

NINESTAR: WHITHER INTERNATIONAL PATENT EXHAUSTION? *

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On Monday, March 25, 2013, the Supreme Court is expected to issue a “GVR”, i.e., to grant, vacate and remand in the *Ninestar* case in view of the March 19, 2013, *Kirtsaeng* opinion on international copyright exhaustion. The *Question Presented* in the *certiorari* petition in *Ninestar* asks “[w]hether the initial authorized sale outside the United States of a patented item terminates all patent rights to that item.” This paper analyzes the impact of *Kirtsaeng* on *Ninestar* and what may happen in this case.

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I. OVERVIEW

This coming Monday, March 25, 2013, the Supreme Court is expected to issue its decision whether to grant *certiorari* in *Ninestar Technology Co., Ltd. v. International Trade Com'n*, Supreme Court No. 12-552, *opinion below*, 667 F.3d 1373 (Fed. Cir. 2012) (Newman, J.), which challenges the Federal Circuit denial of the doctrine of international patent exhaustion that dates back to its leading case, *Jazz Photo Corp. v. U.S. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed.Cir.2001).

It is possible that instead of simply granting or denying *certiorari*, one outcome is that the Court will grant simultaneously grant *certiorari*, vacate the opinion below and remand the case to the Federal Circuit to issue a fresh opinion that takes into account the March 19, 2013, holding of international *copyright* exhaustion in *Kirtsaeng v. John Wiley & Sons, Inc.*, __ U.S. __, 2013 WL 1104736 (2013).

International patent exhaustion has remained as one of the key open issues of patent law in the wake of *Quanta Computer, Inc. v. LG Elecs., Inc.*, 553 U.S. 617 (2008). See Harold C. Wegner, *Post-Quanta, Post-Sale Patentee Controls*, § IV-C, *Post-Quanta International Patent Exhaustion*, 7 J. Marshall Rev. Intell. Prop. L. 682, 698 (2008).

Under *domestic* patent exhaustion, once a patent holder has sold his patented Widget to a purchaser, the patentee has lost all right under the patent to restrain further alienability.

Wegner, *Ninestar*: *Whither International Patent Exhaustion?*

But, whether there is *international* patent exhaustion is a different question: Does a patentee loses control of alienability of his product under *United States* patent law where he has sold his product abroad is an issue of first impression at the Supreme Court. The March 19, 2013, *Kirtsaeng* ruling of international *copyright* exhaustion is not directly on all fours with the issue of international *patent* exhaustion, yet provides clues – in both directions – as to whether international patent exhaustion exists under American law.

This paper begins with a discussion of the importance of the issue and its unsettled state. See § II, *The Open Question of International Exhaustion*. Perhaps the most important factor added to the debate over international patent exhaustion is the treatment of the common law origins of the “first sale” doctrine which is traced back to the seventeenth century writings of Coke on the English common law. See § III, *Coke on the Common Law “First Sale” Origins*.

The Federal Circuit in *Jazz Photo* reached the conclusion that there is no international patent exhaustion, which is the binding precedent of that court unless overruled by the Supreme Court or if the Federal Circuit were to reconsider the issue *en banc*. See § IV, *Jazz Photo: Binding Precedent Denying Exhaustion*.

If a panel of the Federal Circuit rehears *Ninestar* it is bound to follow *Jazz Photo*. If it wishes to have the option to take a fresh approach it would be necessary for the Court to hear the case *en banc*, an avenue it recently took in a GVR setting in *Beer v. United States*, 696 F.3d 1174 (Fed. Cir. 2012)(*en banc*)(Rader C.J.). See § V, *Would an En banc Panel Rehear Ninestar?*

II. THE OPEN QUESTION OF INTERNATIONAL EXHAUSTION

Domestic patent exhaustion has been a fixture of American patent law for the past 160 years. See *Quanta*, 553 U.S. at 625 (citing *Bloomer v. McQuewan*, 55 U.S (14 How.) 539, 549 (1853); *Bloomer v. Millinger*, 68 U.S. (1 Wall.) 340, 351 (1864); *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873)).

