
Preface

I. INTELLECTUAL PROPERTY EXHAUSTION AND PARALLEL IMPORTS: *QUO VADIS?*

Supap Kirtsaeng, an enterprising graduate student from Thailand, needed money to pay his university tuition in the United States (U.S.). He asked family and friends to purchase English-language textbooks in Thailand that were sold at cheaper prices compared to the U.S., and send him the books. He then re-sold the books for a profit in the U.S. The book publisher, however, sued him for copyright infringement under U.S. law. Mr. Kirtsaeng denied the infringement claim and argued that the publisher's rights to control the distribution of the books in the U.S. was exhausted after the first sale of the books in Thailand. After several years of litigation, the case reached the U.S. Supreme Court.¹ To the surprise of many copyright experts, the Supreme Court agreed with now Dr. Kirtsaeng. The Court rejected the views of the lower courts that the sales in Thailand did not exhaust the publisher's rights in the U.S. The Court held that authorized foreign sales of U.S. copyrighted works constituted a lawful first sale under U.S. copyright law, thereby exhausting the copyright owner's distribution right with respect to those copies also in the U.S.²

The effects of this decision, *Kirtsaeng v. John Wiley & Sons*, were felt far beyond the shores of North America. At the time the Supreme Court ruled on the case in March 2013, U.S. trade negotiators were lobbying for national exhaustion as part of the intellectual property obligations to be adopted by countries negotiating the Trans-Pacific Partnership Agreement (TPP). The adoption of these provisions would have imposed changes in national laws in many TPP members that followed a system of international exhaustion.³ Yet, U.S. negotiators could no longer plausibly support a principle of national exhaustion for other countries' copyright laws after the Supreme Court held that the U.S. Copyright Act adopted a principle of international exhaustion. Ultimately, when the TPP negotiations were finalized in October 2015, the exhaustion provision in the Intellectual Property Chapter left TPP members free to adopt their preferred approaches.⁴

The story of Dr. Kirtsaeng and the unsettled legal treatment of parallel imports—unauthorized imports of genuine products first sold in a foreign country—is not unique to the U.S. Indeed, the legal treatment of parallel imports, and the principle of intellectual property exhaustion—in copyright, trademark, patent law, and other intellectual property

¹ *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2013).

² *Ibid.* at 1371.

³ Wikileaks, *Trans-Pacific Partnership Agreement: Intellectual Property [Rights] Chapter Consolidated Text*, available at <https://wikileaks.org/tpp/static/pdf/Wikileaks-secret-TPP-treaty-IP-chapter.pdf> (August 30, 2013, released November 13, 2013).

⁴ Wikileaks, *Trans-Pacific Partnership Agreement (TPP): Intellectual Property [Rights] Chapter, Consolidated Text*, available at <https://wikileaks.org/tpp-ip3/WikiLeaks-TPP-IP-Chapter/WikiLeaks-TPP-IP-Chapter-051015.pdf> (October 5, 2015, released October 9, 2015).

rights—continues to be unsettled in many countries today. The divide between levels of development in different regions of the world also magnifies the differences in national views. The uncertainty and the controversy that surround the application of the principle of exhaustion are captured in Article 6 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS)—which expressly leaves the issue undecided: “nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.”⁵ Over two decades after the adoption of TRIPS, the language, and the spirit, of Article 6 of TRIPS continues to apply not only at the multilateral level, but also, as noted above, has been transplanted in the TPP and other international trade agreements.

Hence, from the Americas to Europe, Asia-Pacific, and Africa, countries around the world are facing increased pressure to clarify the application of the principle of exhaustion in their national laws. Courts and policy-makers in many jurisdictions are asking similar basic questions, notably: Should the principle of intellectual property exhaustion apply at the national, regional, or international level? Should countries attempt to harmonize their approaches to exhaustion internationally? Should copyright, patent, and trademark laws follow the same principle of exhaustion? For example, in February 2016, the U.S. Court of Appeals for the Federal Circuit ruled that foreign sales of patented products do *not* exhaust the right of patentees in the U.S., thus rendering U.S. patent law’s treatment of unauthorized imports (national exhaustion) different from copyright law’s treatment (international exhaustion).⁶ But why?

