

“Exhaustion of Patent”

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ABSTRACT

The law on exhaustion of rights is a highly contested area of intellectual property. The patent exhaustion doctrine limits a patent holder’s extent of monopoly over patented goods. This exclusive right exists only while he maintains ownership of the said goods. The defence of patent exhaustion prevents a patent owner from getting a “Second bite at the apple” once a particular patented device has been sold with the patentee’s authority the first time. The disposition of the particular product in question is said to have been “exhausted” at the time of its first sale. Importantly, the sale of counterfeit or pirated items does not invoke patent exhaustion. It is to boycott this limit to their monopoly and reduce competition against their goods. The doctrine of exhaustion in India has developed through several judicial decisions and legislative amendments that have shaped the evolving legal and policy landscape. The manner in which patent laws across jurisdictions have handled such situations has led to many conflicting notions of patent exhaustion. India, have already embraced some administrative measures, including fizzled measures, to enact the contours of the patent exhaustion. Hence, this paper aims to highlight, which has thus far not attracted the attention it deserves, exhaustion doctrine with ambiguities and jurisdiction as well as its conflicting notions.

Key Words: - Exhaustion Doctrine, Conflicting Notion, Exhaustion Ambiguities, Exhaustion of Rights, TRIPS.

INTRODUCTION

Intellectual Property laws grant variety of exclusive rights to the owners, like right to reproduce, right to distribute, right to sell, right to communicate the work to the general public, etc. The distribution right is one amongst the foremost vital business rights of an IP owner. It permits the IP owner to come to a decision whether or not he desires to place a work into the market or not,

and in which form. It additionally provides the IP owner a choice to decide if a work would be sold-out, rented, lent or freely given away. The doctrine of exhaustion seeks to limit the right of distribution. The doctrine of exhaustion merely implies that once goods that have an underlying part of IP are sold-out within the market, rights to regulate the additional distribution of such goods do exhaust with their first sale. This suggests that when an owner of a patent sells a specific article bearing such intellectual property, he ceases to own any more rights over the following sale or distribution of that article and also the vendee of any such article becomes liberated to sell it.¹

Exhaustion primarily deals with the flexibility of IP owners to pursue her product for each subsequent use after the primary sale of the product embedding IPRs.² The law on exhaustion of rights (or “first sale” doctrine) may be an extremely contested space of intellectual property. For the foremost half, the law on intellectual property exhaustion has developed in adversarial proceedings in numerous courts across varied jurisdictions.³ Hence, there's wealthy jurisprudence for countries to appear to and it continues to grow in numerous jurisdictions through legislative measures, government guidance, and case-law jurisprudence wherever new queries concerning the extent and scope of the law, policy, and its belief aspects are addressed. India isn't untouched by these developments.⁴

The doctrine of exhaustion in India has developed through many judicial selections and legislative amendments that have formed the evolving legal and policy landscape. However, unlike in different jurisdictions wherever exhaustion problems have moved on the far side definitional ambiguities to those cases questioning the bounds of the law and doctrine in new

¹ Raman Mittal, *Whether Indian law allows parallel imports of copyrighted works: an investigation*, 55 JOURNAL OF INDIAN LAW INSTITUTE, pg 504 (2013).

² Dr. Ranbir Singh, *Exhaustion of Intellectual Property Rights*, EPG pathshala, MHRD Govt. of India.

³ Shubha Ghosh, *The Implementation of Exhaustion Policies: Lessons from National Experiences* (Feb. 3, 2014) (unpublished Legal Studies Research Paper, University of Wisconsin), available at <http://ssrn.com/abstract=2390232>.

⁴ Yogesh Pai, *The Hermeneutics of Patent Exhaustion Doctrine in India*, Forthcoming: Edward Lee and Irene Calboli Research Handbook on Intellectual Property Exhaustion and Parallel Imports Edward Elgar (2016). Available at SSRN.

situations, cases on exhaustion in India have primarily revolved round the nature of exhaustion regime: whether exhaustion is national or international.⁵

RESEARCH QUESTIONS

1. THE EXHAUSTION DOCTRINE.
2. EXHAUSTION IN DIFFERENT JURISDICTIONS.
3. CONFLICTING NOTIONS OF PATENT EXHAUSTION.
4. AMBIGUITIES IN THE DOCTRINE OF PATENT EXHAUSTION IN INDIA.

