

3-1-2010

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Samuel Brooks

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Recommended Citation

Samuel Brooks, *Battling Gray Markets Through Copyright Law: Omega, S.A. v. Costco Wholesale Corporation*, 2010 BYU L. Rev. 19 (2010).

Available at: <https://digitalcommons.law.byu.edu/lawreview/vol2010/iss1/4>

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Battling Gray Markets Through Copyright Law: *Omega, S.A. v. Costco Wholesale Corporation*

I. INTRODUCTION

Brand owners around the world had reason to celebrate on September 3, 2008. On that day, the U.S. Court of Appeals for the Ninth Circuit decided *Omega, S.A. v. Costco Wholesale Corp.*, concluding that at least some of these owners could use copyright law to prevent unauthorized importation of their products into the United States.¹ While businesses have sought to use copyright law to control such “gray market”² activity at least since the ‘80s,³ a decade ago the U.S. Supreme Court sharply limited the efficacy of the Copyright Act in preventing parallel importation. In *Quality King Distributors, Inc. v. L’anza Research International, Inc.*, the Supreme Court held that § 602(a) of the Copyright Act, which provides that unauthorized importation of copies “that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106,” does not prevent the importation of domestically manufactured copies first sold abroad.⁴ The Court reasoned that, because § 602(a) makes unauthorized importation an infringement of the rights provided by § 106 and the distribution right of § 106 is limited by the first sale doctrine of § 109(a),⁵ the rights granted by § 602 must also be so limited.⁶

1. 541 F.3d 982 (9th Cir. 2008).

2. Gray markets occur as a result of discrepancies in pricing from country to country. Companies often price their products differently due to differences in local markets. For instance, a company may incur major advertising expenses in one country but not in another, resulting in higher prices for the country receiving the advertising. The potential for a gray market exists whenever an arbitrageur can purchase products cheaply in one market, import them into another market, undercut the prices of authorized dealers, and still make a profit. Retailers, such as Costco, that specialize in discounted name-brand products utilize gray markets to provide authentic name-brand products at discount prices.

3. See *CBS v. Scorpio Music Distrib.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff’d without op.*, 738 F.2d 424 (3d Cir. 1984) (finding copyright infringement where defendant imported phonorecords legally purchased abroad without authorization of the copyright owner).

4. 523 U.S. 135 (1998).

5. Section 109(a) provides, “Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person

In *Omega*, the Ninth Circuit faced a question that had been deferred in *Quality King*—whether the first sale doctrine applies to gray market goods manufactured abroad.⁷ The Ninth Circuit had previously answered that question in the negative,⁸ but *Quality King* brought this precedent into doubt.⁹ Writing for the three-judge panel, Judge Milan D. Smith, Jr., concluded that *Quality King* could be reconciled with the Ninth Circuit's case law and, therefore, did not overrule the Ninth Circuit's rule.¹⁰ Under this ruling, foreign manufacturers seeking to protect their chains of distribution received at least some reassurance that copyright law would come to their aid.

While the Ninth Circuit correctly concluded that *Quality King* did not directly overrule its precedent, the correctness of its decision that those cases remain viable is not as clear. This Note argues that *Quality King* is, in fact, irreconcilable with the Ninth Circuit rule, and thus, the *Omega* court should have held that § 602(a) of the Copyright Act operates within the bounds of the first sale doctrine without regard to the location of a product's manufacture. Part II explains the case law leading up to *Omega* and summarizes the Ninth Circuit's recent *Omega* decision. Part III explains how the Ninth Circuit's analysis is fatally flawed and should be reversed if the Supreme Court grants certiorari. Part IV offers a brief conclusion.

II. LEGAL BACKGROUND

A. BMG Music and Scorpio

In deciding *Omega*, the Ninth Circuit relied on a rule first announced by that court in *BMG Music v. Perez*.¹¹ *BMG Music* involved a dispute regarding the domestic distribution of copyrighted sound recordings. BMG, CBS, Inc., and A & M

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) (2008).

