No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORP.,

Petitioner,

V.

OMEGA, S.A.,

Respondent.

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

BRIEF OF *AMICI CURIAE* PUBLIC KNOWLEDGE, ELECTRONIC FRONTIER FOUNDATION IN SUPPORT OF THE PETITION

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TABLE OF CONTENTS

Page

TABLE OF CONTENTS ii

TABLE OF AUTHORITIES iv

INTEREST OF THE *AMICI* 1

SUMMARY OF ARGUMENT 3

ARGUMENT 4

I. The Consequences of Allowing the Decision Below to Stand Include Far-Reaching Damage to Trade, Innovation, and the General Public Interest 5

A. The Decision Below Prevents the Resale of Any Goods Containing Foreign-Made Copyrighted Works, Even When Lawfully Imported 6

1. The Inability to Resell Lawfully Purchased Goods Does Direct Harm to Consumers and Resellers 6

2. Manufacturers Can Deliberately Foreclose the Secondary Market by Manufacturing Abroad 13

B. The Ninth Circuit's Interpretation Will Allow Enjoining of Parallel Imports, Contrary to Congressional Intent and Rational Policy 15

1. By Co-Opting Copyright Law to Restrain Parallel Imports, the Ruling Below Runs Contrary to Congressional Intent 15

2. Restraining Parallel Imports Creates Tangible Harms to Consumers, Retailers, and the Economy 18

II. The Ninth Circuit's Interpretation of 17 U.S.C. § 109 is Erroneous 20

A. Properly Read, "Lawfully Made Under This Title" Allows § 109 to Apply to Sales of Works Made Outside the United States 21

1. A Reasonable Reading Allows § 109 to Apply to International Sales Without Requiring Extraterritorial Application of the Law 21

2. The Lower Court's Reading is Inconsistent With the Statue and Results in Contradictions With This Court's Precedents 24

B. The Ninth Circuit's Interpretation of "Lawfully Made Under this Title" is Inconsistent with its Use Throughout Title 17 26

CONCLUSION 28

TABLE OF AUTHORITIES

Page(s)

CASES

Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908) ... 2

Miller v. Gammie, 335 F.3d 889 (9th Cir. 2003) ... 25

NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506 (9th Cir. 1987) ... 16

Omega S.A. v. Costco Wholesale Corp., 541 F.3d 982 (9th Cir. 2008) ... 5, 10, 24

Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477 (9th Cir. 1994) ... 23, 24, 25

Quality King Distribs., Inc. v. L'Anza Research Intern., Inc., 523 U.S. 135 (1998) ... 24

Robinson v. Shell Oil Co., 519 U.S. 337 (1997) ... 23

Sebastian Int'l., Inc. v. Consumer Contacts, Ltd., 847 F.2d 1093 (3d Cir. 1988) ... 8, 17

Shapiro, Bernstein & Co. v. H. L. Green Co., 316 F.2d 304 (2d Cir. 1963) ... 3 n.2

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417 (1984) ... 15

FEDERAL CONSTITUTION, STATUTES, AND LEGISLATIVE HISTORY

151 Cong. Rec. H3699-05 (2005) (statement of Rep. Conyers) ... 18

151 Cong. Rec. S12714-01 (2005) (statement of Rep. Lofgren) ... 17

17 U.S.C. § 104 22

17 U.S.C. § 106(3) 7

17 U.S.C. § 106(5) 9

17 U.S.C. § 109 .... 6 n.4, 13

17 U.S.C. § 110(1) 26

17 U.S.C. § 411(a) 10

17 U.S.C. § 502 10

17 U.S.C. § 503 10

17 U.S.C. § 504(b) 12

17 U.S.C. § 504(c) 12

17 U.S.C. § 602 5

17 U.S.C. § 1309 .... 22 n.5

H.R. Rep. 98-987 3

Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237 (1992) 27

Stop Counterfeiting in Manufactured Goods Act, Pub L. No. 109-181, 120 Stat. 285 (2006) 17

