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 *AMICI CURIAE* OF THE AMERICAN LIBRARY ASSOCIATION, THE ASSOCIATION OF COLLEGE AND RESEARCH LIBRARIES, AND THE ASSOCIATION OF RESEARCH LIBRARIES IN SUPPORT OF PETITIONER

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TABLE OF CONTENTS

TABLE OF CONTENTS – Continued

TABLE OF AUTHORITIES

Page

CASES

TABLE OF AUTHORITIES – Continued

STATUTES AND LEGISLATIVE HISTORY

TABLE OF AUTHORITIES – Continued

TABLE OF AUTHORITIES – Continued

Page

TABLE OF AUTHORITIES – Continued

Page

TABLE OF AUTHORITIES – Continued

TABLE OF AUTHORITIES – Continued

Page

INTEREST OF *AMICI*[1]

The American Library Association (ALA), established in 1876, is a nonprofit professional organization of more than 65,000 librarians, library trustees, and other friends of libraries dedicated to providing and improving library services and promoting the public interest in a free and open information society.

The Association of College and Research Libraries (ACRL), the largest division of the ALA, is a professional association of academic and research librarians and other interested individuals. It is dedicated to enhancing the ability of academic library and information professionals to serve the information needs of the higher education community and to improve learning, teaching, and research.

The Association of Research Libraries (ARL) is a nonprofit organization of 125 research libraries in North America. ARL's members include university libraries, public libraries, and government and national libraries. ARL influences the changing environment of scholarly communication and the public policies that affect research libraries and the diverse communities they serve.

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[1] The parties' letters granting blanket consent to the filing of *amicus* briefs are on file with the Clerk of this Court. No counsel for a party authored this brief in whole or in part, and no person other than *amici curiae* or its counsel made a monetary contribution to the preparation or submission of this brief.

Collectively, these three library associations (*amici* library associations) represent over 139,000 libraries in the United States employing over 300,000 librarians and other personnel.

One of the most basic functions of libraries is lending books and other materials to the public.[2] Section 106(3) of the Copyright Act grants the copyright owner the exclusive right "to distribute copies or phonorecords of the copyrighted work to the public by . . . lending." 17 U.S.C. § 106(3). However, the first sale doctrine, codified at Section 109(a) of the Copyright Act, exhausts the copyright owner's distribution right in a particular copy "lawfully made under this title" after the first sale of that copy. 17 U.S.C. § 109(a). The House Judiciary Committee Report on the 1976 Copyright Act explains that under Section 109(a), "[a] library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose." H.R. Rep. No. 94-1476, § 109, at 79 (1976), *as reprinted in* 1976 U.S.C.C.A.N. 5659, 5693. The first sale doctrine thus is critical to the operation of libraries: "[w]ithout this exemption, libraries would be unable to lend books, CDs, videos, or other materials to patrons." Carrie Russell, *Complete Copyright: An Everyday Guide For Librarians* 43 (2004).

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[2] Libraries circulate a wide variety of materials in addition to books, including journals, dissertations, computer programs, phonorecords, and audiovisual works. References in this brief to books could include these other materials.

This case concerns the meaning of the phrase "lawfully made under this title" in Section 109(a). The Ninth Circuit ruled that "lawfully made under this title" means lawfully manufactured in the United States. But many of the materials in the collections of U.S. libraries were manufactured overseas. Indeed, U.S. publishers now print an increasing number of books in China and other countries with lower labor costs. Thus, an affirmance of the decision below could jeopardize the ability of libraries to lend a substantial part of their collection to the public. In other words, how this Court interprets the phrase "lawfully made under this title" could determine the extent to which libraries can continue to perform their historic function of lending books and other materials to the public. *Amici* library associations respectfully request the Court to reject the Ninth Circuit's interpretation, and instead hold that copies "lawfully made under this title" means "copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights."

SUMMARY OF ARGUMENT

For almost four hundred years, libraries in America have promoted democratic values by lending books and other materials to their users. Notwithstanding the wide availability of content over the Internet, U.S. libraries engage in 4.4 billion circulation transactions a year. These circulation transactions do not infringe the copyright owners'

distribution rights because of the first sale doctrine codified at Section 109(a) of the Copyright Act.

By restricting the application of Section 109(a) to copies manufactured in the United States, the Ninth Circuit's decision threatens the ability of libraries to continue to lend materials in their collections. Over 200 million books in U.S. libraries have foreign publishers. Moreover, many books published by U.S. publishers were actually manufactured by printers in other countries. Although some books indicate on their copyright page where they were printed, many do not. Libraries, therefore, have no way of knowing whether these books comply with the Ninth Circuit's rule. Without the certainty of the protection of the first sale doctrine, librarians will have to confront the difficult policy decision of whether to continue to circulate these materials in their collections in the face of potential copyright infringement liability. For future acquisitions, libraries would be able to adjust to the Ninth Circuit's narrowing of Section 109(a) only by bearing the significant cost of obtaining a "lending license" whenever they acquired a copy that was not clearly manufactured in the United States.

This Court's decision in *Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc*., 523 U.S. 135 (1998), does not mandate the Ninth Circuit's rule. The Ninth Circuit misconstrued an example in *Quality King* involving an author transferring the U.S. rights to one entity and the U.K. rights to another entity. Contrary to the Ninth Circuit, the key point in the example is not the place of manufacture, but the

territorial allocation of the reproduction and distribution rights. *Quality King* thus permits understanding the phrase copies "lawfully made under this title" to mean "copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights." Unlike the Ninth Circuit's rule, this interpretation of Section 109(a) advocated by *amici* library associations is consistent with the privileged status Congress has accorded libraries in Title 17. Also unlike the Ninth Circuit's rule, the interpretation advanced by *amici* library associations supports library users' First Amendment right to receive information.

If the Court decides to affirm the Ninth Circuit, *amici* library associations urge the Court to lessen the adverse impact on libraries by holding that: 1) parties can raise the first sale defense in cases involving foreign-manufactured copies so long as a lawful domestic sale had occurred; 2) the library exception in 17 U.S.C. § 602(a)(3)(C) applies to lending as well as importing; and 3) library lending constitutes a fair use under 17 U.S.C. § 107.