6. *Quality King*, 523 U.S. at 143–44.

7. *Omega*, S.A. v. Costco Wholesale Corp., 541 F.3d 982, 987 (9th Cir. 2008).

8. See *BMG Music, Inc. v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991).

9. See, e.g., Elin Dugan, *United States of America, Home of the Cheap and the Gray: A Comparison of Recent Court Decisions Affecting the U.S. and European Gray Markets*, 33 GEO. WASH. INT'L L. REV. 397, 405 (2001).

10. *Omega*, 541 F.3d at 983.

11. 952 F.2d 318. The Ninth Circuit, for its part, borrowed its reasoning from a 1983 U.S. District Court of Pennsylvania case: *CBS v. Scorpio Music Distrib.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984).

Records, the plaintiffs in the case, owned copyrights to various sound recordings and produced phonorecords of them overseas.¹² Perez purchased a number of the records and exported them to the United States where he sold them without the copyright holders' authorization.¹³ At trial, the district court found that Perez had willfully infringed the plaintiffs' copyrights, resulting in an injunction, damages, and attorneys' fees.¹⁴

On appeal, the Ninth Circuit held that Perez violated § 602(a) of the Copyright Act and that § 109(a) did not apply.¹⁵ According to the court, § 109(a) grants protection "only to copies legally made and sold in the United States" because only those copies are "lawfully made under [Title 17]" as required by § 109(a).¹⁶ The court based its conclusion on the fear that granting first sale protection to copies made and sold abroad would "render § 602 virtually meaningless,"¹⁷ and that doing so would eliminate copyright owners' "exclusive right to distribute copies or phonorecords of works manufactured abroad, an interest clearly protected by § 602."¹⁸

In its brief opinion, the court adopted the reasoning of *CBS, Inc. v. Scorpio Music Distributors, Inc.*,¹⁹ a case from the Eastern District of Pennsylvania. In addition to the fear that granting first sale protection would render § 602 meaningless, the district court in *Scorpio* also reasoned that § 109(a) could not apply to copies made abroad because it would require the extraterritorial application of U.S. law without express Congressional intent to do so.²⁰ Thus, while *BMG Music* never explicitly stated this alternative rationale, the Ninth Circuit did adopt it implicitly. In fact, since *Quality King* would eventually reject *BMG Music's* stated concern of rendering § 602(a) meaningless,²¹ this rationale would later provide the sole justification for the Ninth Circuit's decision in *Omega*.

12. *BMG Music*, 952 F.2d at 319.

13. *Id.*

14. *Id.*

15. *Id.* (citing *Scorpio*, 569 F. Supp. 47).

16. *Id.*

17. *Id.* (citing *Scorpio*, 569 F. Supp. at 49).

18. *Id.*

19. 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without op.*, 738 F.2d 424 (3d Cir. 1984).

20. *Id.* at 49.

21. See discussion *infra* Part II.C.

B. *BMG Music Distinguished*—Parfums Givenchy v. Drug Emporium

Considering the important policy implications *BMG Music* had for parallel importation, its brief treatment of the interplay between § 602 and § 109(a) left much to be desired. It should not have come as a surprise, then, that *BMG Music* was challenged only a few years later on fairly similar facts. *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*²² brought to the forefront one of the more glaring logical flaws inherent in *Scorpio* and *BMG Music*—namely that requiring manufacture and sale in the United States as a prerequisite to the protections of § 109(a) grants greater protection to works manufactured outside the United States than those made domestically.²³

As noted above, the backgrounds of *BMG Music* and *Drug Emporium* were strikingly similar.²⁴ As in *BMG Music*, the plaintiff of *Drug Emporium* sought to prevent the importation and sale of copyrighted works manufactured and first sold abroad.²⁵ Indeed, the only significant difference between the two cases was the nature of the copyrighted works. Whereas *BMG Music* had sought to prevent distribution of music recordings (works traditionally protected by copyright), *Parfums Givenchy* had less interest in the distribution of its copyrighted work (in this case, the decorative design on a perfume box) than in preventing the unauthorized distribution of the perfume bottles accompanying it.²⁶

