

*9<sup>th</sup> IP seminar , 4-5 August 2017, Hong Kong*

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# Selling Internationally – When Patent Rights Exhaust in Cross-border Ecommerce?

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# Start with a case



Lexmark™



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# Questions

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- Will the reuse and resale of the cartridge infringe patent rights in that product? Given that
  - the cartridge is lawfully purchased
  - there are contractual restrictions on the subsequent disposition of the cartridge
- A two dimensional question?
  - domestic sales
  - international sales



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# Background

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- Exhaustion of IP rights Patent Exhaustion (definition: (WTO Guide to TRIPs Model I, B5. Exhaustion, pp13-14)
  - IP rights in an article exhaust after the first authorized sale of the article
  - what if the seller imposes restrictions with a contract?
- Scope of exhaustion



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# 3 models of exhaustion

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- Models:

1. Domestic exhaustion
2. Regional exhaustion: arts 34 & 46 TFEU
3. International exhaustion

- Which one applies?

  - A matter of sovereign decision: art 6 of TRIPS Agreement

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# Outline

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- ❖ The Lexmark case
- ❖ A discussion of the different models of patent exhaustion
- ❖ An optimal choice of an exhaustion model
- ❖ Impact on stakeholders



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# The case

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- ❖ *Impression Products, Inc. v. Lexmark International, Inc.*
- ❖ 30<sup>th</sup> May 2017, the US Supreme Court decision
- ❖ “a patentee’s decision to sell a product exhausts all of its patent rights in that item, regardless of any restrictions the patentee purports to impose or the location of the sale.”

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❖ Holding:

1. Exhaustion doctrine overrides contractual restrictions on further disposition;
2. And it applies internationally.

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- Precedents:
    - ❖ Quanta (2008) – mandatory patent exhaustion
    - ❖ Kirtsaeng (2013) – international copyright exhaustion
  
  - Lexmark (2017) together with Quanta and Kirtsaeng establish an “international exhaustion” model for copyrights and patents

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# Why international exhaustion revenue to China?

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- ❖ The China e-commerce market has been booming in recent years.
- ❖ Online sales reached RMB20.8 trillion in 2015 (according to PRC Ministry of Commerce)



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# Which model is preferable?

## An economic analysis

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- ❖ Transaction costs
- ❖ Information asymmetries (whether the downstream party was provided clear notice of the applicable restrictions)
- ❖ Complexity of the product
  - exhaustion may reduce the surplus enjoyed by upstream patent holders
  - may also reduce the costs of using patented components in further innovation
  - complex products often require further downstream innovation and commercialization to achieve viability



# Application to international trade

- ❖ More frequent and larger size of international trade than ever before
- ❖ Complexity of trade increase:
  - different stage of development: high income vs low income country
  - different industrial sectors
  - different technologies: e.g. drug v software



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# Further considerations

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- ❖ Environmental protection: sustainable development
- ❖ Social welfare: consumer protection, foster competition
- ❖ The elimination of price discrimination



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# Tentative conclusion

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- ❖ International exhaustion is preferable within the context of global trade.
- ❖ Next step: is the model of international exhaustion viable at least in Asia?

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# Asian Jurisdictions: An Overview

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## ❖ I National exhaustion:

- Bhutan
- The Industrial Property Act of the Kingdom of Bhutan, 2001: Article 13(4)(a)(i)
- The Philippines
- Intellectual Property Code of the Philippines (Republic Act No. 8293): Section 72.1



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## ❖ II International exhaustion

- ❖ **Singapore:** Patents Act (Revised Edition 2005, as amended up to the Statutes Act 2014): Article 66(2)(g)
- ❖ "An act which, apart from this subsection, would constitute an infringement of a patent for an invention shall not be so if it consists of the import, use or disposal of, or the offer to dispose of, any patented product or any product obtained by means of a patented process or to which a patented process has been applied, which is produced by or **with the consent (conditional or otherwise)** of the proprietor of the patent or any person licensed by him, and for this purpose **"patent" includes a patent granted in any country outside Singapore ...**"
- ❖ **Malaysia:** Patents Act 1983 (Act 291 of 1983, as amended up to Act No. A1264 of 2006): Section 58A



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## Asian Jurisdictions: An Overview

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- ❖ **Thailand:** Patent Act B.E. 2522 ([1979] as amended in 1992 and 1999):
  - ❖ Section 36 No other person except the patentee shall have following rights: ...
  - ❖ (7) the use, sale, having in possession for sale, offering for sale or importation of a patented product when it has been produced or sold **with the authorization or consent** of the patentee.
- ❖ **India:** Section 107A (b) of Patents Act of 1970 exempts from infringement an “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”.



