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978-1-107-11585-9 — Exhausting Intellectual Property Rights
Shubha Ghosh , Irene Calboli
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EXHAUSTING INTELLECTUAL PROPERTY RIGHTS

Even as globalization seems to be in retreat in political circles, the march of commercialization and markets continues. Government policies, whether tariffs, exits, or walls, cannot impede the competitive drive to meet consumer demand for products and services, whether within national boundaries or across them. In the sphere of intellectual property rights, the doctrine of exhaustion serves to limit the rights of intellectual property owners after a specific exercise of some or all of the rights. This volume provides an assessment of the successes and failures of the exhaustion doctrine as it has been applied through recent judicial decisions in the United States and the European Union. Irene Calboli and Shubha Ghosh explore how evolving interpretations of the exhaustion doctrine affect the large trade in gray market products and other international trade issues. A comparative approach to exhaustion, *Exhausting Intellectual Property Rights* offers a unique discussion of the often overlooked issue of overlapping rights.

Shubha Ghosh is Crandall Melvin Professor of Law at Syracuse University College of Law and the director of the Technology Commercialization Law Center and the Syracuse Intellectual Property Law Institute (SIPLI). He is the author of *Identity and Invention* (Cambridge University Press, 2012) and coauthor of *Transactional Intellectual Property: From Startups to Public Companies* (2018) and *Intellectual Property: Private Rights, the Public Interest, and the Regulation of Creative Activity* (2016).

Irene Calboli is Professor of Law at Texas A&M University School of Law, Visiting Professor at Nanyang Business School, Nanyang Technological University, and Transatlantic Technology Law Forum Fellow at Stanford University. Her recent books include *Diversity in Intellectual Property: Identities, Interests, and Intersections* (2015) and *Geographical Indications at the Crossroads of Trade, Development, and Culture* (2017).

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A COMPARATIVE LAW AND POLICY ANALYSIS

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For A. C. Dutta: botanist, scholar, Dadu – S. G.
For Gualtiero Calboli: scholar of classics and philology, Maestro – I. C.

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Foreword

Whether they fully realized it or not, the governments negotiating the Agreement Establishing the World Trade Organization (WTO) in the 1990s[1] were laying the foundations of a global marketplace for goods and services. By the same token, the signatories to that Agreement in 1994 were also establishing a global market for both copyrighted works and patented inventions[2] by virtue of Annex 1C of that same Agreement, better known as the TRIPS Agreement.[3]

Ironically, one of the major issues the parties to these groundbreaking international conventions could not agree upon was the principle of exhaustion that was to limit the scope of intellectual property rights in the brave new world they otherwise envisioned. The three options on the table were national, regional, or international exhaustion, all of which were well established in prior international law and practice, as the authors of this book elsewhere explain. Given this lack of consensus, Article 6 of the TRIPS Agreement left WTO members free to choose which of these approaches they preferred to codify in their domestic laws.[4] This "agreement to disagree" on exhaustion was thus a matter of expedience at the expense of economic logic.

Since then, however, the global marketplace implicit in the WTO Agreement of 1994 has become an economic reality that transcends the reach of territorial legislation and that influences the decisions of entrepreneurs in every corner of the globe. Accordingly, as Professor Thomas Cottier has observed, the temporal compromise concerning exhaustion in Article 6 of the TRIPS Agreement has become obsolete, and the only logical response to a global regime of intellectual property rights is a

[1] Marrakesh Agreement Establishing the World Trade Organization (WTO), Apr. 15, 1994, 1869 U.N.T.S. 299, 33 I. L. M 81 (1994).

[2] See, e.g., Keith E. Maskus and Jerome H. Reichman, *The Globalization of Private Knowledge Goods and the Privatization of Global Public Goods*, in INTERNATIONAL PUBLIC GOODS AND TRANSFER OF TECHNOLOGY UNDER A GLOBALIZED INTELLECTUAL PROPERTY REGIME 3–45 (K. E. Maskus and J. H. Reichman, eds., 2005).

[3] Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 108 Stat. 4809, 1869 U.N.T.S. 299. Technically, the TRIPS Agreement is Annex 1C of the Agreement Establishing the WTO, *supra* n. 2.

[4] TRIPS Agreement, *supra* n. 3 art. 6.

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unitary regime of international exhaustion.[5] On that principle, the sale of any patented product or copyrighted work anywhere in the world would exhaust the seller's property rights in those items, rendering them freely alienable in other countries.

To the amazement of many, that economically logical viewpoint has now been embraced by the US Supreme Court. In a surprise decision of 2016, Justice Breyer found that the Copyright Act of 1976 had implicitly embodied the doctrine of international exhaustion, without any explicit reference to that regime in the text.[6] At the time, I doubted that any of the legislators who shepherded that Act through twenty years of congressional resistance had any notions about international exhaustion whatsoever.

Given that improbable decision, nonetheless, it was logical to consider what the Supreme Court might eventually do with regard to sales of patented products outside the United States. The Court of Appeals for the Federal Circuit tried discreetly to influence the answer to that question by reaffirming the doctrine of national exhaustion in an *en banc* decision in 2016.[7] On appeal, however, Chief Justice Roberts rejected that view and emphatically embraced international exhaustion for patents as well as copyrights, invoking the common law's hostility to restraints on alienation as expounded by Lord Coke in 1628.[8] Given a sale of the patented product and not a mere license, the Supreme Court also overrode contractual restraints that would otherwise have applied after the first sale.[9]

As a result, entrepreneurs in the United States must adjust their investment calculus to reflect the fact that products sold abroad may now be freely reimported back into the domestic market, which in turn will likely influence their marketing and pricing strategies in foreign markets. What the larger implications of this upheaval could mean for both exporters and importers is the subject of this remarkable book, which could not have appeared at a more timely juncture. The eminent authors, Irene Calboli and Shubha Ghosh, have undertaken to explore the entire universe of intellectual property rights from the angle of exhaustion. In other words, by peering into the realm of intellectual property rights from the outside, they identify and evaluate the repercussions likely to follow from the conflicting regimes of exhaustion still entrenched in the world's major markets.

It is a remarkable project, carried out with intellectual rigor and often brilliant insights into the legal and economic policies affected by decisions in this field. If we, as readers, feel a bit like Alice in Wonderland as we peruse their output, we can be confident that our guides are fully conscious of the importance of their undertaking. I congratulate them for their courage and

[5] See Thomas Cottier, *The Exhaustion of Intellectual Property Rights – A Fresh Look*, 39 (7) INT'L REV OF INTELLECTUAL PROP. & COMPETITION L. 755 (2008).

[6] *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U.S. 519 (2016).

[7] *Lexmark International v. Impression Products, Inc.*, 816 F. 3rd 721 (Fed Cir 2016).

[8] *Impression Products, Inc. v. Lexmark International, Inc.*, 137 S. Ct. 1523, 1526 (2017), *citing* 1. E. Coke, Institutes of the Laws of England §360 (1628), at 223.

[9] *Id.* at 1534–35.

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willingness to take us on such a revealing tour of modern intellectual property law, as viewed from the outermost boundaries needed to preserve its legitimacy in time and space.

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