Parfums Givenchy's strategy had become quite popular among brand owners in the years following *Scorpio* and *BMG Music*. Brand owners seeking to combat gray market activity had begun to see copyright law as a promising method for controlling product distribution, especially since their efforts to use trademark law had been rebuffed by the U.S. Supreme Court.²⁷ Capitalizing on the broad definition of copyrightable material, brand owners registered

22. 38 F.3d 477, 482 (9th Cir. 1994).

23. *Id.* at 482 n.8.

24. *See id.* at 482 (“The material facts of this case are nearly identical to those in *BMG Music*.”).

25. *Id.* at 478.

26. *Id.*

27. *See generally* K Mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988); Christopher A. Mohr, *Gray Market Goods and Copyright Law: An End Run Around K Mart v. Cartier*, 45 CATH. U. L. REV. 561 (1996).

copyrights for product instructions or designs on packaging.²⁸ And because *Scorpio* and *BMG Music* had restricted first sale protection to copies “legally made and sold in the United States,”²⁹ it appeared that copyright owners could prevent the importation of any copyrighted work either made or sold outside the United States, regardless of whether the copyrighted work itself had any intrinsic market value.

Drug Emporium sought to challenge *BMG Music* by pointing out the absurdity of the result it implied. If § 109(a) only applied to copies made *and* sold in the United States, then it could never apply to foreign-manufactured copies, and thus would grant greater copyright protection to goods made overseas than those made domestically.³⁰ The Ninth Circuit agreed that neither the language nor the legislative history suggested that Congress would have intended this result but concluded that it did not need to overrule *BMG Music* to avoid it.³¹ Rather, the court simply limited *BMG Music* to its facts and opined that § 109(a) did apply to the first *authorized* domestic sale of foreign-manufactured goods.³² However, the court did not go on to explain how foreign-made copies, which *BMG Music* had concluded could never be “lawfully made under [Title 17]” without extraterritorial application of law, somehow could be made under that title as long as they had been authorized for distribution in the United States. Thus, while purporting to bring clarity to the interplay between the first sale doctrine and § 602, *Drug Emporium* essentially passed over the basic tension between the two provisions.

C. *BMG Music Overruled?* Quality King Distributors, Inc. v. L’anza Research International, Inc.

In 1998, the U.S. Supreme Court sought to resolve a circuit split that had developed regarding the interplay of §§ 602 and 109. In *Sebastian International, Inc. v. Consumer Contacts*, the Third Circuit

28. See generally Mohr, *supra* note 27.

29. *BMG Music, Inc. v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991).

30. *Drug Emporium*, 38 F.3d at 482 n.8.

31. *Id.*

32. *Id.* at 481, 482 n.8. Notably, because the facts of the case did not concern products that had been legally distributed in the United States, this language was dicta. However, the Ninth Circuit later applied the doctrine in *Denbicare U.S.A., Inc. v. Toys “R” Us, Inc.*, 84 F.3d 1143, 1149–50 (9th Cir. 1996), making it the official rule for the Ninth Circuit.

concluded that § 602 functioned interdependently with § 109(a).³³ In other words, the court rejected the argument that § 602 creates rights distinct from those granted by § 106.³⁴ Since the distribution right provided by § 106 is expressly limited by the first sale doctrine of § 109, § 602 must also be limited by that doctrine.³⁵

Sebastian involved a dispute over hair care products that originated in the United States and had been reimported without the copyright owner's authorization.³⁶ The Third Circuit recognized the distinction between copies made domestically and those made abroad and, therefore, did not explicitly repudiate *Scorpio*, which had dealt with foreign-manufactured works.³⁷ However, it did "confess some uneasiness with [*Scorpio's*] construction of 'lawfully made' because it does not fit comfortably within the scheme of the Copyright Act."³⁸ The court explained that "[w]hen Congress considered the place of manufacture to be important, as it did in the manufacturing requirement of section 601(a), the statutory language clearly expresses that concern."³⁹ Notably, in applying § 109(a) to U.S.-produced copies that had been legally sold abroad, the court suggested 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."⁴⁰