MISCELLANEOUS

2-7 *Nimmer on Copyright* (2009)

§ 7.18 10

§ 7.24 10

CNN Money

Fortune 500, Ross Stores 20

TJX Companies Inc 20

Kimberly Reed, *Levi Strauss v. Tesco and E.U. Trademark Exhaustion: A Proposal for Change*, 23 Nw. J. Int'l L. & Bus. 139 (Fall 2002) 19

Olga Kharif, *The Global Economy's Gray-Market Boom*, BusinessWeek Online (Nov. 30, 2000) 19

Raji Samghabadi, *Inside the Gray Market*, Time Magazine (Oct. 28, 1985) 18

Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Working Paper No. 09-098 (Feb. 25, 2009) 19

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 (Winter 2009) 19

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INTEREST OF THE *AMICI*

Public Knowledge and the Electronic Frontier Foundation respectfully submit this brief in support of the petition for writ of certiorari to the United States Court of Appeals for the Ninth Circuit.[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 Electronic Frontier Foundation (EFF) is a nonprofit civil liberties organization working to protect consumer interests, innovation, and free expression in the digital world. EFF and its more

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[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 has consented to the filing of this brief and Respondent has filed a letter with the Court granting blanket consent for *amici*. Parties have been given at least 10 days notice of *amici*'s intention to file. Petitioner's letter of consent has been filed with the Office of the Clerk of this Court.

than 13,000 thousand dues-paying members have a strong interest in assisting the courts and policy-makers in striking the appropriate balance between intellectual property and the public interest.

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 that certiorari be granted and that the law be clear that 150 years of common law on personal property can not be overridden by misconstruing a copyright statute 30 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").

SUMMARY OF ARGUMENT

By wrongly deciding that it is illegal to import a lawfully-purchased watch because it has a logo inscribed on the back, the Ninth Circuit has opened the door to extensive harm to U.S. consumers and businesses alike. The decision below creates an interpretation of the law that will bar all distributions of copyrighted works manufactured overseas. It also provides a recipe to take otherwise unremarkable goods and, by adding a minimal copyrighted work like a logo, render them immune from resale in or parallel import into the United States – two activities with a history as old as the nation both in terms of legality and providing broad consumer benefits. *See, e.g.*, H.R. Rep. 98-987, at 1 (1984) ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property."). Further, this recipe provides incentives for both U.S. and non-U.S. producers to move their manufacturing out of the country for goods intended to be sold both here and abroad.

The consequences of this ruling should not be underestimated. Resellers – be they online auction houses like eBay, individual users of those services, or local antique stores – will be subject to strict copyright liability and extensive damages if they sell products whose label or logo happens to have been made abroad.[2] With no

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[2] Liability for direct infringement of a copyright owner's exclusive rights regardless of the defendant's knowledge or intent. *See, e.g.*, *Shapiro, Bernstein & Co. v. H. L. Green Co.*, 316 F.2d 304, 308 (2d Cir. 1963). *(footnote continued...)*

way to find out where a logo was made, and no incentive for the producer to provide that information, it will become nearly impossible to safely resell even products which remain lawful to resell. And with the incentive to move manufacturing abroad, the destruction of the secondary market and parallel imports is likely to rapidly expand to cover *all* goods.

There is no evidence that Congress intended that such an inconsistent reading of the law be used to enable such expansive changes to the trade and retail landscape. If the Ninth Circuit's decision, based on an erroneous interpretation of the Copyright Act, is allowed to stand, then consumers, importers, retailers, and resellers will pay the price. Therefore, to prevent extensive harm to countless consumers and businesses, the Court should grant the writ of certiorari and reverse the decision of the court below.

ARGUMENT

The court should grant the writ of certiorari because the decision below is erroneous and does widespread harm to consumers and businesses engaged in the lawful use and sale of goods that may have been manufactured abroad.

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Copyright owners who have registered their works are also entitled to statutory damages ranging between $750 and $150,000 per work infringed. *See* 17 U.S.C. § 504(c).

