

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**

**SUPPLEMENTAL BRIEF FOR PETITIONER
IN RESPONSE TO BRIEF FOR THE UNITED
STATES AS AMICUS CURIAE**

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**SUPPLEMENTAL BRIEF FOR PETITIONER IN
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In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the Solicitor General argued that “[t]he correct and * * * natural reading of the phrase ‘lawfully made under this title’ refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17. That reading is also consistent with the legislative history.” Brief for the United States as *Amicus Curiae* at 30 n.18 (No. 96-1470) (citations omitted). The government advanced that view even as it urged the Court to adopt an exceedingly narrow construction of 17 U.S.C. § 109(a)’s first-sale doctrine that would not reach any good imported into the United States. This Court unanimously rejected that construction as inconsistent with “[t]he whole point of the first sale doctrine[, which] 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.

Now the Solicitor General once more urges an exceedingly narrow construction of Section 109(a) – one that would cabin *Quality King*’s reach to the rare class of goods that are manufactured in the United States, exported, and re-imported. To reach her desired outcome, however, the Solicitor General now disavows the United States’ prior position, arguing instead that the phrase “lawfully made under this title” means “made in the United States.” See U.S. Br. 11 n.4. She does so despite recognizing that “[t]he potential implications of excluding foreign-made copies of a copyrighted work from Section

109(a)'s coverage are * * * troubling,” U.S. Br. 18, and admitting that “[t]here is no reason to suppose that Congress anticipated and intended [such] result[s],” U.S. Br. 19. The Solicitor General even admits that the United States’ new position “may be inconsistent with Congress’s intent in enacting other provisions of the Copyright Act.” U.S. Br. 14.

The rationale for the government’s about-face is telling. U.S. Br. 11 n.4. The United States attributes its change of heart not to the reasoned view of agencies with subject-matter expertise, but rather to a belief that the government’s prior understanding – the same one advanced by Costco – “*appears to be inconsistent with the Court’s holding*” in *Quality King*. *Ibid.* (emphasis added).

For reasons elaborated below, the Solicitor General is wrong to conclude that *Quality King* demands that Section 109(a) apply only to goods made in the United States. As the Solicitor General acknowledges, her view is not based on the holding of *Quality King*. U.S. Br. 8 (stating that “the Court had no occasion to decide the issue presented here”). It depends instead on a passage discussing a “market allocation agreement” for various editions of a book. See U.S. Br. 9 (discussing *Quality King*, 523 U.S. at 148).

That dictum, which did *not* speak to where works are “made,” but instead referred to territorially “exclusive * * * distribution rights,” 523 U.S. at 148, is so universally misunderstood now that *only* a decision by this Court can clarify its meaning. Indeed, even judges who believe that “traditional tools of statutory interpretation” dictate that “the first-sale doctrine [is] applicable when a copy of a copyrighted work is manufactured abroad and imported” nonetheless think themselves foreclosed from so holding by that dictum. *Pearson Educ., Inc. v. Liu*,

656 F. Supp. 2d 407, 411 (S.D.N.Y. 2009), appeal pending, No. 10-705 (2d Cir.). Far from being well settled, the scope of the first-sale doctrine remains as confused as it was when the Third Circuit two decades ago “confess[ed] some uneasiness with [a] construction of ‘lawfully made’ that turned on the place of manufacturing.” *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988). Though the brief of the United States ultimately recommends against review by this Court, its brief is replete with examples of why such review is necessary.

