

INTERNATIONAL PATENT EXHAUSTION: WHITHER THE SUPREME COURT?*

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I. OVERVIEW

The Federal Circuit in *FujiFilm Corp. v. Benum*, ___ F.3d ___ (Fed. Cir. 2010)(per curiam)(Michel, C.J., Mayer, Linn, JJ.), under binding precedent of *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed.Cir.2001)(Newman, J.), has reconfirmed the view of this circuit that there is no international patent exhaustion. Overshadowing *Fujifilm* is the Supreme Court grant of *certiorari* to permit consideration during the October 2010 Term of a merits appeal in yet another international exhaustion case, *Costco Wholesale Corp. v. Omega, S.A.*, Supreme Court No. 08-1423, *opinion below*, *Omega S.A. v. Costco Wholesale Corp.*, 541 F.3d 982 (9th Cir. 2008)(Smith, Jr., J.), which considers the issue in the context of copyright exhaustion.

“Patent exhaustion” in simple terms means that once a patentee sells his patented Framus, the purchaser holds title free and clear of the patent including the right to resell the Framus to anyone. The gist of patent exhaustion is that the patentee receives his reward by his first sale of the product, after which he has no claim to control commerce in that already-sold product. The matter becomes more complicated when the patentee holds global patent rights through parallel patents

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in several countries: Does the sale of the patented Framus in Country “A” mean that the purchaser of the Country “A” Framus is free to sell that Framus anywhere in the world? Under a theory of *international* patent exhaustion, the answer is yes: The patentee has received his reward through the first sale in Country “A”; now, he should not be able to control the resale of that same Framus in Country “B”.

The Supreme Court has never ruled on international patent exhaustion. *Boesch v. Graff*, 133 U.S. 697 (1890), is incorrectly cited as having dealt with international exhaustion. Rather, *Boesch v. Graff* had nothing at all to do with an authorized first sale by the patent owner but rather was a case dealing with prior user rights.

Recently, the Court has given a broad interpretation to the scope of patent exhaustion in the domestic context of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 128 S.Ct. 2109 (2008), although international implications are found in this case on remand, . *LG Electronics, Inc. v. Hitachi, Ltd.*, 2009 WL 667232 (N.D.Cal. 2009)(Wilken, J.). See § II, *Supreme Court International Patent Exhaustion*.

While the Supreme Court has never ruled on international *patent* exhaustion, there has been activity in the area of other international intellectual property exhaustion issues in the context of copyright and trademark law. On April 19, 2010, the Court granted the petition for review in *Costco v. Omega*, which could have profound implications for international patent exhaustion. See § III, *The Costco Case Now at the Supreme Court*.

In the wake of *Quanta*, the Federal Circuit has issued an opinion in *TransCore, LP v. Electronic Transaction Consultants Corp.*, 563 F.3d 1271 (2009)(Gajarsa, J.), which gives a broad interpretation to patent exhaustion in the setting of a domestic exhaustion fact pattern, while denying that *Quanta* compels a change in Federal Circuit law to create a doctrine of international patent exhaustion.

The Federal Circuit also does not operate on a clean slate in its consideration of international patent exhaustion as the court in *Jazz Photo*. The ruling in *Jazz Photo* gives a one sentence *conclusion*, with no explanation of any kind. In lieu of an explanation for its holding, the court cites *Boesch v. Graff*, although this case is one dealing with a prior user right and has absolutely nothing to do with an authorized first sale by the patentee and *a fortiori* nothing to do with international patent exhaustion. See § IV, *Exhaustion Post-Quanta at the Federal Circuit*.

Whatever decision on international patent exhaustion that the Supreme Court will ultimately reach, there will be global implications as the United States during the negotiations leading up to the Marrakesh Agreement establishing the World Trade Organization and the “TRIPS” – the Trade Related Aspects of Intellectual Property – took a strong stance *against* international exhaustion. The topic remains one of great global interest. See § V, *The Internationally Open Question of Exhaustion*.

II. SUPREME COURT INTERNATIONAL PATENT EXHAUSTION

The Supreme Court has never ruled on international patent exhaustion.

To be sure, the case of *Boesch v. Graff*, 133 U.S. 697 (1890), is sometimes mistakenly cited for the proposition that there is no international exhaustion, but the case has absolutely nothing to do with a first sale by the patentee. Thus, international patent exhaustion would involve *the patentee* selling his Framus in Country “A” (Germany) after which *the patentee’s* purchaser would resell the Framus in Country “B” (the United States).