I. THE CONSEQUENCES OF ALLOWING THE DECISION BELOW TO STAND INCLUDE FAR-REACHING DAMAGE TO TRADE, INNOVATION, AND THE GENERAL PUBLIC INTEREST

In its decision, the Ninth Circuit interprets § 109 in a way that precludes its application to any works manufactured abroad. *See Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008).[3] By failing to protect lawful purchasers from § 602's import prohibitions, this interpretation will preclude the entire secondary market in copyrighted works made outside the United States. *See* 17 U.S.C. § 602. Furthermore, the Ninth Circuit's decision has created a blueprint for eliminating long-standing rights in personal property. By manufacturing goods abroad and attaching minimal copyrighted works such as logos to them, producers will now be able to prevent the importation of any foreign-made, lawfully purchased goods as well as the reselling, lending, or otherwise disposing of goods that have been lawfully imported to the United States.

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[3] As discussed below, *see infra* § II.A.2, p. 24, the Ninth Circuit's exception for first sales occurring in the United States is no longer operative law.

A. The Decision Below Prevents the Resale of Any Goods Containing Foreign-Made Copyrighted Works, Even When Lawfully Imported

When carried to its logical conclusion, the statutory interpretation announced by the Ninth Circuit will eliminate the secondary market for any goods containing a copyrighted work, even when that work was imported and sold by the original copyright owner. If "lawfully made under this title" is read as equivalent to "lawfully made within the United States," then the first sale doctrine (as codified in 17 U.S.C. § 109) will cease to operate not only for parallel imports – goods sold lawfully outside the United States and then imported by someone not authorized by the copyright holder – but for *any* works manufactured outside of the United States.[4]

This creates new harms, unintended and of immense scope:

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

Two aspects of the lower court's ruling do direct harm to consumers and resellers. First, the interpretation of § 109 removes a vast scope

[4] Section 109 only applies to "cop[ies] . . . lawfully made under this title." *See* 17 U.S.C. § 109.

of copyrighted works from the first sale doctrine. Second, by applying this ban on resale to goods to which a copyrighted work is affixed, the Ninth Circuit's decision jeopardizes secondary markets in all goods.

i. Eliminating First Sale for Copyrighted Works Harms Consumers and Resellers

If § 109's protections are eliminated, lawful copies of works cannot be resold, given away, lent, or displayed without the copyright owner's permission. If those protections are conditioned upon the place of manufacture of the work, owners will be unable to determine whether or not they are protected, and so these activities will be effectively foreclosed for all works.

Without first sale, all § 106 rights remain with the copyright owner even after a copy of a work is lawfully sold. For instance, § 106(3) provides copyright holders with the exclusive right to distribute copies of copyrighted works by sale or other transfers of ownership. *See* 17 U.S.C. § 106(3). Thus, without the first sale doctrine, the owner of a copy of a work cannot legally sell it or give it away.

Section 109 prevents such unwieldy scenarios, and in doing so forms the basis for our uses of, and market in, information, goods, and creative works. If, as the lower court contends, first sale requires a domestically-produced copy, then no portion of § 109 will ever apply to a foreign-made work. Since exhaustion is only triggered when the copy is "lawfully made under this title," and since the origin of any given copy cannot be changed once it has been "made," the Ninth Circuit's basic reading of this phrase will never allow the distribution right to be exhausted, even after an authorized import.

The Ninth Circuit's reading of § 109, if applied plainly, would eliminate the first sale doctrine for all foreign-made copies of works. This result undoes 150 years of common and statutory law demonstrating that the purchaser of an item – even if that item contains a copyrighted work – has the right to dispose of it as they wish. *See, e.g. Sebastian Int'l., Inc. v. Consumer Contacts, Ltd.*, 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.") and sources cited therein.