1. To the extent that the United States offers any real explanation for reversing its twelve-year-old position, it is that, because of *Quality King*, its prior reading of Section 109(a) “would disserve Congress’s intent [in amending Section 602(a)] to extend the importation ban beyond piratical copies.” U.S. Br. 11 n.4. That belief, however, is belied by the unmentioned – yet dispositive – discussion in *Quality King* where the Court observed that “the first sale doctrine * * * would not provide a defense to a § 602(a) action against any nonowner such as a bailee, a licensee, a consignee, or one whose possession of the copy was unlawful.” 523 U.S. at 146-147. This is true *even if* “lawfully made under this title” is construed to include non-piratical goods made abroad by a U.S. copyright holder, because Section 602(a)’s expansion would still have independent effect on “nonowners” of such goods. Though the Solicitor General asserts without substantiation that this would make “the category of copies whose importation could be blocked under Section 602(a) * * * extremely small,” U.S. Br. 14, the historical rationale for Section 602(a) was to prohibit importation of just that class, large or small. See Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion*

of Right Doctrine, 13 SANTA CLARA COMP. & HIGH TECH. L.J. 445, 461 n.107 (1997).

2. At the same time, the Solicitor General overstates the implication of the Court's recognition that "§ 602(a) applies to a category of copies that are neither piratical nor 'lawfully made under this title,'" because some copies are "lawfully made' not under the United States Copyright Act, but instead, under the law of some other country." *Quality King*, 523 U.S. at 147. There is no dispute that *some* goods made abroad are *not* lawfully made under the United States Copyright Act, but rather are lawfully made under the intellectual property law of some other country. But it does not follow – and the Court did *not* say – that these categories are mutually exclusive or that certain goods manufactured abroad cannot at the same time be "lawfully made under" the United States Copyright Act.¹ For example, it would be a natural use of language to conclude that a copyrighted-design-bearing Omega watch made in Switzerland for the express purpose of being sold in the United States was *both* lawfully made under Swiss law *and* lawfully made under U.S. copyright law, yet the Solicitor General assumes without explanation that it must be one or the other, not both. Petitioner's reply brief (at 4) made the point that there is no inherent inconsistency between being lawfully made under the law of another country and being lawfully made under U.S. law, yet the Solicitor Gen-

¹ Were it otherwise, *none* of the approximately *1 billion* printed materials imported into the United States each year – nearly a third of all books purchased in the United States annually – would be subject to the first-sale doctrine. See Harmonized Tariff Schedule of the United States § 4901 (2010) (2005 imports); BOOK INDUSTRY STUDY GROUP, INC., BOOK INDUSTRY TRENDS 2006 at 13 (2005 total consumption).

eral offers no explanation for her contrary assumption.

In both briefing and oral argument in *Quality King*, the petitioner there called the Court's attention to this point. Brief for Petitioner at 27-28 (No. 96-1470) (noting that "a lawful copy made by an unrelated entity solely pursuant to a *foreign* copyright, *without the express or implicit authorization of the U.S. copyright owner*, is arguably not made 'under this title' within the meaning of Section 109(a)," even though "a copy made by, or under the authorization of, the United States copyright holder, would doubtless be 'lawfully made under this title' *regardless of whether it is made in this country or abroad*") (emphasis added); *Quality King* Oral Argument Tr. 12-14 (same). At argument, Justices of this Court – including the eventual author of the *Quality King* opinion – showed great interest in the situation in which there are *different copyright holders* in different countries. *Id.* at 13-14, 35-36. Only Justice Souter asked any questions about the place of manufacture. *Id.* at 15 ("But if the contract is silent, your answer is the geography of manufacture is irrelevant."). The Court's opinion makes *no* explicit reference to the place of manufacture.

Nothing in the Court's opinion indicated a belief that the category of goods lawfully made under the law of a foreign country *and not* lawfully made under the United States Copyright Act was any broader than petitioner's example of copies made by a foreign party without authorization to do so under the Copyright Act. Rather, the Court "mention[ed] one example" from the drafting history "simply to demonstrate that the category is not a hypothetical one." 523 U.S. at 147. In discussing that example, the Court wrote:

If the author of [a] work gave the exclusive United States distribution rights – enforceable

under the Act – to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, * * * presumably only those made by the publisher of the United States edition would be “lawfully made under this title” within the meaning of § 109(a).

