

Report Q205

in the name of the Danish 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?

Under Danish law exhaustion rules on IPRs are provided by statutory law (the Patents Act, the Trademarks Act and the Designs Act).

Patents

In respect of patents, the rule of exhaustion is provided in the Patents Act section 3(3)(2) that sets out "that the exclusive right of a patent shall not extend to acts concerning products put on the market in [the EEA] by the proprietor of the patent or with his consent".

The patent right is thus exhausted when a particular (i) *product is put on the market in the EEA (ii) by or with the consent of the patent proprietor.*

Re (i): The patent right is exhausted in respect of particular products irrespective of the nature of the underlying patent protection.

A product is put on the market when it is sold. It is unsettled whether a product is *put on the market* if it becomes subject to lease or is used as security. Some authors argue that this is always the case. Others find that the principles set out in ECJ's judgement in case C-16/03 Peak Performance (which concerned trademarks, cf. below) 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 proprietor has had an actual opportunity to realise the economical value of his patent.

Re (ii): The criterion whether a product is considered to be placed on the market *by or with the consent of the patent proprietor* is fulfilled not only when the product is put on the market by the patent proprietor himself, but also if it is put on the market by a third party, such as a fully owned subsidiary, that is under the control of the patent proprietor.

The criterion is obviously also fulfilled if the product is duly put on the market by a licensee. Some authors find that exhaustion also occurs if a particular product is put on the market during the term of a licence, but in conflict with the terms of the agreement. Other authors find that exhaustion only occurs if the particular product is put on the market in accordance with the licence.

The legal consequence of exhaustion is that the patent proprietor can no longer use his patent right to prevent that the particular product is being offered, put on the market or used. Nor can the patent proprietor prevent that the particular product is imported or possessed for these purposes.

Exhaustion in relation to patent rights has not been dealt with in recent reported case-law.

Trademarks

In respect of trademarks, the rule of exhaustion is provided in the Trademarks Act Section 6, which is based on the rule of exhaustion in EC Harmonization Directive (First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks) Article 7 with virtually identical wording stating:

“1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the [EEA] under that trade mark by the proprietor or with his consent.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”

Thus the trademark right is exhausted when a product has been (i) put on the market in the EEA (ii) by or with the consent of the trademark owner, and provided that there do not exist (iii) legitimate reasons for the trademark owner to oppose further commercialization of the goods.

The applicable criteria and the extent of exhaustion are dealt with in national Danish case-law, but in particular also in EC case-law, which is applied by Danish courts.

Re (i): As established by the ECJ in case C-16/03 Peak Performance a product is put on the market when it has actually been sold by or with consent from the trademark owner (to wholesalers, retailers or other middle men or to end consumers) as opposed to mere importation with the view to sale or offering for sale.

Re (ii) Sale by subsidiaries or other group connected companies are considered as sale by or with consent from the trademark owner.

Consent not only comprises express consent in license agreements, but also less express forms of consent. As established by ECJ in joined cases C-414-416/99 Davidoff mere passivity by the trademark owner, e.g. not to indicate on the goods or in agreements or communications with subsequent dealers that the goods may not be sold or resold in EEA, does not constitute consent. Consent may be implied in cases where the national court finds that facts and circumstances surrounding the marketing of the goods outside the EEA unequivocally demonstrate that the trademark owner has renounced his right to oppose marketing of the goods within the EEA.

Thus, contractual stipulations aiming at excluding the trademark owner's consent to sale/resale within the EEA is neither necessary nor sufficient in order to avoid (implied) consent, cf. also case C-16/03 Peak Performance.

As established by the ECJ in case C-173/98 Sebago/GB-Unic the consent has to concern each individual product in respect of which exhaustion is pleaded, i.e. it is not sufficient to refer to the marketing within the EEA of identical or similar goods with the trademark owner's consent.

Re (iii) Legitimate reasons for the trademark owner to oppose further commercialization of the goods cover the stipulated examples where the condition of the goods is changed or impaired after they have been put on the market, but also cover other legitimate reasons, i.e. the list is not exhaustive.

The interpretation of the EC Harmonization Directive Article 7 (2) is laid down by the ECJ in a range of cases dealing with various interferences in the packaging of first of all pharmaceutical products (re-packaging or re-marking¹), but also alcoholic drinks (case C-349/95 Ballantine) and cases concerning use of trademarks in advertisements for exhausted goods (cases C-63/97 BMW and C-337/95 Dior).