Given this newly-extended liability, a reseller of copyrighted works, whether a massive used bookstore or a neighborhood yard sale, would be barred from the simplest transaction, if the copy of the work at issue had been manufactured outside the United States. Readers will suddenly require the consent of a publisher or author before lending their favorite foreign books to a friend. Libraries and archives stand to suffer particular harm under this interpretation. In many cases, the secondary market is the *only* source for out-of-print books and other copyrighted works or goods containing these works. With the elimination of § 109's protections, libraries and archives will no longer be able to add to their collections unless both they and the seller can be entirely sure that the works in question were not manufactured abroad and that they will not face extensive damages as a result of the sale.

The damage done by this rule is also not limited to resale. Section 106(5) grants copyright holders the exclusive right to publicly display works. *See* 17 U.S.C. § 106(5). Absent the first sale doctrine as embodied in § 109(c), the owner of a particular copy will not be able to display that copy: the buyer of a poster could not hang it in her window; an auction house could not display an imported product bearing a copyrighted label. Similarly, a newspaper subscriber could not display a memorable front page in his publicly accessible office.

Furthermore, if one adopts at face value the interpretation that a copy must be made in the United States, first sale is eliminated no matter who imports the goods in question. If a copyright-owning record label were *itself* to import a foreign-manufactured compact disc to the United States and sell it to a consumer, that consumer will not be able to give or lend it to a friend or sell it to a dealer without the record label's permission.

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

However, this is not the full extent of the harm that the decision below will visit upon consumers. In its decision, the Ninth Circuit has provided a recipe for eliminating not just parallel imports of copyrighted works, but parallel imports of *all* goods. Under the lower court's ruling, goods which contain a work protected by copyright in the United States cannot be lawfully imported and sold without permission. The bar to obtaining copyright protection in the United States is low. Nearly any logo will be copyrighted; all that remains is for the manufacturer to deposit copies of the logo with the Copyright office, 2-7 *Nimmer on Copyright* § 7.18 (2009), pay a $35 or $45 fee, *id.* § 7.24., and it will gain the ability to obtain an injunction against importing of the item, as well as the ability to have imported items impounded or destroyed. *See* 17 U.S.C. §§ 411(a), 502-03.

The case at hand illustrates this plan perfectly. Omega is seeking to enjoin importation of watches by leveraging the copyrighted logo engraved on the *back* of the watch, unknown to any but the wearer. *Omega,* 541 F.3d at 983. No copyright on any other part of the watch is at issue, and there are no allegations that the watches are counterfeit or that the trademark embodied in Omega's logo is being used in violation of relevant trademark laws.

The harm caused by the elimination of first sale thus goes far beyond a seller's ability to vend books, music, software, or movies. All resellers who carry or display goods with labels or logos manufactured abroad will become infringers. Imported wines bearing copyrighted labels will be kept from auction houses, retail resellers, and gift bags alike. Foreign cars will not be resold except, possibly, through "authorized" dealers. Articles of clothing sewn overseas carrying copyrighted logos or tags will be barred from being sold to thrift stores, handed down to friends, or donated to charitable organizations. Auction houses will be unable to sell or display fine art without locating the source and ensuring it is domestic or authorized. Neither a pawnbroker nor a jeweler will be able to place an Omega watch on display in his window without authorization. Even Belgian chocolates bearing a copyrighted imprint on their packaging or on the confections themselves will create infringement liability once dropped into a child's Christmas stocking.

The chilling effect of the Ninth Circuit's interpretation on resale is not limited to goods containing works made abroad. In most cases, resellers will have no idea whether a work's label was made in the United States or in Switzerland. Given the expanded control this rule gives producers, they will have no incentive to make it clear to resellers where the label was made. As a result, no thrift shop, used furniture dealer, or online marketplace will be able to safely sell or display *any* goods bearing a logo or label because of the mere possibility that it was originally made elsewhere. Given the scope of potential damages, many would-be resellers will reasonably choose not to take the risk at all. And with the possibility of copyright liability for a purchaser who later resells or gives away a product, even those resellers willing to take the risk are likely to find themselves without a market to sell to.