Id. at 148. This example speaks only about rights granted and the grantor of those rights, and *not* about place of manufacture. The Court did *not* say that books made by the publisher of the United States edition would be “lawfully made under this title” *only if they are printed in the United States*.

In a footnote, the Court indicated that its example was drawn from drafting-committee discussions about concerns raised by the book and record industries. *See Quality King*, 523 U.S. at 148 n.20. Those discussions addressed concerns that U.S. copyright holders faced competition from imported copies made abroad by *unrelated foreign copyright holders* without express or implicit authorization to make copies under the Copyright Act.² Accordingly, neither those discussions, nor the Court’s illustration based on them, supports the meaning of Section 109(a) that both the Solicitor General and Omega now advance.

3. Like respondent Omega, the Solicitor General also points to the phrase “if this title had been applicable” in Sections 602(b) and 602(a)(2). The Solicitor General asserts that those importation-related sec-

² See Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 4: Further Discussion and Comments on Preliminary Draft for Revised U.S. Copyright Law* at 119 (Comm. Print 1964) [hereinafter *Copyright Law Revision*] (statement of Mr. Pilpel); *id.* at 209 (statement of Mr. Manges); *id.* at 212 (statement of Mr. Pilpel); *id.* at 260 (statement of American Book Publishers Council, Inc.).

tions recognize a general proposition that the Copyright Act is not applicable abroad, and superimposes that conclusion on Section 109(a) – which is not about importation – to conclude that a good made abroad can therefore never be “lawfully made under this title” within the meaning of Section 109(a). U.S. Br. 11-13. The legislative history, however, shows quite the opposite.

Commenting on an earlier version of the bill that became Section 602(b), Copyright Revision Committee member Goldberg noted his concern “that the present language, ‘if this title had been applicable,’ somewhat obscures in general terms an issue which is rather specific.” Copyright Law Revision at 207. The *specific* issue meant to be addressed in Section 602(b) was that it is prohibited to import goods whose making *would* have “constituted an infringement of copyright had such making taken place in the United States.” *Ibid.* Thus, as other legislative history of the 1976 Act notes, Section 602(b) is simply meant to prohibit the importation of copies “that were unlawful in the country where they were made” *or* copies that, “although made lawfully under the domestic law of that country,” are not considered lawfully made under Title 17. S. Rep. No. 93-983, 93rd Cong., 2d Sess., 200 (1974). In contrast, and as a natural corollary, Section 602(b) expressly contemplates that it is *not* prohibited to import goods of the exact character at issue in this case – goods made by the U.S. copyright holder abroad – because making those goods would *not* have “constituted an infringement of copyright had such making taken place in the United States.” Copyright Law Revision at 207. By no alchemy can Congress’s conscious decision to *permit* importation of goods made by a U.S. copyright holder abroad be transmuted into a decision to *limit* application of the first-sale doctrine to

such goods. The Solicitor General’s position, in other words, has the policy of Congress backwards.

Because Sections 602(b) and 602(a)(2) use the phrase “if this title had been applicable” in the same sentence as the word “making,” the Solicitor General insists that “lawfully made under this title” must mean the same thing as “lawfully made in a place where this title is applicable.” That leap is unsustainable. Although a legislator perhaps could use the phrases “where this title is applicable” and “under this title” synonymously, there is not one scintilla of support for the proposition that anyone involved in drafting the Copyright Act in 1976 – or even Section 602(a)(2) in 2008 – *did* use those phrases synonymously. Quite the contrary, the petition (at 10-12) cites three examples (17 U.S.C. § 110, 17 U.S.C. § 1006(a)(1)(A), and former 17 U.S.C. § 601) in which Congress used the phrase “under this title” in a manner that cannot possibly have meant “where this title is applicable.” Indeed, the United States itself recognized in 1997 that petitioner’s reading of Section 109(a) is “consistent with the legislative history.” Brief for the United States as *Amicus Curiae* at 30 n.18 (No. 96-1470).

