No. 15-1189

IN THE

Supreme Court of the United States

IMPRESSION PRODUCTS, INC.,

Petitioner,

v.

LEXMARK INTERNATIONAL, INC.,

Respondent.

ON WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF OF THE BOSTON PATENT LAW ASSOCIATION AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT WITH RESPECT TO QUESTION NO. 2

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INTERESTS OF AMICUS CURIAE[1]

The Boston Patent Law Association (BPLA) is a professional association of approximately 1,000 attorneys and other professionals whose interests and practices are in the area of intellectual property law. The BPLA's members include both in-house and outside counsel representing a diverse range of clients. The BPLA therefore has an institutional interest in seeing intellectual property law develop in a clear, predictable, and coherent way. It has no stake in the outcome of this matter other than with respect to its interest in seeing U.S. law interpreted in a manner that promotes innovation and protects innovators.[2]

SUMMARY OF ARGUMENT

The Court has long recognized the "general rule" that U.S. patent law is territorial. This rule is explicitly provided for in the Patent Act itself. There are some limited statutory exceptions to the territoriality requirement, but these only reinforce that absent a statutory provision to the contrary, U.S. patent rights and remedies do not extend beyond the borders of the United States.

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1. Consistent with Supreme Court Rule 37.6, no counsel for a party authored this brief in whole or in part, and no party or counsel for a party made a monetary contribution intended to fund the preparation or submission of this brief. Counsel for all parties have consented to the filing of this brief.

2. The BPLA has no financial interest in any party or the outcome of this case. This brief was neither authored nor paid for, in whole or in part, by any party. Petitioner has provided its consent via email dated February 8, 2017. Respondent has consented to the filing of this brief through a blanket consent letter filed with the Clerk's Office.

The Court has never applied the patent exhaustion doctrine to foreign sales. Petitioner's reliance on footnote 6 in *Quanta* for the contrary proposition is misplaced. Footnote 6 did not extend the domestic exhaustion doctrine internationally. It simply clarified that domestic exhaustion could not be undermined by non-infringing use outside the United States.

The patent exhaustion doctrine's bargained-for exchange, as recognized by the Court, is domestic in nature and does not take foreign sales into account. Expanding the doctrine to cover foreign sales would inequitably force U.S. patent holders to part with their U.S. patent rights for sales that do not implicate those rights in the first instance.

The Court's ruling in *Kirtseang,* which interpreted Section 109(a) of the Copyright Act to have extraterritorial reach, is inapposite to this case. *Kirtseang* involved the interpretation of a specific provision in the Copyright Act providing copyright exhaustion, whereas no such provision exists in the Patent Act. That key distinction and the fundamental differences in each body of law counsel against harmonization and creating a judicial rule of foreign patent exhaustion.

Other serious policy concerns explain why Congress has not passed a law providing that U.S. patent rights are exhausted by foreign sales. Such concerns involve not only foreign patent law regimes, but also price disparities in foreign markets and international trade policies as they relate to U.S. businesses. Congress is uniquely positioned to take such complex economic and policy issues into account.

In seeking to have the patent exhaustion doctrine apply outside of the U.S., Petitioner asks the Court to make a determination Congress has repeatedly declined to make—and for good reason. Petitioner's request should be denied.[3]

ARGUMENT

I. U.S. Patent Exhaustion Law Should Not Be Extended to Foreign Sales.

A. As a General Rule, U.S. Patent Law Does Not Apply Outside of the U.S.; Petitioner's Request for a Judicial Exception to This Rule Should Not Be Granted.

The Court has long recognized that the U.S. patent laws "do not, and were not intended to, operate beyond the limits of the United States." *Brown v. Duchesne*, 60 U.S. (19 How.) 183, 195 (1857). *See also Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 531 (1972); *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 444 (2007). This principle is grounded in the Exclusive Rights clause of the U.S. Constitution. *See Brown*, 60 U.S. at 195 (recognizing Congressional power in making laws under Art. I, §8, cl.

3. The BPLA's contribution is this matter is limited to Question No. 2 presented in the writ of certiorari. The BPLA's silence with respect to Question No. 1 is in no way intended to be construed as advocating reversal on Question No. 1. To the contrary, the BPLA endeavors to support a strong and vibrant patent system and believes affirmance on Question No. 1 is also appropriate. Out of considerations of space and time, however, it has sought to contribute to that cause by focusing on the discrete foreign patent exhaustion issue discussed in this brief.

8 “is domestic in its character, and necessarily confined within the limits of the United States.”).

