Summary Report

Question Q205

Exhaustion of IPRs in cases of recycling and repair of goods

Introduction

The Reporter General received a large number of group reports and many of them were very extensive and detailed. Specifically, we received reports the from the following 35 groups: Argentina, Australia, Belgium, Brazil, Bulgaria, China, Denmark, Ecuador, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Japan, Latvia, Malaysia, Mexico, The Netherlands, Paraguay, Peru, Philippines, Poland, Portugal, Republic of Korea, Singapore, Spain, Sweden, Switzerland, Thailand, Turkey, U.K., and U.S.

The basic concept of exhaustion of IP rights is uniformly recognized in all jurisdictions represented by the group reports. However, its application differs considerably in each jurisdiction. Some countries have statutory provisions in their respective laws, while others have exhaustion under the case law established by their courts.

While AIPPI adopted in 2001 a resolution that discourages international exhaustion (Q156), several countries do have statutory provisions for international exhaustion. The US group suggested studying international exhaustion in order to promote free international flow of goods.

Another issue that AIPPI may want to clarify is to what extent the intent of right holders or contractual restrictions can have an impact on the exhaustion of IPRs. This issue seems to relate to the very basic underlying concept for exhaustion. The holder of IPRs should be given an opportunity to gain some profits, but he does not necessarily have a second chance once the products have been marketed and the free flow of products in the market prevails.

As regards recycling and repair, no clear consensus emerged from the group reports. Some group reports suggest specific factors to be considered, but some groups caution that rigid rules may impair the authority of courts for striking a fair balance in each case.

The UK group questioned the set up of the Working Guidelines by stating that: "As a preliminary comment we would observe that the question, by its title, and by the order of the specific questions that it asks, is potentially misleading, at least from the perspective of UK law, in presupposing that the issues of recycling and repair of goods are necessarily only to be addressed under the law of exhaustion... It is only if in the course of such recycling or repair (for patents and designs) no new article is made or (for trade marks) the goods remain the goods of the trade mark proprietor, but there is some other potentially infringing act, that one then gets to the secondary question of exhaustion or implied licence in the context of subsequent dealings in such articles."

I) Analysis of the current statutory and case laws

The Groups are invited to answer the following questions under their national laws.

1) *Exhaustion*

In your country, is exhaustion of IPRs provided either in statutory law or under case law with respect to patents, designs and trademarks? What legal provisions are applicable to exhaustion? What are the conditions under which an exhaustion of IPRs occurs? What are the legal consequences with regard to infringement and the enforcement of IPRs?

Patents

Many countries have some statutory provisions with respect to exhaustion of patent rights, while in a smaller number of countries exhaustion is provided under case law.

Such countries as Singapore, Malaysia, Hungary, Thailand, Belgium, Greece, Sweden, Spain, Poland, Philippines, the Netherlands, Latvia, Finland, Italy, Egypt, Turkey, Brazil, Argentina, China, Mexico, Paraguay, Peru, Portugal, Bulgaria and Denmark have specific legal provisions on exhaustion of patent rights. On the other hand, countries that do not have statutory provisions on exhaustion of patent rights and have adopted this principle based on case law include U.K., U.S.A., Germany, France, Switzerland, Australia, Japan, Korea, Greece, Egypt and Ecuador.

Basically, exhaustion of a patent occurs when the patent owner himself or any other person with his consent has put the patented product on the market.

Philippines IP Code, Section 72, for example, provides that: "The owner of a patent has no right to prevent third parties from performing without his authorization, the acts referred to in Section 71 thereof in the following circumstances: 72.1 Using a patented product which has been put on the market in the Philippines by the owner of the product, or with his express consent, ..."

Malaysian Patents Act, Section 58A provides that: "(1) It shall not be an act of infringement to import, offer for sale, sell or use- (a)any patented product; or (b)any product obtained directly by means of the patented process or to which the patented process has been applied, which is produced by, or with the consent, conditional or otherwise, of the owner of the patent or his licensee. (2) For the purposes of this section, 'patent' includes a patent granted in any country outside Malaysia in respect of the same or essentially the same invention as that for which a patent is granted under this Act."

Singapore and Malaysia stipulate that the patent owner's consent for putting patented products on the market may be conditional for exhaustion to apply.

EU and Ecuador have specific provisions as to exhaustion with respect to patented biological materials.

The Danish group pointed out that it is unsettled whether a product is "put on the market" if it is subject to lease or used as security. According to the Danish group, European Court Justice judgement in case C-16/03 Peak Performance, which concerned trademarks, should be applied so that the decisive prerequisite for when something is put on the market in the context of a lease or use as a security is whether the patent owner had an actual opportunity to realize the economic value of this patent.

The legal consequence of the exhaustion is essentially an exemption to infringement. Rights conveyed by a patent on method claims can also be exhausted in Germany and Japan.

Designs

Many countries have statutory provisions on exhaustion of design rights, including such countries as Singapore, Hungary, Thailand, Estonia, Sweden, Spain, the Netherlands, Poland, Philippines, Finland, Italy, Egypt, Turkey, Brazil, Mexico, Paraguay, Peru, Portugal, Bulgaria and Denmark.

Australia has an exemption to infringement in the case of the "repair" of a product in order to restore the "overall appearance" of the product under its Design Law. Generally, registered design protection is not available to spare parts in Australia.

For EU countries, the Design Directive (98/71/EC) and Community Design Regulation (6/2002/EC) mandate Community exhaustion and preclude exhaustion of national or Community registered or unregistered designs for goods put on the market outside the EEA by the rights proprietor with his consent.

According to the report of the group of Thailand, the exhaustion doctrine is not applicable to design patents.

Trademarks

Also, such countries as Singapore, Mexico, Egypt, Thailand, Turkey, Brazil, Ecuador, Poland, Spain, Portugal, Paraguay, and Peru have statutory provisions in their respective laws concerning exhaustion of trademark rights.

