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# The First Sale Doctrine After Costco: Brilliantly Reconciling Decades of Legislative Revision; The Forgotten Curse of the Manufacturing Clause; or Just Plain Bad Statutory Drafting?

Patrick J. Coyne

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**THE FIRST SALE DOCTRINE AFTER *COSTCO*:  
BRILLIANTLY RECONCILING DECADES OF LEGISLATIVE  
REVISION; THE FORGOTTEN CURSE OF THE  
MANUFACTURING CLAUSE; OR JUST PLAIN BAD  
STATUTORY DRAFTING?**

*Patrick J. Coyne\**

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This is the way the world ends  
 This is the way the world ends  
 This is the way the world ends  
 Not with a bang but a whimper

T.S. Eliot, THE HOLLOW MEN (1925).

Isador Straus rose to become the co-owner of the R.H. Macy and Company Department Store in New York City. Straus wanted to sell books at a discount. The publisher, Bobbs-Merrill, claimed that its copyright allowed it to control the prices at which Straus sold books. Straus, a former Congressman and, by this time, a successful businessman, knew unfairness when he saw it. Although Straus was to perish a few years later on April 15, 1912, sitting in a deck chair hand-in-hand with his beloved wife Ida as the RMS Titanic slid beneath the North Atlantic, his successful resistance to the publisher's demands endures as the "first sale doctrine."<sup>1</sup>



Straus' first sale doctrine has survived numerous attacks seeking to limit its scope. The most recent is the Ninth Circuit's decision in *Omega, S.A. v Costco Wholesale Corp.*<sup>2</sup> In a prior assault on the first sale doctrine, in *Quality King v. L'Anza*, the U.S. Supreme Court held that a product bearing a copyrighted work that was made by the copyright owner in the United States, exported, and re-imported into the United States, nonetheless, was subject to the first sale doctrine.<sup>3</sup> Justice Stevens' wide-ranging opinion resolved this issue but drew criticism that it was too wide-ranging.

*Omega* presents a slightly different and more significant challenge. What if the product is made abroad by the copyright owner and then

1. Bobbs-Merrill v. Straus, 210 U.S. 339 (1908); 17 U.S.C. § 109(a) (2008).

2. *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), *aff'd per curiam by an equally divided court*, 131 S. Ct. 565 (2010).

3. *Quality King Distrib., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

imported into the United States? Does the first sale doctrine still apply? The Ninth Circuit held that it does not,<sup>4</sup> and Costco appealed.

*Costco Wholesale Corp. v. Omega, S.A.* presented an excellent opportunity to resolve a troubling issue of copyright law having substantial international implications. Years earlier, the Court decided that trademark does not prevent authorized gray market imports.<sup>5</sup> Omega's challenge ended in the U.S. Supreme Court, as T.S. Eliot laments, with a wimper. Due to the Solicitor's participation at the Court's invitation, Justice Kagan did not participate, leaving the Court unable to break the 4-4 deadlock.<sup>6</sup> Given the closeness of the issues involved, this split is not surprising; given the importance of the issues, it is unfortunate.

### I. BACKGROUND

Omega manufactures in Switzerland and sells its watches throughout the world by means of a network of authorized distributors and retailers. Engraved on the back of the watches is the "Omega Globe" design.<sup>7</sup> The design is one-half centimeter in diameter and features the Omega Globe, a simple design consisting principally of three Greek symbols inside a circle.<sup>8</sup> The Omega Globe design is registered as a copyright with the U.S. Copyright Office.<sup>9</sup>



An officer of Omega's U.S. affiliate testified that the "Omega Globe" is not designed or used for any creative purpose.<sup>10</sup> Rather, Omega uses it specifically to control the importation of Omega watches and "to prevent unauthorized dealership."<sup>11</sup>

The watches in question are not counterfeit or pirated copies. They are genuine products made by the copyright owner and bearing the copyright owner's work. Costco obtained the watches through the "gray market," by-passing Omega's authorized U.S. distribution channel. The

4. *Omega*, 541 F.3d at 986.

5. *Kmart Corp. v. Cartier Inc.*, 485 U.S. 176 (1988).

6. *Costco*, 131 S. Ct. 565.

7. Appellee's Answering Brief at \*4, *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008) (Nos. 07-55368, 07-56206), 2007 WL 4985835.

8. *Id.*

9. *Id.*

10. *Id.* at \*6 n.2.

11. *Id.* at \*6.

gray market essentially arbitrages international discrepancies in the manufacturers' pricing systems. Although Omega authorized the initial foreign manufacture and sale of these watches, it did not authorize the importation of these particular watches into the United States. Furthermore, it did not authorize the sales made by Costco.

Omega filed an action against Costco, alleging copyright infringement under 17 U.S.C. §§ 106(3) and 602(a). Omega moved for summary judgment and Costco filed a cross-motion for summary judgment, arguing that the "first sale doctrine," codified in 17 U.S.C. § 109(a), limited Omega's rights to attack Costco's purchase and resale of the watches. The district court ruled in favor of Costco on both motions and awarded Costco \$373,000 in attorney fees. Omega appealed and the Ninth Circuit reversed.

## II. THE NINTH CIRCUIT'S AND SUPREME COURT'S DECISIONS

In *Omega, S.A. v Costco Wholesale Corp.*,<sup>12</sup> a three-judge panel of the Ninth Circuit held that the first sale doctrine, codified in 17 U.S.C. § 109(a), is not available as a defense to a copyright infringement claim for sales made in the United States of genuine copies originally made and sold overseas by the copyright owner.<sup>13</sup> In doing so, the Ninth Circuit panel sought to reconcile prior Ninth Circuit decisions denying the first sale defense with the Supreme Court's decision in *Quality King Distributors, Inc. v L'Anza Research International, Inc.*,<sup>14</sup> in which the Supreme Court sustained the first sale defense.<sup>15</sup>

The Ninth Circuit held that *Quality King* did not overrule the Ninth Circuit's general rule that § 109(a) provides a defense against infringement claims only insofar as the claims involve domestically made copies of U.S. copyrighted works.<sup>16</sup> The Ninth Circuit summarized a number of pre-*Quality King* Ninth Circuit precedents, concluding that they support its decision.<sup>17</sup> The Ninth Circuit held, however, that the Supreme Court's decision in *Quality King* did not address the precise issue in this case and that the Ninth Circuit's prior cases were not "clearly irreconcilable" with the *Quality King* holding.<sup>18</sup>

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12. *Omega*, 541 F.3d at 986.

13. *Id.*

14. *Quality King Distributors, Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

15. *Omega*, 541 F.3d at 990.

16. *Id.* at 987.

17. *Id.* at 985-86.

18. *Id.* at 990.

