No. 11-697

IN THE

Supreme Court of the United States

SUPAP KIRTSAENG
DBA BLUECHRISTINE 99,

Petitioner,

v.

JOHN WILEY & SONS, INC.

Respondent,

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

BRIEF OF *AMICUS CURIAE* KNOWLEDGE ECOLOGY INTERNATIONAL IN SUPPORT OF NEITHER PARTY

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INTEREST OF AMICUS CURIAE[1]

Knowledge Ecology International ("KEI") is an international non-profit, non-governmental organization that searches for better outcomes, including new solutions, to the management of knowledge resources. In particular, KEI is focused on the management of these resources in the context of social justice. KEI is drawn to areas where current business models and practices by businesses, governments or other actors fail to adequately address social needs or where there are opportunities for substantial improvements. Among other areas, KEI has expertise in access to knowledge issues.

KEI is concerned about the implications of the Second Circuit decision in the present case because of its far-reaching consequences for distribution of knowledge resources and impacts on consumers. If the Second Circuit decision is permitted to stand, manifestly absurd consequences will result impacting consumers, businesses and the United States economy.

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[1] The parties have consented to the filing of this brief. Respondent's letter granting blanket consent to the filing of *amicus briefs* is on file with the Clerk of this Court. Petitioner's consent to the filing of this brief has been filed with the Clerk of Court. Counsel of record for all parties received notice at least 10 days prior to the due date of the amicus curiae's intention to file this brief. No counsel representing any party to the case authored this brief, in whole or in part, and no counsel or party made any monetary contribution to the preparation or submission of the brief.

SUMMARY OF THE ARGUMENT

The first sale doctrine, codified at Section 109(a) of the Copyright Act, has long limited the exclusive right of distribution for a copyright owner. Under this doctrine, once a lawful first sale is completed the copyright owner's right of distribution is considered exhausted. This doctrine has promoted access to knowledge and information, balancing the rights of a copyright owner with the public interest.

The Second Circuit's decision restricts the application of the first sale doctrine to those copies manufactured in the United States, thereby giving greater copyright protection to copies made abroad. Such preferential treatment results in a number of absurd results and can ultimately harm American business interests and our domestic economy. Copyright owners will have an incentive to manufacture copies outside of the United States in order to gain greater monopoly power over their works.

Providing a copyright owner with greater rights over distribution for foreign manufactured copies of copyrighted works will also harm consumers. Copyright owners will be able to price works at a higher level because of the elimination of competition from secondary markets such as second-hand bookstores or online auction sites. In addition, restrictions on the first sale doctrine will also hamper existing copyright limitations and exceptions by, for example, prohibiting distribution of accessible format works made for the benefit of persons who are blind or visually impaired if such copies are

manufactured abroad. Libraries will not be able to lend their works unless they confirm that each particular copy in its collection was manufactured in the United States. So too will the Second Circuit's decision threaten a museum's ability to display works of art made abroad. The results of the Second Circuit's opinion will thus threaten the domestic economy, access to knowledge and the public interest.

Although public policy may support limited restrictions on parallel importation, such determinations and the scope of any limitations on parallel trade are best left to Congress, and then narrowly drawn. As a matter of public policy, the general rule for copyright should be freedom to engage in parallel trade. This freedom should be curtailed only in limited cases where there is a compelling public policy justification for the United States to face higher prices than other countries for the same work. While such a rationale may exist in the present case, as a matter of public policy, a remedy that extends to all works will wreak havoc with our national interest, as will be the consequence of interpreting "lawfully made under this title" to mean "lawfully made in the United States." Moreover, appropriate policy supports a general rule permitting parallel trade; only in the limited instances where the public interest is served by restricting global parallel trade, such restrictions should be narrowly drawn to cover only the areas where compelling public policy so justifies.

ARGUMENT

I. UNITED STATES COPYRIGHT LAW LIMITS A COPYRIGHT OWNER'S EXCLUSIVE RIGHTS, INCLUDING THE RIGHT OF DISTRIBUTION

A copyright owner has a number of exclusive rights, but limitations exist to these rights. Congress has limited the right of distribution, including the right to control importation of a work, by the first sale doctrine. Lower court decisions regarding the application of the first sale doctrine to foreign made works has led to a split of authority and both the Second and Ninth Circuits have produced rules that, as a practical matter, are extremely difficult to apply. In particular, the Second Circuit holding in the present case greatly expands the scope of rights for foreign made works, leading to absurd results.