The Ninth Circuit faced an identical question in *L'anza Research International, Inc. v. Quality King Distributors, Inc.*⁴¹ However, it concluded that the legislative history of § 602 established that Congress had, in fact, intended § 602 to prohibit gray market activity.⁴² Therefore, it extended the rule from *BMG Music*, which prohibited the unauthorized importation of foreign-manufactured

33. 847 F.2d 1093, 1097–98 (3d Cir. 1988).

34. *Id.* at 1099 ("Nothing in the wording of section 109(a), its history or philosophy, suggests that the owner of copies who sells them abroad does not receive a 'reward for his work.' Nor does the language of section 602(a) intimate that a copyright owner who elects to sell copies abroad should receive 'a more adequate award' than those who sell domestically.").

35. *See id.* at 1099.

36. *Id.* at 1094–95.

37. *Id.* at 1098.

38. *Id.* at 1098 n.1.

39. *Id.*

40. *Id.* at 1099.

41. 98 F.3d 1109, 1111 (9th Cir. 1996), *rev'd* 523 U.S. 135 (1998).

42. *Id.* at 1115–17.

goods, to the unauthorized reimportation of domestic-manufactured goods.⁴³

On appeal, the Supreme Court agreed with the Third Circuit. A unanimous Court held that § 602 “does not categorically prohibit the unauthorized importation of copyrighted materials. Instead, it provides that such importation is an infringement of the exclusive right to distribute copies ‘*under section 106.*’”⁴⁴ Thus, regardless of the location of the first sale, an owner of a copyrighted item “lawfully made under [Title 17]” has an unfettered right to dispose of it.⁴⁵ “[T]he literal text of § 602(a) is simply inapplicable to both domestic and foreign owners of L’anza’s products who decide to import them and resell them in the United States.”⁴⁶

The major doctrinal development from *Quality King* was its conclusive rejection of the idea that application of § 109(a) to any unauthorized importation of lawfully made copies would render § 602 meaningless. The Court explained that the meaning of “lawfully made” copies under § 602 is broader than the meaning of copies “lawfully made under this title,” as expressed in § 109(a).⁴⁷ The category of copies encompassed by § 602(a) includes “copies that were ‘lawfully made’ not under the United States Copyright Act, *but instead*, under the law of some other country.”⁴⁸

To illustrate this scenario, the Court hypothesized an author who grants “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.”⁴⁹ According to the Court, both publishers could lawfully make copies, but “presumably only those made by the publisher of the United States edition would be ‘lawfully made under this title’ within the meaning of § 109(a).”⁵⁰

43. *Id.* at 1116–17 (“Although *C & C* addressed the importation of copies manufactured outside of the United States, its logic is equally applicable to the scenario at issue here . . .”).

44. *Quality King Distribs., Inc. v. L’anza Research Int’l, Inc.*, 523 U.S. 135, 144 (1998) (emphasis added).

45. *Id.* at 145.

46. *Id.*

47. *Id.* at 146–47.

48. *Id.* at 147 (emphasis added).

49. *Id.* at 148.

50. *Id.*

Unfortunately, this illustration does not explain the exact contours of when a copy is made under the laws of another country *instead* of under Title 17. One reading of the Court's illustration might be that copies are made exclusive of U.S. law when distribution rights exclude the United States. However, another interpretation (the one eventually adopted by the Ninth Circuit) might hold that domestic-produced copies are always made under Title 17, whereas foreign-produced copies never are. Under either alternative, however, it seems unlikely that the illustration could be read to allow a copyright owner making copies in the United States to escape § 109(a) simply by designating copies meant for foreign distribution as "made under the laws of another country." Were that possible, *Quality King*'s holding would have quickly been rendered meaningless and, indeed, probably could not have been applicable to the facts of that case.