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- ❖ **Taiwan**: Patent Act (effective from 1949, recently amended in 2014)
  - ❖ Article 59: The effects of an invention patent right shall not extend to the following circumstances:
    - ❖ (6) ... after the sale of a patented product made by the patentee or made **under consent** of the patentee, using or reselling such product. The making and selling as stated above are **not limited to acts done domestically**;
  - ❖ **China**: see below
  
  - ❖ **III No express statutory provision relating to the international exhaustion issue**
  - ❖ Japan (BBS case); Korea
  - ❖ [Kuroda & Katayama “Efforts to Establish Clear Standards for Exhaustion in Japan” Washington Journal of Law, Technology & Arts 7(4)]



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# China: legislation

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- ❖ Legislation

- ❖ Patent Law 1984 (as amended in 1992, 2000 and 2008)

Article 69: The following shall not be deemed to be patent right infringement:

(1) After a patented product or a product directly obtained by using the patented method is sold by the patentee or sold by any unit or individual with the permission of the patentee, any other person uses, offers to sell, sells or imports that product;

- ❖ State IP Office indicates that the rationale of international exhaustion is commonly found in **developing countries**. It is hoped the rule of international exhaustion adopted by article 69(1) will help to **reduce the value of exclusive license** and give **consumers** the advantage of international price arbitrage. (EU-China IPR2 Office: *Third Revision of China's Patent Law, legal texts and documents on the drafting process 2006-2008*)



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# China: the ongoing debate

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## ❖ National exhaustion:

### ▪ Justifications:

- Since the R&D sector of many domestic enterprises are underdeveloped, to prohibit parallel importation will **protect domestic enterprises from competition** from imported products.
- **To attract foreign investments** by allowing overseas patent holders to reap the profit generated by their patents in the Chinese market;

(Ye Jingsheng “Recommendations for IP Legislation on Parallel Imports”, 2004)

### ▪ Critiques:

- Heavy reliance on patented technology and products from overseas and the resultant large outflow of licensing fees;
- To establish Institutional / legal support to innovation industries is far more important than simply attracting foreign capital.



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# China: the ongoing debate (cont'd)

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- ❖ **International exhaustion:**
- ❖ Justifications:
  - Public interest;
  - Free trade;
  - Less licensing fees / lower price
  - Promote competition
  - (Wang LH “The necessity and feasibility of legislation on parallel import” *Faxue* 2004; Jiang & Wu “Economic Analysis and Recommendations for Legislation on Parallel Imports”, 2008; Wang X “Preliminary Thoughts on the Legislative Choice regarding Parallel Imports”, 2009;)
- ❖ Approach: permission of parallel imports + anti-monopoly regulations
- ❖ (Chen Lijuan “ On the Legality of Parallel Imports and the Regulatory Model” 2002; Fan Xiaoyu “On the Conflict between International Trade and Patent Law: the Legal Status of Parallel Imports”, 2010)



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# Impact on stakeholders

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## ❖ Patent holders

- reconsider licensing strategy
- reassess the price policy

## ❖ Intermediaries

- less legal risk of committing patent infringement

## ❖ End users

- may benefit from international exhaustion
- still face restrictions



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# Summary

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- Many Asian countries chose to adopt a general rule of international exhaustion on both
  - economic considerations (to promote free trade and to lower the price of and broaden the access to patented technology / products, etc.) and
  - policy considerations (public interest)
- A model of international exhaustion is preferable and practical
- Supplementary mechanisms (fair use, fair dealing ...) will be needed

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- ❖ Thank you!
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