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 Writ Of Certiorari
To The United States Court of Appeals
For The Second Circuit

BRIEF OF eBAY INC., GOOGLE, INC., CENTER FOR DEMOCRACY & TECHNOLOGY, CHEGG, COMPUTER & COMMUNICATIONS INDUSTRY ASSOCIATION, INTERNET COMMERCE COALITION, NETCOALITION, NETCHOICE, AND TECHAMERICA AS AMICI CURIAE IN SUPPORT OF PETITIONER

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QUESTION PRESENTED

The first sale defense embodied in § 109(a) of the Copyright Act allows the owner of a copy "lawfully made under this title" to resell the copy without the copyright owner's permission. It is undisputed that this defense means that a copyright owner has no right to control downstream sales of a copy that was made in the United States. And this Court held in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135, 138, 154 (1998), that the same rule applies to copies that are imported into the United States. The court of appeals limited *Quality King* — and the first sale defense — to a situation where the imported goods were made in the United States.

The question presented is whether the copyright owner is entitled to control downstream sales just because it opts to manufacture the copies abroad.

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INTEREST OF THE AMICI[1]

eBay, Inc. operates the world's largest online marketplace. Founded in 1995, eBay created an online market to bring together buyers and sellers to trade in local, national, and global markets. eBay serves individual buyers and sellers, as well as businesses ranging in size from part-time proprietorships to household brand names. eBay's online platform permits secondary marketplace trade in a wide range of goods. Accordingly, eBay has an interest in ensuring the alienability of authentic goods in the secondary market.

Google, Inc. is a leading search engine and provides a wide range of services that empower millions of people around the world to find, create and communicate information. Google's products include copyright-protected software that is loaded with Google's authorization onto physical goods such as mobile telephone handsets and personal computers. Those physical goods may be manufactured outside of the territory of the United States, and lawful owners of those goods may seek to import them into the territory of the United States. Google, therefore, has an interest in establishing a clear rule for the alienability of those goods within the United States that

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[1] Pursuant to Supreme Court Rule 37.6, counsel for the amici curiae represent that they authored this brief in its entirety and that none of the parties or their counsel, nor any other person or entity other than the amici, their members, or their counsel, made a monetary contribution intended to fund the preparation or submission of this brief. All parties have consented to the filing of this brief, and letters reflecting their consent have been filed with the Clerk.

benefits Google's consumers. Because its business is global, Google also has an interest in having clear rules regarding the applicability of United States and foreign copyright law.

The Center for Democracy & Technology (CDT) is a nonprofit public interest group that seeks to promote free expression, privacy, individual liberty, and technological innovation on the open, decentralized Internet. CDT advocates balanced copyright policies that provide appropriate protections to creators without curtailing the unique ability of the Internet to empower users, speakers, and innovators. Among the empowering new opportunities the Internet fosters is the greatly enhanced ability of individual users to participate in e-commerce and secondary markets.

Chegg, the leading network for students, is transforming the way millions of students learn by connecting them to the people and tools needed to succeed in college through homework help, course selection, eTextbook and textbook options as well as school and scholarship information. Since its national launch in 2007, Chegg has rented millions of new and used textbooks to college students, helping them save both time and money. Chegg has an interest in ensuring that its student customers can freely alienate their lawfully purchased textbooks.

The Computer & Communications Industry Association (CCIA) is a non-profit trade association that for 40 years has been dedicated to "open markets, open systems and open networks." CCIA members participate in many sectors of the comput-

er, information technology and telecommunications industries and range in size from small entrepreneurial firms to the largest in the industry. CCIA members employ more than 600,000 workers and generate annual revenues in excess of $200 billion.

The Internet Commerce Coalition (ICC) is a coalition of leading U.S. Internet Service Providers (ISPs), e-commerce companies, and technology trade associations. The ICC's mission is to achieve a legal environment that allows service providers, ecommerce companies, their customers, and other users to do business on the global Internet under reasonable rules governing liability and use of technology.

NetCoalition serves as the public policy voice for some of the world's most innovative Internet companies on the key legislative and administrative proposals affecting the online world. NetCoalition provides legal and policy solutions to critical legal and technological issues facing Internet companies, the courts, and policymakers. It helps insure the integrity, usefulness, and continued expansion of this dynamic new medium. Its members include Amazon.com, Bloomberg LP, eBay, Google, IAC, Yahoo! and Wikipedia.

