United States of America

Q156

International Exhaustion of Industrial Property Rights

National Law

1. *Is there international exhaustion of (i) patents; (ii) trade marks; and (iii) other industrial property rights? That is, can an industrial property right owner use industrial property rights against parallel imports from another country, when the imported products have been put on the market in that country by the industrial property right owner or with his consent?*

Generally: The law relating to the control of parallel imports into the United States by U.S. industrial property right (IPR) owners, generally does not rely on whether or not the U.S. IPR owner "consented" to the marketing (or manufacture) of products in a foreign country, but rather on other relationships with the products or their source.

i) Patents: Infringement of a United States Patent is governed by 35 U.S.C. §271(a), which provides that "- - whoever without authority makes, uses, offers to sell or sells any patented invention, within the United States, or imports into the United States any patented invention during the term of the patent therefor, infringes the patent."

An owner of a United States patent (for an invention or a design) can use its patent against parallel imports from another country, when the imported product has been put on the market in that country by the patent owner or with his consent, unless a license to import the product has been granted by the patent owner. It is not relevant whether the patent owner owns a corresponding patent in the country from which the product is being imported. Nor is it relevant that the importer is a legal entity which has economic connections with the owner of the United States Patent.

ii) Trademarks: A trademark owner may seek to control parallel imports using statutory and regulatory provisions relating to the exclusion of imports and/or statutory provisions relating to infringement. However, where the goods are identical to those of the U.S. trademark owner, these provisions may provide relief against importation into the United States only in limited circumstances.

Section 526(a) of the Tariff Act of 1930 (19 U.S.C. 1526) prohibits the importation of any merchandise of foreign manufacture bearing a federally registered trademark owned by a U.S. citizen or corporation, unless written consent of the trademark owner is produced at the time of entry into the United States. Section 42 of the Lanham Act (15 U.S.C. 1124) prohibits the importation of goods bearing a mark which "copies or simulates" a federally registered trademark.

U.S. Customs Regulations (19 C.F.R. 133.23) deny entry of "restricted gray market articles".

A trademark owner may also invoke the infringement sections of the Lanham Act, in which section 32(a), bars the use of any "reproduction, counterfeit, copy, or colorable imitation" of a federally registered trademark, and section 43, which prohibits the use of any false designation of origin likely to cause consumer confusion.

Where the U.S. trademark owner acquired the U.S. trademark rights from an independent, unrelated foreign owner of the mark, importation of goods bearing the mark of that foreign company may be prevented from entering the United States. This situation can be regarded as one of protecting the U.S. trademark owner, rather than one of exhaustion.

An owner of a United States trademark which is registered on the principal federal register, and which authorizes an independent foreign manufacturer to use its trademark only in a specified country, for example by licensing the foreign manufacturer, can block importation of goods bearing the mark and made by the foreign licensee. United States Customs Regulations expressly provide for denial of entry for such goods.

However, where goods identical to those of the U.S. trademark owner are manufactured abroad by an affiliate of the U.S. trademark owner, or an entity under common ownership or control with the U.S. trademark owner, the above provisions do not preclude importation. Importation may be prevented, however, where the goods are physically and materially different from the goods sold in the United States by the U.S. trademark owner.

Affiliation exists where either firm is a parent or subsidiary of the other, where the foreign manufacturing firm is merely the domestic firm's own unincorporated manufacturing division, or where there is common control between the firms.

iii) Other Industrial Property Rights - Mask Works and Copyrights:

With respect to importation of goods and copies, the pertinent United States law appears at 17 U.S.C. 905 and 906 for Mask Works and at 17 U.S.C. 109 and 602 and 19 U.S.C. 1337 for Copyright.

The owner of a mask work has the exclusive right to authorize importation or distribution of a semiconductor chip in which the mask work is embodied. However, the purchaser of this chip from the owner of the mask work, or by the owner's authority, may import, distribute, dispose of, or use the chip without the authority of the owner of the mask work. The first sale of the chip exhausts the mask owner's exclusive rights and a parallel import cannot be blocked by the mask work owner.

A copyright owner may invoke section 602(a) of the Copyright Act, which provides that the importation of copies of a copyrighted work without the authority of the owner of the copyright, is an infringement of the owner's exclusive right to distribution.

However, the first sale doctrine, codified in section 109 of the Copyright Act, provides that the owner of a particular copy "lawfully made under this title" is entitled, without the authority of the copyright owner, to sell or otherwise dispose of that copy. The U.S. Supreme Court has held that, as to works made in the United States, exported and re-imported, the first sale of a copyrighted work extinguishes the copyright holder's rights in the work, such that the copyright owner cannot prevent its importation. Although some lower courts have held that the U.S. copyright owner can prevent importation of works manufactured abroad by foreign affiliates or licensees, it is unsettled whether this is still good law.

2.a) *Can contractual restrictions imposed by the industrial property right owner be used to limit the effect of international exhaustion?*

Yes, see comments above. Further, breach by a foreign licensee of territorial restrictions prohibiting sale of licensed goods in the United States can be used by the United States IPR owner/licensor to control parallel imports.

b) *Effect of breach*: Breach of a contractual condition by a purchaser does not directly affect parallel imports.

3. If contractual restrictions can be used to limit importation -

a) *Does it matter whether they express or implied?*

No, in so far as there appears to be no decided cases on this issue. However, it is expected that any such restrictions should be express.

b) *If express, are there any particular marking requirements?*

No, but note that U.S. Customs will not deny entry to goods that are physically and materially different from the U.S. trademark owner's goods where the goods or their packaging bear a conspicuous label designed to stay on the goods until their first point of sale to retail consumers in the United States and stating that the goods are not authorized by the United States trademark owner for importation and are physically and materially different from authorized goods.

c) *If protected products are marked to indicate some marketing restriction, what are the consequences of removal or loss of any marking?*

There appear to be no decided cases on whether removal or loss of marking, such as territorial limitations, affect parallel imports.

4. *Does international exhaustion of industrial property rights apply where a product has been put on the market under a compulsory license?*

No.

5. *Is "consent" which gives rise to exhaustion limited to specific arrangements (for example, a relationship with a subsidiary or an affiliated company, or an agreement with a licensee) or a question of fact in each class?*

See above as to comments in general and the role of such facts in trademark cases.

6. *Can an IPR owner object to parallel importation where* a) goods or b) their packaging has been modified?

In trademark cases, where the modifications may result in the goods being physically and materially different or of unacceptable quality to the United States trademark owner, objection may be made to their importation.

Summary

The law relating to control of parallel imports into the United States by industrial property right (IPR) owners, generally, but with exceptions in the case of trademarks, does not rely on whether or not the U.S., IPR owner "consented" to the marketing (or manufacture) of products in a foreign country, but rather on other relationships with products or their source.

Patents - There is no international exhaustion. An owner of a U.S. Patent can use its patent against parallel imports from another country, when the imported product has been put on the market in that country by the patent owner or with his consent, absent a license to import the product granted by the owner.

Trademark - A trademark owner may control imports using statutory and regulatory provisions relating to infringement and/or exclusion of imports. However, control cannot be effected if consent to import can be implied e.g. from common control, of the owner and the foreign source, or is express e.g. by license.

Mask works and copyrights - The first sale of a semiconductor chip exhausts the exclusive rights of the owner of the mask work and a parallel import of the chip cannot be blocked. Re-importation of copyrighted works also cannot be blocked, but the law is unsettled as to whether or not importation of copyrighted works made abroad can be blocked.