

## EXHAUSTING PATENTS: UNDERSTANDING THE CONFLICTING NOTIONS

K.M. WAZIRI\* & O.F. AWOMOLO\*\*

*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, such that once he sells or authorises another to sell any goods, he loses his rights to exercise any further control over them. Of late, patent holders, in a bid to boycott this limit to their monopoly, control the distribution of their goods and to extract additional royalties/rents from downstream users, or reduce competition against their goods are attaching conditions to the sale/license for sale of their goods. The manner in which patent laws across jurisdictions have handled such situations has led to two conflicting notions of patent exhaustion. While one notion makes patent exhaustion mandatory regardless of whether the patent holder has subjected the sale to express restrictions, the other treats patent exhaustion as conditional, applying only where the patent holder imposes no such restrictions. This Article seeks to present a clear, comprehensible discussion of the exhaustion doctrine as well as its conflicting notions with a view to assist nations codify their laws in ways which may eventually resolve the seeming conflict of notions.*

---

\* Dr. K.M. Waziri is an Associate Professor, Faculty of Law, University of Abuja, FCT, Nigeria. He can be contacted at kmwaziri2003@yahoo.com.

\*\* Mrs. O.F. is a Counsel at Afebabalola & Co., Emmanuel House, Ibadan, Nigeria. She can be contacted at awomoloomotayo@yahoo.com.

## I. INTRODUCTION

Patent law is one of the most popular classifications of intellectual property. It guides patents which protect inventions and methods<sup>1</sup> that have met certain criteria—that is, they must meet the legally required patentability criteria of novelty/newness, inventive step and industrial application for protection. Holders of such patents are granted a monopoly over the patented goods—thus, such holders are given rights to preclude others from making, using, selling or importing any patent-infringing product.<sup>2</sup>

The doctrine of patent exhaustion limits the rights of an intellectual property (“IP”) owner,<sup>3</sup> usually after the owner has exercised some or all of his/her rights. It restricts the holder’s monopoly over patented goods to when he maintains ownership of the said goods. Thus, once the holder sells or authorizes the sale of the patented goods for consideration, he/she loses his/her right to exercise any further control over such goods (which in the eyes of the law, now belong to a new owner).<sup>4</sup> The premise of the doctrine is that the patent holder, having already received value for his/her invention, cannot impose any restrictions upon the rights of the purchaser of patented items—especially on their rights of usage, repair and even resale of the goods to anyone of their choice. This embodies the notion that legitimate purchasers and downstream users of a patented product may “use or resell the product free of control or conditions imposed by the patent owner.”<sup>5</sup>

If the exhaustion doctrine was as simple as it appears above,<sup>6</sup> then patent laws would prohibit patent holders from holding onto their monopoly, controlling the distribution of their goods, extracting additional royalties/rents from downstream users, reducing

---

<sup>1</sup> This is, however, subject to the provisions of any patent law under consideration at any point in time.

<sup>2</sup> See Craig L. Urich, *The Economic Espionage Act--Reverse Engineering and the Intellectual Property Public Policy*, 7 MICH. TELECOMM. & TECH. L. REV. 147 (2001) (For definition of patent); See also Neil J. Wilkof, *Patent Exhaustion: “Patent-by-Patent” or “Claim-by-Claim”?* THE IPKAT <http://ipkitten.blogspot.com.ng/2014/04/patent-exhaustionpatent-by-patent-or.html> (last visited on May 23, 2016).

<sup>3</sup> The exhaustion doctrine is also applicable to the other classes of intellectual property, such as Copyright (referred to as the first sale doctrine in the United States of America) and trademarks. However, there exist several differences in its application depending on which aspect of the intellectual property is being considered at any point in time, and which jurisdiction’s law is being applied. See Shubha Ghosh, *The Implementation of Exhaustions Policies: Lessons from National Experiences*, UNIV. OF WISCONSIN LEGAL STUDIES RESEARCH PAPER SERIES PAPER NO. 1248 (Feb. 3, 2014), available at <http://ssrn.com/abstract=2390232>.

<sup>4</sup> Basically, patent exhaustion proclaims that an authorized sale of a patented article *exhausts* the patent holders’ rights with respect to the article sold. See Wentong Zheng, *Exhausting Patents*, 63 UCLA L. REV. 122, 122-167, (2016)(*Emphasis mine*).

<sup>5</sup> Benjamin P. Liu, *Toward a Patent Exhaustion Regime for Sustainable Development*, 32 BERKELEY J. INT’L LAW 332 (2014), available at <http://scholarship.law.berkeley.edu/bjil/vol32/iss2/6>.

<sup>6</sup> The application of this seemingly straightforward doctrine has indeed never been simple, straightforward or consistent. See John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*, 20 SANTA CLARA HIGH TECH. L. J. 643 (2004), available at <http://digitalcommons.law.scu.edu/chtlj/vol20/iss3/3>.

competition against their goods and attaching conditions to the sale/license for sale of their goods. However, rather than clearly refusing to enforce such post-sale restrictions placed by patent holders, statutory law, case law and scholarly discussions have produced two conflicting notions of patent exhaustion – one which considers patent exhaustion to be mandatory, irrespective of whether the sale is subject to express restrictions; and the other which considers patent exhaustion as conditional, permitting the imposition of restrictions upon sales.<sup>7</sup>

This conflict has spanned several years due to lack of uniform application of the doctrine.<sup>8</sup> While some nations have codified the mandatory notion, others have codified the conditional notion.<sup>9</sup> The rest have no specific statutory provision for the doctrine but deduce the same from other statutes or from case law, usually applied on a “case to case basis.”<sup>10</sup> This, coupled with the lack of an internationally accepted application of the doctrine<sup>11</sup> has given rise to an anomaly over which of these notions should be the guiding principle with regard to whether, or to what extent, contractual restrictions may be imposed on patent sales/licenses.<sup>12</sup> This is because the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) defers to individual nations on this matter, allowing them to formulate their own exhaustion doctrine and determine its scope.<sup>13</sup>

---

<sup>7</sup> See Zheng, *supra* note 4, at 122; See also Vincent Chiapetta, *Patent Exhaustion: What's it Good for*, 51 SANTA CLARA L. REV. 1087 (2011) available at <http://digitalcommons.law.scu.edu/lawreview/vol51/iss4/3>.

<sup>8</sup> Ghosh, *supra* note 3.

<sup>9</sup> See Nigerian Patent and Designs Act, Cap P2, Laws of the Federation of Nigeria (LFN) 2010.

