

Report Q205

in the name of the Bulgarian Group
by Valentina NESHEVA and Tsonka TAUSHANOVA

Exhaustion of IPRs in cases of recycling and repair of goods

Questions

1) 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?

Exhaustion of IPR is provided in the patent law, trademark law and industrial design law. Exhaustion of right is present when the product protected by a patent or bearing a trademark or registered as industrial design has been released on the market within EU by the holder or the IP right or with his consent of. The exhaustion of rights can happen only with regard to original products, therefore it has no negative impact on the right of the IPR holders to enforce their rights against infringements.

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?

Bulgarian IP legislation recognizes regional exhaustion with the understanding that Bulgaria is a member state of EU and as such recognizes a special kind or international exhaustion – only within the EU. No specific conditions for the exhaustion of rights are foreseen by the law, actually the exhaustion legal provisions are quite general and not particular.

In case of original products the burden of proof lies with the purchaser who must prove that he has purchased the products either directly from the IPR holder or from his authorized distributor.

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 is not recognized by the Bulgarian 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?

The patent law does not regulate at all repair. Repair is mentioned in the industrial design law foreseeing that the import or spare parts and auxiliary appliances with the purpose of using them for repair of foreign transport means that enter temporarily or accidentally the territory or air space of Bulgaria is not regarded as infringement of the exclusive rights on designs. However this provision relates to an exception from exclusive IPR but not to the exhaustion of rights. There is no legal definition of repair in the laws regulating IP rights.

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?

There are no legal provisions regarding recycling of products in the laws regulating IP rights.

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?

There are no legal provisions regulating repair, recycling or reuse of goods bearing a protected trademark. Court practice cannot regulate a matter that is not provided for in a law. Court practice is valid only for the specific case brought before the court.

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?*

The express intention of the IPR holder is important and yet it must have its limits. The marking that a product must be used only once and then disposed of or returned to the producer may be important to prevent the responsibility of the producer-holder of a patent for damages in case of incident with a product re-used in spite of the marking. However under the present legal regulation this marking will not have the effect to prevent the exhaustion of patent rights especially if the product is for example re-filled with original product released by the holder of the patent right.

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

Our opinion is that the exhaustion of the patent rights can be considered void if the product has a specific marking that it should not be re-used but was re-used and at that

for example re-filled not with an original product of the holder of the patent right, or if the holder of the patent right does not at all release on the market an original product for re-filling of the re-used product.

- 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?*

In case the third party has legitimately – i.e. contractually obtained the products from the licensee (although the latter had not the right to sell these products to a party from a territory outside the licensed territory) the holder of the patent right cannot stop the third party to sell and distribute the products, if the third party's country is Bulgaria. The third party has obtained the products legitimately and the violation of the licensing agreement between the holder of patent and his licensee is not the third party's concern but a contractual problem between the two parties to the licensing agreement.

- 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?*

We don't see at present such additional criteria.

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

The situation with trademarks or industrial designs is no different from the above mentioned situation with patents.

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?

There is no such regulation in the unfair competition law.

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?

In our opinion it is not reasonable that the IPR holders prohibit repair of protected products when original spare parts produced by the holder of the IPR are used. In case of recycling the same must be applied with the clarification that when the recycling cannot bring the product to its practically original condition or function although original products of the IPR holder are used for such recycling, then the recycling must not be admitted. But such a prohibition cannot be valid in case the IPR holder produces products for the recycling (e.g. produces ink for refilling and releases it to the market but still does not allow the 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?

No legal provisions regarding repair and recycling in copyright and unfair competition laws.

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?

We can't think of other problems at this point.

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?*

In our opinion the IP rights will be exhausted if original parts and materials produced by the IPR holder and put with his consent on the market are used in the repair and recycling.

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

We cannot say – no such term in our legislation.

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?*

If the repair, recycling and reuse are done using original spare parts and materials of the IPR holder and essentially restore the product to its original condition and/or function they should be permissible because such actions lower the prices of patented products and make the period of their use longer, thus sparing the national economy unnecessary spending of financial means. However if the reconstruction is done using non-original parts and materials that were not produced or approved by the IPR holder or such reconstruction does not restore the protected product to its essentially original condition and/or function, they should not be permitted but should be considered to be an infringement.

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?*

In case the intent of the IPR holder is not unreasonable, was clearly declared, this was done on time and no possibility exists of misunderstanding or of misleading the consumers, then it should be taken into consideration when the question of exhaustion of rights is decided. The contractual restrictions concern the relationship between the parties to a contract. This relationship cannot have impact on the whole society if not specifically regulated by the law.

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

The antitrust issues may be important in cases when the IPR holder releases his original spare parts and materials for repair and recycling at unreasonably high prices thus preventing the protected product from repair although nominally agrees to the repair and recycling.

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.*

The first subject to harmonization should be the very legal definitions for repair, recycling and reuse. Also under which conditions such actions are admissible.

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.*

Revision of the Paris convention would be the most effective way to achieve harmonization enforceable directly in a great number of countries.