China and Argentina do not have any legal provisions with respect to the exhaustion of trademark rights while they do have such provisions for patents.

The U.S. and Japanese case laws allow for resale of genuine branded goods under certain conditions.

In Australia, the trademark law makes it clear that a person using a registered trademark does not infringe where the trademark has been applied to the goods with the consent of the registered owner (for example, if the person sells second-hand goods bearing the original trademark).

For EU countries, the Trade Mark Directive (89/104/EEC) and Community Trade Mark Regulation (40/94) mandate Community exhaustion and preclude exhaustion of trade mark rights for goods put on the market outside the EEA by the rights proprietor or with his consent.

2) *International or national exhaustion*

Does the law in your country apply international exhaustion for patents, designs or trademarks? If yes, are there any additional conditions for international exhaustion compared to regional or national exhaustion, such as a lack of marking on products that they are designated only for sale in a specific region or country or the non-existence of any contractual restrictions on dealers not to export products out of a certain region? What is the effect of breach of contractual restrictions by a purchaser?

If your law does not apply international exhaustion, is there regional exhaustion or is exhaustion limited to the territory of your country?

In case your country applies regional or national exhaustion, who has the burden of proof regarding the origin of the products and other prerequisites for exhaustion and to what extent?

Patents and Designs

International exhaustion is accepted in several countries such as Singapore, Malaysia, Egypt, Argentina, Paraguay, and Peru for patents and industrial designs.

While no legal authority can be cited, China is likely to have international exhaustion, and contractual restrictions should not have effects on third parties.

In Thailand, while no express legal provisions exist, it is believed that international and unconditional exhaustion of invention patents is applicable.

Philippines, U.S.A., Turkey, Brazil and Switzerland adhere to national exhaustion.

EU countries have a regional or Community-wide exhaustion, but they do not have international exhaustion going beyond the periphery of EEA possibly except U.K. for patents.

The case law of the European Court of Justice has established the principle of regional exhaustion of IPRs in the light of the free trade of goods within the EU according to Article 28 (ex 30) EC Treaty ("Community-wide exhaustion"). This has been expanded to all member states of the European Economic Area (EEA). Exhaustion thus applies to import and sale in a Community or EEA Member state of all goods first placed on the market in another

Community or EEA Member state by or with the consent of the rights holder. The treatment of goods placed on the market outside the EEA is determined by secondary Community legislation, where applicable, or by domestic law.

U.K. has a slightly different approach to international exhaustion on patent and design rights. It adopts the concept of implied licence, which is applicable irrespective of where the product is first placed on the market by the rights holder and as such has a practical effect akin to international exhaustion. However, the concept of implied licence can be excluded by express notice given at the time of sale.

The UK group noted that: "(E)xhaustion of patents only expressly exists in UK law to the extent that it is mandated by the EC Treaty. Under domestic law, it is the concept of implied licence, as set out in *United Wire v Screen Repair Services* (Scotland) that explains why, notwithstanding the apparent breadth of the patentee's rights, a person who has acquired the product with the consent of the patentee may use or dispose of it in any way he pleases.

"The concept of implied licence applies irrespective of where the product is first placed on the market by the rights holder and as such has a practical effect akin to international exhaustion. However, the concept of implied licence can be excluded by express notice given at the time of sale. In order to exclude the implied licence to resell a patented product after acquiring it with the consent of the patentee, the purchaser must have knowledge that there is a restriction on dealing with the goods at the time of purchase. If the purchaser lacks such knowledge or acquires it after completing the purchase, the restriction on dealing will not be effective. Thus in *Roussel Uclaf v Hockley International* [1996] RPC 441, which related to the purchase of goods from a UK patentee in China which were then imported into the UK for resale, it was held that if no limited licence is imposed on the first purchaser of the goods at the time of purchase, a general licence will apply and the patentee will not be able to impose such terms at a later date. Here, in the absence of evidence that it was the invariable practice to label containers of a herbicide sold in China with notices restricting export from China, the Court refused to enjoin the import of the product into the UK where it fell within the scope of a UK patent on the herbicide.

"However, where the reseller has purchased a product manufactured by the licensee of a non UK patent, the concept of implied licence does not apply where the patentee has parallel rights in the UK. Accordingly, any import of such a product into the UK would constitute an act of infringement (*Minnesota Mining & Manufacturing Company v Geerpres Europe Limited* [1974] RPC 35, applying *SA des Manufactures de Glaces v Tilghman* (1883) 25 Ch. D.1, followed in *The Wellcome Foundation v Discpharm and others* [1993] FSR 433)."

Japan has a sort of "international exhaustion" which can be excluded by an express marking made on the products sold. If the patentee in Japan or his authorized person sells patented products in a country other than Japan, he cannot enforce the patent on the patented product imported in parallel to Japan, unless there was an agreement that the products were not be sold or used in Japan and products are explicitly marked as such. This is applicable regardless of whether a corresponding patent exists in that country.

The Japanese group provided a summary of the 1997 Japanese Supreme Court decision in the BBS case that: "National exhaustion must be discussed separately from international exhaustion. This is because, in the country where a transfer of a patented product has taken place, the patentee does not necessarily have the corresponding patent on the invention. Furthermore, such a transfer in another country does not necessarily cause patent exhaustion. In a case where the patentee has a corresponding patent in the country where the transfer has taken place, even if the patentee exercises the patent on the patented product imported in parallel, it does not necessarily mean that the patentee profited twice from the same patent. In today's world, where international commercial transactions have become increasingly active and sophisticated, every effort should be made to ensure the freedom of commodity

circulation. Since the transferor of products, who has assigned all the rights to the products, is capable of predicting that the transferee or a subsequent transferee might import the products to Japan, the transferor is prohibited from exercising the patent on the products in Japan unless the parties concerned have agreed to exclude Japan from the countries and regions where the products are to be sold or used and have explicitly indicated to that effect on the products. If a patentee transfers goods embodying the patent outside Japan without any restrictions, the transferor should be considered to have implicitly provided the transferee and a subsequent transferee with the right to re-import the goods into Japan without patent restrictions."

