The Doctrine of Exhaustion in the Swiss Patent Law

Fabian R. Leimgruber*

Abstract: The doctrine of exhaustion belongs, alongside the protection of computer programs, the patentability of genetically altered species and the cross-border injunctions, to the most discussed themes of the past few years in the area of intellectual property rights. The latest Swiss Federal Supreme Court decision in the case Kodak SA vs. Jumbo-Markt AG was the first decision at the highest level of jurisdiction in Switzerland on the doctrine of exhaustion in patent law. The following article focuses on one of the crucial elements, the historical interpretation element, in discussing the Kodak case. The article concludes with an overview of the political impact of the Swiss Supreme Court decision regarding, inter alia, the new Swiss law on medicines.

Keywords: Exhaustion · Intellectual property · Parallel imports · Patents

1. Parallel Importation and Exhaustion

This article is based on a discourse entitled Uniformity or Differentiation with respect to Exhaustion in Intellectual Property Law [1]. The aim of the discourse is to promote better understanding of the decisive factors in the Swiss Federal Supreme Court Decision (FCD), dated December 7, 1999, Kodak SA vs. Jumbo-Markt AG. A discussion of all the aspects of exhaustion in intellectual property rights, however, would be beyond the scope of the present article. The focus here will therefore be on one of the crucial elements of the Kodak case, the element of historical interpretation, which already played a major role in the FCD Nintendo Co. Ltd. vs. Waldmeier SA (1998) concerning copyright law. Economic, political-economic and international legal considerations (Paris Convention, TRIPs/GATT etc.) or those regarding uniformity as well as comparisons with international legal practice have been omitted here for reasons of space. A complete review of the topic under discussion can be found in the aforementioned discourse.

Certainly, the discussion about national and international exhaustion in intellectual property rights will not come to an end with the latest FCD on this sub-

*Correspondence: Dr. F.R. Leimgruber
Bovard SA
European Patent Attorneys
Optilingenstr. 16
CH-3000 Bern 25
Tel.+41 31 335 20 38
Fax: +41 31 332 81 99
E-Mail: Fabian.Leimgruber@bovard.ch
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1. Parallel Importation and Exhaustion

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ject. On the contrary, the political battle has only just begun with a parliamentary interpellation [2] at the Swiss national parliament. Moreover, it is easy to foresee that the globalization of markets, the dismantling of trade barriers and the harmonization of law at the international level will continue into the 21st century with the same dynamics, pushed by increasingly global business, the Internet, international criminology, etc. Such developments will inevitably bring along new challenges and needs for adjustment in many different areas such as international law enforcement or harmonization of jurisdiction which might change the outcome of a PCD on the doctrine of exhaustion and form a new basis for a solution.

Despite the legal reasoning in this article it should be kept in mind that exhaustion in patent law is mainly an economic question. Without economic and political-economic considerations, taking into account the international situation, no meaningful decision can be reached. This point of view was also expressed by the Swiss Supreme Court in its decision in Lausanne on December 7, 1999.

1.1. Exhaustion of Intellectual Property Rights

The doctrine of exhaustion [3] belongs, alongside the protection of computer programs, the patentability of genetically altered species and cross-border injunctions, to the most discussed themes of the past few years in the area of intellectual property rights. This is not only reflected in the huge quantity of publications and congresses on this theme, but also in international agreements like TRIPs or discussions on the new Swiss law on medicines, but also in the political reactions to the latest Swiss Federal Supreme Court decision in the case Kodak SA vs. Jumbo-Markt AG.

Exhaustion of intellectual property rights is one of the most complex market regulations. It is part of a balance of interests: on one hand the economic interest of the consumer in low prices for existing products and, on the other hand, the social and economic interest of the consumer and the government in continuing development of new products to improve the general welfare.

The exhaustion principle in intellectual property rights regulates the relationship between the protective rights of the right holder after the initial sale of the protected product and the proprietary rights of the purchaser. The holder of the intellectual property right can no longer assert his rights against the purchaser after the initial sale: they are exhausted. The law protecting intellectual property generally includes the exclusive right [4] to exploit the protected subject matter commercially, which in addition to use also includes manufacture, sale, offering for sale, and importation (Art. 28 TRIPs, Art. 8 Swiss Patent Law, §9 German Patent Law, 35 U.S.C. §154 (a)(1), Art. L. 613-3. Loi n° 92-597 CPI France, Art. 60 U.K. Patent Act 1977, Art. 2 §3 Law No. 121 Japan, etc.). The protective right can only be exhausted in reference to a concrete object. Consequently the purchaser may not reproduce other such objects, nor sell reproduced objects, without consent of the holder of the protective right.