The expansion of intellectual property protections in new fields, such as biotechnology, has added to the complexities of the debate. This field presents new challenges for a traditional interpretation of exhaustion, particularly with respect to self-replicating “technologies” like seeds, plants, and animals, and post-sale distribution of these “products.” Judges in several jurisdictions have already decided several cases related to the exhaustion of genetically modified patented seeds. Similar cases will certainly continue to be litigated in the future.⁷ Besides biotechnology-related new technologies, the rise of other types of technologies, including the growing number of digital goods and online distribution platforms, often referred to as the “Internet of things,” has further complicated the debate by challenging the traditional concepts of materiality of products and territoriality of laws. Here again, the treatment of exhaustion in the digital environment has led to court decisions. And it will continue to be a topic of discussion and litigation for years to come.⁸

The objective of this Handbook is to explore these and other vexing questions that

⁵ Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994; Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, 33 I.L.M. 1197, art. 6 (1994).

⁶ *Lexmark International, Inc., v. Impression Products, Inc.*, Case Nos. 14-1617, 1619 (Fed Cir, Feb. 12, 2016) (en banc) (holding that a foreign sale of a U.S. patented article, when made by or with the consent of the U.S. patentee, does not exhaust the rights of the patentee in the U.S. and excluding the application of the decision of the Supreme Court in *Kirtsaeng* with respect to patent exhaustion).

⁷ See e.g. *Bowman v. Monsanto Co.*, 133 S. Ct. 1761 (2013); Case C-428/09, *Monsanto v. Cefetra*, [2010] E.C.R. I-09961; *Monsanto v. Schmeisser*, [2004] 1 S.C.R. 902, 2004 SCC 34.

⁸ See e.g. *Capitol Records, L.L.C. v. ReDigi Inc.*, 934 F. Supp. 2d 640 (S.D.N.Y. 2013); Case C-128/11, *UsedSoft GmbH v. Oracle Int’l Corp.*, 2012 E.C.R. I-0000 (July 3, 2012).

surround the application of the principle of intellectual property exhaustion at the national and international level, with the caveat, however, that no single book can address all aspects of this complex topic, and that a one-size answer cannot likely be found to many questions. Notably, the objective of this Handbook is to offer insights to several of the traditional and more recent challenges that characterize intellectual property exhaustion by considering many different elements including the specific circumstances, market size, and economic development of individual jurisdictions, as well as the different types of intellectual property rights and technology examined.

II. METHODOLOGY AND STRUCTURE OF THE BOOK

Academic discussions on the principle of exhaustion date back several decades. However, no academic collection or book has systematically addressed the various issues related to this topic to date, including the various theories at the basis of the principle of exhaustion and parallel imports. This Handbook fills this void by offering a systematic analysis of the application of this principle in the context of national economies and international trade. The Handbook combines a comprehensive analysis of the doctrinal and critical interpretations of intellectual property exhaustion with a comparative analysis of the treatment of exhaustion under the national law of several countries in North and South America, Europe, and Asia.

To address the various issues related to the topic, we structured the Handbook in six specific Parts. In particular, Parts I, II, and III focus on the theoretical framework of the principle of exhaustion and its application in the context of international trade. Parts IV, V, and VI address specific themes relating to the principle of exhaustion as it is applied to patents, trademarks, and copyrights, respectively. Despite this formal division, all Parts and contributions are closely linked together, as many concepts (incentive theories, price discrimination, integration of regional markets, and so on) apply across the various topics and the general themes addressed in the Handbook.