The ECJ case-law was originally based directly on the rules on free movement of goods and thus existed prior to the exhaustion rule in the EC Harmonization Directive Article 7. As established by the ECJ the express exhaustion rule must be seen as a codification of and be interpreted in compliance with ECJ case-law. Technically ECJ has construed the case-law on conditions for repackaging and re-marking as dealing with the interpretation of the exception to exhaustion stated in Article 7 (2), namely whether the trademark owner has "legitimate reasons" for opposing further commercialization. Thus the ECJ has (in harmony with prior Danish exhaustion theory and case-law) confirmed that reapplying the trademark on the original goods in connection with repackaging or re-marking would as a starting point constitute a trademark infringement at the same time establishing however that in parallel importation situations the exhaustion rule in Article 7 (1) would generally allow such actions even without consent from the trademark owner since the trademark rights are exhausted.

According to the ECJ case-law the trademark owner has legitimate reasons (i.e. repackaging and re-marking would presumably in itself provide legitimate reasons) unless (i) reliance on the trademark rights to prevent the marketing of the repackaged goods would lead to an artificial partitioning of the markets meaning that the repackaging is necessary (as opposed to commercially advantageous) to enable the marketing of the goods in the member state; that repackaging is done in a way that respects the legitimate interests of the trademark owner and especially (ii) that repackaging cannot (directly or indirectly) affect the original condition of the product inside the packaging (considering both the nature of goods and the market), (iii) that the presentation of the repackaged product is not liable to damage the reputation of the trademark; and the practical conditions that the new packaging clearly states who repackaged the product and who manufactured it, and that the importer gives prior notification of the repackaging and supplies a specimen of the repackaged product on demand.

In case C-349/95 Ballantine the ECJ applied the same basic conditions (i)-(iii) and a practical condition to give prior notification to the trademark owner.

In case C-337/95 Dior concerning use of trademarks in parallel importers' advertisements for (exhausted) goods, ECJ found that damage to the reputation of the trademark may be legitimate reason pursuant to Article 7 (2).

In case C-63/97 BMW concerning use of trademarks in advertisements for sale of used/second-hand cars (statements such as "BMW specialists"/"specialised in BMWs") ECJ found that it is decisive for the assessment of "legitimate reason" to consider whether there is a risk of conveying an impression of commercial connection (i.a. affiliation or special relationship) with the trademark owner and his distribution network. This principle is also applied by Danish court when interpreting the exhaustion rule in the Trademarks Act Section 6, cf. below.

The legal consequence of exhaustion is with certainty that the trademark owner can not use his trademark right to prevent (i) further commercialization (use, sale, lease, importation for these purposes etc.) of the (unamended) goods retaining the original trademark and in that connection also as established by ECJ in cases C-337/95 Dior and C-63/97 BMW (ii) use of the trademark in advertisements etc. in a manner customary in the sector of trade in question for the purpose of bringing the further commercialization of the goods to the public's attention without indicating a commercial connection or special relationship with the trademark owner.

¹ Cf. especially cases C-102/77, C-1/81, C-71-72-73-232/94, C-427-429-436/93, C-379/97, C-443/99, C-348/04.

Designs

In respect of designs the rule of exhaustion is provided in the Designs Act Section 12, which states that "the rights conferred by a design shall not extend to acts relating to design protected products, which have been put on the market in the EEA by the holder of the design right or with his consent". The Designs Act is based on EC Directive 98/71 on designs, which contains a similar rule of exhaustion in Article 15.

The design right is thus exhausted when a particular (i) product is (ii) put on the market in the EEA (iii) by or with the consent of the design proprietor. Reference is made to the above statements concerning the similar conditions applicable in respect of patents and trademarks.

The consequence of exhaustion is that the design proprietor can no longer use his design right to prevent that the particular product is offered, marketed or used. Nor can the design proprietor prevent that the particular product is imported, exported or stored for these purposes.

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?

Danish IPR laws apply regional exhaustion covering the EEA². Before the EC/EEA rules were implemented in Denmark a rule on international exhaustion applied in Denmark.

