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INTERNATIONAL PATENT EXHAUSTION

It is a well-known fact today that goods must be allowed to circulate as freely as possible throughout the world, in order for them to be accessible to the greatest number. In this respect, Internet constitutes a new means of accelerating the worldwide trading of goods.

I – The goods and the markets

Before studying the question of the international exhaustion of patented goods, it seems of some interest to give a reminder of the distinction between an ordinary good and a patented good.

1/ A manufacturer sells a buyer an ordinary good, such as a potato or a pencil. Such a sale leads to the physical transfer of ownership, together with the transfer of all the rights attached to this ordinary good.

Thus, the manufacturer that sells the good holds no more rights, as they are exhausted upon transfer to the buyer that acquires them, whether for use, consumption or resale.

Thus, in the context of a domestic market, the buyer of a potato in Seoul can resell it in Busan and, in the context of international markets, the potato or pencil purchased in Busan can be freely resold in Tokyo or the USA.

Hence it is said about ordinary goods that their physical or corporeal features and their legal or incorporeal features are indistinguishable, so that in the transfer of the good, the seller hands over all the rights in the good and the buyer holds them in full.

2/ The situation is different when the good is patented, such as a laptop computer or a television set. Indeed, such a good has an additional feature or property.

Apart from the material ownership of the good, there is a legal element or incorporeal right that ordinary goods do not have, and that enables the licensee to set the conditions or terms for the manufacture, use and resale of the good.

a) Indeed, the patented good includes an innovation that deserves to be rewarded, namely the monopoly granted to the patentee to exploit its invention.

It is widely considered that this monopoly encourages creation and allows to recoup research investments. Such an exploitation monopoly is granted in the form of a legal title: the patent.

b) i. However, patents are not a universal title; they are delivered in each country by a National Authority or Patent Office.

Sometimes, a single Patent Office can grant a patent for several countries that form a region.

However, in the case of Europe, it is important to keep in mind:

- that, in the European Union, it is the national Offices that deliver patents, since the European Union Office and the European Union Patent have not yet become effective,
- moreover, even when the European Patent Office in Munich grants a patent, what really happens is that this title is immediately split up into many national patents, even in countries that are not part of the European Union, with effects limited to those of a national patent.

Also, it is interesting to note that, in Europe, there is still no uniform law defining patent infringement (even though the national laws in Europe are similar or parallel).

ii. A patent only protects its national territory, but an inventor can own a patent in several countries of the world.

The territoriality of such patents means that, in application of article 4^{bis} of the Paris Convention, they are necessarily independent of each other, and this independence *"is to be understood in an unrestricted sense (...) both as regards the grounds for nullity (...) and as regards their normal duration."*

However, the Paris Convention does not discuss the rights afforded by patents, or their exhaustion through sale for the purpose of a possible importation into another country covered by a corresponding patent.

Has the TRIPS Agreement dealt with the question of the exhaustion of patent rights?

Article 6 provides that *"nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."*

- Some people consider that since articles 27 and 28 provide that the exploitation of the patent is performed upon the importation of the patented good, it should then be considered that international exhaustion has taken place upon the very first sale, prior to such importation.

- In contrast, others consider that since article 28(1) allows the patentee to prohibit importation, this means that the TRIPS Agreement prohibits international exhaustion.

- Ultimately, the great majority believes, as AIPPI stated in its Q146 Report (Oslo 1999) and in its Q156 resolution (Melbourne 2001), that the language of article 6 clearly implies that the issue of the international exhaustion of patent rights has not be settled in one way or another.

3/ Just as patents are not universal, markets are not all alike.

a) Indeed, there are several major markets in the world, and even in a given geographical region, such as South America for instance, the various markets are different from one another.

Such differences in markets is naturally the result of the economic and social conditions of the countries at issue.

This is the case of purchasing power, which is a function of such conditions, and it is also true of local needs that vary depending on climate, taste and culture. Accordingly, goods deserve to be adapted to the particularities of each of these markets.

For all these reasons, the price of a given good can therefore vary from one market to another.

b) i. So is it objectionable for the price of a given good to differ according to the market in which it is sold?

The manufacturer can make an effort to reduce its prices for less prosperous markets, in order to make its goods more easily accessible. It is then fair for this effort to be compensated by higher prices in other more affluent markets. This reasoning particularly deserves to be applied when the good involves a patented innovation.

ii. Another question is, do consumers truly benefit from parallel importations?

It is true that the importer can purchase at a low price in one market, for resale in another market at a price that is beneath that usually practiced by the patentee.

However, experience shows that, in reality, the importer resells at a price that is only slightly lower, and that because it does not incur certain costs, such as promotion or certification costs, it is in a position to make a profit that is sometimes much greater than the patentee's.