Part I provides background on the policy justifications and concerns over the exhaustion doctrine. This Part focuses on utilitarian and property theories, as well as on economic analysis. This Part also addresses the growing discussion over the application of exhaustion to digital goods, or “digital exhaustion.” Building on these concepts, Part II discusses the application of intellectual property exhaustion and its challenges in the context of international trade. Contributions to this Part elaborate on the reasons for the absence of harmonized international rules on parallel imports, the role of national and regional exhaustion rules as a calibration tool for different size economies, and the economic analysis of parallel imports. In this respect, this Part questions the seemingly pervasive benefits of parallel trade, giving particular attention to the issue of parallel imports of pharmaceuticals. Part III continues the analysis at the regional level and elaborates on the systems of exhaustion adopted in the European Economic Area (EEA), the Common Market of the South (MERCOSUR), and the Andean Community of Nations. This Part also discusses the national systems adopted in Singapore and the U.S. Chapters in this Part also reflect on the potential benefits of harmonization and the equally relevant benefits of maintaining a diversity of national or regional exhaustion policies, including with respect to separate types of intellectual property rights.

Part IV begins the specialized part of the Handbook and focuses on selected issues on patent exhaustion. Among these issues is the treatment of parallel imports of pharmaceutical products, not only under intellectual property law, but also under the perspective of EU competition law and the regulatory regime for pharmaceuticals in the United States. This part also addresses the challenges of applying the traditional concepts of patent exhaustion to self-replicating technologies. Last, but not least, this part focuses on the application of the principle of patent exhaustion and its ambiguities in two of the largest emerging economies, India and China.

Part V then focuses on trademark exhaustion, starting with a discussion of the relationship between trademark exhaustion and the free movement of goods in free trade areas and custom unions, namely the EU/EEA, the North American Free Trade Area (NAFTA), and the Association of Southeast Asian Nations (ASEAN). The principle of trademark exhaustion in the EU/EEA is specifically addressed under the lens of EU competition law. This part also reviews the application of the principle of trademark exhaustion in South Korea; explores how, post *Kirtseng*, U.S. trademark owners can use trademark law to control parallel imports of copyrighted goods; and analyzes the challenges surrounding the application of trademark exhaustion in cyberspace. Part VI concludes the Handbook with a series of selected issues on copyright exhaustion. Several of the contributions in this Part focus specifically on digital copyright exhaustion, with emphasis on the current situations in Canada, the EU, and the U.S. This Part also discusses copyright exhaustion in Taiwan and explores the targeted use of copyright exhaustion as means to implement the recently adopted Marrakesh Treaty to Facilitate Access to Published Works for Persons Who Are Blind, Visually Impaired, or Otherwise Print Disabled adopted under the aegis of the World Intellectual Property Organization (WIPO) in 2013.⁹

III. ACKNOWLEDGMENTS

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⁹ Marrakesh Treaty to Facilitate Access to Published Works for Persons Who are Blind, Visually Impaired, or Otherwise Print Disabled, June 27, 2013, available at www.wipo.int/treaties/en/text.jsp?file_id=301016.

graduate students, who have supported us during the editing process of the manuscript before its submission to the publisher. We particularly want to thank Yanbing Li, Molly Madonia, Lori Shaw, and Jia Wang. Furthermore, we would like to acknowledge the work of Edward Elgar's editorial team, and in particular Rebecca Stowell, in preparing this Handbook for publication.

We are additionally grateful for the opportunity to collaborate in designing and editing on this Handbook. This is the second book that we have edited together and we look forward to more collaboration in the future. The idea of editing a collection on the topic of "Intellectual Property Exhaustion and Parallel Imports" began with a conversation with Edward Elgar's editor Luke Adams in July 2013 in Oxford, during the 32nd ATRIP Congress hosted by the Faculty of Law of the University of Oxford. In early 2014, the idea translated into a Handbook project and, during the following months, we refined the structure and topics, following the suggestions and comments of our contributors. Today, several months, many edits, and proof corrections later, we celebrate the publication of this Handbook. We are also delighted to see that questions related to intellectual property exhaustion are, more than ever, at the forefront of debates of intellectual property and international trade. We conclude by thanking our readers. We are indebted to you for your interest and welcome all comments you may have.

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