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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 AMERICAN WATCH ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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INTEREST OF AMICUS CURIAE

This *amicus curiae* brief is submitted on behalf of the American Watch Association ("AWA"), in support of Respondent Omega, S.A.[1] AWA is a trade association that for over half a century has represented the interests of the watch industry in the United States. AWA's more than 90 member brands and companies manufacture, import, and sell watches, watch movements, and other watch and jewelry products bearing thousands of copyrighted designs. The watch industry is an important factor in the nation's economy, supporting tens of thousands of jobs with annual sales in excess of several billion dollars. The value of the copyrights held by AWA members would be diminished if this Court were to expand the application of the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), to goods made and sold abroad. In particular, AWA is concerned with maintaining the benefits and protections of copyright in creating and distributing watch designs and with the negative effects of gray market goods on AWA members and consumers.

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[1] Letters from both parties indicating consent to file this *amicus curiae* brief have been submitted to the Clerk. Pursuant to Rule 37.6, *amicus curiae* states that no counsel for either of the parties authored this brief in whole or in part. No person or entity, other than *amicus curiae* and its members, made a monetary contribution to the preparation or submission of this brief.

SUMMARY OF ARGUMENT

In the decision below, the Ninth Circuit correctly held that the Copyright Act's first-sale doctrine does not apply to goods manufactured, sold, and intended for distribution solely outside the United States and its territories. As Respondent demonstrates, the Ninth Circuit's decision is supported by the language, history, and purpose of the Copyright Act, as well as by this Court's precedent. For the reasons discussed in this submission, the Ninth Circuit's decision also represents sound policy.

AWA and its members are particularly attuned to the policy implications of the issues raised by this case. Copyright protection for watch and jewelry designs is vital to the United States watch industry and to the tens of thousands of jobs supported by that industry. The design, advertising, marketing, and promotion of watch products all require significant investments, which watch manufacturers seek to protect through intellectual property rights. Copyright protection is an important component of these rights, motivating artists, designers and craftsmen to continue to produce a wide variety of creative and original watch designs.

Extending the Copyright Act's first-sale doctrine to permit the unauthorized importation of goods made, sold, and intended solely for distribution abroad would undermine the value of U.S. copyrights, including those held by AWA members, harming copyright owners and consumers. First, such "gray market" imports "free ride" off the

recognition and goodwill generated by a copyright owner's investment in its copyrighted work; it is this work—paid for and produced by the copyright owner alone—that creates and maintains a market for the product. Second, consumer dissatisfaction arising from gray market imports intended for sale abroad—which can differ in design, quality, intended usage, warranty coverage, and more—further diminishes the value of U.S. copyrights. Finally, gray market imports undermine a copyright owner's right to control the manner and scope of the distribution of his work (and, thus, the attendant economic benefits) as guaranteed by the Copyright Act. *See* 17 U.S.C. § 106(3).

In the decision below, the Ninth Circuit correctly recognized that *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135 (1998), did not require an extension of the first-sale doctrine to goods made and sold abroad. *Quality King*, while addressing only goods that were manufactured in the United States, supports the Ninth Circuit's holding that goods made and sold abroad are not, without more, "lawfully made under" the Copyright Act, as required by the first-sale doctrine. *See* 17 U.S.C. § 109(a). As the Ninth Circuit correctly observed, to hold otherwise would impermissibly "ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States." *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 988 (9th Cir. 2008).

ARGUMENT

I. COPYRIGHT PROTECTION FOSTERS CREATIVITY AND IS VITAL TO THE UNITED STATES WATCH INDUSTRY.

The United States watch industry relies heavily on copyrights to protect original watch and jewelry designs. These designs take many forms, from artwork applied to the face or strap of the watch, to the creative selection and arrangement of elements on the watch, to original designs of varying sizes engraved on the watch. Thousands of new watch designs are created by AWA members each year, with numerous designs being registered with the United States Copyright Office. The Swatch Group, Ltd., for example, maintains hundreds of copyright registrations for individual watch designs. *See* U.S. Copyright Office, Public Catalog, *available at* http://cocatalog.loc.gov/ (search by "Name"; then enter "Swatch"); *see also* Official Swatch e-store web site, http://store.swatch.com/collectibles (last accessed Sept. 3, 2010) (depicting wide variety of watch design artwork). Fossil, Inc., as just another example, has registered dozens of copyrighted designs. *See* U.S. Copyright Office, *supra* (search by "Name"; then enter "Fossil").[2]

