No. 11-697

IN THE

Supreme Court of the United States

SUPAP KIRTSAENG d/b/a Bluechristine99,

Petitioner,

v.

JOHN WILEY & SONS, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

BRIEF *AMICI CURIAE* OF RETAIL INDUSTRY LEADERS ASSOCIATION, AMERICAN FREE TRADE ASSOCIATION, AND QUALITY KING DISTRIBUTORS, INC., IN SUPPORT OF THE PETITION FOR WRIT OF CERTIORARI

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QUESTION PRESENTED

This case presents the issue that equally divided this Court last term in *Costco Wholesale Corp. v. Omega, S.A.*, ___ U.S. ___, 131 S. Ct. 565 (2010). The first-sale doctrine, codified at 17 U.S.C. § 109(a), allows the owner of a copy "lawfully made under this title" to sell or otherwise dispose of the copy "without the authority of the copyright owner…."

The question presented is how the words "lawfully made under this title" apply to a copy that was made abroad under the authority of the U.S. copyright owner, legally acquired abroad, and then imported into the United States:

> – Can such a foreign-made product *never* benefit from the first sale doctrine within the United States, *regardless* of the copyright owner's permission, as the Second Circuit held in this case?
>
> – Can such a foreign-made product benefit from the first sale doctrine within the United States *only* if the owner approves the first sale in this country, as the Ninth Circuit held in *Costco*? or,
>
> – As the *Kirtsaeng* dissent correctly wrote, can such a product *always* benefit from the first sale doctrine within the United States, so long as the copy was made by or with the authority of the U.S. copyright owner—therefore, meeting all elements of the requirement that the copy be "lawfully made under [title 17]"?

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STATEMENT OF INTEREST[1]

Retail Industry Leaders Association ("RILA"), established in 1969 as the Mass Retailing Institute, represents the interests of retailers, product manufacturers, and service suppliers. Its 600 member companies include the largest and fastest growing companies in the retail industry, and account for more than $1.5 trillion in annual sales. RILA members provide millions of jobs and operate more than 100,000 stores, manufacturing facilities and distribution centers domestically and abroad.

The American Free Trade Association ("AFTA") is a not-for-profit trade association that, for nearly 30 years, has advocated on behalf of the discount marketplace and the thousands of U.S. citizens engaged and/or employed in the parallel market. With members and contributors throughout the country, AFTA gives voice in legislative, regulatory, and judicial fora, to the needs and concerns of all participants in the global supply chain, from importers and distributors to retailers and consumers. AFTA advocates for strong anti-counterfeiting enforcement tools and continues working aggressively to ensure that U.S. laws protect consumers against injury from counterfeit and infringing goods—without sacrificing the substantive benefits of a competitive, global marketplace.

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1. The parties have consented to the filing of 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 *amicus curiae*, their respective members, or their counsel made a monetary contribution to its preparation or submission.

Quality King Distributors, Inc. ("QKD") is a family-owned wholesale distributor of health, beauty and cosmetics products, located in Bellport, N.Y. Founded in 1961 in a storefront in Queens, New York, QKD has become one of the largest privately-held businesses in the New York metropolitan area. QKD's national customer base includes most of the mass retail chains including drug store chains, mass discount chains, grocery chains and independent stores. QKD was the petitioner in *Quality King Distribs., Inc. v. L'anza Research, Inc.*, 523 U.S. 135 (1998) ("*Quality King*"), in which the Court last issued an opinion addressing the application of the first sale doctrine of the Copyright Act to imported goods incorporating ancillary copyrighted works.

These *amici* and their member companies include suppliers, importers, purchasers, and retailers with a vital interest, as to themselves and on behalf of their customers, in promoting robust commerce under the first sale doctrine of U.S. copyright law.[2] Members of the *amici* are among the largest sellers of books, DVDs, software, video games, and audio compact discs, *i.e.*, the types of goods most obviously affected by the scope of the first sale doctrine.

However, the first sale doctrine also affects thousands of ordinary household and personal products on retail shelves. As explained below, in the majority of decided cases applying the first sale doctrine in the importation

2. Each of these *amici* submitted briefs to this Court last term in *Costco*. *Amicus* AFTA submitted amicus briefs supporting the right of parallel importation under trademark law in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), and under copyright law in *Quality King*.

context, plaintiffs attempted to leverage copyright protection over ancillary and often insignificant aspects of retail goods (*e.g.*, packaging, labels, and use instructions) as a means to thwart parallel "gray market" importation.