In patent law a distinction is usually made between exhaustion in the classical sense (territorial exhaustion), which refers to the territorial rights of the patent owner, and derived exhaustion such as exhaustion regulated by the so-called ‘farmers’ privilege’. In the case of material which can be propagated biologically, the latter regulates the protection of derived material, i.e. products obtained through propagation of a patent-protected biological material.

1.2. What Does Parallel Importation Mean?

Despite harmonization efforts at the international level (e.g. TRIPs, Patent Cooperation Treaty, European Patent Convention) vast differences still exist in intellectual property rights among different states. Intellectual property rights are basically territorial [5], i.e. national or regional. It is national laws which determine grant, scope of protection and enforcement. This concerns especially the interpretation of the laws by the highest jurisdiction or supreme courts of each country.

The territoriality of the laws does not necessarily apply to exhaustion, however. A distinction is usually made between national, regional and international exhaustion. With national exhaustion the protective right of the holder remains entirely preserved in the patent territory if the initial sale takes place outside the country (therefore national). Almost all states exhaust patents nationally. Examples of countries where national exhaustion applies are the USA, Canada, Norway, Brazil etc. International exhaustion, in contrast, exhausts the right of the owner with the first sale of the product regardless of where it took place [6]. In the field of patent law international exhaustion is rare. Examples can be found in Japan and some Latin American states. Regional exhaustion can be regarded as a special case of national exhaustion. Regional exhaustion ties exhaustion of protective rights to the first sale within a certain group of countries, usually within a more or less homogeneous economic area. Examples are the EU custom union and the Switzerland-Liechtenstein custom union [7]. In areas with regional exhaustion, the holder of commercial protective rights can protect himself against parallel imports from third countries whereas free trade of goods applies within the joint economic area.

Parallel importation designates importation of a product by an unauthorized third party, i.e. someone other than the right owner, licensee or authorized distributor. The importation is carried out parallel to the authorized distribution channels. This applies in principle to products protected by intellectual property rights as well as to unprotected products. Parallel importation of products protected by intellectual property rights presumes regional or international exhaustion because otherwise the importation falls under the scope of patent rights as embodied in Article 28 of the TRIPs agreement.

1.3. Causes for Parallel Importation

Parallel importation emerges as a consequence of price differences for identical products on different national markets. These price differences are taken advantage of by wholesalers and brokers [8]. Their own distribution network used for sales runs in parallel to that of the original producer or an authorized distributor. The main reasons leading to price differences are:

1) The different status (different terms, nullity) of corresponding intellectual property rights in different countries. To remain competitive, the original holder of the right must adjust his prices to the price pressure from the imitators;
2) State price controls which hinder free setting of prices by the holder of the protective right. Thus international or regional exhaustion can lead to state price controls in one country having consequences in another country;
3) Differences regarding registration fees, liability and fiscal law;
4) Differences in substantive law that do not allow the same scope of protection in all countries;
5) Different inflation rates and currency exchange fluctuations;
Variations in per capita income, reflected in differing demand and product prices. This also includes conscious price discrimination by the producer. The so-called ‘cost-shifting’ argument [9], as is frequently put forward, is wrong, however, since it is inconsistent with the objectives of companies to maximize profits.

2. Interpretation of Swiss Law

2.1. Purpose of Patent Law and How It Functions

The protection of industrial property in patent law aims to promote technical progress by means of ownership-like assignment of a technical teaching (invention) to a legal subject (normally the inventor) with simultaneous disclosure of the teaching [10]. This legal institution should promote technical progress, welfare and the general well being of the people. This takes place in several ways:

(1) The time-limited, exclusive right of the patent holder to industrial exploitation of the invention provides an incentive for investments in research and development;

(2) The duty to disclose the invention promotes competition and the flow of inexpensive, innovative products.