A. The Purpose of the Copyright System Is To Promote Progress and Must Consider the Public Interest.

The Constitutional rationale for the copyright system is "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries." U.S. Const. Art. 1, §8, cl. 8. This provision gives Congress the power to make laws that provide a limited time monopoly, but is constrained to providing exclusive rights only where they "promote the Progress of Science and the useful Arts."

Both Congress and courts have determined that copyright's purpose must encourage progress. Legislative history of the 1909 Copyright Act, for example, highlights the notion that exclusive rights over the expression of ideas "is not based upon any natural right that the author has in his writings, . . . but on the ground that the welfare of the public will be served and progress of science and useful arts will be promoted by securing to authors for limited periods the exclusive rights to their writings." H.R. Rep. No. 60-2222 at 7 (1909) *reprinted in* 6 Legislative History of the 1909 Copyright Act 57 (E. Fulton Brylawki, et. al., eds., 1976). This Court has agreed with this sentiment, noting that the "primary objective of copyright is not to reward the labor of authors, but 'to promote the Progress of Science and the Useful Arts. To this end, copyright assures authors the right to their original expression but encourages others to build freely upon the ideas and information conveyed by a work." *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340, 349-50 (1991) (internal citations omitted); *See also Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) ("The immediate effect of our copyright law is to secure a fair return for an 'author's' creative labor. But the *ultimate aim* is, by this incentive, to stimulate [the creation of useful works] for the general public good.") (emphasis added).

Ultimately, exclusive rights for an author must be balanced against the general public good. Melville B. Nimmer & David Nimmer, Nimmer on Copyright §1.03 (2011). The correct balance can often be difficult to achieve with the "interests of authors . . . on the one hand, and society's competing

interest in the free flow of ideas, information and commerce on the other hand." *Sony Corp. of Am. v. Universal Studios, Inc.*, 464 U.S. 417, 429 (1984). Litigation over copyright provisions, then, must take into account the Constitutional rationale of the copyright system and endeavor to protect the public interest.

B. The Right of Distribution, Including the Right to Control Importation is Limited by the First Sale Doctrine Which Does Not Depends on Location of Manufacture.

Under United States copyright law, the owner of copyright possesses a number of exclusive rights codified under Section 106 of the Copyright Act, including the right of distribution. 17 U.S.C. §106(3). However, these rights are not without exception and Sections 107 to 122 provide important limitations.

One important limitation is known as the "first sale doctrine" or "exhaustion of rights." The first sale doctrine has its roots in the 1908 decision in *Bobbs-Merrill Co. v. Straus*, where this Court found that, after an initial authorized sale, a copyright owner did not retain control over subsequent sales of that copy. 210 U.S. 339 (1908). This limitation was later codified in United States copyright law and currently exists at Section 109, which provides that

> (a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person

> authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. 17 U.S.C. §109(a).

Thus, once a sale or transfer has been made of a copy "lawfully made under this title," the copyright owner no longer has control over the distribution of that copy. A person can resell the copy or loan it to someone, without authorization or consent of the right owner.

A copyright owner's ability to control importation of his work is also at issue in cases involving parallel trade. Section 602(a)(1) places a prohibition on importation, but in enacting this provision, Congress carefully linked the ability to control importation to a copyright holder's exclusive right of distribution:

> Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106. 17 U.S.C. 602(a)(1).

The language of Section 602(a)(1) ties infringement to the exclusive right of distribution. Because it links importation to Section 106(3), so too must it be subject to the limitations of Sections 107-122, including the first sale doctrine. Thus, the right to control importation, like other rights of a copyright

holder, is not absolute or without limitation. Taken in context of the Section 106 and 109, the prohibition on importation may apply prior to the first sale of a copy of a work, but once that copy has been lawfully sold the copyright holder may not exercise its right to control distribution, including any importation rights.

Although the Second Circuit found that Section 602(a)(1) ban on importation applied to the present case, it did so by determining that Section 109's use of the words "lawfully made under this title" meant manufactured in the United States. The plain language of Section 109 does not support this reading to limit application of the first sale doctrine to copies manufactured domestically. The language used simply says, "lawfully made under this title," without reference to the location of manufacture. The phrase is therefore best interpreted as meaning "consistent with" or "according to" Title 17. This interpretation is supported by Webster's dictionary definition of "under" which means "in accordance with." Webster's Third New Int'l Dictionary 2487 (2002).