As domestic manufacturing increasingly moves offshore, a majority of the products retailers offer for sale in the United States may be produced, procured, and imported from abroad. Retailers and suppliers need confidence that non-piratical goods purchased from manufacturers, importers, and distributors can be resold in U.S. commerce free from claims of copyright infringement. And consumers deserve full value from their purchases, without legal restraints on title.

Therefore, the *amici* submit this brief to inform the Court of the potentially destructive impact of the Second Circuit's decision upon modern commerce, and to urge the Court to grant certiorari and clarify the proper interpretation of the first sale doctrine.

SUMMARY OF ARGUMENT

The correct interpretation of the first sale doctrine to imported goods has great importance to the U.S. economy. The Court's decision in *Quality King Distribs., Inc. v. L'anza Research Int'l Inc.*, 523 U.S. 135 (1998) ("*Quality King*"), provided importers, distributors, and retailers welcome certainty that lawfully produced non-piratical goods could be imported and resold in the United States free from copyright infringement claims. The decision benefited consumers through greater competition and lower prices from domestic availability of lawfully-made imported goods, and, with the rise of Internet sites such as

eBay.com and craigslist.org, from opportunities to resell and acquire previously-owned goods.

Recent decisions from the Second and Ninth Circuits make a shambles of the first sale doctrine.[3] Both the Second Circuit in *Kirtsaeng* and the Ninth Circuit in *Costco* ignore the plain language of section 109, and rewrite that section to apply only to goods made "in the United States" under the Copyright Act. Although each court cites *Quality King* for its erroneous interpretation, *Quality King* nowhere compels that conclusion.

Both courts admit that their interpretation of section 109 harms the interests of American businesses and consumers, and contravenes historical policies underlying the first sale doctrine. To avert these anomalous consequences, the Ninth Circuit invents an extra-statutory "escape hatch," permitting the first sale doctrine to apply if the imported goods are sold in the United States with the copyright owner's permission.[4] The Second Circuit majority rejects that legal fiction, and holds that foreign-produced copies of copyrighted works *never* can benefit from the first sale doctrine. Although the majority acknowledges that forceful policy concerns militate against its holding, the majority suggests any

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3. *John Wiley & Sons, Inc. v. Kirtsaeng*, 654 F.3d 210 (2d Cir. 2011) ("*Kirtsaeng*"); *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *aff'd by an evenly divided Court, Costco Wholesale Corp. v. Omega, S.A.*, ___ U.S. ___, 131 S. Ct. 565 (2010) ("*Costco*").

4. The Ninth Circuit thus ignored the statutory requirement under section 109 that the first sale doctrine applies "without the authority of the copyright owner."

"undesirable" or "unpalatable" consequences of its draconian view can be cured by Congress. *Kirtsaeng*, 654 F.3d at 222 & n.44.

The *amici* submit that the *Kirtsaeng* dissent correctly interprets section 109. Judge Murtha's dissent observes that the majority's limitation to domestically-produced goods improperly inserts language into an otherwise clear statutory text. The dissent gives "lawfully made under this title" its natural reading: "regardless of place of manufacture, a copy authorized by the U.S. rightsholder is lawful under U.S. copyright law." 654 F.3d at 226. Thus, the dissent's reading of section 109 remains true to the statutory language and avoids the policy pitfalls of the majority.

This case provides a suitable vehicle to address the question presented. The reasons justifying the grant of certiorari in *Costco* now have been exacerbated by the Second Circuit majority's holding that the first sale doctrine never can apply to foreign-made copies. Moreover, the factual context of this case, where the foreign-made books bore U.S. copyright notices and warnings, and legends against sale outside of certain countries, presents a full opportunity for the Court to explore the interaction between sections 109 and 602(a) of title 17.

For these reasons, as set forth below, the petition should be granted.

ARGUMENT

I. THIS COURT SHOULD GRANT THE PETITION TO SAFEGUARD THE FIRST SALE DOCTRINE AND PRESERVE LAWFUL COMMERCE IN GENUINE PARALLEL IMPORTED GOODS.

