

Copyrights On The Gray Market

Law360, New York (August 02, 2010) -- Businesses affected by gray market goods will be closely watching the U.S. Supreme Court's next term for a decision in *Costco Wholesale Corp. v. Omega* (U.S. Apr. 19, 2010). In April 2010, the court granted certiorari in that case to address whether the first sale doctrine is a defense to a copyright infringement claim involving goods manufactured abroad and imported into the United States for domestic sale.

The case arises from the importation and sale of Omega watches in the United States. The watches were engraved with a U.S.-copyrighted "Omega Globe Design." Omega manufactured the watches in Switzerland and sold them to its authorized distributors overseas. A third party purchased the watches abroad and sold them to a U.S. company, which then sold them to Costco. Costco sold the watches at its stores in California. None of the U.S. sales was authorized by Omega. Omega sued Costco for copyright infringement, claiming that Costco had violated the Copyright Act's prohibitions on unauthorized importation and distribution of copyrighted works under 17 U.S.C. § 602(a) and 17 U.S.C. § 106(3).

In defense, Costco invoked the "first sale doctrine," which generally holds that once a copyright owner makes an initial sale of a copy of a work, it cannot prevent the buyer from reselling that specific copy to whomever it wants. The doctrine is codified at §109(a) of the Copyright Act, which provides: "[T]he owner of a particular copy ... lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy"

Costco contended that Omega's initial foreign sale of the watches barred it from bringing claims based upon the later unauthorized sales in the United States. Costco argued that under the plain language of § 109(a), a reproduction is lawful if made by or under the authorization of the U.S. copyright owner, and that nowhere does § 109(a) require that the copy also be made in the United States. In contrast, Omega took the position that because the goods were manufactured and first sold abroad, the goods were not "made under" § 109(a) and thus the first sale doctrine did not apply.

On appeal, the Court of Appeals for the Ninth Circuit ruled against Costco, finding that the first sale doctrine was not applicable because Omega had not made the watches in the United States and had not authorized their sale here. The Ninth Circuit reasoned that applying § 109(a) to items manufactured abroad would violate the presumption against the extraterritorial application of U.S. law.

The Ninth Circuit distinguished the Supreme Court's decision in *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998), and the Third Circuit's decision in *Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3rd Cir. 1988). According to the Ninth Circuit, both *Quality King* and *Sebastian* involved copyrighted works that were manufactured in the United States, sold to foreign distributors, and then reimported into the United States, thus making a "round trip." Because the goods in those cases were manufactured domestically or first sold by a U.S. entity, they satisfied the "lawfully made under this title" requirement of §109(a).

The Supreme Court's decision in *Costco v. Omega* will be important to anyone involved with or affected by gray market goods. The ruling should shape the extent to which brand owners may be able to use U.S. copyright registrations to control the chain of distribution of their products and to limit the gray market/parallel importation of genuine but unauthorized goods into the United States. Oral arguments in the case may be heard this fall and the court will likely issue its decision some time next year.

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