ARGUMENT

I. THROUGHOUT AMERICAN HISTORY, LIBRARIES HAVE PROMOTED DEMOCRATIC VALUES BY LENDING BOOKS TO THE PUBLIC.

Libraries are part of the fabric of American democracy. "U.S. libraries arose out of the democratic beliefs in an informed public, enlightened civic discourse, social and intellectual advancement, and participation in the democratic process." Byron Anderson, *Public Libraries*, *in St. James Encyclopedia of Popular Culture* 133 (Tom Pendergast & Sara Pendergast eds., 2000). In 1638, John Harvard bequeathed his collection of books to a newly established college in Cambridge, Massachusetts for the use of its faculty and students. Michael Harris, *History of Libraries in the Western World* 173 (1999). Benjamin Franklin in 1731 helped establish the Library Company of Philadelphia, which allowed its stockholders to borrow its books. *Id*. at 183-84.[3] William Rind created a commercial circulating library in Annapolis in 1763, which rented books for a small

[3] Benjamin Franklin explained his rationale for organizing a library: "by thus clubbing our Books to a common Library, we should, while we lik'd to keep them together, have each of us the Advantage of using the Books of all the other Members which would be nearly as beneficial as if each owned the whole." Benjamin Franklin, *The Autobiography of Benjamin Franklin* 130 (W. Labaree ed., 1964).

fee.[4] By the end of the eighteenth century, many towns throughout the new nation had academic libraries, membership libraries, circulating libraries or church libraries. Harris, *supra*, at 202-03.

In 1800, Congress established the Library of Congress. President Thomas Jefferson appointed the first Librarian of Congress, and sold his private collection to the Library of Congress in 1815, after its collection burned during the British occupation of Washington, D.C., in the War of 1812. Harris, *supra*, at 196-97.[5] Thomas Jefferson also articulated a vision of libraries across the country providing broad public access to books. In a letter to John Wyche, Jefferson stated that "I have often thought that nothing would do more extensive good at small expense than the establishment of a small circulating library in every county, to consist of a few well-chosen books, to be lent to the people of the county under regulations as would secure their safe return in due time." Thomas

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[4] "In many ways more democratic than the subscription social libraries, the circulating libraries often allowed women to have books, featured reading rooms with long hours, and provided access to a variety of reading matter, including newspapers, popular pamphlets, and novels." Dee Garrison, *Libraries*, *in Encyclopedia of the United States in the Nineteenth Century* (Paul Finkelman ed., 2001).

[5] The Library of Congress circulates materials to Members of Congress, thousands of Congressional employees, and other libraries (which can make the materials available to users within the library premises). The Library of Congress – Interlibrary Loan, http://www.loc.gov/rr/loan/loanweb1.html (last visited June 30, 2010).

Jefferson, Letter to John Wyche, May 19, 1809, *in Thomas Jefferson: A Chronology of His Thoughts* 223 (Jerry Holmes ed. 2002).

During the first half of the nineteenth century, access to books increased. Apprentice libraries were established for the use of young men migrating to the cities to help them "train for the new factory system which had been brought about by the industrial revolution." Jean Key Gates, *Introduction to Librarianship* 70 (1968). Mercantile libraries developed for the use of merchants and law clerks. School districts began to invest in libraries for their students. By 1853, New York State had created school district libraries throughout the state with over 1,604,210 volumes. *Id.* at 79. Horace Mann urged Massachusetts to follow New York's lead because he "saw the library as an essential contributor to the educational program of the school, as an invaluable aid in continuing education and in self-improvement, and an indispensable part of the cultural life of the people." *Id.* at 80.

In 1848, the Massachusetts legislature authorized the City of Boston "to establish and maintain a public library, for the use of the inhabitants. . . . " Boston Public Library – Founding Legislation, http://www.bpl.org/general/legislation.htm (last visited June 25, 2010). In the following decades, other public libraries were established, but the public library movement accelerated dramatically after 1881 through the philanthropy of steel magnate Andrew Carnegie. Carnegie said that "[t]here is not such a cradle of

democracy upon the earth as the Free Public Library, this republic of letters, where neither rank, office, nor wealth receives the slightest consideration." John Buschman & Gloria J. Leck, ed., *The Library as Place: History, Community, and Culture,* 74 (2007).[6] Carnegie ultimately funded the construction of 1679 public library buildings in 1,412 communities across the United States. Harris, *supra,* at 246-47.

In the twentieth century, the federal government expanded its support of libraries far beyond the Library of Congress. During the Great Depression, the Works Progress Administration built 350 new libraries and repaired many existing ones. Anderson, *supra*, at 133. In 1941, President Franklin Roosevelt issued a proclamation identifying libraries as "essential to the functioning of a democratic society" and "the great tools of scholarship, the great repositories of culture, the great symbols of the freedom of the mind." Patti Clayton Becker, *Books and Libraries in American Society During World War II: Weapons in the War of Ideas* 49 (2005). Congress enacted the Library Services Act of 1956 and the Library Services

[6] "When mention is made of the dependence of a democratic society on an informed citizenry, the American public library usually comes to mind as the instrument which has had as its fundamental purpose the serving of this crucial need." Gates, *supra*, at 91. *See also* United States Office of Education, *Public Libraries in the United States of America* iii (1876) ("[O]ur libraries will fulfill in every respect their high station as indispensable aids to public education, to the privilege and responsibility of instructing our American democracy.")

and Construction Act of 1964 to provide federal funding for library construction. Currently, the Institute of Museum and Library Services, an independent federal agency, administers the Museum and Library Services Act of 1996 and its 2003 reauthorization to channel millions of dollars of federal funding annually to libraries throughout the United States. Institute of Museum and Library Services, http://www.imls.gov (last visited June 25, 2010).

II. THE NINTH CIRCUIT'S INTERPRETATION OF SECTION 109(a) UNDERMINES THE ABILITY OF LIBRARIES TO LEND BOOKS AND OTHER MATERIALS TO THE PUBLIC.