<sup>10</sup> See the most recent decision of the of the United States' Court of Appeals for the Federal Circuit which upheld limits to patent exhaustion and confirmed that a patentee that sells a patented article with resale/reuse restrictions does not forfeit its rights to charge the buyer that engages in restricted acts with infringement. The court concluded that the patentee preserves its rights to sue for infringement when “[a] sale made under a clearly communicated, otherwise-lawful restriction as to post-sale use or resale does not confer on the buyer and a subsequent purchaser the ‘authority’ to engage in the use or resale that the restriction precludes.” In short, that a “first sale” does not exhaust patent rights when the patentee has restricted the buyer's post-sale use. See *Lexmark Int'l, Inc. v. Impression Prods. Inc.*, Nos. 14-1617, (Fed. Cir. Feb. 12, 2016); See also *Patentees Prevail as Federal Circuit Upholds Limits to Patent Exhaustion*, WSGR Alert, <https://www.wsgr.com/WSGR/Display.aspx?SectionName=publications/PDFSearch/wsgralert-patent-exhaustion.htm> (last visited on Dec. 20, 2016).

<sup>11</sup> The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement)—the multilateral agreement which sets the minimum standard of protection in many areas of IP law—basically defers to individual nations on this matter, allowing them to formulate their own exhaustion doctrine and determine its scope. This gives member states broad latitude in implementing the patent exhaustion doctrine under its national laws, whether enacted by statute, articulated in judicial opinions, or formulated in agency regulations or rules. Consequently, nation states show variation in the application of the exhaustion doctrine. See Agreement on Trade-Related Aspects of Intellectual Property Rights, art. 6, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1867 U.N.T.S. 154 [hereafter TRIPS Agreement]; See also Ghosh, *supra* note 3, at 71.

<sup>12</sup> See Pamela Samuelson, *Quantifying the Value of Patent Exhaustion Rules*, 51(11) COMM. ACM. 27 (2008), available at <http://scholarship.law.berkeley.edu/facpubs/2365> (2008) (The questions left unresolved so far by patent law).

<sup>13</sup> See TRIPS Agreement, *supra* note 11, at art. 3(1), 6.

This uncertainty surrounding the patent exhaustion doctrine has greatly affected patent licensing practices in today's economy and has become a central subject in scholarly debates.<sup>14</sup> This Article focuses neither on the historical or legal jurisprudence of the conflict, nor on the need to unify the notions or determine a preferred notion for the application of the patent exhaustion doctrine – it simply discusses the doctrine of patent exhaustion and seeks to present the conflicting notions in a simple and clear manner. The aim is to provide an understanding of the notions that will *enfin* demystify them and aid various nations in applying the doctrine. Further, the Article suggests statutory amendments in patent exhaustion laws so that nations can strike a balance to avoid further conflict of positions under the patent exhaustion doctrine.<sup>15</sup>

## II. THE EXHAUSTION DOCTRINE

The exhaustion doctrine states that once an IP owner makes the first sale of a good that embodies his/her IP, the right to restrict, control or prohibit sales/distribution of that good ceases.<sup>16</sup>

The doctrine is said to have emanated as a result of the law's natural discomfort with restraints and servitudes on personal property.<sup>17</sup> Apparently, common law judges had always been suspicious of post-sale restrictions on alienation,<sup>18</sup> and could not fathom the idea that a purchaser could at any time be viewed as a mere licensee without property interest in the purchased goods simply because the IP owner so dictated by contract.<sup>19</sup> The case was not different in civil law countries, especially those following German law — as the exhaustion doctrine there was rooted in the implied license given to purchasers

---

<sup>14</sup> Several writers and commentators have had analysed these competing and conflicting notions but no unified single notion has had emerged as guidance for the application of the doctrine. See Dennis Crouch, *Patent Exhaustion: Licensing Handset Manufacturers did not Exhaust Patent as to Downstream Content Providers* PATENTLY-O (Feb. 13, 2015), <http://patentlyo.com/patent/2015/02/exhaustion-manufacturers-downstream.html>; Zheng, *supra* note 4, at 122.

<sup>15</sup> See TRIPS Agreement, *supra* note 11, at art. 3, 6.

<sup>16</sup> See Crouch, *supra* note 14 (On the Exhaustion doctrine); Alicia Carney, *Patent Exhaustion 1 Year after Kirtsaeng*, (Sept. 23, 2014) LAW360, <http://www.law360.com/articles/578419/patent-exhaustion-1-year-after-kirtsaeng.html>; Yonatan Even, *Appropriability, first sale & exhaustion* (Sept. 28, 2008), available at <http://ssrn.com/abstract=1274822>; Ghosh, *supra* note 3, at 7-8; Samuel F. Ernst, *The Federal Circuit's New "Authorized Acquirer" Restriction on Patent Exhaustion*, PATENTLY-O (October 28, 2015); Samuel F. Ernst, *Patent Exhaustion For The Exhausted Defendant: Should Parties Be Able To Contract Around Exhaustion In Settling Patent Litigation?* 2014(2) J. L. TECH. & POL'Y 446 [hereinafter Ernst, *Authorized Acquirer*]; Amelia S. Rinehart, *Contracting Patents: A Modern Patent Exhaustion Doctrine*, 23(2) HARVARD J. L. & TECH. 484, (2010); Wolfgang Von Meibom & Matthias Meyer, *Licensing and Patent Exhaustion*, BIRD & TECH. (Nov. 5, 2008) <http://www.twobirds.com/en/news/articles/2008/licensing--andpatent-exhaustion>.

<sup>17</sup> Aaron Perzanowski & Jason Schultz, *Legislating Digital Exhaustion*, 29(3) BERKELEY TECH. L.J. 1535 (2015), available at <http://scholarship.law.berkeley.edu/btlj/vol29/iss3/4>.

<sup>18</sup> Even, *supra* note 16.

