AIPPI

China
Chine
China

Report Q205

in the name of the Chinese Group
by Guangliang ZHANG, Gary ZHANG and Xiang AN

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?

In China, exhaustion of IPRS with respect to patents and designs is provided in statutory law, but there is no legal provisions regarding exhaustion of trademark right. Article 63.1 of the Patent Law, which provides "where, after the sale of a patented product that was made or imported by the patentee or with the authorization of the patentee, or of a product that was directly obtained by using the patented process, any other person uses, offers to sell or sells that product" shall not be deemed an infringement of the patent right, is applicable to exhaustion of patent right and designs. The courts of China, however, have decided few cases relating to exhaustion of IPRs. Further, the decisions are not legally binding to other cases as China is not a case law country.

The conditions under which an exhaustions of patent rights occurs are the following:

a) The patented products have been lawfully made or imported, i.e. the products have been made or imported by the patentee, or with her authorization.

b) Other people obtain the said products lawfully.

c) People who lawfully obtain the said products resell the products.

In addition to those three conditions, there is another condition for the exhaustions of trademark right, the person to sell lawful products bearing a registered trademark shall not replace the registered trademark without authorization, or it will be an infringement under Article 52.4 of the Trademark Law.

The legal consequences with regard to infringement of IPRs include:

a) Civil liabilities: injunctions, an order given by the court to stop and desist from infringement; damages, which may be computed by the lost profit of the right holder, or the illegal enrichment of the infringer, or by reference to reasonable royalties, or by statutory damages which is up to 500,000 yuan (about 70 000 USD); eliminating adverse effect if the infringement has cause such the trademark owner.

b) Criminal liabilities: imprisonment up to 7 years for intentional and serious trademark infringement, and imprisonment up to 3 years for patent passing off; fine

c) Administrative liabilities: destroy of the infringement goods and instruments specifically used to manufacture infringing products, or even impose a fine, by administrative organs for industry and commerce, in case of trademark infringement, and a fine by the administrative organs for patent affair, in case of patent passing off.

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?

There is no legal authority (statutes or decisions made by the courts) stating that the law in China apply international exhaustion for patents, designs or trademarks. Theoretically speaking, we think that the law in China should apply to international exhaustion, if there is no such contractual restriction that products are manufactured and sold in a specific region or country. However, such contractual restrictions are only enforceable to the IPR holder and the other party of the contract, and it should have no legal effect on the purchasers who lawfully purchase the products.

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?

As exhaustion of IPRS is a defence of non-infringement, the defendant has the burden of proof regarding the origin of the products as well as other prerequisites of exhaustion, to the extent that the court will find that the products she sells or uses were manufactured and marketed by the IPR owners or with her authorization.

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?

Yes, the theory of implied license has a place in the laws of China. The differences between the two concepts are that implied license is the theoretic basis for exhaustions, and the extent of application of implied license is broader than that of exhaustion. For example, when the infringer has paid for the infringing goods to the right owner, he is entitled to continue to use or sell those goods. Under this condition the theory of implied license is applied and it has nothing to do with the concepts of exhaustion.

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 the Patent Law of China does not specifically provides the permissible repair of patented or design-protected products, the criterion of patent infringement has to be relied upon while determining an act of repair is permitted or not. There are several factors to be considered and weighed in our opinion:

a) Whether an act of repair constitutes substantially a kind of manufacture or reconstruction, that is, whether the main parts of parts of the products are still usable, while only few components of the products are replaced or repaired.

b) Whether the repaired products are for the repairer's own use, or to sell them for profit.

c) The effect of repair to the market of right owner.

The law of China does not provide for a specific definition of the term "repair" in this context.

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?

The answer to this question is similar to that to question above. There was a case decided by Shandong High Court in 2000. In that case, the plaintiff, Mr. Ju, is the right holder of a design patent titled "wine bottle", and has licensed his patent to a wine factory. The defendant, Gubeichun Co., which is also a wine manufacturer, recollected the used wine bottle protected by the design patent of the plaintiff, refilled the bottles with its wine and sold them in its own packages. The plaintiff sued the defendant for patent infringement. The court of first instance holds that the defendant manufacturing and marketing its wine with the bottle identical or similar to the wine bottle protected by the design patent of the plaintiff should be liable for patent infringement. While Shandong High Court, the court of second instance, hold that the plaintiff and its licensee has gain its financial returns when the wine in the design-protected bottle has been sold, and the patent right over the wine bottle has been exhausted. The exploitation or resale of the wine does not infringe upon the patent right. Therefore, the defendant manufacturing and selling its wine with the recollected used wine bottle protected by design patent of the plaintiff is not liable for patent infringement.

