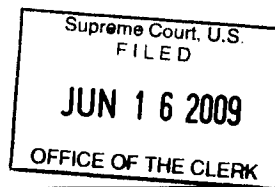


No. 08-1423



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 AMICUS CURIAE PUBLIC CITIZEN
IN SUPPORT OF PETITIONER**

LEAH M. NICHOLLS
ADINA H. ROSENBAUM
Counsel of Record
GREGORY A. BECK
BRIAN WOLFMAN
PUBLIC CITIZEN
LITIGATION GROUP
1600 20th Street, NW
Washington, DC 20009
(202) 588-1000

Counsel for Amicus Curiae Public Citizen, Inc.

June 2009

Blank Page

TABLE OF CONTENTS

TABLE OF AUTHORITIES	ii
INTRODUCTION AND INTEREST OF AMICUS CURIAE	1
REASONS FOR GRANTING THE PETITION	3
I. The Ninth Circuit’s Rule Upsets the Balance Created by the First-Sale Doctrine.	3
II. The Ninth Circuit’s Holding Severely Undermines Consumers’ Personal Property Rights.	6
CONCLUSION	10

TABLE OF AUTHORITIES

CASES	Pages
<i>Brilliance Audio, Inc. v. Hights Cross Communications, Inc.</i> , 474 F.3d 365 (6th Cir. 2007)	3
<i>Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.</i> , 84 F.3d 1143 (9th Cir. 1996)	4, 8–9
<i>Parfums Givenchy, Inc. v. Drug Emporium, Inc.</i> , 38 F.3d 477 (9th Cir. 1994)	8
<i>Quality King Distributors, Inc. v. L’Anza Research International, Inc.</i> , 523 U.S. 135 (1998) 3, 4, 5, 7, 8	
<i>Vernor v. Autodesk, Inc.</i> , 555 F. Supp. 2d 1164 (W.D. Wash. 2008)	2
 STATUTES	
17 U.S.C. § 109(a)	3, 4
17 U.S.C. § 504	6
17 U.S.C. § 506	6
17 U.S.C. § 602(a)(1)	3
17 U.S.C. § 602(a)(2)	9
Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988)	6

INTRODUCTION AND INTEREST OF AMICUS CURIAE¹

Public Citizen is a nonprofit consumer advocacy organization incorporated and headquartered in the District of Columbia, with approximately 65,000 members nationwide. Public Citizen is active before Congress, administrative agencies, and courts throughout the country on a wide variety of consumer protection issues, including copyright infringement. Public Citizen and its members have been and will continue to be consumers of copyrighted materials and goods with copyrighted labels. In addition to driving up prices, the Ninth Circuit's decision creates a risk of copyright infringement each time ordinary consumers, such as Public Citizen's members, sell or give away any copyrighted materials or goods with copyrighted labels that were manufactured abroad.

Public Citizen is concerned with the use and abuse of copyright law by manufacturers to impermissibly extend the limited monopoly provided by copyright law. Like Omega, other manufacturers have attempted to bypass the first-sale doctrine, thereby retaining control of any downstream sale or other transfer of copies of their products. Such abuse eliminates not only secondary

¹Counsel of record for all parties received notice at least 10 days prior to the due date of amicus Public Citizen's intention to file this brief. No counsel for a party authored this brief in whole or in part, and no counsel for a party or party made a monetary contribution intended to fund the preparation or submission of this brief. No one other than Public Citizen made a monetary contribution to the preparation or submission of this brief. The parties have consented to the filing of this brief, and letters of consent are being submitted concurrently.

markets for new goods, but also eviscerates any market for used products. The elimination of these markets requires consumers to purchase only new products directly from the manufacturer's dealer, preventing consumers from selling or giving away their personal property and artificially driving up prices.

In addition to other advocacy work, Public Citizen combats these monopolies by serving as counsel for individuals accused of copyright infringement by copyright abusing manufacturers. For example, Public Citizen represents Timothy Vernor, the plaintiff in *Vernor v. Autodesk, Inc.*, 555 F. Supp. 2d 1164 (W.D. Wash. 2008). Vernor purchased authentic used copies of Autodesk's design software package at an office sale, and then attempted to resell them on eBay. Autodesk, however, asserted that it does not allow resale of its products and maintained that Vernor's resale would infringe its copyright. Vernor brought a suit for a declaratory judgment, and cross-motions for summary judgment are currently pending.

Like Autodesk, Omega is attempting to control downstream sales of its product, but it is doing so by arguing that, when the copyrighted product is manufactured abroad, the first-sale doctrine is no exception to a copyright holder's exclusive right of importation. Both strategies have the same effect: They increase prices and eliminate a consumer's ability to sell or give away his or her personal property. Public Citizen is filing this brief to highlight the adverse consequences of the Ninth Circuit's decision in this case and to urge the Court to grant the petition.