In Korea, parallel importation is allowed under the doctrine of international exhaustion regardless of whether the IPR is a patent, design or trademark right.

Trademarks

According to the group reports, Singapore, Egypt, Argentina, Paraguay, and Peru recognize international exhaustion.

International exhaustion is applicable in the sense that the parallel importation of genuine products is allowed in Japan, Australia, Switzerland (if imported products are identical with the one sold in Switzerland), Ecuador, Korea, and U.S.A.

Turkey and Brazil adopt national exhaustion with respect to trademarks.

While no legal authority can be cited, China is likely to have international exhaustion with respect to trademarks, and contractual restrictions should not have effects on third parties.

In the EU, the Trade Mark Directive (89/104/EEC) and the Community Trade Mark Regulation (40/94) provide for a Community-wide exhaustion, but preclude exhaustion of trade mark rights for goods put on the market outside Community by the rights proprietor or with his consent.

Burden of proof

Generally, the exhaustion of IPRs is viewed as defence for the alleged infringer, and as such, the burden of proof primarily rests on the defendant.

In Germany, however, the Federal Supreme Court had some reservations that the free movement of goods protected by Art. 28 EC Treaty could be impaired, if the disclosure of the source of origin by the user accused of infringing the patent enables the patent proprietor to close this source and seal off the national markets in the Community. This question was submitted for a preliminary ruling to the ECJ, which decided that the trademark owner bears the onus of proving that the goods were put on the market outside the Community. if he puts the goods on the market using an exclusive distribution system and if the third party is able to prove that there is an actual risk that the markets are sealed off. If the trademark owner manages to produce sufficient evidence for the first marketing outside the Community, then it is the burden of the third party in turn to prove that the trademark owner has consented to the further distribution of the goods in the Community. The same applies mutatis mutandis to the European Economic Area.

According to the Swiss group, "if the patent owner claims a violation of his exclusivity rights by the import into Switzerland of original products put in circulation on a foreign market, the defendant can oppose the claim by the proof of the facts that lead to exhaustion, namely that the goods have been put on the market with the intent of the owner of the right (according to the general principle of the burden of proof, art. 8 Civil Code). Art. 8 stipulates that unless otherwise provided by law, a person deriving his rights from the existence of an alleged fact shall prove the same. Even if the defendant has the burden of proof regarding exhaustion of the patent rights, this does not mean that the importer has to give evidence about the actual origin of each imported product. In most cases, such evidence is impossible to be given, as the

importer only knows his direct suppliers. Therefore, it is generally sufficient that the importer proves that identical products are released for sale and trade in the country of origin."

3) *Implied license*

Does the theory of implied license have any place in the laws of your country? If so, what differences should be noted between the two concepts of exhaustion and implied license?

The theory of implied license has a solid base in the U.K. and probably in Australia as well, but in no other countries. The UK group reported that: "In contrast exhaustion of rights forms no part of the national legal tradition in the UK. It was stated in *United Wire v Screen Repair Services* (Scotland) that the two differed in that 'an implied licence may be excluded by express contrary agreement or made subject to conditions while the exhaustion doctrine leaves no ... rights to be enforced.' In practice, however, the scope to exclude an implied licence by express contrary agreement under UK law is limited."

The Australian group noted that: "The sale of goods protected by IP rights (without any express restriction) carries an implied licence authorising "undisturbed" and "unrestricted" use of the goods to the purchaser. This includes use by way of repair and prolonging the life of the goods. However, as mentioned above, the licensee of the implied licence (ie. the purchaser) is not provided with the right to 'reconstruct' the goods or 're-make' the goods – this is not a right covered or given by the implied license.

"The owner of a patent or registered design may impose 'post sales' conditions on what use may be made of goods once they have been sold. These conditions are binding on a purchaser who has notice of the condition – this is even though the purchaser does not have a contractual relationship with the patentee. The Australian Group understands that this contrasts with US and European positions."

The Hungarian group noted that since exhaustion is mandatory under the statutory provisions, the concept of implied license does not have any place in Hungary except for trademarks. The European Court of Justice established the conditions of the trademark owner's implied consent for the purpose of exhaustion of trademark rights (Davidoff / Levi Strauss cases).

The Korean group noted that commentators view that the implied license theory can be applied as appropriate when dealing with issues such as parallel importation and repair/ reconstruction.

According to the Brazilian group, the concept of implied license may have some place with respect to software and trademark rights.

The German group noted that the doctrine of the interrelation of the different types of use leaves no room for the concept of implied license. But an implied license is assumed, if the proprietor of a method patent sells a device which, according to the contract, is intended to perform the protected method. Pursuant to the purpose of such purchase agreement it must therefore regularly be assumed that the seller has given the acquirer permission to use the protected method by means of the device, even if an explicit agreement on such a license has neither been laid down in the purchase agreement or elsewhere. In this case, although the method patent is specifically not exhausted, the third party is still entitled to a use of the method by way of the implied license. The Japanese group had similar remarks.

According to the US group, the theory of implied license may arise in some circumstances when the patentee sells a non-patented product that can be used to practice a patented invention. To determine whether the sale of a product carries with it an implied license to practice the patented invention, courts must determine that "the equipment involved [has] no non-infringing uses" and that "the circumstances of the sale . . . plainly indicate that the grant of a license should be inferred." Once the court determines that an implied license exists, it

must then "look further to the circumstances of the sale to determine the scope of the implied license."

