *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) (“confess[ing] some uneasiness with [a] construction of ‘lawfully made’ that turned on the place of manufacturing). Though respondent correctly notes that the precise holding in *Sebastian* did not pertain to goods made abroad, it fails to acknowledge that the logic employed by the Third and Ninth Circuits is simply irreconcilable. See 2 NIMMER § 8.12[B][6][a], at 8-172 n.111.24.

Respondent suggests that the tension between the Third and Ninth Circuits is immaterial because “district courts before and after *Quality King* have carefully examined this issue.” Br. in Opp. 8. That is untrue. As a review of the lower court opinions cited in the petition (at 27-28) shows, district courts after

*Quality King* have no more taken seriously this Court's direction to "[r]ead literally" the "unambiguous]" text of the Copyright Act, 523 U.S. at 145, than did the Ninth Circuit. Instead, those courts have either treated Justice Ginsburg's concurrence as the law of the land or cited the opinion below as precedent with no analysis. This is perhaps not surprising because, as *amicus* points out, most defendants are small, impecunious retailers that lack the wherewithal to mount a meaningful defense against well-financed, major manufacturers, let alone to appeal an adverse ruling. See Brief of RILA 15-16. The present case, with full briefing on both sides and multiple *amici*, gives the Court a rare opportunity to bring clarity to this consequential issue. It is an opportunity the Court should welcome.

### CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully submitted.

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