No. 08-1423

IN THE

Supreme Court of the United States

COSTCO WHOLESALE CORPORATION,

Petitioner,

—v.—

OMEGA, S.A.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

BRIEF OF ASSOCIATION OF AMERICAN PUBLISHERS AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

CASES **PAGE(S)**

STATUTES

OTHER AUTHORITIES

INTEREST OF *AMICUS CURIAE*[1]

The Association of American Publishers, Inc. ("AAP") is the major national association of publishers of general books, textbooks and educational materials. Its approximately 200 members include most of the major commercial book publishers in the United States and many smaller or non-profit publishers, including university presses and scholarly associations. AAP members publish hardcover and paperback titles in every field, thousands of which are also published abroad (some by AAP publishers and their affiliates, some by unrelated publishers).

AAP members and their counsel played a major role in the lengthy revision process culminating in the 1976 Copyright Act, and in subsequent revisions, and can advise the Court with first-hand knowledge of the considerations that – then as now – amply justified Congress in protecting copyright by rendering infringing the unauthorized importation of copies made abroad under foreign law for use abroad, whether those copies are piratical or authorized.

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[1] The parties have consented to the filing of this brief by letters filed with the Clerk. No counsel for a party authored this brief in whole or in part, and no counsel for a party (nor a party itself) made a monetary contribution intended to fund the preparation or submission of this brief. No person other than *amicus* or its counsel made a monetary contribution to its preparation or submission.

SUMMARY OF ARGUMENT

The unauthorized importation of books acquired outside the United States and made under foreign law infringes the exclusive rights of the United States copyright owner.

The exclusive right to import copies acquired abroad is of great importance to copyright owners. Central to the ability of copyright to "promote the progress of science and useful arts" is the exercise of Congress's power to secure for limited times, to authors, the exclusive right to reproducing and distributing their works. Importation of works protected by U.S. copyright, without the authority of the U.S. copyright owner, makes those rights radically insecure, and diminishes both the value of the copyright and its power to stimulate further creation and distribution.

By prohibiting the importation of copies acquired abroad, 17 U.S.C. § 602(a)(1) protects core aspects of the exclusive distribution right, ensuring that U.S. copyright owners have, as Congress intended, the right to determine when and where to distribute their works, at what price, and with what content.

Costco's proposed construction would substantially harm copyright owners and the public, impairing the incentives to create and disseminate copyrightable work, the quality of published works, and the vitality of domestic publishers.

Costco's argument that the first sale doctrine in 17 U.S.C. § 109 applies to any copies acquired abroad

so long as they were authorized by the U.S. copyright owner or a "related" foreign copyright owner virtually neuters § 602(a)(1). Neither statutory text nor the structure of these and related statutory provisions support that argument. The history of the drafting and enactment of § 602(a)(1) shows that the provision was intended to bar the unauthorized importation of any copies made under foreign law for foreign use, whether piratical or authorized. Congress never made that proposition depend on whether the party authorizing the copies under foreign law was "related" to the U.S. copyright owner. Construing §§ 109 and 602(a)(1) to embody that distinction is insupportable under the history and text of § 602(a)(1). That construction would simply incentivize U.S. copyright owners to structure their arrangements so that foreign rights would be held by "unrelated" parties, adding complexity and transaction costs to the exploitation of copyrights that Congress never required or suggested, without any gain whatever to the policies Costco says animate its overreaching yet arbitrary construction of the first sale doctrine.

ARGUMENT

I. THIS CASE INVOLVES STATUTORY PROVISIONS OF GREAT SIGNIFICANCE TO THE PUBLISHING INDUSTRY

The briefs by Costco and its *amici* proceed as if this case concerns trade policy and consumer choice

issues, rather than the proper construction of the copyright statutes that further copyright's vital ends.

Although this case concerns wristwatches, the issue before this Court has implications far beyond the ability of manufacturers to protect copyrighted labels on consumer goods. Congress enacted the pertinent statutes pursuant to its power to "promote the Progress of Science and useful Arts" by "securing for limited Times to Authors" the exclusive right to their writings. The expansion of the exclusive right to import crafted by Congress in the 1976 Act secured those exclusive rights, as the Ninth Circuit correctly recognized. The arguments of Costco and its *amici* would make those rights fundamentally insecure, and destroy the exclusive rights to import and distribute that the Framers contemplated and Congress has provided for.

By permitting the unrestricted importation of any copies of any works previously sold once abroad (whether to consumers or otherwise), the legal principles that petitioner and its supporting *amici* would have this Court adopt would have devastating consequences for the protections provided under the Act to authors, publishers, and others involved in the creative industries whose works have their principal value in copyright. For authors and publishers (as well as those involved in motion pictures, sound recordings, and so forth), the rights secured by §§ 106(3) and 602(a)(1) are not merely incidental to the Copyright Act's structure of incentives to create

original works.[2] Rather, the right to control initial distribution of original works within the United States is integral to the Copyright Act's protections designed to foster creativity for the public good. A result that allows copies acquired abroad and made under foreign law to leak back into the United States without restraint under copyright law would be contrary to the clear language and history of § 602(a)(1), and cause U.S. copyright owners substantial harm.[3]

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[2] What is now 17 U.S.C. § 602(a)(1) was originally adopted in 1976 as § 602(a) of Title 17. We refer to the provision according to its current codification.

[3] For convenience, the category of works subject to § 602(a)(1) outside the reach of § 109's first sale doctrine – works acquired outside the United States and not made under U.S. copyright law – is referred to sometimes here as "works made abroad for use abroad," or "works made abroad under foreign law," without meaning thereby to suggest that Congress's focus was narrowly on the place of manufacture.