Watch and other jewelry designs are considered "pictorial, graphic, and sculptural works"

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[2] Because registration is not required for copyright protection, *see* 17 U.S.C. § 408(a), many AWA members choose not to register their copyrightable designs unless necessary for litigation or other purposes.

protected under Section 102(a)(5) of the Copyright Act, provided those works are "original." *See* 17 U.S.C. § 102(a)(5); *see also* U.S. Copyright Office, Circular 40, Copyright Registration for Works of the Visual Arts (2009), *available at* http://www.copyright.gov/circs/circ40.pdf (listing "jewelry designs" among examples of "two- and three-dimensional works of fine, graphic, and applied art" protected by copyright). As this Court has explained, "[o]riginal, as the term is used in copyright, means only that the work was independently created by the author . . . and that it possesses some minimal degree of creativity." *Feist Publ'ns, Inc. v. Rural Tel. Svc. Co.*, 499 U.S. 340, 345 (1991). "To be sure, the requisite level of creativity is extremely low; even a slight amount will suffice." *Id.*

Petitioner makes reference to the small size of the particular Omega design at issue here. *See* Br. Pet. 9-10. While watch designs come in all shapes and sizes, the Copyright Act contains no requirement that a work be of a certain size, whether in absolute terms or in relation to a product to which it is affixed. The range of pictorial and graphic compositions entitled to protection under the Act is vast, and the "limited pretensions" of a particular work are no bar to the work's copyrightability. *See Bleistein v. Donaldson Lithographing Co.*, 188 U.S. 239, 250 (1903); *see also, e.g.*, *Kaeser & Blair, Inc. v. Merchants Ass'n*, 64 F.2d 575, 577 (6th Cir. 1933) (holding maker of stationery "could copyright a set of original symbols or designs which it uses as a means of effecting the sale of its product").

Recognizing these principles, lower courts have repeatedly found that watch designs of all

types—from a watch's overall appearance to a small artistic element on its face or band—deserve copyright protection. *See, e.g.*, *Severin Montres, Ltd. v. Yidah Watch Co.*, 997 F. Supp. 1262, 1265 (C.D. Cal. 1997) (finding protectible watch's "frame around the face" and "bracelet and clasp arrangement"), *aff'd*, 165 F.3d 917 (9th Cir. 1998) (Table); *Direct Mktg. of Va., Inc. v. E. Mishan & Sons, Inc.*, 753 F. Supp. 100, 104 (S.D.N.Y. 1990) (finding protectible watch face featuring "Tabby" cat "in a sitting position facing to the left with a stylized rather than realistic rendering of a mouse"). Indeed, as in this case, alleged infringers of copyrighted watch designs often have declined to contest the copyrightability of such designs. *See, e.g.*, *Swatch S.A. v. New City Inc.*, 454 F. Supp. 2d 1245, 1253 (S.D. Fla. 2006); *R&R Recreation Prods., Inc. v. Joan Cook Inc.*, No. 91 Civ. 2589, 1992 WL 88171 (S.D.N.Y. Apr. 14, 1992).[3]

Copyright protection is vital to the watch industry because it provides a powerful incentive for the continued creation of new works that strengthen brand identity and value and promote consumer satisfaction. *See Mazer v. Stein*, 347 U.S. 201, 219 (1954) ("The economic philosophy behind the clause empowering Congress to grant patents and