This issue was previously addressed in part by the Supreme Court in *Quality King*.<sup>19</sup> The Ninth Circuit distinguished *Quality King* on the grounds that the copies were made abroad.<sup>20</sup> Yet, both *Costco* and *Quality King* address the extent to which a copyright owner's right to block the unauthorized importation of its works under 17 U.S.C. § 602(a) of the Copyright Act is limited by the first sale defense under 17 U.S.C. § 109(a).

Dozens of amicus briefs were filed in *Costco*. The AIPLA took no position on who should prevail but instead sought to address the broader concerns of both authors and users by framing both sides of the issue in context.<sup>21</sup> The AIPLA urged the Court to reject the Ninth Circuit's reading of § 109(a)'s "lawfully made under this title" language as limiting the statute to U.S.-made copies, and to construe the phrase as meaning "consistent with" the provisions of Title 17.<sup>22</sup>

Such a reading would not require reversal of the Court's holding in *Quality King*, although it would require rethinking the interplay between the restriction on the importation of copies under § 602(a) and the right of distribution under § 106(3). Moreover, the legislative and judicial history of the first sale doctrine, as well as the context of identical language in other parts of the Copyright Act, makes clear that the first sale doctrine applies to the sale and distribution of copies in the United States without regard to where they are made. Ultimately, the Ninth Circuit's judgment was "affirmed by an equally divided Court."<sup>23</sup>

### III. DISCUSSION

This paper presents the case for two alternative results:

(1) The first sale defense applies in *Costco* for the same reasons that required its application in *Quality King*. As Justice Stevens wrote in *Quality King*, "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"<sup>24</sup>; or

(2) The first sale defense does not limit infringement liability for unauthorized importation under 17 U.S.C. § 602(a) because the act of importation involves neither a sale nor disposition of a copy that would

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19. *Quality King*, 523 U.S. 135.

20. *Omega*, 541 F.3d 982.

21. Brief of Amicus Curiae American Intellectual Property Law Association in Support of Neither Party at 3, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S.Ct. 565 (2010) (No. 08-1423).

22. *Id.*

23. *Costco*, 131 S.Ct. 565.

24. *Quality King*, 523 U.S. at 152.

trigger the first sale doctrine. The difference in *Quality King* was that the work was distributed “to the public” inside the United States, exhausting the copyright owner’s rights before importation. No such U.S. sale or disposition of the copies took place prior to importation in *Costco*.

In *Quality King*, the Court held that the first sale doctrine, codified in 17 U.S.C. § 109(a), applies to imported copies originally made in the United States (“round-trip” imports).<sup>25</sup> The Court left open the issue of whether the importation of authorized copies made in a foreign country (“one-way” imports) also would be subject to the first sale defense.<sup>26</sup>

In *BMG Music v. Perez*,<sup>27</sup> the Ninth Circuit held that the phrase “lawfully made under this title” requires that the copy be made in the United States and denied the first sale defense to legitimate, imported copies.<sup>28</sup> In subsequent cases, the Ninth Circuit recognized that this limiting construction of the first sale doctrine was too constrained, among other reasons, because it created perverse incentives that could not be reconciled with the Copyright Act. Specifically, it “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.”<sup>29</sup> The Ninth Circuit modified its *BMG Music*-construction in subsequent cases, adding an additional exception from liability found nowhere in the statute or its legislative history: when the foreign-made copy was sold in the United States with the copyright owner’s authorization.<sup>30</sup> Consequently, the Ninth Circuit construes the phrase “lawfully made under this title” in § 109(a) to mean either: (1) made in the United States; or (2) if not made in the United States, sold in the United States with the authorization of the copyright owner.

Other Circuits have declined to interpret the first sale doctrine in this manner.<sup>31</sup> Whether or not it is “clearly irreconcilable” with *Quality King*, the Ninth Circuit’s *Omega* decision fails to acknowledge or accommodate the Court’s holdings regarding the scope of the first sale doctrine, the plain language of the statute, and the legislative history.

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25. *Id.*

26. *Id.* at 154 (Ginsburg, J., concurring).

27. *BMG Music v. Perez*, 952 F.2d 318 (9th Cir. 1991).

28. *Id.* at 319.

29. *Parfums Givenchy v. Drug Emporium, Inc.*, 38 F.3d 477, 482 (9th Cir. 1994).

30. *Id.*; *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1149-50 (9th Cir. 1996).

31. *E.g.*, *Sebastian Int’l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988).

A. *Quality King Did Not Resolve Whether the First Sale Doctrine Applies to the Importation and Sale of Legitimate Foreign-Made Copies*

The Ninth Circuit held that the first sale defense of § 109(a) applies “only to copies legally made . . . in the United States.”<sup>32</sup> In spite of the U.S. Supreme Court’s intervening decision in *Quality King*, the Ninth Circuit held that its own prior authority on this issue remains binding precedent.<sup>33</sup>

Nonetheless, the Ninth Circuit recognizes that the U.S. Supreme Court in *Quality King* set forth a syllogism that affects several critical issues in this case. First, the exclusive right in § 602(a) to prevent unauthorized importation of a copy is not independent of, and is merely a subcategory of, the exclusive distribution rights provided by § 106(3).<sup>34</sup> Second, similar to the other exclusive rights granted by § 106, the right to prevent unauthorized importation in §§ 602(a) and 106(3) is limited by the first sale doctrine (17 U.S.C. § 109(a)), as well as by the remaining defenses in §§ 107 through 122.<sup>35</sup> Third, if the “owner of a particular copy . . . lawfully made under this Title” imports and sells that copy, even without the authority of the copyright owner, there can be no infringement.<sup>36</sup>

What remained unresolved is whether being “lawfully made under this title” requires that the copy be physically made in the United States or simply that it be a lawful copy made consistent with the provisions of the Copyright Act, regardless of where it is made. This paper will discuss the impact of certain statements in the Court’s *Quality King* opinion on this issue, summarize the legislative history of the specific phrase “lawfully made under this title,” describe and critique the arguments in favor of reversal and affirmance, respectively, and finally, identify some possible consequences of either sustaining or rejecting the first sale defense.

Although the Court in *Quality King* made numerous statements regarding the scope of the first sale doctrine with respect to foreign-made copies, *Quality King* did not involve a foreign-made copy, so these statements are *dicta* and merit close scrutiny.

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32. *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008), *aff’d per curiam by an equally divided court*, 131 S. Ct. 565 (2010).

33. *Id.*

34. *Id.* at 984.

35. *Id.*

36. *Id.* at 984-85; *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 142 (1998).