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 Chinese law or practice has not established specific principles concerning the repair or recycling of products such as reuse of articles bearing a protected trademark, and in case of repair or recycling, there are no special provisions of law or decisions by the court governing the exhaustion of trademark rights as of now in China. However, we think that repair articles with a protected trademark should be permissible under the trademark law of China. 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.

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?

There are no clear provisions under Chinese law. It is held by some experts that the intention of the IPR owner play any role in determining whether recycling or repair of a patented product is permissible or not. For permissible repair or recycling of products underline important public interest which can not be negated by the IPR owners who usually want to sell more new products to the consumers to get more profits.

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?*

There are no clear provisions under Chinese law. It is held by some experts that this kinds of restrictions are enforceable, as the patentee can grant monopolized license to the licensee in a designated territory, in which the patentee herself can not sell or ship that products, or she can grant an exclusive license to a licensee in a designated territory, where both the patentee and the licensee can sell or ship the patented products, or she can grant a general license to a licensee in a designated territory, where the patentee can license her patent to unlimited number of licensees, and the patentee and all the licensees can sell and ship the patented products. However, in our opinion, whether the patentee license her patent in a designated territory is irrelevant to determining whether repair or recycling is permissible or not.

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?*

There are no clear provisions under Chinese law. Theoretically speaking, there should be no other objective criteria that play a role in the context.

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

There are some differences in cases of design and trademarks. When a product with a protected trademark is repaired or recycled and the trademark is peeled off that product, even the repaired or recycled product still bearing the original trade marks are resold or transferred in the market but the purchaser is told that the product is repaired or recycled, where infringement of trademark may not be found. However the conclusion may be different in case of designs.

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 are no clear provisions under Chinese law. It is held by some experts that antitrust considerations should play a role in allowing third parties to recycle or repair IPR protected products. Generally speaking, IPRs are lawful monopolized rights, which the right holders can enforce to attain competitive advantages in the marketplace, to gain financial returns for the investment they made to procure the rights. However, IPRs do not convey them the right to control the products lawfully made and marketed. While a repair or recycle use of a products does not constitute manufacturing of a new products, the IPRs has not been infringed, and the owners of IPRs should not interfere, as this is beyond the extent of their rights. Otherwise, the IPRs owners may be considered abusing their rights, in violation of the antitrust law, as it will lessen the vigour of the competition and endanger the public interests.

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?

There are no clear provisions under Chinese law. Theoretically speaking, other factors such as finiteness of natural resource and environmental protection should be considered in order to reach a good policy balance between appropriate IP protection and public interest. In the process of civilization, the human beings has already consumed too much natural resource of this planet, a large portion of which can not be regenerated, and brought about environmental disasters threatening the health even the existence of human kind. To permit repair and recycle IPRs protected products will serve resource saving and environmental protection purposes which underlies public interest. We should also note that the IP system itself sever the public interest and what we should do is to reach a good balance between the two public interests.

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?

In our opinion, the exhaustion of IPRs in cases of recycling and repair of goods is an issue only relating to industrial products and useful articles. For common copyrighted works such as books, pictures, CDs or DVDs, repairing or recycling is not an issue under this topic. Under Chinese law, useful articles such as toy blocks, bottle of perfumes can be protected as works of applied art, and specific names, packages or decorations of famous or noted commodities can be protected in accordance with Article 5 of the Anti Competition Law. The rules for exhaustion of rights in repairing and recycling of goods protected by patent, design or trademark right, should be same as those of goods protected by copyright or right to repress unfair competition.

It should be noted that there is no clear provision regarding exhaustion of rights under Chinese Copyright law, and the right owner is not vested "the right to import", therefore, it can be understood that parallel importation of works and their copies are not prohibited by Chinese Copyright law, and that exhaustion of right is applied to the publication right of works and their copies.

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?