<sup>19</sup> Perzanowski & Schultz, *Digital Exhaustion*, *supra* note 17.

of goods to contract with respect to the unburdened property –that is, a property not encumbered with any burden.<sup>20</sup>

The exhaustion doctrine is quite controversial, mostly because it pits the rights of purchasers/users/consumers against the rights of IP owners.<sup>21</sup> It is usually argued that the general rights of IP owners entitle them to royalties from the licensing, manufacture, use and resale of their protected goods. Inhibiting them from exercising these rights would eventually erode the incentives to create/invent, which forms the fundamental reason to protect IP.<sup>22</sup> Meanwhile, allowing exhaustion ensures alienability of goods in the market and is in line with the rights of legitimate purchasers of goods to use and resell them without restrictions and interference, having given value for the goods to the IP owner or his licensee.<sup>23</sup>

The above notwithstanding, the doctrine has continued to endure over the centuries, albeit with certain changes and limitations,<sup>24</sup> and in spite of differences in its application across the different classes of intellectual property such as Copyright, Trademarks and Patent.<sup>25</sup>

## 2.1. Patent Exhaustion

Patent exhaustion is an aspect of the general exhaustion doctrine that deals specifically with patents. It has been recognized for several years as a form of protection for purchasers since it protects them from post-sale restrictions placed on patented goods by patent holders; as a form of check on patent holders, ensuring that they did not receive double compensation or overcompensation for their inventions;<sup>26</sup> and as an encouragement for free markets, by allowing for the free movement of patented goods in commerce.<sup>27</sup>

---

<sup>20</sup> Ghosh, *supra* note 3, at 11-12; CHRISTOPHER STOTHERS, *PARALLEL TRADE IN EUROPE: INTELLECTUAL PROPERTY, COMPETITION AND REGULATORY LAW* 41 (1<sup>st</sup> ed. 2007).

<sup>21</sup> Vincenzo Franceschelli, *To what Extent does the Principle of Exhaustion of IP rights apply to the Online Industry?*, LIDC International Report, 11-12 (2014), available at <http://www.ligue.org/uploads/documents/2014RapportinternationalB15septembre.pdf>.

<sup>22</sup> Ghosh, *supra* note 3, at 17-21.

<sup>23</sup> *Id.* at 10.

<sup>24</sup> See Fitch, Even, Tabin & Flannery, *Federal Circuit to Tackle Significant Patent Exhaustion Issues En Banc*. LEXIS NEXIS LEGAL NEWSROOM (April 23, 2015), <http://www.lexisnexis.com/legalnewsroom/intellectual-property/b/patent-law-blog/archive/2015/04/23/federal-circuit-to-tackle-significant-patent-exhaustion-issues-en-banc.aspx>; See also *Bowman v. Monsanto*, 133 S. Ct., 1766 (2013), (United States) (where it held that the planting of a second generation of patented seeds was not protected by the exhaustion doctrine).

<sup>25</sup> Ghosh, *supra* note 3, at 37.

<sup>26</sup> See Lucas Dahlin, *When Is A Patent Exhausted? Licensing Patents on a Claim-By-Claim Basis*, 90 CHIC-KENT L. REV. 781, (2015); Osborne, *supra* note 6 (patent exhaustion precludes further royalty and restrictions).

<sup>27</sup> Rinehart, *supra* note 16, at 484.

Basically, the patent exhaustion doctrine sought to prevent situations wherein a patent holder could send inventions into the channels of trade, subject to any post-sale restrictions as to use, resale, payment of additional royalty or subject to any other rights of control to be imposed thereafter at the discretion of the patent holder.<sup>28</sup>

In the decision of *Adams v. Burke*,<sup>29</sup> the US Supreme Court put it thus:

“[W]hen the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use... That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction...”

The above notwithstanding, patent holders have continuously sought to push the limits of the exhaustion doctrine by insisting on imposing such post-sale restrictions/conditions as are generally forbidden by the doctrine. The question of exhausting patents has, thus, become coloured by the consideration of such post-sale restrictions, which are in most cases accepted and agreed to by the purchaser. This has also led to a seemingly conflicting viewpoint or understanding of patent exhaustion as a doctrine.

The key determinant as to whether a patent is exhausted under this coloured variant of the doctrine is whether the patent owner has sold the patented good outright or has placed lawful restrictions/conditions on the sale. In case of the former, the patent stands totally exhausted; however, in case of the latter, the patent is not totally exhausted as the patent holder would retain certain rights over the goods subject to the post-sale restrictions placed on the goods. This applies even in the case of a license, where a licensee’s rights are subject to the rights of the patent holder by virtue of the conditional license.<sup>30</sup> However, to effectively preclude the operation of the exhaustion doctrine under this notion, post-sale restrictions involving the sale of the patented good or an article embodying a patented invention would have to be clear, explicit and otherwise lawful.<sup>31</sup>

The policy justifications for the patent exhaustion doctrine would then go beyond the fact that enforcement of resale/use restrictions would create an obstacle to the free use

---

<sup>28</sup> See Ernst, *Authorized Acquirer*, *supra* note 16; See also *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502, 518 (1917).

<sup>29</sup> See *Adams v. Burke*, 84 U.S. 453-456 (1873).

<sup>30</sup> Based on the principle of ‘*Nemo Dat Quod Non Habet*’ (one cannot give what he does not have); See *Rinehart*, *supra* note 16, at 495.

<sup>31</sup> Osborne, *supra* note 6.

and alienability of the patented property.<sup>32</sup> It would also go beyond the general disfavour of servitudes on personal property,<sup>33</sup> and take into consideration the freedom of contract and agreement. The rationale for the conditional patent exhaustion doctrine is that purchasers of patented goods who lack knowledge of any restrictions should be free to use the goods in an unlimited manner.<sup>34</sup>

Irrespective of whether patent exhaustion is mandatory or conditional, once it is established that the patents were indeed exhausted, the effect remains the same – the patent holder ceases to have control over the patented goods and the purchaser becomes entitled to use the goods as he sees fit, to repair<sup>35</sup> the same when necessary and even resell the same without further interference by the patent holder.

Patent exhaustion holds enormous benefits for consumers, for the patent system, for the economy and even for the public at large. It promotes aftermarkets that complement IP, such as markets for service and repair that can benefit consumers through price competition from used versions of the goods.<sup>36</sup> It fosters competition by allowing entry of new distribution channels and provides a competitive source of goods that may in turn allow new firms to enter industries, thereby limiting the concentration of existing firms.<sup>37</sup> Patent exhaustion also creates economic opportunities through “learning by doing”<sup>38</sup> and studying consumer preferences.<sup>39</sup> It relates, in many cases, to technologies which are paramount to the development of any economy,<sup>40</sup> and along with the demand for these fundamental technologies comes the demand for repairers and re-furbishers of the same for continuous use by consumers, thus widening the labour market and providing income for citizens.<sup>41</sup>

Patent exhaustion, therefore, has far-reaching implications for economic development,<sup>42</sup> as it provides consumers, the public at large, and the patent system itself with secondary

---

<sup>32</sup> Liu, *supra* note 5, at 353-354.

