HOW THE SUPREME COURT JUSTICES MIGHT RULE ON INTERNATIONAL PATENT EXHAUSTION

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Will the courts, including the Court of Appeals for the Federal Circuit, and, eventually, the Supreme Court itself, extend *Kirtsaeng*'s adoption of international exhaustion for copyright to patent law?

None of the three opinions in *Kirtsaeng* mention patent law or any facet of intellectual property law other than copyrights. Yet, there are many parallels between the different facets, especially between copyright and patent law, both of which blossom, in the United States, from the same Constitutional provision, Article I, Section 8, Clause 8.

i. Supreme Court and Lower Court Authority Prior to 1982. The case law on international exhaustion of patents prior to 2000 is surprisingly sparse. See CHISUM ON PATENTS § 16.03[2][a][iv], § 16.03[3][a].

The Supreme Court recognized the first sale doctrine for patents, beginning with *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873). However, it has never passed directly on international exhaustion in regard to patents.

One decision touches on the problem. In *Boesch v. Graff*, 133 U.S. 697 (1890), the defendant bought lamp burners in Germany from one Hecht and then imported and sold them in the United States. The plaintiff held patents in both the United States and Germany covering the lamp burners and had not licensed Hecht to make or sell. However, under German law, Hecht had a right to make and sell burners because of his activity in doing so prior to plaintiff's application for a patent. The Supreme

Court held that the defendant infringed, distinguishing *Adams v. Burke*.

> "The exact question presented is whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent. … The right which Hecht had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorized to sell the articles in the United States in defiance of the rights of patentees under a United States patent."

Boesch involved no exhaustion or first authorized sale because the patent owner did not authorize the sale or exercise (exhaust) any patent right. The making and sale in Germany

was lawful under a "prior user right" provision of the German patent law.

Some lower court decisions found an exhaustion when an imported good was originally bought sold abroad by the owner of the U.S. patent or by one under authority of the owner, at least when there was no territorial restrictions on the foreign sales. See CHISUM ON PATENTS § 16.05[3][a][ii].

ii. Position of the Federal Circuit.

Beginning with *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094(Fed. Cir. 2001), the Federal Circuit took the unequivocal position that there was no international exhaustion. Without relatively little discussion, it required that any "first sale" must be in the United States.

Subsequently, the Federal Circuit has twice rejected arguments that Supreme Court decisions alter its national exhaustion position.

In *Fuji Photo Film Co., Ltd. v. International Trade Commission*, 474 F.3d 1281 (Fed. Cir. 2007), it reaffirmed its position against international exhaustion. It acknowledged that "[a] different rule applies in the copyright context," citing the *Quality King* case, which is discussed above.

> "In *Quality King Distribs. v. L'anza Research Int'l, Inc*., 523 U.S. 135 (1998), the Supreme Court held that 'the owner of goods lawfully made under the [Copyright] Act is entitled to the protection of the first sale doctrine in an action in a United States court even if the first sale occurred abroad.' [523 U.S.] at 145 n.14."

In *Quanta Computer, Inc. v. LG Electronics, Inc*., 553 U.S. 617 (2008), the Supreme Court addressed several issues regarding to exhaustion of patents. International exhaustion was *not* involved because the sales at issue occurred in

the United States. But Court's opinion created a question whether the Court disagreed with an territorial limit on exhaustion.

Applying *United States v. Univis Lens Co.*, 316 U.S. 241 (1942), the Court held that an authorized sale of components of a patented system worked an exhaustion because the components had no reasonable use except in the patented system. In a footnote, the Court addressed an argument by the patent owner that there was no exhaustion because the components sold with authority could be used other than in an infringing way, such as if "they were sold overseas," used as replacement parts, or had the patented feature disabled. The Court rejected the argument, stating that *Univis* "teaches that the question is whether the product is ‘capable of use only in practicing the patent,’ not whether those uses are infringing. Whether outside the country or functioning as replacement parts, the [components] would still be practicing the patent, even if not infringing

it.” *Quanta Computer, Inc.*, 128 S. Ct. at 2119 n.6.

In *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010), an accused infringer argued that *Quanta Computer* “eliminated the territoriality requirement for patent exhaustion." The Federal Circuit disagreed, noting that *Quanta* “did not involve foreign sales” and "did not eliminate the first sale rule’s territoriality requirement.” As for *Quanta* footnote 6, the phrase, “[w]hether outside the country,” “emphasizes that *Univis* required the product’s only use be for practicing-not infringing-the patent; and a practicing use may be ‘outside the country,’ while an infringing use must occur in the country where the patent is enforceable. Read properly, the phrase … supports, rather than undermines, the exhaustion doctrine’s territoriality requirement.”

Consequently, it is likely that the Federal Circuit will adhere to its national exhaustion

position for patents, which requires an authorized "first sale" in the United States, unless and until the Supreme rules otherwise. At least, Federal Circuit panels will feel bound by the pre-Kirtsaeng panel decisions ruling that there is national exhaustion and that patent law is, to that extent, different from the copyright law context. The Federal Circuit could reconsider its panel decision by granting en banc review of a case. But the Federal Circuit judges could, understandably, adopt the position: the Supreme Court created the mess and it should clean it up!

iii. How Will the Supreme Court Rule on International Patent Exhaustion? Will the Supreme Court agree with the Federal Circuit that patent law is sufficiently different from copyright law such that it will deem the former to be governed only by national exhaustion but the latter by international exhaustion?