Article 6 of TRIPS Agreement provides that "for the purpose of dispute settlement under this agreement, subject to the provisions of Article 3 and 4 nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights", which means that the issue of exhaustion of IPRs should be resolved by the national law of each member, and that there is no international uniform criteria for exhaustion of IPRs. Therefore, when we are trying to set uniform rules for exhaustion of IPRs in recycling and repair of IPR-protected products, through what kind of mechanism to reach our goal needs to be addressed. Moreover, the issue of exhaustion of IPRs substantially relates to the level of IPRs protection, that is, it will be strong or thin protection of IPRs, when a country does not recognise or recognise the IPRs have been exhausted while recycling or repairing IPR-protected products. But the level of IPR protection should be discussed in the scenario of the economically and technological

reality of each and every state. The developed, developing and the least developed counties should take different attitude to the issues of exhaustion of IPRs in repairing and recycling of IPR-protected products as such a big gap exists among these countries. For the least-developed countries, it will be impractical or even inhumane to prohibit repairing or recycling IPR –protected products. How to facing the big difference among the countries and reach an accepted rule that may be accepted by the majority of countries, should be discussed in these Working Guidelines.

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 conditions should be the following:

a) The products repaired or recycled were made by the IPR s owner or with her authorization;

b) The repairing or recycling of the products does not amount to a reconstruction or manufacturing of a new product.

c) The repaired or recycled products should not mislead the consumers that the products they are buying or using are the original, new products of the IPR owners.

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

Yes, subject to above –mentioned conditions, the repair and the recycling of goods should 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?*

The line may be drawn by the following two factors:

a) Whether an act of repair or recycle constitutes substantially a kind of manufacture, that is, whether the main parts of parts of the products are still usable, while only few components of the products are replaced or repaired.

b) Whether the repaired or recycled products are for the actor's own use, or to sell them for profit.

c) The effect of repair to the market of right owner.

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?*

Generally speaking, we do not hold that the intention of the IPR owner play any role in determining whether recycling or repair of a patented product is permissible or not.

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

Yes, antitrust considerations should play a role in allowing third parties to recycle or repair IPR protected products. Generally speaking, IPRs are lawful monopolized rights, which the right holders can enforce to gain competitive advantages in the marketplace, to gain financial returns for the investment they made to procure the rights. However, IPRs do not confer them the right to control the products lawfully made and marketed. While a repair or recycle use of a products does not constitute manufacturing of a new products, the IPRs has not

been infringed, and the owners of IPRs should not interfere, as this is beyond the extent of their rights. Otherwise, it will lessen the vigour of the competition and endanger the public interests.

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.*

This group think that one of the issues that should be subject of future harmonization concerning recycling, repair and reuse of IP-protected products is how to face the economic and technologic differences among the countries, taking the different level of IPRs protection into account, and to reach a uniform rule which can be accepted by the major countries of the world.

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.*

The protection of IPRs is not only a legal issue but also a trade or even political issue world widely. As discussed above, the recycling, repair and reuse of IP-protected products substantially relates to the level of IPRs protection. After the establishment of the World Trade Organization (WTO), especially the Trips Agreement becomes effective, the protection of IPRs transforms into a trade issue among members or WTO. Therefore, WTO mechanism and the TRIPS Agreement or other international intellectual property conventions may be used to deal with issues concerning recycling, repair and reuse of IP-protected products.

Something can be done to revise Article 6 of TRIPS Agreement relating to the issue of exhaustion of intellectual property rights, and try to reach a uniform rule which should be adopted by WTO members, which will be the basis for solving issues of recycling, repair and reuse of IP-protected products. The fact that the major countries and regions take different attitude towards the issue of exhaustion of IPRs foretells that it will be a very difficult task for the international community to revise Article 6 of TRIPS Agreement. If possible, the international community may discuss the specific conditions under which IPRs will be exhausted, and repair, recycling and reuse IP-protected products hopefully will be one of the conditions.

Considering the complex of the issue of exhaustion of IPRs and the diversity of legislations among the major countries, we suggest relevant international organizations like WIPO draft a directive or model rule on this issue. For most least-developed countries even some developing countries, a directive or a model rule, though not legally binding, will be of great help to make their own legislations on exhaustion of IPRs, as the intellectual property system is rather a new thing to them.

Summary

The intellectual property rights should be exhausted in cases of recycling and repair of goods protected by them, on the conditions that: a) The products repaired or recycled were made by the IPR s owner or with her authorization; b) The repairing or recycling of the products does not amount to a reconstruction or manufacturing of a new product; and, c) The repaired or recycled products should not mislead the consumers that the products they are buying or using are the original, new products of the IPR owners. Something may be done to revise Article 6 of the Trips Agreement to reach a uniform rule for the exhaustion of IPRs which will be the basis for the solution of the issue under discussion, or relevant international organization like WIPO may draft a directive or a model rule for interested countries to follow in making their own legislations on this issue.