<sup>33</sup> See Rinehart, *supra* note 16, at 492; See also Carney, *supra* note 16.

<sup>34</sup> See Osborne, *supra* note 6; Meibom & Meyer, *supra* note 16 (*emphasis mine*).

<sup>35</sup> The purchaser’s right to repair, however, does not include the right to reconstruct the patented technology and he cannot re-work or refurbish the good so completely that it amounts to making a new article. See Liu, *supra* note 5; See also Chiapetta, *supra* note 7, at 1087; Ghosh, *supra* note 3, at 8.

<sup>36</sup> Ghosh, *supra* note 3 at 71.

<sup>37</sup> *Id.*

<sup>38</sup> See Liu, *supra* note 5, (“Learning by doing” is conceptualized in economic theory whereby productivity is achieved through practice self-perfection and minor innovations. An example is a factory that increases output by learning how to use equipment better without adding workers or investing significant amount of capital).

<sup>39</sup> Liu, *supra* note 5, at 334.

<sup>40</sup> See Tolu Ogunlesi & Stephanie Busari, *Seven Ways Mobile Phones Have Changed Lives in Africa*, CNN ONLINE (Sept. 14, 2012), <http://edition.cnn.com/2012/09/13/world/africa/mobile-phones-change-africa/>.

<sup>41</sup> See Liu, *supra* note 5 (According to the writer, in Nigeria, even apprentices who do not have any regular income yet, are mostly positive about their career perspectives in the repair and refurbishment industry and are usually even looking forward to starting their own businesses).

<sup>42</sup> Ghosh, *supra* note 3, at 22.

markets, available goods. It also provides protection and privacy for consumers in the acquisition, enjoyment, and transfer of patented items as well as a steady support for consumer-driven innovation and competition, which all are necessary for economic development.<sup>43</sup>

## 2.2. Levels of Application

Currently, the doctrine of patent exhaustion may be applied at three possible levels – national, regional and international. Each nation determines the scope of its patent exhaustion with regard to these territorial levels considering the likely benefits for their economy and their citizens.

### 2.2.1. National Exhaustion

The concept of national exhaustion prevents the IP owner from controlling the commercial exploitation of goods put on the domestic market by him or with his consent. However, the IP owner or his authorised licensee could still oppose the importation of original goods marketed abroad based on the right of importation.<sup>44</sup> Therefore, when a patent holder sells the patented goods outside the nation's borders, his patent rights are not exhausted within the borders.<sup>45</sup> Nigeria is an example of the application of national exhaustion by virtue of Section 6(3)(b).<sup>46</sup>

The practical effect of national exhaustion is that anyone intending to import an item which is covered by a patent in such a nation would require the consent of the patent holder whose rights remain intact in the nation, though he has sold the goods

---

<sup>43</sup> See generally Ghosh, *supra* note 3, at 22; Aaron Perzanowski & Jason Schultz, *Digital Exhaustion*, 58 UCLA L. REV. 889 (2011) available at <http://scholarship.law.berkeley.edu/facpubs/1246> [hereinafter Perzanowski & Schultz, *Digital Exhaustion*]; Carney, *supra* note 16; Ruth A. Reese, *The First Sale Doctrine in the Era of Digital Networks*, 44 B.C.L. REV. 577 (2003), <http://lawdigitalcommons.bc.edu/bclr/vol44/iss2/9>; Perzanowski & Schultz, *Legislating Digital Exhaustion*, *supra* note 17.

<sup>44</sup> *International Exhaustion and Parallel Importation*, WIPO, [http://www.wipo.int/me/en/ip\\_business/export/international\\_exhaustion.htm](http://www.wipo.int/me/en/ip_business/export/international_exhaustion.htm) (last visited Jan. 5, 2017).

<sup>45</sup> Christopher J. Clugston, *International Exhaustion, Parallel Imports, and the Conflict between the Patent and Copyright Laws of the United States*, 4 BEIJING L. REV. 95-99 (2013), available at [http://file.scirp.org/pdf/BLR\\_2013093010394822.pdf](http://file.scirp.org/pdf/BLR_2013093010394822.pdf).

<sup>46</sup> Patents and Designs Act - CAP. P2 L.F.N. (2004) §6(3) (Nigeria)–“The rights under a patent... Shall not extend to acts done in respect of a product covered by the patent after the product has been lawfully sold in Nigeria, except in so far as the patent makes provision for a special application of the product, in which case the special application shall continue to be reserved to the patentee notwithstanding this paragraph.”



elsewhere.<sup>47</sup> Such a nation would benefit its patent holders at the expense of consumers in other countries.<sup>48</sup> This is one of the benefits of Most Favoured Nation (MFN).<sup>49</sup>

### 2.2.2. Regional Exhaustion

Some nations limit their patent exhaustion to a region. Regional exhaustion is usually based on agreements between the nations that make up the region, such that for each of these nations, sale by a patent holder of patented goods in any of them would exhaust the patent in the entire region. In other words, the sale of the patented goods within the region exhausts the patent in all the nations in that region, while the sale of the patented goods outside of the region does not exhaust the patent holder's rights in any nation outside that region.<sup>50</sup> The European Union has adopted a policy of regional exhaustion.<sup>51a</sup>

### 2.2.3. International Exhaustion

In this case, the sale of patented goods anywhere in the world would exhaust the patent holders' rights in those goods.<sup>52</sup> Therefore, when a nation adopts international exhaustion, a patent holder who has sold or authorised the sale of his patented goods anywhere in the world exhausts his patent rights in those goods and can no longer exercise any rights over the said goods.<sup>53</sup>

International exhaustion rests on a vision of global free trade.<sup>54</sup> It strongly favours consumers by allowing retailers to find the cheapest goods on the world market and resell them item at a lower price domestically.<sup>55</sup>

Only a handful of nations recognise international exhaustion of patent rights. For example, India, Egypt and some emerging East African nations have included international exhaustion provisions in their intellectual property statutes.<sup>56</sup> Even the

---

<sup>47</sup> See John S. Holley, *Special Considerations for Patent Exhaustion in Software-Related Inventions*, 26(2) INTELL. PROP. & TECH. L.J.(2014), <http://www.sughrue.com/files/Publication/498c7d5d-4968-4ddc-b3dd-1bf0bb6042f9/Presentation/PublicationAttachment/ac1b7e80-6efd-4e66-bf80-1e867fbb06c5/IPT-%20HOLLEY.pdf>.

<sup>48</sup> Ghosh, *supra* note 3, at 71.