Some of the Court's *dicta* in *Quality King* favor reversal. Specifically, the Court stated, "the owner of goods lawfully made under the Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad. Such protection does not require the extraterritorial application of the Act."<sup>37</sup> Although the goods in *Quality King* were in fact sold overseas, they were also made and sold domestically,<sup>38</sup> and the *Quality King* judgment can rest on these domestic sales alone. Thus, this statement regarding foreign sales is unnecessary to the Court's decision, presenting the danger identified by Justice Ginsburg of the Court prejudging in *dicta* the meaning of the phrase "lawfully made under this title" with respect to an authorized foreign-made copy.<sup>39</sup>

Other *dicta* in *Quality King* favor affirmance. In *Quality King*, the Court stated that "lawfully made under this title" does not include a copy that is lawfully made in a foreign country with the authorization of the copyright owner.<sup>40</sup> Yet, the examples from the statutory history cited by the Court as supporting this conclusion concern predominantly non-dramatic literary works which, unlike the visual work at issue in this case, were expressly subject to statutory protection under the "manufacturing clause" of the 1976 Copyright Act.<sup>41</sup> This factor was ignored in the Court's analysis, which is particularly unfortunate as the manufacturing clause expired in 1986.<sup>42</sup>

The Court notes in *Quality King* that the "category of copies produced lawfully under a foreign copyright was expressly identified in the deliberations that led to the enactment of the 1976 Act."<sup>43</sup> The Court quotes the Register's 1961 Report to Congress as banning such imports. Yet, such imports were banned not because the first sale doctrine did not apply but, rather, were banned by the now-expired manufacturing clause, which had been a part of the copyright law since 1891 and was included in 17 U.S.C. § 601. This protection never applied to the type of work at issue in *Costco*. Similarly, the Court's statement that, "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),"<sup>44</sup> is just that—a presumption in *dicta* about a different type of work.

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37. *Quality King*, 523 U.S. at 145 n.14.

38. *Id.* at 138-39.

39. *Id.* at 154.

40. *Id.* at 146-47.

41. 17 U.S.C. § 601 (2010).

42. Pub. L. No. 97-215, 96 Stat. 178.

43. *Quality King*, 523 U.S. at 147.

44. *Id.* at 148.

The *Quality King* decision relied upon a similar analysis in rejecting L'Anza's argument that if the first sale doctrine applied, the exception in § 602(a) would be superfluous. The Court resolved this issue on three alternative grounds,<sup>45</sup> and its statements regarding "the category of copies produced lawfully under a foreign copyright" are unnecessary to its holding in *Quality King*.<sup>46</sup> The Court cited the exceptions to § 602 as further support for its holding in *Quality King*.<sup>47</sup> Yet, the exceptions to § 602(a) serve another purpose, namely, to clarify that the excepted activities are permitted even if they fail to satisfy the more stringent criteria for fair use.<sup>48</sup> This statement was also unnecessary to the Court's holding in *Quality King*.

The Court in *Quality King* set out a paradigm of three alternatives relative to the phrase "lawfully made under this title" in § 109(a). Such copies may be either: (1) piratical; (2) lawfully-made (non-piratical) in the United States; or (3) lawfully-made (non-piratical) under another country's laws.<sup>49</sup> Yet, this paradigm does not bear scrutiny in light of the legislative history.

*B. Legislative History of "Lawfully Made Under This Title" does not Support Confining the § 109(a) Defense to U.S. Made Copies*

Before 1908, the Court had not yet recognized a first sale doctrine as applied to copyrighted works. The Copyright Act at the time of the *Bobbs-Merrill v. Straus* decision gave the owner the right to "vend."<sup>50</sup> In spite of patent law decisions that allowed restraints on alienation after the product had been sold, the Court held that the issue was one of first impression under the copyright laws.<sup>51</sup> The Court noted:

[D]oes the sole right to vend (named in §4952) secure to the owner of the copyright the right, after the sale of the book to a purchaser, to restrict future sales of the book at retail to the right to sell it at a certain price per copy because of a notice in the book that a sale at a different price will be treated as an infringement, which notice has been brought home to one undertaking to sell for less than the named sum? We do not think the statute can be given such a construction, and it is to be remembered that this is purely a question of statutory construction.

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45. *Id.* at 146-47.

46. *Id.* at 147.

47. *Id.* at 146-47.

48. *See* 17 U.S.C. § 107 (2012).

49. *Quality King*, 523 U.S. at 142.

50. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 348-49 (1908).

51. *Id.* at 346.

. . . .  
 In our view 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 by notice, such as is disclosed in this case, a limitation at which the book shall be sold at retail by future purchasers, with whom there is no privity of contract. . . . The owner of the copyright in this case did sell copies of the book in quantities and at a price satisfactory to it. It has exercised the right to vend.<sup>52</sup>

The following year, Congress codified the *Bobbs-Merrill* holding in the Copyright Act of 1909 by stating, “nothing in this act shall be deemed to forbid, prevent, or restrict the transfer of *any copy* of a copyrighted work the possession of which has been lawfully obtained.”<sup>53</sup> The phrase “any copy” remained unchanged in the 1947 Copyright Act and was finally changed in the 1976 Act to “made under this title.”<sup>54</sup> Under the “any copy” formulation, the first sale doctrine would have precluded Omega’s infringement claims in this case.<sup>55</sup> The precise question before the Court in *Costco*, therefore, is whether Congress, in changing the language of the first sale doctrine from “any copy” to a copy “lawfully made under this title,” intended to exempt foreign-made copies from the operation of the first sale doctrine.

Had Congress desired to do so, the legislative history would be expected to bear evidence of this change. If, instead, the legislative history is silent on this point, it is important to consider precisely what Congress did intend by this change. Was Congress endorsing the *Bobbs-Merrill* holding or attempting to limit it in some way?

In January of 1963, Congress considered a proposed change of the first sale doctrine from “any copy of a copyrighted work the possession of which has been lawfully obtained” to

[e]xcept in the case of articles made in violation of the exclusive right provided in subsection (a), this right [to distribute copies and sound recordings] shall end with respect to a particular copy or sound recording as soon as its first sale or other transfer of ownership has taken place . . . .<sup>56</sup>

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52. *Id.* at 350-51.

53. Copyright Act of 1909, ch. 320, § 41, 35 Stat. 1075 (codified 17 U.S.C. § 27 in 1909, repealed 1978) (emphasis added).

54. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2548.

55. See *Quality King*, 523 U.S. at 142 n.9.

56. *Copyright Law Revision, Part 3: Preliminary Draft for Revised Copyright Law: Hearing Before the H. Comm. on the Judiciary*, 88th Cong. 4 (1964).

The reason given for this change was to avoid invoking the first sale doctrine with respect to pirated copies of the work: “articles made in violation of the exclusive right provided in subsection (a).”<sup>57</sup> There was no discussion whether the piratical copies were domestically made or foreign made.