4) *Repair of products protected by patents or designs*

Under what conditions is a repair of patented or design-protected products permitted under your national law? What factors should be considered and weighed? Does your law provide for a specific definition of the term "repair" in this context?

Patents

In all countries that were represented by the group reports, no specific conditions or provisions have been given for a "repair" of patented products to be permitted under the exhaustion doctrine.

The concept of a permissible "repair" is contrasted to the prohibited "making" (U.K.), "reconstruction" (U.S.A. and Germany), "new acquisition" (Denmark), and "new production" (Sweden and Japan).

The UK group pointed out the House of Lords opinion in the *United Wire v Screen Repair Services* case. In this case, the House considered whether the acts under dispute constituted "making", rather than seeking to formulate principles regarding the repair. It was noted that "repair" could cover a wide range of activities from mere remedial action in order to make good the effects of wear and tear, involving no replacement of parts; or it may involve substantial reconstruction of the patented product. A substantial reconstruction could infringe a patentee's rights whereas mere remedial repairs might not.

The Malaysian and Australian groups noted possible influence of UK jurisprudence in their country.

The German group pointed out that the provisions related to contributory infringement should be considered. If an essential element of the patented device is replaced by the customer and the replacement part is not purchased from the patent or license holder, this may constitute a contributory patent infringement. However, a contributory infringement is ruled out if the person was entitled to exploit the invention. The entitlement can be the result of, among other things, the fact that exhaustion has occurred with respect to the protected subject matter, and exhaustion comprises all action which form part of the intended use of the device. The maintenance and restoration of the fitness for use of the patented product are included in the exhaustion.

In Germany, the Federal Supreme Court has recently commented on the distinction between the prohibited reconstruction and the admissible repair of a patented device by the customer/licensee in several decisions. According to the court, it is necessary to determine, taking into account the specific characteristics, effects and advantages of the invention, if the measures taken still maintain the identity of the specific patented product that has already been put on the market, or if these measures amount to creating a new product that implements the invention. Apart from taking into account the specific characteristics of the subject matter of the invention, it is also important to weigh the interest of the patent proprietor in commercially exploiting the invention, which merits protection, against the customer's interest in freely using the product that has already been put on the market.

Also in Germany, if the parts are expendable parts which can usually be expected to be replaced during the lifetime of the product, it is generally suggested that the repair is admissible. However, a weighing of interests could still result in the assumption of a reconstruction, even if the part is an expendable part which may need to be replaced several times, if this expendable part incorporates essential elements of the inventive concept. If the replacement of this part newly realizes the technical or economic advantage of the invention, the weighing of interests will be in favour of the patent proprietor, because he has not drawn

the benefit from the invention he is entitled to by placing the entire device on the market for the first time.

The Japanese group pointed out that the Japanese district court suggested the following major factors to be considered with respect to the distinction between "repair" and "new production":

i) Social norms and business practices;

ii) Objective analysis of the characteristics and purpose of use of the patented product and the manner of exploitation of the patent;

iii) Identity of the product (a comparison with the patented product originally put into the market);

iv) Identity of the manner of exploitation (a comparison with the patented product originally put into the market);

v) Whether the replacement of a part of a patented product with a new one constitutes an alteration of the essence of the patented invention;

vi) Whether the act may be considered as the mere replacement of consumables;

vii) Whether the act may be considered as the overhaul of the patented parts; and

viii) Whether the act may be considered as the replacement of an important patented part.

The Singaporean group noted that "repair exception" has been carefully applied by the courts with respect to computer software and laser printer cartridge design.

The Dutch group provides the following criteria:

i) Repair without replacement of (significant) parts is generally considered to be covered by the rule of exhaustion and is thus considered to be allowable.

ii) Repair by gradual replacement of all parts is, however, considered equal to manufacture, and hence infringement.

iii) Repair by replacement of parts that are considered "essential" to the claimed invention may, depending on the circumstances, also qualify as an infringing act of manufacture. In such case, the sale of the parts is normally considered an indirect infringement and repairing the product applying such parts constitutes an act of tort (District Court The Hague 23 June 1999, *Impro/Liko*).

The US group commented that: "This distinction between repair and reconstruction, while critical to discerning lawful activity, remains blurry when actually applied, depending wholly on the particular facts of a situation, i.e., what is commonly referred to as the 'totality of the circumstances.' For example, Federal Circuit decisions have cited, among other things, reapplication of a nonstick coating to a cooking device, replacement of an inner container for medical waste, modification of unused printer cartridges, and replacement of disks in a tomato harvester all as permissible repair. On the other hand, when a patented drill bit could no longer be resharpened, the court held the construction of an entirely new cutting tip of the bit to be reconstruction."

Designs

As with patents, no specific conditions or provisions are given for a repair of design protected products to be permitted in any of the countries except Australia.

As regards designs, the Australian designs legislation provides under Section 72 "Certain repairs do not infringe registered design" that: "a person does not infringe a registered design if ... (b) the product is a component part of a complex product; and (c)the use or authorisation is for the purpose of the repair of the complex product so as to restore its overall

appearance in whole or part." Also, in the same section, the definition of repair is provided for the purpose of defining acts that do not constitute infringement as follows: "(a) a repair is taken to be so as to restore the overall appearance of a complex product in whole if the overall appearance of the complex product immediately after the repair is not materially different from its original overall appearance; and (b) a repair is taken to be so as to restore the overall appearance of a complex product in part if any material difference between (i) the original overall appearance of the complex product; and (ii) the overall appearance of the complex product immediately after the repair is solely attributable to the fact that only part of the complex product has been repaired." Repair in relation to a complex product is defined to include "(a)restoring a decayed or damaged component part of the complex product to a good or sound condition; (b) replacing a decayed or damaged component part of the complex product with a component part in good or sound condition; (c) necessarily replacing incidental items when restoring or replacing a decayed or damaged component part of the complex product; (d) carrying out maintenance on the complex product."