<sup>49</sup> "Most Favoured Nation" available at: [https://en.wikipedia.org/wiki/Most\\_favoured\\_nation](https://en.wikipedia.org/wiki/Most_favoured_nation) (last visited 3rd March, 2016).

<sup>50</sup> Clugston, *supra* note 45.

<sup>51</sup> Holley, *supra* note 47.

<sup>52</sup> Clugston, *supra* note 45.

<sup>53</sup> See generally Daniel J. Hemel & Lisa L. Ouellette, *Trade and Tradeoffs: The Case of International Patent Exhaustion*, 116 COLUMBIA L. REV. SIDEBAR 17 (2016), available at <http://ssrn.com/abstract=2667338>; Holley, *supra* note 47; Mark Summerfield, *The 'Exhausting' Topic of International Patent Rights*, PATENTOLOGY (Nov. 8, 2015), <http://blog.patentology.com.au/2015/11/the-exhausting-topic-of-international.html>.

<sup>54</sup> Ghosh, *supra* note 3, at 71.

<sup>55</sup> Holley, *supra* note 47.

<sup>56</sup> Ghosh, *supra* note 3, at 24.

United States has recently upheld international exhaustion in the case *Lexmark Int'l, Inc. v. Impression Prods. Inc.*<sup>57</sup> Japan has adopted what has been called default international exhaustion, but its law allows the patent holder to opt out of the same and to have his patented goods treated as if they are in a national exhaustion country.<sup>58</sup>

### 2.3. Patent Law Systems and Patent Exhaustion

Since each country has its own approach to the exhaustion doctrine, varied practices of the doctrine have evolved.

In the United States, for instance, patent exhaustion originates in judicial decisions, based on a mixture of patent law, antitrust law, and common law principles of property.<sup>59</sup> Despite the lack of codification, the US is one of the most developed jurisdictions for the enforcement, use and establishment of the doctrine.<sup>60</sup> However, the doctrine has also experienced the most confusion and internal conflict as far as the mandatory and conditional notions of exhaustion are concerned. Several decisions of the US courts have affirmed the doctrine of patent exhaustion,<sup>61</sup> and swung back and forth as to whether it is mandatory or conditional.<sup>62</sup> The latest case in this regard was *Lexmark*

---

<sup>57</sup> See WSGR ALERT, *supra* note 10; See also Fitch et al., *supra* note 24.

<sup>58</sup> See *BBS Kraftfahrzeug Technik AG v. Kabushiki Kaisha Racimex*, Japan Case No. Heisei 7 (wo) 1988 (delivered July 1, 1997); *Canon Inc. v. Recycle Assist Co. Ltd.*, Saikō Saibansho [Sup. Ct.] Nov. 8, 2007, Heisei 18 (jyu) no. 826 (Japan), available at <http://www.courts.go.jp/hanrei/pdf/20080111155502.pdf>.

<sup>59</sup> Ghosh, *supra* note 3, at 37.

<sup>60</sup> See generally Dahlin, *supra* note 26 (On exhaustion in the United States); Kia L. Freeman et al., *The U.S. Supreme Court Clarifies Patent Exhaustion*, FINNEGAN (Sept. 1, 2008), <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=2f28beea-b59e-4239-be87-1923cce2f378>; Ernst, *Authorized Acquirer*, *supra* note 16.

<sup>61</sup> See generally Even, *supra* note 16 (On exhaustion in the United States).

<sup>62</sup> See Bowman, *supra* note 24 (“[B]y exhausting the [patentee’s] monopoly in that item, the sale confers on the purchaser, or any subsequent owner, the right to use [or] sell the thing as he sees fit.”) (alterations in original); *Quanta Computer v. LG Electronics*, 553 U.S. at 630 (2008) (“[W]hen a patented item is once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee.”) (alteration in original); *United States v. Unis Lens Co.*, 316 U.S. 241, 250 (1942) (“[S]ale of [a patented article] exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article.”); *Ethyl Gasoline Corp. v. United States*, 309 U.S. 436, 457 (1940) (“[B]y the authorized sales of the fuel by refiners to jobbers the patent monopoly over it is exhausted, and after the sale neither appellant nor the refiners may longer rely on the patents to exercise any control over the price at which the fuel may be resold.”); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, *supra* note 28 (“[T]he right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it.”); *Bauer & Cie v. O’Donnell*, 229 U.S. 1, 17 (1913) (“[A] patentee who has parted with a patented machine by passing title to a purchaser has placed the article beyond the limits of the monopoly secured by the patent act.”); *Keeler v. Standard Folding Bed Co.*, 157 U.S. 659, 666 (1895) (“[O]ne who buys patented articles of manufacture from one authorized to sell them becomes possessed of an absolute property in such articles, unrestricted in time or place.”); *Adams v. Burke*, *supra* note 29 (“[W]hen the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use.”); *Bloomer v. McQuewan*, 55 U.S. (14 How.) 539, 549 (1852) (“[W]hen the machine passes to the hands of the purchaser, it is no longer within the limits of the [patent] monopoly.”); See e.g., *B. Braun Med., Inc. v.*

*Int'l Inc. v. Impression Products Inc.*,<sup>63</sup> wherein the Federal Circuit court adopted the conditional notion of patent exhaustion by accepting that the doctrine may be subject to contractual restrictions. The court, while also upholding the subscription to international exhaustion in the US,<sup>64</sup> reaffirmed two of its previous controversial decisions.

The first decision was *Mallinckrodt, Inc. v. Medipart, Inc.*,<sup>65</sup> in which the court had held that the exhaustion doctrine did not apply to a sale made subject to a post-sale restriction other than a tie-in or a price fix,<sup>66</sup> so that a patentee could lawfully impose conditions on a purchaser's use or disposition of a product, such as that the product be used only one time.<sup>67</sup> Thus the notion of conditionality of U.S.-patent sales was confirmed.

The second decision was that of *Jazz Photo Corp. v. ITC*,<sup>68</sup> wherein the court held that a patentee who sold or authorised the sale of a US-patented article abroad did not thereby authorise the buyer to import, sell and use the article in the US. In other words, contrary to the principle in copyright law,<sup>69</sup> under US patent law there is no international exhaustion of rights and accordingly, importing patented articles sold abroad constitutes infringement, unless the patentee has authorised the importation.<sup>70</sup> These two holdings may, however, conflict with recent decisions of the United States Supreme Court.<sup>71</sup>

Thus, in the United States, once a patented article is distributed or sold through a lawful unconditional transaction, the same passes into the hands of the purchaser and is no longer subject to the exclusive rights of the patent owner – the article can be further

---

Abbott Labs., 124 F.3d 1419, 1425 (Fed. Cir. 1997) (holding that a patentee could enforce an express restriction imposed in a conditional sale through infringement actions); *Mallinckrodt Inc. v. Medipart Inc.*, 976 F.2d 700, 709 (Fed. Cir. 1992) (holding that a patentee could enforce, through infringement actions, a “single use only” restriction on the use of patented articles against parties that reconditioned and reused the articles).