This proposal was further revised in 1964 with the addition of section 7 of the Copyright Act. There was no discussion whether the goods were manufactured in the United States or abroad, as this Court considered and attributed to Congress in the *Quality King* opinion.<sup>58</sup> There was, however, discussion that the first sale provision should not protect piratical copies and should not be construed to preempt state laws, including those prohibiting restraints on alienation. In a letter dated November 3, 1964, Professor Nimmer noted:

Sections 7(a) and (b) [the first sale doctrine] should be stated in the negative rather than in the affirmative. That is it should be said: “The sale or other disposition of the possession of a particular copy or phonorecord lawfully made under this title by the owner of such copy or phonorecord shall not constitute an infringement of the rights of the copyright owner . . . even if such sale or other disposition is made without the authority of the copyright owner. . . . The reason for the negative rather than the affirmative form is to avoid an argument that Section 7(a) and (b) constitute a federal preemption so as to invalidate any state law contractual restrictions on the right of the owner of the particular copy to dispose, exhibit, etc. same.”<sup>59</sup>

Ultimately, Professor Nimmer’s suggestion to phrase the first sale doctrine in the negative rather than the positive was not accepted by Congress. However, his letter expresses concern that federal laws not preempt owner’s state law rights of a particular copy. While comments during a panel discussion do not necessarily reflect Congressional intent,<sup>60</sup> the letter reflects that § 109 included an attempt to preserve those rights. The “lawfully made under this title” language became a fixture in the subsequent legislative proposals culminating in the 1976 Act. But what exactly was Congress trying to accomplish by this change?

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57. *Id.*

58. *Quality King*, 523 U.S. at 146-48.

59. *Copyright Law Revision, Part 5: 1964 Revision Bill With Discussions and Comments: Hearing on H.R. 4347 Before the H. Comm. on the Judiciary*, 88th Cong. 316 (1965).

60. *P.R. Dept. of Consumer Affairs v. Isla Petroleum Corp.*, 485 U.S. 495, 501 (1988); *cf. Quality King*, 523 U.S. at 147-48 (quoting the Register of Copyrights report to Congress).

The 1964 proposal specifically addressed the “lawfully made under this title” language as follows:

To come within section 108(a) a copy or phonorecord must have been “lawfully made under this title,” but not necessarily “under the authority of the copyright owner.” Thus, for example, the disposition of a phonorecord manufactured in compliance with section 113 of the bill would be outside the copyright owner’s control. To prevent possible abuse of the copyright owner’s rights where copies or phonorecords are lawfully made without his authorization, safeguards have been written into section 110 (restricting the use of ephemeral recordings), and into section 113 (allowing a compulsory license for the making of phonorecords only where the maker’s “primary purpose is to distribute them to the public for private use”).<sup>61</sup>

On May 13, 1965, the Register of Copyrights submitted another report to Congress on the first sale doctrine, § 108, stating:

Section 108 reaffirms the principle that, when the copyright owner has sold or otherwise transferred ownership of a particular copy or phonorecord of his work, the person who has acquired ownership of that copy or phonorecord is entitled to dispose of it by sale, rental, or any other means of disposition. Under section 108(b) the owner of a copy would also be free “to exhibit that copy publicly to viewers present at the place where the copy is located,” although he would not be entitled to show the copy over television.<sup>62</sup>

By 1966, the language of the first sale doctrine assumed substantially the form in which it would be enacted into law ten years later. On September 27, 1966, Representative Abraham Kamenstein, the principal sponsor of the series of bills that became the 1976 Act, summarized the then current version of the bill on the House floor:

Section 109 restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person who becomes the owner is entitled to dispose of the copy or phonorecord by sale, rental, or any other means. This principle does not apply where a person has acquired possession under a rental or loan agreement, without obtaining ownership of the object. Under Section 109(b), the owner of a copy would be able to display it publicly “to viewers present at the

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61. H. COMM. ON THE JUDICIARY, 89TH CONG., SUPPLEMENTARY REGISTER’S REPORT ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW, PT. 3, at 28 (Comm. Print 1965).

62. REGISTER OF COPYRIGHTS, 88TH CONG., SUPP. REP. ON THE GENERAL REVISION OF THE U.S. COPYRIGHT LAW: 1965 REVISION BILL XVIII (Comm. Print 1965).

place where the copy is located,” as long as he does not project more than one image at a time or transmit images by television or similar devices.<sup>63</sup>

Through continued consideration over the next ten years, the language of what would become § 109(a) changed very little. Yet, throughout these deliberations, Congress reiterated its unequivocal and unqualified acceptance of the *Bobbs-Merrill* holding.<sup>64</sup>

By 1975, Mr. Kamenstein had retired as Register of Copyrights and was succeeded by Barbara Ringer. In October 1975, Ms. Ringer presented to Congress the Register’s statement on then pending H.R. 2223, 94th Cong. (1975). Although her comments did not address the first sale doctrine directly, she noted that the broad formulation of the first sale doctrine that had been considered by Congress for the past fourteen years had “attracted no opposition”:

The proposal that royalties be imposed on the large-scale commercial resale of used copies of textbooks and other works received no support; it runs counter to the traditional “first-sale” doctrine of copyright law embodied in section 109(a), which has attracted no opposition.<sup>65</sup>

Ultimately, the first sale doctrine was adopted as § 109 of the 1976 Copyright Act in substantially the same form in which it had been proposed in 1964. The House and the Senate Reports summarize § 109 in identical language.<sup>66</sup> Both maintain the earlier focus on excluding pirated copies from the protection of the first sale doctrine, without regard to where the copies were made or sold.<sup>67</sup> Both memorialize that, “Section 109 restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of a work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means.”<sup>68</sup>

At no point in its thirteen-year discussion of the phrase “lawfully made under this title” did Congress, as distinct from those who were

63. 112 CONG. REC. 24064, 24064-68 (1966) (Summary of Principal Provisions of H.R. 4347, statement of Mr. Kastenmeier).

64. See, e.g., H.R. REP. NO. 89-2237 (1966) (submitted with H.R. 4347 on Oct. 12, 1966); H.R. REP. NO. 90-83 (1967) (submitted with H.R. 2512 on Mar. 8, 1967).

65. REGISTER OF COPYRIGHTS, 94TH CONG., SUPP. REP. ON GENERAL REVISION OF U.S. COPYRIGHT LAW: 1975 REVISION BILL (Comm. Print 1975).

66. H.R. REP. NO. 94-1476, at 79 (1976); S. REP. NO. 94-473, at 71 (1975).

67. H.R. REP. NO. 94-1476, at 79; S. REP. NO. 94-473, at 71.

68. H.R. REP. NO. 94-1476, at 79; S. REP. NO. 94-473, at 71.

attempting to persuade it, address the geographic source of the pirated copies. Had Congress intended this phrase “lawfully made under this title” to somehow limit the scope of the first sale doctrine in the 1909 and 1947 Acts to only domestically made copies, some articulated congressional intent would be expected. Rather, both the House and Senate Reports, with respect to the phrase “lawfully made under this title,” specifically note that:

Section 109(a) restates and confirms the principle that, where the copyright owner has transferred ownership of a particular copy or phonorecord of his work, the person to whom the copy or phonorecord is transferred is entitled to dispose of it by sale, rental, or any other means. Under this principle, which has been established by the court decisions and section 27 of the present law, the copyright owner’s exclusive right of public distribution would have no effect upon anyone who owns a “particular copy or phonorecord lawfully made under this title” and who wishes to transfer it to someone else or to destroy it.