If Congress had intended to limit the applicability of Section 109 to domestically manufactured works, it would have added explicit language doing so. In fact, prior versions of the Copyright Act used a "manufacturing clause" with respect to various provisions. The now expired provision of the Copyright Act of 1981 and 1976 codified at 17 U.S.C. §601 specifically and unambiguously prohibited importation of non-dramatic literary works written in the English language from importation into the United States

and required such works to be manufactured in the United States. 17 U.SC. §601 (1976) ("[T]he importation into or public distribution in the United States of copies of a work consisting predominantly of nondramatic literary material that is in the English language and is protected under this title is prohibited unless the portions consisting of such material have been manufactured in the United States or Canada."). The absence of any language referencing location of manufacture today is instructive and does not support any limitation on the first sale doctrine on the basis of whether a copy is manufactured domestically or abroad.

Such a reading does not render 602(a)(1) meaningless, but simply subjects it to the same limitations as the general right to control distribution. Prior to the first authorized sale, the copyright owner maintains the right to control distribution, including the right to control importation under 602(a)(1). A manufacturer located outside the United States therefore would not be able to import copies of works produced absent either an initial authorized sale or permission from the right owner.

C. The Second Circuit's Opinion in the Present Case Greatly Expands the Rights of a Copyright Owner With Respect to Foreign Made Works.

In the present case, the Second Circuit takes an extreme position that greatly increases a copyright owner's rights over foreign made copies, providing such works with more protection than domestically manufactured copies. The Second

Circuit explicitly declined to adopt the approach of the Ninth Circuit, which held that the first sale doctrine applied to foreign made copies, but only after an authorized first sale in the United States. *See infra*, Section I.D. Instead, the lower court in this case adopted a rule where the first sale doctrine will never apply to any copy of a work that is manufactured outside the United States.

Even if the copyright owner authorizes a sale within the United States, if that copy was made abroad, the copyright owner can continue to control all subsequent distributions. Even if the copy has changed hands ten times within the United States, the copyright owner would still have the right to control the distribution of that copy. A buyer who makes a lawful and authorized domestic purchase may unwittingly commit a copyright infringement by later re-selling the copy, not realizing that the copy was manufactured in a foreign country. The result is that a copyright owner could completely eliminate all secondary markets, simply by manufacturing copies of his work in a foreign country.

It should be noted that the distribution right for which a copyright owner would retain all control over is not limited to the re-sell of a copy. The right broadly encompasses not only the sale of a copy, but also includes the distribution right of "gift, loan, or some rental or lease arrangement." H.R. Rep. No. 91-1476 at 62 (1976) *reprinted in* 1975 U.S.C.C.A.N. 5659, 5675-76. For any copyrighted goods manufactured abroad, then, the copyright owner would be able to control all future distributions. Even if the copyright owner were to authorize a first sale within the United States for a foreign

manufactured copy, under the Second Circuit ruling, it would be an infringement of copyright for that purchaser to give or even loan his copy to a friend.

Absurdly, the ability to retain indefinite control over a copy of work would apply to all foreign made copies and only to foreign made copies. The first sale doctrine would still apply to those copies produced in the United States. As a result, the Second Circuit ruling in the present case expands the scope of protection to copies manufactured in a foreign country and, as will be discussed in further detail in Section II.A, *infra*, thus encourages copyright owners to outsource manufacturing and produce their copies outside the United States.

D. The Ninth Circuit, in *Omega v. Costco*, Provided an Unworkable Standard

The Ninth Circuit, by contrast, did not conclude that a foreign made copy of a work can never be subjected to the first sale doctrine. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008). Instead, the Ninth Circuit determined that this extreme position would, indeed, result in a scenario where "substantial greater copyright protection" would apply to copies made in a foreign country. *Id*. at 989.

In light of the "untenable" consequences of a copyright owner having indefinite control over the right to distribution of copies of any work made abroad, the Ninth Circuit adopted a rule where the limitation of the first sale doctrine applies to foreign made copies once an authorized sale takes place in

the United States. Thus, *Omega v. Costco* decision permits the copyright owner to retain the right of distribution in the United States for foreign made copies, but only until an authorized first sale is conducted in the United States. After the first authorized domestic sale, according to Ninth Circuit jurisprudence, the first sale doctrine applies and the copyright owner can no longer control the distribution of that copy of the work regardless of the place of manufacture. Although in theory the Ninth Circuit decision may be seen as a compromise position, in practice it is likely to create an unworkable standard.