Pursuant to Danish procedural law the burden of proof regarding the origin of the products and the consent from the IPR proprietor in the same way as other conditions/prerequisites for exhaustion as a starting point lies with the one pleading exhaustion of the trademark rights. As regards trademarks the ECJ has confirmed that this general rule is in conformity with EC law, cf. joined cases C-414-416/99 Davidoff. However, the doctrine of free movement of goods could imply exceptions and as a possible exception the ECJ has in case C-244/00 Van Doren laid down that if a third party establishes that there is a real risk of partitioning of national markets when he bears the burden of proof (particularly where the trade mark owner markets his products in the EEA using an exclusive distribution system), then the trade mark owner must establish that the products in question were initially placed on the market outside the EEA. (If this is established by the trademark owner then it is up to the third party to establish that the trademark owner consented to the subsequent marketing of the products within the EEA.)

It is assumed by some Danish authors that the principles regarding burden of proof that apply in the context of trademark law also apply in respect of exhaustion of patent and design rights.

Exhaustion is mandatory and cannot be modified by any contractual agreements.

² As regards trademarks reference is made to the ECJ's judgement in case C-355/9 Silhouette.

The IPR proprietor may, however, by means of e.g. sales contracts try to limit the buyer's right to dispose of protected products. Whether such contractual restrictions are valid is not directly addressed in the Danish IPR acts, but will be subject to general law of contracts and property as well as applicable competition law. A breach of such contractual restrictions will never constitute an IPR infringement, cf. however re 7 (e) below concerning the Trademarks Act Section 40 (3). If the restrictions are valid, the effect of any breach will be subject to contractual regulation and general Danish law of Obligations.

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?

No. The application of Danish statutory law on exhaustion is not affected by the contractual relations in the specific case and as such the Anglo-Saxon theory of implied license does not in itself have any place in Danish statutory law on 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?

The act of reparation is not one of the exclusive rights conferred by a patent or design. Unless the act of reparation in fact is an act of making, reparation does therefore not constitute patent or design infringement.

As regards patents the preparatory works of the Danish Patents Act state that a reparation may be of such magnitude that it is considered equivalent to a new acquisition and accordingly an act of manufacture. By way of example, the preparatory works indicate that renovation of a worn-out patented tooling machine with a view to a new commercial sale of the machine may constitute an act of manufacture.

The preparatory works indicate that there is a far reaching right to repair products that are subject to patent protection and that it would be far too restrictive not to allow reparation encompassed by the term normal reparation.

The situation in Denmark is arguably, that there exists a wide access to repair ones own products with a view to continued use. However, if the renovation is performed with a view to sell the renovated product in competition with the patent or design proprietor's new products, the right of renovation is narrower.

Also the nature of the reparation is relevant. The more closely related the reparation is with the core of the patented invention, the more likely it is that the renovation constitutes patent infringement.

As regards designs the decisive factor when evaluating whether repair is an act of making would probably be the concrete extent of "restoring", "remaking" or "reconstruction" of the design protected elements involved in the specific reparation.

Neither Danish statutory law nor reported case-law provides a definition of the term "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?

Neither Danish statutory law nor reported case-law has drawn any distinction between repair and recycling.

The extent to which recycling is allowed is therefore to be decided in accordance with the same legal principles that apply to reparation, cf. item 4 above.

Whereas repair is usually performed with a view to facilitate the owner's continued use of the product, recycling is usually performed with a view to a re-sale of the product. This in itself is an argument in favour of considering the act of recycling as an act of manufacture, cf. item 4 above.

The Danish group expects that the legality of recycling as regards patented products will often depend on the proximity of the actual acts performed in the process of recycling and the core of the patent.

As regards designs the decisive factor when evaluating whether recycling involves an act of making would probably be the concrete extent of "restoring", "remaking" or "reconstruction" of the design protected elements.

As regards design protection of packaging etc. reference is made to item 10 (i) below.

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?

i) Case-law on sale of reused and repaired goods

As a codification of prior case-law³ an express provision was included in the Danish 1958 Trademarks Act to the effect that "If others than the trademark owner make material alterations of products on which the trademark is affixed through processing, repair or the like, the mark may not be used without acceptance from the mark owner if the products are again commercially offered for sale, unless the alteration is expressly indicated or otherwise clearly appears from the circumstances".

This express rule on repair etc. was subsequently omitted in the 1991 Trademarks Act implementing the EU Harmonization Directive and was replaced by a general rule on exhaustion in Section 6 with no express mentioning of the repair situation.

Since similar principles applied based on case-law prior to the express authority in the 1958 Trademarks Act, and since this prior case-law does not appear to be in conflict with EU case-law, similar principles would presumably apply even today in respect of sale of repaired or renovated durable consumer goods as household machines, furniture etc.