.....  
This does not mean that conditions on future disposition of copies or phonorecords, imposed by contract between their buyer and seller, would be unenforceable between the parties as a breach of contract, but it does mean that they could not be enforced by an action for infringement of copyright.

.....  
To come within the scope of section 109(a), a copy or phonorecord must have been “lawfully made under this title,” though not necessarily with the copyright owner’s authorization. For example, any resale of an illegally “pirated” phonorecord would be an infringement, but the disposition of a phonorecord legally made under the compulsory licensing provisions of section 115 would not.<sup>69</sup>

This summary of the first sale doctrine, as it was enacted in the 1976 Act, is critical for several reasons. First, Congress continues to endorse, without qualification, a broad formulation of the first sale doctrine, without regard to where the copy is made or sold. Second, Congress expressly recognized that while copyright owners retained the ability to limit further distribution of their works under state law, they could not do so under the Copyright Act. Finally, Congress continued to focus on piratical copies. In spite of years of lobbying that the resale of legitimate but stolen copies should be excluded from the first sale

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69. H.R. REP. NO. 94-1476, at 79; S. REP. NO. 94-473, at 71.

doctrine,<sup>70</sup> the resale of legitimate copies that have been stolen was not excluded from the scope of the first sale doctrine. Nor did Congress express any intent to limit state laws precluding restraints on alienation of “lawful” copies.

Thus, Congress did not, as the Court does in *Quality King*, categorize copies as either (1) pirated, or (2) lawfully made in the United States, or (3) lawfully made in a foreign country.<sup>71</sup>

*C. Alternative A: Denying First Sale Defense for Imported Foreign-Made Copies Conflicts with Supreme Court Prior Holdings and Congressional Intent*

There are several reasons why the Ninth Circuit’s decision is incorrect. First, the Ninth Circuit’s reasoning that applying the first sale doctrine to foreign made copies would have a prohibited extraterritorial effect is incorrect. Second, the Ninth Circuit fails to give appropriate credit to the extensive legislative history of this provision. Third, the Ninth Circuit’s approval of this restraint on alienation fails to account for the fact that copyright law preempts state property law, resulting in outcomes that Congress expressly considered and rejected.

First, the Ninth Circuit recognized that the presumption against extraterritorial application stems from the notion that a U.S. statute applies “only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute.”<sup>72</sup> Yet, Title 17 expressly extends copyright protection to any work created anywhere in the world, for unpublished works, or for works published in foreign nations that are “treaty party” nations.<sup>73</sup> Several sections of the Copyright Act are evidence that Congress was concerned with the effect of foreign activities, effectively rebutting the presumption against extraterritorial effect.<sup>74</sup> The mere existence of the “manufacturing clause,” which extends and limits certain rights based on conduct occurring overseas, namely foreign manufacture, rebuts the presumption against extraterritoriality.

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70. See, e.g., *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 147 (1998).

71. *Id.* at 136, 146.

72. *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 987-88 (9th Cir. 2008) (citing RESTATEMENT (SECOND) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 38 (1965)), *aff’d per curiam by an equally divided court*, 131 S. Ct. 565 (2010).

73. 17 U.S.C. § 104 (2002).

74. See, e.g., 17 U.S.C. §§ 601, 602 (2010).



For ninety-three years, Congress maintained an express requirement that certain types of works be made in the United States. This “manufacturing clause,” although now expired, was a feature of the Copyright Act of 1891, and of subsequent acts, including the 1976 Act.<sup>75</sup> It required that works, comprising preponderantly non-dramatic literary works in the English language that are “protected by Title 17” be manufactured in the United States.<sup>76</sup> More specifically, it barred their importation into the United States if they were not manufactured in the United States.<sup>77</sup> This requirement was explicit and unambiguous because its stated language was, “manufactured in the United States.”<sup>78</sup> In contrast, Congress chose very different language to express the first sale doctrine in § 109(a).

Extension of this manufacturing requirement to all other media, including visual works such as Omega’s Globe design, was expressly proposed in the 1897 Treloar Copyright Bill.<sup>79</sup> This proposal failed in committee, and Congress never enacted any manufacturing clause requirement for visual works.

In March of 1984, the “manufacturing clause” was held to violate the General Agreement on Tariffs and Trade (“GATT”).<sup>80</sup> It expired on July 1, 1986. In the meantime, however, the manufacturing clause effectively kept the United States out of the Berne Convention until 1989.<sup>81</sup>

Although the language of the manufacturing clause (“protected under Title 17”) differs from that of § 109(a) (“lawfully made under this title”), the concepts are at least comparable. The Ninth Circuit would require that to be “lawfully made” under this Title, the copy must be made in the United States.<sup>82</sup> Presumably, the same would be true of the manufacturing clause’s to be “protected under” this title, which would require the copy to be made in the United States. Yet, under the Ninth Circuit’s reasoning, a foreign manufactured copy could never be

75. 17 U.S.C. § 601.

76. *Id.*

77. *Id.*

78. *Id.*

79. Treloar Copyright Bill, H.R. 5976, 54th Cong. (1896), as amended by H.R. 8211, 54th Cong. (1896).

80. Panel Report - *General Agreement on Tariffs and Trade: United States Manufacturing Clause* (adopted) L/5609-31S/74 (1984).

81. William Patry, *The United States and International Copyright Law: From Berne to Eldred*, 40 HOUS. L. REV. 749, 750-51 (2003).

82. *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008), *aff’d per curiam by an equally divided court*, 131 S. Ct. 565 (2010).

“protected” under Title 17 because this would have given the work the protection of the law of the United States while it is located overseas, creating an extraterritorial effect.

Limiting the first sale doctrine to domestically made copies would provide an incentive to manufacture abroad. A manufacturer seeking to restrain future distribution of its software could merely manufacture in Canada or Mexico. Nothing justifies attributing such an intent to Congress in codifying the first sale doctrine.<sup>83</sup>

Such a limited reading of “lawfully made under this title” would also impair the public display right under § 109(c),<sup>84</sup> which employs the identical language as § 109(a). At several points during the legislative history, noted above, Congress addressed this display right, reaffirming the principles of the first sale doctrine. Yet, the Ninth Circuit’s reasoning would allow foreign creators of a work to control public display of their works after they are sold. Thus, current beneficiaries of the Picasso estate (or any other foreign-made, non-public domain work) would have the right to prohibit public display of the original work (considered a copy under the statute) in museums in the United States, even if the museum owns the work.