D. Omega, S.A., v. Costco Wholesale Corp.

Since *Quality King* only addressed parallel importation of domestic-made goods, it left the status of other gray market activity uncertain. The decision certainly did not, however, discourage it. In fact, many probably viewed *Quality King* as granting legitimacy to the gray market.⁵¹ Finally, in 2004, Omega, S.A., a Swiss watchmaker, challenged this perception by filing a complaint for copyright infringement against Costco Wholesale Company ("Costco") in the U.S. District Court for the Central District of California.⁵² Omega claimed that Costco had offered for sale watches bearing Omega's copyrighted Globe symbol without Omega's authorization.⁵³ The watches had been made and sold outside the United States, imported and sold to Costco, then offered for sale by Costco at discounted prices,⁵⁴ a classic example of gray markets at work. Costco opposed the complaint in part on the grounds that it was protected by the first-sale doctrine and, in 2007, the district

51. See, e.g., Dugan, *supra* note 9, at 405 ("The bottom line of the *Quality King* decision was that the holders of a product that has been copyrighted in the United States may not control importation and distribution of that product in the United States after it has been sold with the holder's consent—regardless of where the first sale occurred.")

52. *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 983–84 (9th Cir. 2008).

53. *Id.*

54. *Id.*

court granted Costco's motion for summary judgment on that basis.⁵⁵

On appeal, the Ninth Circuit reversed the district court, holding that the first-sale doctrine did not apply to copies of copyrighted works manufactured outside the United States and imported without the copyright owner's authorization.⁵⁶ In doing so, the three-judge panel observed that: (1) *BMG Music* clearly dictated that the first sale defense would not apply, (2) three-judge panels have no authority to overrule precedent, and (3) *BMG Music* and its progeny would, therefore, control unless they were "clearly irreconcilable" with *Quality King*.⁵⁷ Since *Quality King* had decided a case of "round trip" importation, rather than importation of foreign-manufactured copies, the Ninth Circuit concluded that it did not directly overrule and was, in fact, reconcilable with the *BMG Music* line of cases.⁵⁸

The Supreme Court clearly rejected the argument relied upon in *BMG Music* that application of § 109(a) to foreign sales would render § 602 meaningless.⁵⁹ However, the Ninth Circuit reasoned that *Quality King* did not foreclose *BMG Music*'s alternative rationale⁶⁰—that application of § 109(a) to copies made outside the United States would require extraterritorial application of U.S. law.⁶¹ The court distinguished between application of § 109(a) to *foreign sales*, which *Quality King* established did not require extraterritorial application of the Act,⁶² and its application to *foreign production*.⁶³ According to the court, § 109(a) can be applied to foreign sales of domestically-produced copies because doing so "merely acknowledges the occurrence of a foreign event as a relevant fact."⁶⁴ Application of § 109(a) to foreign-produced copies, however, would

55. *Id.*

56. *Id.* at 983.

57. *Id.* at 985–87.

58. *Id.* at 987–89.

59. *Quality King Distribs., Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135, 146–49 (1998).

60. This conclusion was not explicit in *BMG Music*, but was implied by the Ninth Circuit's wholesale adoption of *Scorpio*, in which the idea originated.

61. *Omega*, 541 F.3d at 987–88.

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

63. *Omega*, 541 F.3d at 988.