NetChoice is a coalition of businesses, individuals, and trade associations who seek to promote convenience, choice, and commerce on the Internet. Its members range from some of the most prominent online businesses in the world to individual users of e-commerce services, and include eBay and other companies whose online platforms bring together buyers and sellers from around the globe. NetChoice

has an interest in expanding the range of goods that can be sold safely and legally on secondary markets, particularly where the Internet enables these markets to reach across national borders.

TechAmerica represents approximately 1,000 member companies of all sizes from the public and commercial sectors of the economy and is the technology industry's largest advocacy organization. Its members include suppliers of broadband networks and equipment, consumer electronics companies, software and application providers, Internet and e-commerce companies, and Internet service providers, among others, many of which are involved in ensuring a robust e-commerce marketplace.

SUMMARY OF THE ARGUMENT

The first sale doctrine has long been recognized as a defense to copyright infringement, striking a balance between the property rights of consumers and the promotion of progress in the sciences and useful arts by ensuring that copyright owners are compensated for the initial sale of the copyrighted good. As this Court held over a century ago, "one who has sold a copyrighted article, without restriction, has parted with all right to control the sale of it. The purchaser of a book, once sold by authority of the owner of the copyright, may sell it again, although he could not publish a new edition of it." *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908).

Section 109(a) of the Copyright Act codifies the first sale doctrine, providing that "the owner of a particular copy . . . 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 . . . ." 17 U.S.C. § 109(a). In *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135, 138, 154 (1998), this Court confirmed that the first sale doctrine is not limited by place of first sale and held that the first sale doctrine endorsed in § 109(a) may be applied to imported copies.

The Second Circuit nevertheless held below that the first sale doctrine applies "only to works manufactured domestically." Pet. App. at 26a. In so holding, the Second Circuit imposed a place of manufacturing requirement on the first sale doctrine that is directly at odds with the text, structure, history, and purposes of the Copyright Act. In stark tension with

the policy against restraints on alienation, the Second Circuit's rule — which is even more extreme than the Ninth Circuit's interpretation of the Act this Court considered in *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010) — affords copyright owners of foreign manufactured goods the ability to control the multiple downstream sales of goods for which they have already been paid. If allowed to stand, that rule would have significant adverse consequences for trade, consumers, secondary markets, e-commerce, small businesses, and jobs in the United States. Under the precedent of *Quality King* and pursuant to the plain construction of the Copyright Act, including 17 U.S.C. § 109(a), this Court should reverse.

ARGUMENT

I. THE SECOND CIRCUIT'S EXTREME CONCLUSION THAT A FOREIGN-MADE PRODUCT MAY NEVER BE RESOLD IN THE UNITED STATES WITHOUT THE COPYRIGHT OWNER'S PERMISSION SHOULD BE REVERSED

In its decision below, the Second Circuit has dangerously expanded beyond the Ninth Circuit's holding in *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983 (9th Cir. 2008). Whereas the Ninth Circuit held that a first sale in the United States would terminate a copyright owner's rights, the Second Circuit held that the first sale doctrine applies "only to works manufactured domestically." Pet. App. at 26a. The Second Circuit's holding thus implies that a foreign-manufactured copy will never be subject to the first sale doctrine — even if that copy is imported into the United States and sold here with the copyright owner's permission. Respondent

has not denied that the Second Circuit's opinion would preclude foreign-manufactured copies from ever being subject to the first sale doctrine, instead arguing that "there was no need for the Second Circuit to resolve the issue whether the first-sale doctrine would apply to foreign-made copies after an authorized domestic sale." Br. in Opp. at 17-18. Whether the Second Circuit "need[ed]" to resolve the issue or not, the Second Circuit's opinion could shield foreign-manufactured copies from ever being subject to the first sale doctrine. *Id.* at 17. The Ninth Circuit's place of manufacturing rule portended significant negative policy consequences.[2] *Omega*, 541 F.3d at 983. The Second Circuit's even more extreme rule, which strips away downstream resale rights entirely, distorts the Act beyond any plausible understanding of congressional intent and must be reversed.

II. A PLACE OF MANUFACTURING REQUIREMENT IS INCONSISTENT WITH THE TERMS, STRUCTURE, HISTORY, AND PURPOSES OF THE COPYRIGHT ACT

While the Second Circuit stretched its rule to an even more extreme end, the source of its error was the same as the source of the Ninth Circuit's error in *Omega*. It incorrectly concluded that the first sale doctrine embodied in section 109(a) of the Copyright Act includes a place of manufacturing requirement that limits the first sale doctrine's application to

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[2] At oral argument in *Costco*, Petitioner argued for certain limitations on the first sale doctrine that are not required by the text of the Copyright Act. *See, e.g.*, Transcript of Oral Argument at 5:18-8:6, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (Nov. 8, 2010) (No. 08-1423).

goods manufactured in the United States. Pet. App. at 26a. A proper application of the tools of statutory construction compels the opposite conclusion.