The price for ‘monopolization’ is revelation of the technical teaching. Thus the patent law secures a valued balance between the interests of the inventor in exploitation of the invention, i.e. his proprietary rights, and those of society in knowledge and use of the new means, which increase progress. After the expiration of the economically based term of exclusiveness, the invention can be commercially used by third parties in the free market, i.e. copied and commercially exploited. Patent protection per se is a conscious intervention in free competition in the interest of fair competition. Behind it stands the conviction that economic growth depends substantially on technical progress. Moreover, the time limitation serves to promote innovation because it forces the inventive research and development (R&D) industry not to rest on its laurels, but to emerge as a winner in the competition through new innovations.

Patent law is thus a purely political-economic instrument. This is shown by its historical development and origin, but is also reflected in its time limitation and the protective prerequisites. Considerations which take into account the complex balance of the international economic and market systems should form the basis of any discussion about intellectual property protection, as in the case of international exhaustion. Considerations based on pure legal theory must certainly be rejected with today’s understanding of political-economic background.

Besides the political-economic aspects, it is to be emphasized that the patent is a proprietary right, and therefore a constituent part of human rights [1][5]. Changes of the general conditions can represent in actual fact an expropriation at the level of the owner of the right.

2.2. Auer Motion – Discussion of the Doctrine of Exhaustion

Although in doctrine, exhaustion is a recognized principle of intellectual property law, it has not been explicitly embodied in Swiss patent law so far [12]. The rights conferred by a Swiss patent are defined in Article 6 of the Swiss Federal Law on Patents for Inventions. Although no pronouncements are made in Article 6 regarding exhaustion issues, it could be assumed that the territoriality of exhaustion follows from the law. The content of Article 6, paragraph 2, is the exclusive right to importation, i.e. the importation of products. If the wording of this paragraph is taken strictly and exhaustion doctrine regarded as given, this wording could be interpreted as national exhaustion. That this does not have to be the case is shown by the TRIPs agreement, which in Art. 28 Rights Conferred also contains importation, but in Art. 6 Exhaustion explicitly excludes exhaustion from dispute settlement procedure.

In Switzerland, the territoriality of exhaustion in patent law has only been put in question in recent years. Previously, national exhaustion was clearly taken as a premise. Concerning interpretation of Article 6 with respect to the territoriality of exhaustion, the Message of the Federal Council of September 19, 1994, on the ratification of the GATT/WTO Agreement does not help any further, although it contains explanations of Article 6, paragraph 2. Therefore, the question arises: what was the will of the legislator with respect to territorial exhaustion? Was the problem of exhaustion consciously omitted by the legislator, and thus left to the courts for interpretation? Or was the legislator totally unaware of the problem, or are there other reasons why the Patent Law makes no pronouncements on territorial exhaustion?

To aid in answering these questions, the following analysis deals with the discussion on territorial exhaustion in connection with the most recent partial revision (1987–1991) of the Patent Law, a revision brought about by the Auer Motion. Although the motion applied first and foremost to the patentability of biotechnological inventions, the proposed partial revision of Article 8 led to an in-depth discussion of exhaustion. The discussion is relevant because it has been cited both in the grounds for the FCD Nintendo and in the decision of Zurich’s cantonal Commercial Court of November 23, 1998 in the case Kodak SA vs. Jumbo-Markt AG.

2.3. Legislative Proceedings Based on the Auer Motion

As dealt with in Uniformity or Differentiation with respect to Exhaustion in Intellectual Property Law [1], including the sources presented therein, the Swiss legislature discussed in depth the subject of territorial exhaustion during the proceedings (1987–1991) on revision of the Patent Law. With certainty it can be said that the legislator was clearly aware of the problem. There was neither a desire to leave this question unregulated, nor to leave it intentionally to case law. On the contrary, a Europe-wide exhaustion based on a proposal by the Federal Department of Economic Affairs (DEA) did not seem to the Federal Council to be enforceable owing to the resistance of the cantons and the parties. Therefore, the Federal Council dropped the possibility of embodying European regional exhaustion in the draft law. It should be mentioned that such a unilateral embodiment in Swiss patent law would contradict the main principles of the GATT/TRIPs agreement as expressed, inter alia, by TRIPs Article 4 Most Favored Nation Treatment, and could be challenged by other countries in dispute settlement proceedings at the World Trade Organization (WTO) [13]. In dropping European regional exhaustion, the Federal Council did not, however, take up the original version again of national exhaustion, as can be explicitly found in the motion and in the first draft laws. The idea was to have an EC-compatible law text ready for the event of entry of Switzerland into the European Economic Area or the EU. In the whole drafting stage and consultation procedure during legislation, international exhaustion was never a point of discussion. Moreover, regional (EU/EFTA) exhaustion, which at the time seemed to have a chance owing to anticipated entry into the European Economic Area, proved to be not achievable.

