

Supreme Court Grants Certiorari to Determine Whether a Foreign Sale Constitutes a "First Sale" Under Copyright Law

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On April 19, 2010, the Supreme Court granted *certiorari* in *Costco Wholesale Corp. v. Omega, S.A.*, No. 09-1423 (U.S. Apr. 19, 2010), which may have a profound impact on distributors and retailers of "grey" goods. The ruling set out to resolve the question as to whether a foreign sale of a copyrighted work constitutes a "first sale" under U.S. copyright law. In this case, Omega, a watchmaker based in Switzerland, sold watches to authorized distributors in South America. Costco Wholesale purchased these watches from the authorized distributors at a substantial discount from the prices being charged by authorized U.S. distributors, and then sold them in the United States, passing the discount on to consumers. While the watches themselves are not copyrighted, a symbol of a globe on some of the Omega watches is copyrighted. Omega sued Costco for copyright infringement based on the sale of these watches, arguing that only a sale in the U.S. constituted a "first sale" for the purposes of U.S. copyright law.

The trial court ruled in favor of Costco; however, in 2008, the Ninth Circuit reversed that decision, holding that, with respect to the importation of copyrighted works produced in a foreign country, the "first sale" doctrine only covered sales that occurred within the U.S. In other words, a foreign sale of a foreign copyrighted work does not exhaust the right of the copyright holder to control import into the U.S. – the foreign sale is not a "first sale" under U.S. copyright law. The court distinguished the practice of importing works that were originally produced in the U.S. and exported to a foreign country, which the court noted was legal "grey market" importation. In its petition for *certiorari*, Costco argued that there is no good reason why grey market imports of U.S.-produced works are legal, while grey market imports of foreign-produced works are not.

Although the question before the Supreme Court concerned applicability of the "first sale" doctrine to foreign-produced works, the decision has the potential to profoundly affect commercial practices, particularly in the Internet space.

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