To retailers, wholesalers, and consumers of copyrighted works, the first sale doctrine is the Magna Carta of property rights and open commerce.[5] Businesses need confidence that genuine foreign-produced goods can be purchased and resold in U.S. commerce free from claims of copyright infringement, in the same way as domestically-produced goods. Properly interpreted, the first sale doctrine secures to businesses and individuals the right to acquire and resell goods produced by or under the authority of the copyright owner, regardless of whether the goods were produced in the United States or abroad.

Retail in the United States in general, and in imported goods specifically, constitutes a major segment of the domestic economy. In 2009, retail trade sales in the

5. Section 109, entitled "Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord," provides in pertinent part:

> (a) Notwithstanding the provisions of section 106(3), 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.

U.S. exceeded $3.6 trillion.[6] In 2010, the value of goods imported into the United States was $1.935 trillion.[7] The first sale doctrine directly benefits a significant portion of these goods, and potentially could affect nearly all of them. Thus, *amici* believe it is essential to commerce that this Court properly interpret the first sale doctrine as applicable to foreign-produced goods.

1. The first sale doctrine applies to goods readily identifiable as copyright-protected, such as copies of the books involved in this case, Blu-Ray and DVD movie discs, and video games, and phonorecords of copyrighted sound recordings such as compact discs. According to government and industry estimates, in 2010:

- Retail commerce in copyrighted works sold in the United States (such as books, recorded music, motion pictures, and magazines) reached $205 billion[8]

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6. U.S. Census Bureau, U.S. Dep't of Commerce, U.S. Census Bureau, Statistical Abstract of the United States: 2012, Table 1055, Retail Trade Sales -- Total and E-Commerce by Kind of Business 2009, http://www.census.gov/compendia/statab/2012/tables/12s1055.pdf (last visited Dec. 27, 2011). Online retail sales in 2009 totaled more than $145 billion, approximately 4.0% of all retail sales in the United States.

7. Central Intelligence Agency, The World Factbook, https://www.cia.gov/library/publications/the-world-factbook/geos/us.html (last visited, Dec. 28, 2011).

8. U.S. Bureau of Economic Analysis, U.S. Dep't of Commerce, National Economic Accounts, Table 2.4.5U. Personal Consumption Expenditures by Type of Product, http://www.bea.gov/national/nipaweb/nipa_underlying/TableView.asp?SelectedTable=17&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromVi

- Consumers spent $18.8 billion to purchase and rent movies.[9]

- Sales of recorded music in physical format exceeded $3.63 billion[10]

- Book sales reached $15.66 billion[11]

- The electronic game industry was estimated to constitute a more than $15 billion market segment in the United States[12]

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ew=YES&Freq=Year&FirstYear=2009&LastYear=2010&3Place=N&Update=Update&JavaBox=no (last visited Dec. 27, 2011).

9. Digital Entertainment Group, "DEG Year-End 2010 Home Entertainment Report," http://www.degonline.org (follow the "Data & Resources" hyperlink) (last visited Dec. 9, 2011).

10. Recording Industry Association of America, "2010 Year-End Shipment Statistics," http://76.74.24.142/548C3F4C-6B6D-F702-384C-D25E2AB93610.pdf (last visited Dec. 8, 2011). That figure does not include more than $2.23 billion in sales of recorded music in digital formats.

11. U.S. Census Bureau, U.S. Dep't of Commerce, Estimates of Monthly Retail and Food Services Sales by Kind of Business: 2010, at tab 2010, http://www.census.gov/retail/mrts/www/data/excel/mrtssales92-present.xls (last visited Dec. 8, 2011).

12. Press Release, NPD Group, Inc., 2010 Total Consumer Spend On All Games Content In The U.S. Estimated Between $15.4 To $15.6 Billion (Jan. 13, 2011), https://www.npd.com/press/releases/press_110113.html (last visited Dec. 27, 2011).

Amici and their members collectively sell annually hundreds of millions of copyrighted books, compact discs, DVDs, and video games, and are among the nation's largest retailers of these goods.

2. Thousands of other products sold by the *amici* members include material ancillary to the purchased goods, such as product labels or package inserts. Under the low threshold for copyright protection, copyright registrations routinely are granted for packaging, logos, labels, and product inserts for everyday packaged goods from floor cleaners and health and beauty products to breakfast cereals.