Furthermore it is debatable whether an interpretation that clearly contravenes
the will of the legislator (historic interpretation element) should be carried out via the back door of the judicature. This also entails the question of limits in interpretation of the law and the constitutional separation of powers [14]. The Swiss Supreme Court states in the Nintendo case (copyright law): 'In view of the long tradition which international exhaustion has in Swiss copyright law, the will to reverse this principle into its opposite may not be imputed to the legislator lightly. This applies all the more since the deep rooting of international exhaustion (in copyright law) in Swiss legal consciousness is also shown by the fact that it was explicitly foreseen in all preliminary drafts and bills.' This argument can be used the same way for patent law, only the legal tradition is exactly the opposite.

In the Kodak case, the cantonal Commercial Court of Zurich also considered the historic interpretation element of the patent law, with reference to the Swiss Supreme Court decision in the Nintendo case. Both decisions, however, were based only on an analysis of the draft law of 1989, the accompanying Message of the Federal Council and the draft law of 1993 without examining more precisely the reasons for the change from national exhaustion toward European exhaustion, and finally why the possibility was abandoned of embodying European exhaustion in the law during the preliminary proceedings and examination proceedings in parliament. This gave the false impression that the legislator had not expressly renounced international exhaustion (which was not the case since the Federal Council had already considered European exhaustion to be unenforceable politically). It is certainly wrong to assume that the legislator did not want the question regulated, as the Zurich Commercial Court concluded. This point was corrected by the FCD Kodak, which pointed out that the traditional principle of national exhaustion in patent law was underscored by the Message of the Federal Council before the revision entered the parliamentary debate.

2.4. Current Legal Status

In intellectual property law as a whole (trademarks, patents and copyright) the issue of territoriality of exhaustion is not explicitly regulated, with the exception of plant variety protection based on the International Convention for the Protection of New Varieties of Plants (UPOV). There are differences in case law.

International exhaustion has been considered generally valid for Swiss trademark law since the decision of the Swiss Supreme Court of October 23, 1996 in the case Chanel vs. EPA. Among other things, the Swiss Supreme Court maintained that the distinctive function of the trademark is not impaired by parallel importation. As long as the products are identical, the distinctive function of the trademark is not affected by the flow of products also in international terms. The court emphasized that parallel importation in trademark law could not simply be justified through teleological interpretation. Parallel importation in trademark law, according to the Swiss Supreme Court, is in accord with Article 16 (1) of the TRIPs agreement since this use does not bring with it 'the risk of confusion'. If, however, the consumer is deceived in Switzerland regarding the quality or origin of the identical marked products, or the competing product otherwise violates the law on unfair competition, this no longer applies (cf. e.g. FCD Bosshard Partners Intertrading AG vs. Sunlight AG (Omo) January 25, 1975). Simply taking advantage of the international price difference does not represent per se a violation of the law on unfair competition.

In copyright, international exhaustion also applies, supported by the Swiss Supreme Court decision Nintendo of July 20, 1998. The cantonal Commercial Court of Aargau judged in favor of the plaintiff (in a lower court decision dated December 16, 1997) in a declaratory action combined with an action to refrain, citing the different functions of copyright and trademark law. Although the teleological approach still appeared as a decisive argument in the FCD Chanel, the Swiss Supreme Court now adjudicated that the functional difference should not be overemphasized: 'It is certainly true that the trademark first serves the purpose of marking products or services while with copyright law the aim is protection of intellectual property directly and especially to reserve for the owner the sole right to exploit this intellectual property. That must not take away from the fact that trademark protection also procures for the owner the exclusive right to use the protected mark. From its economic function, therefore, the protection of a trademark also permits the owner of the protective right to exploit the value embodied by his trademark with the exclusion of others. Trademark law, in turn, thereby aims at least to protect the creative act that stands behind the creation, the introduction and the commercial exploitation of a trademark and to which the mark's distinctive power can be attributed.' Thus treating trademark and copyright law differently with regard to exhaustion supported by teleological arguments cannot be justified, it was said. But rather, the long tradition of international exhaustion in copyright law may not be casually changed by imputing to the will of the legislator the opposite, it was asserted. The Swiss Supreme Court thus emphasized the historic interpretation element in favor of international exhaustion.

