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[U.S. Supreme Court Evenly Divided On Whether Copyright Act Prohibits Importation of Gray Market Goods Manufactured Abroad](#)

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International brand owners, take note. On Monday, December 13, 2010, in *Costco Wholesale Corp. v. Omega S.A.*, 562 U. S. ____ (2010), the Supreme Court announced that it was evenly divided on whether to affirm or reverse a Ninth Circuit decision concerning gray market goods, thereby leaving that decision intact. As a result, at least in the Ninth Circuit, brand owners will now be able to rely on Section 602(a) of the Copyright Act to prevent the importation of gray market goods that are manufactured outside the United States.[1]

While this case involves the interpretation of the Copyright Act, the gray market issues involved are equally applicable to many trademark owners because many trademarked products include a design or logo that is copyrightable (such as in the *Omega* case) or come with a user guide that is subject to copyright protection.

In *Omega*, watchmaker Omega sued large retailer Costco under the Copyright Act for importation of watches manufactured outside the United States. Because Costco imported watches bearing a copyrighted design, Omega claimed the importation constituted infringement under section 602(a) of the Copyright Act, which prevents the unauthorized importation of products acquired outside the United States. Costco countered that the purchases of the products were lawful, and therefore the purchase and importation are protected under the first sale doctrine, codified in section 109 of the Copyright Act, which provides that the owner of works "lawfully made under this title" may freely distribute those works.

In *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008), the Ninth Circuit held that copyrighted goods manufactured and sold overseas, and then imported into the United States without the authorization of the copyright owner infringed the owner's rights under the Copyright Act. Notably, as a general rule, U.S. trademark law only prevents the sale of gray market goods that are materially different from the products authorized for sale under the mark in the U.S. Accordingly, unless the Supreme Court accepts another case presenting this issue, *Omega* provides copyright owners in the Ninth Circuit with a powerful tool for preventing gray market importation of copyrighted goods in some situations where trademark law provides no remedy.

The legal issue in *Omega*, namely the interplay between the first sale doctrine and the importation right, has confounded courts for more than 25 years. In 1998, the Ninth Circuit's holding that the first sale doctrine did not provide a defense to the importation of gray market goods manufactured in the United States was reversed by the Supreme Court in *Quality King Distributors Inc., v. L'anza Research International Inc.*, 523 U.S. 135 (1998). In *Omega*, the Ninth Circuit based its decision on Justice Ginsberg's concurrence in *L'anza*, which suggests that the *L'anza* decision is limited to instances where the goods at issue were manufactured in the United States, because the first sale doctrine only applies to goods "lawfully made under this title," i.e., in the United States. *Omega S.A. v. Costco Wholesale Corp.*,

541 F.3d 982, 987 (9th Cir. 2008). During the oral argument in *Omega* several justices took great issue with that argument. However, at least for the moment, that interpretation is valid in the Ninth Circuit.

Accordingly, brand owners facing unauthorized gray market importation of authentic copyrighted goods should rely on the protection afforded by *Omega* to bring suit in the Ninth Circuit, where the defendants cannot rely on the first sale doctrine as a defense. The Third Circuit would undoubtedly be the jurisdiction that brand owners will want to avoid, as that court previously found in *Sebastian Int'l, Inc. v. Consumer Contacts*, 847 F.2d 1093, 1097 (3d Cir. 1988), that the importation right is limited by the first sale doctrine, at least when domestic products are involved.

It should also be noted, however, that the Ninth Circuit did not address the validity of a second defense proffered by Costco, namely that the use of copyright law to prevent the importation of goods where the copyrighted element of the product is far from essential to the product itself constitutes copyright misuse. Brand owners relying on Section 602(a) would be wise to strategize how they respond to this claim before initiating a claim under the Copyright Act.

[1] Gray market goods are authentic products intended for distribution outside the United States that find their way into the U.S. market. To the consternation of brand owners and licensors, due to brand owners' different pricing models for domestic/international products and currency fluctuations, importers are sometimes able to offer gray market goods in the U.S. at discounted prices, undercutting products intended for sale in this country.

For more information about these issues, please contact the author(s) of this Legal Alert or your existing firm contact.

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