A. Americans Borrow Books And Other Materials From Libraries 4.4 Billion Times A Year.

Notwithstanding the spread of digital technology, millions of Americans check out books and other materials from libraries. The collections of the over 9,200 public libraries in the country contain 812.5 million copies of printed materials, 45.9 million phonorecords, and 46.3 million copies of audiovisual materials. Institute of Museum and Library Services, *Public Libraries Survey Fiscal Year 2007* 10 (2009). For these materials, there were a total of 2.2 billion circulation transactions in 2007. *Id*. at 6. This represents a slight increase in circulation from 2.1 billion in 2006. Per capita circulation grew by 16% between 2000 and 2007. *Id.*

The collections of 81,920 public school media centers contain 959 million books and 42.6 million phonorecords and audiovisual materials. National Center for Educational Statistics, U.S. Department of Education, *Characteristics of Public and Bureau of Indian Education Elementary and Secondary School Library Media Centers in the United States: Results From the 2007-08 Schools and Staffing Survey* 9 (2009). These materials were checked out 2.05 billion times during the 2007-08 school year. *Id*. at 14.

The collections of 3,800 academic libraries include 1.05 billion copies of printed materials, as well as 110 million phonorecords and audiovisual materials. National Center for Education Statistics, U.S. Department of Education, *Academic Libraries: 2008* 8 (2009). There were a total of 179 million circulation transactions for these materials in 2008. *Id*. at 4.

B. Many Of The Materials Circulated By Libraries Are In Copyright And Were Manufactured Abroad.

1. Because of the complexity of determining whether a particular work is in the public domain, it is difficult to estimate what percentage of the collections of U.S. libraries is under copyright protection. In the course of the litigation over the Google Library Project, experts estimated that roughly eighty percent of the books in U.S. research libraries were in copyright. Jonathan Band, *The Long and Winding Road to the Google Books Settlement*, 9 J. Marshall

Rev. Intell. Prop. L. 227, 228-29 (2009). The collections of research libraries tend to contain more old books than the collections of other types of libraries, so an even larger percentage of the books in the public, school, and smaller academic libraries probably are still in copyright. Moreover, the vast majority of phonorecords and audiovisual materials in U.S. library collections are in copyright, given when they were created.

2. It also is difficult to determine what proportion of the collections of U.S. libraries was manufactured in the United States. During the Google Library Project litigation, it was estimated that over half the books in the research libraries partnering with Google had foreign publishers. *Id.* at 321. A survey of a larger set of research libraries indicates that approximately twenty percent of the books in these libraries have foreign publishers.[7] Cumulatively, U.S. libraries hold an estimated 200 million copies of foreign published books. Posting of Ed O'Neill to Metalogue: New Directions in Cataloguing and Metadata From Around the World, http://community.oclc.org/metalogue/ (June 24, 2010, 8:29 AM).

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[7] Some libraries, however, have a much higher percentage of foreign books. The vast majority of the 5 million items in the collection of the Center for Research Libraries in Chicago, for example, have foreign publishers. *See* Center for Research Libraries – Our Collection, http://www.crl.edu/collections/our-collection/ (last visited June 25, 2010).

But the number of foreign manufactured books in U.S. libraries could be far larger than 200 million. Even if a book was published by a U.S. publisher, a copy of that book may not have actually been printed in the United States. Publishing and printing are separate industries. Most U.S. publishing houses do not own their own printing presses; they outsource the printing to independent printing companies. Increasingly, these printing companies are located offshore, where labor costs are lower. Chinese companies, for example, often advertise printing costs up to 30% to 50% lower than U.S. printing firms. Offshore printers have increased in quality in recent years, and Internet connectivity makes job submission and management easier. Press Release, Strategies for Management, Offshore Printing Gaining New Ground; Newly Published Study Analyzes the U.S. Printing Industry's Growing Competition from Print Imports (May 20, 2010) *available at* http://haoodnla.com/article/lxy09211696y9j01/516024. In a 2006 survey of book publishers, 42% said that they had worked with an overseas print provider in the previous twelve months. Press Release, TrendWatch Graphic Arts, TWGA Study Evaluates Impact of Overseas Printing On Domestic Printing Industry (August 29, 2006) *available at* http://www.labelsandlabeling.com/news/twga_study_evaluates_impact_of_overseas_print. A 2006 survey of printing firms indicated that a third had lost a domestic printing job to a foreign competitor within the previous year. Ronnie H. Davis, *Printers' Perspectives on Global Opportunities and Threats*, *Economic & Print Market*

Flash Report, November 15, 2006, *available at* http://www.printnys.org/21. 47% of those competitors were in China; 16% in Mexico, and 12% in Canada. Price was the major competitive factor in 88% of these lost jobs. *Id*. In a 2007 survey of printers, 56% of respondents reported that a customer had purchased print from an offshore competitor within the previous twelve months. Ronnie H. Davis, *Printer Perspectives on Global Competition and Postage Rate Increase*, *Economic & Print Market Flash Report*, June 4, 2007, *available at* http://efiles.printing.org/eweb/docs/Econ/2007.06.04.FlashReport.pdf. Comparison of tariff and publishing industry statistics for 2005 indicates that nearly a third of the books sold in the United States were printed abroad. *See* Harmonized Tariff Schedule of the United States § 4901 (2005 imports); Book Industry Study Group, Inc., *Book Industry Trends 2006* 13 (2005 total consumption).

Further complicating matters is that a U.S. printer that wins a contract from a U.S. publisher may subcontract the job to a foreign printer. Additionally, large U.S. printing companies own overseas printing facilities. Erik Cagle, *Overseas Sourcing – China: A Limited Threat*, *Printing Impressions*, May 2007, *available at* http://www.piworld.com/article/chinese-imports-loom-biggest-threat-us-book-printing-54444/1. The largest U.S. printing company, RR Donnelley, has facilities in 37 other countries. RR Donnelley – Locations, http://www.rrdonnelley.com/wwwRRD1/AboutUs/Locations/Locations.asp (last visited June 25, 2010). Thus, a book published by a U.S.

publisher that hired a U.S. printer may actually have been printed abroad. Unless a copy of a book specifically states on its copyright page that it was printed in the United States, a library has no practical way to learn where the book was printed.[8]

C. The Ninth Circuit's Interpretation Of Section 109(a) Deprives Libraries Of Protection From Copyright Infringement Liability For The Circulation Of Copies In Their Collections.