CHAPTER I

THE EXHAUSTION DOCTRINE

Pursuant to its obligations beneath the TRIPS Agreement, the Indian government has amended its intellectual property laws to satisfy the substantive minimum standards of the Agreement. This section summarizes recent development with brief discussion of the historical background as context for the changes. After Independence in 1947, India examined closely its patent system, most splendidly with the 1958 Ayengaar Report on patent law. India enacted its first post-Independence patent law in 1970. Though the Ayengaar Report failed to address the difficulty of exhaustion, certain provisions of the 1970 Act did address exhaustion. These are preserved within the 2002 and 2005 amendments to the Patent Act, pursuant to the TRIPS Agreement.⁶

“107A. certain acts not to be considered as infringement...”

⁵ India does not have any regime for regional exhaustion within the regional economic block called South-Asia Association for Regional Cooperation (SAARC). Shammad Basheer & Mrinalini Kochupillai, *TRIPS, Patents and Parallel Imports in India: A Proposal for Amendment*, 2 INDIAN J. OF INTELL. PROP. L. 63 (2009).

⁶ Basheer, S. & Kochupillai, M, *TRIPS, Patents and Parallel Imports: A Proposal for Amendment*. 1 INDIAN JOURNAL OF INTELLECTUAL PROPERTY LAW, 63-86, (2009).

(b) Importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product, shall not be considered as an infringement of patent rights.”⁷

This provision permits an importer to get the patented invention from the primary sale by the patent owner and import the item into India. Though this provision has not been interpreted by the courts, the language supports the principle of international patent exhaustion.⁸

The phrase “authorized under the law” has been the topic of discussion and debate among several groups. Whereas some liberal groups argue that authorization beneath the law includes both explicit and implicit authorization underneath any law, conservative groups are contending that the authorization is restricted to authorization by the patent holder underneath the patent law in India.⁹

Interpreting the meaning of “authorized under the law” to mean authorization underneath the patent law of the country from which the product is being imported would attain the said balance. Underneath such an interpretation, an individual won't be responsible for patent infringement if he imports a patented product after getting the same from a person authorized underneath the patent law of another country. Such authorization might come from the patent holder or the Patent Office or government. If a patent or patent protection doesn't exist, there can't be authorization and parallel import exhaustion won't apply. This interpretation ensures that rights of the patent holder are exhausted after a certified sale in a country wherever patent protection exists. It provides to the general public the right to use the particular product that is the subject of sale in any manner without hurdles from the patent holder. The patent holder's interests are also safe-guarded because he gets the right to regulate authorization to some extent and forestall importation into India from a country without patent protection.

⁷ Patent Act, 1970.

⁸ Shubha Ghosh, *The Implementation of Exhaustion Policies*, 40 INTERNATIONAL CENTRE FOR TRADE AND SUSTAINABLE DEVELOPMENT, pg- 39,52, (2013).

⁹ Dr. Kalyan & Sharada, *Patent: Patent Exhaustion in India*, BANANAIP COUNSE, (2010).

TRIPS COMPLIANCE

TRIPS provides substantial flexibility to member states to work out the scope and extent of ‘exhaustion’.

Article 28 of TRIPS mandates that each patentee shall have the exclusive right to make, use, offer for sale, sell, or import the patented product or process in question.

However, footnote (6) to Article 28 adds a little caveat to the exclusive right to import, by clarifying that *“This right [i.e. the right of importation], like all other rights bestowed underneath this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6.”*¹⁰

Article 6 of the TRIPS Agreement provides that nothing within the Agreement are going to be considered to address the subject of exhaustion of IPRs for purposes of dispute settlement. Though nearly all Members understood Article 6 to permit each of them to adopt its own policies and rules on the subject of national and international exhaustion.