By cramming the trade in other goods into the copyright law regime, the lower court's decision also expands the application of the extensive damages offered under copyright law. At the very minimum, violators are liable for actual damages, *see* 17 U.S.C. § 504(b), which can rise rapidly when an expensive item (such as an Omega watch) is at issue. Perhaps worse, if the work is registered, infringers are liable for between $750 and $30,000 per work in statutory damages regardless of the actual value of the work involved, or up to $150,000 in the case of willful infringement, *see* 17 U.S.C. § 504(c).

Through this unwarranted extension of copyright, brand owners could thus maintain control over the tangible goods they have produced long after they have released them into the stream of commerce, allowing for price discrimination nonpareil. Producers could allow resale only through "authorized" secondary markets, or permit only gifts, or simply foreclose the secondary market altogether. But regardless of what tack a manufacturer chooses to take, anyone who purchases those goods will only be able to resell or give them away by risking becoming a copyright infringer.

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

If § 109 does not apply to goods manufactured abroad that contain copyrighted works, then the Ninth Circuit has provided a recipe for all manufacturers – domestic or foreign – to eliminate the secondary market. A manufacturer need only step outside the United States and add a logo, print a photograph, attach instructions, or embed software in their products to ensure that the lawful purchaser of those goods is no longer allowed "without the authority of the copyright owner, to sell or otherwise dispose of the possession of that" item. *See* 17 U.S.C. § 109. Thereafter, anyone who does any of these things is automatically a copyright infringer.

It is also important to note that copyrighted trademarks are not the only mechanism by which manufacturers can use the Ninth Circuit's decision to prevent parallel imports. Any copyrighted work will have the same effect. Other examples abound: an inscription on a picture frame, software embedded in a CD player or installed on a home computer hard drive, and the instruction manual attached to a camping tent will all create the same collateral damage to trade as a copyrighted logo.

Under this interpretation of § 602, a California wine producer could choose to have labels produced in Mexico with the result that no one could give away or resell a bottle of their wine without permission. Car manufacturers could have their logos manufactured internationally and foreclose the used car market entirely. And, of course, this scheme applies to copyrighted works, too: for instance, printers of books could move their manufacturing abroad to eliminate the used book store market.

Thus, in addition to harming consumers and businesses who rely on the secondary market, this rule gives an unintended and perverse advantage to both domestic and foreign manufacturers who choose to have their goods made abroad rather than in the United States by giving them superior control over the distribution of those goods. If copyright law is misused to create strong incentives to move manufacturing abroad, U.S. manufacturers and consumers will pay the price, both in increased costs and lost control over personal property.

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

Parallel imports benefit both consumers and

U.S. businesses who rely on the ability to bring lawfully purchased goods into this country. The decision below not only harms these consumers and businesses by extending copyright far beyond its proper scope, but runs contrary to express congressional intent.

1. By Co-Opting Copyright Law to Restrain Parallel Imports, the Ruling Below Runs Contrary to Congressional Intent

The purpose of the monopoly granted by copyright law is

> no[t] primarily designed to provide a special private benefit or control trade. Rather, the limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired. . . . The copyright law, like the patent statutes, makes reward to the owner a secondary consideration.

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984). This purpose has nothing to do with control of trade, import, or price discrimination in non-copyrighted goods, and any reward obtained through those methods is secondary.

The case at bar illustrates the degree to which copyright is being used as a means of circumventing these principles: the watches to which Omega attaches its globe logo are, after all, the primary concern and the source of the value to Omega and Costco that are driving this litigation. The value of the creative expression embodied within the logo itself is marginal. Its use here is not as a creative work in itself, nor even as a mark of origin or authenticity (as distinct from the numerous other trademarks on the watch), but to provide a veneer by which copyright law may by applied to stop parallel imports of goods which would otherwise fall outside the purview of Title 17's unique restrictions.

