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‘Lexmark’ Court to Address International Patent Exhaustion And Unauthorized Imports

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Recently, in *Lexmark v. Impression*, the Federal Circuit took the unusual step of issuing a sua sponte order for an en banc hearing to consider, among other issues, whether “[i]n light of *Kirtsaeng v. John Wiley & Sons*, 133 S. Ct. 1351 (2012), should this court overrule *Jazz Photo v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), to the extent it ruled that a sale of a patented item outside the United States never gives rise to United States patent exhaustion.” This case raises the important question of the relationship between U.S. copyright and patent laws, as well as how a patentee’s statutory exclusive right to bar unauthorized imports should be interpreted.

Impression’s Importation of Lexmark’s Toner Cartridges.

Lexmark is a major manufacturer of laser printers and toner cartridges, products which are protected by many patents. Lexmark’s profits are earned largely from the sale of toner cartridges, which must be purchased to replace the empty cartridges that come with Lexmark’s printers. Impression purchases empty cartridges, both in the United States and overseas, remanufactures the cartridges so that they may be used again, and sells them in the United States.

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factures the cartridges so that they may be used again, and sells them in the United States.

Lexmark sued multiple authorized sellers for patent infringement in the U.S. District Court for the Southern District of Ohio. After four years of litigation and numerous settlements, Impression remained as the only defendant. Impression argued that Lexmark’s sale of its cartridges abroad had exhausted its U.S. patent rights. Impression recognized that its defense was at odds with the Federal Circuit’s ruling in

Jazz Photo, but argued that *Kirtsaeng*, which held that an overseas sale of a copyrighted work by the rightholder barred its right to prevent parallel importation of the work, effectively overruled *Jazz Photo*. The district court, however, found that *Kirtsaeng* was only relevant in the copyright context and *Jazz Photo*’s holding still governed.

The Supreme Court’s Three-Part Analysis in *Kirtsaeng*. In *Kirtsaeng*, the U.S. Supreme Court held that the first sale doctrine, as codified in §109(a) of the Copyright Act, applies to sales of copyrighted works lawfully made abroad, and specifically to the copyright holder’s right to import the work. 133 S. Ct. 1351, 1358. In coming to this conclusion, the Supreme Court engaged in a three-part analysis. First, the court looked at the language of the

copyright statute and found that, read literally, §109(a) indicates nothing about geographical restrictions because geography is not mentioned in its language. *Id.* Second, the Court reviewed the legislative history, and well as the predecessor statute, and determined that Congress did not implicitly introduce a geographical restriction in revising the statute. *Id.* at 1361.

Lastly, the court delved into the problems implicated by national exhaustion in the copyright context. If the first sale doctrine is inter-

puted to hold an implicit geographical restriction, “the holder of an American copyright would gain permanent control over the American distribution chain (sales, resales, gifts, and other distribution) in respect to copies printed abroad but not in respect to properties in America.” *Id.* at 1362. Furthermore, the court recognized that although “[a] publisher may find it more difficult to charge different prices for the same book in different geographical locations,” there is “no basic principle of copyright law that suggests that publishers are entitled to such rights.” *Id.* at 1370.

The Unusual Legislative History of the Patentee’s Right to Exclude Unauthorized Imports. In order to address the extent to which a sale of a patented item outside the United States gives rise to U.S. patent exhaustion, and in light of the Supreme Court’s analysis in *Kirtsaeng*, the statutory interpretation issue may hinge on what the word “importation” means, and how it became a specifically enumerated exclusive right of a U.S. patentee in 35 U.S.C. §271(a).

In 1994, the Uruguay Round Agreement Act (URAA) amended §271(a) of the Patent Act to explicitly “grant to the patentee ... the right to exclude others from ... importing the invention into the United States.” P.L. 103-465, Stat 4809, §533 (1994) (amending 35 U.S.C. §§ 154(a) (1) and 271(a)). These amendments arose out of the Agreement on Trade-Related Aspects of Intellectual Property Rights¹ (TRIPS), which was negotiated as part of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT).

TRIPS article 28 states “a patent shall confer on its owner the following exclusive rights: (a) where the subject matter of a patent is a product, to prevent third parties *not having the owner’s consent* from the acts of: making, using, offering for sale, selling, or *importing* ... for these purposes that product” (emphasis added). In addition, TRIPS article 6, entitled “Exhaustion,” expressly provided that “nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights,” and the importation right set forth in article 28 was expressly made “subject to the provisions of Article 6.” TRIPS, arts. 6, 28.