Several points are clear.

First, the statutory language is significantly different in the two contexts. For copyright, Congress codified the "first sale" doctrine in statutory language. That language sparked the debate between the majority, concurrence and dissent in *Kirtsaeng*. That language does not apply to patents.

Second, as noted above, the Court has recognized the "first sale" doctrine for patents dating back to 1873, but there is no prior Supreme Court precedent directly bearing on the question of international exhaustion of patents.

Third, all the justices in *Kirtsaeng* agreed that the "common law" first sale doctrine for copyright, that is, the one existing before Congress began codifying it statutes in 1909 and 1976, had no geographic limitation. The justices only debated whether Congress had added a geographical limit in the 1976 Act when it enacted Sections 109(a) and 602.

These points join the issue: does patent law involve sufficiently different considerations to warrant a different conclusion on international exhaustion for the "common law" of patent exhaustion (first sale)?

In recent cases in one area, indirect infringement (that is, contributory infringement and active inducement), the Supreme Court has equated patents and copyrights, even though the statutory language for the two is different. See *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 545 U.S. 913 (2005); *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984) (noting the "the historic kinship between patent law and copyright law").

However, in the seminal 1908 *Bobbs-Merrill* case on "common law" domestic exhaustion (first sale) for copyright, the Supreme Court expressed reluctance on accepting patent law cases on first sale as directly binding for copyright law. In *Bobbs-*

Merrill, the copyright owner (publisher) relied on prior patent cases as supporting a right to impose conditions on a sale. The Court viewed the cases as possibly distinguishable. But it also noted as follows:

> "If we were to follow the course taken in the argument, and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this court.
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> "We may say in passing, disclaiming any intention to indicate our views as to what would be the rights of parties in circumstances similar to the present case under the patent laws, that there are differences between the patent and copyright statutes in the extent of the protection granted by them. This was

recognized by Judge Lurton, who wrote a leading case on the subject in the Federal courts (*The Button Fastener Case*, 77 Fed. Rep. 288), for he said in the subsequent case of *Park & Sons v. Hartman*, 153 Fed. Rep. 24:

> "There are such wide differences between the right of multiplying and vending copies of a production protected by the copyright statute and the rights secured to an inventor under the patent statutes, that the cases which relate to the one subject are not altogether controlling as to the other."

210 U.S. at 345-56.

Thus, *Bobbs-Merrill* provides some support for the proposition that patent law precedent on "common law" first sale (exhaustion) does not transfer automatically to copyright law. The opposite would presumably also follow:

copyright precedent does not automatically transfer to patent law.

There is also an argument based on "counting noses" from the *Kirtsaeng* opinions to predict how the nine justices would vote in a case concerning international exhaustion of patents. Five justices were favorably disposed to the view that Congress likely intended to allow copyright owners to use copyright law to divide markets internationally. The five are the three justices in the dissent (Ginsburg, Kennedy and Scalia, though Scalia's position was rendered uncertain by his failure to join in two parts of the Ginsburg dissent) plus the two concurring judges (Kagan and Alito). The two concurring justices joined the four other justices (Breyer, Roberts, Sotomayor, and Kagan) on the interpretation of the copyright "first sale" statute (Section 109(a)) but expressed a preference to allow market division by a construction of the importation statute (Section 602(a)(1)) contrary to the prior *Quality King* decision. In a patent

case, with different statutory language and no binding *Quality King* decision as binding precedent, the two concurring justices might well vote against international exhaustion for patent law, at least when a patent owner alleges a violation of the Section 271(a) right to exclude unauthorized importation of a patented product.

Judicial precedent aside, are there relevant differences between patents and copyrights in terms of how the overall systems work and the policies implicated by the international exhaustion such as will justify a different position on international exhaustion?

Here are some preliminary thoughts.

The policy issues (both pro and con) surrounding international exhaustion are quite similar for patents and copyrights.

But there may be pertinent differences in the operation of the systems that might influence

the Supreme Court.

One difference is that copyright law is much uniform and universal in its operation than patent law. This is so despite the considerable strides taken over the past 25 years to harmonization intellectual property standards. It is due in large part to the Berne Convention, the seminal international convention on copyrights, which established a traditional of minimizing formalities for perfecting copyright in a work of authorship. Thus, at least for traditional subject matter, such textual works, music, and video, copyright protection is virtually automatic in every country regardless of where a work is created or the author arises. There is more variation in regard to the copyrightability of more utilitarian works, such as computer software and the design elements of useful articles. Also, the standards for determining infringement involve a channeled inquiry comparing the copyrighted work with the accused work.

In contrast, patent law is heavily laden with expensive and exacting formalities, which the basis international agreement, the Paris Convention, permits. Thus, unlike with copyright works, inventions are frequently protected by patent only in a few countries. Even when an invention is patented in multiple countries, the scope of protection may vary considerably. Further, the protection may be for methods (processes) for making and using products, as well as for products themselves. The standards for determining infringement vary greatly, including in regard to the need to construe (interpret) verbal claims in a patent.

These differences may--or may not--be relevant to international exhaustion.

One argument on behalf of patent owners would be that they should able to protect their significant investment in patenting in the United States at least from parallel importations from other countries in which they have authorized

manufacture and sale but have not obtained patents. The counterargument would be that the patent owner should apply for patents in all potential markets. However, that ignores the huge expense entailed in obtaining patents. There is no comparable expense for obtaining copyright protection.