1. The Ninth Circuit interpreted the phrase "a particular copy or phonorecord lawfully made under this title" in Section 109(a) to mean a particular copy or phonorecord lawfully manufactured in the United States. Of the three billion copies and phonorecords in the collections of U.S. libraries, over 200 million have foreign publishers, and presumably were manufactured abroad. In addition, of the copies with U.S. publishers, a large but indeterminate amount was manufactured abroad through the outsourcing of printing to foreign firms. Accordingly, if the Court affirms the Ninth Circuit's decision, the first sale

[8] Many books do not state any place of manufacture, or list multiple possible places of manufacture. WorldCat, a global catalog of library collections, lists the place of manufacture for less than three percent of the book titles it catalogs. *See* Posting of O'Neill, *supra*. Libraries do not have the resources to contact the publishers of the billions of books in their collections to inquire about place of manufacture.

doctrine may no longer apply to hundreds of millions of lawfully acquired books, phonorecords, and audiovisual materials in the collections of U.S. libraries.

2. Libraries would then have to make a difficult policy decision: do they continue to circulate materials that may fall outside of the first sale doctrine in the face of potential copyright infringement liability?[9] Libraries could attempt to rely on defenses such as fair use or implied license, but it is far from certain that libraries could always assert them

[9] The Fourth Circuit has held that "[w]hen a public library adds a work to its collection, lists the work in its index or catalog system, and makes the work available to the borrowing or browsing public, it has completed all the steps necessary for distribution to the public. At that point, members of the public can visit the library and use the work." *Hotaling v. Church of Jesus Christ of Latter-Day Saints*, 118 F.3d 119, 203 (4th Cir. 1997). *Amici* library associations strongly disagree with the Fourth Circuit that making a book available for browsing and other uses on a library's premises constitutes a distribution for purposes of 17 U.S.C. § 106(3). And several district courts have criticized the theory of liability in *Hotaling*. *See Capitol Records, Inc. v. Thomas*, 579 F. Supp. 2d 1210, 1225 (D. Minn. 2008) (finding *Hotaling* is not "consistent with the logical statutory interpretation of § 106(3), the body of Copyright Act case law, and the legislative history of the Copyright Act"); *Elektra Entm't Group, Inc. v. Barker*, 551 F. Supp. 2d 234, 243 (S.D.N.Y. 2008) (finding *Hotaling* was "not grounded in the statute"); *UMG Recordings, Inc. v. Hummer Winblad Venture Partners (In re Napster, Inc.),* 377 F. Supp. 2d 796, 803 (N.D. Cal. 2005) (finding *Hotaling* is "inconsistent with the text and legislative history of the Copyright Act of 1976"). Nevertheless, if *Hotaling* is correctly decided, the Ninth Circuit's rule would chill not only the lending of foreign-manufactured materials, but also the onsite use of foreign-manufactured materials.

successfully. For example, in litigation with a library that circulated a popular novel printed in Canada, the publisher might claim that three of the four fair use factors in 17 U.S.C. § 107[10] weigh in its favor: the work is a highly expressive work of fiction (factor 2); the library is lending the entire work (factor 3); and by lending its copy of the novel to dozens of readers, the library is depriving the publisher of potential sales (factor 4). The publisher might further assert that even the first fair use factor tips in its favor because the lending does not serve any educational

[10] Section 107 provides:

> Notwithstanding the provisions of sections 106 and 106A, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include –
>
> (1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;
>
> (2) the nature of the copyrighted work;
>
> (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
>
> (4) the effect of the use upon the potential market for or value of the copyrighted work.
>
> The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors.

purpose. The library, citing *Sony Corp. of America v. Universal City Studios, Inc.,* 464 U.S. 417 (1984) and *Campbell v. Acuff-Rose Music Inc.*, 510 U.S. 569 (1994), would contend that fair use permits its lending.[11] While *amici* library associations strongly believe that the library should prevail, there is no way to predict how a trial court would perform the fair use calculus.

3. Also unpredictable is the outcome of an assertion of an implied license defense.[12] If a library purchased a foreign-manufactured copy directly from the publisher or an exclusive distributor that knew it was selling the copy to a library, the library might convince a court that it had an implied license to circulate the copy. The library would have greater difficulty prevailing in this defense if it purchased the

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[11] Library lending enables the statutorily identified purposes for fair use: "criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research. . . ." 17 U.S.C. § 107. Library lending also falls squarely within the purpose and character listed in the first factor: "nonprofit educational purposes." *Id*. Additionally, library lending facilitates their users' exercise of their First Amendment right to receive information. *See* discussion at section III.C.1., *infra*.

[12] Because of the enormous number of rightsholders of the materials in their collections, and the difficulty of identifying these rightsholders, libraries could not afford retroactively to seek permission to lend these materials. *See* Band, *supra*, at 228-230 (discussing the transaction costs of clearing the rights for the mass digitization of books in the context of the Google Library Project). As discussed in section II.D., *infra*, libraries could obtain lending licenses for future acquisitions only at a significant cost.

book from a wholesaler or retailer that might not have had the legal authority to grant a license to lend. Moreover, the library might not have any record of who sold it the copy, particularly a copy it purchased decades ago.

4. The importation exception in 17 U.S.C. § 602(a)(3)(C) provides libraries with only limited assistance with respect to the Ninth Circuit's rule. This exception provides that the Section 602(a) prohibition on importation does not apply to

> importation by or for an organization operated for scholarly, educational, or religious purposes and not for private gain, with respect to no more than one copy of an audiovisual work solely for its archival purposes, and no more than five copies or phonorecords of any other work for its library lending or archival purposes. . . .