Second, nothing in the phrase “lawfully made under this title” requires manufacture in the United States. As the legislative history evidences, Congress recognized that the copyright owner’s authorization is not required, provided the work is made consistent with Title 17, it is not piratical, or it is otherwise authorized by the statute.

This court’s holding in *Bobbs-Merrill* did not depend on whether the copies were “lawfully made under this title.”<sup>85</sup> When Congress codified the first sale doctrine it covered “any copy,” regardless of where it was made.<sup>86</sup> The copies made by Omega are not unlawful, under either the laws of the United States or of any other country.

Although analogies between different areas of the law are not controlling,<sup>87</sup> the Ninth Circuit’s decision appears to be fundamentally inconsistent with recent developments in the law of exhaustion, estoppel, and waiver. By limiting the first sale doctrine, the Ninth Circuit has enabled copyright owners to effect a continuing restraint on alienation.

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83. *C.f.* *Parfums Givenchy v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir. 1994) (arguing that Congress did not intend to limit the first-sale doctrine to domestic soil); *Denbicare U.S.A. Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143 (9th Cir. 1966) (same).

84. 17 U.S.C. § 109(c).

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

86. *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 142 n.9 (1998).

87. *Bobbs-Merrill*, 201 U.S. at 342, 345.

Yet, Omega sold copies at a price satisfactory to it.<sup>88</sup> By selling these copies, at a minimum, Omega has exhausted its “exclusive statutory right to control its distribution.”<sup>89</sup> Whether viewed as exhaustion, estoppel, or waiver, Omega has, by its own act, fully exploited its statutory right and should not be permitted to effect a continuing restraint on alienation of the goods.

Finally, the Ninth Circuit’s decision wreaks havoc on property rights under state law. Copyright preempts state law,<sup>90</sup> including state laws protecting the rights of holders-in-due-course to dispose of their property with further transfers. This is precisely why Professor Nimmer warned Congress in November 1964 to alter the wording of the first sale doctrine.<sup>91</sup>

Yet, under the Ninth Circuit’s holding, the first sale doctrine would not apply.<sup>92</sup> As the Ninth Circuit held in *Parfums Givenchy v. Drug Emporium, Inc.*: the purchaser “had no more authority to distribute the copyrighted [work] than did the original importer.”<sup>93</sup> Thus, a purchaser of a genuine Omega watch from Costco would not have the right to further distribute the watch. Under the Ninth Circuit’s reasoning, a father who purchases an Omega Globe Design watch at Costco infringes when he gives it to his son. This incongruous outcome underscores some of the reasons why a first sale doctrine exists and why it was codified into the Copyright Act.

*D. Alternative B: Allowing the First Sale Defense Conflicts with Congressional Intent and Renders §602(a) Redundant and Superfluous*

Although creation or manufacture anywhere in the world can give rise to certain enforceable rights under the Copyright Act, the right of an owner to “sell or otherwise dispose of” a particular copy has no effect beyond the shores of the United States. The right to distribute the work in the United States does not compel a right to distribute it in a foreign

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88. *Id.* at 351.

89. *Quality King*, 523 U.S. at 152.

90. 17 U.S.C. § 301 (1998).

91. *Copyright Law Revision, Part 2: Discussion and Comments on Report of the Register of Copyrights on the Revision of the U.S. Copyright Law: Hearing Before the H. Comm. on the Judiciary*, 88th Cong. 313 (1964) (statement of Melville Nimmer, Professor, UCLA School of Law).

92. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008), *aff’d per curiam by an equally divided court*, 131 S. Ct. 565 (2010).

93. *Parfums Givenchy v. Drug Emporium, Inc.*, 38 F.3d 477, 482 (9th Cir. 1994).

country any more than a right to distribute it elsewhere compels that the owner be allowed to distribute it in the United States. This right to “sell or otherwise dispose” in § 109(a) provides an opportunity to harmonize § 109(a) with § 602(a), resolving many of the issues identified in *Quality King*.<sup>94</sup> There are three reasons for this result: (1) principles of statutory construction require that each portion of the statute be given some effect; (2) the right in § 106 to distribute “to the public” is not implicated by foreign sales; and (3) regardless whether or not § 109 is limited to domestically-made copies, the more specific provisions of § 602 must be given effect over the more general provisions of § 109, as a matter of statutory construction.

First, it is well established that a court should avoid interpreting a statutory provision in a way that renders other provisions superfluous.<sup>95</sup> In contrast to § 109, which permits distribution of the copy without the copyright owner’s authorization, § 602(a)(1) expressly precludes unauthorized importation.<sup>96</sup> If making a non-piratical copy anywhere in the world voids the prohibition of § 602(a)(1), then § 602(a)(1) provides a private right of action against only piratical copies.<sup>97</sup>

However, there is a problem with this reading. § 602(a)(2) specifically provides that the importation of copies, “the making of which either constituted an infringement of copyright, or which would have constituted an infringement of copyright, if the title had been applicable,” is an infringement.<sup>98</sup> In other words, § 602(a)(2) also covers piratical goods.<sup>99</sup> Further, § 602(a)(2) expressly provides a remedy by a private right of action under § 501.<sup>100</sup> Thus, if the first sale doctrine is construed to extend to legitimate foreign made goods, §§ 601(a)(1) and 601(a)(2) are redundant because both provide private rights of action against piratical copies.<sup>101</sup>

Second, although the Court in *Quality King* treated §§ 106, 109, and 602 under the syllogism that § 602 is a subset of § 106 and both are subject to § 109,<sup>102</sup> harmonizing § 109 and § 602(a) requires a closer analysis of the right to distribute. In *Quality King*, the Court found that where the goods were manufactured in the United States and imported

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94. 17 U.S.C. § 109(a) (2008); 17 U.S.C. § 602(a) (2010).

95. *Freytag v. Comm’r of Internal Revenue*, 501 U.S. 868, 877 (1991).

96. 17 U.S.C. § 109(a); 17 U.S.C. § 602(a).

97. *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 136 (1998).

98. 17 U.S.C. § 602(a)(2).

99. *Id.*

100. *Id.*

101. 17 U.S.C. § 602(a)(1)-(2).

102. *Quality King*, 523 U.S. at 136.

back into the United States, § 602(a) was subject to § 109(a).<sup>103</sup> The present facts, however, require a more nuanced reading of § 602(a) without undermining *Quality King*'s holding.