First, such a rule is difficult to comply with, particularly for downstream consumers who purchase a copy of a work domestically. The copyright owner might have never authorized a first sale in the United States of a foreign made copy, but it is unlikely that the holder of the copy would have a record of its chain of title. For example, a traveler might purchase a copy of a book while on vacation in another country, then upon his return gives it to a co-worker. According to the Ninth Circuit—because the right of distribution is not limited to sales—such a transfer constitutes a copyright infringement. That co-worker might later sell the copy on eBay. That subsequent purchaser might then re-sell the copy at a garage sale. Each transfer, according to the Ninth Circuit rule, constitutes a copyright infringement because a first sale was never authorized in the United States. A copyright owner would, therefore, still have the right to control even a tenth sale under this rule, despite the fact that subsequent holders of the copy may be completely unaware that the work is foreign made or that he is infringing any copyright.

As noted in the above example of the traveler who gives his copy of a book away, the Ninth Circuit rule has serious impacts regarding the ability of a person to purchase an item protected by copyright while abroad and return home with the item as a gift. While the Copyright Act provides a "suitcase exemption," permitting the importation of a single copy of a work in one's personal luggage, this exemption applies solely for personal use and "not for distribution." 17 U.S.C. §602(a)(2)-(a)(3)(b). Thus, the transfer of a copy of a work protected by copyright, even as a gift and even when the copy is lawfully manufactured and lawfully purchased abroad, is prohibited under the approach taken by the Ninth Circuit.

The rule in the *Omega v. Costco* case makes it difficult for those who acquire works domestically to ensure that further distribution of the work will not constitute copyright infringement unless they are aware of the complete chain of title. Further, this standard negatively impacts travelers who may want to purchase gifts while abroad. As a result, the Ninth Circuit's holding provides an unworkable standard and produces the very "untenable" consequences it tried to avoid.

In addition, while the Ninth Circuit solution may be seen as a less extreme position than the Second Circuit ruling, it is still problematic—perhaps even more so—because it lacks textual basis and support in the Copyright Act. Section 109 refers only to whether a particular copy is "lawfully made under this title." 17 U.S.C. §109. At issue is whether this phrase means made in the United States, or made in

accordance with the mandates of Title 17. Section 109 does not refer to authorization of sale by the copyright owner and application of the first sale doctrine does not hinge upon an authorized first domestic sale of a foreign made copy.

E. The Third Circuit's Decision Provides Appropriate Deference to Congress' Power to Make Laws.

The issue of parallel importation has also come before the Third Circuit, albeit under a different set of circumstances from the present case. *Sebastian International, Inc. v. Consumer Contacts (PTY) Ltd.* involved goods with copyrighted labels sold by the copyright owner to a foreign distributor in South Africa. 847 F.2d 1093 (1988). The foreign distributor then shipped the products with the copyrighted labels back to the United States, completing a "round trip" of the copyrighted goods. *Id.* Ultimately, the Third Circuit found no copyright infringement because of the initial authorized sale from the manufacturer to the foreign distributor finding that "a first sale by the copyright owner extinguishes any right later to control importation of those copies." *Id.* at 1099. The Third Circuit went on to note that the exclusive right of distribution "is specifically limited by the first sale provisions of §109(a), it necessarily follows that once transfer of ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation." *Id.*

Though the *Sebastian* case "superficially targets a products label, but in reality rages over the product itself" 847 F.2d at 1099 and involved products made domestically and sold abroad, the

wisdom of the Third Circuit may still be applicable. That court noted its "unease" with interpretations by other courts restricting the term "lawfully made" to mean manufactured within the United States. *Id.* at 1098 n.1. It noted that where Congress "considered the place of manufacture to be important," it included such concerns in statutory language. *Id.*

The Third Circuit, showing its restraint and deference to the power of Congress to create laws, noted in conclusion "that the controversy over 'gray market' goods, or 'parallel importing,' should be resolved directly on its merits by Congress, not by judicial extension of the Copyright Act's limited monopoly." *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1099 (3d Cir. 1988). Certainly, this Court has endorsed this approach, as well, when interpreting other laws. The Supreme Court has noted that, "Under our constitutional framework, federal courts do not sit as councils of revision, empowered to rewrite legislation in accord with their own conceptions of prudent public policy." *United States v. Rutherford*, 442 U.S. 544, 555 (1979) (citing *Anderson v. Wilson*, 289 U.S. 20, 27 (1933)). The only permissible judicially implied exception to the plain language of a statute exists where "a literal construction of a statute yields results so manifestly unreasonable that they could not fairly be attributed to congressional design." *Id.* (citing *TVA v. Hill*, 437 U.S. at 187-88)).