Section 109(a) provides in pertinent part:

> 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.

17 U.S.C. § 109(a).

It is clear that the first sale doctrine codified in section 109 supersedes the exclusive rights of the copyright owner granted under section 106. The Second Circuit reasoned that Congress's reference to copies "lawfully made under this title" can only be read to mean those copies "that are made in territories in which the Copyright Act is law, and not to foreign-manufactured works." Pet. App. at 27a-28a. But that reasoning is fundamentally flawed and would inject both significant textual anomalies and absurd consequences into the Act that Congress could not possibly have intended.

A. "Lawfully Made Under This Title" Means Made According To Or In Conformance With The Copyright Act

Most significantly, the Second Circuit's interpretation rests on a demonstrably flawed premise: that "under this title" means "made in the United States." Pet. App. at 21a, 26a. Congress was clear, however, that it intended the relevant title of the Copyright Act to apply to goods made outside the United States.

Both by common usage and context, the most natural meaning of "made under this title" is "made according to, or in conformance with, the Copyright Act." *See* WEBSTER'S THIRD NEW INT'L DICTIONARY 2487 (2002) (defining "under" as "in accordance with"). As the United States explained in its amicus brief in the *Quality King* case, "[t]he correct and more natural reading of the phrase 'lawfully made under this title' refers simply to any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17." Brief for the United States as *Amicus Curiae* Supporting Respondent at 30 n.18, *Quality King Distrib., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998) (No. 96-1470).

In other words, copies are subject to the first sale doctrine if they were made consistent with the terms of the Copyright Act, which includes copies made by or with the consent of the United States copyright holder or otherwise authorized by the Act.

Respondent argues that "the legality of a copy produced in a foreign country is governed by that country's own copyright laws; a foreign copy is either lawfully or unlawfully made *under the law of the particular foreign country*." Br. in Opp. at 19 (emphasis in original). Respondent further argues that "copies may be made either 'under the United States Copyright Act,' or 'under the law of some other country,' but not 'under' both." *Id.* at 20-21 (citations omitted); *see also* Brief for the United States as *Amicus Curiae* Supporting Respondent at 15, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010) (No. 08-1423) ("The inference is strongly supported by the *Quality King* Court's evident assumption that a particular copy may be made *either* 'under' Title 17 *or* 'under' the law of another country,

but not 'under' both.") (emphases in original). Such arguments are neither the logical nor necessary result of a straightforward reading of the Copyright Act's text or this Court's precedent.

Section 104, which defines in part the scope of the protections afforded copyright holders under the Act, demonstrates that "under this title" could not mean "made in the United States." Section 104(b) expressly provides that certain published works "are subject to protection under this title" if: (1) "on the date of first publication, one or more of the authors is a national . . . of a treaty party," or (2) "the work is first published . . . in a foreign nation that, on the date of first publication is a treaty party . . . ." 17 U.S.C. § 104(b). It further provides that "a work that is published in the United States or a treaty party within 30 days after publication in a foreign nation that is not a treaty party shall be considered to be first published in the United States or such treaty party, as the case may be." *Id.* Thus, while the phrase "lawfully made under this title" is not expressly defined in the Copyright Act, it clearly is not limited to "made in the United States," since Congress expressly provided for the title to apply to works made abroad in a foreign nation that is a treaty partner.[3]

The legislative history of section 104 confirms this reading. Section 104 provides that certain

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[3] Section 104 addresses both published and unpublished works, copies of which are subject to the Section 109 distribution limitations. Copyright owners' attempts to expand the use of copyright to encompass labels on consumer products and such should also be prevented because the copyright laws afford only limited protection in that context. *See Smithkline Beecham Consumer Healthcare, L.P. v. Watson Pharm., Inc.*, 211 F.3d 21, 29 n.5 (2d Cir. 2000).