Generally speaking, once a tangible product (such as a can of soda) is sold-out and transferred, the seller has no further claim on the product, and also the buyer can dispose of it as he or she desires. The holder of an IP right (such as a trademark), on the opposite hand, usually doesn't give up his or her right to the IP once a product that embodies it is sold and transferred. The IP holder continues to carry the IP right. The “exhaustion” question concerns whether that right can be used to control the further disposition of the product.

WTO Members have not agreed on uniform rules concerning whether exhaustion of IPRs ought to have a “national” or “international” character. Beneath a doctrine of international exhaustion, if a product is lawfully placed on the market in one WTO Member, the holder of a “parallel” IP right in another Member is not able to control its importation or resale based on that parallel IPR. Beneath a doctrine of national exhaustion, the lawful selling of the product in one WTO Member doesn't have an effect on the rights of a “parallel” IP holder in another Member, and also the IP holder within the other Member might use its parallel IPR to block the importation and further disposition of the product. Some WTO Members follow a rule of international exhaustion, and

¹⁰ Basheer, S. & Kochupillai, M, *TRIPS, Patents and Parallel Imports: A Proposal for Amendment*. 1 INDIAN JOURNAL OF INTELLECTUAL PROPERTY LAW, 63-86, (2009).

some a rule of national exhaustion. It is not uncommon for Members to possess totally different exhaustion rules with relation to differing kinds of IPR.¹¹

The meaning of Article 6 is made clear by *Article 5(d) of the Doha Declaration* which states that “*the effect of the provisions within the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to depart each member free to establish its own regime for such exhaustion without challenge ...*”¹² this doesn't mean that an exhaustion policy can never be challenged in WTO dispute settlement. This is often because the term “exhaustion” isn't self-defining, and a Member may bring a claim against another Member declarative that it has adopted an unreasonable definition of the idea of exhaustion.¹³

In *Salomon v Commissioner of Customs*,¹⁴ where Lord Diplock had held that: ‘*if the terms of legislation is not clear, and is fairly capable of more than one meaning,*’ then the terms of international treaties to which the government is signatory, become relevant..... within the context of Section 107A (b) therefore, where the terms of the statute don't seem to be clear, it is probably that the courts can interpret the section during a manner in line with TRIPS.¹⁵

CHAPTER II

EXHAUSTION IN DIFFERENT JURISDICTIONS

All varieties of intellectual property Rights like Patents, Copyright, trademarks and Industrial designs are territorial in nature, which implies they are vested by, and exercised and enforced underneath national legislations. This, despite the very fact that the national legislations that govern the grant of such IP rights are subjected to global harmonization consistent to Trade-Related Aspects of intellectual property Rights (TRIPS) of the world Trade Organization (WTO). Underneath TRIPS, despite promulgation of certain minimum standards and obligations,

¹¹ *Dispute Settlement*, UNITED NATIONS CONFERENCE IN TRADE AND DEVELOPMENT (2003).

¹² Basheer, S. & Kochupillai, M, *TRIPS, Patents and Parallel Imports: A Proposal for Amendment*. 1 INDIAN JOURNAL OF INTELLECTUAL PROPERTY LAW, 63-86, (2009).

¹³ *Dispute Settlement*, UNITED NATIONS CONFERENCE IN TRADE AND DEVELOPMENT (2003).

¹⁴ 1966-3-All E. R. 871.