The “general rule that our patent law does not apply extraterritorially” is “embedded in the Patent Act itself.” *Microsoft*, 550 U.S. at 442 and 455. For example, the Patent Act grants a patentee the “right to exclude others from making, using, offering for sale, or selling [its] invention *throughout the United States* or importing [its] invention *into the United States* . . . ,” 35 U.S.C. § 154(a)(1) (emphasis added), with infringement actionable based upon conduct occurring “*within the United States* . . ..” 35 U.S.C. § 271(a) (emphasis added). *See also* 35 U.S.C. §§ 271 (c) and (e).

There are a few explicit statutory exceptions to the territoriality requirements of U.S. patent law. For example, Section 271(f) of the Patent Act imposes infringement liability on “whoever without authority supplies [uncombined components] . . . in or from the United States . . . in such manner as to actively induce the combination of such components *outside of the United States* in a manner that would infringe the patent *if such combination occurred within the United States* . . ..” 35 U.S.C. § 271(f)(1) (emphasis added). *See also* 35 U.S.C. § 271(f)(2) (similarly imposing infringement liability based upon the supply of “especially made [components] . . . in or from the United States . . . combined *outside of the United States* in a manner that that would infringe if [the same] occurred within the United States”) (emphasis added). Other statutory exceptions include Section 271(g) (passed in 1988 imposing infringement liability for importation of products *made abroad* by a process patented in the U.S.) and Section 105 (passed in 1990 requiring inventions made, used or sold *in outer space* to be considered as if made, used or sold in the U.S. under certain circumstances). These explicit statutory exceptions to the U.S. patent law's territoriality requirement serve to reinforce its limited reach, which extends only to U.S. borders absent "a clear and certain signal from Congress" to the contrary. *Deepsouth*, 406 U.S. at 531.

In seeking to have the patent exhaustion doctrine apply outside of the U.S., Petitioner asks the Court to stand in Congress's place and make a judicial exception to the patent law's territoriality requirement. This request runs counter to the Patent Act and longstanding precedent of the Court and should not be granted.

B. The Court Has Never Applied The Patent Exhaustion Doctrine to Foreign Sales; *Quanta* Footnote 6 Is Not to the Contrary.

The Court has only applied the "longstanding doctrine of patent exhaustion" in cases involving domestic sales. *Quanta Computer, Inc. v. LG Elecs., Inc.*, 533 U.S. 617, 626 (2008). *See also U.S. v. Univis Lens Co.*, 316 U.S. 241 (1942); *Bloomer v. McQuewan*, 55 U.S. 539 (1852). The Court has never applied this doctrine to foreign sales, although it has had the opportunity to do so. *See Boesch v. Graff*, 133 U.S. 697, 703 (1890) (holding that patented lamp burners lawfully purchased in Germany by a third party, but not authorized by the U.S. patentee, could not then be sold "in the United States in defiance of the rights of patentees under a United States patent.").

Petitioner relies on footnote 6 of the Court's *Quanta* decision for the proposition that "international sales exhaust patent rights." Petitioner's Brief at 48-49. Petitioner's reliance on footnote 6 is misplaced. In *Quanta*, there were no foreign sales at issue allegedly causing exhaustion of U.S. patent rights. As the Federal Circuit explained in *Fujifilm v. Benun*, footnote 6 was directed to whether the products in question "substantially embodied" the patent under U.S. law, and not whether foreign sales exhausted U.S. patent rights:

> Defendants rely on *Quanta*'s footnote 6 because it contains the phrase "[w]hether outside the country." This phrase, however, emphasizes that *Univis* required the product's only use be for practicing—not infringing—the patent; and a practicing use may be "outside the country," while an infringing use must occur in the country where the patent is enforceable. Read properly, the phrase defendants rely on supports, rather than undermines, the exhaustion doctrine's territoriality requirement.

605 F.3d 1366, 1371-72 (Fed. Cir. 2010).

Indeed, far from extending the domestic exhaustion doctrine internationally, footnote 6 simply made clear that domestic exhaustion could not be defeated by the possibility of non-infringing foreign use. To have held otherwise would have eviscerated the doctrine of domestic exhaustion altogether because patented products are always capable of non-infringing foreign uses. It does not follow, as Petitioner contends, that non-infringing foreign uses, which by their very nature do not implicate U.S. patent rights, could be said to exhaust those rights—much less that *Quanta* so held.

C. The Patent Exhaustion Doctrine's Bargained For Exchange Does Not Apply Abroad Because U.S. Patent Rights Are Not Implicated in Such an Exchange.