<sup>63</sup> *Lexmark Int'l Inc. v. Impression Prods. Inc.*, Nos. 14-1617, at 1619 (Fed. Cir. Feb. 12, 2016).

<sup>64</sup> See WSGR ALERT, *supra* note 10; See also Fitch et. al., *supra* note 24.

<sup>65</sup> *Mallinckrodt Inc. v. Medipart Inc.*, 976 F.2d 700 (Fed. Cir. 1992).

<sup>66</sup> Tie-in sale pertains to those sales in which in order to purchase the desired item, the buyer is obligated to also purchase one or more, usually, undesired items. Price fixing, on the other hand, refers to an arrangement between participants on the same side in a market to buy/sell a product/service/commodity only at a fixed price, or maintain the market conditions and prices at a given level, by controlling supply and demand.

<sup>67</sup> *Mallinckrodt Inc. v. Medipart Inc.*, *supra* note 65.

<sup>68</sup> *Jazz Photo Corp. v. United States International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001).

<sup>69</sup> See COPYRIGHT LAW: THE FIRST SALE DOCTRINE AND EXHAUSTION OF RIGHTS, <http://www.translegal.com/lesson/5932> (last visited: March 3, 2017).

<sup>70</sup> Kevin D. Rorkey, *En Banc Court Reaffirms Patentees' Right to Place Lawful Restrictions on Sales of Patented Articles and International Sales Constitute Infringement when Imported into the United States*, FEDERAL CIRCUIT IP BLOG (Feb. 12, 2016), <https://federalcircuitipblog.com/2016/02/12/en-banc-court-reaffirms-patentees-right-to-place-lawful-restrictions-on-sales-of-patented-articles-and-international-sales-constitute-infringement-when-imported-into-the-united-states/>.

<sup>71</sup> David Long, *Supreme Court will review international patent exhaustion doctrine (Impression Prod. v. Lexmark)*, ESSENTIAL PATENT BLOG (Dec. 2, 2016), <http://www.essentialpatentblog.com/2016/12/supreme-court-will-review-international-patent-exhaustion-doctrine-impession-prod-v-lexmark/>.

distributed, used, repaired<sup>72</sup> or sold without the original seller creating any encumbrance.

In India, patent exhaustion is based on rules against restraints on alienation arising from contract and property law. Most importantly, Section 107A(b) of the Indian Patents Act, 1970, allows importation of patented goods by persons duly authorised under the law to produce and sell or distribute such goods.<sup>73</sup> The provision, which clearly seems to allow international exhaustion is however said to be un-interpreted by the Indian courts.<sup>74</sup>

In Japan, patent exhaustion is not codified by statute and has only been recognised by case law, especially by the lower courts of Japan. In 2006, the Supreme Court of Japan acknowledged patent exhaustion in *BBS v. Japan-Auto Products*.<sup>75</sup> As has been mentioned previously, although Japan has adopted a policy of default international exhaustion, its laws allow patent holders to opt out of this default exhaustion, and to have their patented goods treated as if they are in a national exhaustion country.<sup>76</sup>

In Germany, patent exhaustion has been recognized in the form that once a patent holder wilfully brings his patented goods into the market by selling or transferring them, his right of exploitation ceases and the goods come into the public domain.<sup>77</sup>

The German Federal Supreme Court stated in its lead decision "*Fullplastverfahren*"<sup>78</sup> :

"This doctrine [of exhaustion] finds its justification in the argument that the holder of the rights who puts into circulation the product produced under the application of the protected procedure has had the opportunity to avail himself of the advantages granted by the patent."

A final example is Nigeria where the Nigerian Patent Act, 2004, recognises patent exhaustion under Section 6(3)(b).<sup>79</sup> This provision restricts the rights of patent holders after patented goods are lawfully sold by them in Nigeria, to only situations where they

---

<sup>72</sup> It is notable here however, that the U.S. courts distinguish a reconstruction from repair as an impermissible making of the invention. A reconstruction has been defined as the making of another copy of the patented invention while repair entails reconstituting an existing invention. *See Ghosh, supra* note 3, at 24.

<sup>73</sup> *See* The Patents (Amendment) Act, 2005, No. 15, Acts of Parliament, 2005 (India), §107A(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.

<sup>74</sup> Ghosh, *supra* note 3.

<sup>75</sup> *See* Ghosh, *supra* note 3.

<sup>76</sup> *See* Kraftfahrzeug Technik v. Saikō Saibansho, *supra* note 58.

<sup>77</sup> Meibom & Meyer, *supra* note 16.

<sup>78</sup> *cf.* Bundesgerichtshof [BGH] [Federal Court of Justice] Sept. 24, 1979, GRUR 1980, 38 (Ger.), cited in Meibom & Meyer, *supra* note 16.

<sup>79</sup> Patents and Designs Act, *supra* note 46, Section 6(3)(b).

make specific provisions for the use of the goods under the sale agreement.<sup>80</sup> A judicial interpretation of the said section is awaited.

The difference in the application of the patent exhaustion doctrine by different nations has brought to light the inherent contradictions in the doctrine itself and in the notions determining its application, thereby denying it one unified description either as a mandatory notion or a conditional one.

### III. UNDERSTANDING THE CONFLICTING NOTIONS

Generally, patent exhaustion is described as mandatory, automatically cutting off a patent holder's rights with respect to patented goods which he has sold or which have been sold under his authority.<sup>81</sup> As has been explained above, different nations adopt different notions while applying patent exhaustion, leading to a continuous state of confusion as to the actual nature of the doctrine and its exact effects. The starting point in attempting to resolve this confusion is to understand the two conflicting notions.<sup>82</sup>

#### 3.1. Mandatory Exhaustion

Mandatory exhaustion can be said to be the original notion in patent exhaustion, as the patent exhaustion doctrine generally invalidates patent restrictions imposed on purchasers. It compulsorily extinguishes all patent restrictions upon sale, and treats all patent restrictions on purchasers as *per se* unlawful, whether agreed to by a purchaser or not.