[3] *Amici* Retail Industry Leaders Association, et al. assert that it is "too easy" to obtain copyright protection for product labels and package designs, and that as a result, Respondent has "improperly leveraged" its copyright in the design affixed to the watches at issue herein. *See* Br. Retail Industry Leaders Ass'n, et al. 34. The question of the level of originality required to warrant copyright protection, however, is not before the Court in this case, and in any event, *amici*'s argument should be addressed to Congress, not this Court.

copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and useful Arts.'" (quoting U.S. Const. art. I, § 8, cl. 8)). There would be little motivation to develop new designs if those designs could be immediately copied and marketed by others. *See Eldred v. Ashcroft*, 537 U.S. 186, 212 n.18 (2003) (noting "copyright law *celebrates* the profit motive, recognizing that the incentive to profit from the exploitation of copyrights will redound to the public benefit" (emphasis in original; internal quotation and citation omitted)).

Copyrights are also an essential tool for watchmakers who seek to protect themselves and their customers against counterfeit and gray market goods.[4] To combat gray market sales, AWA members have, among other things, implemented extensive internal corporate guidelines, refined distribution contracts with authorized sellers to account for overstock and resale procedures, and employed tracking software and other tracking tools to determine the source of gray market products. Notwithstanding these measures, the gray market persists, and thus AWA members must rely on the rights afforded them under the Copyright Act.[5]

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[4] "Gray market" goods are defined as goods that are intended for sale in a foreign market but are diverted for sale in this country through unauthorized channels of distribution.

[5] Although manufacturers sometimes may be able to use the trademark laws to curtail the unauthorized distribution of gray market products, those laws have different requirements and purposes than copyright law. *See KP Permanent Make-Up,*
(...continued)

II. THE GRAY MARKET UNDERMINES THE COPYRIGHT OWNER'S EXCLUSIVE RIGHT TO DISTRIBUTE THE COPYRIGHTED WORK IN THE UNITED STATES, HARMING BUSINESSES AND CONSUMERS.

In the decision under review, the Ninth Circuit correctly recognized that the gray market diminishes the value of a copyrighted work by interfering with the copyright owner's exclusive right to domestic distribution. Such interference directly and adversely affects both businesses and consumers.

Section 106 of the Copyright Act confers a bundle of exclusive rights on the owner of a copyright. These rights are "intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired." *Sony*

Inc. v. Lasting Impression I, Inc., 543 U.S. 111, 118 (2004) (noting trademark plaintiff has "a burden of proving likelihood of confusion"); *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157 (1989) (noting law of unfair competition, of which trademark is a part, "has its roots in the common law tort of deceit: its general concern is with protecting *consumers* from confusion as to source" (emphasis in original)). Moreover, under the Lanham Act, a manufacturer generally cannot prevent the importation of gray market goods unless they are materially different from goods authorized for domestic distribution. *See, e.g.*, *Am. Circuit Breaker Corp. v. Oregon Breakers Inc.*, 406 F.3d 577, 585 (9th Cir. 2005); *Iberia Foods Corp. v. Romero*, 150 F.3d 298, 306 (3d Cir. 1998).

Corp. of Am. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1985).

Among the exclusive rights granted to a copyright owner is the right to "distribute copies . . . 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). This right encourages artistic creativity that ultimately redounds to the public benefit by ensuring that the author of a copyrighted work can distribute the work to the public and thus "secure a fair return" for his or her labors. *See Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). By making this right exclusive, the statute recognizes that an author cannot secure a fair return if he or she cannot control the scope and manner of distribution.

A U.S. copyright owner's ability to secure a fair return and a consumer's ability to benefit from the end product—be it in the form of a watch, book, audio recording, or painting—is substantially undermined by the gray market in three principal ways.