REASONS FOR GRANTING THE PETITION

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

Copyright law is designed to promote creative works by ensuring that the creator is compensated for his or her efforts. Copyright law ensures such compensation by providing the creator with a limited monopoly over copies of the work. The copyright holder has the exclusive right to produce or authorize copies and to distribute and import those copies.² 17 U.S.C. § 602(a)(1). That monopoly is tempered by the first-sale doctrine, which provides “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,” including importation. *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 152 (1998); see 17 U.S.C. § 109(a). The first-sale doctrine reflects “the traditional bargain between the rights of copyright owners and the personal property rights of an individual who owns a particular copy” and recognizes “that the law generally disfavors restraints on alienation.” *Brilliance Audio, Inc. v. Hights Cross Commc'ns, Inc.*, 474 F.3d 365, 373–74 (6th Cir. 2007). In other words, copyright holders are the only ones who may produce or authorize copies of the copyrighted material, but once they sell those copies, they have been compensated for their efforts and may not control any subsequent, or “downstream,” sales of those copies. This limitation permits the owners of a particular

²Without a limited monopoly on importation, copyright holders could not prevent foreign pirated copies from being imported into the United States.

authorized copy to have the same rights over the copy as any other item of personal property; they may sell, give away, destroy, or otherwise alienate the copy so long as they do not copy it.

The first-sale doctrine's limitation on the otherwise exclusive sale and importation rights of a copyright holder applies even if the first sale occurs abroad. *Quality King*, 523 U.S. at 150–51. Yet the Ninth Circuit held here that the first-sale doctrine does not apply when the copyrighted good was manufactured abroad, unless the copyright holder authorized a sale in the United States. Pet. App. 3a.

Nothing in the language of the first-sale provision of the Copyright Act limits its application to American-made goods. Rather, the statute states that it applies to copies “lawfully made under this title.” 17 U.S.C. § 109(a). Taken literally, the statute only requires that the copy be made (1) lawfully, or with the authorization of the copyright holder (*i.e.*, the copies must be authentic, as opposed to pirated), *id.*, and (2) under the United States Copyright Act, meaning that the copyright holder must own a United States, as opposed to a foreign, copyright, *id.*; *see Quality King*, 523 U.S. at 146–47. Nothing in the language of the statute places any geographic limitation on manufacture.

Recognizing that eliminating the first-sale doctrine for all foreign-manufactured goods would be catastrophic to American markets, the Ninth Circuit created an exception to its rule when the copyright holder's authorized sale occurs in the United States. *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1149–50 (9th Cir. 1996). The Ninth Circuit's exception, however, is in tension with this Court's holding in *Quality King* that the location of the first sale is irrelevant to the doctrine's application. 523 U.S.

at 145. The Ninth Circuit's arbitrary distinction between sales in the United States and sales abroad has no foundation in the text of the statute, which says nothing about the location of the first sale, and does nothing to further the purpose of the Copyright Act, which is to promote creative expression. *Id.* at 151. And, as discussed below, the exception does not eliminate the paralyzing effect the Ninth Circuit's rule has on the transfer of copyrighted goods within the United States.

Omega contended below that Justice Ginsburg's brief concurring opinion in *Quality King* affirmatively shows that the Court held that goods manufactured outside the United States were not subject to the first-sale doctrine. But, even if Justice Ginsburg's opinion accurately reflects the holding of the Court, her opinion states only that *Quality King* did not decide whether the doctrine applies to goods manufactured abroad, which is a reason why this Court should grant review. *Id.* at 154 (Ginsburg, J., concurring) ("[W]e do not today resolve cases in which the allegedly infringing imports were manufactured abroad.").

In short, the Ninth Circuit's holding permits United States copyright holders who manufacture and sell their copies abroad to prohibit any downstream ownership transactions involving their authentic goods in the United States, even those of ordinary consumers who may wish to give away or sell their property. Such a rule upsets the careful balance struck by the first-sale doctrine between compensating creative expression and protecting personal property rights.

II. The Ninth Circuit's Holding Severely Undermines Consumers' Personal Property Rights.

This Court should grant certiorari and reverse the Ninth Circuit's erroneous holding because it severely restricts ordinary consumers' control over their personal property. Under that holding, copyright infringement occurs each time there is a transfer of ownership of a copyrighted good that has been manufactured abroad without a copyright holder's authorized sale in the United States. This is problematic not only for retailers who may be unaware of a product's chain of distribution, but also for individual purchasers who have even less knowledge about the sale history of a particular item.

In practical terms, the Ninth Circuit's holding means that an individual consumer commits copyright infringement whenever he or she sells, gives away, or donates a product that happens to fall within the Ninth Circuit's rule. Such a consumer would then be liable for statutory damages up to \$150,000, attorney's fees, and, if the consumer resold the item, criminal penalties. *See* 17 U.S.C. §§ 504, 506. For example, here, a consumer who purchased an authentic Omega Seamaster watch at Costco could not give it to her son as a graduation gift, donate it to a charity auction, or sell it to a secondhand jewelry shop without violating the Copyright Act. And the consumer would not even know that the tiny symbol on the watch has a registered copyright in the United States because it did not come with 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).