In fact, the Ninth Circuit considered and properly rejected any recovery in the *Omega v. Costco* fact pattern twenty years ago (notably, well after the passage of § 602). In a similar case pled under trademark law, the court explained that,

> [i]f [the plaintiff] chooses to sell abroad at lower prices than those it could obtain for the identical product here, that is its business. In doing so, however, it cannot look to the United States trademark law to insulate the American market or to vitiate the effects of international trade. This country's trademark law does not offer [the plaintiff] a vehicle for establishing a worldwide discriminatory pricing scheme.

NEC Elecs. v. CAL Circuit Abco, 810 F.2d 1506, 1511 (9th Cir. 1987).

Copyright law likewise does not provide a vehicle "for establishing a worldwide discriminatory pricing scheme" for all goods, which is exactly what the decision below does. Rather, "[t]his case comes to us in the guise of an alleged copyright infringement but, in reality, is an attempt by a . . . manufacturer to prevent the importation of its own products by the 'gray market.'" *Sebastian International*, 847 F.2d 1093, 1094 (3d Cir. 1988) (addressing a similar case in the context of a domestic manufacturer).

Furthermore, there is no evidence that in creating § 602, Congress intended to create this international price discrimination system or restrict imports for all goods through copyright law enforcement. The statute and accompanying legislative history make no suggestion that § 602 could or should be used to exert any control over the importation of goods which are not themselves copyrighted. Further, several statutes passed since the creation of § 602 in 1976 have expressed a continued understanding and intent that parallel imports remain legal and continue to benefit consumers. *See, e.g.*, *Stop Counterfeiting in Manufactured Goods Act*, Pub L. No. 109-181, § (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. S12714-01 (2005) (statement of Rep. Lofgren) ("Parallel markets are those in which third parties lawfully obtain goods and make them available in discount stores. Not only has this practice been upheld by the Supreme Court, but it also saves consumers billions of dollars each year . . . We now have a bill that protects manufacturers, targets illegitimate actors, protects consumers, and leaves the legitimate parallel market unscathed.").

2. Restraining Parallel Imports Creates Tangible Harms to Consumers, Retailers, and the Economy

A robust parallel market has provided a tremendous benefit to the American economy by providing lower-cost alternatives to consumers and creating a robust, competitive market for resellers of imported goods. The decision below's effect on the parallel import market and consumer costs and the resulting harm to U.S. commerce stand to measure in the billions of dollars. *See, e.g.*, 151 Cong. Rec. H3699-05 (2005) (statement of Rep. Conyers) ("Not only has [the parallel market] been upheld by the Supreme Court, but it also saves consumers billions of dollars each year.")

In 1985, *Time Magazine* reported that the secondary market constituted approximately $5.5 billion of the nation's retail trade. Raji Samghabadi, *Inside the Gray Market*, Time Magazine (Oct. 28, 1985), *available at* http://www.time.com/time/magazine/article/0,9171,960231,00.html. Since then and since *Quality King*, this number has grown significantly, to the benefit of free trade and consumers. By 2000, "the U.S. market for gray goods [was] somewhere between $10 and $20 billion a year." Olga Kharif, *The Global Economy's Gray-Market Boom*, BusinessWeek Online (Nov. 30, 2000), *available at* http://www.businessweek.com/bwdaily/dnflash/nov2000/nf20001130_555.htm. In 2009, the parallel market in information technology alone is estimated to be more than $40 billion a year. Romana Autrey & Francesco Bova, *Gray Markets and Multinational Transfer Pricing*, Harv. Bus. School Working Paper No. 09-098, at 1 (Feb. 25, 2009), *available at* http://www.hbs.edu/research/pdf/09-098.pdf.

Consumers are obvious beneficiaries of this market as they enjoy competitive prices and savings versus a scheme where they are charged as much as they are able to bear. *See, e.g.*, 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 (Winter 2009). Well-known stores like "T.J. Maxx, Marshall's, Ross, and Loehmann's sell billions of dollars of gray market designer clothing, shoes, perfumes, luggage, jewelry, china, and other goods every year . . . for lower prices 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 (Fall 2002) (citation omitted). More recent figures show revenues from T.J. Maxx and Ross Stores to be at $19 billion and $6.4 billion, respectively. *See CNN Money, TJX Companies Inc, at* http://money.cnn.com/quote/quote.html?symb=TJX (last visited June 17, 2009); *CNN Money, Fortune 500, Ross Stores,* at http://money.cnn.com/magazines/fortune/fortune500/2009/snapshots/10153.html (last visited June 17, 2009).