The concern of the *amici* is not that these registrations are issued, but that copyright owners register these essentially functional items, with no intrinsic value as expression, as a means to stifle low-priced competition from sales of authentic parallel-imported goods. This was the context of the last two cases before this Court. In *Costco*, the copyright owner engraved a minuscule copyrighted image on a watch back solely to prevent parallel importation of authentic watches that Costco sold at $700 below the manufacturer's suggested retail price.[13] Similarly, in *Quality King*, the plaintiff attempted to use a copyright on a label of hair care products to prevent discount-priced competition from lawfully-made re-imported products.[14] Given today's global and online

13. On remand, the district court adjudged Omega's actions to be copyright misuse. *Omega, S.A. v. Costco Wholesale Corp.*, CV 04-05443 TJH (E.D. Cal. Nov. 9, 2011) (Order and J.).

14. *See also*, *Denbicare U.S.A. Inc. v. Toys "R" Us*, 84 F.3d 1143 (9th Cir. 1996) (packaging for reusable diapers); *Parfums*

economy, it is impossible to overstate the potential disruptive impact on commerce if, under the guise of such "thin" copyrights, companies cannot import and sell goods lawfully made abroad consistent with U.S. copyright law, and consumers cannot transfer ownership of their property.

3. It is generally feasible for retailers to ensure that the goods that they offer for sale are authentic. Less obvious is where the goods were manufactured or how they were first acquired.

In today's global economy, retailers commonly acquire products not directly from the manufacturers, but through exporters, importers, and trading companies. They, too, may not deal directly with the manufacturers of those goods, such that goods may be bought and resold several times before reaching retail shelves. These sources promote effective competition, *e.g.*, by enabling manufacturers without a substantial distribution network to reach foreign customers, and retailers to obtain name brand goods in smaller quantities.

Many retailers purchase authentic "gray market" goods for resale from wholesale importers and distributors that arbitrage goods to take advantage of lower foreign pricing. As a result, consumers buy the same quality goods

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Givenchy v. Drug Emporium, Inc., 38 F. 3d 477 (9th Cir. 1994) (box for perfume); *Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988) (labels for beauty supplies); *Cosmair v. Dynamite Enters., Inc.*, 226 U.S.P.Q. 344, 1985 WL 2209 (S.D. Fla. 1988) (package label for cosmetics and fragrances); *Neutrogena Corp. v. Sec. of Treasury*, 7 U.S.P.Q. 2d 1900, 1988 WL 166236 (D.S.C. 1988) (packaging for cosmetics products).

at competitive prices.[15] The value of such parallel imported goods sold annually in the United States represents a multibillion-dollar benefit to American consumers.[16]

4. The first sale doctrine also creates aftermarkets for sale and rental of "used" copyrighted works. Such aftermarkets enable consumers to enjoy a greater number of copyrighted works, and spread access to cultural works to persons with lower incomes. Video rental – a commercial activity made possible by the first sale

15. For example, *amicus* QKD purchases name-brand products at lower prices in foreign markets, and resells these imported goods to U.S. wholesalers and retailers. QKD often sells these discount-priced goods in competition with the same, higher-priced goods from manufacturers or "authorized" distributors. Those were the facts of *Quality King*–the case which QKD brought before this Court in order to vindicate its right under the first sale doctrine to sell goods in the United States that had been lawfully produced in the United States but purchased abroad.

16. A 2008 white paper prepared by KPMG for an organization opposed to parallel importation estimated $58 billion annually in parallel importation activity. "Effective Channel Management is Critical in Combating the Gray Market and Increasing Technology Companies' Bottom Line," http://www.agmaglobal.org/press_events/press_docs/KPMG%20AGMAGrayMarketStudyWebFinal071008.pdf (last visited Dec. 27, 2011). *See also,* Alvin Galstian, *Protecting Against the Gray Market in the New Economy*, 22 Loyola L.A. Int'l & Comp. L. Rev. 507, 509 (2000) ("The annual U.S. and U.K. gray market economies exceed $10 billion and £ >1.62 billion, respectively, and are driven by the countries' relatively open economic markets and their peoples' insatiable appetites for consumer products.").

doctrine[17] – achieved $7.35 billion in revenues in 2009.[18] According to the Book Industry Study Group, the used book market segment in 2004 constituted $2.2 billion in overall sales, with some $1.6 billion in sales of used textbooks.[19]

The Second Circuit opinion in *Kirtsaeng*, and the Ninth Circuit decision in *Costco*, denies first sale protections to *any* foreign-produced goods. Given the realities of international commerce, the interpretation of section 109 by the majority in *Kirtsaeng* (and the Ninth Circuit in *Costco*) imposes impossible burdens and transaction costs on suppliers and retailers. Grant of certiorari and reversal by this Court therefore will provide needed certainty to commercial enterprises and to consumers.