¹⁵ Basheer, S. & Kochupillai, M, *TRIPS, Patents and Parallel Imports: A Proposal for Amendment*. 1 INDIAN JOURNAL OF INTELLECTUAL PROPERTY LAW, 63-86, (2009).

each member nation has been permissible “national flexibilities” to set its own standards of patentability, and build certain exceptions/limitations to the rights of patentees. Looking on the territorial extent to that the concept of exhaustion applies, it is further classified into three categories/doctrines,

NATIONAL EXHAUSTION- National Exhaustion refers to a situation where the law of a country recognizes, that upon the first sale of the product which is protected by an IP right, the proper holder loses the right to regulate its movement solely within the territory of the country. However, the law still guarantees his right to forestall unconsented import of his own real goods from a foreign territory, by a third party. this is often to make sure that his own goods that are place in circulation by him/his agents along with his consent in an exceedingly foreign territory do not disrupt the movement of his goods in different jurisdictions. It is essential to bear in mind that in the absence of a legislative intent to the contrary, national exhaustion is the default or standard rule which applies.¹⁶

In *Quanta computer, Inc. v. LG electronics*,¹⁷ this Court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method. These cases rest on solid footing. Eliminating exhaustion for method patents would seriously undermine the exhaustion doctrine. Patentees seeking to avoid patent exhaustion could merely draft their patent claims to explain a way instead of an apparatus.

REGIONAL EXHAUSTION- Regional Exhaustion is clearly a broader variant whereby the law under a regional or bilateral treaty like the EU recognizes regional exhaustion. This suggests that when} the goods are place within the stream of commerce after the act of first sale, the right owner cannot control its movements in the entire region i.e. within the States which form members of the regional treaty/arrangement.

¹⁶ J. Sai Deepak, *Section 107A (b) of the Patents Act: Why it May Not Refer to or Endorse Doctrine of International Exhaustion*, 4 INDIAN JOURNAL OF INTELLECTUAL PROPERTY LAW, at pg 122 (2011).

¹⁷ Inc 553 U.S. 617 (2008)

INTERNATIONAL EXHAUSTION- International Exhaustion is the broadest variant wherein the law of a country takes the clear, express, unambiguous and unequivocal position that regardless of where the goods are sold-out, so long as they are not counterfeit, and are “lawfully acquired/sold/purchased” from an agent or licensee or distributor of the proper owner, the proper owner cannot forestall its import into the country. However, this is often not the position of Indian law with relation to patented products and products made up of patented processes under the Patents Act, 1970.¹⁸

In **BBS Case**¹⁹ when a Japanese patentee or a similar person sells a patented product outside Japan, the patentee cannot enforce the patent to the patented product in Japan against a good-faith purchaser unless the patentee has an agreement with the purchaser to exclude Japan from areas for sale or use of the patented product and against a third person (subsequent purchaser) who purchases the patented product from the purchaser and an individual who acquires the patented product subsequently, and therefore the above agreement with the purchaser is expressly indicated on the patented product.

CHAPTER III

CONFLICTING NOTIONS OF PATENT EXHAUSTION²⁰

The doctrine of patent exhaustion has had a protracted, tortuous history. Throughout the one and a half centuries of its existence, courts have contrived patent exhaustion both as a mandatory rule and as a default rule, with starkly totally different implications for patentees' rights.

THE MANDATORY RULE

The Supreme Court has habitually delineated patent exhaustion as a mandatory rule. Within the foundational case of *Bloomer v. McQuewan*,²¹ the Supreme Court rejected a patent assignee's

¹⁸ J. Sai Deepak, *Section 107A (b) of the Patents Act: Why it May Not Refer to or Endorse Doctrine of International Exhaustion*, 4 INDIAN JOURNAL OF INTELLECTUAL PROPERTY LAW, at pg 138 (2011).

¹⁹ Supreme Court of Japan, Case H7 (O) No.1988 (July 1, 1997)

²⁰ Wentong Zheng, *Exhausting Patents*, 63 UCLA. Rev. 122 (2016).

efforts to forestall users of patented wood planning machines made throughout the patent's original term from continuing to use the machines throughout the patent's extended term. Chief justice Taney splendidly pronounced, "*When the machine passes to the hands of the purchaser, it is no longer within the bounds of the [patent] monopoly.*"²² This broad, unqualified language is mostly attributable with giving birth to the exhaustion doctrine. Even though it is not clear whether Bloomer was actually selected the basis of patent exhaustion.