Section 106(3) specifically provides the copyright owner with the exclusive right “to distribute copies . . . to the public by sale or other transfer of ownership, or by rental, lease or lending.”<sup>104</sup> The Committee Reports expressly provide that the copyright owner has “the right to control the first public distribution of an authorized copy or phonorecord of his work.”<sup>105</sup> Likewise, Professor Nimmer notes that not all distribution of copies falls within § 106(3), “but only such distributions as are made ‘to the public.’”<sup>106</sup>

Although in *Quality King* the Court held that importation is a subset of the distribution right,<sup>107</sup> distribution under § 106(3) further requires conveyance “to the public.” The mere act of importation, crossing the border, does not by itself, constitute distribution to the public within the meaning of § 106.<sup>108</sup> § 602(a)(1), however, expressly provides that unauthorized importation is an “infringement of the exclusive right to distribute copies or phonorecords under section 106.”<sup>109</sup> In this sense, § 602(a)(1) is more of an extension of § 106(3), than it is a subset of that provision.

The House and Senate Reports confirm that, “[i]f none of the exemptions in 602(a)(3) applies, any unauthorized importer of copies . . . could be sued for damages and enjoined from making any use of them, even before any public distribution in this country has taken place.”<sup>110</sup> Thus, Congress recognized that importation precedes and is different than “public distribution.” By expressly providing that unauthorized importation is an infringement of the distribution right, § 602(a) extends a specific exclusive right at the point of “[i]mportation into the United States.”<sup>111</sup>

For example, suppose a company in Windsor, Ontario, contracts with a U.S. copyright owner to make and distribute CDs throughout

103. *Id.* at 135.

104. 17 U.S.C. § 106(3) (2002) (emphasis added).

105. H.R. REP. NO. 94-1476, at 62 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5675 (emphasis added).

106. NIMMER ON COPYRIGHT § 8.11, at 81-148 (2011).

107. *Quality King*, 523 U.S. at 136.

108. 17 U.S.C. § 106.

109. 17 U.S.C. § 602 (2010).

110. H.R. REP. NO. 94-1476, at 170 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5786; S. REP. NO. 94-473, at 152 (1976), reprinted in 1976 U.S.C.C.A.N. 5659, 5786.

111. 17 U.S.C. § 602.

Canada. An enterprising Detroitier, seeing the value of a favorable exchange rate, travels to Canada and buys a truckload of the CDs. Absent § 602(a), the copyright owner cannot stop the importation of these CDs into the United States.<sup>112</sup> Yet § 602(a) provides a remedy by extending infringement liability for the unauthorized importation before the copies have been distributed to the public.<sup>113</sup>

Importation transactions typically involve sales, as noted in *Quality King*.<sup>114</sup> The same analysis applies when there has been a sale. Infringement occurs at the point of importation, whether or not the goods already have been sold in the foreign country, because the foreign sale was not a distribution “to the public.”

Under basic principles of extra-territoriality, absent an express statement to the contrary, a statute does not control conduct occurring outside the United States. § 109 includes no such express statement. Thus, § 109(a) cannot dictate whether an owner of a copy may or may not “sell or otherwise dispose” of that copy in Canada or anywhere outside the United States any more than § 106(3) controls the distribution of copies outside the United States.<sup>115</sup>

In the Detroit/Windsor-importer example, suppose the Windsor manufacturer sells the CDs to a Toronto distributor who resells them to a buyer in Nova Scotia. § 109(a)’s authorization to “sell or otherwise dispose” of the goods without authorization is not triggered until the CDs cross the border into the United States because the sales in Canada are not a distribution “to the public.”<sup>116</sup> At the point the copies are imported, however, the importer is liable for infringement. Justice Stevens, in *Quality King*, referred to this view as a “cramped reading” of the importation right.<sup>117</sup> However, that observation was unnecessary to the *Quality King* holding because in *Quality King*, the first sale defense vested with a sale in the United States before any export or re-importation occurred.<sup>118</sup>

If, on the other hand, the copyright owner authorized the importation, the importer would be free to “sell or otherwise dispose of” the CDs because, as this Court noted, the foreign sale of goods made in the United States divested the copyright owner of the right to control

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112. *Id.*

113. *Id.*

114. *Quality King Distrib., Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135 (1998).

115. 17 U.S.C. § 106 (2002); 17 U.S.C. § 109 (2008).

116. 17 U.S.C. § 109.

117. *Quality King*, 523 U.S. at 152.

118. *Id.* at 134.

distribution *in the United States*.<sup>119</sup> Nothing in the statute or legislative history requires that the act of importation itself constitutes sale or disposition of the goods. While the Court in *Quality King* noted that an importer “sells or otherwise disposes,”<sup>120</sup> it reached that conclusion without examining the extra-territorial effect of a sale and disposition in another country of foreign-made goods.

None of this is to suggest that the right to “distribute” in § 602 is not subject to § 109(a) (and all of the other exceptions to § 106), as noted in *Quality King*.<sup>121</sup> Rather, all of the exceptions apply. Yet, before the copies reach the United States, there has been no distribution “to the public,” therefore, the defenses have not yet been triggered.

Third, this analysis resolves an additional potential statutory conflict with which the Court wrestled in *Quality King*.<sup>122</sup> § 501(a) specifically provides, in pertinent part, “Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 . . . or who imports copies or phonorecords into the United States in violation of section 602, is an infringer . . . .”<sup>123</sup>

As noted in *Quality King*, the use of the disjunctive “or” “is more consistent with an interpretation that a violation of § 602 is distinct from a violation of § 106,” yet the Court concluded that such an inference was outweighed by other statutory language.<sup>124</sup> The specific language does not so much suggest an independent basis for relief but, rather, reflects congressional intent to craft in § 602(a) a more specific remedy than in § 106.<sup>125</sup>

The more specific remedy that Congress crafted in § 602 controls the more general provisions of the first sale doctrine in § 109(a).<sup>126</sup> The Court’s statements in *Quality King* that the exclusive rights in § 602 are a subset of the rights in § 106, subject to the provisions of § 109,<sup>127</sup> fail to account for the fact that Congress crafted a more specific statutory right to exclude unauthorized importation. Although distribution without the authorization of the copyright owner is expressly protected

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119. *Id.* at 145 n.14.

120. *Id.* at 151-52.

121. *Id.*

122. *Id.*

123. 17 U.S.C. § 501 (2002) (emphasis added).

124. *Quality King*, 523 U.S. at 149.

125. *Id.*

126. *Bloate v. United States*, 130 S. Ct. 1345, 1354 (2010); *Gozlon-Peretz v. United States*, 498 U.S. 395, 396 (1991).