A. Section 106(3) and Section 602(a) Provide Copyright Owners Rights Against Distinct Acts Of Infringement

Section 106 grants to copyright owners several exclusive rights with respect to copyrighted works, "subject to" specified limitations set forth in "sections 107 through 120." 17 U.S.C. § 106. Among these exclusive rights is the right "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(3).

The distribution right in § 106(3) is an integral component of the incentives in the Copyright Act. By recognizing a distinct exclusive distribution right, the Copyright Act ensures that, in addition to preventing unauthorized reproductions of copyrighted works, an owner may prohibit unauthorized exploitation of such works through public distribution. "[G]ranting the distribution right is a necessary supplement to the reproduction right in order fully to protect the copyright owner." 2 Melville B. Nimmer & David Nimmer. NIMMER ON COPYRIGHT (1997) § 8.12[A], at 8-142.

But § 106(3) does not simply supplement the right to control reproduction. "It would be anomalous indeed if the copyright owner could prohibit public distribution of his work when this occurred through unauthorized reproduction, but were powerless to prevent the same result if the owner's own copies (or copies authorized by him) were stolen or otherwise

wrongfully obtained and thereafter publicly distributed." *Id.* The § 106(3) right "encompasses not only the choice whether to publish at all, but also the choices of when, where, and in what form first to publish a work." *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 564 (1985). Subject to statutorily enumerated limitations, the distribution right gives a copyright owner the exclusive right to control distribution of legitimate as well as pirated copies, and prevents others from distributing legitimate copies of copyrighted works without the owner's consent.

U.S. copyright law has recognized for more than a hundred years that the right of exclusive distribution is insufficient to protect copyright owners, and has long provided for a right to prevent unauthorized importation as well, independently. Until the 1976 Act, the protection against importation was limited to piratical copies (that is, copies that were created without the authorization of any relevant copyright owner). Chapter 6 of the 1976 Act, however, went further, enacting inter-related provisions extending past piratical copies to authorized copies made abroad generally, as the text of § 602(a) makes plain and as confirmed by the legislative history discussed below in Point II.B.

Recognizing the importance of the right to control initial distribution of copyrighted works, Congress enacted § 602 as a broad right of action against imports of copies acquired outside the United States made under foreign law, whether those copies are

piratical or authorized. Section 602(a)(1) makes infringing *any* importation "without the authority of the owner of copyright under this title" of "copies . . . "that have been acquired outside the United States."

As recognized in *Quality King Distrib., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 145 (1998), § 602(a)(1) prohibits acts that are distinct from acts of unauthorized distribution. The § 106(3) exclusive distribution right allows a copyright owner to prevent the unauthorized distribution of copies "to the public by sale or other transfer of ownership, or by rental, lease, or lending." *Id*. at 142. By contrast, on its face, § 602(a)(1) provides a right of action against unauthorized importation— whether or not those copies have previously been distributed or sold or are in the course of being sold, and whether or not possession of or control over those copies has ever changed.

Importation, by definition, entails the carrying or transfer of copies across borders. See BLACK'S LAW DICTIONARY (6th ed. 1990) at 755 ("Importation -- The act of bringing goods and merchandise into a country from a foreign country") (citing *Cunard Steamship Co. v. Mellon*, 262 U.S. 100 (1923)). It would cover, for example, the shipping to the U.S. of copies acquired abroad by or to an enterprise like Costco, even if there had not yet been any dissemination of those copies to the public (which would be required for infringing distribution under § 106(3)). There may have been, but need not be, a prior sale, transfer of possession, or other distribu-

tion. *See* H.R. Rep. No. 1476, 94th Cong., 2d Sess. 170 (1976) (§ 602(a) allows actions against unauthorized importers of goods acquired abroad "even before any public distribution in this country has taken place"); S. Rep. No. 473, 94th Cong., 1st Sess. 152 (1975) (same).

Not only the legislative history addressed below, but also the basic rules of construction that require meaning to be accorded to every statutory provision, make plain that in enacting § 602(a)(1) Congress was seeking to reach conduct not reached under § 106(3) alone. Otherwise, there would have been no need for authors or publishers to reach agreement to seek, or for Congress to grant, the broad protection against importation covered by § 602; § 106(3) would have sufficed. Section 602(a) further secures copyright owners' exclusive rights and the value of their U.S. copyrights by adding another weapon (beyond the distribution right) to the copyright owner's arsenal– the right to prevent unauthorized importation of copies before they even cross the border for distribution to third-party U.S. vendors or purchasers.

B. For Copyright-Based Industries, Section 602(a) Protects Core Aspects Of The Exclusive Distribution Right

The construction of § 109 adopted by the Ninth Circuit and virtually all prior courts[4] and contended for by book publishers and others results not from

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[4] *See* Respondent's Brief at 22-23 & n.8 (citing cases).

any effort to end-run around limitations to the parallel import right under the trademark and customs laws, as Costco charges. Rather, preventing unauthorized importation and distribution of copies made abroad is fundamental to securing the exclusive rights that copyright affords to authors and publishers, which necessarily enable them to control the timing, content, packaging, pricing, and (in some instances) quality of their releases to the American public – *i.e.*, the crucial "choices of when, where, and in what form first to publish a work" integral to the § 106(3) right. *Harper & Row*, 471 U.S. at 564.

