No. 08-1423

IN THE
Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

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 FOR EBAY INC. AS *AMICUS CURIAE* IN SUPPORT OF PETITIONER

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INTEREST OF AMICUS CURIAE[1]

This brief is respectfully submitted by eBay Inc. eBay created and currently operates the world's largest online marketplace, bringing together buyers and sellers at the local, national and global levels. Today, eBay's 88 million active users include some 25 million sellers, engaged in transactions across 50,000 unique categories with the richest and deepest inventory of products ever assembled. Founded in 1995, eBay recognized that the Internet would allow individuals and companies interested in a particular product or service to readily identify and locate each other and thus facilitate trading among those individuals and companies. As result, eBay succeeded in establishing a $60 billion market that benefits consumers and promotes competition. At any given moment, an average of 175 million items are available for sale on eBay across a multitude of formats that includes auction-style, fixed price and classified ads. eBay is recognized the world over as the place to find a great deal on new, used and vintage items. Throughout its history, eBay has served individual buyers and sellers along with businesses ranging in size from part time sole proprietorships to

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1. The parties have consented to the filing of this brief. Counsel of record for both parties received notice at least 10 days prior to the due date of the intention of eBay to file this brief. No counsel for a party authored this brief in whole or in part, and no counsel or party made a monetary contribution intended to fund the preparation or submission of this brief. No person other than eBay or its counsel made a monetary contribution to its preparation or submission.

some of the most recognized household brand names and everything in between. Businesses like eBay, therefore, have an enormous global economic and social impact. eBay is concerned that the Ninth Circuit's holding that the first-sale doctrine does not apply to imported goods manufactured abroad could have a detrimental effect on the ability of buyers and sellers of secondary-market goods to engage in commerce in the United States.

eBay's customers buy and sell a wide variety of goods manufactured domestically and abroad. These buyers and sellers need confidence that lawfully produced and purchased goods may be resold free from unknown and unknowable claims of copyright infringement. The Supreme Court's interpretation of the first-sale doctrine, as enunciated in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998), protects the rights of individuals to acquire and resell goods produced by the copyright owner regardless of whether the goods were manufactured in the United States or imported from abroad. The court of appeals' decision purports to rewrite the holding of *Quality King* to limit it to its facts and creates legal uncertainty for anyone who participates in the sale of secondary-market goods.

SUMMARY OF ARGUMENT

This case raises the question whether copyrighted goods manufactured abroad by United States copyright owners are entitled to greater downstream protection than those manufactured domestically. The court of appeals believed that owners of United States copyrights whose copyrighted products are manufactured abroad are entitled not only to the profit from the first sale of those products, but also to additional rights over the distribution of their products in secondary markets. The decision of the court of appeals conflicts with the plain statutory text of the Copyright Act and this Court's decision in *Quality King*. The rule announced by the court of appeals could subject sellers of secondary-market goods to expanded liability and litigation risks, impose significant barriers to functioning international markets, raise prices of first-sale and secondary-market goods for consumers, and create artificial incentives for copyright owners to manufacture goods abroad and then use U.S. copyright law to control the downstream distribution of those goods. The court of appeals' decision also misapprehends the extraterritorial limits of U.S. copyright law and, in doing so, further undermines the efficiency of the Internet as a global marketplace.

ARGUMENT

The court of appeals' opinion expands the reach of copyright law to permit copyright owners to control downstream sales and transfers of goods, ignoring the fundamental purpose of copyright law, the statutory text of the Copyright Act, and over a century of Supreme Court precedent. As this Court stated in 1908, "the copyright statutes, while protecting the owner of the copyright in his right to multiply and sell his production, do not create the right to impose . . . a limitation at which the [copy] shall be sold at retail by future purchasers, with whom there is no privity of contract." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908). In this case, the court of appeals' misinterpretation of the first-sale doctrine threatens to mutate copyright law into a mechanism for corporations to control the downstream distribution of manufactured goods. The court of appeals forgot that copyright law is intended to protect and promote original works by authors, not to provide a mechanism for limiting future transfers of everyday mass-manufactured goods. Its ruling will have significant consequences for domestic and international markets.

I. The Court Of Appeals' Misinterpretation Of The First-Sale Doctrine Conflicts With The Holding Of *Quality King*.

The court of appeals held that the first-sale doctrine is a defense to copyright infringement only where the disputed copies of a copyrighted work were either made or previously sold in the United States with the authority of the copyright owner. Pet. App., 2a-3a. This holding lacks foundation in the history or statutory text of the first-sale doctrine, as codified in 17 U.S.C. § 109(a), and is contrary to this Court's decision in *Quality King Distributors, Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135 (1998). Moreover, by adopting one statement contained in a single-justice concurrence over the eight-justice majority opinion in *Quality King*, creates ambiguity and tension with the law of the land.

