Not on My Watch: Avoiding Exhaustion Through First Sales Abroad

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The Supreme Court's October 2010 term contains only one case involving intellectual property, Costco Wholesale Corp. v. Omega, S.A. The question presented appears to pose a straightforward issue of the Copyright Act's proper interpretation: Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.

However, if the answer were obvious or easy to discern from the plain language of the relevant statutes, then this issue would presumably not have reached the Supreme Court. Instead, this apparently narrow question, particularly as it has arisen in this factual setting, is enmeshed within and has implications for a range of complex and important policy issues.

The importation of non-counterfeit products without the permission of the owner of some intellectual property right underlying the products, or parallel importation, potentially implicates the Tariff Act, Trademark, Patent, Copyright, and Contract law. Congress, in enacting laws governing importation and intellectual property, has established policies that could be thwarted if the courts interpret one of these bodies of law in isolation, without careful consideration of the overall effect of that interpretation in these related areas of law.

For instance, this case involves a copyrighted work that appeared on the back of a wristwatch. Watches that consist of merely utilitarian aspects would not be subject to copyright and copyright would not ordinarily restrict its sale or use. In this case, everyone seems to recognize that this was a transparent effort on Omega's part to use copyright law to control the distribution of a product that copyright would not otherwise restrict. But courts must make the next logical inference, namely, that it does no good for copyright to assiduously deny protection to useful articles if clever work-arounds are permitted to thwart Congressional purposes.

Additionally, courts and commentators have correctly discerned that the Supreme Court's unanimous opinion in Quanta Computer, Inc. v. LG Electronics, Inc. entails that patent rights are subject to exhaustion where a patented good is manufactured and first sold abroad. It should thus at least be explained why exhaustion might work differently in copyright than in patent law, though I will argue that uniformity of these exhaustion doctrines is preferable in this instance.

This case also presents an instructive instance of a larger trend. Those seeking control of something beyond the exclusive rights provided under copyright, increasingly are finding creative ways to use copyright to gain control in these extra-copyright domains. But this is essentially the definition of copyright misuse, and thus the Supreme Court should take this opportunity to curtail this increasingly common form of abuse and put the misuse doctrine on a firm footing.