64. *Id.*

require the courts “to ascribe legality under the Copyright Act to conduct that occurs entirely outside the United States”⁶⁵

The Ninth Circuit sought support for its conclusion from *Quality King* itself. The court first argued that the Supreme Court’s illustration⁶⁶ was consistent with the conclusion that § 109(a) applies only to copies made in the United States.⁶⁷ In the Ninth Circuit’s opinion, “this illustration suggests that ‘lawfully made under this title’ refers exclusively to copies of U.S.-copyrighted works that are made domestically. Were it otherwise the copies made by the British publisher would also fall within the scope of § 109(a).”⁶⁸

Finally, the Ninth Circuit supported its holding by pointing to *Quality King*’s “only direct language on the issue,” a one-paragraph concurrence by Justice Ginsburg.⁶⁹ Justice Ginsburg joined the majority opinion, “recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad,” and citing two treatises that suggest application of § 109(a) to foreign-produced copies would require extraterritorial application of U.S. law.⁷⁰ The Ninth Circuit pointed out that the *Quality King* majority did not dispute Ginsburg’s interpretation, and concluded that *BMG Music* and its progeny survived *Quality King*.⁷¹

To conclude its discussion, the Ninth Circuit once again addressed the argument that *BMG Music*’s rule would grant greater copyright protection to foreign producers.⁷² It quickly dismissed that argument, however, by pointing to *Drug Emporium* and *Denbicare*, which provide an exception to *BMG Music* as long as an authorized first sale of foreign-made copies occurs in the United States.⁷³ In a puzzling bit of reasoning, the court summarily concluded that it did not need to decide whether *Drug Emporium* and *Denbicare* survived *Quality King* because the exception would not have applied to the

65. *Id.*

66. *See supra* Part II.C.

67. *Omega*, 541 F.3d at 989.

68. *Id.*

69. *Id.*

70. *Quality King Distribs, Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 154 (1998) (Ginsburg, J., concurring).

71. *Omega*, 541 F.3d at 989. The Court did not, however, address the significance of the fact that none of the eight other Justices joining the majority opinion saw fit to join Justice Ginsburg’s concurrence.

72. *Id.*

73. *Id.*

facts of this case.⁷⁴ Thus, *BMG Music* survived *Quality King* partly because it had an exception that presumably cures any absurd results. However, the validity of the exception itself did not need to be decided because the case at hand did not require its application.

In summary, the Ninth Circuit retained its “general rule that § 109(a) refers ‘only to copies legally made . . . in the United States,’” subject to an exception for copies sold in the United States with the copyright owner’s authorization.⁷⁵ Copyrighted gray market goods, therefore, may not be imported without the copyright owner’s authorization if those goods were produced and first sold outside the United States.

III. THE NINTH CIRCUIT SHOULD HAVE OVERRULED *BMG MUSIC*

The Ninth Circuit was correct in concluding that *Quality King* did not directly overrule *BMG Music*. However, more careful reasoning would have revealed that the two cases cannot be reconciled. *Quality King* eliminated *BMG Music*’s primary foundation—that application of § 109 to imports would render § 602(a) meaningless—and undermined the other. In spite of the Ninth Circuit’s protestations, application of § 109(a) to foreign-produced copies does not require improper extraterritorial application of U.S. law. Indeed, strict faithfulness to this argument fails under the Ninth Circuit’s own precedent, since *Drug Emporium* and *Denbicare* willingly admit that § 109(a) applies to foreign-made copies when an authorized first sale takes place in the United States. By adhering to *BMG Music*’s “extraterritoriality” rationale, the Ninth Circuit unwittingly endorses the absurd result that foreign-made copies enjoy greater copyright protection than domestic-made copies.

Instead of attempting to reconcile *BMG Music* with *Quality King*, the Ninth Circuit should have taken the opportunity to clarify the principles underlying *Quality King*. For instance, it could have established a rule that copies are “lawfully made” under the laws of another country when the manufacturer’s or distributor’s distribution rights exclude the United States. Such a rule would have given meaning to § 602 and would have been consistent with *Quality King*.

74. *Id.* at 990.

75. *Id.* (quoting *BMG Music, Inc. v. Perez*, 952 F.2d 318, 319 (9th Cir. 1991)).