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17. Under Section 109(b)(1), copyright owners retain an exclusive right with respect to rental of phonorecords and certain computer software.

18. U.S. Census Bureau, U.S. Dep't of Commerce, Annual Services Report, Table 5.1. Rental and Leasing Services (NAICS 532) – Estimated Revenue for Employer Firms: 2001 Through 2009, http://www2.census.gov/services/sas/data/53/2009_NAICS53.pdf (last visited Dec. 8, 2011).

19. Edward Wyatt, *Internet Grows as Factor in Used Book Business*, N.Y Times, Sept. 29, 2005, http://query.nytimes.com/gst/fullpage.html?res=9D05E2DA1230F93AA1575AC0A9639C8B63 (citing Book Industry Study Group, Inc., *Used-Book Sales: A Study of the Behavior, Structure, Size and Growth of the U.S. Used-Book Market* (Sept. 2005)).

II. *KIRTSAENG* IS WRONGLY DECIDED AS A MATTER OF LAW AND POLICY, AND SHOULD BE REVERSED.

A. The Majority Opinion Misinterprets Both Section 109 and *Quality King*.

The *Kirtsaeng* panel faced "an issue of first impression in our Court." *Id.*, 654 F.3d at 212. Deeming the five-word phrase "lawfully made under this title" to be "simply unclear" and "utterly ambiguous," the panel majority found the text susceptible to three plausible meanings: "(1) 'manufactured in the United States'; (2) 'any work that is subject to protection under this title'; or (3) 'lawfully made under this title had this title been applicable.'" *Id.*, at 220 (footnote omitted). The first interpretation gave primacy to a copyright owner's ability to exclude importation of authentic foreign-made copies under section 602(a). Either of the latter two interpretations maintained a broader scope of the first sale doctrine under section 109.

The court described the question as "perhaps a close call," but in the end chose the first interpretation. *Kirtsaeng*, at 221. The result, the court acknowledged, not only made parallel importations of copyrighted works unlawful; it negated first sale privileges for any copies or phonorecords of copyrighted works, and any goods incorporating a copy of a copyrighted work, manufactured outside the United States—*even if manufactured, imported, and sold in the United States by or under the authority of the copyright owner.*[20]

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20. A Ninth Circuit decision reaching that same conclusion, *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991), received sharp

As a result, the decision exposes every retailer and consumer to unforeseeable copyright infringement liability for transferring possession or title to any foreign-manufactured goods–including injunctive relief, seizure and loss of inventory, statutory damages (including statutory damages ranging from $750 to $150,000), and payment of both plaintiff's and its own litigation costs and attorneys' fees.[21]

In reaching this result, the Second Circuit relied upon a misreading of this Court's *dicta* in *Quality King*. In *dicta*, the Court there considered a scenario in which a U.S. copyright owner separately assigned book publication rights to British and U.S. publishers under their countries'

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criticism from the Ninth Circuit. *See L'anza Research Int'l, Inc. v. Quality King Distribs., Inc.*, 98 F.3d 1109, 1115 (9th Cir. 1996), *rev'd on other grounds*, 523 U.S. 135 (1998) (noting leading commentators' criticism of *BMG Music*); *Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp.*, 97 F.3d 377, 380 (9th Cir. 1996) ("The impracticality of the burden [plaintiff] would have us impose on the retailers gives us pause about whether its reading of *Parfums Givenchy* and *BMG Music* is correct."); *Denbicare U.S.A., Inc. v. Toys "R" Us, Inc.*, 84 F.3d at 1149-50 (noting "widespread criticism" of *BMG Music*); *Parfums Givenchy v. Drug Emporium*, 38 F.3d at 482 n.8 (characterizing as "absurd and unintended" to give "foreign manufactured goods . . . greater copyright protection than goods manufactured in the United States").