1. Timing

Publishers (and others who fund and arrange for the distribution of copyright-based products) often follow a pattern of sequential release across geographic markets and formats. "Staggered" release dates enable copyright owners to coordinate and maximize pre-release publicity for anticipated distributions within particular regions. Distribution of a book or sound recording may be launched initially in a pertinent market abroad, and then subsequently in the U.S. so that national release may coincide with a U.S. publicity "tour" by the author or recording artist.

Staggered release may also serve to create a popular "buzz" or crescendo of demand before the recording is released in the large U.S. market. A book may be initially distributed in the United Kingdom, with U.S. distribution occurring if and

after international demand reaches a particular level. Or highly anticipated U.S. works may be first released outside the U.S., such as the initial release of "Toy Story" in Mexico, to diminish incentives for international piracy. Differences in seasonal timing involving the start of the "fall" semester in the southern and northern hemispheres may create the need for timed release of college textbooks.

Parallel import of copyrighted works acquired abroad interferes with copyright owners' ability to exploit their works within a region through control over when a work is first distributed and through coordination of the initial distribution with pre-release publicity. The importation of copies made and acquired abroad undermines the copyright owner's exclusive right to control the manner and timing of their U.S. distribution.

The problem is particularly heightened for works that follow a sequential distribution pattern for different formats or media, as well as for different geographic markets. The release of hardback and paperback versions is routinely staggered. A work first distributed or released abroad may progress to paperback version in that market while the title is still in hardback domestically. Parallel imports of paperback versions interfere with the U.S. copyright owner's right to exploit fully the "window" for hardback release.

2. Pricing

Parallel imports also undermine copyright owners' ability to exercise their right to control the pricing of their works, a critical component of the distribution right. Wide price variations between domestic and international markets for copyright-based products are important and necessary for copyright-based industries to exploit their products internationally and to further develop international markets. Such price variations are the result of local demand, local ability to pay, local taxes, local regulations and international treaty obligations, local manufacturing and distribution costs, piracy concerns, and local infrastructure.

As copyright-based industries enter and develop new markets, they price products to make them attractive to local consumers, while permitting the industries to generate positive net income. This pricing structure is made economically viable by the relatively low marginal cost of creating additional copies of copyrighted works compared to the significant expense of creating the work itself (together with its initial production costs; editing, layout, etc.). Some publishers – to make products affordable in local markets, encourage education, discourage piracy, and build literacy and good relations – may create special editions of textbooks at lower prices for foreign markets. (For example, some textbooks created initially for the U.S. higher education market are sold in cheaper editions, with different paper,

illustrations, etc., for the market in India and China).

By strategically pricing products, copyright-based industries encourage local demand and development of local infrastructure for such products. This has at least two significant benefits. First, it encourages further creative activity by promoting markets from which copyright owners, which have made a significant investment in producing works, can recoup such investment. In this way, strategic pricing serves one of the fundamental purposes of the Copyright Act – to promote creative expression by allowing copyright owners to realize economic benefit from their creations. Second, development of local demand for copyrighted works promotes the wide dissemination of copyrighted works. Strategic pricing serves the principal purpose of the Copyright Act – "promoting broad public availability of literature, music, and the other arts" and thus creates a private incentive "to stimulate artistic creativity for the general public good." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975).

The downside to the variation in pricing between the domestic and international markets is that it incentivizes third parties to export to the U.S. copies made (and perhaps distributed) under foreign law abroad, thus invading the copyright owner's exclusive right to distribute in the United States. The incentive and ability to exploit price differentials through cross-border movement of copies is likely to

increase in the future, as language barriers throughout the world continue to erode and English increasingly becomes a lingua franca.

Importation and distribution of copies acquired at reduced prices abroad derogate from the Copyright Act's mandate of enabling the copyright owner to control the pricing and distribution of works.

3. Content

Because of the varying cultural appeal of many copyright-based works, owners may distribute their works with varying content in different national markets. Due to censorship, threatened boycotts or marketing considerations, a title in one market may have varied content from the U.S. release. A short story collection released in England may contain a work about abortion that might effectively prevent its school use in South Dakota or Kansas. A compact disc released in a foreign country may contain different or additional "tracks" than a similar recording by the same artist released in the United States. Yet if the price differential is sufficient, versions released for foreign distribution will likely be imported to undersell similar copyrighted works distributed domestically. Importation of copies intended for audiences abroad interferes with the copyright owner's creative decision concerning what to distribute in a given market, and displaces sales benefitting U.S. copyright owners.

C. *Costco*'s Proposed Construction Would Cause Copyright Owners and the Public Substantial Harm

Construing § 109 as Costco urges would substantially harm the publishing industry, authors, and the public.

Most educational publishers currently print at least two different editions of their textbooks – one for domestic distribution and one or more for international distribution. The domestic editions are often printed in the United States using high quality products and binding and are bundled with supplemental materials including teaching aids and online resources. State and local regulatory requirements also add additional cost.

International editions, on the other hand, are priced based on what purchasers in the intended market can afford. For many (although not all) works, production quality is significantly reduced to keep production costs commensurately low. To create a textbook for sale in India, for example, publishers would reduce costs by using lower quality paper and covers, removing color images, and using inferior bindings.

Construing § 109 to change what has been understood as the law since its enactment – to make the importation of books made under foreign law not infringing – would have precisely the consequence any economist would expect. Copies of foreign editions would be imported en masse, by large

campus-based bookstores, Internet resellers, and others. Domestic editions would quickly lose market share to resold international editions, which are often half or a quarter of the price of the domestic editions. The loss of revenue from domestic editions would drastically reduce the ability of publishers to compensate authors for their work and lead to significant changes in publishers' business models which, in turn, will cause ripple effects beyond the publishing industry.

