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Report Q205

in the name of the Argentine Group
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Exhaustion of IPRs in cases of recycling and repair of goods

Questions

I) Analysis of the current statutory and case 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?

The patent law expressly provides for exhaustion of the patentee's rights if the patented product has been lawfully put on the market anywhere by the patentee or its licensee. Thus, the patentee is precluded from invoking its rights against a third party who acquires, uses, imports or otherwise commercializes the patented product or the product obtained by the patented process once it has been lawfully put on the market anywhere by the patentee or its licensee.

Moreover, the Patent Law Ruling Decree provides that *"For the purposes of subparagraph c) of article 36 of the Law, the owner of a patent granted in the Argentine Republic shall have the right to prevent third parties from manufacturing, using, offering for sale or importing into the territory a product which is the object of the patent without his authorization, provided that such product was not legally placed in the market of any country. A product shall be considered to have been legally placed in the market when the licensee entitled to its trade in the country certifies that the owner of the patent, or a third party authorized for its trade, has legally placed the product in the market of the country of acquisition..."* These provisions can be construed as meaning that for a product which has been acquired in a foreign market to be lawfully commercialized in Argentina by a party other than the patentee, the party who commercializes such product in Argentina should prove that the patent owner or a party authorized thereby granted consent to the subsequent sale of the product in Argentina. The lack of such authorization would turn the sale into illegal. Insofar the patentee may preclude unauthorized sale of products which have not been lawfully put on the market in any country, and the wording "any country" can be interpreted to include Argentina, express authorization to commercialize the product in our country would be necessary. This possible interpretation of the Patent Law Ruling Decree would support national exhaustion of patent rights, contrary to the international exhaustion foreseen under the Patent Law. To the extent the Ruling Decree modifies the Patent Law, the above discussed provisions might be regarded invalid, or for the sake of keeping the validity of the decree, an interpretation compatible with international exhaustion is likely to be favored.

Neither the trademark law nor the law on designs include provisions concerning exhaustion of rights. However, case law has regarded that the rights of the trademark owner are exhausted if the product bearing the trademark has been lawfully put on the market by the trademark

owner or its licensee. Parallel importation of goods bearing the mark would not provide grounds for an infringement claim. Yet, the trademark owner may object to the importation of genuine goods if the goods or their packaging have been modified.

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?

International exhaustion applies in respect of any IPRs in Argentina. Marketing restrictions (such as marking or designation for sale in a specific area) would have limited effect, and would be ruled by the law on contracts rather than by patent or trademark law. Sale of goods beyond the market they were intended to be sold would provide grounds for the IPR's owner to claim a breach of contract, if applicable.

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 no place in the Argentine law or case law.

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?

As a general rule, repair of a patented or design-protected product would be permissible. Yet, if the restoration consists in the replacement of a worn, broken or defective patent/ design-protected part, only repair by using the part originating from the owner of the IPR would be admissible. The national laws do not provide for a definition of "repair".

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?

Although there is no definition of "recycling" in the national patent or design law, recycling of products as defined in the guidelines for this question might be regarded as infringement of the patentee's or design owner's rights. The doctrine of equivalents might apply to support an infringement claim, in the event the recycled product results from using replacement parts or variations to the original products which are obvious for a person skilled in the art.

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?

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.

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?*

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.

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?*

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.

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?*

In determining whether a recycled product infringes a patent, the criteria used to rule on patent infringement would apply, i.e., whether the recycled product features matches those of the patented invention. Likewise, if a product was repaired by using a non-genuine replacement part, there would be infringement if such part is patent protected and the replacement matches the features of the patented invention.

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

Neither the IPR owner intentions nor contractual restrictions would play a significant role in determining trademark or design infringement in cases of repair and recycling. The

trademark owner would be in a position to prevent third parties from reselling recycled products bearing the mark or featuring the protected design inasmuch as such goods are not genuine. The trademark or design owner might also invoke its rights to prevent the sale of repaired goods whenever there is no indication that such goods are used/repaired or if there is risk of misrepresentation that the repair has been made, supervised or endorsed by the IPR owner. Any contractual restrictions would provide grounds for claiming breach of contract and the dispute would be between the IPR owner and its licensee, distributor or agent.