In the current economy, more and more families rely on the competition among discount retailers to keep prices affordable. Unfortunately, the success of these businesses and the consumer welfare that results from this competition are now jeopardized by the gutting of the first sale doctrine. Without § 109's protections, American consumers will suffer increased cost and decreased availability in markets far outside the scope of copyright law.

II. THE NINTH CIRCUIT'S INTERPRETATION OF 17 U.S.C. § 109 IS ERRONEOUS

The lower court interprets the phrase "lawfully made under this title" to act as a geographic restriction rather than a legal one. This interpretation is inconsistent with the intent and operation of § 109 and Congressional policy towards parallel imports, and will lead to absurd and contradictory results throughout Title 17 and the U.S. Code generally. These incongruities and their potentially devastating results indicate that the Ninth Circuit's reading of the statute is incorrect and 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 concluded that the phrase "lawfully made under this title" precludes application of 17 U.S.C. § 109 to sales made internationally. For several reasons, this conclusion 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 (and the rest of the United States Code) to mean "under the terms of the statutes within." While the laws of the United States Code generally apply only within the geographic boundaries of the United States, it requires a large and unnecessary logical leap to assume that "under this title" must be interchangeable with "within the United States." Should Congress wish to create an explicit geographic limit on the conditions for the provision's application, the phrase "within the United States," and many other variations on that theme, are readily available.[5]

It does not require an extraterritorial application of United States law to read § 109's condition as something other than a geographic restriction. A number of other provisions within Title 17 rely upon the status of actions and occurrences abroad.

For instance, 17 U.S.C. § 104(b) states that published works "are subject to protection under this title" if the work is first published in any nation that is a "treaty party." *See* 17 U.S.C. § 104. Any work published in Switzerland (a party to the Berne Convention and the WIPO Copyright Treaty, among others), is therefore, according to § 104, "under [Title 17]." Section 104 guarantees, within the United States, protection of the copyrights of works created elsewhere. Far from applying the Copyright Act extraterritorially, such a determination merely acknowledges the existence of a foreign work as a relevant fact that bears upon the protected status it shall enjoy *in* the United States.

The Ninth Circuit's own precedent

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[5] Indeed, the phrase "within the United States" is used in 17 U.S.C. § 1309, and a rudimentary search reveals it is used several thousand times elsewhere in the United States Code. *See, e.g.*, http://www.google.com/search?q=%22within+the+United+States%22+site:cornell.edu/uscode/&hl=en&start=10&sa=N&cts=1244817723796.

acknowledged that work manufactured abroad could be "lawfully made under this title." By holding that a copy of a work manufactured abroad but sold in the United States was protected by § 109, the Ninth Circuit implicitly recognized that § 109's language applied to a work made outside the United States. *See Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994). Although other portions of the holding of *Drug Emporium* have been implicitly overruled by *Quality King, see infra* § 2, p. 24, it demonstrates a recognition that it requires no extraterritorial application of United States law to take note of a work's sale or legal status in another country. Doing so does not in any way affect the rights of parties conducting business under foreign law. Instead, only the application of United States law, within the United States, is affected by determinations of § 109's applicability.

2. The Lower Court's Reading is Inconsistent With the Statue and Results in Contradictions With This Court's Precedents

The lower court's interpretation of "under this title" in § 109 directly contradicts the language of the statute and clear Congressional intent. *See Robinson v. Shell Oil Co.*, 519 U.S. 337, 340-41 (1997) (holding that the first step in interpreting a statute is determining its plain and unambiguous meaning; plainness or ambiguity is "determined by reference to the language itself, the specific context in which that language is used, and the broader context of the statute as a whole"). Literally applying the Ninth Circuit's interpretation of § 109 will eliminate secondary sales of copyrighted material produced outside of the United States. As discussed above, such a result is absurd on its face.