First, the gray market allows unauthorized distributors to "free ride" off the investment of the U.S. copyright owner.[6] Businesses make significant

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[6] *See* Richard A. Posner, *Antitrust Policy and the Supreme Court: An Analysis of the Restricted Distribution, Horizontal Merger and Potential Competition Decisions*, 75 Colum. L. Rev. 282, 285 (1975); *see also CIT Judicial Conference Examines Grey Goods Issue*, 31 Pat. Trademark & Copyright J. (BNA) No. 755, at 36 (Nov. 14, 1985) (reporting position of International Trade Commission that "grey market goods get a (...continued)

investments in product design, services, and promotion to establish brand recognition and to develop consumer markets.[7] Indeed, it is frequently the product's copyrighted design or packaging that makes it recognizable or appealing to consumers. *See, e.g.*, *Johnson & Johnson Inc. v. Aini*, 540 F. Supp. 2d 374, 386 (E.D.N.Y. 2008) (differences in product packaging between authorized and gray market goods "significant" to consumers); *Parfums Givenchy, Inc. v. C&C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1381 (C.D. Cal. 1993) (copyrighted package design "an important part" of product's overall marketing scheme). The value of a copyright is diminished by gray market "free riders" who use the product recognition and appeal that has been created in the work to take sales away from copyright owners and authorized distributors. Without the work's copyrighted elements, there would be no "market" for gray goods because gray marketers do not themselves engage in design, advertising, or marketing for the goods they sell and instead make their profits by relying wholly on efforts made by others.

A gray market for a product can develop regardless of whether United States prices are

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'free ride' on the reputation enjoyed by the [trade]mark owner as a result of efforts undertaken by its U.S. owner").

[7] For example, over $250 million was spent on watch advertising in the United States last year alone. Joe Thompson, *2009 Watch Advertising Down 34%*, WatchTime, June 2010, at 30.

higher, lower, or equal to foreign prices.[8] It is not a function of "price discrimination," as *amici* Retail Industry Leaders Association, et al. repeatedly assert. *See, e.g.*, Br. Retail Industry Leaders Ass'n, et al. 34. All that is necessary for a gray market to flourish is that the value added to the United States product by the United States copyright owner be greater than the shipping costs to the United States. *See CIT Judicial Conference Examines Gray Goods Issues*, *supra* note 6 (noting position of International Trade Commission that "monopolistic price discrimination rarely exists and ignores demand").

Second, the gray market can diminish the value of intellectual property rights through its deleterious effect on United States consumers due to differences in quality and integrity between

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[8] Gray market distributors do not always pass along their "free-riding" profits to United States consumers. Like other economic actors, gray market importers charge what the market will bear, and it is not unusual to find gray market goods priced at or above the prices charged for authorized products, yielding direct returns for gray market importers at the expense of copyright owners and consumers. *See, e.g.*, Yongmin Chen & Keith E. Maskus, *Vertical Pricing and Parallel Imports*, 14 J. Int'l Trade & Econ. Dev. 1, 3 (2005) (noting that vertical wholesale pricing structures can enable gray market distributors to sell product profitably in another country (at or above retail price), even when the retail price in the other country is lower than in the originating country); *see also In re Certain Alkaline Batteries*, 225 U.S.P.Q. 823, 826 (I.T.C. 1984) (gray market batteries sold "at the same retail price" as domestic batteries), *disapproved on other grounds*, 225 U.S.P.Q. 862 (1985); Maryellen Gordon, *Gray Market Is Giving Hair-Product Makers Gray Hair*, N.Y. Times, July 13, 1997, § 1, at 28 (price survey revealed that gray market products frequently are more expensive than their authorized counterparts).

authorized and gray market goods. A copyright owner who creates an appealing, original product design, and then invests in marketing and promotional efforts that feature the copyrighted work, has wasted its efforts if consumers are ultimately harmed or disappointed due to their purchase of a gray market product.