"works of foreign origin can be protected under the U.S. copyright law . . . ." H.R. REP. NO. 94-1476, at 58 (1976). Section 104 "imposes no qualifications of nationality and domicile" on unpublished works and protects published works made by foreign authors who are nationals or domiciliaries of nations with which the United States has copyright relations under a treaty. *Id.* Section 104 does not require foreign authors to publish their works in the United States. On the contrary, section 104(b) protects works "first published" abroad. 17 U.S.C. § 104(b). Thus, the scope of the Copyright Act expressly extends to works created abroad, which also may be entitled to copyright protection in their country of origin.

Furthermore, Congress has used the exact phrase "lawfully made under this title" in two additional provisions of Title 17. Only a straightforward reading of the phrase, unrestricted by place of manufacturing, permits a consistent, coherent construction of the title.

The Audio Home Recording Act ("AHRA") provides that royalty payments "shall . . . be distributed" to certain "interested copyright part[ies]," including, *inter alia*, "the owner of the exclusive rights under section 106(1) of this title to reproduce a sound recording of a musical work that has been embodied in a digital musical recording or analog musical recording *lawfully made under this title* that has been *distributed*." 17 U.S.C. §§ 1001(7), 1006(a) (emphasis added). The term "distribute" is limited specifically to distribution "in the United States." 17 U.S.C. § 1001(6). Thus, Congress used the concepts of "in the United States" and "lawfully made under this title" distinctly — and did so in the same sentence.

Similarly, section 110 provides that the "performance or display" of a copy for educational use is not an infringement of copyright unless the copy "was not lawfully made under this title . . . ." 17 U.S.C. § 110(1). The only logical interpretation of this provision is that Congress intended to dissuade teachers from displaying infringing works or works otherwise not made in accordance with the Copyright Act. *See* H.R. REP. NO. 94-1476, at 82 (stating that the exception to the exemption for copies "not lawfully made under this title" "deals with the special problem of performances from *unlawfully-made copies* . . .") (emphasis added). Congress could not have intended to limit social studies, music, and art teachers' curricula only to works created in the United States. Surely, teachers are not responsible for determining where works were created in order to prepare their courses. Congress could not have intended to expose our nation's teachers to liability for copyright infringement for introducing their students to genuine copyrighted works for artistic and educational purposes simply because those works were manufactured abroad.

A plain text analysis of the Copyright Act demonstrates that "lawfully made under this title" cannot mean "made in the United States."[4]

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[4] For these reasons, *Quality King*'s dicta provides no meaningful support for Respondent's approach. This Court did not directly address the question of whether a copy could be lawfully made under both United States law and the law of another country; rather, this Court merely "presum[ed]" that "only those made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." *Quality King*, 523 U.S. at 148. The Court's presumption seems to have rested on a narrow reading of one example from the legislative history, when, as discussed herein, the text,

B. The Copyright Act Is Structured Without Regard To Place Of Manufacturing

Reading section 109(a) unlimited by place of manufacturing best accords with other provisions of the Copyright Act. As this Court has long recognized, "[s]tatutory construction . . . is a holistic endeavor." *United Sav. Ass'n of Tex. v. Timbers of Inwood Forest Assocs., Ltd.*, 484 U.S. 365, 371 (1988) (internal citations omitted).

Section 106 of the Copyright Act counsels strongly against importing a place of manufacturing requirement into the first sale doctrine of section 109(a). Section 106(3) provides owners of copyrights "under this title" with exclusive rights to distribute copies "[s]ubject to sections 107 through 122 . . . ." Section 106 provides in pertinent part:

> Subject to sections 107 through 122, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following: (1) to reproduce the copyrighted works in copies or phonorecords; . . . (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending . . . .

17 U.S.C. §§ 106(1) & (3).

Under section 109(a), notwithstanding a copyright owner's exclusive right to distribute copies, "the owner of a particular copy or phonorecord lawfully made until this title, or any person authorized

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structure, legislative history, and purpose of the Copyright Act do not support the Second Circuit's view of the first sale doctrine.

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." Importantly, section 109(d) provides that "privileges prescribed by subsections (a) and (c) do not, unless authorized by the copyright owner, extend to any person who has acquired possession of the copy or phonorecord from the copyright owner, by rental, lease, loan, or otherwise, without acquiring ownership of it." Thus, as Justice Breyer recognized during argument in the *Costco v. Omega* case, the text of section 109(a) is focused on transfers, such that "109 doesn't apply until there's a sale." Transcript of Oral Argument at 8:14-15, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (Nov. 8, 2010) (No. 08-1423). The critical threshold is whether a sale has occurred, as opposed to merely a lease or license or other mechanism which does not transfer actual ownership. The legislative history supports this interpretation. H.R. REP. NO. 94-1476, at 80 ("privileges . . . do not apply to someone who merely possesses a copy or phonorecord without having acquired ownership of it").