The first-sale doctrine was first endorsed by this Court in *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908). In that case, the Court stated: "It is not denied that one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it." 210 U.S. at 350. The Court's decision in *Bobbs-Merrill* followed the dominant Anglo-American rule prohibiting restraints on the alienation of chattels. The courts of both the United States and England had held that, where a copyright owner had sold an object embodying a copyrighted work, (1) normal rules against a seller imposing restraints on alienation of that chattel would apply, and (2) the copyright owner/seller would have to look to contract law, not copyright, for claims against purchasers of the chattel. *See, e.g.*, *Henry Bill Publishing Co. v. Smythe*, 27 F. 914, 923-25 (S.D. Ohio 1886); *Murray v. Heath*, 1 Barn. & Adol. 804 (1831); *see also* H.R. Rep. No. 987, 98th Cong. 2d Sess., 2 (1984) ("The first sale doctrine has its roots in the English common law rule against restraints on alienation of property.").

The first-sale doctrine later was codified by Congress, and the current statute states in part that "the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord . . . ." 17 U.S.C. § 109(a). Neither § 109(a) nor earlier codifications were intended by Congress to "limit [the first-sale doctrine's] broad scope." *Quality King*, 523 U.S. at 152. Rather, "'[s]ection 109(a) restates and confirms' the first-sale doctrine established by prior case law." *Id.* at n.27 (quoting H.R.

Rep. No. 1476, 94th Cong., 2d Sess., 79 (1979)); *see also* S. Rep. No. 473, 94th Cong., 1st Sess., 71 (1975) (same)); H.R. Rep. No. 2222, 60th Cong. 2d Sess., 28-29 (1909) ("Section 41 is not intended to change in any way existing law . . . . [I]t would be most unwise to permit the copyright proprietor to exercise any control whatever over the article which is the subject of copyright after said proprietor has made the first sale"). Neither the text nor the legislative history of § 109(a) evinces any intent to discriminate between goods manufactured domestically and those manufactured abroad.

That distinction—which appears never to have concerned Congress—was laid to rest by this Court in *Quality King*. There, this Court answered affirmatively the question "whether the 'first sale' doctrine endorsed in § 109(a) is applicable to imported copies." 523 U.S. at 138. The Court did not distinguish between goods manufactured domestically and those outsourced to foreign manufacturing plants. Nowhere in the Court's opinion did the Court suggest that greater copyright protection would be afforded to U.S. copyright owners who moved their manufacturing processes abroad. Instead, the Court held that *all* imports are subject to the first-sale doctrine.

One concurring justice suggested that goods manufactured abroad might be entitled to greater copyright protection than goods manufactured domestically. In a two-sentence concurrence, Justice Ginsburg indicated that she was joining the majority opinion insofar as it applied only to domestically manufactured goods sent abroad and then, later, imported back into the United States. *Quality King*, 523 U.S. at 154. No other justice joined in this concurrence, and thus Justice Ginsburg's concurrence does not control. *See, e.g.*, *Maryland v. Wilson*, 519 U.S. 408, 413 (1997) (two-justice concurrence did not constitute binding precedent). By phrasing its decision in terms of importation into the United States, the majority opinion unambiguously intended the first-sale doctrine to apply not only to goods manufactured domestically, but also to those manufactured abroad, which likely constitute the vast majority of goods imported into the United States. As the Court stated: "The 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." *Quality King*, 523 U.S. at 152.

The first-sale doctrine serves a critical function in the copyright scheme and should be protected by this Court. It balances the intangible property interests of copyright owners against the tangible property interests of purchasers. *See Joseph P. Liu, Owning Digital Copies: Copyright Law and the Incidents of Copy Ownership*, 42 Wm. & Mary L. Rev. 1245, 1289-94 (2001). Were it not for the first-sale doctrine, the everyday activities of secondhand bookstores would infringe a copyright owner's distribution right, as would selling a book at a garage sale. The court of appeals' opinion threatens to create liability for all of these activities whenever the first sale of foreign-manufactured goods happens to have occurred abroad. This Court must not allow the court of appeals' decision to remain the law.

