NATIONAL PULSE

Can patent laws halt the reselling of used ink cartridges? Federal Circuit to consider

BY LORELEI LAIRD (HTTP://WWW.ABAJOURNAL.COM/AUTHORS/27616/)

FEBRUARY 1, 2016, 2:50 AM CST (/MAGAZINE/ISSUE/2016/02/)

dcwcreations (http://www.shutterstock.com/gallery-103978p1.html?cr=00&pl=edit-00) / Shutterstock.com (http://www.shutterstock.com/editorial?cr=00&pl=edit-00)

In the 17th century, British nobleman Sir Edward Coke set down some of the principles that still guide U.S. common law. Among them was his belief that sellers should not be able to direct how buyers use their goods. Any post-sale condition ought to be void, he believed, because buyers should be free to enter secondary markets.

In the 21st century, a Thai national named Supap Kirtsaeng put those ideals to the test before the U.S. Supreme Court. Throughout college and graduate school in the United States, he'd made money buying textbooks cheaply in Thailand and then reselling them in the States. In 2013's *Kirtsaeng v. John Wiley & Sons*, the court ruled that this was not copyright infringement because a first sale anywhere in the world is adequate to extinguish a copyright.

Now, both men's views are the subject of a dispute over another kind of importation: Should the U.S. Court of Appeals for the Federal Circuit adopt *Kirtsaeng*'s holding on international patent exhaustion—and, indirectly, Lord Coke's ideas on property generally—into patent law?

That's the question in *Lexmark International v. Impression Products*, which asks whether Lexmark can invoke patent law to stop third parties from refurbishing and reselling used ink cartridges. A panel of the U.S. Court of Appeals for the Federal Circuit heard oral arguments in the case last March—then, before it could rule, decided on its own initiative to rehear the case before the full court. It invited the federal government to weigh in as amicus curiae.

The court received the government's brief—and more than 30 others. The case has worried some of the country's biggest patent holders, whose business models could be radically changed by a decision on international patent exhaustion. The International Imaging Technology Council, a trade group for print cartridge remanufacturers, says refilled ink jet cartridges have $3.4 billion in annual sales.

Consumer advocates also weighed in, concerned that end users could be sued for repairing or modifying their own lawfully purchased property. Charles Duan, a staff attorney for amicus Public Knowledge, says this is already happening in copyrights—for example, the Library of Congress had to grant a copyright exemption last fall to permit repairs and safety research into automotive software.

"Ultimately, it really is about how much control consumers have over their own possessions," says Duan, whose Washington, D.C.-based nonprofit advocates for consumers in intellectual property policy.

CONTRACTS OR PATENTS?

Print cartridges, not the printers themselves, are typically the source of printer companies' profits. It shows in the prices. *Consumer Reports* magazine found in 2013 that you could buy 2,791 gallons of milk or 2,652 gallons of gasoline for the same price as a gallon of ink.

But ink isn't sold by the gallon—it's sold in cartridges with built-in legal and software safeguards to prevent reuse. One of these is Lexmark's "return program," which gives customers a 20 percent discount if they agree to return the spent cartridge to Lexmark. The company says this is a binding contract, with clear notice on the outside of the package, the cartridge and Lexmark's website.

But many customers ignore that notice and resell the used cartridges to remanufacturers, often via online markets. The companies "hack" the software protections on used cartridges and refill them—and they're not bound by contracts between Lexmark and its customers. This led Lexmark to cite patent infringement when it sued Impression and other resellers in 2011.

All of the other defendants settled, but Impression moved to dismiss, arguing that the initial authorized sales exhausted Lexmark's patents. The U.S. District Court for the Southern District of Ohio ruled for Lexmark on foreign sales. Under a 2001 Federal Circuit ruling called *Jazz Photo v. U.S. International Trade Commission*, overseas sales do not exhaust U.S. patents because they are outside the scope of U.S. law.