When employing mandatory exhaustion, there would not be any need to determine whether there was any restriction or condition at the time of sale, or whether such condition or restriction was expressly made, brought to the attention of the purchaser and/or agreed to by such purchaser. There would also be no need to consider the nature of any restriction placed, whether it is towards resale or use, or for additional royalty, or to consider whether it is lawful or not because there is a blanket prohibition of all restrictions.<sup>83</sup> The patent holders' rights would be completely exhausted upon a sale and violations of any restrictions would not have remedies in patent law.<sup>84</sup>

The only factors that are considered in determining whether a patent is exhausted under mandatory exhaustion are whether an actual sale or transfer amounting to a sale of

---

<sup>80</sup> *Id.*; See also F. O. BABAFEMI, INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHT, TRADE MARKS, PATENTS AND INDUSTRIAL DESIGNS IN NIGERIA, 2007.

<sup>81</sup> Zheng, *supra* note 4, at 125.

<sup>82</sup> Ryan Davis, *Fed. Circ. Could Weaken Patent Rights In Exhaustion Case*, LAW360, (April 21, 2015), <http://www.rothwellfigg.com/news/fed-circ-could-weaken-patent-rights-in-exhaustion-case.html>.

<sup>83</sup> See Zheng, *supra* note 4, at 139; Chiapetta, *supra* note 77.

<sup>84</sup> See Chiapetta, *supra* note 7; See also Rinehart, *supra* note 16, at 486.

patented goods has occurred and whether the patent is exhausted internationally, regionally or only in the nation where the sale occurs.

This notion favours purchasers and only entitles patent holders to compensation in the form of payment upon the sale of the goods. It is viewed as leading to weak IP rights in the form of diluted patent enforcement or narrow patent grants, which may stimulate little innovation and cause progress to grind to a halt.<sup>85</sup> This is largely because the aim of IP is to stimulate innovation<sup>86</sup> by protecting rights which serves as incentive to innovators.<sup>87</sup> However, this argument is balanced by the view that mandatory exhaustion leads to more open markets and competition for goods because it gives more rights to purchasers, thereby allowing free flow of goods.<sup>88</sup>

Several cases have discussed and upheld mandatory exhaustion, such as *Quanta Computer Inc. v. LG Electronics Inc.*;<sup>89</sup> *Bloomer v. McQuewan*;<sup>90</sup> *Adams v. Burke*;<sup>91</sup> *Keeler v. Standard Folding Bed Co.*;<sup>92</sup> *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*;<sup>93</sup> *Ethyl Gasoline Corp. v. United States*;<sup>94</sup> and *United States v. Univis Lens Co.*<sup>95</sup> These cases emphasise that a patent holder cannot add conditions to the patented article's license or sale, or restrict the same so as to control the conduct of the licensee or purchaser of the patented goods after the goods have been sold.

Similarly, according to the German case of "*Fullplastverfahren*,"<sup>96</sup> parties cannot limit exhaustion directly by contractual means, as the legal principle of exhaustion is not at the discretion of the parties to a license contract.<sup>97</sup>

Therefore, where patent exhaustion is mandatory, there is nothing left for the patent holder once the patented goods are sold and all attempts at further holding on to control of patented goods are forbidden.

---

<sup>85</sup> Rinehart, *supra* note 16, at 487.

<sup>86</sup> Ernst, *Exhausted Defendant*, *supra* note 16, at 478.

<sup>87</sup> *Id.* at 451.

<sup>88</sup> See generally Ghosh, *supra* note 3; Perzanowski & Schultz, *Digital Exhaustion*, *supra* note 43 at 894; Carney, *supra* note 16; Reese, *supra* note 43; Perzanowski & Schultz, *Legislating Digital Exhaustion*, *supra* note 17.

<sup>89</sup> *Quanta Computer Inc. v. LG Elec. Inc.*, *supra* note 62 at 2122.

<sup>90</sup> *Bloomer v. McQuewan*, *supra* note 62.

<sup>91</sup> *Adams v. Burke*, *supra* note 29.

<sup>92</sup> *Keeler v. Standard Folding Bed Co.*, *supra* note 62, at 666.

<sup>93</sup> See *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, *supra* note 28, at 506-518.

<sup>94</sup> *Ethyl Gasoline Corp. v. United States*, *supra* note 62, at 446-459.

<sup>95</sup> *United States v. Univis Lens Co.*, *supra* note 62, at 241- 252.

<sup>96</sup> *cf.* GRUR 1980, 38 (Ger.), *supra* note 74.

<sup>97</sup> *Id.*

### 3.2. Conditional Exhaustion

It was the realisation by patent holders of the devastating effects of mandatory exhaustion that led to the conditional notion of patent exhaustion.<sup>98</sup> Patent holders began seeking ingenious ways to avoid exhausting their patents and one of such methods was by the sale or licence of patented goods with various restrictions on their subsequent use by companies at various levels in the supply chain.<sup>99</sup> This was done by simply inserting in any sale or license agreement, a provision that the purchasers or the licensee's customers are not permitted to either sell, or sell below a particular price, or use outside certain jurisdictions or use after certain periods or process the subcomponent further or combine the component with other parts to produce finished goods.<sup>100</sup> Thus patent holders began contracting around patent exhaustion by limiting the scope of the authorisation.<sup>101</sup>

Conditional exhaustion recognises post-sale restrictions<sup>102</sup> and only enforces patent exhaustion where there is no "restricted sale" or "conditional sale." Where the sale is shown to be unconditional, patent exhaustion applies totally but where there is any condition, patent exhaustion only applies to the portions that were not affected by those conditions or restrictions.<sup>103</sup> For instance, if there is a restriction on the right to repair the patented goods, then all the rights of the patent holder would be exhausted upon sale, save his right to the repair of the goods.

A caveat that usually applies is that for the conditional exhaustion to apply, the post-sale restrictions ought to be imposed on the sale must be lawful and generally within the patent rights of the patent holder.<sup>104</sup> They must also have been made expressly and agreed to expressly by the purchaser.<sup>105</sup>

---

<sup>98</sup> Chiapetta, *supra* note 7.

<sup>99</sup> See Freeman, *supra* note 59; Rinehart, *supra* note 16, at 496.

<sup>100</sup> Freeman, *supra* note 59.

<sup>101</sup> Ernst, *supra* note 16, at 445.