21. *See Parfums Givenchy, Inc.,* 38 F.3d at 482 ("the purchaser of illegally imported copies has no more authority to distribute copies than does the original importer"); *American Int'l Pictures, Inc. v. Foreman,* 576 F.2d 661, 664 (5th Cir. 1978) ("even an unwitting purchaser who buys a copy in the secondary market can be held liable for infringement if the copy was not the subject of a first sale by the copyright holder").

respective laws. 523 U.S. at 148. Under those facts, the Court posited that the first sale of a book made under British copyright law would not exhaust the importation right in the United States.[22]

The Second Circuit mistakenly divides all copies into two exclusive categories: those made in the United States, and those made "under the law of some other country." The court thus erroneously assumes that copies made "under the law of some other country" cannot also be lawfully made under title 17. *See Kirtsaeng*, 654 F.3d at 221. There, of course, exists a third category that demonstrates the court's error: copies made in a foreign country by or with the authority of the U.S. copyright owner.

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22. Several other courts have misread this passage in *Quality King* as if confirming the importance of the *place* of manufacture rather than the possession of *rights* under title 17. *See Pearson Educ. Inc. v. Arora*, 717 F. Supp. 2d 374, 379 (S.D.N.Y. 2010) ("[t]his Court has—albeit unenthusiastically—followed the Supreme Court's suggestion that the 'first sale' rule does not apply to works copyrighted in the United States, manufactured abroad, and subsequently imported and sold in the United States"); *Pearson Educ. Inc. v. Kumar*, 721 F. Supp. 2d 166, 178 (S.D.N.Y. 2010) ("the first sale doctrine does not apply to copies of a copyrighted work manufactured abroad"); *Pearson Educ. Inc. v. Liu*, 656 F. Supp. 2d 407, 416 (S.D.N.Y. 2009) ("[t]his Court therefore holds, *dubitante*, that the first-sale doctrine does not apply to copies of a copyrighted work manufactured abroad"). To the contrary, the Court's hypothetical assumes that the British publisher had no rights to make in the United States and, therefore, that the books produced by that publisher could not be lawfully made under title 17. *Quality King*, 523 U.S. at 148. *Cf. Boesch v. Graff,* 133 U.S. 697 (1890) (importation of foreign lamps lawfully made in Germany by one who had no rights under the United States patent infringed rights of United States patent assignee).

The dissenting judge in *Kirtsaeng* understood the importance of this distinction. Judge Murtha observed that Congress elsewhere in title 17 had inserted a domestic manufacturing requirement where it so intended, so there was no justification to imply such a restriction into the words "lawfully made." 654 F.3d at 226. Congress used the phrase "under this title" in multiple sections of the Copyright Act to describe the scope of rights created under title 17. *Id.* Moreover, foreign entities can lawfully exercise U.S. copyright rights either as the copyright owner or with the authority of the U.S. copyright owner. *Id.* Therefore, the dissent gave the phrase its natural reading, and held that a copy "lawfully made under this title" means "regardless of place of manufacture, a copy authorized by the U.S. rightsholder is lawful under U.S. copyright law." *Id.*

B. The *Kirtsaeng* Majority Ignores the Policies Underlying the First Sale Doctrine, Putting at Risk Retailers, Their Suppliers, and Their Customers.

In *Quality King*, this Court analyzed the interaction of sections 106, 109, and 602 of the Copyright Act, and held the importation prohibitions of section 602(a) are "simply inapplicable" to both domestic and foreign owners of lawfully-made products that import and resell them in the United States. *Id.*, 523 U.S. at 145. After the first sale, even unauthorized resales do not infringe the copyright owner's exclusive right to distribute. *Id.* at 143. "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." *Id.* at 152.[23]

Quality King gave full force to the first sale doctrine, and placed retailer and consumer first sale rights beyond the reach of the copyright owner:

> After the first sale of a copyrighted item "lawfully made under this title," any subsequent purchaser, whether from a domestic or from a foreign reseller, is obviously an "owner" of that item. Read literally, § 109(a) unambiguously states that such an owner "is entitled, without the authority of the copyright owner, to sell" that item.

Id., 523 U.S. at 145. By affirming the primacy of the first sale doctrine over the importation ban, the Court granted a crucial victory to commercial businesses and consumers alike.

This Court, in the context of patent infringement, has acknowledged the threat to free commerce where legitimate businesses face uncertain risks of liability, and the important role played in commerce and personal property rights by the exhaustion doctrine:

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23. *Cf. Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008) ("[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item").