The consumer dissatisfaction arises because gray market goods are designed to conform to the laws, standards, and consumer preferences of the foreign countries in which they are intended to be sold. For example, gray market goods may have different additives, ingredients, or chemical compositions, *see R.J. Reynolds Tobacco Co. v. Cigarettes Cheaper*, 462 F.3d 690, 700 (7th Cir. 2006) (additives in cigarettes); *Johnson & Johnson*, 540 F. Supp. 2d at 385-86 (ingredients in skin/beauty products); *Helene Curtis v. Nat'l Wholesale Liquidators, Inc.*, 890 F. Supp. 152, 155 (E.D.N.Y. 1995) (same); documentation or operating instructions may be in a foreign language, *see Original Appalachian Artworks, Inc. v. Granada Elecs., Inc.*, 816 F.2d 68, 73 (2d Cir. 1987); *Osawa & Co. v. B&H Photo*, 589 F. Supp. 1163, 1168-69 (S.D.N.Y. 1984); and goods may be customized for foreign markets based on consumer preferences, expectations, or needs, *see Lever Bros. Co. v. United States*, 877 F.2d 101, 103 (D.C. Cir. 1989) (detergents formulated to perform under foreign water conditions); *Pearson Educ., Inc. v. Liu*, 656 F. Supp. 2d 407, 408 (S.D.N.Y. 2009) (foreign edition textbooks printed on "thinner paper," with "fewer ink colors, and lower-quality photographs and graphics," and not bundled with "academic supplements such

as CD-ROMs"), *appeal filed*, No. 10-894 (2d. Cir.); *Yamaha Corp. of Am. v. United States*, 745 F. Supp. 730, 730-31 (D.D.C. 1990) (foreign electronic products operated on different voltages than products intended for sale in United States), *aff'd*, 961 F.2d 245 (D.C. Cir. 1992).

Even if a gray market good is physically identical to its authorized counterpart at the time of manufacture, it can be damaged or altered at the point of sale because of poor shipment and handling or because of deterioration en route.[9] For example, U.S. law requires that watches bear certain internal markings to be imported legally into the United States. *See* 19 C.F.R. § 11.9. Watches manufactured abroad may lack the required markings. Gray market importers therefore must open and mark the watches themselves, often in uncontrolled and unsterilized environments, thereby increasing the risk of defective performance. *See Legislation to Amend the Lanham Trademark Act Regarding Gray Goods: Hearing Before the Subcomm. on Patents, Copyrights and Trademarks*, 101st Cong. 192 (1990) (responses to supplemental questions, Christopher

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[9] Gray market goods often are not subjected to quality control measures applicable to domestic goods. *See, e.g.*, *Societe des Produits Nestle, S.A. v. Case Helvetica, Inc.*, 982 F.2d 633, 642 (1st Cir. 1992); *Bayer Corp. v. Custom Sch. Frames, LLC*, 259 F. Supp. 2d 503, 508-09 (E.D. La. 2003); *Philip Morris, Inc. v. Allen Distribs., Inc.*, 48 F. Supp. 2d 844, 853 (S.D. Ind. 1999). Moreover, gray market importers have little incentive to make investments to improve product quality where gains are based solely on taking advantage of existing product goodwill. *See supra* pp. 9-11 (discussing "free riding").

Edley, Jr., President, Coalition to Preserve the Integrity of American Trademarks).

Consumer dissatisfaction is further compounded by the fact that gray market merchandise is virtually never covered by the manufacturer's warranty for domestic goods. *See, e.g.*, *Swatch S.A. v. New City, Inc.*, 454 F. Supp. 2d 1245, 1250-51 (S.D. Fla. 2006); *Yamaha Corp. of Am.*, 745 F. Supp. at 731. Finally, because gray market goods are, by definition, sold outside authorized channels of distribution, it can be difficult for a manufacturer or a government agency to determine how to implement quality control measures (such as removing stale or expired products from store shelves), recalls, or other safety notices. *See, e.g.*, *Zino Davidoff SA v. CVS Corp.*, 571 F.3d 238, 244-45 (2d Cir. 2009); *R.J. Reynolds*, 462 F.3d at 700; *John Paul Mitchell Sys. v. Pete-n-Larry's, Inc.*, 862 F. Supp. 1020, 1026 (W.D.N.Y. 1994).

