

## CLIENT ALERT

### Supreme Court Review of Copyright Act's "First Sale" Rule Could Have Important Consequences for Trade in Goods Subject to Intellectual Property Rights Protections

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Yesterday, the Supreme Court granted *certiorari* in the case of *Costco v. Omega*<sup>1</sup>, a copyright dispute that could have profound implications for the ability of manufacturers engaged in global trade of IP-intensive goods to manage distribution of their goods in multiple markets. Specifically, should the Supreme Court reverse the lower court's ruling, the practical effect will be that U.S. copyright owners whose goods are manufactured and first sold overseas may lose the right to control whether, at what price, and under what other conditions those goods subsequently are resold and imported into the United States. This would make market segmentation and destination pricing – which are strategically critical for many manufacturers of IP-intensive goods – substantially more difficult. Although the question before the Court is limited to interpretation of a provision of the Copyright Act, a broadening of the first sale rule could spill over into the patent area, affecting trade in pharmaceuticals and other products covered by patent.

*Costco v. Omega* concerns the Copyright Act's first sale rule, under which the owner of a copyright in a work loses the right to control distribution of a copy of that work after the first sale of that copy to another party. 17 U.S.C. § 109(a). The dispute arose when U.S. Costco outlets sold Omega watches engraved with a copyrighted insignia which Omega had manufactured in Switzerland and first sold to a third party outside the United States. Omega sued Costco for infringing Omega's exclusive right to control importation and distribution of its copyrighted work.

Although a copyright owner typically has the exclusive right to control distribution (including importation) of copies of its work, the first sale rule provides that this right extends only to the first sale of a copy. Once that first sale is made, the right to control further distribution is "exhausted." The rule, however, applies only to copies "lawfully made under this title" ( i.e., Title 17 of the United States Code). In reviewing the case, the Supreme Court thus will consider whether a copy manufactured outside the United States is "lawfully made under" Title 17 such that a first sale of that copy will exhaust the copyright owner's right to control importation of the copy into the United States.

The District Court granted summary judgment for Costco, finding that under the Supreme Court's 1998 decision in *Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 523 U.S. 135 (1998), the first sale rule applies to copies manufactured outside the United States. The U.S. Court of Appeals for the Ninth Circuit reversed, holding that earlier 9th Circuit decisions limiting the applicability of the first sale rule could be reconciled with *Quality King*, and that, accordingly, a copy manufactured outside the United States is not "lawfully made under" Title 17. Costco then filed a petition for *certiorari* in the Supreme Court, and yesterday the Court agreed to hear the case.

Although the Supreme Court's review will be limited to a question of interpretation of a provision in the Copyright Act, an eventual expansion of the first sale rule to cover foreign-manufactured products could have broader implications for trade in IP-intensive goods, such as books and other published materials, and goods protected by patent. Accordingly, we will be watching the case closely.

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<sup>1</sup> *Costo Wholesale Corp. v. Omega, S.A.*, Supreme Court No. 08-1423, *opinion below*, *Omega, S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008).

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