This exception contains several significant limitations. First, Section 602(a)(3)(C) provides a library with no relief with respect to copies it purchased from a distributor in the United States. Libraries often purchase foreign-published materials from U.S. distributors. In addition, libraries almost always purchase U.S. published materials – which may actually have been manufactured abroad – from U.S. distributors.

Second, although the exception clearly permits a library to *import* five copies for "its library lending or archival purposes," the exception by its terms does

not actually permit the library to *lend* those copies. In other words, Section 602(a)(3)(C) creates an exception to the Section 602(a) importation right, but not explicitly to the entire Section 106(3) distribution right. To be sure, an exception to the distribution right is implied – Congress is permitting the library to import the copies specifically for "library lending . . . purposes." It would make no sense for Congress to allow importation for the purpose of lending, but then not allow the lending itself. Nonetheless, a court might erroneously conclude that Section 602(a)(3)(C) does not explicitly permit the lending of the imported copies.

Third, even if Section 602(a)(3)(C) were correctly construed to permit the lending of the five imported copies, this permission would not apply to audiovisual works. The provision specifically allows a library to import "no more than one copy of an audiovisual work *solely for its archival purposes*." 17 U.S.C. § 602(a)(3)(C) (emphasis added.) U.S. libraries have tens of millions of copies of audiovisual materials, many of which were manufactured outside of the United States.[13]

[13] The existence of this exception to the importation right does not imply that the Ninth Circuit correctly understood the first sale doctrine to apply only to copies manufactured in the United States. As discussed below, *amici* library associations believe that Section 109(a) applies to copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights. Were the Court to adopt this interpretation, libraries would still require the Section 602(a)(3)(C) exception to import and circulate copies manufactured with the

(Continued on following page)

5. The Ninth Circuit specifically reserved the question whether the "exception" it had articulated in *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 47 (9th Cir. 1991) and *Denbicare U.S.A. Inc. v. Toys "R" Us, Inc.,* 84 F.3d 477 (9th Cir. 1996), survived this Court's decision in *Quality King Distribs., Inc. v. L'anza Res. Int'l, Inc.*, 523 U.S. 135 (1998). Under the *Drug Emporium* exception, parties can raise the first sale defense in cases involving foreign-manufactured copies so long as an authorized domestic sale had occurred. The Ninth Circuit did not decide whether the *Drug Emporium* exception survived *Quality King* because the exception clearly did not apply to the facts of this case: "there is no genuine dispute that the copies of the Omega Globe Design were sold in the United States without Omega's authority." *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982, 990 (9th Cir. 2008), *cert. granted*, 130 S. Ct. 2089 (2010).

The *Drug Emporium* exception would provide assistance to libraries with respect to materials they purchased in the United States, assuming they had maintained records of where they had purchased these materials. However, in the absence of guidance from this Court on the continued viability of the *Drug Emporium* exception, libraries cannot rely on the hope that the exception still exists when making

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authorization of a person other than the holder of the U.S. rights.

circulation decisions that could expose them to significant copyright infringement liability.

Additionally, even if this Court were to adopt the *Drug Emporium* exception, the exception would apply only to copies purchased in the United States, not to copies purchased in another country. Libraries (or their agents) purchase many books and other materials directly from foreign publishers or distributors. The *Drug Emporium* exception would not extend the first sale doctrine to these copies.[14]

D. Without A Clear Exception, Libraries May Hesitate To Lend Materials In Their Collections.

Although various limitations on damages apply to libraries in copyright infringement cases, these limitations in practice will provide libraries with little relief from the evisceration of the first sale doctrine proposed by the Ninth Circuit. The sovereign immunity doctrine shelters public libraries and libraries that are part of public educational institutions from money damages liability, *see Kimel v. Fla. Bd. Of Regents*, 528 U.S. 62, 66-67 (2000), but copyright

[14] Libraries probably could not take advantage of the misuse defense that may be available to Costco in this case. Costco can argue that Omega is attempting to leverage the copyright in its logo into control over the distribution of its uncopyrighted watches. In contrast, libraries could not assert that rights-holders are trying to extend impermissibly the scope of their copyrights.

owners could still seek injunctive relief against the librarians and the administrators of the educational institutions. *See Ex parte Young,* 209 U.S. 123, 159-60 (1908). Likewise, even if a court decided to remit statutory damages against a library at a nonprofit private educational institution pursuant to 17 U.S.C. § 504(c)(2)(i),[15] the library would remain liable for actual damages and injunctive relief. 17 U.S.C. §§ 502, 504(a)(1).

Furthermore, as nonprofit institutions, libraries have highly constrained legal budgets and must avoid the appearance of impropriety so as to retain public trust. While most copyright owners probably would not sue a library for lending a lawfully acquired copy of a foreign printed book, libraries will not engage in conduct that is technically unlawful just because there is a low probability of litigation.[16] Also, given

[15] Section 504(c)(2)(i) provides that "[t]he court shall remit statutory damages in any case where an infringer believed and had reasonable grounds for believing that his or her use of the copyrighted work was a fair use under section 107, if the infringer was: (i) an employee or agent of a nonprofit educational institution, library, or archives acting within the scope of his or her employment who, or such institution, library, or archives itself, which infringed by reproducing the work in copies or phonorecords. . . ."

[16] *See* Deborah Gerhardt & Madelyn Wessel, *Fair Use and Fairness on Campus*, 11 N.C. J.L. & Tech. (forthcoming Spring 2010), *available at* http://ssrn.com/abstract=1594934 (last visited June 25, 2010) ("Fear and risk aversion, rather than a reflective interpretation of the law too often influence practical decisions and copyright policy."); James Gibson, *Risk Aversion and Rights Accretion in Intellectual Property Law*, 116 Yale L.J.

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the large number of works in the collections of U.S. libraries, every library would reasonably fear that it could be sued multiple times if it continued to lend the materials in its collection. The median library in the Association of Research Libraries, for example, holds 3,546,496 volumes in its collection. Association of Research Libraries, *ARL Statistics 2007-2008* 27 (2009). If the rightsholders of only 1/100 of one percent of the volumes in its collection chose to enforce their newly broadened distribution right, the library would face over 350 copyright infringement actions. Compounding the risk for libraries is the highly visible nature of their circulation activities.

