

Supreme Court to Hear Costco Copyright Case

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Costco Wholesale Corp.
Photo By Courtesy Photo

WASHINGTON — The U.S. Supreme Court on Monday agreed to hear a case in which Costco Wholesale Corp. is challenging Omega SA's right, as a foreign manufacturer, to use copyright law to control the distribution and resale of the watchmaker's imported products.

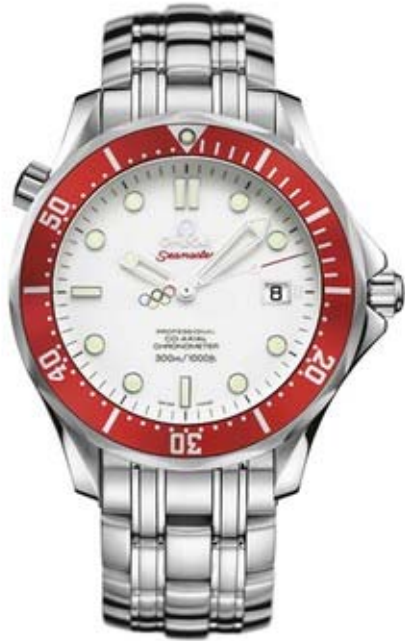
The decision means Costco will have the opportunity to make the case for preventing Omega from restricting middlemen from selling its watches to discounters like Costco.

The case has significant implications for off-price retailers and discounters that often purchase imported goods from middlemen and distributors at lower prices, rather than buying direct from a manufacturer or its authorized U.S. distributor, and then selling them in the U.S. below the brand's official price. Online auction sites such as eBay also could be affected by the decision.

Costco filed a petition for a writ of certiorari in May, on appeal, asking the court to consider the case and review whether Omega can use a copyrighted image to control secondary distribution and resale of its watches made in Switzerland once it has sold them to a foreign distributor.

At the center of the case is whether a provision under U.S. copyright laws known as the "first-sale doctrine" applies to imported goods. Under the doctrine, a manufacturer's rights to distribution of a product end upon the first authorized sale it makes.

"Costco is pleased with the cert and is looking forward to litigating the case in the Supreme Court," said Roy Englert Jr., a partner in Englert, Orseck, Untereiner & Sauber LLP, the law firm representing Costco.



Omega's Seamaster Diver 300m Vancouver 2010 Limited Edition watch.
Photo By: Courtesy Photo

The Supreme Court ruled in the 1998 *Quality King Distributors Inc. vs. L'Anza Research International Inc.* case that the first-sale doctrine does apply to goods made in the U.S., exported abroad and reimported to the U.S. The specific question in the Costco case is whether it makes a difference whether the goods are manufactured abroad.

"I think what it indicates is there were loose ends that were left open in the Supreme Court opinion in the *Quality King* case," said Seth Greenstein, an attorney with Constantine Cannon LLP, which represents the Retail Industry Leaders Association and the National Association of Chain Drug Stores, which filed a joint amicus brief in support of Costco. "The issue does repeatedly arise in lower courts. I would surmise the reason they took it was to resolve loose ends and give guidance to courts in an issue that continues to perplex them."

Justice Ruth Bader Ginsburg filed a concurring opinion in *Quality King*, agreeing with the outcome because it involved the "round-trip" of goods manufactured in the U.S.

"That led courts, including the Ninth Circuit in the *Omega vs. Costco* case, to believe that the outcome would be different if the goods were manufactured outside the U.S.," Greenstein said.

Greenstein said he was "optimistic" the High Court will reverse the decision against Costco issued by the Ninth Circuit Court of Appeals in San Francisco.

In 2004, Costco purchased 117 Seamaster style Omega watches from a U.S. distributor. It was later revealed in discovery that Omega had sold some of the watches to authorized foreign distributors in Egypt and Paraguay who subsequently resold them to a U.S. distributor, according to Costco's court documents.

Omega filed suit against Costco in 2004 after the warehouse club sold 43 of the Seamaster Omega watches in its stores, alleging Costco's acquisition and sale of the watches constituted copyright infringement. Costco charged that Omega created a laser-engraved emblem for the back of its watches and applied for a copyright in the U.S. for the sole purpose of invoking the Copyright Act to "restrict the resale of its products."

Costco also argued that "under the first-sale doctrine...Omega's initial foreign sale of the watches precluded claims of infringing distribution and importation in connection with Costco's subsequent sales."

The U.S. District Court for the Central District of California ruled in favor of Costco, but the appeals court reversed the lower court's decision, saying copies made abroad by the holder of a U.S. copyright for sale abroad are not subject to the first-sale defense.

Omega argued in court documents filed with the Supreme Court that the Ninth Circuit's decision "gives effect to the intent of Congress to give copyright owners enforcement rights against unauthorized parallel imports." Omega also charged that after a deal could not be reached, Costco knowingly obtained the watches from a source who was buying the watches outside of the U.S. and importing them to the U.S. without Omega's authorization.

However, RILA and the NACS said in their brief that, "Retailers need confidence that lawfully produced goods they purchase from distributors can be resold in the United States commerce free from claims of copyright infringement and constraints on consumer rights."