The educational publishing industry relies on the revenues from the sale of domestic editions to support the extensive research and development necessary to ensure that the information in textbooks is current and accurate. Development costs are large; it may take three years to develop a new textbook, which will be rigorously researched, tested and reviewed throughout that period. Development is the most expensive part of the process of creating new or revised texts, and is vital to ensuring that the published works contain the most current and accurate information, in the most usable form.

The development phase is funded by the profits from the sale of the domestic editions of the textbooks. The revenue from the international editions cannot and does not fully support the rigorous and time consuming development process currently in place. A decline in profit margins occasioned by adoption of Costco's argument would mean that textbooks will be published less

frequently, publishers will be less willing to include new and/or developing research, and the books will not be vetted to their current rigorous standards. Less time will be devoted to the testing and review of books. Quality would suffer in multiple respects. Given the harm that foreign editions could cause, the result might be an unfortunate increased focus on domestic editions alone.

More fundamentally, decreased margins (and diversion of sales for foreign copies) would also predictably decrease the royalties and advances that authors currently receive, reducing the incentives to new works for both authors and publishers. If fewer academics are willing to engage in the labor intensive process required to write a textbook, textbook quality will suffer.

II. THE FIRST SALE DOCTRINE IS NEITHER A DEFENSE TO INFRINGING IMPORTATION NOR A LIMITATION ON THE EXCLUSIVE RIGHT TO IMPORT BOOKS ACQUIRED OUTSIDE THE UNITED STATES MADE UNDER FOREIGN LAW

A. Plain Language and Structure

The briefs for Costco and its *amici* proceed as if this case begins and ends with § 109. Section 602(a) is introduced as an afterthought (in Costco's brief) or not at all (the briefs of nearly all its *amici*). But analyzing this case that way is Hamlet without the ghost. The wrong complained of is actionable under § 602(a)(1) and § 501 and the prime question is not

just what § 109 means, but, first, what § 602(a)(1) means. While we do not suggest that analysis need end there, careful attention to the structure of those provisions and review of the legislative history underlying § 602(a)(1) makes plain that Congress intended it to have the broad reach its plain text commands, providing copyright owners with protection, absent *their* consent, from the importation of copies – whether piratical or not – acquired abroad and made under foreign law for use abroad.

The evidence from 17 U.S.C. § 501. In § 501, Congress treated unauthorized importation as an infringing act distinct from the violation of § 106 rights:

> Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 122 or of the author as provided in section 106A (a), *or who imports copies or phonorecords into the United States in violation of section 602*, is an infringer of the copyright or right of the author.

That § 501's infringement cause of action treats importation separately from distribution argues for the inapplicability of § 109 to a claim for infringing importation, as Justice Stevens' opinion in *Quality King* noted. 523 U.S. at 145-46. Pointing in the same direction is the text of § 109, which specifies that it applies "notwithstanding the provisions of section 106(3) . . . ." Congress could have, but did

not, specify that § 109 applies "notwithstanding the provisions of § 106(3) and § 602," or that § 602(a)(1) is "subject to" § 109. Instead, § 109 applies "notwithstanding the provisions of section 106(3)" alone, and does not include "importing" among the actions (selling or disposing of possession) that the owner of a copy "lawfully made under this title" may take.[5] *Id*. at 136-37.

The evidence from 17 U.S.C. § 602(a)(3). Additional evidence is supplied by the express exceptions Congress crafted. As those exceptions show, Congress took care to craft exceptions to § 602's broad prohibition on the importation of copies "without the authority of the owner of copyright under this title." Those exceptions would have been unnecessary had the first sale doctrine generally applied to imported copies. Indeed, the case for Costco's reading of the statute is even worse, for all three carefully crafted exceptions (for governmental use, scholarly and educational use, and the so-called "suitcase exception") involve previously sold copies, but only a small subset of them. (Note too that Congress was clearly considering books, as the reference to libraries in § 602(a)(3)(c) reflects.)

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[5] We recognize that *Quality King* rejected an argument that the first sale doctrine is categorically inapplicable to imported copies. The Court need not revisit that issue to affirm here. But since *Quality King* involved goods made in the U.S. (which then made a round trip abroad), it plainly did not decide that the first sale doctrine applies to copies acquired abroad made under foreign law.

Congress's exceptions open the § 602(a)(1) gate only slightly, not the wide breach for previously sold copies that the arguments of Costco and its *amici* would entail. Adoption of Costco's construction of § 109 would virtually make those three exceptions surplusage.

Of course, the fact that it has become easier today using the Web to seek books from foreign sources cannot legalize the practice nor detract from enforcing the law as Congress intended; to the contrary, that increased ease only magnifies the potential harm. But in view of Congress's consideration of the harm to copyright threatened by broadscale importation of copies made under foreign law, and provision of exceptions to avert any resulting inconvenience to individuals or even the Government and certain institutions, there is no occasion for displacing Congress's choices by a construction of § 109 that would effectively neuter § 602(a)(3) and make them irrelevant.

The use of "under this title" in 17 U.S.C. § 602. Justice Ginsburg's concurring opinion in *Quality King*, the brief of the United States opposing the writ in this case, and the Ninth Circuit's opinion in this case all cogently and correctly show why the phrase "under this title" in 109 renders the first sale doctrine inapplicable to copies made under foreign law (*i.e.*, made abroad for use abroad, unlike the copies in *Quality King* that were made in the United States). Justice Ginsburg's concurrence emphasized that *Quality King* decided only that copies made in the

U.S., which had taken a "round-trip," were "lawfully made under" title 17 and therefore subject to § 109. As then-Solicitor General Kagan put it (U.S. invitation brief at 12),

> Respondent's wristwatches were neither "lawfully" nor unlawfully "made under [Title 17]" because they were not "made under" Title 17 at all.