In *Boesch v. Graff* it is true that the patentee owned patents in both countries “A” and “B”, but the patentee did not sell the Framus in Country “A”. Rather, the seller in Country “A” was an *independent competitor* of the patentee who was able to lawfully sell the Framus in Country “A” because he had defeated a patent infringement lawsuit in Germany on the basis that he had *independently* invented the Framus prior to the critical date for establishment of a prior user right. Thus, the *independent competitor* sold *his* Framus without permission or reward from the patentee based upon the German national prior user right statute.

More recently, the Supreme Court has provided guidance on its view of exhaustion in general in *Quanta*, which involves both domestic and international exhaustion issues, although only domestic exhaustion was directly involved in the Supreme Court’s decision.

The expectation that eventually the Supreme Court will review international patent exhaustion in the wake of *Quanta* immediately became apparent from the opinion. See Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, 7 J. Marshall Rev. Intell. Prop. L. 682, 698 (2008). On remand in *Quanta* (now styled as *LG Electronics, Inc. v. Hitachi*), the *international* exhaustion issue was taken up with the trial court holding that a ruling in favor of international patent exhaustion is mandated by the Supreme Court opinion.

III. THE *COSTCO* CASE NOW AT THE SUPREME COURT

While the Supreme Court has never dealt with international *patent* exhaustion, the Court on several occasions has dealt with international intellectual property exhaustion issues in the context of copyright and trademark law. In a case before the Court on a merits appeal during the October 2010 Term, *Costco* raises the question of international exhaustion of intellectual property rights in the context of copyright law.

The specific *Question Presented* in the petition to the Court is stated thusly:

“Under the Copyright Act's first-sale doctrine, 17 U.S.C. § 109(a), the owner of any particular copy ‘lawfully made under this title’ may resell that good without the authority of the copyright holder. In *Quality King Distribs., Inc. v. L'Anza Research Int'l, Inc.*, 523 U.S. 135, 138 (1998), this Court posed the question presented as ‘whether the ‘first sale’ doctrine endorsed in § 109(a) is applicable to imported copies.’ In the decision below, the Ninth Circuit held that *Quality King* (which answered that question affirmatively) is limited to its facts, which involved goods manufactured in the United States, sold abroad, and then re-imported. The question presented here is:

“Whether the Ninth Circuit correctly held that the first-sale doctrine does not apply to imported goods manufactured abroad.”

The great interest that at least four members of the Court have in the issue is manifested by the fact that *certiorari* was granted *despite* a negative recommendation whether to grant review by the Solicitor General, responsive to a CVSG Order from the Court last year.

IV. EXHAUSTION POST-*QUANTA* AT THE FEDERAL CIRCUIT

FujiFilm v. Benum represents the first post-*Quanta* confrontation at the Federal Circuit over the issue of international patent exhaustion, although the Court in *TransCore* has already given *Quanta* a broad interpretation.

In *Transcore*, a panel broadly interpreted the scope of exhaustion under *Quanta*. It stated that in *Quanta*, “the Supreme Court reiterated unequivocally that ‘[t]he longstanding doctrine of patent exhaustion provides that the initial authorized sale of a patented item *terminates all patent rights* to that item[.],’” *TransCore*, 563 F.3d at 1274 (quoting *Quanta*, 128 S.Ct. at 2115, 2121)(emphasis added).

(As previously noted, in the *Quanta* case itself, when the case was returned to the district court for consideration of *international* patent exhaustion, the trial court ruled that international exhaustion *does* apply to extinguish patent rights.)

Prior to *Quanta*, the Federal Circuit in *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed.Cir.2001)(Newman, J.), a case of first impression on the issue of international exhaustion, gave no explanation at all for its one sentence holding that “[t]o invoke the protection of the first sale doctrine [of exhaustion], the authorized first sale must have occurred under the United States patent.” *Jazz Photo*, 264 F.3d at 1105. Instead, the court merely gave the citation to *Boesch v. Graff* with a parenthetical statement of what it viewed as the holding of that case that “a lawful foreign purchase does not obviate the need for license from the

United States patentee before importation into and sale in the United States.” *Id.* (citing *Boesch v. Graff*, 133 U.S. at 701-703). While it is entirely correct that this was the holding of the case *in the context of a lawful sale by the patentee’s competitor* the holding had nothing to do with international exhaustion which would have implicated a sale *by the patentee*.