A. The Ninth Circuit's Holding is Internally Inconsistent

Perhaps the greatest flaw in *Omega* is its internal inconsistency. The Ninth Circuit argues that copies made in other countries cannot, as a “general rule,” be made under Title 17, and therefore are not subject to § 109(a).⁷⁶ However, to avoid granting greater copyright protection to foreign producers, it established an exception as long as an authorized sale occurs in the United States.⁷⁷ Of course, if lawful *production* under Title 17 is a prerequisite to § 109(a)’s protection, then this exception either admits that foreign-produced copies intended for distribution in the United States *are* lawfully made under U.S. law *ab initio*, or it suggests that the laws under which a copy is made can change at the time of sale. If the first alternative is correct, then application of § 109(a) to foreign-produced copies does not, in principle, require an improper extraterritorial application of U.S. law. If, however, the Ninth Circuit meant to adopt the second alternative, then it has indulged in a legal fiction that cannot be justified.

Quality King did not, perhaps, highlight the flaw inherent in the *Drug Emporium* exception. It did, however, severely undermine it. In *Quality King*, the Supreme Court casually dismissed *L’anza*’s argument that application of the first-sale doctrine to foreign sales would require extraterritorial application of U.S. law.⁷⁸ In a footnote, the Court concluded, “Such protection does not require the extraterritorial application of the Act any more than § 602(a)’s ‘acquired abroad’ language does.”⁷⁹ The Ninth Circuit attempted to distinguish this language,⁸⁰ but its reasoning does not withstand scrutiny.

The Ninth Circuit argued that application of § 109(a) to foreign-produced copies would require courts to “ascribe legality . . . to conduct that occurs entirely outside the United States”⁸¹ However, it failed to recognize that protection of foreign sales *also* requires a court to “ascribe legality” to foreign conduct. Section

76. *Id.* at 987.

77. *Id.* at 989–90.

78. *Quality King Distribs, Inc. v. L’Anza Research Int’l, Inc.*, 523 U.S. 135, 145 n.14 (1998).

79. *Id.*

80. *See supra* Part II.D.

81. *Omega*, 541 F.3d at 988.

109(a) protects “owners” of copyrighted materials, and ownership is an inherently legal question. Consider, for example, a person who purchases and imports U.S.-produced copies without the copyright owner’s authorization. Under *Quality King*, the purchaser may assert a first sale defense. The copyright owner, however, may challenge that defense by claiming that no first sale occurred, perhaps because the goods were stolen or the purchaser only owns a license and, therefore, is not a true owner of the goods. Before it could apply § 109(a), the court would undoubtedly have to decide the legality of the first sale, even though it occurred entirely outside the United States.

Even when legal ownership is not challenged, a court cannot apply § 109(a) without first implicitly agreeing that a legal first sale occurred. Thus, application of § 109(a) to foreign sales requires a court to “ascribe legality” to wholly foreign conduct to the same extent as would application of § 109(a) to foreign-produced goods. Because application of § 109(a) to foreign sales does not require extraterritorial application of U.S. law, and there is no meaningful distinction between foreign sales and foreign production, § 109(a) should also be applied to foreign-produced copies.

*B. Nothing in Quality King Suggests Geographical Origin
Should Play a Role*

The Ninth Circuit attempted to find support for its conclusion that *BMG Music* survived *Quality King* in the language of *Quality King* itself. However, neither the Supreme Court’s illustration, nor Justice Ginsburg’s concurrence provide any basis for the Ninth Circuit’s decision. Furthermore, the Copyright Act’s legislative history suggests the opposite conclusion.

The Supreme Court demonstrated that a copy may be produced under the laws of another country instead of under Title 17.⁸² Its illustration does not, however, clearly explain *how* that can be done. While the Ninth Circuit assumed that the operative difference between a “U.S. edition” and a “British edition” would be the location of manufacture,⁸³ the illustration suggests otherwise.

82. *Quality King*, 523 U.S. at 148.

83. *Omega*, 541 F.3d at 989. The court recognized that the illustration did not compel this assumption, but concluded that “*Quality King* cannot be ‘clearly irreconcilable’ with our precedent even if the decision merely *permits* assumptions that are consistent with that precedent.” *Id.* at 989 n.6.