Despite a rich history of case law dating back for this 160 year period, the Supreme Court now in the twenty-first century has yet to rule on whether there is a doctrine of *international* patent exhaustion: Does the patentee who sells his Widget in Germany lose any *patent*-based right to restrain importation or use of that Widget in the United States? Or, does the principle of patent territoriality govern: Whatever happens abroad as to the sale of the patentee's Widget, the patentee retains his right to sue an importer or anyone bringing that Widget into the United States.

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 Marakesh 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 Marakesh 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.

The dissenting opinion considers the TRIPS issue from the context of copyright exhaustion:

Unlike the Court's holding, my position is consistent with the stance the United States has taken in international-trade negotiations. This case bears on the highly contentious trade issue of interterritorial exhaustion. The issue arises because intellectual property law is territorial in nature, see *supra*, at 6, which means that creators of intellectual property “may hold a set of parallel” intellectual property rights under the laws of different nations. Chiappetta, *The Desirability of Agreeing to Disagree: The WTO, TRIPS, International IPR Exhaustion and a Few Other Things*, 21 Mich. J. Int'l L. 333, 340–341 (2000) (hereinafter Chiappetta). There is no international consensus on whether the sale in one country of a good incorporating protected intellectual property exhausts the intellectual property owner's right to control the distribution of that good elsewhere. Indeed, the members of the World Trade Organization, “agreeing to disagree,” provided in Article 6 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Apr. 15, 1994, 33 I.L.M. 1197, 1200, that “nothing in this Agreement shall be used to address the issue of ... exhaustion.” See Chiappetta 346

(observing that exhaustion of intellectual property rights was “hotly debated” during the TRIPS negotiations and that Article 6 “reflects [the negotiators'] ultimate inability to agree” on a single international standard). Similar language appears in other treaties to which the United States is a party. See World Intellectual Property Organization (WIPO) Copyright Treaty, Art. 6(2), Dec. 20, 1996, S. Treaty Doc. No. 105–17, p. 7 (“Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right [to control distribution of copies of a copyrighted work] applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.”); WIPO Performances and Phonograms Treaty, Art. 8(2), Dec. 20, 1996, S. Treaty Doc. No. 105–17, p. 28 (containing language nearly identical to Article 6(2) of the WIPO Copyright Treaty).

In the absence of agreement at the international level, each country has been left to choose for itself the exhaustion framework it will follow. One option is a national-exhaustion regime, under which a copyright owner's right to control distribution of a particular copy is exhausted only within the country in which the copy is sold. See Forsyth & Rothnie, *Parallel Imports*, in *The Interface Between Intellectual Property Rights and Competition Policy* 429, 430 (S. Anderman ed.2007) (hereinafter Forsyth & Rothnie). Another option is a rule of international exhaustion, under which the authorized distribution of a particular copy anywhere in the world exhausts the copyright owner's distribution right everywhere with respect to that copy. See *ibid.* The European Union has adopted the intermediate approach of regional exhaustion, under which the sale of a copy anywhere within the European Economic Area exhausts the copyright owner's distribution right throughout that region. See *id.*, at 430, 445. Section 602(a)(1), in my view, ties the United States to a national-exhaustion framework. The Court's decision, in contrast, places the United States solidly in the international-exhaustion camp.

Strong arguments have been made both in favor of, and in opposition to, international exhaustion. See Chiappetta 360 (“[r]easonable people making valid points can, and do, reach conflicting conclusions” regarding the desirability of international exhaustion). International exhaustion subjects copyright-protected goods to competition from lower priced imports and, to that extent, benefits consumers. Correspondingly, copyright owners profit from a national-exhaustion regime, which also enlarges the monetary incentive to create new copyrightable works. See Forsyth & Rothnie 432–437 (surveying arguments for and against international exhaustion).