The Court has recognized that when a patentee decides to sell an article, it bargains for that sale in consideration of the "monopoly" conferred to it under U.S. patent law. *See*, *e.g.*, *Bloomer*, 55 U.S. at 550 ("when the machine passes to the hands of the purchaser, it is no longer *within the limits of the monopoly*. It passes outside of it, and is no longer under the protection of the act of Congress.") (emphasis added); *Univis*, 316 U.S. at 250 ("[t]he patentee *may surrender his monopoly* . . . in part by the sale of an article embodying the invention.") (emphasis added); *id*. at 251 ("[upon sale of a patented article, the patentee], has parted with his patent monopoly . . . and *has received in the purchase price every benefit of that monopoly* which the patent law secures to him.") (emphasis added).

Like the patent law itself, the bargained-for exchange is domestic in its character, and does not take into account—or implicate—foreign sales. That makes perfect sense because when selling products abroad, the U.S. patent holder has no enforceable U.S. patent rights to bargain with. Instead, the U.S. patent holder is subject to foreign patent laws and must rely on foreign patent rights it may have secured in the country of sale. U.S. patent laws simply do not apply. *Microsoft*, 550 U.S. at 455. Expanding the U.S. patent exhaustion doctrine to sales made abroad would improperly force a U.S. patent holder to part with its rights in a sale that does not implicate those rights.

That result would be harmful to U.S. patent holders and their economic activity abroad. For example, like foreign patent laws, foreign market conditions influence both the decision to sell abroad and the terms and conditions under which those sales are made. Such market conditions, including product pricing, can vary widely from country to country. Under a new rule of foreign patent exhaustion, U.S. companies that sell products abroad at prices that are significantly lower than U.S. prices would be forced to recalibrate whether they can continue to sell in such countries, or must instead discontinue operations based on concerns over competing parallel imports in the U.S. and the potential need to increase prices in foreign markets, among other considerations.

Such legal and policy considerations counsel against applying patent exhaustion extraterritorially absent Congressional action to the contrary. This is the course the Court has taken in the past when faced with questions regarding whether to apply U.S. patent law to foreign conduct. *See, e.g., Deepsouth*, 406 U.S. at 531 (refusing to apply Section 271 of the Patent Act extraterritorially, thereby causing Congress later to craft Section 271(f) to take into account the activity at issue in that case, *i.e.*, foreign assembly of U.S. originated components that would infringe if such assembly were made, used, or sold in the U.S.); *Life Techs. Corp. v. Promega Corp.*, 580 U.S. [ ] (2017) No. 14-1538 (February 22, 2017) (recognizing that "Congress enacted 271(f) in response to our decision in *Deepsouth* . . ..").

D. Unlike the Copyright Act, the Patent Act Does Not Contain an Exhaustion Provision; The Foreign Exhaustion Rule Expounded in *Kirtsaeng* is Confined to the Copyright Act.

In advocating for an absolute rule of foreign patent exhaustion, Petitioner relies heavily on the Court's decision in *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351 (2012), in which the Court determined that the Copyright Act's exhaustion provision set forth in 17 U.S.C. § 109(a) has extraterritorial application. *See* Petitioner's Brief at 44-48. *Kirtsaeng* is inapposite for several important reasons.

In *Kirtsaeng* the Court interpreted Section 109(a) of the Copyright Act, an explicit act of Congress codifying Copyright exhaustion. There is no corresponding exhaustion provision in the Patent Act. Petitioner therefore invites the Court to proclaim such an extraterritorial rule in patent law in the absence of Congressional action and to put itself in Congress's position, which it should not do.

Petitioner also invites the Court to harmonize patent law and copyright law on this issue, but there is no justification for doing so because they are two separate and distinct statutory regimes. Indeed, although each is grounded in Art. I, §8, cl. 8., of the U.S. Constitution, the patent law and copyright law are two different legal regimes. Each is a distinct body of law that should be interpreted in accordance with its own terms and underlying policy rationales. *See, e.g., Sony Corp. of Am. v. Universal City Studious, Inc.*, 464 U.S. 417, 439, fn. 19 (1984) (recognizing that the two bodies of law "naturally, are not identical twins" and exercising caution not to "apply[] doctrine formulated in one area to the other."); *Bobbs-Merrill Co.* v. *Straus*, 210 U.S. 339, 345 (1908) (making the logically similar argument that "[i]f we were to follow the course taken in the argument, and discuss the rights of a patentee, under letters patent, and then, by analogy, apply the conclusions to copyrights, we might greatly embarrass the consideration of a case under letters patent, when one of that character shall be presented to this court.").

One distinction is that copyright law protects works of authorship "fixed in any tangible medium of expression," 17 U.S.C. § 102(a), whereas patent law protects technological innovations that are new, useful and non-obvious, 35 U.S.C. §§ 101-103. In line with this distinction, the Court has recognized that "[u]nlike a patent, a copyright gives no exclusive right to the art disclosed; protection is given only to the expression of the idea—not the idea itself." *Mazer* v. *Stein*, 347 U.S. 201, 217 (1954).