> one who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place. … *The inconvenience and annoyance to the public that an opposite conclusion would occasion are too obvious to require illustration.*

Keeler v. Standard Folding-Bed Co., 157 U.S. 659, 666-667 (1895) (emphasis added).

Businesses that rely on exceptions to intellectual property rights need bright line rules to avoid the "disastrous or even lethal consequences" of infringement suits:

> businessmen are certainly entitled to know when they are committing an infringement. … But to what avail these congressional precautions if this Court, by its opinions, would subject small businessmen to the devastating uncertainties of nebulous and permissive standards of infringement under which courts could impose treble damages upon them.…[24]

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24. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 365 U.S. 336, 358-359 (1961) (Black, J., concurring). The Ninth Circuit similarly acknowledged that an overbroad interpretation of section 602(a) and a narrow scope of section 109 would impose undue burdens and financial risks upon lawful commerce:

> [E]very little gift shop in America would be subject to copyright penalties for genuine goods purchased in good faith from American distributors, where unbeknownst to the gift shop proprietor, the copyright

The principles announced in *Quality King* relieved retailers from unknown and unknowable infringement litigation risks that could jeopardize their businesses. But the *Kirtsaeng* majority ignored these consequences. As a result, the decision creates disruption and uncertainty for retailers and distributors, who must now weigh the consequences of selling any imported product that could have a copyrightable label, logo, or product insert – *i.e.*, virtually every product in their stores.

A domestic manufacturing requirement also creates perverse incentives for U.S. copyright owners to produce all copies of their copyrighted works outside the United States. No copyright or public policy would be served by the potential losses of jobs and tax revenue, or the manifest disadvantages to consumer and commercial interests. And no rule of statutory interpretation suggests that Congress intended to give greater rights to foreign manufacturers than to U.S. manufacturers—particularly where even the Second Circuit found the text readily susceptible to interpretations that created no absurd policy results.

Applying the first sale doctrine only to domestically-produced goods also unfairly advantages foreign owners of U.S. copyrights over U.S. copyright holders. In *Parfums Givenchy,* the Ninth Circuit concluded that denying first sale rights to foreign made goods would contravene both the language of the statute and public policy:

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owner had attempted to arrange some different means of distribution several transactions back.

Disenos Artisticos E Industriales, S.A. v. Costco Wholesale Corp., 97 F.3d at 380.

> This would mean that foreign manufactured goods would receive greater copyright protection than goods manufactured in the United States because the copyright holder would retain control over the distribution of the foreign manufactured copies even after the copies have been lawfully sold in the United States. We agree that such a result would be untenable, and that nothing in the legislative history or text of § 602 supports such an interpretation.

38 F.3d at 482 n.8 (citing *BMG Music*, 952 F.2d at 319)

The harm to consumers is equally obvious. The Second Circuit decision subjugates retailer competition to copyright owner price controls, resulting in fewer goods offered at retail, in fewer retail outlets, and artificially inflated prices to consumers. Moreover, under the decision of the *Kirtsaeng* majority, any purchaser of a foreign-produced copyrighted work–even if made with the express authority of the copyright owner–could lose the right to dispose of the property in any manner of resale, gift, or lending, without being branded an infringer.

As a matter of policy, tying the first sale rule to domestic manufacture is at odds with the notion of free trade at the heart of today's global economy. As just one example, suppose a U.S. copyright owner duplicates its movie discs in Mexico, and imports and sells them in the United States. Under the *Kirtsaeng* majority view, despite that the lawful copy was imported and sold by the copyright owner, the first sale doctrine would not apply simply because the copy was not "lawfully made" in the

United States. Any subsequent sale in the United States not made by the copyright owner would be infringing–clearly an absurd result. Consequently:

- Video stores could not rent those movie discs because they were manufactured outside the United States. [25]

- Video stores that today purchase multiple copies of a movie during its initial release would no longer be able to engage in the common practice of reselling most of the copies as "previously viewed" disks for a much lower price.

- An individual consumer could watch the movie, but could not lend it to a friend, resell it online, or give it away as a present.

These are the precise kinds of restraints on disposition of personal property that the first sale doctrine was intended to prohibit.