E. The Ninth Circuit's Interpretation Of Section 109(a) Would Increase Libraries' Acquisition Costs.

For future acquisitions, libraries would be able to adjust to the Ninth Circuit's narrowing of Section 109(a) only at a significant cost. A library could be forced to obtain, at a substantial premium, a "lending license" whenever it acquired a copy that was not clearly manufactured in the United States.[17] The

882, 882 (2007) ("Intellectual property's road to hell is paved with good intentions. Because liability is difficult to predict and the consequences of infringement are dire, risk-averse intellectual property users often seek a license when none is needed.").

[17] Some publishers already price discriminate against libraries. *See* Christopher Hollister, *Price Inflation and Discrimination Extends to Non-STM Disciplines: A Study of Library and Information Science Journals*, 25 Current Studies in Librarianship

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library also would need to retain meticulous records of these licenses for the duration of the term of copyright protection in these works. These costs inevitably would reduce the number of acquisitions, to the detriment of the public and the copyright owners whose works the library did not purchase.[18]

The following statistics for library acquisitions demonstrate the magnitude of the burden the lending license would impose. In 2008, academic libraries purchased almost 24 million books and other paper materials and 3.46 million phonorecords and audiovisual materials at a cost of $650 million. National Center for Education Statistics, U.S. Department of Education, *Academic Libraries: 2008* 9, 13 (2009). In the same year, public school media centers acquired 45 million books and 2.5 million phonorecords and copies of audiovisual materials for $593 million. National Center for Educational Statistics, U.S. Department of Education, *Characteristics of Public and Bureau of Indian Education Elementary and*

25, 49-57 (Spring/Fall 2001). The Ninth Circuit's rule would accelerate this phenomenon. Additionally, publishers could begin to include disclaimers on an implied license to lend. They also could remove statements concerning place of manufacture to create doubt among libraries even when the copies were manufactured in the United States. Of course, the opportunity to license would not apply to materials donated or sold to libraries by private collectors who were not the copyright owners.

[18] Alternatively, library spending could be increased – primarily at taxpayer expense.

Secondary School Library Media Centers in the United States: Results From the 2007-08 Schools and Staffing Survey 6 (2009). In 2007, public libraries purchased an estimated 75 million works at a cost of $1.34 billion. Institute of Museum and Library Services, *Public Libraries Survey Fiscal Year 2007* 94 (2009). If libraries had to pay a lending license "tax" of twenty percent of the purchase price on a third of these materials,[19] libraries would have to pay a tax of over $150 million for each year's acquisitions. Of course, the publishers might demand more than twenty percent of the purchase price, and more than a third of the materials acquired each year might be foreign manufactured.[20]

III. THE NINTH CIRCUIT'S INTERPRETATION OF SECTION 109(a) IS LEGALLY FLAWED.

A. The Ninth Circuit's Rule Is Not Required By *Quality King*.

1. In its brief at the petition stage, the United States attempted to minimize the likelihood that the "serious policy concerns" identified by Petitioner and its *amici* would "actually materialize[ ]." (Br. for the

[19] *See* discussion of the increasing levels of foreign manufacture *supra* Part II.B.

[20] Unlike the typical tax on private entities to fund public institutions, the Ninth Circuit's tax would be levied largely on public institutions to enrich private entities.

United States as *Amicus Curiae* Supp. Pet. Cert. 19.) It argued that "the phrase 'lawfully made under this title' in Section 109(a) has been understood for a quarter of a century to exclude foreign-made copies," and that in that twenty-five year period the potential adverse effects of this interpretation had not manifested themselves. *Id*. But the phrase "lawfully made under this title" has not widely been understood for a quarter of a century to exclude foreign manufactured copies. Just twelve years ago, in *Quality King*, the United States argued as *amicus curiae* "that the application of Section 109(a) does not turn on the place of manufacture, but that Section 109(a) instead encompasses 'any copy made with the authorization of the copyright owner as required by Title 17, or otherwise authorized by specific provisions of Title 17." *Id*. at 11, n. 4 (citations omitted). The United States did not abandon this interpretation until it filed its *amicus* brief in this case in March 2010.

2. The United States justified its change of position on the ground that its interpretation of Section 109(a) in *Quality King* "appears to be inconsistent with the Court's holding that Section 109(a) does not apply to copies that are created with the author's consent but pursuant to the law of another country." *Id.* The United States evidently was referring to the Court's example of an author transferring the exclusive U.S. distribution rights to the publisher of the U.S. edition, while transferring the exclusive British distribution rights to the publisher

of the British edition. The Court observed that presumably only the copies "made by the publisher of the United States edition would be 'lawfully made under this title' within the meaning of § 109(a)." *Quality King*, 523 U.S. at 148. In contrast, the copies made by the British publisher would be "lawfully made under the law of another country." *Id.*

The *Quality King* example involves an author transferring the U.S. rights to one entity and the U.K. rights to another entity.[21] The example does not address the situation of an author transferring the U.S. rights and the U.K. rights to the same publisher.[22] Furthermore, the *Quality King* example says nothing about the actual place of manufacture of the copies; the same printer in China may have produced both the U.S. and the U.K. editions. The key point in the example is not the place of manufacture, but the territorial allocation of the reproduction and

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[21] It appears that the author transferred (or exclusively licensed) to each publisher the right to reproduce that country's edition and the right to distribute those copies in that country.

[22] Often, a publisher will require an author to transfer her entire copyright in a work as a condition of publication, which means that the publisher obtains all rights in the work worldwide. If the author has more leverage, she may succeed in negotiating agreements that allocate markets. For instance, she might transfer to one publisher the rights to distribute an English version of a novel in English-speaking countries, while she transfers to another publisher the rights to distribute the Spanish translation of the novel in Spanish-speaking countries, and she might sell the worldwide film rights to a motion picture studio.

distribution rights. The author granted one publisher the exclusive right to authorize the printing and subsequent distribution of copies of the U.S. edition in the United States, and granted another publisher the exclusive right to authorize the printing and subsequent distribution of copies of the U.K. edition in the United Kingdom. Given this allocation of the reproduction and distribution rights, copies manufactured with the authorization of the holder of the U.K. rights are not "lawfully made under this title."