The court also decided a domestic sales question for Impression. It said a 2008 Supreme Court decision, *Quanta Computer v. LG Electronics*, overturned an earlier Federal Circuit decision permitting restrictions even after a domestic sale.

QUESTIONABLE ANALOGY

The parties cross-appealed, so both types of sales were part of the case when it was argued on Oct. 2 before the en banc court. But much of the public interest has focused on the foreign sales aspect of the case.

On the law, one major source of disagreement was the basis for *Kirtsaeng*. Impression, and many third parties, argued that *Kirtsaeng* was based on common law, especially on Coke—whose writings addressed property rights generally. Edward F. O'Connor of Avyno Law in Los Angeles argued for Impression. He says the *Kirtsaeng* court analyzed the Copyright Act of 1976 only to look for an exception to the common law, and found none.

"And the common law makes no provision for place of sale as in any way being a distinguishing factor," he says. "That's the same common law that applies in patents."

But Lexmark and others argued that *Kirtsaeng* turned on a close interpretation of the Copyright Act's Section 109(a)—and never mentioned patent law. Lexmark's en banc brief says the Patent Act expressly applies patent rights "throughout the United States," while the Copyright Act is silent on geographic reach.

Lexmark lead attorney Constantine Trela Jr. of Sidley Austin in Chicago declined to comment. But Kristin Yohannan, special counsel to Cadwalader, Wickersham & Taft in Washington, D.C., made many of the same points in an amicus brief for the American Intellectual Property Law Association. She points out that patent law has no section analogous to the Copyright Act's Section 109(a)—in fact, patent exhaustion is a judge-made doctrine.

And the federal government, as amicus, charted a third course: It argued that by default, patents are exhausted by international sales, but patent holders may expressly reserve their rights. That was the "traditional rule" before *Jazz Photo*, it said, and the court should restore it. U.S. Department of Justice attorney Melissa Patterson, who argued for the United States, declined to comment.

Neither party cared for the government's position. O'Connor says the DOJ essentially "pulled that out of thin air," based on an 1897 case that isn't binding. Lexmark's brief said the government was supported only by "ancient case law" that doesn't require express reservation of rights.

WHAT'S AT STAKE

Meanwhile, the parties and amici were worried about practical effects. In particular, patent-holding businesses—including giants in biotechnology and computer hardware, as well as printer manufacturers and remanufacturers—were concerned about how a decision would affect their day-to-day operations.

Barbara Fiacco, a partner at Foley Hoag in Boston, gave oral arguments for amici CropLife International and the Biotechnology Industry Organization. She says her clients are concerned about maintaining regional pricing. With international exhaustion, they say, nothing would stop someone like Kirtsaeng from reselling foreign drugs inexpensively in the U.S. That could lead drugmakers to stop selling overseas, cutting off access to life-saving medicines.

Computer hardware companies tended to be on the other side. A group of amici, including LG Electronics and Intel, argued that manufacturers need international patent exhaustion because their devices are made with parts from all over the world. That means they'd need patent rights in the country of origin, the country of sale and any country where the device is partially assembled. Multiply that by dozens or hundreds of parts, they said, and it would quickly become hugely inefficient.

Others worried about unfair effects on consumers. Public Knowledge's brief said international patent exhaustion prevents price-gouging because it leaves consumers free to import patented goods from other countries. Thus, a ruling for international patent exhaustion could lower prices for Americans.

Duan is also concerned about the prospect of consumers being sued for tinkering with lawfully purchased items. This is already happening in copyrights, he says.

"In other areas of intellectual property, we actually see this quite often and to a pretty substantial detriment to consumers," Duan says. "Manufacturers are taking an intellectual property right that has one objective and using it to a completely different objective—namely, enforcing certain consumer restrictions on how they use devices."

This article originally appeared in the February 2016 issue of the ABA Journal with this headline: "Unlimited Refills? Federal Circuit considers whether patent laws can halt reselling of used ink cartridges."