See also Quality King, 523 U.S. at 136 (recognizing that §602(a) applies to "a category of copies that are neither piratical nor 'lawfully made under this title.' That category encompasses copies that were 'lawfully made' not under the United States Copyright Act, but instead under the law of some other country.")

The works of John Updike or Philip Larkin, licensed to a British publisher for reproduction and distribution in the United Kingdom, are "lawfully made" under UK copyright law. But it would be odd to characterize such copies as "lawfully made under this title" – that is, under U.S. copyright law, as *Quality King* itself noted. It seems inapt to categorize copies produced in the U.K. by the UK copyright owner, or under its license, as "lawfully made under U.S. law," which has no application whatever.[6] Any

[6] An example from a related field shows how odd and unnatural Costco's analysis is. If a pharmaceutical company in the United States developed a drug for which it obtained the right to manufacture and market in France but not yet in the United States, its authorization to a French pharmaceutical house would not make the drug "lawfully made under" U.S. law.

right to authorize reproduction or distribution in the U.K. arises under U.K. copyright law, not U.S. law.

What neither Costco nor its allies have noted is that the central portion of the phrase "lawfully made under this title" from § 109, which Costco struggles so unsuccessfully against, is also used in § 602, where it unmistakably is used in the service of creating a meaningful exclusive right of importation for the U.S. copyright owner. Section 602(a) makes infringing the "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." Congress used the "under this title" clause in § 602(a) to give the owner of the U.S. copyright the exclusive right to import (or what is the same thing, to preclude importation).

Whoever else throughout the world owns the copyright under the law of other nations, it is only the "owner of copyright *under this title*" who controls the exclusive right to import into the U.S. copies "that have been acquired outside the United States . . . ." Ownership of the U.S. copyright is the only basis for authorizing importation into the U.S. Neither § 602 nor any other provision grant the owner of a copyright under any foreign law the authority to export copies to the U.S. without the consent of the U.S. copyright owner.

Costco's statutory argument ignores that under its view Congress used "under this title" in § 602 to

exactly the opposite purpose that it used the same phrase in § 109. Under Costco's view, what Congress gave to copyright owners by using "under this title" in § 602, it promptly took away in § 109.

By contrast, noting the relationship of the two uses of "under this title," and treating Congress's decision to use the same phrase as advertent illuminates the relationship of the two provisions. It would odd in the extreme if Congress, having used "under this title" in § 602 to give the U.S. copyright owner the exclusive right to import, used the same phrase in § 109 to weaken that right fatally. Yet Costco's argument is exactly that: under its reasoning, any grant by the "owner of copyright under this title" of a right to make copies in any of hundreds of countries abroad – no matter how hedged by contractual restrictions – necessarily entitles that foreign licensee to export those copies to the United States "without the authority of the owner of copyright under this title . . . ," and regardless of contractual restrictions.

B. Legislative History

This Court has repeatedly relied on the and lengthy and unusually thoughtful legislative history of the 1976 Copyright Act, which reflects a series of compromises and judgments made jointly by creators, publishers, and other affected participants.[7]

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[7] E.g., *Feist Publ'ns, Inc. v. Rural Tel. Servs. Co, Inc.*, 499 U.S. 340, 357, 359-60 (1991); *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 743 (1989); *Harper & Row*, 471 U.S. at

The legislative history of § 602(a) confirms that Congress intended to make unauthorized importation of works acquired abroad (and made abroad for foreign use) infringing of copyright, regardless of whether the goods were piratical or authorized.

The legislative history shows both the drafting and the adoption of critical language that was clearly intended to protect against the unauthorized importation of any quantity of product — whether licensed or unlicensed, whether piratical or genuine.

Before the 1976 Copyright Act, there was no restriction on the importation of copies manufactured without the authorization of the United States copyright holder. The prior law, §106 of the 1909 Copyright Act, had simply offered the narrow prohibition of the "importation into the United States . . . of any piratical copies of any work copyrighted in the United States . . ." Act of Mar. 4,

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552; *Mills Music, Inc. v. Synder*, 469 U.S. 153, 159-61 (1985); *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 429 (1984). As the Court noted in *Reid*, where it unanimously relied on the Act's legislative history, the Act "was the product of two decades of negotiation by representatives of creators and copyright-using industries, supervised by the Copyright Office and, to a lesser extent, by Congress." 490 U.S. at 743. That history is particularly telling where, as in *Reid* and this case, the "lengthy history of negotiation and compromise which ultimately produced the Act" reflects clearly and without contradiction that only one of the positions argued before the Court is faithful to the statutory language and the clearly documented intentions of those engaged in the drafting process. *Id*.

1909, ch. 320, § 30, 35 Stat. 1075, 1082 (1909). In order to constitute a piratical copy, it had to be shown that the rights of the copyright owner had been contravened not only as to importation but also as to production. *See* Staff of House Comm. on the Judiciary, 88th Cong., 1st Sess., *Copyright Law Revision Part 2: Discussion and Comments on Report of the Register of Copyrights on General Revision of the U. S. Copyright Law*, at 212 (Comm. Print 1963) [hereinafter Discussion on Report of the Register (Part 2)].