Thus, any sale of an item by which ownership is transferred, regardless of where that sale took place, eliminates the exclusive copyright protection and affords the buyer the right to freely transfer those goods without the permission of the copyright owner. *Quality King*, 523 U.S. at 152 (neither section 109(a) nor earlier codifications of the first sale doctrine were intended by Congress to "limit [the first sale doctrine's] broad scope"). Where no first sale has occurred, the exclusive right to limit distribution remains intact.

To read this interplay between sections 109 and 106 differently would allow overseas manufacturers

to have it both ways. If their foreign-made goods are not "made under this title" for section 109 purposes, then they likewise ought not to be able to claim that those goods are subject to the exclusive copyright protections "under this title" for section 106 purposes. If foreign-manufactured goods are not considered to have been made "under this title," then there is no basis for U.S. courts to enforce copyright protection as to those goods.

Section 602's import restrictions also are limited by section 109. Section 602(a)(1) provides:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106 . . . .

17 U.S.C. § 602(a)(1). This restriction is expressly limited to exclusive rights afforded "under section 106," which are expressly limited by section 109.

Reading section 109(a) as applying to copies imported into and sold in the United States without regard to their place of origin does not require the application of United States laws to conduct occurring outside the territory of the United States. The Copyright Act and the first sale doctrine it codifies are applicable to the instant dispute because the copies were purchased abroad and then resold within the United States. Indeed, Respondent invoked United States copyright law in instituting this suit. It is therefore no more "extraterritorial" than this Court's holding in *Quality King* that the first sale doctrine of section 109(a) applies generally to goods imported under section 602. For this reason, the presumption

against extraterritoriality has no bearing on the question presented. *See Quality King*, 523 U.S. at 145 n.14 (stating that "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 . . . ."); Brief for the United States as *Amicus Curiae* Supporting Respondent at 22, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010) (No. 08-1423) (arguing that it is "correct" that "applying Section 109(a) to copies imported into the United States would not involve an extraterritorial application of domestic law").

C. At The Time Congress Adopted Section 109(a), It Removed A Longstanding Place Of Manufacturing Provision From The Copyright Act

Had Congress intended to limit application of the first sale doctrine to copies made "within the United States," Congress would have said so. Indeed, at the same time it adopted section 109(a), Congress began phasing out a longstanding place of manufacturing requirement from the Copyright Act.

Section 601(a) of the Act, the so-called "manufacturing clause," provided: "Prior to July 1, 1986,[5] . . . the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected *under this title* is prohibited *unless the portions consisting of such material have been manufactured in the United*

[5] *See* Pub. L. No. 97-215, 96 Stat. 178 (1982) (substituting "1986" for "1982").

States or Canada." 17 U.S.C. § 601(a) (emphasis added). Thus, not only was Congress generally capable of specifying the relevance of an activity's occurrence "in the United States," Congress expressly specified the relevance of manufacturing in the United States in the Copyright Act. *See Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1098 n.1 (3d Cir. 1988) ("When Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern.").

In stark contrast, Congress did not include such a place of manufacturing requirement in section 109(a). When Congress includes language in one section of an Act and excludes that language from another, "Congress' silence" in the latter section "speaks volumes." *United States v. Shabani*, 513 U.S. 10, 14 (1994).

Moreover, Congress' handling of section 601(a)'s express manufacturing requirement demonstrates the absurdity of the Second Circuit's construction of section 109(a). That express manufacturing requirement *protected* U.S. publishers from foreign competition. It first "came into the copyright law as a compromise in 1891 . . . ." H.R. REP. NO. 94-1476, at 164. As codified in the 1909 Act, the "manufacturing clause" required "[t]hat in the case of the book the copies so deposited shall be accompanied by an affidavit . . . duly made by the person claiming copyright . . . setting forth that the copies deposited have been printed from type set within the limits of the United States or from plates made within the limits of the United States from type set therein . . . ." Act of Mar. 4, 1909, § 16, 35 Stat. 1080, 1079 (1909). This place of manufacturing requirement was in-

tended to protect "American typographers and bookbinders against foreign competition." 2 NIMMER ON COPYRIGHT § 7.22[D] (2012).