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?

Antitrust considerations only apply when IPRs are abusively enforced. General criteria on infringement of IPRs would apply when deciding issues involving recycling and repair of patented products or products protected by designs or which bear trademarks, as above discussed. Thus, repair of patented products or products bearing protected trademarks would be admissible, provided that consumers are not misled as to the condition and origin of the repaired goods. Manufacture and sale of spare parts or consumables for said goods would also be permissible if not such parts are not subject to patent protection per se, and if they do not bear the protected trademark but merely an indication of their intended purpose.

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?

An appropriate balance between IP protection and public interest should not be achieved by weakening IPRs but by introducing policies which encourage IPR owners to be conscious of the economic and environmental impact of their business. Resale, recycling and re-use of products may have a beneficial impact from an economic and environmental standpoint but this interest is not above the interest to protect IPRs.

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?

Under our national copyright law, the author may prevent any alteration of its work. Thus, no alteration to the copyrighted work would be permissible without the author's express consent. Actions to keep the work in its original condition (e.g., restoration of sculptures or paints) would be admissible.

As regards the interface between trademarks and unfair competition, the resale of repaired of goods bearing protected trademarks might be regarded as an unfair business practice as well as a trademark infringement if the vendor misleads consumers as to the condition and origin of the products.

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?

Recycling and repair of IPR protected products, when there is no clear indication that the recycling and repair was done by a party other than the IPR owner or under authorization of the IPR owner is likely to bring disputes concerning liability in case of malfunctioning or defective performance of the recycled/repaired goods. The IPR owner should be in a position to repel any claims from consumer in connection with products which repair/recycling was done beyond its supervision or control.

II) Proposals for uniform rules

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?*

The IPRs should be exhausted in case of repair of products when such repair results from the usual replacement of worn, faulty or broken parts. The return of the product to its original condition and eventual resale thereof should not be regarded as infringement except if the replaced part enjoys patent protection per se, or if the third party were to put the repaired product on the market in a manner which might mislead consumers as to the condition of the goods (i.e., repaired product). Moreover, clear notice should be given as to the origin of the replacement parts (i.e., to indicate whether such parts are original or compatible) and of the party responsible for the repair.

The IPRs should not be deemed exhausted in case of recycling of goods as defined in the context of this question, since such recycling would amount to putting on the market a new product which imitates the genuine one. Thus, such recycling should be regarded as infringement of patent, trademark or design rights, as applicable.

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

The concept of "implied license" is foreign to our statutory or case law. In determining whether repair should be permissible, the usual criteria to establish infringement of IPRs should be applicable.

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?*

A line might be drawn by establishing a difference between products which are aimed to be used in the long term and those which are consumables.

Products which are intended to be used during a period of time are usually exposed to regular repair to keep them functioning. IP owner's rights are exhausted with the first sale of the product and repair of worn, defective or broken parts should, in general (and not as an absolute rule), be permissible.

IP owner's rights are also exhausted by the first sale of a consumable product. However, once such product is consumed, recycling thereof (e.g., in case of refurbishment of one-time use cameras or disposable syringes, recovery of drugs from urine of patients) or re-fill of containers bearing trademarks would amount to putting in the market a new product, which is an imitation of the original one. IPRs should not be regarded as exhausted by the first sale of the original consumable product and the IP owner should be in a position to prevent third parties from selling recycled versions of its patented or trademarked goods.

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?*

The intent of IPR holders might be useful to better draw a line between products which are intended for long-term duration from one-time use ones, so that refurbishment of the latter can be labelled as infringement.

Contractual restrictions should be governed by the law on contracts, and would lead to disputes between the contracting parties rather than to infringement claims.