In 1961, the Register of Copyrights issued its report for a revision of the copyright law, recommending that the provision dealing with the importation of piratical copies should not be changed to cover the copies of books that are imported in contravention of the territorial rights of a U.S. publisher. *See id.* at 193-194. The Register reasoned that extending the ban to include authorized copies would "impose the territorial restriction in a private contract upon third persons with no knowledge of the agreement." *See* Staff of House Comm. on the Judiciary, 87th Cong., 1st Sess., *Copyright Law Revision: Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law*, at 126 (Comm. Print 1961) [hereinafter Report of the Register (Part 1)].

The Register was acutely aware of the harms caused by these unauthorized imports, of the difficulties publishers had in enforcing territorial limitations, and of the obvious solution of extending

the import ban on piratical copies to cover those unauthorized copies. *See* Report of the Register (Part 1), at 125-126 ("When arrangements are made for both a U.S. edition and a foreign edition of the same work, the publishers frequently agree to divide the international markets. The foreign publisher agrees not to sell his edition in the United States, and the U.S. publisher agrees not to sell his edition in certain foreign countries. It has been suggested that the import ban on piratical copies should be extended to bar the importation of the foreign edition in contravention of such an agreement.") But at that early date the report suggested that agreements to divide territorial markets were "primarily a matter of private contract." *See* Discussion on Report of the Register (Part 2), 194 (statement of Barbara Ringer, Copyright Office).

Publishers quickly rejected the idea that a contract remedy was adequate. *See* Discussion on Report of the Register (Part 2), 212-213 (statement of Horace Manges, American Book Publishers Council, Inc.) ("When a U.S. book publisher enters into a contract with a British publisher to acquire exclusive U.S. rights for a particular book, he often finds that the English edition, for instance, of that particular book finds its way into this country. Now it's all right to say, 'Commence a lawsuit for breach of contract.' But this is expensive, burdensome, and, for the most part, ineffective. The copyright law provides a remedy here . . ."). Instead, they and their allies insisted that protection had to come from

copyright law, and that a statutory fix was needed to expand the exclusive right to bar importation. *See id.* at 232 (joint comment of American Book Publishers Council, Inc. and American Textbook Publishers Institute) ("Where a foreign publisher agrees with a U.S. publisher not to sell his edition of a particular book in the United States, it often happens that, in contravention of such an agreement, the book finds its way into the United States to the detriment of the American publisher. . . . [T]he problem of protecting the U.S. publisher in a situation such as outlined above, could be met if the definition of piratical copies were broadened . . . then copies imported into the United States in violation of a territorial agreement such as described above, having been so imported in contravention of the rights of the copyright proprietor (even though legally produced), would be piratical copies and therefore not importable."); *id.* at 275 (comment, Walter Derenberg) (" . . . I would favor an express recognition in the proposed new bill of the principle of territoriality of copyright. In other words, I would be in favor of extending the import ban on piratical copies to genuine foreign printed books which are sought to be imported into the United States without the consent of the U.S. copyright proprietor. . . . I do not quite share your reluctance 'to impose a territorial restriction in a private contract upon third persons with no knowledge of the agreement.' . . . I can see no reason why a territorial assignee of the copyright should be deprived of this avenue of protection."); *id.* at 327 (comment, Horace Manges)

("I would favor the above-quoted suggestion in your report 'that the import ban on piratical copies should be extended to bar the importation of the foreign edition in contravention of such an agreement.' Such a ban would serve to solve the above-mentioned importation problem by prevention instead of having to depend upon the more costly and otherwise less desirable method of resorting to a burdensome application for an injunction, and probably after some damage has already occurred.").

In light of these discussions, the 1964 preliminary draft prepared by the Copyright Office reversed the Register's previous recommendation and extended the importation right to cover piratical and authorized copies alike:

> §44. Importation of Infringing Copies or Records
>
> (a) Importation into the United States of copies or records of a work for the purpose of distribution to the public shall, if such articles are imported without the authority of the owner of the exclusive right to distribute copies or records under this title, constitute an infringement of copyright actionable under section 35.

Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision, Part 3, Preliminary Draft for Revised U.S. Copyright Law and Discussions and Comments on the Draft*, at 32 (Comm. Print 1964).

This provision of the preliminary draft was expressly described as encompassing "the importation for distribution in the United States of foreign copies that were made under proper authority but that, if sold in the United States, would be sold in contravention of the rights of the copyright owner who holds the exclusive right to sell copies in the United States." Staff of House Comm. on the Judiciary, 88th Cong., 2d Sess., *Copyright Law Revision Part 4: Further Discussions and Comments on Preliminary Draft for Revised U. S. Copyright Law*, at 203 (Comm. Print 1964) [hereinafter Further Discussions on Preliminary Draft (Part 4)] (statement of Abe Goldman, Copyright Office); *see also id.* at 205-206 (statement of Sydney Kaye, Broadcast Music, Inc.) ("'[P]iratical copies' has been defined, even under the present § 106, as meaning a work which is both illegally produced and imported. It does not apply to works legally produced in Europe, and the present statute does. That is the enlargement to which I am referring.")