With *Jazz Photo* as binding circuit precedent, there have been several pre-*Quanta* opinions reaching the same conclusion. See *Fuji Photo Film Co., Ltd. v. International Trade Com’n*, 474 F.3d 1281, 1285 (Fed. Cir. 2007)(Dyk, J.)(discussing *Jazz Photo Corp. v. United States*, 439 F.3d 1344 (Fed.Cir.2006); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed.Cir.2005); *Fuji Photo Film Co. v. Int’l Trade Comm’n*, 386 F.3d 1095 (Fed.Cir.2004).

In *Transcore*, the court distanced itself from cases like *Boesch v. Graff* dealing with a mere lawful sale by anyone, interpreting *Quanta* as ruling that “[e]xhaustion is triggered only by a sale *authorized by the patent holder*[.]” *TransCore*, 563 F.3d at 1274 (quoting *Quanta*, 128 S.Ct. at 2115, 2121)(emphasis added).

In *Fujifilm Corp. v. Benum*, ___ F.3d ___ (Fed. Cir. 2010)(per curiam)(Michel, C.J., Mayer, Linn, JJ.), the court continued the rule of *Jazz Photo*, denying the existence of international patent exhaustion. The Court denied the applicability to this case of *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. ___, 128 S. Ct. 2109 (2008), which did not involve international exhaustion:

“Holding the case governed by *United States v. Univis Lens Co.*, 316 U.S. 241 (1942) (exhaustion occurs when the only reasonable and intended use of the products sold is to complete the patented combination), the Court [in *Quanta*] found that Intel’s chips substantially embodied the patented invention and their unconditional, authorized sale by Intel thereby exhausted LG’s patents. *Quanta Computer, Inc.*, 553 U.S. at , 128 S. Ct. at 2122.

“Defendants assert that *Quanta* created a rule of ‘strict exhaustion,’ that the Court’s failure to recite the territoriality requirement eliminated it. That case, however, did not involve foreign sales. Defendants rely on *Quanta*’s footnote 6 because it contains the phrase ‘[w]hether outside the country.’ [footnote omitted] This phrase, however, 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 defendants rely on supports, rather than undermines, the exhaustion doctrine’s territoriality requirement. LGE suggests that the Intel Products would not infringe its patents if they were sold overseas, used as replacement parts, or engineered so that use with non-Intel products would disable their patented features. But *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 Intel Products would still be *practicing* the patent, even if not infringing it.” *Quanta Computer, Inc.*, 553 U.S. at ___, 128 S. Ct. at 2119 n.6 (citations omitted) (emphasis in original)”.

A petition for *certiorari* for Supreme Court review is due August 25, 2010.

V. THE INTERNATIONALLY OPEN QUESTION OF EXHAUSTION

International exhaustion is one of the most contentious points of international patent trade discussions. While many developing countries have adopted international patent exhaustion, there has also been adoption of international patent exhaustion within the developed countries of the world. Within the European Union, there is now a doctrine of international patent exhaustion for a first sale in a member state so that, for example, the purchaser of pharmaceuticals on the open market in the United Kingdom is able to export the thus-purchased products to Germany and Holland free from patent infringement. Japan has adopted international patent exhaustion with the exception that there is no exhaustion where the purchaser in Country “A” is on notice of the patent right.

In the negotiations leading up to the 1994 Marrakesh Agreement establishing the TRIPS, the United States was able to lead a coalition of developed countries to striking victories to establish minimum standards of patent protection that favored strong patent rights. The one area where victory could not be achieved was the establishment of a standard *denying* international patent exhaustion. To avoid any possibility that future panels of the World Trade Organization deciding disputes under the TRIPS could reach this decision, the developing countries insisted upon an express provision in the TRIPS that makes it clear that international exhaustion was *not* a topic of agreement. Hence, the express statement is found in the Marrakesh Treaty itself that “[f]or the purposes of dispute settlement under this Agreement, subject to the provisions of [TRIPS] Articles 3 [providing for national treatment] and 4 [providing most-favored-nation treatment,] nothing in this [TRIPS] Agreement shall be used to address the issue of the exhaustion of intellectual property rights.” TRIPS, Article 6.