In *Motion Picture Patents Co. v. Universal Film manufacturing Co.*,²³ the owner of certain patents for a motion picture projector tried to enforce a patent restriction requiring the patented projectors to be used entirely for projecting a particular kind of film manufactured by the patentee. The Supreme Court ruled for the defendants on the ground that the restriction sought by the patentee was outside the scope of its patent grant, which, in line with the Court, was restricted to "the mechanism delineated in the patent as necessary to provide the delineated results" and "[was] not concerned with and [had] nothing to do with the materials with which or on which the machine operate[d]."

Finally, in 2008, in *Quanta Computer, Inc. v. LG Electronics, Inc.*,²⁴ the Supreme Court reaffirmed the principle of patent exhaustion and extended it to method patents. In Quanta, LG electronics (LGE) licenced Intel to make, use, and sell microprocessors and chipsets practicing several of LGE's method patents concerning computer memory process. However, LGE needed computer manufacturers who purchased Intel's microprocessors and chipsets practicing LGE's patents to own separate licenses from LGE. LGE brought a infringement suit against Quanta, who purchased microprocessors and chipsets from Intel and assembled them into computers without a license. After recalling the long history of patent exhaustion, the Supreme Court rejected LGE's argument that patent exhaustion failed to apply to method claims an argument the Court characterized as an end run around patent exhaustion. The Court additionally held that Intel's sale of the microprocessors and chipsets triggered patent exhaustion as a result of those products considerably embodied LGE's patents.

²¹ 55 U.S. (14 How.) 539 (1852).

²² Id at 549 (majority opinion).

²³ 243 U.S. 502 (1917).

²⁴ 553 U.S. 617 (2008).

THE DEFAULT RULE

The Supreme Court has broken far away from the mandatory rule and upheld patentees' rights underneath patent law to enforce patent restrictions against purchasers on two separate occasions. Taking advantage of this inconsistency, the Federal Circuit has interpreted patent exhaustion as a default rule that applies solely in unconditional sales.

The first occasion on which the Supreme Court upheld a patent restriction on purchasers was the 1872 case of *Mitchell v. Hawley*.²⁵ In *Mitchell*, the owner of a patent covering a machine for making felt hats granted a licensee the exclusive right "to make and use, and to license to others the right to use the same machines within the States of Massachusetts and New Hampshire, throughout the rest of the original term of same letters-patent." unlike the license in *Bloomer*

The Supreme Court's 2008 decision in *Quanta* has cast doubt on the continued validity of the default rule articulated in *Mallinckrodt*. In *Quanta*, the Supreme Court held that LGE's method patents were exhausted upon the sale of microprocessors and chipsets considerably embodying the patents despite the very fact that LGE made it clear in its license agreement with Intel that its license failed to grant the right for third parties to combine the microprocessors and chipsets with non-Intel products. The *Quanta* case, however, did not expressly address the broader question of whether patentees might ever bypass patent exhaustion through a conditional sale, leaving ample space for disagreements on whether the *Mallinckrodt* default rule is still sensible law.

CHAPTER IV**AMBIGUITIES IN THE DOCTRINE ON PATENT EXHAUSTION IN INDIA²⁶**

The Indian Patents Act of 1970 (1970 Act) was enacted with a vision to balance patent law with access to patented products. It is fascinating to notice that the 1970 Act failed to have any provision relating to exhaustion of rights by first sale, coupled with international exhaustion.

²⁵ 83 U.S. (16 Wall.) 544 (1872).

²⁶ Yogesh Pai, *The Hermeneutics of Patent Exhaustion Doctrine in India*, Forthcoming; Edward Lee and Irene Calboli Research Handbook on Intellectual Property Exhaustion and Parallel Imports Edward Elgar (2016). Available at SSRN.