Weighing the competing policy concerns, our Government reached the conclusion that widespread adoption of the international-exhaustion framework would be inconsistent with the long-term economic interests of the United States. See Brief for United States as *Amicus Curiae* in *Quality King*, O.T.1997, No. 96–1470, pp. 22–26 (hereinafter *Quality King* Brief). Accordingly, the United States has steadfastly “taken the position in international trade negotiations that domestic copyright owners should ... have the right to prevent the unauthorized importation of copies of their work sold abroad.” *Id.*, at 22. The United States has “advanced this position in multilateral trade negotiations,” including the negotiations on the TRIPS Agreement. *Id.*, at 24. See also D. Gervais, *The TRIPS Agreement: Drafting History and Analysis* § 2.63, p. 199 (3d ed.2008). It has also taken a dim view of our trading partners' adoption of legislation incorporating elements of international exhaustion. See Clapperton & Coronas, *Locking in Customers, Locking Out Competitors: Anti-Circumvention Laws in Australia and Their Potential Effect on Competition in High Technology Markets*, 30 *Melbourne U.L.Rev.* 657, 664 (2006) (United States expressed concern regarding international-exhaustion legislation in Australia); Monten, *Comment, The Inconsistency Between Section 301 and TRIPS: Counterproductive With Respect to the Future of International Protection of Intellectual Property Rights?* 9 *Marq. Intellectual Property L.Rev.* 387, 417–418 (2005) (same with respect to New Zealand and Taiwan).

Even if the text and history of the Copyright Act were ambiguous on the answer to the question this case presents—which they are not, see Parts II–III, *supra* — I would resist a holding out of accord with the firm position the United States has taken on exhaustion in international negotiations. *Quality King*, I acknowledge, discounted the Government's concerns about potential inconsistency with United States obligations under certain bilateral trade agreements. See 523 U.S., at 153–154. See also *Quality King* Brief 22–24 (listing the agreements). That decision, however, dealt only with copyright-protected products made in the United States. See 523 U.S., at 154 (GINSBURG, J., concurring). *Quality King* left open the question whether owners of U.S. copyrights could retain control over the importation of copies manufactured and sold abroad—a point the Court obscures, see *ante*, at 33 (arguing that *Quality King* “significantly eroded” the national-exhaustion principle that, in my view, § 602(a)(1) embraces). The Court today answers that question with a resounding “no,” and in doing so, it risks undermining the United States' credibility on the world stage. While the Government has urged our trading partners to refrain from adopting international-exhaustion regimes that could benefit consumers within their borders but would impact adversely on intellectual-property producers in the United States, the Court embraces an

international-exhaustion rule that could benefit U.S. consumers but would likely disadvantage foreign holders of U.S. copyrights. This dissonance scarcely enhances the United States' "role as a trusted partner in multilateral endeavors." *Vimar Seguros y Reaseguros, S.A. v. M/V Sky Reefer*, 515 U.S. 528, 539 (1995).

Kirtsaeng, ___ U.S. at ___ (Ginsburg, J., joined by Scalia, Kennedy, JJ., dissenting)(footnotes omitted).

III. COKE AND THE COMMON LAW ORIGNS OF "FIRST SALE"

The *Kirtsaeng* majority opinion makes much of the fact that the copyright statute stems from a common law heritage of English common law, where neither the American statute nor the common law specifically has a geographical limitation.

The *Kirtsaeng* majority notes that at common law a first sale was viewed to end the owner's rights in chattel. *Kirtsaeng*, ___ U.S. at _____. The Supreme Court more than a century ago, citing the noted seventeenth century leading lawyer, Coke, stated that:

"General restraint in the alienation of articles, things, chattels, except when a very special kind of property is involved, such as a slave or an heirloom, have been generally held void. 'If a man,' says Lord Coke, in 2 Coke on Littleton, § 360, 'be possessed . . . of a horse or of any other chattel, real or personal, and give or sell his whole interest or property therein, upon condition that the donee or vendee shall not alien the same, the same is void, because the whole interest and property is out of him, so as he hath no possibility of a reverter; and it is against trade and traffic and bargaining and contracting between man and man.'"

Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373, 404-05 (1911)(quoting *John D. Park & Sons Co. v. Hartman*, 153 Fed. 24 (6th Cir. 1907)).