Other differences relate to the procurement of rights under each regime. For example, with respect to copyright protection, an author of a work is automatically granted rights in its work under the common law and no federal registration is required. Federal registration does provide certain advantages, however, including the ability to seek and obtain statutory damages for infringement under federal law. *See* 17 U.S.C. §§ 411, 412 and 501-505. Therefore, many copyright holders seek federal registration to strengthen their rights. During the registration process, an applicant must submit a copy of its work to the Copyright Office along with a form application and fee. In stark contrast with the U.S. Patent and Trademark Office when examining patent applications, the Copyright Office does not perform a substantive review of applications. *See, e.g.*, U.S. Copyright Office Compendium 602.4(C) ("The Copyright Office generally does not compare deposit copies to determine whether the work for which registration is sought is substantially similar to another work.").

Obtaining a patent is a much more arduous and expensive process than obtaining a copyright registration, requiring significant investment of time and money to secure rights that ultimately may never be granted. During that process, an applicant must determine whether its innovation is patentable subject matter in the first place. This involves consultation with an attorney to evaluate patentability and other merits of an application. If patent protection is desired, the patent application must then be prepared, which involves the drafting of a detailed written description, drawings, and claims, which is often an involved and expensive process the parameters of which can vary widely depending on the technology at issue. *See, e.g., Topliff v. Topliff*, 145 U.S. 156, 171 (1892) (recognizing that the "specification and claims of a patent, particularly if the invention be at all complicated, constitute one of the most difficult legal instruments to draw with accuracy . . ..").

The patent application is then filed with the United States Patent and Trademark Office, with examination often taking place over the course of multiple years. During that time, addressing examiner office actions can be a hard fought process. Example rejections include rejections based on complex issues of patentable subject matter (35 U.S.C. § 101), novelty (35 U.S.C. § 102), obviousness (35 U.S.C. § 103) and the written description requirement

(35 U.S.C. § 112). *See, e.g.,* 4 Donald S. Chisum, Chisum on Patents, § 11.03 (Matthew Bender). Often that process results in the original patent claims sought not being issued at all, or issued in an altered or narrowed form. *See, e.g.,* Walter G. Park, Economic Freedom of the World: 2001 Annual Report, *Intellectual Property and Patent Regimes*, 101-05 (2001). A similar process is undertaken with the assistance of foreign counsel when prosecuting patent applications in each foreign country in which patent protection is sought; such applications are governed by each country's own laws and standards. *Id*.

Other key differences between patent law and copyright law include the respective terms of protection; in the U.S., patents are generally granted a term of twenty (20) years from the date of filing, whereas copyrights are granted to an individual for the life of the author plus seventy (70) years or to an organization for a term of one-hundred-twenty (120) years from the year of creation or ninety-five (95) years from the year of first publication, whichever expires first. *See* 17 U.S.C. §§ 302(a) and (c). Yet another difference is that patent rights do not vest until the patent is granted, whereas copyright rights exist from creation, even absent a federal registration. Indeed, that difference is highlighted by the fact that an inventor can forfeit his or her rights to a patent by failing to file for a U.S. patent for more than a year after the inventor's first sale, offer for sale, or public disclosure of the invention. *See* 35 U.S.C. § 102. Such forfeiture also applies to foreign rights, which is not the case in copyright law.

These differences reflect the fact that each body of law has correspondingly different underlying policy rationales, which have been carefully considered by

Congress in making and amending each body of law. They counsel against imposing rules applicable in one body of law onto the other without the consideration and action of Congress, as Petitioner advocates here.

II. Public Policy Counsels Against Extending U.S. Patent Exhaustion to Encompass Foreign Sales.

Consistent with the territorial nature of patent law, each country has a separate and distinct patent regime that governs the requirements to obtain and enforce patent rights within each country. *See, e.g.,* Park, *supra* at 12. International treaties, such as the Patent Cooperation Treaty ("PCT"), help participating countries harmonize certain aspects of the patent procurement process, including administrative and priority matters relating to filing and prosecuting patent applications. *Id*. *See also Touchcom, Inc. v. Bereskin & Parr*, 574 F.3d 1403, 1408 (Fed. Cir. 2009) (explaining "the PCT provides a unified procedure for filing a single patent application in multiple countries.")