II. The Limits Of Extraterritoriality Apply To Enforcement, Not To Defenses.

The court of appeals justified its decision to restrict the first-sale doctrine based on the presumption against extraterritoriality recognized by this Court in *American Banana Co. v. United Fruit Co.*, 213 U.S. 347 (1909). But the court of appeals misunderstood these exterritorial limits. While United States copyright law is bounded by geographic limits, these prevent copyright owners for suing for the copying of U.S. copyrighted goods that occurs abroad. Rather than apply extraterritoriality principles as a limit to the *enforcement* of U.S. copyright laws, the court of appeals in this case instead misapplied those principles to limit *defenses* to infringement. In doing so, the court of appeals appears to have stripped hundreds of millions of individuals in the United States of the right to sell or even give away goods that they lawfully acquired but which may be or contain copyrighted works manufactured abroad.

Where courts have found that the Copyright Act lacks extraterritorial effect, this has generally been understood to mean that the Act does not *punish* infringements that occur entirely outside the United States. *See Subafilms Ltd. v. MGM-Pathe (Communications Co.*, 24 F.3d 1088, 1093 (9th Cir. 1994) (*en banc*). In other words, the extraterritoriality limit is a limit on *enforcement*. As one court recently held in the patent-law context, "the concept of 'extraterritorial effect' refers to *imposing liability* under United States law for conduct occurring outside the United States. Holding that exhaustion is triggered by the authorized foreign sale of a patented product *does not impose liability* of this sort, and thus *does not amount to giving extraterritorial effect* to the patent law." *LG Elecs, Inc. v. Hitachi, Ltd.*, No. C 07-6511 CW, 2009 WL 667232, at *11 (N.D. Cal. March 13, 2009) (emphases added).

This case, however, does not involve a claim that Congress attempted to "enforce its laws beyond the territorial boundaries of the United States." *EEOC v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991). eBay does not dispute that U.S. copyright law cannot be used to create liability for copies made and sold abroad. In the underlying case, the first-sale doctrine was raised as a *defense to enforcement in the United States* where the facts giving rise to the defense occurred abroad. This case does not involve enforcement of the Copyright Act in any foreign country.

The question that this case presents is only whether transactions in foreign countries can have legal consequences for transactions involving United States' buyers and sellers. The answer is yes. When Congress drafted the Copyright Act, it anticipated that acts occurring abroad would have legal consequences for the rights of copyright owners. For example, § 104 confers U.S. copyright "protection" where works are published in foreign nations that are parties to the Berne Convention, the Universal Copyright Convention, or another "copyright treaty," or where the President finds that the foreign nation grants reciprocal copyright protection for U.S. works. 17 U.S.C. § 104(b). Many other parts of the Copyright Act similarly refer to acts and events occurring in foreign nations.

Thus, the Copyright Act:

- Provides that transfers of copyright ownership may be "executed in a foreign country." 17 U.S.C. § 204(b)(2);

- Establishes priorities between conflicting transfers of copyright ownership executed "outside the United States." *Id.*, § 205(d);

- Provides for the placement of copyright notices on works "published in the United States or elsewhere." *Id.*, §§ 401(a) and 402(a); and

- Exempts foreign works from the requirement that copyright be registered before commencing infringement action in U.S. court. *Id.*, § 411(a).

Conversely, § 201(c) of the Copyright Act prevents some foreign acts from having the legal consequence of transferring or extinguishing rights under a U.S. copyright. Even so, Congress did not attempt to list every transaction or event in a foreign country that might have legal significance within the United States. For example, a U.S. copyright owner while residing abroad may authorize the publication of a book or the performance of a play in the United States. Similarly, while on foreign soil, an author may terminate transfers and licenses of U.S. rights to others. *See* 17 U.S.C. § 203(a) and (b)(5). A first sale by the copyright owner is also a transaction that may occur abroad, but have legal effect in the United States. As discussed above, the policy against restraints on alienation of goods is at the root of § 109(a), and this policy applies equally whether a U.S. copyright owner has sold his goods in the United States or abroad.

III. The Court Of Appeals' Decision Could Impede Commerce.

Manufacturers of mass-market products have "waged a full-scale battle in legislative, executive, and administrative fora" for regulations that would grant them power to control the downstream importation of secondary market goods into the United States economy. *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 295 (1988) (Brennan, J., concurring in part and dissenting in part). Yet Congress has largely rejected these efforts, and manufacturers have achieved only limited success in using trademark law as a sword against parallel importers. *See* 2 Melville B. Nimmer and David Nimmer, *Nimmer on Copyright*, § 8.11[B][4] (2009). As a result, manufacturers like Omega are now turning to U.S. copyright law as a mechanism for imposing controls over downstream purchasers of their goods. This misuse of copyright would have dramatic and negative market effects and would empower foreign manufacturers at the expense of American retailers and consumers.