In *Kirtsaeng*, the majority again cites to Coke, providing basis for a “nongeographical reading” of the copyright law, which may have implications for the parallel consideration of international patent exhaustion:

A relevant canon of statutory interpretation favors a nongeographical reading. “[W]hen a statute covers an issue previously governed by the common law,” we must presume that “Congress intended to retain the substance of the common law.” *Samantar v. Yousuf*, 560 U.S. —, —, n. 13 (2010) (slip op., at 14, n. 13). See also *Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952) (“Statutes which invade the common law ... are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident”).

The “first sale” doctrine is a common-law doctrine with an impeccable historic pedigree. In the early 17th century Lord Coke explained the common law's refusal to permit restraints on the alienation of chattels. Referring to Littleton, who wrote in the 15th century, Gray, *Two Contributions to Coke Studies*, 72 U. Chi. L.Rev. 1127, 1135 (2005), Lord Coke wrote:

“[If] a man be possessed of ... a horse, or of any other chattell ... and give or sell his whole interest ... therein upon condition that the Donee or Vendee shall not alien[ate] the same, the [condition] is voi[d], because his whole interest ... is out of him, so as he hath no possibilit[y] of a Reverter, and it is against Trade and Traffi[c], and bargaining and contracting betwee[n] man and man: and it is within the reason of our Author that it should ouster him of all power given to him.” 1 E. Coke, *Institutes of the Laws of England* § 360, p. 223 (1628).

A law that permits a copyright holder to control the resale or other disposition of a chattel once sold is similarly “against Trade and Traffi[c], and bargaining and contracting.” *Ibid.*

With these last few words, Coke emphasizes the importance of leaving buyers of goods free to compete with each other when reselling or otherwise disposing of those goods. American law too has generally thought that competition, including freedom to resell, can work to the advantage of the consumer. See, e.g., *Leegin Creative Leather Products, Inc. v. PSKS, Inc.*, 551 U.S. 877, 886 (2007) (restraints with “manifestly anticompetitive effects” are *per se* illegal; others are subject to the rule of reason (internal quotation marks omitted)); 1 P. Areeda & H. Hovenkamp, *Antitrust Law* ¶ 100, p. 4 (3d ed. 2006) (“[T]he principal objective of

antitrust policy is to maximize consumer welfare by encouraging firms to behave competitively”).

The “first sale” doctrine also frees courts from the administrative burden of trying to enforce restrictions upon difficult-to-trace, readily movable goods. And it avoids the selective enforcement inherent in any such effort. Thus, it is not surprising that for at least a century the “first sale” doctrine has played an important role in American copyright law. See *Bobbs–Merrill Co. v. Straus*, 210 U.S. 339 (1908); Copyright Act of 1909, § 41, 35 Stat. 1084. See also Copyright Law Revision, Further Discussions and Comments on Preliminary Draft for Revised U.S. Copyright Law, 88th Cong., 2d Sess., pt. 4, p. 212 (Comm. Print 1964) (Irwin Karp of Authors' League of America expressing concern for “the very basic concept of copyright law that, once you've sold a copy legally, you can't restrict its resale”).

The common-law doctrine makes no geographical distinctions ***

Technology companies tell us that “automobiles, microwaves, calculators, mobile phones, tablets, and personal computers” contain copyrightable software programs or packaging. Brief for Public Knowledge et al. as *Amici Curiae* 10. See also Brief for Association of Service and Computer Dealers International, Inc., et al. as *Amici Curiae* 2. Many of these items are made abroad with the American copyright holder's permission and then sold and imported (with that permission) to the United States. Brief for Retail Litigation Center, Inc., et al. as *Amici Curiae* 4. A geographical interpretation would prevent the resale of, say, a car, without the permission of the holder of each copyright on each piece of copyrighted automobile software. Yet there is no reason to believe that foreign auto manufacturers regularly obtain this kind of permission from their software component suppliers, and Wiley did not indicate to the contrary when asked. See Tr. of Oral Arg. 29–30. Without that permission a foreign car owner could not sell his or her used car.

