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Market Goods

Biography

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Bulletin:



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U.S. "FIRST SALE DOCTRINE"

UNITED STATES SUPREME COURT TO HEAR CASE ON GREY MARKET GOODS

by David Conklin

As technology continues to interconnect the population of the world, the consumer is greatly benefited by having increased access to world markets. The Internet enables consumers to search for desired products from the comfort of their homes, or the convenience of their mobile devices. Thus, consumers have fingertip access to peruse, shop, and price compare between local, national, and international sellers of a desired object.

As a consequence of this convenience, grey market products are commonly offered to consumers at prices much lower than intended by the original manufacturer. Grey market products generally include genuine products that are bought at a lower price in a first market, and then resold in a second market at prices that undercut the manufacturer's suggested retail price. While legal, grey market products are commonly distributed through channels which are unofficial, unauthorized, or unintended by the original manufacturer.

In 2004, Omega initiated a law suit against Costco for selling Omega watches which were obtained from grey market distributors. Omega's suit was based on the theory that Costco was impermissibly distributing goods that bore copies of Omega's U.S.-copyrighted "Omega Globe Design." Omega claimed that although the watches were originally made and sold by Omega's Switzerland manufacturing facilities, Costco violated Omega's copyright by offering the watches for sale in the United States. Costco claimed that the

sales were justified and permissible under the “first sale doctrine.”

The “first sale doctrine” provides that once a copyright owner consents to the sale of particular copies of his work (i.e., the watches), he may not thereafter exercise the distribution right with respect to those copies. Thus, Costco argued that Omega’s international sales of the grey market watches constituted a “first sale” thereby terminating Omega’s future distribution rights in the watches. Costco won the lawsuit and Omega appealed the case to the Ninth Circuit Court of Appeals.

The Ninth Circuit reversed the ruling of the lower court holding that Costco’s proffered defense of the “first sale doctrine” is only available under the United States Copyright Act, and therefore only applicable to goods legally made and/or sold by the copyright owner in the United States. The reasoning behind this ruling is that the protection of U.S. copyright law should not be extended to products made and sold outside of the United States. Rather, products made and sold outside of the United States should be subject to the copyright laws of some other country. Thus, because the Omega “grey market” watches were originally made in Switzerland, and then sold by Omega to non-U.S. distributors, the defense of “first sale doctrine” was impermissible. Costco has appealed the decision to the United States Supreme Court.

While it is impossible to know how the United States Supreme Court will rule on the case, the Ninth Circuit’s holding is certain to levy heavy burden on U.S. retailers and consumers. For example, under the Ninth Circuit ruling a consumer may infringe the copyright of a manufacturer when the consumer purchases a item online (the item having neither been made nor sold in the U.S. by the copyright owner) and then loans (distributes) the item to a friend. Libraries may be found to infringe copyrights by loaning books to the public which were neither originally made nor sold in the U.S. by the copyright owner. Further, what rights does the copyright owner maintain in an item containing some parts which were made in the United States, but which item was not originally sold in the U.S. by the copyright owner? These examples, as well as many others, will undoubtedly be considered by the Supreme Court.

Understanding the implications of these issues is important and may help to protect you and your business. If you would like to discuss further this topic, please contact David Conklin, 801-350-7610, or any member of our International or Intellectual Property Sections.

BIOGRAPHY

David Conklin

Mr. Conklin is a member of Kirton & McConkie's Intellectual Property Practice Section. His practice specializes in all areas of intellectual property law, including domestic and international patent protection, domestic and international trademark protection, copyrights, trade secrets, unfair competition law, non-disclosure agreements, product clearance, infringement analysis, biotechnology, pharmaceuticals, nutraceuticals, cosmetics, oil and gas, research and development technologies, medical devices, and licensing intellectual property. He is a Registered Patent Attorney with the United States Patent and Trademark Office and is a member of the J. Reuben Clark Law Society.