Despite the significant differences that can exist between authorized and gray market goods, consumers are almost never advised that they are purchasing or receiving goods not intended for sale in this country. Indeed, as the instant case demonstrates, it is not unusual for these goods to appear side-by-side on a shelf with authorized goods. Therefore, a consumer deceived, injured, or dissatisfied with a gray market purchase is unlikely to "try again" and buy an authorized product. The end result is that a copyright owner who has invested substantial time and money in creating an innovative product will not receive the repeat sales

that the investment otherwise may have generated.[10]

Finally, the gray market devalues a copyright associated with an unauthorized import by depriving the copyright owner of the opportunity to control the manner and scope of distribution of the copyrighted work. An author of a work may well determine that the best way to profit from his or her creative endeavor is to make it available only through select distributors or in a limited quantity. Section 106(3) makes this decision the prerogative of the copyright owner. Although copyright law is intended to allow public enjoyment of these works over time, there is no requirement that distribution be widespread during the author's limited period of exclusive control.[11]

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[10] In the case of gray market watches and luxury goods, confusion and attendant harm persists even after the initial purchase, as such items are often purchased as gifts or resold. *Cf. Montblanc-Simplo GmbH v. Staples, Inc.*, 172 F. Supp. 2d 231, 243 (D. Mass. 2001) ("Individuals who receive the altered [gray market] pens as gifts or who see the pens being used by actual purchasers may be unimpressed by the quality of Montblanc products and consequently decide not to purchase genuine unaltered Montblanc products."), *vacated pursuant to settlement*, 175 F. Supp. 2d 95 (D. Mass. 2001).

[11] Nor does any other area of law prevent a copyright owner from limiting distribution to certain retailers. *See, e.g.*, *Leegin Creative Leather Prods., Inc. v. PSKS, Inc.*, 551 U.S. 877, 901-03 (2007) (reaffirming principle from *Continental T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 59 (1977) that placing limitations on distributors permitted to sell manufacturer's products is not "per se" unlawful under Sherman Act); *R.J. Reynolds*, 462 F.3d at 695 (rejecting gray marketer's price discrimination theory as a basis for alleged antitrust injury).

Gray marketers undermine this exclusive control by importing copies of works not intended for domestic distribution and, most commonly, by selling the unauthorized imports in mass-merchandise "discount" stores. As supply increases, the price that the copyright owner can obtain for the copyrighted work will decrease. Most likely, demand also will be affected by a drop in the work's quality, integrity, level of safety, or prestige as a result of availability through channels of distribution that have lower standards of quality and supervision or may otherwise be undesirable. This will further drive down the price of the works intended for domestic distribution.

The economic impact of the gray market is substantial and growing. For example, a 2008 KPMG study of information technology manufacturers concluded that nearly $60 billion was lost annually to gray market sales in that industry alone, with an average of seven percent total revenue lost to the gray market. KPMG LLP, KPMG Gray Market Study Update 30 (2008), *available at* http://www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/Effective-channel-management-gray-market.pdf. These figures represented a 45 percent increase in the impact of the gray market from an earlier KPMG study conducted in 2002. *Id.* It has been estimated that gray market sales constitute as much as 20 to 50 percent of sales in other industries. Kersi D. Antia, *Competing with Gray Markets*, USC Marshall Research - Marketing Monograph Series, at 1 (Fall 2004); Chen & Maskus, *supra* note 8, at 1-2.

The United States retail watch industry—which generates billions of dollars of sales annually and supports tens of thousands of workers—is similarly impacted by the gray market.[12] In light of the importance placed by the industry on copyright protection for innovative watch designs, *see* Section I, *supra*, the gray market's negative effect on the value of copyrights jeopardizes both the strength of the industry and the jobs it supports.

III. THE NINTH CIRCUIT CORRECTLY HELD THAT THE COPYRIGHT ACT'S FIRST-SALE DOCTRINE DOES NOT APPLY TO GOODS MADE AND SOLD ABROAD.

The issue in this case is whether the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), applies to goods manufactured, sold, and authorized for distribution solely outside the United States and its territories. The Ninth Circuit correctly held, consistent with this Court's precedent, that the doctrine is not applicable to such goods.