Ultimately, this Court adopted the *Sebastian v. Consumer Contacts* approach in *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1986). Like the case before the Third Circuit, though, *Quality King* involved "round trip" parallel

importation involving copyrighted label and the facts thus differ from the case at hand. Notably, though, at least in cases involving "round trip" parallel importation, Congress has not seen fit to amend the Copyright Act to place restrictions on parallel trade.

In the present case, the plain language of the Copyright Act can support a limitation on the exclusive right of distribution, including the right to control importation. In fact, though textual or legislative history may support a contrary reading, as will be discussed further, *infra*, such a contrary reading, such as those by the Second or Ninth Circuits may produce manifestly absurd and unreasonable results. This Court therefore should interpret the Copyright Act to avoid such unreasonable results and leave to Congress to best determine what mechanisms, if any—and under what circumstances—should be enacted to limit parallel trade of copyrighted goods.

II. THE SECOND CIRCUIT'S EXPANSIVE RULING HAS NEGATIVE AND UNINTENDED IMPACTS FOR UNITED STATES BUSINESSES, CONSUMERS AND THE DOMESTIC ECONOMY.

The lower court's ruling in the present case, because of its expansive sweep, provides an incentive for copyright owners to outsource manufacture of copies of their work, negatively impacting the domestic economy by sending work abroad. Furthermore, limiting parallel trade in all circumstances may put United States companies at a disadvantage, as compared to companies operating in a foreign country.

A. The Second Circuit Decision Produces Manifestly Absurd Results by Providing Greater Copyright Protection to Foreign Made Works.

The Second Circuit ruling would provide greater copyright protection for copies of works made abroad than those produced domestically. The lower court's decision would apply Section 109 to the first sale of a copy to all copies produced in the United States. By contrast, however, the Second Circuit would *never* apply the first sale doctrine to any copy of a work made in a foreign country. Thus, a copyright owner would retain control over his distribution rights indefinitely for foreign made copies and, as a result, has an incentive to produce such copies outside the United States.

The incentive will likely drive copyright owners to outsource the manufacture of copies of works. In addition to perhaps finding less expensive labor costs abroad, the copyright owner will receive the added benefit of controlling distribution rights of every copy for the duration of the copyright term. By producing his copies in a foreign country, he will be able to prohibit all reselling or other forms of distribution of the copy, eliminating the ability of consumers to purchase used goods and thereby increasing his monopoly power. The copyright owner would no longer compete with secondary markets, such as used bookstores, online auction sites, or libraries, and consequently be able to charge higher prices for its goods simply by ensuring the manufacture of its copies takes place abroad. *See* John A. Rothchild, *The Incredible Shrinking First*

Sale Rule: Are Software Resale Limits Lawful?, 57 RUTGERS L. REV. 1, 79-80 (2004).

As a result, more jobs are likely to be sent oversees, a potential detriment to the United States economy. There is no evidence that Congress intended such a result.

B. Blanket Prohibition Against Parallel Trade Fails to Distinguish Between Different Classes of Copyrighted Works and Uses and Can Put Consumers and Businesses in the United States at a Disadvantage

A copyright owner may have a variety of reasons for wanting to segment markets and sell copies of his work at different prices in different countries. A wide range of works are protected by copyright and the public policy rationale for allowing or prohibiting such market segmentation varies considerably by the type, use and country of import for the work.

Although benefits exist for restrictions on parallel trade for certain classes and uses of copyrighted works between countries of relatively high and low incomes, blanket prohibitions on parallel trade for all classes and uses of works and between all countries are not appropriate as a public policy matter.

The most compelling argument for limitations on parallel trade in copyrighted works is for works used by consumers in lower income countries for

personal use, including, but not limited to, for entertainment or education. In such cases, lower prices in lower income countries will expand access and reduce the motivation for piracy of works in those countries. Such expanded access is important in protecting access to knowledge and cultural works, and in facilitating the lawful distribution of copyrighted works at reasonable and affordable prices.