In the end, neither the Solicitor General nor Omega has cited even one non-Section 109 example of a situation in which “under this title” could even plausibly mean “where this title is applicable,” and *a fortiori* neither has any examples in which “lawfully made under this title” could plausibly mean “lawfully made where this title is applicable,” *i.e.*, “made in the United States.”

4. The Solicitor General further confuses matters by asserting – incorrectly – that petitioner “draws a sharp distinction between copies produced by the United States copyright owner itself and copies made by another entity with the copyright own-

er’s authorization.” U.S. Br. 16. Petitioner draws no such distinction. Rather, consistent with the “basic principle of copyright law” cited by the United States, *ibid.* (citing 17 U.S.C. § 106), copies made abroad by *either* the U.S. copyright holder *or* a separate entity authorized by that holder to make copies are subject to the first-sale doctrine.

Respondent Omega, in contrast, noted that one implication of petitioner’s reading of Section 109(a) is that a copyright holder might try to assign its U.S. and foreign copyrights as between two distinct entities so that the former might try to prevent importation of the latter’s goods into the United States. Br. in Opp. 10-12. As explained in the reply brief (at 5-6), however, such behavior is entirely speculative, far from costless, and not at all unprecedented in intellectual property law. Particularly in light of the concerns of the drafters of the Copyright Act of 1976, which as just noted were directed towards *unrelated foreign copyright holders*, a later court might hold that such a division of rights does not foreclose application of the first-sale doctrine. Or it might not. In any event, that is not the case here and future courts can confront that scenario if and when they are asked to.

5. The Solicitor General concedes that her position leads to “the anomalous result,” with “no evident policy justification,” that “a copyright holder can exercise its statutory right to bar unauthorized importation *only* when the relevant copies are made abroad,” thus “provid[ing] an artificial incentive for outsourcing.” U.S. Br. 19. But like respondent she takes comfort in that fact “that the most serious pol-

icy concerns described above have [not] actually materialized.” *Ibid.*³

The Solicitor General barely acknowledges, let alone justifies, the fact that the only reason some negative effects have not yet occurred is that the Ninth Circuit applies the first-sale doctrine to goods *even if they are made abroad*, so long as there has been a “first sale” in the United States. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477, 481 n.8 (9th Cir. 1994). As the reply brief argues in detail (at 6-7), that expedient exception has absolutely no basis in the Copyright Act. As one court observed, adopting the Ninth Circuit’s judicially created exception amounts to “disregarding an express holding of the Supreme Court,” because the exception “conflicts directly with *Quality King*’s holding that place of sale is irrelevant for first-sale purposes.” *Pearson Educ., Inc.* 656 F. Supp. 2d at 414.

In light of the Solicitor General’s complete reliance on this exception to brush aside “legitimate concerns” noted by *amici*, U.S. Br. 18, it is troubling that no attempt was made to justify the Ninth Circuit’s exception, without which *no one* defends limiting *Quality King* to goods manufactured in the United States. It is simply another reason why this Court’s review is both timely and necessary.

In this case – as in *every* case of statutory interpretation – “Congress remains free to amend the”

³ It is not clear that the Solicitor General is justified in her confidence that the Ninth Circuit’s construction of the first-sale doctrine is not yet causing American job losses. A new study by the Economic Policy Institute, reported in (among other places) the Wall Street Journal on March 23-24, 2010, shows that the United States lost 2.4 million jobs to China in 2001-2008. No study proves causation between copyright doctrine and job losses, but no study disproves it either.

relevant statute. U.S. Br. 19. That truism is no reason to deny review. Misinterpretation of a dictum in *Quality King* – by lower courts and now by the Executive Branch – is what has led to unnecessary anomalies mitigated only by atextual exceptions. The proper branch to correct that misinterpretation is not the Legislative but the Judicial Branch.

CONCLUSION

For the foregoing reasons, as well as those stated in the petition and prior briefs, the petition for a writ of certiorari should be granted.

Respectfully submitted.

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