However, "the manufacturing clause exemplifie[d] short-sighted and parochial tendencies that [proved] destructive of the best interests of both copyright creators and users." *Id.* Accordingly, in the 1976 Copyright Act, Congress chose to phase out the place of manufacturing requirement. *See* 17 U.S.C. § 601 (stating that the manufacturing clause would remain in effect until July 1, 1986).

The legislative history of the Copyright Act demonstrates that Congress carefully considered place of manufacturing requirements and found such requirements wanting. Congress concluded that "[t]he manufacturing clause *violates the basic principle that an author's rights should not be dependent on the circumstances of manufacture*." H.R. REP. NO. 94-1476, at 165 (emphasis added). Congress was concerned that authors were held "hostage" by the manufacturing requirement, which "unfairly discriminate[d] between American authors and other authors." *Id.* Additionally, Congress emphasized the need to "eliminate the tangle of procedural requirements . . . burdening . . . the United States Customs Service." *Id.*; *see also* Jessica D. Litman, *Copyright, Compromise, and Legislative History*, 72 CORNELL L. REV. 857, 877 (1987) ("The Copyright Office, the Justice Department, the State Department, and the Commerce Department all opposed the manufacturing clause.").

Congress concluded that "there is no justification on principle for a manufacturing requirement in the copyright statute, and although there may have been some economic justification for it at one time, that

justification no longer exists." H.R. REP. NO. 94-1476, at 166. That is not to say that Congress considered the economic concerns of the U.S. printing industry irrelevant. Quite the opposite. Because Congress "recognize[d] that immediate repeal of the manufacturing requirement might have damaging effects in some segment of the U.S. printing industry," Congress chose to phase out the manufacturing requirement through the use of a sunset provision. *Id.*

The abrogation of the manufacturing clause makes clear that Congress in 1976 intended to remove place of manufacture as a relevant factor in the determination of whether the distribution of goods embodying copyrighted works within the United States violates the Copyright Act. It defies reason that Congress would at the same time, in the same Act, insert by mere implication and without comment a "reverse manufacturing clause" that greatly re-tilts the playing field, this time to the benefit of *foreign* publishers and manufacturers at the expense of their domestic counterparts, by creating a strong incentive to manufacture copies abroad. Rather, by phasing out the pro-domestic publishing manufacturing clause, Congress meant to eliminate the discriminatory impact that previously flowed from copyright's focus on place of manufacture. Respondent's argument flies in the face of this congressional goal.

"Few principles of statutory construction are more compelling than the proposition that Congress does not intend *sub silentio* to enact statutory language that it has earlier discarded." *INS v. Cardoza-Fonseca*, 480 U.S. 421, 442-43 (1987) (citation omitted). It is therefore incongruous, to say the least, for the Second Circuit to impose a place of

manufacturing limitation on section 109, when, at the time Congress drafted and enacted section 109, it simultaneously excised a longstanding place of manufacturing requirement from our copyright law.

III. EXEMPTING GOODS MANUFACTURED ABROAD FROM THE FIRST SALE DOCTRINE WOULD BE DETRIMENTAL TO THE UNITED STATES ECONOMY

Reading section 109(a) to impose a place of manufacturing requirement on the first sale doctrine would negatively impact commerce in the United States. A place of manufacturing requirement will create incentives for off-shore manufacturing, stifle secondary markets, stifle e-commerce, harm small businesses and consumers, and further depress the job market in the United States. Copyright protection is enshrined in our Constitution "[t]o promote the progress of science and useful arts," not to permit manufacturers to price discriminate and manipulate markets to the detriment of consumers. U.S. CONST. art. 1, § 8. These public policy concerns weigh strongly against the Second Circuit's reading of section 109(a).

A. Imposing A Place Of Manufacturing Requirement On The First Sale Doctrine Infringes Consumers' Rights to Redistribute Goods

Producers of consumer goods have "waged a full-scale battle in legislative, executive, and administrative fora" for regulations that would grant them power to control the downstream importation of secondary market goods into the United States. *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 295-96 (1988) (Brennan, J., concurring in part and dissenting in part). "Having lost in other fields of law, manufac-

turers are now realizing that copyright may furnish a supplemental vehicle for protection." 2 NIMMER ON COPYRIGHT § 8.11[E][4] (2012). As a result, copyright owners who have already been compensated for these goods are now attempting to use copyright law to hamper the ability of consumers and resellers to re-distribute goods and comparison shop from different vendors.

