ww&p Walder Wyss & Partners
Attorneys at Law

NewsLetter

No 22 August 2000

Swiss Patent Law and Parallel Imports

Against its own decisions in Swiss trademark and Swiss copyright law, the Swiss Supreme Court has recently ruled on the national exhaustion in Swiss patent law and on the application of the Swiss Cartel Act in case of excessive pricing. The issue is of major importance for patent holders who want to control the distribution of patent protected products, e.g. consumer goods and pharmaceuticals, in Switzerland. Furthermore, there may well be a revival of national exhaustion in Swiss trademark and Swiss copyright law, too, even though to date international exhaustion applies for trademarks and copyrights.

Exhaustion of patent rights and parallel imports

It is generally admitted that the rights of the patent holder on a specific patent protected product are exhausted when such product is put on the market. This means that the patent holder can not control the further sales and re-sales of such product even if a declaration such as «not for sale in Switzerland» is printed on the patented product. In other words, the principle of exhaustion limits the rights of a patent owner more strongly than the so-called «implied license doctrine» mainly applied in the United Kingdom, Canada and Australia. However, it is disputed whether this exhaustion principle applies only if a product has been put on the national market (national exhaustion) or whether the commercialization in a foreign country should also exhaust the national patent right (international exhaustion).



by Johannes A.Bürgi
+41 1 265 75 59
jbuergi@wwp.ch

This issue is of major importance to patent holders: if only national exhaustion is permitted, a patent holder can prohibit parallel imports from other countries and pursue country specific marketing policies in each country. If international exhaustion was assumed, parallel imports would be lawful. It would then be very difficult for a patent holder to apply different prices in different countries since this would lead to parallel imports from low price countries to high price countries in the absence of other obstacles such as transport costs etc. Therefore, consumer goods and pharmaceuticals are particularly attractive for parallel imports.

International exhaustion in Swiss trademark and copyright law

In 1998 the Swiss Supreme Court decided in the Nintendo case that the principle of international exhaustion of the copyright still applied under the new Copyright Act of 1992. As a consequence of this ruling, a copyright holder can not oppose parallel imports of his copyrighted goods into Switzerland. This means that parallel imports of audio and video recordings as well as of software products into Switzerland are in general lawful (see also our Newsletter no 15 of February 1999, «Recent Developments in Swiss Copyright Law»).

Since in 1996 the Swiss Supreme Court already ruled in the Chanel case that under the new Trademark Act of 1992, the trademark holder could not oppose parallel imports based on his trademark right as long as the same quality is provided, trademark law is not of any help to prevent parallel imports of goods into Switzerland either.

National exhaustion in Swiss patent law: Kodak vs. Jumbo-Markt

Remarkably, the Swiss Supreme Court has more recently stated that under the Swiss Patent Act, the patent holder has the right to oppose parallel imports based on his patent right (Kodak vs. Jumbo-Markt, BGE 126 III 129). Reversing the judgment rendered by the Commercial Court of Zurich in the first instance, the Swiss Supreme Court held that the principle of national exhaustion applies to Swiss patent law. Therefore, the parallel import of patented Kodak cameras and patented Kodak films from the United Kingdom to Switzerland constituted an infringement on Kodak's Swiss patent rights.

Court's reasoning in favour of national exhaustion
The Swiss Supreme Court first concluded that neither from the Swiss Patent Act, the territoriality principle (principle meaning that Swiss patent law only applies in Switzerland) nor from international law principles an adequate response to the question could be derived. It further stated that Swiss courts have traditionally applied the principle of national exhaustion of patents. It then reasoned that patent rights were of a different nature compared to trademark rights or copyrights and did not call for a uniform treatment of all parallel imports. Even though it was in the general interest of the public to have an unrestricted access to goods, in the case of patented goods this interest was deemed less important than the interest of the patent holder to maximize the return on his patent right. Especially, a patent owner needs stronger protection and incentives for his or her investments in innovative developments than the holder of a trademark right or a copyright. Moreover, the principle of national exhaustion in patent law is clearly an international standard. Switzerland is incapable of bringing about worldwide free trade; this is an issue that calls for a multilateral solution on the basis of a WTO treaty. Therefore, the Swiss Supreme Court decided with a majority of 3 against 2 in favour of applying the principle of national exhaustion to patents.

Remedy against excessive prices
However, the Swiss Supreme Court also felt obliged to insert an important reasoning in its decision. It considered that – under certain circumstances – the import monopoly of the patent owner could infringe on the Swiss Cartel Act. In other words, the right granted by a patent could be affected by antitrust law even though the Swiss Cartel Act in principle states that restrictions in competition arising exclusively under intellectual property laws are not subject to the Swiss Cartel Act. In particular, if a company with a dominant position used its exclusive import rights to isolate the Swiss market and demand excessive prices, such behavior would, in the view of the Swiss Supreme Court, be tantamount to a violation of Swiss antitrust law.

Outlook: Parallel imports of pharmaceuticals
Currently, the Swiss Parliament is debating a draft of a Swiss Pharmaceuticals Act which mainly deals with the mandatory registration of traded pharmaceuticals. After the judgment of the Swiss Supreme Court in the Kodak case, political discussions also focused on provisions in the draft which allow parallel imports of pharmaceuticals from a registration point of view. However, the draft clearly states that the proposed new act will not deal with the question whether parallel imports are allowed pursuant to Swiss intellectual property law (typically Swiss patent law) or Swiss competition law. After the Kodak case, parallel imports into Switzerland of trademarked or copyrighted pharmaceuticals with expired patent protection will, therefore, pursuant to the present draft of the act, be lawful.

Revival of national exhaustion in Swiss trademark and copyright law?
With the Chanel decision of 1996 and the Nintendo decision of 1998, Switzerland has recently distinguished itself as a European country where parallel imports are allowed under trademark and copyright law. Will Switzerland – after the Kodak case – come back on its previous decisions allowing parallel imports of trademarked and copyrighted products? Interestingly, most of the arguments of the Swiss Supreme Court in the Kodak case seem to be valid for Swiss trademark and Swiss copyright law as well. Or, will, on the contrary, the new bilateral treaties between Switzerland and the European Union lead to a new interpretation of the Free Trade Agreement and to a general regional or – in connection with WTO treaties – even to an international exhaustion of intellectual property rights in Switzerland? Hopefully, the Swiss Supreme Court will be given the opportunity to clarify these questions in the near future.

NewsLetter

The ww&p **News**Letter provides comments on new developments and significant issues of Swiss law. These comments are not intended to provide legal advice. Before taking action or relying on the comments and the information given, adressees of this **News**Letter should seek specific advice on the matters which concern them.

© Walder Wyss & Partners, Zurich, 2000

ww&p **Walder Wyss & Partners**
Attorneys at Law

Münstergasse 2
P.O. Box 4081
CH-8022 Zurich
Phone +41 1 265 75 11
Fax +41 1 265 75 50
reception@wwp.ch
www.wwp.ch

London Office
9 Gray's Inn Square
London WC1R 5JQ
Phone +41 20 7405 2043
Fax +41 20 7405 0605