In contrast to the jurisdiction in copyright law, where the historic interpretation speaks in favor of international exhaustion, the opposite can be said to be true in the field of patents. In patent law, it is clear that the doctrine predominantly approves national exhaustion [15] based on the principle of territoriality. This is also reflected by the Swiss Supreme Court [5]. Other opinions, without exception, are only of more recent date [16]. Therefore, one has to argue in analogy to the FCD Nintendo that the long tradition of national exhaustion may not be changed lightly in that one imputes the opposite to the will of the legislator. The Swiss Supreme Court points out in the Kodak case that although the new tendency in doctrine cannot be extrapolated, the traditional legal interpretation clearly favors national exhaustion. In addition, the aspect of legal reliability has to be considered. The above argument is all the more valid since the analysis of the drafting stage and the initial preparations of legislation during the patent act revision due to the Auer Motion leave no doubt about the interpretation. With the FCD Kodak of December 7, 1999, the question of exhaustion in patents was decided for the first time at the highest level jurisdiction, overturning the decision of the Zurich Commercial Court. The Zurich Commercial Court had decided in favor of international exhaustion with the reasoning that the first putting into circulation of a product already gives the patentee enough possibilities to achieve the profit he is entitled to. To let the patentee forbid or control further distribution would hinder the market in an unbearable manner [17]. The Swiss Supreme Court corrected this view, stating that an unilateral anchoring of international exhaustion would handicap the Swiss research and development industry in a one-sided way with regard to the international market without being able to achieve a balance. Differences in intellectual property law in different countries with respect to application, expiration of protection, scope
of protection, state price controls, etc. cannot be dealt with on a national basis in the case of international exhaustion. However, in the case of comparable conditions between export country and Switzerland, there is the Swiss Antitrust Law to prevent abuse of protective rights by the patentee if he wants to block the Swiss market. According to Article 26 paragraph 1 and Article 43 of the Swiss Antitrust Law, non-governmental organizations (e.g. consumer protection organizations) are also able to file a law suit. Consequently the Antitrust Law represents a powerful instrument against abuse. In international comparison of law, national exhaustion is the standard case (e.g. USA, EU etc.); a balance with equal conditions for all competitors in the international market [18] can only be reached on the basis of international treaties. Therefore an autonomous embodiment of international exhaustion in the Swiss Patent Law or by way of the courts should be avoided.

In the protection of designs in Switzerland there is no decision on territoriality of exhaustion as is the case with other intellectual property rights. There also exist no court decisions at the level of highest jurisdiction on this subject. E. Marbach [20] proposes that this issue be decided as in trademark and copyright law, owing to the close overlap of design law with titles of alternative protection, otherwise, in his opinion, irreconcilable contradictions result. Thus, he holds that international exhaustion is to be assumed in contrast to still prevailing doctrine. Design protection, however, is closer to patent law than to copyright in its type of protection. Therefore a counter-argument is that the same considerations expressed by the Swiss Supreme Court with respect to patent law in the Kodak case also apply to design law. With its Kodak decision, the Swiss Supreme Court decided in favor of a differentiation in intellectual property rights. Therefore it follows from the Kodak and Nintendo decisions that national exhaustion is to be assumed, in keeping with prevailing doctrine, and contrary to the opinion of E. Marbach, until there is valid case law.

The protection of new plant varieties on the basis of the UPOV Convention (Union International pour la Protection des Obtenions Végétales) represents an interesting special case. This international agreement is the only one which explicitly regulates territorial exhaustion of the right in the text: Article 16, paragraph 1. UPOV. The right to plant protection accordingly is exhausted nationally. The author of this article is not aware of any contrary case law, which would contradict the agreement. Uniform regulation of all intellectual property rights on the basis of international exhaustion, as e.g. proposed by T. Cottier and M. Stucki [19], may therefore be difficult to achieve, whether a differentiation in exhaustion from the viewpoint of legal theory appears justified or not.