Such a transfer of profits is the upshot of the freedom of trade principle. However, it should be noted that it does not occur between two competitors, and that it is detrimental to research and innovation since the parallel importer is not in the habit of investing in innovation research.

This is why AIPPI found (Q156 Melbourne 2001) that parallel importations and the international exhaustion of patent rights diminish the value of such rights and the resulting profits.

II-

1) a) In these conditions, AIPPI has always opposed – not the national exhaustion of patents – but the international exhaustion of the rights stemming from several patents (Q101 Barcelona 1990, Q146 Oslo 1999, Q156 Melbourne 2001).

Indeed, although the patentee sells in one country and exhausts its national rights, since it has received a reward for its patent and its national market, it has nevertheless not received any reward for the other patents its holds in other markets.

Thus, by reselling its good in Korea, the patentee exhausts all the rights it has by virtue of its Korean patent, but none of the rights it holds in its Japanese, US or European patents.

b) For its part, AIPPI has always admitted an exception to this prohibition of international exhaustion of patent rights.

i. If one or more countries that are part of a same region decide to cooperate to create a single, or common, market, it can be admitted that this region should be considered as a single country, and that the fact of selling in one city means that the good can be resold in all the other cities of this region.

Indeed, in such a case, it is acceptable to consider that the exhaustion of the patent in a country or a portion of this market, results in the exhaustion of the patent rights in all the other countries of this single market.

This is the rule that the European Union has applied since the 1970s to ensure the free circulation of goods, in spite of the plurality of patents that exist in Europe (whether granted by each of the national Offices or by the European Patent Office alone).

ii. Yet, it is important to understand that this exhaustion of patent rights is only regional, and not international throughout the entire world.

In this respect, the European Court of Justice has clearly stated that exhaustion is only triggered by the first sale in the European Union, and not outside it (also see below).

Therefore, if the first sale takes place outside the European Union, there can be no possible parallel importation into the European Union. Indeed, it is considered that the European patentee should at least be allowed a reward for the first sale in the European Union.

c) As mentioned, parallel importation is possible when one considers that the patentee's rights are exhausted, when it has sold its good in a country covered by its patent.

It therefore seems natural to say that if the good has been sold in a country that is not covered by a patent, the seller cannot have exhausted any of its rights. Thus, the seller is not rewarded in the country not covered by a patent – at best, it has received the same reward as the seller of an ordinary good.

2/ As we have seen above (see section I 2/ b. ii.), the TRIPS Agreement opted not to deal with the question of the exhaustion of intellectual property rights (article 6 TRIPS).

III - The rules

1/ There are legal or legislative rules, as well as contractual rules, that regulate the international exhaustion of patent rights.

a) The legal or legislative rules provide a definition of the attributes of patent rights: the right to prohibit manufacturing, use, sale, etc.

i. We all know that there are imperative legislative rules. These are rules that must be wholly observed, and from which one cannot deviate by contract.

Some lawmakers could therefore imagine an obligation of parallel importation, which would mean that no sales contract between seller and buyer could validly contain a contrary clause.

ii. Conversely, the national lawmakers can provide non-mandatory rules.

Such non-mandatory rules play two roles:
- buyer and seller can depart from them and provide otherwise in their sales contract,
- if the parties have provided nothing specific, the non-mandatory rules then apply in the absence of contrary contractual provisions.

Thus, national lawmakers could provide that, except otherwise stated in explicit terms, the patentee seller is presumed to have accepted – or on the contrary refused – the importation of the good into other countries covered by its patents (also see below).

b) The rules between seller and buyer can stem from contractual provisions or clauses.

i. At the time of sale in one country, the patentee declares or makes known its terms:
- concerning prices and delivery terms, etc.
- concerning the potential re-exportation to the countries covered by one of its patents (in the countries where there is no corresponding patent, the good is considered ordinary, and the seller is no longer a patentee and is not entitled to any reward; parallel importation is therefore still possible).

If resale is possible outside the country of first sale between the patentee and the buyer, it is therefore considered that the patentee has granted the buyer an authorization, consent or license, for importation into other countries covered by its patents.

This is an express consent given by the seller, which is naturally accepted by the buyer.

ii. However, can there be an implicit license or consent in the absence of a statement made by the seller?

In most countries, it is admitted that there is consent, even in tacit form, when the Court can ascertain from the facts that it was certain.

This has been stated by the European Court of Justice in admitting implicit consent, particularly in trademark matters, when all the circumstances of fact, as assessed by the national Court, reflect a definite waiver of intellectual property rights (see, in particular, DIESEL v. COSMOS and MAKRO – October 15, 2009, C-324/08).