According to the illustration, copies of the British edition would be made under British law because of the publisher's exclusive distribution rights, not because of the publisher's location. The Court's illustration would be no different if the publisher of the British edition was physically located in the United States or, for that matter, if the publisher of the American edition was based in the United Kingdom.

The conclusion that rights under the Copyright Act should not depend on geographic location of production is further bolstered by the Act's legislative history. While there is no evidence that Congress considered the problem of extraterritorial application of U.S. law in applying the Copyright Act to copies made outside the United States, there is significant evidence that Congress would not have wanted geographic origin to determine the scope of a copyright holder's rights. This evidence is found in the history of the Manufacturing Clause.⁸⁴

When Congress overhauled the Copyright Act in 1976, a substantial coalition called for the repeal of the Manufacturing Clause, arguing in part that it "violates the basic principle that an author's rights should not be dependent on the circumstances of manufacture."⁸⁵ The advisory committee agreed with this argument, and recommended that the Clause be repealed subject to a five-year grace period to allow the American printing industry to prepare for the loss of its advantage. While the version actually adopted extended the date of repeal until 1982⁸⁶ and was later delayed again until 1986,⁸⁷ the fact that Congress accepted even a delayed repeal in 1976 indicates that, in principle, it did not believe a copyright owner's rights should depend on the location of manufacture. To the extent the delay suggests Congress did believe location of

84. The Manufacturing Clause withheld certain copyright protections from American authors that published their works abroad. 17 U.S.C. § 601 (2006). Until it was repealed in 1986, it prohibited, with certain enumerated exceptions,

the importation into or public distribution in the United States of copies of a work consisting preponderantly of nondramatic literary material that is in the English language and is protected under this title . . . unless the portions consisting of such material have been manufactured in the United States or Canada.

Id. Thus, the Manufacturing Clause functioned as a boon to the U.S. printing industry by discouraging American authors from diverting business to cheap foreign printers.

85. H.R. REP. NO. 94-1476, at 165-66 (1976), *reprinted in* 1976 U.S.C.C.A.N. 5659, 5781-82.

86. Pub. L. No. 94-553, § 601, 90 Stat. 2588 (1976).

87. Pub. L. No. 97-215, 96 Stat. 178 (1982).

manufacture should influence rights, it would have favored American, not foreign, production.

The Ninth Circuit, however, dictated the opposite result. Under *Omega*, copyright owners can control downstream distribution of their works simply by moving production overseas. According to the Ninth Circuit, *Quality King* does not allow copyright holders who manufacture in the United States to escape the reach of § 109(a), but can be read to allow that right to foreign producers.⁸⁸ The Ninth Circuit's assurance that the *Drug Emporium* exception cures this absurd result is ineffective. If foreign sales of domestic products are subject to § 109(a) while sales of foreign-made copies are not, then there is a clear advantage for foreign producers.

IV. CONCLUSION

The Ninth Circuit's decision to retain *BMG Music* is unjustified. While the Supreme Court did not directly overrule it in *Quality King*, the two cases are irreconcilable. *Quality King* made clear that § 109(a) does not apply to copies lawfully made under the laws of another country instead of under Title 17. However, this does not mean foreign-made copies cannot be made under Title 17. Indeed, the Ninth Circuit apparently admits that foreign-made copies are made under Title 17 as long as they are authorized for sale in the United States. Instead of clinging to the flawed rule of *BMG Music*, the Ninth Circuit should have taken the opportunity to repudiate that case and establish a new rule—namely, that copies are made under the laws of another country rather than Title 17 when the owner's exclusive distribution rights extend only to that country.

*Samuel Brooks**

88. See generally *Omega*, 541 F.3d 982.

* J.D. candidate, April 2010, J. Reuben Clark Law School, Brigham Young University. I express my appreciation to Reed Willis and the staff of the BYU Law Review for their excellent editorial assistance and to David Sugden for introducing me to this fascinating area of copyright law.