127. *Quality King*, 523 U.S. at 136.

by the first sale doctrine,<sup>128</sup> importation without the authorization of the copyright owner is expressly prohibited.<sup>129</sup>

Both provisions can be given effect. Viewing the statutory provisions as a whole, the right to preclude unauthorized imports must be viewed as an implicit exception to the first sale doctrine. Although Congress broadly embraced the first sale doctrine articulated in *Bobbs-Merrill*<sup>130</sup> in 1909, and again in 1947, it did so in the context of domestically manufactured goods. When it faced the more specific question of foreign made goods in 1976, it crafted a more specific exclusionary right in Section 602 that precludes unauthorized imports.<sup>131</sup>

#### IV. EFFECT OF REVERSING THE NINTH CIRCUIT; EFFECT OF AFFIRMING THE NINTH CIRCUIT

##### A. *Reversal of the Ninth Circuit's Holding Would Vindicate the First Sale Doctrine*

Reversal of the Ninth Circuit's holding would have concrete and practical implications for the administration of the copyright law, as well as for distribution of copyrighted works in an increasingly global market.

First, reversing the Ninth Circuit's decision would conform to the reasonable expectations of the parties, as well as of subsequent purchasers from them. If the Ninth Circuit's decision stands, holders-in-due-course of Omega's authorized genuine Swiss-made watches will not be able to rely upon the basic provisions of the Uniform Commercial Code that they take their watches without any further restraint on alienation. Instead, holders-in-due-course will be subject to continuing claims of copyright infringement, e.g., making it an infringement for a purchaser of a genuine Omega watch from Costco to further distribute the purchased watch. This result is untenable and clearly not what Congress intended.

Second, the policies articulated in the *Bobbs-Merrill* decision, and echoed by Congress throughout the 1909, 1947, and 1976 Acts, would have been vindicated by reversal of the Ninth Circuit's decision. As this Court stated in *Quality King*:

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128. 17 U.S.C. § 109 (2008).

129. 17 U.S.C. § 602 (2010).

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

131. 17 U.S.C. § 602.



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. As we have recognized, the codification of that doctrine in §109(a) makes it clear that the doctrine applies only to copies that are “lawfully made under this title,” but that was also true of the copies involved in the *Bobbs-Merrill* case, as well as those involved in the earlier cases applying the doctrine. There is no reason to assume that Congress intended either §109(a) or the earlier codifications of the doctrine to limit its broad scope.<sup>132</sup>

Earlier codifications of what is now § 109(a) expressly included “any copy” and would have covered Omega’s Swiss-made works. As the Court noted in *Quality King*, there is no reason to assume, based on the extensive congressional consideration of this language, that Congress intended any different result between the 1909 and 1976 Acts.<sup>133</sup>

Third, mindful of the Court’s admonition that, “[t]here are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statute, that the cases that relate to one subject are not altogether controlling as to the other,”<sup>134</sup> they may, nonetheless, be informative.

In *Quanta Computer, Inc., v. LG Electronics, Inc.*,<sup>135</sup> the Court noted that, “[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item terminates all patent rights to that item.”<sup>136</sup> Similarly, in *Motion Picture Patents Co. v. United States*,<sup>137</sup> the Court reiterated the rule that, “the right to vend is exhausted by a single unconditional sale, the article being sold thereby being carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.”<sup>138</sup> The Court noted further in *Quanta* that it is a “longstanding principle that, when a patented item is ‘once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.’”<sup>139</sup> Although non-binding in this case, these principles echo and amplify this

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132. *Quality King*, 523 U.S. at 152.

133. *Id.*

134. *Bobbs-Merrill*, 210 U.S. at 346.

135. *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617 (2008).

136. *Id.* at 626.

137. *Motion Pictures Patent Co. v. United States*, 243 U.S. 502 (1917).

138. *Id.* at 516.

139. *Quanta*, 553 U.S. at 618 (emphasis in original).

Court's holding in *Bobbs-Merrill*.<sup>140</sup> They in no way depend on where the work is made.

In *Quanta*, LG Electronics argued that these exhaustion principles do not apply to the first sale of the patented product overseas because, as the foreign made patented product is not made in the United States and, therefore, arguably not made “under” U.S. law, the overseas sale cannot infringe under U.S. law.<sup>141</sup> This Court rejected this argument in *Quanta*, stating “*Univis* teaches that the question is whether the product is ‘capable of use only in practicing the patent,’ not whether those uses are infringing. . . . Whether outside the country . . . the Intel products would still be *practicing* the patent even if not infringing it.”<sup>142</sup>

Reversal of the Ninth Circuit's decision would preclude copyright owners from stopping unauthorized imports through a copyright infringement action. Yet, Congress expressly anticipated this outcome because “it does mean that they could not be enforced by an action for infringement of copyright.”<sup>143</sup> This would not leave the copyright owner powerless against “gray market” sales. However, it would complicate the owner's ability to enforce restrictions on their distribution channels.

*B. Affirmance of the Ninth Circuit's Holding Vindicates the Copyright Owner's Legitimate Need to Control Importation and Avoids Giving Extraterritorial Effect to National Laws*

Affirmance of the Ninth Circuit's decision will likewise have substantial, practical, and very real effects on the administration of the copyright law and international trade in foreign made works.

First, it will enable copyright owners to control the international distribution of their works. An example involving literary works illustrates a problem that is not hard to imagine. Publishers of literary works, like producers of most products, are subject to local laws. Those laws may include restrictions tied to the local views on obscenity. It is conceivable that a publisher may well choose to distribute its expurgated edition only in certain countries, and to distribute its unexpurgated edition only in other countries. If the first sale defense is allowed to defeat this legitimate need of the copyright owner to control its channel

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140. *Bobbs-Merrill v. Straus*, 210 U.S. 339 (1908).

141. *Quanta*, 553 U.S. at 631.

142. *Id.* at 632 n.6 (emphasis in original).

143. H.R. REP. NO. 94-1476, at 79 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693; S. REP. NO. 94-473, at 72 (1975), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5693.

of trade, the copyright owner will lose ability to effectively manage the commercial return for its creative efforts.

Second, disallowing a first sale defense under these circumstances provides the copyright owner effective enforcement of § 602 against importation of foreign made copies, before they enter the distribution channel in the U.S. and are sold to holders-in-due-course.<sup>144</sup> This prevents the problems referenced above of disrupting the subsequent purchaser's expectations that they receive good and marketable title to the goods. Provided the first sale doctrine operates with respect to prior and subsequent sales, the limited congressional exception for importation can be preserved consistent with broad scope for the first sale doctrine. State law is unperturbed and only importation is affected.

#### V. CONCLUSION

On balance, the stronger arguments favor reversal. Yet, by default, the decision has been affirmed. Has the Supreme Court handed to copyright owners a new tool to combat gray markets that it has denied to trademark owners? Or is the Ninth Circuit's *Costco* decision a "dead man walking?" Important international interests are at stake and clarifying the scope of the first sale doctrine relative to importation of lawful goods made in a foreign country is important to owners and to purchasers of copyrighted works.

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144. 17 U.S.C. § 602 (2010).