The 2005 Amendments to the 1970 Act tried to supply clarity by broadening the scope, however has created new issues in conceptualizing whether or not the amendment permits international exhaustion. *The 2005 amendment to Section 107A (b) states, “importation of patented products by any person from a person who is duly licensed underneath the law to produce and sell or distribute the product, shall not be thought of as an infringement of patent rights.”*²⁷

This provision was legislated to remove ambiguities surrounding the 2002 amendment Act by adding two critical clarifications on the idea of non-infringing importation (Section 107A (b) doesn't use the word exhaustion or first sale). The earlier demand of consent of the patent holder is currently replaced with “a person who is duly licensed under the law” and currently includes the word “to produce.”²⁸ These two changes have led to intense confusion in conceptualizing the character of the exhaustion regime that India's patent law imagined. The confusion stems from the very fact that exhaustion is currently determined not by first sale by the patentee, however by anyone duly licensed underneath the law. In such a scenario, imports of products that aren't covered by patents in different jurisdictions, those under price controls, or those under a compulsory licensing such different jurisdictions (where clearly there is no first sale by the patentee for exhaustion to occur) is validly covered by Section 107A(b).

Unfortunately, there is no clear judicial steering on this issue. In *Strix Limited v. Maharaja Appliances limited (2009)*,²⁹ the plaintiffs owned a patent in India on kettle heaters with sensors. The defendants initially purchased products from the plaintiffs and sold them in India. However, the defendants found that Chinese kettles of the same variety, however with improved quality, might be imported. The defendant contended that the Chinese supplier held valid patents on the imported product and, hence, the plaintiff couldn't initiate an infringement action. The defendant also counterclaimed invalidity of patents held by the plaintiff in India. The defendants argument under Section 107A(b) was that since it had been importing products for which patents were held by the Chinese supplier, it had been not liable for infringing similar patents in India. It seems

²⁷ The Patents (Amendment) Act, 2005, No. 15, Acts of Parliament, 2005 (India). (Emphasis mine).

²⁸ Id. at § 107A(b).

²⁹ Strix Ltd. V. Maharaja Appliances Ltd., (2008) I.A. No.7441 of 2008 in C.S. (OS) No.1206 of 2008 (India).

conceptually tough to imagine a scenario where patents just like those belonging to the plaintiff in India might even be held by Chinese suppliers or vice-versa since novelty is a requirement to attain a valid patent and also the novelty of each products would be brought into question (presuming that the Chinese supplier wasn't a licensee of the Indian plaintiff or vice-versa). Moreover, the defendant couldn't produce the relevant Chinese patent number to establish a defense of exhaustion at the interim stage. The Delhi high court went on to presume that there was no such valid patent held by the Chinese supplier and, thus, awarded injunction in favor of the plaintiff.

It is clear that the Delhi high court didn't look into the scope of Section 107A (b) and a clarification opportunity was, thus, missed by the court. However, Section 107A (b) doesn't seem to require exhaustion by first sale by the patent holder, but instead by a person who is duly authorized under the law to produce and sell or distribute the product. Going by the pure legal requirement of Section 107A(b), the prerequisite of showing proof of the patent number held by the Chinese supplier wasn't critical, nevertheless the negative consequences that such a call might have had on the rights of patent holders in India.

CONCLUSION

It is noted that, The Indian Patents Act which was enacted with a vision to balance patent law with several layers of public interest provision. The exhaustion doctrine serves as a powerful policy lever to limit intellectual property rights and protect the interests of users. Patent exhaustion, be it applied mandatorily or conditionally, is necessary for a healthy intellectual property system. This is too much of an interpretive exercise that relies more on the doctrinal basis rather than the pure expression of law by using both external and internal aids to interpretation. The exhaustion doctrine demonstrates the relationship between intellectual property and market competition. At the same time, the purpose of exhaustion is more than the promotion of competition or of free trade in the global marketplace. Instead, exhaustion serves as a means to recognize the rights of users within intellectual property law. But exhaustion may also be a blunt instrument that treats rights as an either/or proposition. The confusion stems from the fact that exhaustion is now determined not by first sale by the patentee, but by anyone duly authorized under the law. Codifying the same is one of the best possible ways to move away

from the conflict towards a resolution. Perhaps with some effort and time, Section 107A (b) could have been better worded.