The Second Circuit's opinion will encourage producers to use copyright to control downstream sales of goods in the United States. In so doing, the Second Circuit permits companies to use copyright law like a "weapon against gray market goods." Donna K. Hintz, *Battling Gray Market Goods with Copyright Law*, 57 ALB. L. REV. 1187, 1191 (1994). Reducing consumer rights in this dramatic way is inconsistent with the purposes of copyright law and should not be endorsed by this Court.

B. The Second Circuit's Rule Will Stifle Secondary Markets

Exempting foreign consumer goods from the first sale doctrine could unsustainably burden secondary markets. "The essential trade in the Copyright Act is monopoly and policing: the grant of exclusivity comes with the duty to protect it. The Act does not grant the holder the windfall of both monopoly and reimbursement for its maintenance." *Sony Discos Inc. v. E.J.C. Family P'ship*, No. H-02-3729, 2010 WL 1270342, at *5 (S.D. Tex. 2010). It is impossible for secondary market participants to identify each alleged copyrighted work and make a determination regarding its legal status. Moreover, secondary market participants lack means to determine where the goods were manufactured.

Imposition of such a substantial and unmanageable burden is likely to stifle commerce in the secondary market. This burden would translate into higher costs for consumers, increased unemployment, and risk for small businesses. Such a result in the current difficult economic environment would be particularly troubling. *See, e.g.*, U.S. Dept. of Labor, Bureau of Labor Statistics, News Release (June 1, 2012) (stating that the unemployment rate was "8.2 percent"), *available at* http://www.bls.gov/news.release/pdf/empsit.pdf.

The Second Circuit's rule also could stifle commerce in the international secondary markets. Such a result would significantly impact the economy. The volume of commerce in the international secondary markets is substantial. Between January and April 2012, the United States has already imported $2,869,000,000 worth of used or second-hand goods. U.S. Census Bureau, U.S. Bureau of Econ. Analysis, News (June 8, 2012), *available at* http://www.census.gov/foreign-trade/Press-Release/current_press_release/ft900.pdf. This market is of significant value to our economy and should be allowed to thrive.

C. The Second Circuit's Rule Will Stifle e-Commerce

E-commerce companies are exemplars of American innovation and ingenuity and make significant contributions to the United States' economy and job market. The Second Circuit's rule substantially threatens the increasingly important e-commerce sector of the economy, particularly secondary market e-commerce. International e-commerce is growing rapidly. In the first quarter of 2012, retail e-commerce sales in the United States amounted to

approximately $53.2 billion. U.S. Census Bureau, News, Quarterly Retail E-Commerce Sales 1st Quarter 2012 (May 17, 2012), *available at* http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf. These first quarter sales represent a 15.4 percent increase from the first quarter of 2011, while total retail sales increased only 6.5 percent in the same period. *Id.* E-commerce also "benefit[s] consumers by helping them enjoy lower prices and more choices." Yannis Bakos, *The Emerging Landscape for Retail E-commerce*, 15 J. ECON. PERSPECTIVES 69, 78-79 (2001). No misinterpretation of copyright law should be allowed to hinder the growth of this market.

D. The Second Circuit's Rule Will Harm Small Businesses

Likewise, small businesses would be particularly burdened by increased transaction costs. As the Ninth Circuit has recognized, without the first sale doctrine, "every 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 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 377, 380 (9th Cir. 1996). Imposing a place of manufacturing requirement on section 109(a) may well impose unsustainable costs on small businesses, which may translate into the loss of additional jobs. Small businesses that have weathered the economic downturn should not now be subjected to such risk.

E. The Second Circuit's Rule Will Further Depress The Job Market In The United States

If section 109(a) is interpreted to exempt foreign consumer goods from the first sale doctrine, goods stamped with copyrighted material and manufactured overseas will be afforded greater protection under the Copyright Act than goods manufactured domestically. This Court should not endorse the Second Circuit's graft of a place of manufacturing requirement onto section 109(a) because such a requirement creates incentives for off-shore manufacturing, striking yet another blow to the American worker.

When repealing the manufacturing requirement, Congress was sensitive to creating incentives for overseas manufacturing and creating a trade imbalance. Congress concluded that, "although there may have been some economic justification [for the manufacturing requirement] at one time, that justification no longer exists." H.R. REP. NO. 94-1476, at 166. Far from concluding that the economic consequences of its rule were irrelevant, Congress simply concluded that the economic justification no longer existed in the context of book publishing. Given Congress's sensitivity to trade imbalances and economic concerns, Congress could not have intended an interpretation of section 109(a) that would exacerbate trade imbalances and motivate overseas manufacturing.