<sup>102</sup> A "restricted sale" can be defined as any sale that includes conditions or requirements which must be met by the purchaser. Post-sale restrictions are those that purport to restrict the use or sale of the patented article once purchased and in the hands of an end user, not a licensee or distributor. Common post-sale restrictions include "single use only" and "refill only with proprietary ink" notices. See Tod M. Leaven, *The Misinterpretation of the Patent Exhaustion Doctrine and the Transgenic Seed Industry in Light of Quanta v. LG Electronics*, 10 N. C. J. L. & TECH. 119 (2008), <http://scholarship.law.unc.edu/ncjolt/vol10/iss1/4/>; See also Rinehart, *supra* note 16, at 485.

<sup>103</sup> *Quanta Computer Inc. v. LG Electronics Inc.*, *supra* note 62.

<sup>104</sup> A patentee is generally allowed by law to grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his license he was not permitted to enlarge his monopoly and thus acquire some other right which the statute and patent did not give. (This is the position for Patentees in most nations and internationally as well). See Dahlin, *supra* note 26, at 758.

<sup>105</sup> *Id.*

Conditional exhaustion is criticised for affecting the distribution, consumption and the incentive for the flow of goods in the markets.<sup>106</sup> Since it allows patent holders to avoid exhaustion through express post-sale restrictions and thereby maintain their monopoly, it is said to stifle competition.<sup>107</sup> However, it is also said to encourage research and development (R&D) and innovation, as it expands the incentives of patent holders.<sup>108</sup>

As with mandatory exhaustion, several cases have upheld conditional exhaustion such as *Henry v. A.B. Dick*;<sup>109</sup> *Monsanto Co. v. Scruggs*;<sup>110</sup> *Mitchell v. Hawley*;<sup>111</sup> *General Talking Pictures Corp. v. Western Electric Co.*;<sup>112</sup> *Mallinckrodt, Inc. v. Medipart, Inc.*<sup>113</sup> These cases effectively state that patent exhaustion would only apply where the sale is an unconditional one. Thus, it can be concluded that where exhaustion is conditional, the restrictions placed on patented goods are valid.

### 3.3. Moving from Understanding to Resolution

An understanding of the above-discussed notions of patent exhaustion indicates that patent exhaustion applies once there is an unconditional sale. The only difference between the two notions is the absolute refusal by the notion of mandatory exhaustion to even consider post-sale restrictions and the consideration given by the notion of conditional exhaustion to the same. This difference, which courts continue to struggle with, may require a solution which is not necessarily a 'one size fits all.'<sup>114</sup>

Several authors have come up with alternatives to the conflicting notions or ways of balancing this difference. For instance, one alternative is the "default-plus" rule which combines conditional exhaustion with a patent misuse test independent of the exhaustion analysis.<sup>115</sup> Rhinehart has proposed the use of the Pliability Rule rhetoric<sup>116</sup> to justify limiting patent relief when a sale occurs with license restrictions, be they

---

<sup>106</sup> Rhinehart, *supra* note 16, at 487.

<sup>107</sup> See generally Zheng, *supra* note 4, at 128; Chiapetta, *supra* note 7.

<sup>108</sup> *Id.*

<sup>109</sup> See *Henry v. A. B. Dick*, 224 U.S. 1, 49 (1912), at 23-30 (Was however later overruled in the case of *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, *supra* note 28 at 506-518.).

<sup>110</sup> *Monsanto Co. v. Scruggs*, 249 F. Supp. 2d 746, 753 (N.D. Miss. 2001) ("The exhaustion doctrine only applies where the sale or license of the patented invention is an unconditional one.").

<sup>111</sup> *Mitchell v. Hawley*, 83 U.S. (16 Wall.) 544 (1872), at 545-551.

<sup>112</sup> *General Talking Pictures Corp. v. Western Elec. Co.*, 304 U.S. 175 (1937), at 179-181.

<sup>113</sup> *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992), at 701-708.

<sup>114</sup> Zheng, *supra* note 4.

<sup>115</sup> *Id.* at 139.

<sup>116</sup> Defined as comprising a shift from property to liability rule.



restrictions to field of use, resale price, tying and territory.<sup>117</sup> Several authors have suggested balancing both notions or have shown preference for one or the other.<sup>118</sup>

The authors hold the view that these different notions have been created due to lack of codification in some nations on the patent exhaustion doctrine which has subjected it to several interpretations over the years.<sup>119</sup> The first step, therefore, is for nations that are yet to codify their patent exhaustion doctrine to introduce legislations that conform with the provisions of the TRIPS Agreement.<sup>120</sup>

The next step is the determination to move ahead from the conflict. The doctrine is clearly evolving from its basic mandatory form to make room for the conditional form, bringing to fore issues regarding the obligatory nature of such agreements as well as the fear of restraints on alienation by allowing the patent rights to exist as servitudes.<sup>121</sup> Nations must, thus, at various legislative levels, consider this aspect of patent exhaustion and by taking suggestions from several authors on the subject, determine very carefully position which is most balanced and favourable to their citizens.

Only when each nation determines its position can there be some form of discussion for an internationally unified position on the subject. This is the necessary next step which nations must take to achieve the unification of the notions and to further fortify the doctrine of patent exhaustion.

#### IV. CONCLUSION

Patent exhaustion, be it applied mandatorily or conditionally, is necessary for a healthy intellectual property system.<sup>122</sup> Despite notional differences in the application of the doctrine in different nations, the differences can be balanced and unified by pro-active legislative measures. Codifying the same is one of the best possible ways to move away from the conflict towards a resolution. There is also a need for more international and unified guidance for the application of the doctrine. Perhaps with some effort and time, the doctrine may become universally uniform, just as the intellectual property from which it is derived has almost become.

---

<sup>117</sup> Rinehart, *supra* note 16, at 487 [citing Abraham Bell & Gideon Parchomovsky, *Pliability Rules*, 101 MICH. L. REV. 1, 25-26 (2002) (“Property + Liability = Pliability”).

<sup>118</sup> See Chiapetta, *supra* note 7, at 1143 (shows preference for the conditional notion discussed therein as the ‘default rule’).

<sup>119</sup> The United States only recently upheld the conditional notion and has gone back and forth over the years getting the hardest hit from the conflict, as a result of this lack of codification.

<sup>120</sup> See TRIPS Agreement, *supra* note 11, Art. 6.

<sup>121</sup> Molly S. Van Houweling, *The New Servitudes*, (96) THE GEORGETOWN L. J., 885-950 (2008).

<sup>122</sup> In some countries such as Nigeria where it is codified, it is seldom enforced.