If left to stand, the court of appeals' decision permits manufacturers to impose artificial barriers on these secondary markets by arguing violations of copyrights. But copyright law exists to promote creative and useful original works, not to permit a stranglehold over downstream sales of manufactured goods. "In construing 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 materials as a marketing aid." *Quality King*, 523 U.S. at 151 (citation omitted) (quoting U.S. Const., Art. I, § 8, cl. 8).

This case has commercial consequences for U.S. retailers and individuals who sell genuine goods. Normally, a downstream merchandiser may rely on the "good-faith purchaser for value" rule when he or she acquires merchandise for resale. That rule protects the free transferability of all genuine goods. *See* U.C.C. § 2-403. It "allows people safely to engage in the purchase and sale of goods without conducting a costly investigation of the conduct and rights of all previous predecessors in the chain of distribution." *Johnson & Johnson Prods. v. Dal Int'l Trading Co.*, 798 F.2d 100, 104 (3d Cir. 1986). Congress preserved the normal rules relating to the transfer of personal property, both by enacting § 109(a) and by declaring that ownership of rights under a copyright is "distinct from ownership of any material object in which the work is embodied." 17 U.S.C. § 202. But manufacturers will no doubt argue that the court of appeals' decision imposes copyright liability on sellers if it turns out that genuine goods embody copyrighted works that were manufactured abroad and were not sold first in the United States. Such an outcome would undermine the transferability of personal property.

In addition, the Ninth Circuit's decision potentially imposes burdensome search costs on sellers and buyers who may need to investigate (1) whether goods embody copyrighted works, (2) if so, whether the copyrighted works were manufactured abroad, (3) if so, whether the goods were previously sold in the United

States, and (4) if so, whether that sale in the United States was authorized by the copyright owner. If, given the conflicting decisions, a seller believes he or she may need to negotiate with the copyright owner if he or she wants to sell (or even give away) the item such sellers are even more burdened and commerce further impacted. The potential result will be a secondary market burdened by inefficient overhead costs. Some sellers will be neither willing to bear the high search and negotiation costs, nor to subject themselves to the increased risks of litigation.

These are not theoretical concerns. Virtually any mass-produced product may be manufactured to include a copyrighted design element. Retailers and individuals regularly purchase goods from distributors who are not the U.S. copyright owner. In today's international economy, retailers regularly purchase imported products where the U.S. copyright owner or its designee is not the importer. If a seller may be sued for selling genuine goods acquired after a first sale has occurred abroad, this could place significant burdens on international and domestic commerce, raise prices, and create enormous economic waste.

Nowhere has Congress expressed any intent to impose these anti-commercial and anti-consumer rules. To the contrary, as discussed above, Congress's adoption of the first-sale doctrine from the common law was intended to avoid such restraints on the free alienation of genuine products.

If upheld, however, the Ninth Circuit's interpretation would create a two-tiered system under which copies that have been manufactured and distributed abroad receive greater protection than identical copies manufactured and distributed domestically. Under such an interpretation, once a manufacturer has sold a product containing copyrighted material in this country, the first-sale doctrine would allow any subsequent purchaser to resell the product at any price; but if an identical product is manufactured and first sold abroad, one could have a different result.

Absent any indication that Congress intended such unusual restrictions on free trade and commerce, this Court should not permit the court of appeals to impose them based on misconceived notions about "extraterritoriality." As noted above, manufacturers have failed in their attempts to use trademark and customs laws to eliminate secondary markets. The present attempt is even more misguided. Trademark and customs laws, at least, are primarily grounded in economic concerns, while the desire to control the resale of goods manufactured abroad has nothing to do with the Copyright Act's primary goal of motivating creative activity. To allow manufacturers an avenue to argue that copyright law furthers a private commercial strategy of controlling the channels of commerce for their products would subvert the true purposes of the Copyright Act.

Here, a U.S. copyright owner is "seeking to protect itself from its own competition." *K-Mart*, 486 U.S. at 301 (Brennan, J., concurring and dissenting). Because the copyright owner itself controls the manufacture and first sale of its products, it has "a panoply of options," including private contractual remedies, for controlling its channels of distribution. *Id.* at 302. But it cannot use the Copyright Act to implement its market-allocation scheme. "While securing compensation to the holders of copyrights was an essential purpose of [the Copyright] Act, freezing existing economic arrangements for doing so was not." *Teleprompter Corp. v. Columbia Broadcasting System, Inc.*, 415 U.S 394, 414 n.15 (1974).

CONCLUSION

Amicus curiae eBay urges the Court to grant the petition and reverse the judgment of the court of appeals.

Respectfully submitted,

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