According to the Australian group, this Section 72 was introduced into Australian law principally in response to concerns that spare parts or more complex products had artificially inflated prices where those parts were protected by registered designs.

Also, according to the Turkish group, there is a specific provision concerning the repair of design-protected products in DL 554, which provides a 3 year protection to spare parts, as opposed to a maximum protection period of 25 years granted to design registrations. In this sense, since protection of spare parts is very common in Turkish practice, repair of spare parts (either design-protected or not) is also relevant.

The following factors are also worth considering:

a) If a spare part bears novel and individual characters, it shall enjoy the 25-year protection granted to any product design. For example, the steering wheel and the seat designs of an automobile are, in principle, in this group.

b) Designs of "must-fit" parts are not protected. According to DL 554, designs that must necessarily be produced in their exact form and dimensions in order to enable the product in which the design is incorporated or to which it is applied to be mechanically assembled or connected with other products fall outside the scope of protection.

c) According to Article of DL 554 titled "Use for Repair Purposes", designs of "must-match" parts, namely spare part designs that are dependent on the visual representation/ appearance of the complex product, are granted a limited protection of 3 years.

As always, the conflict of interest between the IPR owners – in exploiting their monopolistic and exclusive IPRs – and the public – in reaching spare parts for the repair of their purchased products – is considered and weighed in the determination of permission to repair of design-protected products or spare parts.

Turkish Law endeavours to solve this conflict of interest by granting an exceptional protection to "must-match" parts while on the other hand limiting such protection to 3 years thereby providing the public the opportunity to freely produce and reach those parts upon the expiration of the protection term, so that free competition and consumer interests are not adversely affected.

According to the Dutch group, if the design of part of a composite product is protected, use of such design cannot be prohibited where this serves to repair the composite product so as to restore its original appearance (art. 3.19(3) Benelux Treaty on Intellectual Property). It is important to note that the above exception only applies to designs filed on or after 1 December 2003. Designs filed before that date are covered by the former law and do enjoy protection for repair purposes.

Also, according to the German group, when repairing products having a certain design, it is also necessary to make a distinction from a reconstruction. Only repairs in the context of ordinary maintenance are allowable. If the repair work has considerable impact on the distinctive features of the product, the interest of the designer in the product's integrity is affected and the measure is therefore not subject to exhaustion. The term "distinctive features" of the product in this case refers to the characteristic properties of the product. In the opinion of the courts, a re-dying of textiles can interfere with the distinctiveness of a product in such a way that a different product is created. In the "dyed jeans" case, what mattered was, inter alia, that instead of the subdued original colour, bright colours were used for the redying.

5) Recycling of products protected by patents or designs

Under what conditions is a recycling of patented or design-protected products permitted under your national law? What factors should be considered and weighed? Does your law provide for a specific definition of the term "recycling" in this context?

As with repair, in all countries that have sent in group reports, no specific conditions or provisions have been given for the recycling of patented products to be permitted.

A number of groups, such as the Australian and the UK groups noted that the same principle as with repair would be applicable to recycling.

The Dutch group suggested considering the following factors:

i) Recycling by breaking down the product and remanufacturing the product would be considered infringement, even if original parts are used.

ii) If a product needs to be recycled because it does not function any longer and if such recycling involves replacing parts that are essential to the invention, this would constitute an indirect infringement.

iii) Basically, recycling components of a patented device is permissible if this is limited to normal repairs or when a product is manufactured which falls outside the scope of protection of the relevant patent.

In Japan, the Supreme Court handed down a decision in 2007 in a case involving the recycling, or what may be called reuse, of ink cartridges for ink-jet printers. The alleged infringer made a hole onto used ink cartridges, and washed away residual ink, refilled fresh ink and closed the hole. The Court noted that among other numerous factors to be considered, the essence of the technical idea found in the patent invention has to be identified with respect to problems to be solved. If any processing of the used, patented product which has lost this essence or replacement of its part results in regaining the essence and practical value, it may be considered "new production" of the patented product. In this specific case, the Court found infringement.

According to the German group, recycling is not permitted if this process is economically the same as the creation of a new product according to the invention, i.e. a reconstruction. A reconstruction is assumed if a patented device is recycled from parts of one or several objects which were destroyed or otherwise turned useless. The same applies with respect to the recycling of patented substances from waste.

6) Products bearing trademarks

Concerning the repair or recycling of products such as reuse of articles with a protected trademark (see the examples hereabove), has your national law or practice established specific principles? Are there any special issues or case law that govern the exhaustion of trademark rights in your country in case of repair or recycling?

The Argentine group noted that: "Commercialization of repaired products bearing a protected trademark would be admissible to the extent such repair has restored the products to its original condition (i.e., no alterations or improvements have been made to the original product) and provided that notice is made that the products are used and have been repaired. Furthermore, it would be necessary to note that the repair has not been made, supervised or endorsed by the trademark owner.

"The case of recycling, however, often constitutes an alteration of the original product. Therefore, commercialization of recycled products would amount to trademark infringement if the protected trademarks are not removed from the products put on the market. Thus, re-fill or reuse of products bearing trademarks would provide grounds for a trademark infringement claim."

The Chinese group noted that: "As for recycling of products with a protected trademark, it will be permissible when the recycled products are sold without misleading the purchasers that they are genuine and original products of the trademark owner, for example the recycled products are sold with disclaimer that they are recycled. However, it will violate the trademark right when the recycled products are sold as new, genuine product that misleads the consumers to the origins of the products."

The statements quoted above summarize remarks made by a number of groups.

Also, in a number of countries, exhaustion is explicitly ruled out if the state of the product is modified or deteriorated after it has been put on the market.

However, if we look into more detailed situations in each country, we find significant divergences.