Nevertheless, AIPPI (Q156 Melbourne 2001) deems it necessary to consider that there is no presumption of tacit consent or implicit license, and therefore no international exhaustion, when the patentee has stipulated nothing.

Still, certain factual circumstances can reveal the patentee's true intent, for instance when it sells its good with instructions for use in several languages. In such a case, it seems that the patentee did truly accept – even if only tacitly – the importation of its good into the other countries covered by its patents.

This can also be true in the case of the sale of patented microchips, when the patentee knows that the seller plans to integrate them into more complex devices (television sets or laptop computers), for export to other countries covered by the seller's patents.

In some places (particularly in Anglo-Saxon countries), the patentee seller is presumed to have granted an import license, except in the presence of contrary provisions in the sales contract. Such presumption or consent can also be rejected by the Court if the label on the good displays a clear and specific notice prohibiting importation into other countries of the patentee seller.

2/ The situation between the seller and the buyer must be examined in light of contract law.

a) The applicable law will then be the law of the contract.

i. If we reason in terms of European private international law, the law of the contract is generally not the law of the importation country covered by the patentee seller but, on the contrary more generally, the law of the country where the good was first put on the market, which is the starting point of the parallel importations examined.

Indeed, we know that a national Court can apply a foreign law instead of its national law to rule on the dispute arising out of the performance of a contract entered into between the foreign patentee and the national importer.

ii. It is not always easy to verify the existence of consent or to determine the true intent of the patentee seller.

Indeed, there are countries (such as Brazil) that admit patent law, but that prohibit the sellers of ordinary goods from requiring buyers to resell only in Brazil and to refrain from exporting abroad.

In such cases, when a European importer buys from a Brazilian patentee, could not the importer claim that since (in application of the laws of Brazil) the Brazilian patentee did not stipulate an exportation prohibition, this patentee thus implicitly consented to the importation of the goods into Europe, where it holds corresponding patents?

The Paris Court ruled that this was not possible because even though the Brazilian patentee may have been forced to accept the resale of its good outside Brazil, it nevertheless had not consented to waive its patent rights in Europe. Indeed, it can be considered legitimate that this patentee was entitled to a reward for its first sale in Europe, therefore it could not be concluded that there was an international exhaustion of patent rights.

3/ It should also be specified that the consent that triggers international exhaustion must be voluntary, and cannot be imposed or mandatory.

a) The European Court of Justice clearly stated this in the case of non-voluntary drug licenses.

Indeed, it is natural that if the consent was forced in one country, the patentee seller did not grant its consent in the other countries covered by its patents in Europe.

b) AIPPI has even provided (Q137 Sorrento 2000 and Q156 Melbourne 2001) that there should be no international exhaustion when prices are set imperatively by the authorities of the country where the patentee sold its goods.

Here again, it can be considered that the patentee did not consent voluntarily because it was forced to accept a sales price.

c) The new article 31bis of the TRIPS Agreement also provided in 2005 that a non-voluntary license could be imposed when a country requires certain medicinal drugs.

In such a case, the European Union has decided to enforce infringement penalties when these drugs under a non-voluntary license are re-imported into its territory.

4/ It is true that the task of assessing the patentee seller's consent is quite complex.

a) Indeed, in addition to the foreign law of the contract, the Court of the country of importation must also assess the legislative rules, whether they are imperative or only non-mandatory, to ascertain the actual intent that the patentee seller may have expressed, even tacitly, when it offered its patented goods to a potential buyer.

b) Some commentators have even specified that what is most important is knowing whether the buyer was truly aware of the conditions intended or granted by the patentee seller.

IV- Conclusion

Fortunately, very few legislative rules imperatively require the international exhaustion of patents.

However, in the course of business, it is necessary remain alert because a Court can easily be convinced that the patentee seller implicitly consented to an importation into other countries covered by its patents:

- this is due to the fact that in international trade nowadays, buyers are not readily aware of patent rights and that, in any event, they are only a secondary accessory, and also
- that even when goods are patented, they physically appear as ordinary goods, which must be allowed to circulate freely.

As a consequence, it is wise for the patentee seller to provide clearly that its good is patented and that it cannot be resold in other countries covered by its patents, and it must also keep proof that it informed its buyer of this intent before the decision to buy was made.

Remarks

This study does not apply to the resale of small quantities of patented goods, but rather it deals with the resale of significant quantities to buyers that are interested in trading in such goods, especially internationally.

It does not cover patented goods that have been modified.

It does not address the sale of patented goods for simple use (whether private or professional), or use requiring repair, reconstruction or recycling by professionals (because in the latter case, it is more an instance of national patent exhaustion limited to its territory than international exhaustion).

Lastly, the study does not pertain to the resale of goods protected by intellectual property rights that are luxury goods intended for luxury markets and requiring selective distribution networks.

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