In Favor of International Exhaustion in Patent Law

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The Supreme Court recently held in Kirtsaeng that the first sale of a book published with the copyright owner’s permission—anywhere in the world—exhausts the owner’s rights in that book. Thus, there was no infringement of a U.S. copyright when a graduate student imported and sold textbooks that were lawfully bought from a licensed publisher in Thailand. In patent law, the doctrine of exhaustion is a common law doctrine. It is currently limited to domestic sales, and need not follow the same rule as copyright. Nevertheless, the Court will likely face the question of whether this holding should also apply to patent law. The answer is yes.

An international exhaustion regime in patent law would limit a patent holder to a single reward from any given sale and curtail restrictions on future sales and geographic movements of goods that would restrict commerce and future beneficial use. In addition—though constituting a shift from current law and policy—international patent exhaustion is consistent with evolving aims of both patent law and international trade law. Early theory in both fields centered on gains to domestic industries and consumers at the expense of other countries. However, current theory in both fields accepts fluctuations in the fortunes of domestic industries and consumers, instead focusing on increased worldwide welfare. Patent law, for example, has shed geographical differentiation as to location of invention or prior art, nationality of inventor, and location (or fact of) of production. As a result, any attempt to retain some sort of protectionism through exhaustion would be misguided; protection of U.S. patent-holders is not protection of U.S. industry or consumers. This is consistent with trade theory that has resulted in low tariffs and significantly more neutral laws towards foreign interests in domestic markets.

The effects of an international exhaustion regime in patent law would likely vary among industries. Beneficial effects are clearest in the high-tech industries that engage in cross-border production for whom transaction costs would be greatly diminished. The global welfare effects are more complex for the drug industry, given the involvement of other regulatory regimes and patent law measures taken to increase access to medicine. However, concerns that drug companies will suffer from parallel imports are better met through regulatory regimes that already control market access in the industry. Parallel imports from single payer
health care systems should be subject to antidumping duties that reflect the non-market nature of the industry in countries that employ them. Last, we can expect that in industries amenable to it, a rule of international exhaustion would lead to increased restrictive licensing over outright sales. This should usually not be a great concern for businesses transactions that opt out of the exhaustion regime. And courts should be able to detect when a license is essentially a sale, enforcing exhaustion accordingly. Where restrictive licenses affect consumers, doctrines of antitrust and patent misuse can curb abuses. Reducing barriers to trade—the primary goal of international trade law—is a compelling argument for implementing an international exhaustion regime in patent law.