The Danish group provided in its group report detailed discussions on case law in Denmark. In a recent court judgement of 2006, some general aspects of the exhaustion rule in connection with refilling of empty gas cylinders bearing a 3D trade dress mark or a word and device trademark.

According to the Dutch group, regarding recycling/reuse of products, there is in particular case law on the refill of gas cylinders. The Benelux Court of Justice ("BCJ") ruled in *Shell/ Walhout* (BCJ 20 December 1993) that the refill of empty gas cylinders bearing a trademark with gas not originating from the trademark owner (without his permission) constitutes a trademark infringement. This rule was also applied in later decisions such as *ADG* (Court of Appeal The Hague 3 November 1994) and *Primagaz* (Court of Appeal Amsterdam 9 July 1998). The Dutch group also noted that in the *Valeo* decision (BCJ 20 December 1993), the BCJ ruled that a trademark owner cannot oppose trademark use on reconditioned goods, i) if the product basically remains the same original product (no new product is created) **and** ii) removal of the trademark is not possible without an adverse impact on the quality of the product or if it would otherwise be unreasonable (i.e. economically impossible) to require such removal and the third party makes every reasonable effort to inform the public that these are in fact reconditioned goods and not original goods.

According to a specific provision In the Finnish trademarks Act, the trademark proprietor is entitled to prevent the release of recycled goods in free circulation, if he can establish justified grounds for objecting to the goods being once again placed on the market. Such a possibility exists in particular in cases where alterations have been made to the goods or if they have deteriorated after having first been placed on the market by the mark holder.

The French group observed that under the French jurisprudence, recycling of products bearing a trademark is prohibited because the removal of a mark may be illegal due to the fact that such removal impairs the basic trademark function of guaranteeing that all the products which are covered by a mark are manufactured under the control of an individual contractor to which the responsibility is given for their quality, and at the same time, unless the trademark

is removed, any reselling of recycled products are illegal if modification is essential and changes the nature of the product manufactured and placed in the market by the holder of the mark.

The Japanese group discussed several Japanese court decisions in this respect. In one case, use of a registered trademark by a third party was allowed because its use was not use as a trademark, but it was used only for indicating compatibility of the particular ink ribbons packaged in boxes. It should be noted, however, that this issue of the use of a mark as a mark does not lie in the core of this question Q205 and has been dealt with by AIPPI in other contexts.

According to the Korean group, it was found to infringe a trademark right of a third party to restore consumed instant cameras by refilling films and adding wraps bearing a different mark, because: i) the original trademark still remained in several places of the restored cameras; and ii) there was an explicit notice in the original packaging that the camera body will not be returned after film development. The service life of the camera body ended when it was opened for film development. The identity of the camera was altered by the film refill and wrapping (Supreme Court Case No. 2002 Do 3446).

7) IPR owners' intention and contractual restrictions

a) In determining whether recycling or repair of a patented product is permissible or not, does the express intention of the IPR owner play any role? For example, is it considered meaningful for the purpose of preventing the exhaustion of patent rights to have a marking stating that the product is to be used only once and disposed or returned after one-time use?

b) What would be conditions for such kind of intentions to be considered?

c) How decisive are other contractual restrictions in determining whether repair or recycling is permissible? For example, if a license agreement restricts the territory where a licensee can sell or ship products, a patentee may stop sale or shipment of those products by third parties outside the designated territory based on his patents. What would be the conditions for such restrictions to be valid?

d) Are there any other objective criteria that play a role besides or instead of factors such as the patentee's intention or contractual restrictions?

According to the Argentine group, "the IPR owner intentions do not play a significant role in determining whether recycling or repair of a patented product is permissible. As above indicated, repair is generally permissible, except if the replaced part of the product is patented (therefore, only repair by using the replacement part originating from the patentee would be admissible), while recycling (as defined in the context of this question) may provide grounds for patent infringement either because it strictly matches the patented invention or by applying the doctrine of equivalents. Contractual restrictions would not provide grounds for a patent infringement claim. Any disputes originating from such restrictions would be ruled by the law on contracts."

A majority of groups including the Bulgarian, Danish, Dutch, Malaysian, French, German, Hungarian, Turkish, Swiss, Polish, Spanish and Mexican groups also noted that the IPR owners' intentions or contractual restrictions play essentially no role in relation to the exhaustion of IPRs.

The Australian group noted that: "Where a contract or licensing agreement exists, the express intentions of the parties are those set out in that contract or agreement. In the case of the express intention of a registered owner of a patent or design, as outlined above, the owner may impose 'post-sale' conditions as to how the goods may be used once they have been sold, even where there is no contractual relationship with, for

example, a purchaser of the goods. These 'post-sale' conditions are binding so long as the person has notice of the condition. Failure to comply with those conditions may render the person who has not complied as an infringer of the patent or registered design."

Such groups as the Brazilian, Egyptian, Peruvian and Estonian groups made similar remarks.

The UK, US, Portuguese and Singaporean groups suggested possibilities of the intention or contractual restrictions being given some weight in terms of exhaustion of patent rights.

The French group thinks that this intention can play a part since it is justified by safety requirements and consumer protection, or it is dependent on the respect of the environment. Indeed, it seems acceptable to limit by contract the use of a product if that is justified by environmental or health considerations. For example, the mention "single use" on a syringe appears justified taking into consideration risk that multiple uses can be hazardous to the health of people. The restrictions of uses can be imposed in a more effective way by the means of a license. Limited in the time and as for the nature of the operations which can be carried out on the object, it constitutes a sure and effective means for the holder of the IPR to recover the good after use and to carry out the modifications itself.

Several groups made similar comments.

e) *How does the situation and legal assessment differ in the case of designs or trademarks?*

Other than to say that situations are similar for designs, and that for trademarks a free flow of goods may have more importance, no trends that differ significantly from those for patents are found in the group reports.