The Ninth Circuit's opinion was framed by this Court's decision in *Quality King Distribs., Inc. v.*

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[12] U.S. watch imports in 2009 were valued at $3.1 billion. Federation of the Swiss Watch Industry FH, The Swiss and World Watchmaking Industry in 2009, at 4 (2010), *available at* http://www.fhs.ch/statistics/watchmaking_2009.pdf. In 2005, the watch industry supported approximately 26,000 jobs in the United States. *See* AWA, Pre-Hearing Statement Regarding Petitions of Timex Corp. and Gov't of Philippines to Extend Duty-Free Treatment to Selected Imports of Watches, GSP Subcommittee, Office of the U.S. Trade Representative, at 3 (Sept. 22, 2005).

L'Anza Research Int'l, Inc., 523 U.S. 135 (1998). *Quality King* dealt with hair care products to which the products' manufacturer affixed copyrighted labels. *See id.* at 138. The products were made in the United States, sold to foreign distributors, and then re-imported into the United States without the manufacturer's authorization. *See id.* at 138-39.

Rejecting the manufacturer's argument that application of the first-sale doctrine to products sold abroad would render "superfluous" the prohibition against unauthorized importation of copyrighted goods provided by 17 U.S.C. § 602(a), *see Quality King*, 523 U.S. at 148-49, the Court reversed the judgment below in favor of the manufacturer, *id.* at 154. The Court did not consider, however, whether the same outcome would have obtained had the goods at issue been manufactured abroad. Justice Ginsburg, in a concurring opinion, expressly noted this limitation on the Court's decision. *See id.* (Ginsburg, J., concurring) ("I join the Court's opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.").

In the decision under review, the Ninth Circuit concluded that Circuit precedent holding the first-sale doctrine inapplicable to goods both manufactured and sold abroad was not "clearly irreconcilable" with *Quality King*. *See Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008). That precedent maintained that "sales abroad of foreign manufactured United States copyrighted materials do not terminate the United States copyright holder's exclusive distribution rights in the United States under [17 U.S.C.] §§ 106 and 602(a)."

Parfums Givenchy, Inc. v. Drug Emporium, Inc., 38 F.3d 477, 482 n.8 (9th Cir. 1994) (emphasis omitted); *see also BMG Music v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991).

In determining that *Quality King* did not upset this rule, the Ninth Circuit focused on the "presumption against extraterritoriality," which holds that "a U.S. statute 'appl[ies] only to conduct occurring within, or having effect within, the territory of the United States, unless the contrary is clearly indicated by the statute.'" *Omega*, 541 F.3d at 987-88 (quoting Restatement (Second) of Foreign Relations Law of the United States § 38 (1965)) (alterations in original). The court correctly reasoned that "the application of § 109(a) [the first-sale doctrine] to foreign-made copies would impermissibly apply the Copyright Act extraterritorially in a way that the application of the statute after foreign sales does not." *Id.* at 988. In particular, the former application would require characterizing copies made overseas as "'lawful[ ] . . . under [Title 17]" of the United States Code. *Id.* (quoting 17 U.S.C. § 109(a)) (alterations in original). This characterization would impermissibly "ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States." *Id.* *Quality King*, the Ninth Circuit correctly observed, did not require such a result, and indeed, counseled against it. *See id.* at 989.

Support for a refusal to extend the first-sale doctrine to goods made and sold abroad is most clear in the *Quality King* Court's discussion of the separate publishers of United States and British editions of a copyrighted book. The Court explained:

> If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, presumably only those [copies] made by the publisher of the United States edition would be "lawfully made under this title" within the meaning of § 109(a). The first sale doctrine would not provide the publisher of the British edition who decided to sell in the American market with a defense to an action under § 602(a) (or, for that matter, to an action under § 106(3), if there was a distribution of the copies).

Quality King, 523 U.S. at 148. As long as the British edition is manufactured outside the United States—a logical inference given the Court's distinction between the publishers of the two editions—the Court's discussion suggests that goods made and sold abroad cannot be "lawfully made under this title" and thus cannot fall within the first-sale doctrine.