President Bill Clinton presented the Uruguay Rounds Agreement Act to Congress on Sept. 27, 1994 along with a Statement of Administrative Action (SAA). H.R. Rep. 103-316, at 312 (1994), reprinted in 1994 U.S.C.C.A.N. 4040. Reflecting the language of TRIPS, the president’s SAA stated that, “[t]he Agreement requires few changes in U.S. law and regulations and *does not affect U.S.*

law or practice relating to parallel importation of products protected by intellectual property rights.” SAA, 1994 U.S.C.C.A.N. at 4280. With regard to the changes to the definition of infringement in 35 U.S.C. §271(a), the SAA included, as §7.b, a discussion entitled “Scope of Patent Rights,” which stated that “Article 28 [of TRIPS] specifies that a patent must include the right to exclude others from making, using, offering for sale, selling, or importing the product,” but did not include any further discussion of the importation right or exhaustion. *Id.* at 4284.

Not only did Congress pass the URAA without any amendments, in §101(a)(2) it specifically “approve[d] ... the statement of administrative action proposed to implement the agreements that was submitted to the Congress.” And in what is apparently a unique provision in the history of Federal legislation² made it clear that Clinton’s SAA, not the House or Senate discussions on the bill or the language of TRIPS, should be the one and only guiding light of interpretation with regard to the right of parallel importation:

The statement of administrative action approved by the Congress under section 101(a) shall be regarded as an authoritative expression by the United States concerning the interpretation and application of the Uruguay Round Agreements and this Act in any judicial proceeding in which a question arises concerning such interpretation or application.

Id. at §102(d). The Federal Circuit has recognized the “authoritative weight given the SAA in the statute,” and has explicitly premised previous interpretation of the URAA in light of the SAA. See *AK Steel v. U.S.*, 226 F.3d 1361-69 (Fed. Cir. 2000) (“When confronted with a change in statutory language, we would normally assume Congress intended to effect some change in the meaning of the statute. Here [i.e., the URAA], however, the SAA prevents us from making such an assumption ...”).

Analyzing *Jazz Photo’s* Inconsistency With Prior Parallel Importation Law. In light of the language in Clinton’s SAA, Congress’s subsequent endorsement, and the Federal Circuit’s own analysis of the SAA’s power over the courts, it seems clear that any interpretation of the exclusive right of importation should be premised upon an examination of the pre-1994 state of the law relating to whether a patentee’s authorized sale of a patented product exhausts its ability to assert its exclusive rights.

However, the Federal Circuit failed to do so in its ruling in *Jazz Photo*, where it essentially held that patent exhaustion can never be triggered by

a foreign sale: “United States patent rights are not exhausted by products of foreign provenance. To invoke the protection of the first sale doctrine, the authorized sale must have occurred under the United States patent.” *Jazz Photo*, 264 F.3d 1094, 1105. The panel in *Jazz Photo* relied on *Boesch v. Graff*, 133 U.S. 697, 701-703 (1890) for this proposition, characterizing it as holding 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.” The so-called “lawful foreign purchase” in *Boesch*, however, was from a competitor of the U.S. patentee allowed to sell goods under German law—not from the patentee or his licensee. *Boesch*, 133 U.S. at 701. Not surprisingly, later decisions by lower courts allowed a foreign sale made by, or under the authority of, the U.S. patentee to exhaust the patentee’s rights to bar importation. See Chisum on Patents §16.05[3][a] [ii] (collecting cases).

Following *Kirtsaeng’s* Analytical Framework—If Not Its Holding—Suggests at Least a Limited Overruling of *Jazz Photo* Is Warranted. If the Federal Circuit follows the framework of the Supreme Court’s opinion in *Kirtsaeng* in analyzing international exhaustion in the patent context, it appears that *Jazz Photo’s* categorical rule limiting exhaustion only to U.S. sales is likely to be overturned. By first examining the legislative history of the exclusive importation right of 35 U.S.C. 271(a), the court will find, as in *Kirtsaeng*, that Congress appeared to have no intent to alter the law when it amended the statute. Furthermore, in assessing the pre-1994 law of parallel importation, the court will likely find that the courts that considered the issue found that a patentee is barred from stopping the importation of products sold overseas under the patentee’s authority. Finally, in considering the practical problems associated with the *Jazz Photo* rule, the court is unlikely to find any basis, in the patent laws themselves, for a patentee’s ability to seek different prices in the United States and abroad for identical products.

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1. Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Agreement on Trade-Related Aspects of Intellectual Property Rights, Dec. 15, 1993, Part II (1994).

2. Cindy G. Buys & William Isasi, “An ‘Authoritative’ Statement of Administrative Action: A Useful Political Invention or A Violation of the Separation of Powers Doctrine?,” 7 N.Y.U. J. Legis. & Pub. Pol’y 73, 80 (2003).