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25. Film producers in fact sought unsuccessfully to stifle the then-incipient independent video rental business by amending section 109 to prevent commercial rental of videotapes. H.R. 5707, 97th Cong. (1982). *See* Peter S. Menell, *The Property Rights Movement's Embrace of Intellectual Property: True Love or Doomed Relationship?*, Paper 36 (2007), eScholarship Repository, Berkeley Center for Law and Technology, http://repositories.cdlib.org/bclt/lts/36. Because the motion picture industry failed to narrow the first sale doctrine, entrepreneurs created a new multi-billion dollar industry segment for video rental that enabled millions of consumers to rent movies they could not have afforded to purchase.

As the *Kirtsaeng* dissent observed, "Granting a copyright holder unlimited power to control all commercial activities involving copies of her work would create high transaction costs and lead to uncertainty in the secondary market."[26] Neither a mass market retail chain that imports billions of dollars of goods for resale each year, nor a local shop that purchases its inventory from importers and distributors in the middle of the supply chain, can always know the true provenance of imported lawfully-made goods. In most cases, retailers have no way reasonably to ascertain whether goods are protected by copyright because the copyright owner places no copyright notice on the goods. As this case shows, foreign-produced goods with a U.S. copyright notice still may not be free and clear for resale under the first sale doctrine.

If the Second Circuit holding stands, the retail industry will have little confidence to stock or sell authentic goods acquired from an independent exporter, importer, or distributor. Given the practical difficulties in assuring the lineage of imported goods, retailers would be at risk even where buying and selling re-imported goods produced in the United States—despite *Quality King*.

Thus, the *amici* urge this Court to grant the petition in this case so as to set the first sale doctrine back on its proper course.

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26. *See Kirtsaeng*, 654 F.3d at 227 (Murtha, J. dissenting).

III. PETITIONER'S CASE IS A PROPER VEHICLE TO ADDRESS THESE CRUCIAL ISSUES.

1. The question presented herein flows directly from *Quality King* and *Costco*. At the time of *Quality King*, a split existed among the circuits as to the proper interpretation of sections 106(3), 109(a), and 602 of the Copyright Act. *Quality King* resolved the split and re-established the certainty and predictability of the law necessary to encourage the free flow of goods. The Court granted certiorari in *Costco* to resolve the applicability of the first sale doctrine to foreign-manufactured goods, a narrow factual context not directly addressed in *Quality King*. The existing split among the circuits on that question now has been exacerbated by the split between *Costco* and *Kirtsaeng*.

2. This case presents a paradigm scenario in which to squarely address the issues. This type of fact pattern already has been addressed twice by this Court, and has been replayed numerous times in courts in other jurisdictions since *Quality King* was decided more than a decade ago. As the Second Circuit reported the facts of the case, the foreign manufacturer was a wholly-owned subsidiary of the respondent which owns by assignment the U.S. and foreign copyrights to reproduce and distribute the books. Each book bore U.S. copyright notices. *Kirtsaeng*, 654 F.3d at 222 & n.43. At least two of the editions contained additional legends that invoked U.S. copyright law. *Id.* The foreign editions also bore a legend purporting to limit sales only to certain regions, not including the United States. *Id.* at 213. Thus, this case presents the Court with a factually-rich palette to explore fully the intersection between sections 109 and 602 of title 17.

3. In the absence of intervention by this Court, other courts are likely to follow one of the two paths mistakenly taken by the Second and Ninth Circuit Courts of Appeal. If this Court does not address the issue at this time, potential plaintiffs may become increasingly emboldened to exploit the shrinking scope of the first sale doctrine as a means to artificially inflate prices and restrict rental and aftermarkets.

4. The cumulative impact of price discrimination, made possible by the *Kirtsaeng* majority, is enormous. Unless the decision is reversed, the drain on consumers and the American economy could reach billions of dollars in higher prices paid for goods that could have been purchased at lower prices through parallel importation. That impact will become more pervasive, and more costly, given the rapid growth of commerce in parallel imports and used imported goods via online retail and resale. It therefore is timely for the Court to take this case now, before the erroneous holding of the Second Circuit short-circuits the growth of online commerce, and disrupts the myriad daily transactions of corporate retailers and sellers.

Thus, the *amici* respectfully submit that this case presents a timely, representative case to address the issue.

CONCLUSION

The petition for writ of certiorari should be granted.

Respectfully submitted,

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