Retailers tell us that over \$2.3 trillion worth of foreign goods were imported in 2011. Brief for Retail Litigation Center 8. American retailers buy many of these goods after a first sale abroad. *Id.*, at 12. And, many of these items bear, carry, or contain copyrighted “packaging, logos, labels, and product inserts and instructions for [the use of] everyday packaged goods from floor cleaners and health and beauty products to breakfast cereals.” *Id.*, at 10–11. The retailers add that American sales of more traditional copyrighted works, “such as books, recorded music, motion pictures, and magazines” likely amount to over \$220 billion. *Id.*, at 9. See also *id.*, at 10 (electronic game industry is \$16 billion). A geographical

interpretation would subject many, if not all, of them to the disruptive impact of the threat of infringement suits. *Id.*, at 12. ***

Kirtsaeng, ___ U.S. at ___

IV. JAZZ PHOTO: BINDING PRECEDENT DENYING EXHAUSTION

The Federal Circuit created binding precedent through *Jazz Photo*, its case of first impression that denied the existence of international patent exhaustion.

The *Jazz Photo* opinion is totally devoid of *any* reasoning to support its conclusion. It inferentially relies upon Supreme Court precedent: “To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent. *See Boesch v. Graff*, 133 U.S. 697, 701-03 (1890) (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).” *Jazz Photo*, 264 F.3d at 1105.

But, *Boesch v. Graff* had absolutely nothing whatsoever to do with either the first sale doctrine or exhaustion of a patent right because the first sale was neither made by the patentee nor licensee nor anyone else who was authorized by the patentee to sell or transfer the product. *See Wegner, supra*. In *Ninestar*, the Federal Circuit omitted citation of *Boesch v. Graff* but reaffirmed that *Jazz Photo* remains binding precedent: “As stated in *Jazz Photo*, ‘United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized first sale must have occurred under the United States patent.’” *Ninestar*, 667 F.3d at 1378 (quoting *Jazz Photo*, 264 F.3d at 1105).

Between the original 2001 precedential ruling and *Ninestar* the *Jazz Photo* ruling has been invoked to deny international patent exhaustion several times. *Fuji Photo Film Co. v. Int'l Trade Comm'n*, 386 F.3d 1095 (Fed.Cir.2004); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 394 F.3d 1368 (Fed.Cir.2005); *Fuji Photo Film Co., Ltd. v. International Trade Com'n*, 474 F.3d 1281 (Fed. Cir. 2007)(Dyk, J.); *Fujifilm Corp. v. Benun*, 605 F.3d 1366 (Fed. Cir. 2010).

V. WILL AN *EN BANC* PANEL REHEAR *NINESTAR*?

If *Ninestar* is remanded to the Federal Circuit to consider *Kirtsaeng*, a panel rehearing of the case would be bound by *Jazz Photo Corp. v. U.S. Int'l Trade Comm'n*, 264 F.3d 1094 (Fed.Cir.2001), as it was before in the decision that had gone to the Supreme Court. *Ninestar Technology Co., Ltd. v. International Trade Com'n*, 667 F.3d 1373, 1378 (Fed. Cir. 2012). Only by taking the case *en banc* would the Court have the freedom to consider the full impact of *Kirtsaeng* on the issue of international patent exhaustion.

This is not the first time the Federal Circuit has faced a situation where a panel found its hands tied by binding precedent. Just last year the Supreme Court issued a GVR to send a case back to the Federal Circuit where a panel had found itself bound by its earlier precedent. The Supreme Court admonished the appellate court to consider the issue that had been ducked in this manner: “The Court considers it important that there be a decision on the question, rather than that an answer be deemed unnecessary in light of prior precedent on the merits.” *Beer v. United States*, 131 S.Ct. 2865, 2865-66 (2012). Because a panel of the Federal Circuit is powerless to repudiate prior precedent, the Court took the case *en banc*. *Beer v. United States*, 696 F.3d 1174 (Fed. Cir. 2012)(en banc)(Rader C.J.).

VI. CONCLUSION

The issue of whether there is or is not international patent exhaustion may or may not be resolved by *Ninestar*. There is considerable support for both sides of the issue, one that has tremendous economic implications. If *Ninestar* does return to the Federal Circuit and *both sides* of the issue are fairly debated, it is unclear what the Supreme Court would do with the expected further petition for review. If the panel simply rubberstamps *Jazz Photo* it is difficult to foresee anything other than a grant of *certiorari* the next time around.