The Ninth Circuit attempted to mitigate some of this absurdity by grafting a judicial alteration onto its existing interpretation. In *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, the Ninth Circuit held that first sale applies to § 602 when copies were made overseas but "there has been a 'first sale' in the United States." 38 F.3d 477, 481 (9th Cir. 1994). This additional complication was motivated in part because the court recognized that its continued interpretation of § 109 "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 lower court chose not to decide whether the holding in *Drug Emporium* runs afoul of this Court's binding precedent in *Quality King Distribs., Inc. v. L'anza Research Intn'l, Inc.*. 523 U.S. 135. *See Omega*, 541 F.3d at 990. However, *Quality King* held explicitly 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.*" *Quality King*, 523 U.S. at 145 n.14 (emphasis added).

Because the place of initial sale is the only material distinguishing factor between *Drug Emporium* and the decision below, *Drug Emporium* is "clearly irreconcilable" with existing Supreme Court and Ninth Circuit law, and is no longer controlling law 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"). We note that if, somehow, the holding of *Drug Emporium* survives, the dire consequences of the lower court's holding here are only slightly mitigated: resale, lending, and other distribution of lawfully purchased goods will still be unlawful if the copyrighted work it contains is first sold abroad, and the place of initial sale will remain impractical or impossible to determine. Further, parallel imports will still be completely foreclosed, as, by definition, they occur without the copyright owner's consent.

Moreover, the Ninth Circuit's two-step rule for applying § 109 to imported works does not solve the problem of foreign goods receiving greater protection than domestically-produced ones. According to the lower court, works made in the United States are subject to the first sale doctrine, while goods made elsewhere are not. Rather than attempting to create a workable market by judicially creating a non-statutory exemption to a skewed reading of the statute, this Court should rationalize the law with its precedents and with practicable reality by insisting upon a proper reading of § 109.

B. The Ninth Circuit's Interpretation of "Lawfully Made Under this Title" is Inconsistent with its Use Throughout Title 17

As Petitioners have noted, the full phrase "lawfully made under this title" appears in two other contexts within Title 17. In each case, using the Ninth Circuit's interpretation of the phrase results in manifest absurdity, whereas understanding it as meaning "made not in contravention of Title 17" permits a logically consistent reading.

Section 110 of Title 17 provides copyright exceptions for specific educational uses. In particular, § 110(1) allows the performance or display of copyrighted works in a classroom setting. However, this exception is conditioned in part upon a two-pronged test: the copy used to make the performance or display must have been "lawfully made under this title," and the person responsible for the performance must not "kn[o]w, or ha[ve] reason to believe" that the copy "was not lawfully made." *See* 17 U.S.C. § 110(1).

If one assumes, as the Ninth Circuit does, that "lawfully made under this title" requires that the copy at issue be manufactured domestically, then classrooms would find themselves unable to show foreign-made copies of works, provided that the instructor knew or had reason to believe that the works were not lawfully made. Stranger still is the fact that, under this awkward interpretation, an instructor could find herself liable for copyright infringement should she hold a *mistaken* belief that a work was not lawfully made even if it was lawfully made abroad and imported. If the first prong of the test merely requires a film be of foreign manufacture, and the second requires only a reason to believe the copy is unlawful, it would still be an infringement to show a legitimately made and imported work, if the instructor believed it to be an infringing reproduction.

Similar oddities arise from applying the Ninth Circuit's interpretation to the Audio Home Recording Act, which requires the producers of digital audio recording devices and digital audio media to pay a royalty to copyright holders whose works have been embodied in sound recordings "lawfully made under [Title 17]." *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 of this phrase, no royalty payments could flow even to United States-based artists if copies of their works were manufactured overseas and imported through authorized channels for sale here. Such a result is plainly inconsistent and must therefore be rejected.

CONCLUSION

For these reasons, the Court should grant the petition for a writ of certiorari.

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