The preliminary draft sparked discussions and comments from publishers that focused on this new protection of the U.S. publishers' exclusive right to control the importation of copies made abroad that were authorized under foreign law. Seeking clarification of the precise scope of the expanded protection, Harriet Pilpel, representing authors, questioned the meaning of "the owner of the

exclusive right to distribute copies or records under this title," asking:

> PILPEL: . . . I don't know what "the owner of the exclusive right to distribute copies or records" really means, since there will be several owners of several exclusive rights to distribute copies or records. One such owner might be the British publisher. Another owner might be Time, Inc. as when they published "The Old Man and the Sea" in *Life Magazine*, and another owner might be Harper and Row Publishers if they publish the book version of what has first appeared in a magazine, and so forth and so on.
>
> In the first place, don't you have to say "the owner of an exclusive right," or change it in some other way to make it clear? In the second place, don't you mean to limit it to the owner of an exclusive right in the United States?
>
> GOLDMAN: We also mean to limit it to the owner of the exclusive right to distribute the kind of copies that are being brought in.
>
> PILPEL: Well then, that ought to be stated, because otherwise it sounds like one owner of one exclusive right.
>
> GOLDMAN: Isn't that implied?

> PILPEL: It doesn't seem implied to me.

Further Discussions on Preliminary Draft (Part 4), 212-213 (statements of Harriet Pilpel and Abe Goldman).

Irwin Karp, speaking for authors, also noted that the new provision would apply to authorized copies, not just piratical ones:

> KARP: [Under this section] importation of copies that were legally made in the first place becomes infringement if the copies are imported without the authority of the owner of the exclusive right to distribute copies. How far down the line of distribution will this extend? If a bookseller buys copies from a jobber who legally bought them from a German publisher, would he be guilty of infringement?
>
> In other words, some American importer buys from a German jobber, who legitimately bought the copies from the German publisher, who had authority to make and sell them. Then he sells them into the United States, and the American importer then sells them to a retail bookseller, and the retail bookseller sells one of these copies. Would that be an infringement under this section?
>
> GOLDMAN: I should think the result of this section would be that anybody who

> imports without authority into the United States for the purposes of distribution to the public would be an infringer.
>
> ***
>
> KARP: . . . If a German jobber lawfully buys copies from a German publisher, are we not running into the problem of restricting his transfer of his lawfully obtained copies?
>
> GOLDMAN: I would suppose that the whole answer depends on whether the distribution would take place in the United States would itself constitute an infringement of copyright. When you apply this rule about the effect of the first sale of a copy exhausting the right to control the further distribution of that copy, your question would be whether this represents a sale of the copy that does exhaust the right.
>
> KARP. You are right, Abe.
>
> GOLDMAN: This could vary from one situation to another, I guess. I should guess, for example, that if a book publisher transports copies to a wholesaler, this is not yet the kind of transaction that exhausts the right to control disposition.

Further Discussions on Preliminary Draft (Part 4), 210-211.

On July 20 and August 12, 1964, the 1964 Revision bill was introduced in the Senate and the House respectively. The pertinent provisions stated:

> §44. Infringing importation of copies or phonorecords.
>
> (a) Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work for the purpose of distribution to the public is an infringement of the exclusive right to distribute copies or phonorecords under section 5; actionable under section 35.

Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 5: 1964 Revision Bill with Discussions and Comments*, at 25-26 (Comm. Print, 1965).

The identical language of §44(a) of the 1964 Revision Bill was carried over to the 1965 Revision Bill as §602(a). *See* Staff of House Comm. on the Judiciary, 89th Cong., 1st Sess., *Copyright Law Revision Part 6: Supplementary Report of the Register of Copyrights on the General Revision of the U.S. Copyright Law 1965 Revision Bill*, at 292 (Comm. Print 1965) [hereinafter Supplementary Report of the Register (Part 6)]. The Register's Supplementary Report on the 1965 Revision Bill specifically articulated a situation, covered by § 602(a), where "the copies or phonorecords were lawfully made but their distribution in the United

States would violate the exclusive rights of the U.S. copyright owner. This would occur, for example, where the copyright owner had authorized the making of copies in a foreign country for distribution only in that country." Supplementary Report of the Register (Part 6), at 149-150.

The 1965 Revision Bill also included, within § 602(a), an exception for the importation "by an organization operated for scholarly, educational or religious purposes and not for personal gain, with respect to copies or phonorecords intended to form a part of its library." *Id.* Due to criticisms, however, the exceptions were further limited to only three specific examples: (1) importation for governmental use other than in schools (but "not including copies of any audiovisual work imported for purposes other than archival use"); (2) importation for personal use of no more than one copy or phonorecord of a work at a time, or of articles in the personal baggage of travelers from abroad; or (3) importation by non-profit organizations "operated for scholarly, educational, or religious purposes" of "no more than one copy of an audiovisual work solely for its archival purposes", and no more than five copies or phonorecords of any other work for its library lending or archival purposes. *See* H.R. Rep. No. 89-2237, 167 (1966). There were no other reported discussions about any other exceptions to the provision.

Ultimately, the language of § 44(a), as settled in the 1964 Revision Bill, was enacted twelve years

later without change as § 602(a) of the 1976 Copyright Act. *See* Pub. L. 94-553, Title I, §101, Oct. 19, 1976, 90 Stat. 2589. As summarized by the House Report accompanying the bill, "Section 602(a) first states the general rule that unauthorized importation is an infringement merely if the copies or phonorecords 'have been acquired outside the United States' but then enumerates three specific exceptions . . . ." H.R. Rep. No. 94-1476, 169 (1976). The Report also confirmed that "[i]f none of the three exemptions applies, *any* unauthorized importer of copies or phonorecords acquired abroad could be sued for damages and enjoined from making any use of them, even before any public distribution has taken place." *Id.* at 170 (emphasis added).

Thus, although the Register had been initially reluctant to enlarge the prohibition of importation from piratical copies to include all unauthorized imports, the history of the development of what became § 602(a) makes it unmistakably clear that that provision was intended to reach "any" copies acquired abroad made under foreign law, piratical and authorized copies alike. The argument of Costco and its allies destroys that accomplishment, ignores that history and the text that resulted from it, and attempts to restore the law to the limited application to piratical copies that it was the very purpose of §44 to expand.