3. Swiss Law on Medicines - Quo vadis?

Until now the control of medical drugs was regulated by each Swiss canton independently. Registering and admission of the pharmaceutical products was done by an intercantonal Medical Drug Audit Board (IKS). This system inherited several disadvantages. For example, the registration by the Medical Drug Audit Board could only be regarded as a recommendation, and therefore was not a contestable sovereign act. Also the appeal decisions of the independent intercantonal Appeal Commission lacked this sovereign power. This contradicts European law which prescribes that the admission of pharmaceutical drugs is to be decreed by a state authority. Another deficiency of the old system was the lack of a centralized admission procedure with a law harmonized for all of Switzerland. A new Swiss Law on Medicines should now help to improve the situation. The Message of the Federal Council concerning the new Swiss Law on Medicines states that the international interdependencies in the field of medical drugs are so great that no state can regulate this area alone today. In addition, around 60% of the Swiss medical drug market was regulated as for the EU. This corresponds to an export volume of about 10 thousand million (US: 10 billion) Swiss francs. Because of the small Swiss domestic market of only about 7 million inhabitants, Switzerland has great interest in remaining equally entitled to compete in the common EU market of almost 370 million inhabitants. Among the bilateral agreements with the EU, therefore, is an agreement on the mutual recognition of production controls as well as of admission of batches of medical drugs. However, mutual recognition of admission of pharmaceutical products is not part of this agreement.

On October 26, 1992, the commission for social security and health of the Swiss National Council made a motion requesting the Federal Council to submit a Federal Law on the control of medical drugs. A team under the presidency of the Basel law professor Paul Richli worked out a preliminary draft for a new law on medicines. After the initial preparation of legislation, the Federal Council gave the order to the Federal Department of Home Affairs (DHA) in December 1997 to prepare a Message and a draft law for the new Law on Medicines. This draft law and the pertinent message are now available and with it also the results of the consultation procedure. In the 195 comments to the new Law on Medicines all cantons, political parties and associations have expressed their opinion. An element of the law of particular importance for the political discussion is Article 14 that includes in principle the possibility of a simplified admission procedure for parallel imported drugs. However, the Message of the Federal Council clearly states that, in considering parallel importation, it is an important condition to guarantee drug safety and the protection of patients. For example, in the case of parallel importation, the importer would have to prove that the respective admitted drug in Switzerland and in another country having an equivalent admission system is identical, and that the regulations with regard to the relevant safety and quality regulations (packet brochure in three official languages, etc.) have been complied with.

The Message emphasizes that on the basis of Article 14, paragraph 3, the holder of any intellectual property right can take action against parallel importers, independently of market admission by the authorities. The Medical Drug Audit Board (or its successor institute) does not examine whether existing intellectual property rights are opposed to the parallel import of the drug. In the foreground is thereby the patent right, but also trademark rights and the protection of undisclosed information for registration purposes which gives ten years of exclusivity to the first applicant for registration of a medical product which provides full safety and efficacy documentation.

With the protection of the first applicant, protection is accorded to the original manufacturer as compensation for the high expenses for the preclinical and clinical tests necessary for registration (Art. 39 TRIPs). First applicant protection is independent of patent law. Since the first applicant protection finds its origin in the Swiss Law on Unfair Competition, this protection is also independent of the type of the territorial exhaustion.

In the Message of the Federal Council it is maintained that the discussion about
the new Swiss Law on Medicines offers itself proof for the need of a legal solution of the doctrine of exhaustion. However, the Council also pointed out that the law on medicines is not the right context in order to answer this issue of civil law. Territorial exhaustion should be regulated in careful assessment of interests, and above all with gaze on the worldwide regulations and the regulation in the EU. One should take note that parallel importation in the USA or in the EU is not permitted if the product is patent protected and the patentee did not agree to the import.

It should be mentioned that a differentiation of exhaustion for different type of products is not possible within patent law (as it is partially proposed by proponents of international exhaustion) due to Article 27 paragraph 1 of TRIPS which prohibits discrimination as to the field of technology.