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

Antitrust considerations should only be relevant if IPRs are abusively exercised. Antitrust policies should not be invoked to allow infringement of IPRs.

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.*

Further harmonization would be desirable in defining recycling and reuse. Recycling and reuse of IP-protected products should not be admissible when it amounts to the manufacture or commercialization by an unauthorized third party of refurbished or refilled versions of the original 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.*

An appropriate balance between IPRs and public environmental and economic interests should not be achieved by weakening IPRs. There are variety of ways to re-use or recycle materials which do not amount to infringement of patent, trademarks or design rights. Public policies to encourage IPR owners to recycle their own products and to reduce the one-use products launched into the market might also provide means to deal with environmental concerns such as consumption of energy and raw materials and waste disposal.

Summary

Argentine statutory and case law do not expressly refer to exhaustion of rights in respect of repaired, recycled or reused IP-protected products. General rules and criteria to determine infringement of patent rights would apply to repair, recycling or reuse of IP-protected rights without consent of the IPR owner. As a general, non absolute, rule, repair of products to restore them to functionality would be admissible, while recycling (as defined in the context of this question) would constitute infringement if not authorized by the IPR owner. An appropriate balance between IPRs and public interests should not be achieved by weakening IPRs. Environmentally and economically conscious alternatives should be promoted by encouraging IPR owners to recycle their own products, reuse containers or reduce commercialization of one-use goods.

Résumé

Ni la législation ni la jurisprudence argentine ne parlent expressément de l'épuisement des droits concernant les produits protégés par la PI (Propriété Industrielle) réparés, recyclés ou réutilisés. Les règles générales et le critère pour déterminer l'atteinte aux droits de brevet seraient applicables à la réparation, le recyclage ou la réutilisation des droits protégés par la PI sans le consentement du titulaire desdits droits. Comme règle générale -non absolue- la réparation de produits aux effets de rétablir leur fonctionnalité serait admissible, mais non pas le recyclage (tel que défini

dans le contexte de cette question), lequel constituerait une violation s'il n'y a pas d'autorisation du propriétaire des droits de propriété industrielle. Un équilibre adéquat entre les droits de PI et l'intérêt public ne sera pas obtenu en affaiblissant lesdits droits. On doit promouvoir des alternatives environnementales et économiques faisant prendre conscience et incitant les titulaires desdits droits de propriété industrielle à recycler leurs propres produits, à réutiliser ses conditionnements ou à réduire la commercialisation des produits à une seule utilisation.

Zusammenfassung

Weder die argentinische Gesetzgebung noch die argentinische Rechtsprechung beziehen sich ausdrücklich auf die Erschöpfung der Rechte bezüglich der Produkte, die von dem (GE) Gewerblichen Eigentum geschützt sind, die repariert, rezykliert o wiederverwendet werden. Die allgemeinen Regeln und Kriterien, um die Verletzung der Patentrechte festzustellen, würden für die Reparatur, Rezyklierung oder neue Verwendung der Rechte die von dem GE geschützt sind, andwenbar sein, ohne die Einwilligung des Trägers dieser Rechte. Als allgemeine Regel – nicht absolute – würde die Reparatur von Produkten zum Zweck einer Wiederherstellung zulässig sein, aber nicht das Rezyklieren (so wie es im Zusammenhang dieser Frage definiert wird), was eine Verletzung wäre, wenn keine Zustimmung des Trägers der Rechte des gewerblichen Eigentums besteht. Es würde kein Ausgleich zwischen der Rechte des GE und des öffentlichen Interesses erreicht, wenn solche Rechte geschwächt würden. Es müssen bewusste umweltbedingte und ökonomische Alternative gefördert werden, um den Trägern der gewerblichen Eigentumsrechte zu veranlassen ihre eigene Produkte zu rezyklieren, ihre Verpackungen wieder zu verwenden oder der Vertrieb der Artikel, die nur einmal verwendet werden, zu verringern.