Exhaustion and Parallel Trade

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Exhaustion Doctrine

• The exhaustion doctrine is an important limitation on IP rights

• Reasons for the exhaustion doctrine:
  - Aversion to restraints on alienation
  - Difficulty to check the chain of title
  - No expectation of further return
  - Availability of works after their lifespan
  - Preservation of the public domain
Exhaustion Doctrine

• Issues:
  – Rights that are subject to exhaustion
  – Sale (= exhaustion) v. license (= no exhaustion)
  – National v. international exhaustion
    • Price discrimination
    • Parallel imports
  – Exhaustion & the internet
  – Self-replicating technologies (e.g., seeds)
  – Digital exhaustion
Rights That Are Subject to Exhaustion

• Copyright: right to distribute
  – Not subject to exhaustion: right to reproduce, create derivative works, publicly perform, publicly display, moral rights (and s. 1201 right to prevent access?)

• Trademarks: use in commerce to distinguish the goods

• Patents: right to sell, offer to sell, use
  – Not subject to exhaustion: right to make, import
Patents: Exhaustion of a Method claim

Because the doctrine of patent exhaustion applies to method patents, and because the License Agreement authorizes the sale of components that substantially embody the patents in suit, the exhaustion doctrine prevents LGE from further asserting its patent rights with respect to the patents substantially embodied by those products.
Sale v. License

• Is it possible to limit the first sale doctrine by not selling an object but only licensing it?
Copyright: Sale v. License

Vernor v. Autodesk (9th Cir., 2010)
Sale v. License: Patents

Lexmark Int’l, Inc. v. Impression Prods., Inc., SCOTUS, May 30, 2017

• Patents covering toner cartridges and their use

• Cartridges first sold by Lexmark, some abroad and some in the United States, subject to an express single-use/no-resale restriction

• Impression resold the patented Lexmark cartridges at issue in the United States, and has imported those it acquired abroad
Sale v. License: Patents

Lexmark Int’l, Inc. v. Impression Prods., Inc., SCOTUS, May 30, 2017

• “[E]ven when a patentee sells an item under an express restriction, the patentee does not retain patent rights in that product...”

• “[W]hatever rights Lexmark retained are a matter of the contracts with its purchasers, not the patent law.”
International Trade Commission (ITC)

- Section 337 proceedings (under 19 U.S.C. 1337)
  - Exclusionary orders (general or specific)

- Can the ITC stop goods at digital borders?
  - ClearCorrect Operating v. ITC (Fed. Cir. 2015)
    - ITC has no jurisdiction on the Internet
National v. International Exhaustion (I)

• National exhaustion:
  – The first authorized sale in the United States exhausts the rights in the United States.
  – A first authorized sale outside the United States does not exhaust the rights in the United States.

• International exhaustion
  – The first authorized sale anywhere in the world exhausts the rights in the United States.
  – v. regional exhaustion (e.g., in the European Union)

• Which of the two principles is better, for which type(s) of IP, for which countries, and why?
National v. International Exhaustion (II)

• International treaties do not mandate which principle countries must adopt.

• Until recently, in the United States, the principles were applied as follows:
  – Trademarks: international exhaustion
  – Copyright:
    national exhaustion for foreign-made copies
    international exhaustion for U.S.-made copies
  – Patents: national exhaustion
17 U.S.C. §109(a)
“...the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord. ...”

17 U.S.C. §602(a)
“Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies or phonorecords under section 106, actionable under section 501. ”
Copyright

Copyright

Omega v. Costco, 541 F.3d 982 (9th Cir. 2008), *aff'd* by an equally divided S.Ct., 131 S.Ct. 565 (2010)
Copyright

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654 F.3d 210 (2nd Cir. 2011)
Patents: Ntl. v. Intl. Exhaustion

Fuji Photo Film Co., Ltd. v. Jazz Photo Corp., 394 F.3d 1368 (Fed. Cir. 2005)
Lexmark Int’l, Inc. v. Impression Prods., Inc., SCOTUS, 2017

• “An authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act.”
SCOTUS on International Exhaustion

• Kirtsaeng (2013) and Lexmark (2017)

• Justice Ginsburg disagreed with the application of the international exhaustion principle to copyrights and patents

• References to the territorially unlimited common-law pedigree of the exhaustion doctrine

• No right to partition markets
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