

# Exhausting Extraterritoriality

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# The single-reward principle: patent

- ▶ “The test has been whether or not there has been such a disposition of the article that it may fairly be said that the patentee has **received his reward** for the use of the article.”
  - ▶ U.S. v. Masonite Corporation, 316 U.S. 265, 278 (1942)

# The single-reward principle: copyright

- ▶ “The owner of the copyright in this case did sell copies of the book in quantities and **at a price satisfactory to it**. It has exercised the right to vend.”
  - ▶ *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908)
- ▶ “The ultimate question embodied in the ‘first sale’ doctrine” is “ ‘whether or not there has been such a disposition of the article that it may fairly be said that the patentee [or copyright proprietor] has **received his reward** for the use of the article.’ ”
  - ▶ *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 854 (2d Cir.1963) (quoting *United States v. Masonite*) (brackets added by Platt & Monk court)

# Patent exhaustion Type 1: patentee received reward abroad

- ▶ The principle that exhaustion results from a first sale “applies to an authorized first sale abroad by a patentee or licensee who also has the right to sell in the United States.”
  - ▶ *Kabushiki Kaisha Hattori Seiko v. Refac Technology Development Corp.*, 690 F.Supp. 1339, 1342 (S.D.N.Y.1988)

# Patent exhaustion Type 2: patentee didn't get reward abroad

- ▶ Defendant purchased car in Germany, and brought it back home with him to the U.S.
- ▶ Car incorporated inventions covered by U.S. patents, but not by any German patent
- ▶ U.S. patent owner sued the car buyer
- ▶ **held**: no exhaustion; the unauthorized importation was infringing
- ▶ **analysis**: consistent with the single-reward principle
  - ▶ *Daimler Mfg. Co. v. Conklin*, 170 F. 70 (2d Cir.1909)

# The *Jazz Photo* rule

- ▶ “[O]nly [cameras] sold within the United States under a United States patent qualify for the repair defense under the exhaustion doctrine. Moreover, Fuji’s foreign sales can never occur under a United States patent because **the United States patent system does not provide for extraterritorial effect.**”
  - ▶ Fuji Photo Film Co., Ltd. v. Jazz Photo Corp., 394 F.3d 1368 (Fed.Cir.2005)

# Reasoning in *CBS v. Scorpio*

- ▶ Per § 109(a), first sale occurs only if copy is “lawfully made under this title”
- ▶ “lawfully made under this title” means
  - authorized by copyright owner
  - made in a location that is within the geographical scope of the Copyright Act
- ▶ The Act does not apply extraterritorially
- ▶ So an item that is manufactured outside the U.S. is not made “under this title”
- ▶ So sale of such an article is not a first sale under § 109(a)

# The Copyright Act's first-sale rule

- ▶ “Notwithstanding the provisions of section 106(3) [the public distribution right], the owner of a particular copy or phonorecord **lawfully made under this title**, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.”

▶ 17 U.S.C. § 109(a)



# Scorpio's holding invokes extraterritoriality rule

- ▶ “[Section 109(a)] grants first sale protection to the third party buyer of copies which have been legally manufactured and sold within the United States and not to purchasers of imports such as are involved here. The protection afforded by the United States Code **does not extend beyond the borders of this country . . . .**”
  - ▶ Columbia Broadcasting System, Inc. v. Scorpio Music Distributors, Inc., 569 F.Supp. 47 (E.D.Pa.1983)

# 9th Cir. weighs in

- ▶ “The first sale doctrine in . . . does not . . . provide a defense to infringement under 17 U.S.C. § 602 for goods manufactured abroad. The words ‘**lawfully made under this title**’ in § 109(a) grant first sale protection only to **copies legally made and sold in the United States.**”
  - ▶ *BMG Music v. Perez*, 952 F.2d 318 (9th Cir.1991)

# 9th Cir.: what we really meant was . . .

- ▶ A valid first sale occurs if an item **manufactured abroad** is sold in the **U.S.** with the copyright owner's authorization, but not if it is sold **abroad** with authorization.
  - ▶ *Parfums Givenchy, Inc. v. Drug Emporium, Inc.*, 38 F.3d 477 (9th Cir.1994)

# *Quality King* dictum

- ▶ “If the author of the work gave the exclusive United States distribution rights—enforceable under the Act—to the publisher of the United States edition and the exclusive British distribution rights to the publisher of the British edition, however, **presumably only those made by the publisher of the United States edition would be ‘lawfully made under this title’** within the meaning of § 109(a).”
  - ▶ *Quality King Distributors, Inc. v. L’anza Research International, Inc.*, 523 U.S. 135, 148 (1998)

# Why extraterritorial application of U.S. law is disfavored

- ▶ Statutes should be construed to avoid violating customary international law
  - ▶ To preserve international comity, avoiding clashes with laws of other sovereigns
  - ▶ Consistency with the domestic choice-of-law rule of *lex loci delicti*
  - ▶ Likely implements congressional intent, since Congress is most concerned with domestic matters
  - ▶ Separation of powers: courts shouldn't intrude in executive and legislative authority over foreign affairs
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