8) *Antitrust considerations*

According to your national law, do antitrust considerations play any role in allowing third parties to recycle or repair products which are patented or protected by designs or which bear trademarks?

Other than general issues arising from antitrust laws, apparently no specific issues need to be considered in relation to the exhaustion of patent, design and trademark rights and repair or recycling.

Several groups noted that they do not have antitrust laws.

The Hungarian group noted that: "antitrust considerations play a role in allowing third parties to recycle or repair patent, design or trademark protected products only in case the intellectual property laws would not permit such repair or recycle but antitrust law would. This would possibly be an exceptional case on the basis of a possible abuse of a dominant position in relation to repair or recycle that constitutes an essential facility."

In this respect the Hungarian Group wished to refer also to the AIPPI resolution in relation to Q187, which provided that: "The AIPPI reconfirms its view that competition law (the rules which are intended to safeguard free and fair competition) and intellectual property (IP) law are not in conflict but, on the contrary, both contribute to economic progress and serve the public."

9) *Other factors to be considered*

In the opinion of your Group, what factors, besides those mentioned in the Discussion section above, should be considered in order to reach a good policy balance between appropriate IP protection and public interest?

The US group noted that: "Courts and policymakers should keep in mind the overall rationale behind IP rights to reach a policy balance between appropriate IP protection and the public interest. The United States enacted a patent and copyright system 'to promote the Progress of Science and useful Arts.' Thus, instead of using a natural-rights foundation in which IP rights inure naturally to an inventor or creator, the United States based its IP system on the idea that IP rights create a socially beneficial stimulus for the development of new technologies. Although the United States creates this stimulus by providing an exclusive right for authors and inventors, the method used within an IP system, be it patents, copyrights, or trademarks, should not transcend the overall goals of that system. Accordingly, to reach a good policy balance when enacting IP protection, policymakers should ensure that society receives an overall benefit from granting IP rights to authors and inventors." The Argentine and Brazilian groups had similar remarks.

Several groups noted that the question of both relevant and extraneous factors should be left to the courts to decide, and cautioned against an overly legislative approach.

The French group noted that: "The considerations related to the environmental protection should be taken into account. Indeed various directives or internal texts impose to the economic operators more and more regulations to protect the environment. The charter on the environment, inserted recently in the constitution, as well as the various European directives on waste and the recycling processing of various products, encourage all the economic operators to take into account the new ecological stakes. Certain directives impose objectives of recycling of certain materials, but none approaches the conflicts between the intellectual property laws and the objectives of recycling."

10) Interface with copyrights or unfair competition

While the present Question is limited to patents, designs, and trademarks as noted in the Introduction above, does your Group have any comments with respect to the relationship between patent or design protection and copyrights or between trademarks and unfair competition relative to exhaustion and the repair and recycling of goods?

A number of groups pointed out the special nature of the copyright which contains the personal rights of the author (e.g. Belgium, Denmark, France, Germany, Spain, Sweden and the US). This leads to specific consequences when it comes to the exhaustion of rights, such as the right to reproduce a work protected by copyright (Japan) or the right to rent out a work (Finland, Turkey). Another aspect is the integrity of the work which is never exhausted and always prevails (Spain and France). According to the Australian group copyright legislation may specifically exhaust trademark or design rights.

The German group cautioned, under the copyright law, that "the right to adapt, i.e. modify a work which itself is the result of a creative act, and to redesign it, i.e. any modification of the work , is not exhausted with the sale of the work. Adapted works, or works redesigned in any other way may only be published and exploited with the author's consent according to Sec. 23 UrhG. However, not every act of repair is an adaptation or redesign, and is therefore ruled out per se in the case of work that is (inter alia) protected with a copyright. If, however, the repair involves an intervention which changes the substance of the work, this could be seen as an adaptation or redesign which requires the author's consent."

The U.S. group noted as regards copyrights on computer programs as follows: "Computer programs, however, present an interesting issue concerning 'repair' of software code. 17 U.S.C. § 117(a) allows the owner of a copy of a computer program to make an 'adaptation' of that program if it is created as an 'essential step' in using that program in a machine. This follows logically since a copyright owner has the exclusive right to prepare derivative works. Courts, at least for purposes of § 117, have ruled that adaptations made to allow the use of a computer program for which it was purchased are 'essential' and therefore not infringing.

These adaptations include not only fixes to inherent program bugs but the addition of features to enhance functioning. The correlation of this type of 'repair' with repairs of patented items is not exact since mere bug fixes to a computer program change that program in a way that likely does more than 'preserve utility' in the patent sense. Regardless, § 117(b) only allows transferral of these adaptations with the authorization of the copyright owner. In essence, a 'repair' and subsequent sale of a computer program is not allowed under U.S. copyright law without prior authorization, the first-sale doctrine notwithstanding. With the doctrine of patent exhaustion, however, not only is a repair of a patented article purchased with no lawful restrictions allowed, but the purchaser may, of course, dispose of the article at will. Moreover, a purchaser of a patented item who 'improves' that item may be able to obtain patent protection on the improvement, with no prior authorization of the original patent owner required at any stage of the process."

According to the German group, "an adaptation of a computer program (see Sec. 69c No. 2 UrhG) does not require the consent of the right holder, if the adaptation is necessary in order to use the computer program as intended, including fault elimination, and if no particular, deviating contractual provisions apply. Within this scope it is thus permissible to eliminate faults by adapting the work in the sense of a repair, regardless of questions of exhaustion. However, the adaptation must be performed by someone who is authorized to use the computer program (Sec. 69d 1 UrhG)."

The Swedish group observed that, due to the author's right to reproduce a work, any form of reproduction may be considered an infringement. Therefore, copyright law may well be an obstacle to recycling in particular where the threshold for copyright protection is low and where the original product can still be recognised in the recycled product.