However, such treaties have historically left untouched the independent sovereignty of the respective national patent systems, which were each formed based on independent policy rationales unique to each country and on the territorial reach of patent law. *See, e.g.,* Paris Convention for the Protection of Industrial Property, Mar. 20 1883, 4*bis*., 25 Stat. 1372 (signed by U.S. in 1887) ("[p]atents applied for in the different contracting states . . . shall be independent of the patents obtained for the same invention in the other States"); *Voda v. Cordis Corp.*, 476 F.3d 887, 888-89 (stating "[t]he Paris Convention thus clearly expresses the independence of each country's sovereign patent systems and their systems for adjudicating those patents. Nothing in the Paris Convention contemplates nor allows one jurisdiction to adjudicate the patents of another . . ..").

Accordingly, there is a well-established global patent system in place that U.S. and foreign market players have been using for many years. That system is based on the proposition that conduct within the borders of each country will be governed by each country's own laws. *See, e.g., Microsoft,* 550 U.S. at 455 (recognizing that foreign patent laws "'embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions.'") (quoting *F. Hoffman-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 164 (2004)).

From the perspective of a U.S. business, whether it is a startup or a Fortune 500 company, the assessment of whether to enter foreign markets to sell products carries many careful questions and key decisions. Relevant considerations include: (1) whether patent protection can be obtained in each country of interest, (2) whether the products risk infringing third party patents issued in each country, (3) what the market is in each country; (4) who the competitors are in each country; (5) whether to manufacture the products in each country of interest or elsewhere; and (6) at what price the products will be sold in each country.

The price of goods may vary broadly from one country to the next. By way of example, in order to stay competitive, a U.S. company might sell goods in a lesser-developed nation at a price significantly lower than in the United States. This is a function of such factors as manufacturing, labor and shipping costs, along with other factors such as foreign forum laws and regulations. Other costs come into play as well, including costs relating to patent protection and risks relating to third-party patents. For example, the cost of prosecuting patent applications in each country can be expensive since foreign lawyers must be employed in each country in which patent prosecution occurs. Similarly, it may also be necessary to retain foreign lawyers for issues relating to patent enforcement, defense, licensing and other patent-related issues in each country.

All of these assessments involve thorough evaluation of costs and liabilities. In some instances it is cost prohibitive to operate in a certain country, in other instances third party patents may deter operation, and in yet other instances both circumstances exist. In most cases all of these and other factors are balanced together and a business decision is ultimately made. A change in any one of these parameters could drastically affect a U.S. company's ultimate decision and behavior.

Should foreign patent exhaustion become law, products sold abroad at lower prices could enter the U.S. markets and be resold, cannibalizing sales and cutting into the U.S. patent holder's market share. There is no starker example of this than in the pharmaceutical industry in the United States, which is home to the world's leading pharmaceutical market, employing nearly 1 million people in the United States and generating over $1 trillion in economic output. *See* SelectUSA.gov, *Pharmaceutical and Biotech Spotlight, The Pharmaceutical and Biotech Industries in the United States*, https://www.selectusa.gov/pharmaceutical-and-biotech-industries-united-states (last visited Feb. 22, 2017)

With increasing pressure to sell drugs at lower prices to under-developed nations, such a rule of automatic international patent exhaustion would expose U.S. based pharmaceutical companies to parallel imports of their own products repackaged as competing products. Much public debate surrounds the high price of drugs. Notwithstanding the public outrage at the large profits U.S. pharmaceutical companies make, those profits are not only justified by the high cost and extreme risk of research and development efforts, but they also allow drug companies to provide much-needed medicines to millions of people who could not otherwise afford them. Indeed, absent such incentives, many life-saving inventions might never be made at all.

If a foreign patent exhaustion standard were to be imposed, this would cause companies, including pharmaceutical and other companies selling lower-cost products abroad, to charge the same or substantially increased relative prices for products worldwide. In many cases this may result in U.S. companies not selling products (such as needed pharmaceutical products) in certain countries, including developing countries, because of the inability of purchasers in those countries to pay, depriving many of life-saving medicines. Further, such a rule would cause immediate harm to businesses that are locked into multi-year licenses and other agreements concerning low cost foreign sales of their products, especially if those agreements were entered into under the long-settled expectation that foreign patent sales do not exhaust U.S. patent rights.

Such results are not desirable for the reasons discused, which may help explain why Congress has not amended U.S. patent law to provide a rule of foreign patent exhaustion. *See Kirtsaeng*, 133 S. Ct. at 1371 (recognizing that the "commercial power to divide international markets is a matter for Congress to decide.").

CONCLUSION

For the foregoing reasons, the BPLA respectfully requests that the Court affirm the Federal Circuit's decision with respect to Question 2, and hold that the patent exhaustion doctrine does not apply to foreign sales.

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