It may therefore be reasonable for Congress to place restrictions on parallel trade in certain types of works between a high-income country and a low-income country. However, these policy determinations are best left to Congress to determine the scope of such restrictions. As Congress has not enacted such restrictions, this Court should reverse the Second Circuit's decision in the present case.

The Second Circuit's opinion creates a blanket and blanket prohibition on parallel importation and eviscerates the first sale doctrine. Prohibiting the resale of a lawful copy of a work simply because it was made in a foreign country—any foreign country—greatly expands the scope of copyright protection and fails to make any distinction between trade from countries of similar economic levels. Even where a copy of a work may be purchased in another high-income country at a similar price to that in the United States, the copyright owner would still be able to restrict such trade. Thus, for example, consumers in the United States could not benefit from parallel trade in works available at lower prices in Australia, Canada, the United Kingdom or other high-income countries, including cases where the rights to the works are foreign owned.

In cases involving trade between the United States and low-income countries, a restricted, rather than a blanket prohibition, represents better public policy. The United States is not always served by a policy of paying higher prices. Some copyrighted works involve uses by businesses for products and services that move in global trade. An American company may require a specific type of software or platform to operate, or certain technical manuals or books. Those works may be priced significantly lower in another country where competing firms exist. As a result, American firms will be at a disadvantage when compared to foreign domiciled firms, and will also have an incentive to relocate or outsource more work to countries where necessary copyrighted goods may be available at a lower price.

When, and if, Congress restricts parallel trade in copyrighted works, it can choose the circumstances and nature of such restrictions, taking into account the impact of the restrictions not only on owners of copyrighted works, but also on consumers and businesses in the United States and other countries.

It is useful to reflect upon the policy considerations one observes in the debates over parallel trade in patented goods. Restrictions on parallel trade in patented medicines between high and low income countries are considered important, in order to protect differential pricing that is necessary for ensuring more equal access to life saving medicines. On the other hand, parallel trade in patented pharmaceutical drugs between high-income countries, such as between the United States and Canada and Northern Europe, is appropriate,

and would protect the United States from shouldering an excessive burden of the cost of developing new drugs.

Global parallel trade in patented goods other than pharmaceuticals, including, but not limited to, parallel trade between high- and low-income countries, is appropriate in many other cases. For example, global parallel trade in patented goods is appropriate where the inventions are used in goods that in turn are inputs to other manufactured goods that enter international trade, when patented inventions are a smaller part of the value of the good, or where unequal access to the goods is not as repugnant as is the case for pharmaceutical drugs.

For all copyrighted, patented and trademarked goods, as a general rule, policy should seek to permit the freedom to engage in parallel trade. Restrictions on that freedom should be limited and carefully drawn in order to avoid cases where United States consumers and businesses unnecessarily pay exceptionally high prices for goods. Although some limited cases exist where restrictions on the freedom to engage in parallel trade between high- and low-incomes represent appropriate public policy, it is the Congress rather than the courts that should impose limits on the freedom to trade.

III. THE SECOND CIRCUIT DECISION HAS NEGATIVE IMPACTS ON CONSUMERS AND THE PUBLIC INTEREST

In addition to negatively impacting businesses, the Second Circuit's ruling would harm

consumers and impede full functionality of long-standing limitations and exceptions.

A. Blanket Prohibition Against Parallel Trade Could Impact Legitimate Existing Limitations and Exceptions, Including for Accessible Format Works for the Visually Impaired.

One concrete example exists in the context of accessible format works for persons who are visually impaired or have other disabilities. Persons who have reading disabilities depend on various technologies and formats to have access to works. These may include books printed in Braille or an audio version on cassette or CD, but also include newer technologies such as specialized e-book readers that provide computer generated text-to-speech or refreshable Braille system.

Creation of accessible formats of copyrighted works has long been accepted as fair use. This Court confirmed that the creation and distribution of works for the benefit of persons who are visually impaired is considered fair use in the case *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417 (1984). There, this Court noted that copying "of a copyrighted work for the convenience of a blind person is expressly identified by the House Committee Report as an example of fair use, with no suggestion that anything more than a purpose to entertain or to inform need motivate the copying." *Id.* at 455.