However, the *Quality King* example in no way precludes all copies produced with the authorization the holder of the U.S. rights from being considered "lawfully made" under Title 17, regardless of whether the rightsholder is a U.S. or U.K. company, and regardless of where the copies are actually manufactured. Thus, the *Quality King* example is consistent with interpreting copies "lawfully made under this title" to include all copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights.[23]

[23] Under this interpretation, copies manufactured beyond the scope of a U.S. rightsholder's lawful authorization would not be "lawfully made under this title." For example, if the author of a novel granted a publisher the U.S. rights in an English-language version of the novel, and the publisher proceeded without authorization to cause the manufacture of copies of the novel in Spanish, those Spanish copies would not be "lawfully made under this title."

3. Interpreting Section 109(a) to apply to all copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights permits libraries to lend books to the public.[24] For the vast majority of the foreign-published books in the collections of U.S. libraries, the rightsholder in the country of publication probably is also the holder of the U.S. rights. As a general matter, the rights in only the most popular books get allocated among different publishers in different countries to maximize sales. Thus, most of the foreign-published books owned by U.S. libraries were manufactured with the authorization of the holder of the U.S. rights, and fall within *amici* library associations' suggested interpretation of Section 109(a).

Similarly, all U.S.-published books would fall within this definition; they would be manufactured with the authorization of the holder of the U.S. rights, even if they were actually printed outside the United States.

[24] This interpretation is substantially the same as that advanced by Petitioner here and by the United States in *Quality King*.

B. The Ninth Circuit's Rule Is Inconsistent With The Privileged Status Congress Has Accorded Libraries In Title 17.

1. Recognizing the importance of libraries, Congress has accorded them a privileged status in Title 17. In addition to benefiting from exceptions of general applicability, such as the fair use and first sale doctrines, libraries and educational institutions enjoy protections Congress has provided specifically to them. Section 108 permits libraries and archives to reproduce and distribute copies for purposes of preservation, replacement of damaged or missing copies, and interlibrary loans. Section 108(h) shortens the copyright term by twenty years for certain library uses related to scholarship or research.[25] The House Judiciary Committee Report on the 1976 Copyright Act, in its discussion of Section 109(a), specifically refers to libraries: "[a] library that has acquired ownership of a copy is entitled to lend it under any conditions it chooses to impose." H.R. Rep. No. 94-1476, § 109, at 79 (1976), *as reprinted in* 1976 U.S.C.C.A.N. 5659, 5693. Section 109(b)(1)(A) provides libraries with an exception to the prohibition on the rental of phonorecords and computer programs.

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[25] In *Eldred v. Ashcroft*, 537 U.S. 186, 220 (2003), the Court described this provision as one of the Copyright Term Extension Act's "supplements" to the Copyright Act's "traditional First Amendment safeguards" such as the fair use doctrine and the idea/expression dichotomy.

Section 110(1) allows the performance and display of works in the course of face-to-face teaching activities of educational institutions (and thus libraries affiliated with educational institutions).[26] Similarly, Section 110(2) permits performances and displays for purposes of distance education. Section 121 allows libraries and other institutions with the primary mission of providing specialized services to the visually disabled to reproduce and distribute copies in accessible formats such as Braille. Section 504(c)(2)(i) permits courts to remit statutory damages to libraries, archives, and educational institutions in cases of innocent infringement. Section 512(e) adapts the limitations on liability for online services providers to the higher education environment. Section 602(a)(3)(C) provides organizations operated for scholarly, educational, or religious purposes with an exception to the importation right for library lending and archival purposes. Section 1201(d) of the Digital Millennium Copyright Act gives libraries, archives, and educational institutions the right to circumvent technological protection measures on a copy for purposes of determining whether to acquire a copy of the work.

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[26] Affirmance of the Ninth Circuit could narrow the scope of this exception. Section 110(1) permits the performance in a classroom of a motion picture or other audiovisual work unless the performance "is given by means of a copy that is not lawfully made under this title." If the Ninth Circuit's interpretation of the phrase "lawfully made under this title" in Section 109(a) is applied to Section 110(1), this exception would no longer allow foreign films to be performed in U.S. classrooms.

Section 1203(c)(5)(B) allows a court to remit statutory damages to libraries, archives, and educational institutions in cases of innocent violations of the DMCA. Moreover, Section 1204(b) excludes libraries, archives and educational institutions from criminal liability for DMCA violations. Congress has adopted these exceptions over almost thirty years, reflecting its deep, ongoing commitment to enabling libraries to operate in a period of rapid technological change.[27]

2. The Ninth Circuit's interpretation of Section 109(a) runs contrary to the privileged status granted by Congress to libraries in Title 17. The Ninth Circuit's rule would seriously compromise the ability of libraries to lend the materials already in their collections. For future acquisitions, libraries would have to acquire a lending license at substantial cost. If this Court were to affirm the Ninth Circuit, this Court would in essence create a European-style "public lending right." *See* Council Directive 92/100/EEC, 1992 O.J. (L346) (EU). Under public lending right regimes, libraries must compensate copyright owners

[27] Congress included Sections 108, 110(1), 504(c)(2)(i), and 602(a)(3)(C) in the 1976 Copyright Act. Congress then added the library protections in Sections 109(b)(1)(A) in 1980 and 1990; in Section 121 in 1997; in Sections 108(h), 512(e), 1201(d), 1203(c)(5)(B), and 1204(b) in 1998; and in Section 110(2) in 2002. Similarly, "orphan works" legislation, which contained a special safe harbor for libraries, archives, museums, and educational institutions, passed the Senate in 2008. Shawn Bentley Orphan Works Act of 2008, S. 2913, 110th Cong. (2008).

in order to receive permission to lend books and other materials to the public.[28] Congress has never shown any interest in importing this alien concept to this country. It conflicts with the nearly four hundred-year history of American libraries lending lawfully acquired books without additional compensation to the rightsholder. In contrast to the Ninth Circuit's rule, the understanding of "lawfully made under this title" advocated by library association *amici* is consistent with Congress's long-standing support for libraries.