C. Costco's Failed Effort to Give § 602(a) Some Meaning Relies On Distinctions That Congress Never Made and Makes No Sense

A prime objection to Costco's argument is that it leaves § 602(a)(1) with virtually no role to play: notwithstanding what looks like a powerful tool against importation of copies into the U.S. for sale without the copyright owner's permission, the "lawfully made under this title" clause in § 109 is so broadly construed that the owner of the U.S. copyright cannot block the importation of any copies licensed by the U.S. copyright owner for manufacture and use abroad, no matter how tightly its contracts and licenses are drawn. If a publisher creates a textbook in the U.S. and then licenses a publisher in India to publish the book for Indian students as well (with covenants not to export such copies to the United States), then § 602(a)(1) is out of play, and the U.S. copyright owner necessarily takes the risk that tens of thousands of copies made in India for that market will be diverted back into the United States. And that is so, Costco insists, even though the history underlying § 602(a)(1) makes plain beyond dispute that Congress made infringing the importation of not only piratical but also licensed copies.

Costco initially contended that the first sale doctrine applied so long as the U.S. copyright owner itself made the copies abroad (a position that was tailor-made to win this case, because the watches at issue were in fact made by the respondent). Petition

at 13-14. Recognizing the unlikelihood that Congress would have drawn such a line (and the clear evidence that it didn't), however, Costco has now changed course. What Congress meant by § 109's phrase "lawfully made under this title," Costco now says, is that copies licensed to be made and used abroad are not "lawfully made under this title" for purposes of § 109 (and therefore infringing under § 602(a)(1)) if they are licensed by an "unrelated foreign copyright holder." Conversely, Costco says, copies *are* "lawfully made under this title" under § 109 (and therefore not barred by § 602(a)) if they are made under license from the U.S. copyright owner or any "related foreign copyright holder." *See* Costco Br. 39-40.

Under Costco's newly minted position, Congress aimed in § 602(a)(1) to protect copyright owners' U.S. market not from damaging importation generally, but only from importation of copies created under certain arrangements – where the foreign authorization resulted from an assignment, rather than a license. The goal was (under that view) not to allow international market segmentation, but only segmentation accomplished through assignments rather than licenses. Under Costco's argument, if a U.S. copyright owner (author or publisher) licenses rights to both U.S. and U.K publishers for sale only in each area respectively, it necessarily exposes its U.S. market to imported copies made in the U.K. notwithstanding § 602(a)(1) or any contractual covenants insisted on. If, however, aware of that risk, the owner of the U.S. copyright assigned the

U.K. rights in his work to an "unrelated" party, then apparently copies made abroad by that entity or under its license would be excludable and infringing under § 602(a)(1).

We say "apparently" because Costco is very unclear about what it means by "unrelated." It never says. Perhaps it is suggesting that a U.S. copyright owner can avert the risk of importation by assigning foreign rights, but not preclude licensing them. Perhaps even an assignee may be "related" depending on corporate structure of overlapping boards of directors or shareholders, or personal or familial relationships, or the number or nature of the transfers between the creator and the foreign publisher. Certainly years of litigation would be required to flesh out the concept at the heart of this creative suggestion.

But whatever Costco's distinction would mean in practice, nothing in the text of the Copyright Act, including § 602 and § 109, supports that reading, or suggests that Congress drew any such lines. The history of the discussions and negotiation that led to the text of the importation right in § 602 can be searched in vain for anything suggesting that Congress had any such scheme in mind.

As Omega correctly observes in Point II of its brief, Costco's construction is belied by key provisions and concepts underlying the Copyright Act; makes substantive rights turn on meaningless formalities; and eliminates the proposed policy basis

for Costco's proposed construction of § 109(a). Omega Br. 37-39. It is hard to imagine that Congress chose to make the effectiveness of the § 602 right to prevent importation of copies not intended for the U.S. market turn on whether the U.S. and foreign law copyrights to a work were owned by "related" or "unrelated" entities.

Nor, to put it mildly, is there any reason to think that Congress wanted to pressure owners of U.S. copyrights, such as authors or publishers, to have to alienate their foreign copyrights in order to enjoy the security for exclusive rights embodied in § 602. Costco's argument is contrary to one of the central thrusts of the 1976 Act, which was to establish the equivalence of transferring ownership of exclusive rights with granting exclusive licenses. *See, e.g.*, 17 U.S.C. § 201(d)(2) and § 203(a).

Moreover, since Costco effectively concedes that the initial owner of the U.S. copyright can always avert the impact of § 109, and enjoy the protection of § 602(a)(1), by structuring its affairs so that copies made abroad for use abroad are published by "unrelated" entities, Costco's new understanding of § 109 would, in the end, simply increase transaction costs and uncertainty without expanding the reach of the first sale doctrine. There is no evidence whatsoever that Congress meant to extend the first sale doctrine to foreign copies on so arbitrary a basis, and one that could be so routinely gotten around by alert parties willing to restructure their operations and pay the necessary transaction costs.

CONCLUSION

For the foregoing reasons, the decision below should be affirmed because only that would carry out Congress' clear and very deliberate intent to make infringing the unauthorized importation of copies made under foreign law. If there are distinctions to be made between the core copyright purposes addressed here by publishers and the deliberate intent of Congress, on the one hand, and the circumstances in which copyright was invoked by Omega here on the other, that must be left to Congress.

Respectfully submitted,

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