This fair use exception was later codified under Title 17 in 1996 in what became known as the Chafee Amendment. 17 U.S.C. §121. This limitation provided that the creation and distribution of accessible format works, including Braille, audio or digital text, by an authorized entity is not an infringement of copyright.

Only a small fraction of published books, are created in or converted to an accessible format. Even works that are available in some formats such as Kindle edition e-books, may have text to speech disabled by the publishers or lack usability due to inaccessible menus, lack of descriptions of illustrations or data presented in tables, slow text-to-speech capacities or other barriers for persons with disabilities. Additionally, within the United States it is difficult to find accessible format works produced in languages other than English.

The United States is one of roughly sixty countries that have some type of domestic exception in copyright law for persons with disabilities. World Intellectual Property Organization (WIPO), *Study on Copyright Limitations and Exceptions for the Visually Impaired*, p. 70, SCCR/15/7 (Feb. 20, 2007) (*prepared by* Judith Sullivan).

Because of the high cost of making accessible format works and the scarce resources for doing so, it has long been recognized that it would be more efficient to share copies of accessible format works across borders, so that organizations providing services to persons who are blind or have other disabilities can avoid duplication of efforts.

The topic of exhaustion of rights has been identified as one possible mechanism to permit cross-border sharing of such accessible copies. This approach was examined in some detail by the World Intellectual Property Organization (WIPO) and United Nations Educational, Scientific and Cultural Organization (UNESCO) in a 1985 report and is among the approaches under consideration today at the WIPO Standing Committee on Copyright and Related Rights (SCCR) following renewed interest in expanding access to information for persons with disabilities. *Problems Experienced by the Handicapped in Obtaining Access to Protected Works, Taking Into Account, In Particular, the Different Categories of Handicapped Persons,* IGC(1971)/VI/11—B/EC/XXIV/IO, Annex II, (*prepared by* Wanda Noel). As stated by Noel in 1985:

> The application of exhaustion removes any importation barrier to the free circulation of special materials. The introduction of exhaustion in the copyright law of the country into which the importation of special media materials is desired permits entry of the copies into that country. Therefore, if the consuming countries enact the doctrine of exhaustion with respect to special media materials, they will remove any access barrier to those materials, provided of course, that legally produced copies are available.

In communication with WIPO, the United States Copyright Office and the United States Patent and Trademark Office have indicated the United States may legally import copies of accessible format works created under exceptions from foreign countries, without the permission of the right holder, if that foreign country permits such exports under its own domestic law. United States, Response to WIPO Standing Committee on Copyright and Related Rights (SCCR) Questionnaire Concerning Limitations and Exceptions (2010) at 22-23, *available at* http://www.wipo.int/export/sites/www/copyright/en/limitations/pdf/us.pdf. The United States is currently in negotiations with other countries to adopt policies that permit the export of works into the United States without the permission of right holders.

The Second Circuit opinion could impact the ability of persons who are blind, or a specialized library providing services to the blind, from obtaining and sharing a copy of accessible format works if that format was first produced in another country.

The small collections of available accessible format works in the United States will be smaller than would be the case if cross-border exhaustion is recognized. All foreign language accessible format works would need to be created domestically within the United States. In 2009, 35 million United States residents spoke Spanish at home, accounting for approximately 12-percent of the domestic population. U.S. Census Bureau, 2009 American Community Survey: Table B16001, *available at* http://www.census.gov/acs/www/. These Spanish speakers, or those who are English speaking and

wish to learn a new language, who are visually impaired or have other disabilities could greatly benefit from importation of accessible format works that already exist in Spanish speaking countries, but the lower court's ruling would create an unwanted barrier to acquiring accessible format works made in the Spanish language from our neighbors in Mexico, from another country in Latin America, or Spain. This example of works created in the Spanish language, of course, extends to other languages including Chinese, French, German, Tagalog, Vietnamese, Italian and other languages spoken by large populations of those living in the United States. *See* Malini Aisola and Meredith Filak, *Access to Works Published in Foreign Countries, Comments of Knowledge Ecology International, Response to Notice of Inquiry and Requests for Comments on the Topic of Facilitating Access to Copyrighted Works for the Blind or Persons With Other Disabilities, Fed. Reg. Vol. 74 No. 79*, (Apr. 22, 2009), *available at* http://www.copyright.gov/docs/sccr/comments/2009/.