Summarizing it can be said that the legal uncertainty with reference to parallel importation was known by the Federal Council before the Swiss Federal Supreme Court decision Kodak. In the explanations why a legal solution should be possibly sought, the Federal Council might have referred to the situation in the EU and the USA, and pointed already in the direction of national exhaustion in the patent law as it is now confirmed by the FCD Kodak. The quoted uncertainty referred rather to case law than to the intent of the legislator. This becomes even more obvious by the fundamental considerations at the beginning of the Message about the importance of the R&D industry in Switzerland. The Federal Council emphasizes the aim of equal conditions for competitors in economy, worldwide and in the particular in the European market. Relevant for the issue of exhaustion are also the statements that a well running economy should be based both on the principles of free competition as well as on rules of fair competition (represented by the intellectual property rights and e.g. the data protection of the first applicant for marketing registration) [20]. The balancing of these two principles to support and protect the general welfare of a country is not an issue of legal theory but an economic and political-economic one and should be discussed in this framework. This is reflected by the attitude of the Swiss Supreme Court in the case Kodak SA vs. Jumbo-Markt AG.

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[3] The territorial exhaustion is not regulated by law in the provisions of Swiss intellectual property law, except for the protection of plant varieties, which codifies national exhaustion.

[4] Therefore often the term 'monopoly right' is used.

[5] See also Swiss Federal Supreme Court decision Kodak SA vs. Jumbo-Markt AG, December 7, 1999.

[6] Only if the product is protected by a patent in the region of first sale.

[7] Switzerland is often not properly referred to as an example of national exhaustion. But it should be reminded that the principality of Liechtenstein is an independent, autonomous and sovereign state. For the term 'national' see Art. 5 Abs. 2 of the Patententschutzvertrag 1978. For the special questions concerning Switzerland and the principality of Liechtenstein which itself is a member of the EEA, see [1].

[8] Importers state that a price difference of 30% is needed to make parallel importation attractive. But the price difference should be at least above 15% (M.L. Burstaw and I.S.T Serns, Undermining Innovation: Parallel Trade in Prescription Medicines, 1992, IEA No. 13).

[9] This argument is based on the approach that producers sell products below the production costs in low price countries at the expense of high price countries. However the American economist P. Danzon, Wharton School, has proved by economic considerations that this argument is wrong in the context of market optimization. P.M. Danzon, National Policies versus Global Interests, 1996, Library of Congress.

[10] M. Pedrazzini, R. von Buren, E. Murbach Immateriqltätuer- und Wettbewerbsrecht, 1998, Stumpfl Verlag.

[11] J.-L. Comte, Internationale Erschöpfung der Patentrechte?, Stellung, 1999, 4, 478, Schulthesis Polygr. Verlag.

[12] The need for an embodiment is now investigated by a committee of the Swiss Federal Institute of Intellectual Property initiated by the Federal Council. This committee will submit an extensive report about parallel importation and intellectual property rights especially with regard to a legal embodiment to the Federal Council until June 9, 2000 (Response of the Federal Council to Interpel. 99.3647 [2], March 6, 2000).

[13] The complexity of the subject still leads to confusion as e.g. a recent parliamentary demand shows. The demand proposed to anchor EU/FTA regional exhaustion in the Swiss Patent Law (R. Strahm, March 8 and 13, 2000, Official Bulletin of the Federal Assembly).

[14] See also A. Troller, Immateriqltäturererrecht, 1985, 767, Helbing & Lichtenhahn vol. I.

[15] See Troller [14], Pedrazzini [10], Comte [11]. Dutoit Les importations parallèle au crible du quel droit?, 1996, 98 Comparativi va 60.

[16] R. Zäch, Recht auf Parallelimport und Immateriqltäturererrecht, 1995, SIZ; T. Cottier, The WTO System and Exhaustion of Rights, Nov. 6-7 1998, Conference of Exhaustion of IPR, Geneva; M. Bieri-Gut, Parallelimport und Immateriqltäturerrecht nach Schwer. Spezialsachen und dem Recht der EU, 1996, AJP 5.

[17] However, according to the long tradition of national exhaustion in the Swiss Patent law and worldwide this would be rather difficult to prove for the Zürich Commercial Court.

[18] As it builds the central principle of the GATT/GATS/TRIPs agreement and which is a necessary prerequisite for free trade and market liberalization.

[19] T. Cottier, M. Stucki, Parallelimport im Patent- Urheber- und Muster- und Modellextrcht aus europäischer und volkrechtlicher Sicht, 1996, Actes du colloque de Lausanne.

[20] On March 6, 2000 the Federal Council pointed out in the answer to Sommaruga’s Interpellation that not only free trade but also a strong protection of industrial property belongs to its political-economic aims (see [21]).