"The loss of well-paying manufacturing jobs has harmed the U.S. economy. Declines in manufacturing employment reduce over-all consumer demand in the United States and limit the economy's potential for expansion." Thomas A. Piraino, Jr., *A Proposed Antitrust Approach to Buyers' Competitive Conduct*,

56 HASTINGS L.J. 1121, 1123 n.10 (2005) (citations omitted). Manufacturing employment in the United States is under stress. U.S. Dept. of Labor, Bureau of Labor Statistics, Econ. News Release, *Employment Situation Summary*, (June 1, 2012), *available at* http://www.bls.gov/news.release/empsit.nr0.htm. The manufacturing sector should not be hindered by a strained interpretation of section 109(a) that motivates additional off-shore manufacturing.

The imposition of a place of manufacturing requirement on section 109(a) would also likely lead to job losses in the secondary market. As increased transaction costs may curtail trade, importers and resellers may face a diminishing market and concomitant job loss.

The United States already faces an overall trade deficit in goods and services. In April 2012, the United States trade deficit for goods and services was $50.1 billion. U.S. Census Bureau, U.S. Bureau of Econ. Analysis News, *U.S. Int'l Trade in Goods and Services April 2012* (June 8, 2012), *available at* http://www.bea.gov/newsreleases/international/trade/tradnewsrelease.htm. The United States' trade deficit for goods was $64.8 billion. *Id.* If this Court declines to review the Second Circuit's interpretation of section 109(a), which will afford greater protections to foreign goods, an even greater percentage of such goods will likely be produced overseas.

F. The United States Agrees That A Place Of Manufacturing Requirement Will Have "Adverse Policy Consequences"

The United States agrees that "the court of appeals' reasoning could result in adverse policy consequences, particularly if carried to its logical extreme . . . ." Brief for the United States as *Amicus*

Curiae on Petition for Certiorari at 5, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010) (No. 08-1423). The United States recognizes that "[t]he potential implications of excluding foreign-made copies of a copyrighted work from Section 109(a)'s coverage are indeed troubling." *Id.* at 18. In fact, the United States identified "higher unemployment," "encourag[ing] companies to move manufacturing overseas," and the hesitation of downstream retailers "to sell a variety of products for fear that the sale could be deemed infringing" as "legitimate concerns." *Id.* at 17-18. Indeed, the United States has recognized "[t]hat differential treatment of domestic- and foreign-manufactured goods has no evidence policy justification, and it could at least in theory provide an artificial incentive for outsourcing." Brief for the United States as *Amicus Curiae* Supporting Respondent at 28, *Costco Wholesale Corp. v. Omega, S.A.*, 131 S. Ct. 565 (2010) (No. 08-1423).

Yet, in its amicus brief in *Costco*, the United States argued that this Court should not concern itself with these "legitimate concerns" because "[s]ome of the impacts . . . are an unavoidable consequence of Congress's decision in 1976 to expand Section 602's ban on unauthorized importation beyond piratical copies." *Id.* at 6. This argument missed the mark. That Congress allowed for the segmentation of domestic and foreign markets to some degree is hardly evidence that Congress intended the exacerbated market segmentation that would follow from exempting foreign manufactured items from the first sale doctrine.

Further, in its amicus brief in *Costco*, the United States attempted to downplay its recognition of such "legitimate" policy concerns by arguing that, although the petitioner "contend[ed] that the court of

appeals' decision would allow copyright owners to restrict the downstream distribution of foreign-made goods even after the copyright owner has authorized the importation or first domestic sale of the relevant copies," "[t]he Copyright Act can reasonably be read to prevent that result . . . ." *Id.* The Second Circuit has not read the Copyright Act to prevent that result here. Rather, the Second Circuit's reading precisely permits such a result — a result that, as the United States has recognized, portends significant negative policy results.

"The whole point of the first sale doctrine is that once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution." *Quality King*, 523 U.S. at 152. The Second Circuit's interpretation of the first sale doctrine, which discriminates between domestic and foreign copies, should be reversed. Regardless of the place of manufacturing, once a copyright owner has sold his property, he has exhausted his exclusive statutory right to control its distribution. The Second Circuit's holding is to the contrary, does not conform with the Copyright Act, and will precipitate a host of adverse policy results.

CONCLUSION

For the foregoing reasons, the judgment of the United States Court of Appeals for the Second Circuit should be reversed.

Respectfully submitted.

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