With regard to unfair competition the groups of Argentina, Germany, Japan, Peru and Turkey stated that irrespective of the exhaustion of trademark rights there may be a basis for unfair competition claims if the consumers are mislead concerning the origin or the quality of the product, in particular if the alterations or modifications to the product are not visible. The French Group pointed out that in cases where the trademark consists of the product itself (i.e. a specific container as a 3D trademark) the sale of a refilled container with a different content may constitute unfair competition.

According to the Swedish group also the sale of spare parts (e.g. for cars) may under certain circumstances be considered a dishonest practice irrespective of an exhaustion of rights.

11) Additional issues

In the opinion of your Group, what would be further existing problems associated with recycling and repair of IPR-protected products which have not been touched by these Working Guidelines?

The US group noted that "famous marks" enjoy additional protection under the 2006 revised version of the Federal Dilution Act in the U.S. Injunctive relief is available against "dilution by blurring or dilution by tarnishment." The US group suggested to study reconditioning or recycling of goods marked by a "famous mark" regardless of the presence or absence of actual or likely confusion.

The Japanese group suggested studying laws related to recycling and importation of used products. It stated that: "it would be useful to examine the recycling laws in various countries. Japan has established such recycling laws (in a broad sense) as follows: the Act on the Promotion of Effective Utilization of Resources, the Fundamental Act for Establishing a Sound Material-Cycle Society, the Waste Management and Public Cleansing Act, etc. For instance, copy machine makers are required to use recycled resources and parts (Article 15 of the Act on the Promotion of Effective Utilization of Resources and Article 2 of the Enforcement Order for the Act on the Promotion of Effective Utilization of Resources). In Europe, recycling

is governed by the Directive 2002/96/EC of the European Parliament and of the Council of 27 January 2003 on waste electrical and electronic equipment (WEEE). For example, copy machine makers are required to design products in consideration of subsequent disassembling and recycling. The rates of component, material and substance reuse and recycling shall be at least 65%. In the United States, each state has its own recycling laws. For instance, in the State of California, CRT-based TVs of 4 inches or larger are required to be recycled. The Environmental Protection Agency (EPA) organizes recycling activities called e-Cycle to promote the recycling of discarded electric and electronic parts. In China, the legislative process for the establishment of the 'Law on the Collection and Use of Discarded Home Appliances' has been underway based on the '10-5' Plan for Collection and Use of Recycled Resources. In South Korea, manufacturers are required to design easily-recyclable products under the laws promoting resource conservation and recycling."

The UK group suggested studying the use of technological protection measures in an attempt to prevent repair and recycling as it has been the subject of litigation in the USA.

II) Proposals for uniform rules

The Groups are invited to put forward proposals for adoption of uniform rules regarding the exhaustion of IPRs in cases of recycling and repair of goods. More specifically, the Groups are invited to respond to the following questions:

1) *What should be the conditions under which patent rights, design rights and trademark rights are exhausted in cases of repair and recycling of goods?*

2) *Should the repair and the recycling of goods be allowed under the concept of an implied license?*

3) *Where and how should a line be drawn between permissible recycling, repair and reuse of IP-protected products against prohibited reconstruction or infringement of patents, designs and trademarks?*

4) *What effect should the intent of IPR holders and contractual restrictions have on the exhaustion of IPRs with respect to recycling and repair of protected goods?*

5) *Should antitrust issues be considered specifically in cases of repair or recycling of goods? If so, to what extent and under which conditions?*

6) *The Groups are invited to suggest any further issues that should be subject of future harmonization concerning recycling, repair and reuse of IP-protected products.*

7) *Based on answers to items 1 to 6 above, the Groups are also invited to provide their opinions about how future harmonization should be achieved.*

Such groups as the Argentinian, German, Hungarian, Japanese, Dutch, Spanish, Swedish, Turkish and US groups have made constructive efforts and proposals toward harmonization regarding various aspects which are difficult to summarize here.

While a number of groups considered confusion resulting from repair or recycling should be avoided, only several groups pointed out importance of product safety and environmental issues. Such groups as the Argentinian group cautioned that IP rights should not be weakened by environmental concerns, and public policies should be developed separately from the IPR systems. The Swedish group, on the other hand, suggested a shift of balance between exclusive rights and environmental, social, economic or other needs that are necessary for creating an ecologically desired society. Several groups indicated that the international

adoption of uniform rules would be difficult, while a few groups suggested legislative efforts be made toward such uniform rules.

The US group seems to suggest the adoption of international exhaustion in an international treaty for ensuring free international flow of products while it cautions its negative side effects on right holders.

The French group suggested the adoption of uniform definitions of important terms such as recycling, waste, etc.

Conclusions:

The group reports have shown a broad variety of positions with regard to the different facets of the exhaustion of rights in cases of repair and recycling. The Working Committee will therefore have to focus on those points where there is either consensus or where at least minimum standards can be defined.

At first the geographical scope of exhaustion should once more be discussed. It is probably necessary to reaffirm AIPPI's position against international exhaustion of IPR.

In order to find a common ground a definition for the acts of "repair" and "recycling" has to be established so that a clear distinction can be drawn between permissible acts on the one hand and those acts on the other hand which constitute a use of the invention and are therefore exclusive to the IPR holder where the rights are not exhausted.

With regard to the principle of exhaustion AIPPI should further review whether it should be possible for IPR holders to grant a license under the condition that rights may still be enforced against manufacturers or dealers downstream in the flow of protected products or whether it should possible for IPR holders to impose his intention, for example, by stating or marking that a product is for one-time use only while it can be resold as a used product and actually used. Such intentions of the right holder may have a particular bearing on the question of recycling or repair.

The Working Committee will finally have to consider how aspects of copyright and unfair competition interplay with other IPR in cases of repair and recycling and how this relationship should be treated in such cases in order to allow or prohibit repair and recycling.