The Ninth Circuit's holding has significant effects on the use and resale of traditional copyrighted materials. Individuals would be unable to donate foreign-printed and sold but American-copyrighted books to libraries or sell them to secondhand book shops, who in turn could not resell them. The same is true of authentic but foreign-manufactured and sold CDs. And because the Copyright Act applies to all transfers of ownership, individuals would be categorically prohibited from giving foreign-made and sold copyrighted materials as gifts.

The examples provided above demonstrate the absurdity of the Ninth Circuit's ruling, but at least books and music recordings are the core type of creative expression the Copyright Act is designed to promote and protect. Even worse, manufacturers of ordinary functional items have discovered that they, too, can take advantage of copyright law by copyrighting products' labels or packaging, or, as in this case, by placing tiny copyrighted etchings on the back of their products. In a case about a copyrighted shampoo label, this Court tolerated such a copyright, but explained that, in interpreting the Copyright Act, "we must remember that its principal purpose was to promote the progress of the 'useful Arts' by rewarding creativity and its principal function is the protection of original works, rather than ordinary commercial products that use copyrighted material as a marketing aid." *Quality King*, 523 U.S. at 151 (citation omitted).

Here, the undisputed evidence is that Omega added the tiny globe design on the back of its Seamaster watches only because it wanted to take advantage of United States copyright law to establish a monopoly for Omega watches

in the United States by preventing Costco from selling authentic Omega watches at a lower price. Pet. 5. And unlike the purchasers of a book, who are buying it most likely because of its creative content, the purchasers of an Omega watch probably care little about the tiny etching Omega has lately added to its watches in an unabashed effort to control their sale downstream.

The importation rights awarded to copyright holders in the Copyright Act are designed to prevent the importation of *pirated* copies manufactured abroad. Here, there is no question that the watches at issue are authentic watches manufactured by Omega and that Omega sold the watches to one of its authorized distributors. Omega complains only that those authentic watches were eventually sold to Costco, which was able to sell them at a price lower than that of Omega's direct purchasers in the United States. In short, Omega's manipulation of the copyright law is designed to create a monopoly by limiting who may sell Omega watches in the United States and mandating the prices those retailers can charge. And it is doing so via a copyright that has little to do with either the core expression meant to be protected by the Copyright Act or the unauthorized copying prohibited by it.

Omega is not the only manufacturer that has taken advantage of the opportunity to control the distribution of its products by slapping a copyrighted label or symbol on its otherwise uncopyrightable functional product. As noted above, *Quality King* involved the label on a shampoo bottle, *id.* at 138, and federal case law contains many other examples, including copyrighted perfume boxes, *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994), and diaper packaging, *Denbicare*, 84 F.3d at

1145. The upshot is that, unbeknownst to the ordinary consumer, any product could be packaged in copyrighted labeling. And if that label or packaging happened to be manufactured abroad, as is true with many products in our increasingly global economy, and the copyright holder's authorized sale did not occur in the United States, the consumer would be prohibited from transferring ownership of his or her authentic and paid-for personal property.

For example, under the Ninth Circuit's rationale, an individual would be unable to resell products with foreign-made copyrighted labels at a garage sale if those products were not first sold in the United States. A car owner could not sell a used foreign automobile with a copyrighted computer system or Omega-like emblem. As long as there is a copyright hook, a Craigslist resale of a Japanese-made Costco-purchased big screen television, surround sound system, and DVD player would be off-limits. Beware of bringing that bottle of Italian wine with that interesting label to the new neighbors as a housewarming gift. An American traveler could not even purchase the Seamaster watch at the Omega factory in Switzerland to bring back to the United States to give to her father as a retirement gift without committing copyright infringement.³ None of these examples involves an unauthorized copy of the item or a situation involving an unauthorized initial sale.

³The "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).

Nevertheless, they would all be examples of copyright infringement if the decision below stands. And since a manufacturer could put a copyrighted label on virtually any product, there is no limit on the everyday items affected.

In short, the rule used by the Ninth Circuit below eviscerates the ordinary property rights consumers have—rights traditionally protected by the first-sale doctrine—over authentic pieces of personal property just because those items are copyrighted, were manufactured abroad, and the copyright holder’s authorized sale did not occur in the United States. And because copyright notices are no longer required and the consumer cannot track the item’s distribution history, the consumer has no way of knowing whether the good, or its label, falls into that category. Aside from the significant direct impact of the decision below on ordinary consumers’ property rights, it encourages manufacturers to copy Omega’s strategy of slapping copyrighted labels or symbols on their otherwise uncopyrightable products, and then manufacture and sell those products abroad. If not reversed, the Ninth Circuit’s holding permits such manufacturers to control every transfer of their products in the United States, including each individual’s gift, donation, or resale.

CONCLUSION

The petition should be granted.

Respectfully submitted,

LEAH M. NICHOLLS
ADINA H. ROSENBAUM
Counsel of Record
GREGORY A. BECK
BRIAN WOLFMAN
PUBLIC CITIZEN
LITIGATION GROUP
1600 20th Street, NW
Washington, DC 20009
(202) 588-1000

Counsel for Amicus Curiae Public Citizen, Inc.

June 2009

Blank Page