On January 20, 2015, in Omega S.A. v. Costco Wholesale Corporation, the Court of Appeals for the Ninth Circuit affirmed a district court's holding that Omega S.A., a watch company, was barred from bringing a copyright infringement claim against Costco for selling Omega watches. The court held that the first sale doctrine barred Omega's suit because Omega's copyright distribution and importation rights expired after it made an authorized first sale of the watches in a foreign jurisdiction. This decision came in the wake of a Supreme Court decision, Kirtsaeng v. John Wiley & Sons, Inc., which held that the first sale doctrine applies to copies of a copyrighted work lawfully made abroad. The application of the first sale doctrine to copyrighted goods that are produced and sold outside of the United States could change the way businesses conduct distribution and licensing deals because secondary sellers now have more freedom to sell copyrighted products they purchased abroad. Copyright owners who sell their goods outside of the U.S. will need to find other avenues outside of copyright law if they want to restrict sales in the U.S.

Omega produces luxury watches, including the Seamaster, which is affixed with a copyrighted Omega Globe design on the inside casing of the watch. This case came before the Ninth Circuit after Costco purchased 117 of the watches on the “gray market.” Omega had sold the watches to authorized foreign retailers, and the watches were then re-sold several times before Costco purchased them and then sold the watches to its club members in California. Costco had not been authorized by Omega to sell or import the watches. Soon after the sale, Omega filed suit for copyright infringement, specifically for the importation of the Omega Globe design, a copyrighted work, without the copyright holder’s permission.

Initially, the district court granted summary judgment to Costco based on the first sale doctrine, holding that the copyright holder who consents to a first sale of copies of a work cannot later claim infringement for distribution of those copies. The Ninth Circuit then reversed and remanded, finding the first sale doctrine did not apply to copies of copyrighted works that were produced and sold abroad. The Supreme Court granted certiorari and affirmed the Ninth Circuit's decision. On remand, the district court again granted summary judgment in favor of Costco, this time finding that Omega had used the copyright of the Globe to expand its monopoly impermissibly. The district court also granted attorney’s fees to Costco for this misuse.

In considering the second appeal, a Ninth Circuit panel affirmed in favor of Costco on the grounds that the first sale doctrine applies even when a work is manufactured abroad. They relied on the Supreme Court's recent decision in Kirtsaeng, which held that a copyright holder's distribution and importation rights expire after the first sale, regardless of where the item was manufactured or first
sold. If a copyright holder consents to a first sale, it cannot later allege that its copyright-based importation and distribution rights were infringed. Thus, Omega’s original authorized sale of the watches barred its cause of action against Costco. The Ninth Circuit panel also affirmed the district court’s award of attorney’s fees to Costco.

This new understanding of the first sale doctrine will change the way businesses operate outside of the U.S. Given that large manufacturers have wholesale accounts and distribution agreements in many different countries, some of the goods they sell abroad are likely to be re-sold in the U.S. on the gray market. The fact that a manufacturer made an authorized first sale of the goods will impact its ability to restrict later sales. And sellers in the U.S. will have less of an incentive to strike a deal with a manufacturer directly when they know they can purchase the same goods from third party vendors in other countries for lower prices. Thus, U.S. sellers may avoid direct relationships with manufacturers, and manufacturers may search for other strategies, such as restrictive contracts, to prevent the re-sale of their goods. Copyright holders may also be forced to lower their products’ prices in the U.S. as a result of competition from third party sellers who have imported the same copyrighted goods from other countries.