The consequences of the Second Circuit's ruling could thus impact the importation of works created under legitimate limitations and exceptions. In the present example, the creation of an accessible format work by an authorized entity for a person who is visually impaired or has other disabilities is not considered an infringement. The creator of the accessible format need not seek permission of the copyright owner and the copyright owner does not receive remuneration for the work. Surely Congress did not intend to exclude the distribution of accessible format works, the creation of which is consistent with Title 17, simply because that work was created or manufactured in a foreign country.

B. Limiting the First Sale Doctrine Would Hamper Libraries

Libraries depend on the first sale doctrine in order to lend their books to the public. The right of distribution covers not only sales, but also other forms such as a loan, gift or rental. Without the first sale doctrine, which limits the distribution right, libraries could not lend its books or other materials without infringing copyright. *See, e.g.,* Carrie Russell, Complete Copyright: An Everyday Guide for Librarians 43 (2004).

With the Second Circuit holding, libraries would need to affirmatively verify each copy acquired was manufactured domestically rather than abroad. Even for copies lawfully purchased in the United States, a library cannot be certain that it would not infringe copyright unless it also verified domestic manufacture. Such an undertaking would likely be resource consuming and impede a library's goal of disseminating information to the public through lending of the copies of works it acquires.

C. Museums May Not Be Able to Display Foreign Works that Remain Under Copyright

In addition to hindering the right of distribution in the sense of re-sale or lending, the Second Circuit decision will likely impact the ability to display a work even after a lawful sale has been made. The interplay of the exclusive right of display under Section 106(5) and the limitation of this right, codified by Section 109(c) is similar to the issue of limitations on the right to distribution.

Section 106(5) provides the copyright holder to control public display of works, including *inter alia*, "pictorial, graphic, or sculptural works." 17 U.S.C. §106(5). Like other exclusive rights, this right of display is limited:

> Notwithstanding the provisions of section 106(5), the owner of a particular copy lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to display that copy publicly, either directly or by the projection of no more than one image at a time, to viewers present at the place where the copy is located. 17 U.S.C. §109(c).

The language used in Section 106(5) mirrors the limitation on the right of distribution of Section 106(3). Both limitations on a copyright owner's exclusive rights use the phrase "lawfully made under this title" and the Second Circuit's interpretation is therefore likely to be applicable to limitations on display rights.

Logically, this limitation provides that once a lawful sale or transfer of ownership has been made of a particular copy of the work, the copyright owner can no longer control the display of that particular copy. For example, a museum that lawfully acquires the original copy of Andy Warhol's pop art piece, "Turquoise Marilyn," may choose to display that piece of work in its collection without permission of the copyright owner.

However, a museum may run into considerable problems displaying a work that is created outside the United States and still under copyright protection if the Second Circuit decision stands. A work by the famous Spanish surrealist, Salvador Dali, for example, may receive considerably greater protection than a work by Warhol simply because of the place of its creation. By way of example, if the same museum lawfully acquires the last painting completed by Salvador Dali, "The Swallow's Tail—Series on Catastrophes," based on the application of the Second Circuit's opinion, that museum may not display the work without permission from the copyright owner. Although "Turquoise Marilyn" and "The Swallow's Tail" were created in the same relative era and both remain under copyright protection, a museum lawfully acquiring both works would only be permitted to display the former for the sole reason that it was created in the United States rather than abroad.

The result of the Second Circuit's opinion may well extend beyond the issue of distributing or re-selling a copy of a work if its interpretation of the phrase "lawfully made under this title" under Section 109(a) is applied to the same use of the phrase in Section 109(c). The interpretation of this phrase, used twice in the same section of the Copyright Act, should be applicable to both sections. The absurd consequence of a museum not being able to display a work made abroad is compelling evidence that Congress did not intend for the phrase "lawfully made under this title" to mean "made in the United States" and an illustration of the unintended consequences that may occur if the term "lawfully

made under this title" implies also made in the United States.

As a result of the term "lawfully made under this title" being used more than once in the Copyright Act, the consequences of the Second Circuit's decision could impact area of rights other than the first sale limitation on the right of distribution. In particular, those wishing to display works such as a museum, will have greater difficulty with respect to foreign-made works. This result is manifestly absurd and Congress surely did not intend for such consequences. The Second Circuit opinion should therefore be overturned.

CONCLUSION

For the reasons stated above, this Court should reverse the opinion of the Second Circuit.

Respectfully submitted,

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