C. The Ninth Circuit's Rule Interferes With Library Users' First Amendment Right To Receive Information And Alters The Traditional Contours Of Copyright Protection.

1. This Court has recognized a First Amendment right to receive information. *Reno v. American Civil Liberties Union*, 521 U.S. 844, 876 (1997). In considering the constitutionality of a school board's removal of books from a public high school library, the Court stated, "the right to receive ideas is a necessary predicate to the *recipient's* meaningful exercise of his

[28] *See* PLR International – Frequently Asked Questions, http://www.plrinternational.com/faqs/faqs.htm#recognise (last visited June 30, 2010). Depending on the country, the rightsholder is compensated on the basis of either the number of times the work is borrowed each year or the number of copies of the work owned by the library.

own rights of speech, press, and political freedom." *Board of Education v. Pico*, 457 U.S. 853, 867 (1982) (emphasis in original). The Court in *Pico* faulted school board members' "attempt to extend their claim of absolute discretion beyond the compulsory environment of the classroom, into the school library and the regime of voluntary inquiry that holds sway there." *Id*. at 869. For this right to receive information to be effective, for a library's "regime of voluntary inquiry" to truly exist, libraries must be able to lend materials so that users can peruse them conveniently at their own pace. Section 109(a) allows this lending to occur. Thus, at least with respect to libraries and their users, Section 109(a) is one of copyright law's "built-in First Amendment accommodations." *Eldred*, 537 U.S. at 219. The Ninth Circuit's rule, however, significantly impairs the utility of Section 109(a); the rule will have a chilling effect on the ability of libraries to enable users to exercise their First Amendment right to receive information. In contrast, the definition of "lawfully made under this title" advanced by library association *amici* does not suffer from this constitutional infirmity.

2. Limiting libraries' ability to lend books and other materials to the public would "alter[ ] the traditional contours of copyright protection." *Eldred*, 537 U.S. at 221. For almost 400 years, libraries in America have been lending books. Library lending predates the Statute of Anne passed by Parliament in 1710, the Intellectual Property Clause in the U.S. Constitution, the First Amendment, and the Copyright Act

of 1790.[29] Copyright law, from 1790 forward, has placed no restrictions on a library lending material in its collection.

The foreign works in library collections have been particularly unconstrained by copyright. Until 1891, the works of foreign authors received no copyright protection in the United States. 1 William Patry, *Patry on Copyright* § 1:38 (2008). After the enactment of the International Copyright Act in 1891, a foreign author could receive copyright protection in the United States only if three conditions were met: 1) the foreign author's country provided copyright protection to the works of U.S. authors; 2) the foreign author complied with the formalities of U.S. copyright law (*e.g.*, notice and deposit); and 3) the work was printed from type set in the United States, if the work was in English. *Id*. This final condition, known as the manufacturing clause, remained in effect until 1986. *Id*.

The Ninth Circuit's rule would alter the traditional contours of copyright protection by inhibiting libraries from lending copies of books and other materials manufactured outside of the United States. The Court can avoid this result by rejecting the Ninth Circuit's rule, and instead interpreting copies "lawfully

[29] The Framers were intimately familiar with borrowing books from libraries. Because of the high cost of books in Colonial America, libraries were a primary source of books for every level of society. *See* Harris, *supra*, at 173-184.

made under this title" to mean copies manufactured with the lawful authorization of the holder of a work's U.S. reproduction and distribution rights.

3. Section 109(a) should be interpreted in a manner consistent with the constitutionally mandated purpose and function of the copyright laws. *See Bilski v. Kappos,* 561 U.S. ___, 2010 WL 2555192, at *30 (June 28, 2010) (Stevens, J., concurring). This Court has declared that "[t]he primary objective of copyright is not to reward the labor of authors, but 'to promote the Progress of Science and the useful Arts.'" *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 U.S. 340, 349 (1991), *quoting* Art. I, § 8, cl. 8. The Court has recognized that "[c]reative work is to be encouraged and rewarded, but private motivation must ultimately serve the cause of promoting broad public availability of literature, music, and the other Arts." *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975). Because it jeopardizes library lending, the Ninth Circuit's interpretation of Section 109(a) clearly frustrates "the cause of promoting broad public availability of literature, music, and the other Arts." Conversely, the definition of "lawfully made under this title" suggested by *amici* library associations better serves the purpose and function of the copyright laws.

If, however, the Court decides to affirm the Ninth Circuit, *amici* library associations request the Court to frame its decision carefully so as to reduce the adverse effect on libraries and their users. First, the Court should adopt the *Drug Emporium* exception,

and hold that parties can raise the first sale defense in cases involving foreign-manufactured copies when an authorized domestic sale had occurred. *See* discussion at Part II.C.5., *supra*.[30] Second, the Court should find that the library exception in 17 U.S.C. § 602(a)(3)(C) applies to lending as well as importing. *See* discussion at Part II.C.4., *supra*. Third, the Court should indicate that the fair use doctrine permits a library to lend foreign manufactured copies if the lending does not fall within the *Drug Emporium* or Section 602(a)(3)(C) exceptions. *See* discussion at Part II.C.2., *supra*. Unless the Court's decision contains these three holdings, affirmance will interfere with libraries' ability to perform their historic function of lending books and other materials to the public.

[30] In support of such a holding, the Court could interpret the word "made" in Section 109(a) as "cause[d] to exist, occur, or appear." *Merriam-Webster Dictionary* 313 (1998). "Lawfully made under this title" could then mean lawfully manufactured (caused to exist) or placed in commerce (caused to occur or appear) in the United States.

CONCLUSION

For the foregoing reasons, *amici* library associations respectfully urge this Court to reverse the Ninth Circuit's decision. Alternatively, the Court should frame its decision in a manner that mitigates the damage affirmance would inflict on libraries and their users.

Respectfully submitted,

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