This limitation on the first-sale doctrine comports fully with the justification for the doctrine. That justification, identified by the Court over 100 years ago, is based on the proposition that when a copyright owner exercises its "right to vend" a copyrighted work "in quantities and at a price satisfactory to it," it generally receives the full value of the rights guaranteed to it under the copyright laws. *See Bobbs-Merrill Co. v. Straus*, 210 U.S. 339,

351 (1908). To allow the copyright owner to "control all future retail sales" would be to provide the owner with a right neither "included in the terms of the statute" nor necessary to promote the goals of copyright law. *See id.* Where a copyright owner makes and sells goods abroad, however, it does not exercise any rights under the Copyright Act. As a result, the first sale of such goods does not compensate the copyright owner for the value of its United States copyright, and thus, there is no justification for cutting off the copyright owner's rights.

In addition to finding support in this Court's precedent, the Ninth Circuit's holding also correctly recognizes that goods that are both made and sold abroad are fundamentally different from goods—like those at issue in *Quality King*—that are made in the United States, sold abroad, and then re-imported into the United States. Whereas goods that are made and sold abroad have had no connection to the United States at the time of their first sale, goods that were manufactured domestically have already had contact with this country when they are first sold. Consequently, as the Ninth Circuit observed, extension of the first-sale doctrine to foreign-made goods would apply the Copyright Act extraterritorially in a way that *Quality King* did not. *See Omega*, 541 F.3d at 988.

Petitioner argues that the Copyright Act is only impermissibly given extraterritorial effect when infringing actions occur outside the United States. *See* Br. Pet. 29. Under this interpretation, however, the presumption against extraterritoriality would function only to the benefit of an alleged infringer,

and never to the benefit of a copyright owner. Neither Petitioner nor its *amici* have offered any persuasive explanation for this asymmetry. If it is improper to impose liability under the Copyright Act on the basis of actions that take place abroad, so too must it be improper to "ascribe legality under the [ ] Act," *see Omega*, 541 F.3d at 988, to such actions.

Petitioner's policy arguments are similarly unpersuasive. For example, Petitioner asserts that the Ninth Circuit's decision distorts incentives for downstream retailers, who according to Petitioner would be loath to distribute even authorized goods "given the practical difficulties in assuring the provenance of imported goods." *See* Br. Pet. 50. But a retailer unsure of a copyrighted work's provenance is free to contact the copyright owner or manufacturer for confirmation or to seek indemnification from its suppliers, *see* U.C.C. § 2-312(3)[13]; there would be no need for it to cease legitimate operations. Petitioner's concern with the erosion of billions of dollars of gray market sales in the United States and associated tax revenues, *see* Br. Pet. 46, is similarly misplaced, as many of those sales would be replaced by sales of authorized products.

Petitioner further argues that the Ninth Circuit's decision creates "perverse incentives for

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[13] This section provides, in relevant part: "Unless otherwise agreed a seller who is a merchant regularly dealing in goods of the kind warrants that the goods shall be delivered free of the rightful claim of any third person by way of infringement or the like."

U.S. copyright owners to produce their copyrighted works outside the United States." *See* Br. Pet. 48. The Ninth Circuit, however, merely re-affirmed a limitation on the first-sale doctrine that has been recognized by lower courts for decades. *See, e.g.*, *Hearst Corp. v. Stark*, 639 F. Supp. 970, 977 (N.D. Cal. 1986); *Columbia Broad. Sys., Inc. v. Scorpio Music Distribs., Inc.*, 569 F. Supp. 47, 49-50 (E.D. Pa. 1983), *aff'd*, 738 F.2d 424 (3d Cir. 1984) (table). AWA, for example, is not aware of any member that has shifted manufacturing operations outside the United States to take advantage of this rule. The "perverse incentives" Petitioner fears simply have not materialized.

CONCLUSION

For the foregoing reasons and those set forth in the brief for Respondent, this Court should affirm the decision below.

Respectfully submitted,

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