As conclusion sale of repaired or renovated used goods would probably normally be allowed⁴ without a requirement to remove or cover the original trademarks, but conditioned

³ U 45.644, 57.596 and U 58.1217 in which the court allowed sale of repaired or even renovated Singer sewing machines also when unoriginal spare parts were used, but stipulating the general condition that there must not be a risk that the public will get the impression that the products in the repaired/renovated state originate from the trademark owner or a risk of confusion with new machines marketed by the trademark owner. To eliminate such risk the recycler should indicate on a conspicuous place on the sewing machines that the machines were not repaired by the trademark owner, but by the recycler, and that unoriginal spare parts were used for the repair. The court further allowed a "renovation"/"re-freshening" of the original trademark, which was reattached by the recycler in connection with the renovation, but denied access to replace the trademark with new Singer trademarks deviating from the original trademark affixed by the trademark owner.

⁴ An exception due to legitimate reasons for the trademark owner to prevent sale would probably apply if the repair or renovation or the spare parts used do not live up to the reasonable standard that could be expected from comparison with the original used goods since this would imply risk of damage to the reputation of the trademark.

on express indications on the goods to the effect that the goods were repaired and not repaired by or using spare parts from the trademark owner when there would otherwise be a risk of confusion or deception to these points (thereby preventing damage to the reputation of the trademark).

Under these principles even very substantial renovations by use of unoriginal spare parts would probably be allowed without any practical requirements concerning indications on goods in fields such as cars and other motor vehicles where such alterations would seem customary.

ii) Case-law on reused and recycled products

In case V-182-05 the Danish Maritime and Commercial Court on 21 December 2006 rendered a judgement on recycling in the form of refilling and sale of used composite (BP) gas cylinders. The judgement clarifies some general aspects of the exhaustion rule in connection with recycled products, but also contains special circumstances in that the trademarks to be considered not only comprised word and device marks, which could in practice be removed or covered, but also the composite gas cylinder as such since this was (effectively) protected as 3D trade dress marks. The judgement is appealed to the Supreme Court who will have the chance to assess the extent of exhaustion in respect of recycling. The case will be heard by the Supreme Court in March 2009.

In its judgement the court first states as undisputed that the first sale of the original gas cylinders to consumers implies that consumers may contact any authorised filling station who may refill the composite cylinders and hand them back to consumers, which is undoubtedly correct.

The business concept in the case before the court was however that the consumers handed over the used and empty gas cylinders to the recycler who in return delivered (other) already refilled gas cylinders to the consumers. Such actions were found to be apprehended as – and consequently qualify as – “sale of gas”. The goods sold and subject to exhaustion were only “gas” whereas the cylinders were considered as packaging. With reference to the preparatory works of the Trademarks Act the court established that exhaustion in case of purchase of branded goods does not imply a right to use bottles, containers or other forms of packaging carrying trademarks in connection with supply of other similar goods, which would hereby gain appearance as the original (new) goods. Thus, the trademark rights were not exhausted in respect of the gas cylinders as such.

While this statement on trademark exhaustion is undoubtedly correct, it leaves open the question of whether the same rule would apply to packaging not carrying any trademarks.

The answer to this question is no, implying free access to recycle packaging without any trademarks even in connection with similar goods, unless the trademark is still affixed, i.a. imprinted, on the goods as such, cf. U 2006.3158 below, and with reservation for protection of the packaging itself on another basis, cf. re 10 (i) below.

The court further established that the trademark rights to the composite gas cylinders (3D trade dress mark) comprised not only gas cylinders, but also gas as such. In consequence hereof labelling the cylinders with express indication of who had refilled the cylinders would not eliminate the risk that consumers got the impression of purchasing a cylinder with gas originating from the original trademark owner. On this basis and noting that the recycler had not established a custom for refilling gas cylinders from other suppliers (i.e. dismissing license) the court found that the refilling and sale of used composite gas cylinders were unlawful both in cases where the recycler had marked the cylinders with his own trademarks (co-branding) and in cases where this was not the case and where other trademarks were removed or covered.

It was not necessary for the Court to deal expressly with the exhaustion in respect of the word and device marks on the composite gas cylinders, i.e. the question of whether – in case the composite gas cylinders had not (also) been protected as 3D trade dress marks – it would have been lawful to refill and sell the cylinders if all protected (word and device) trademarks were efficiently removed or covered and whether it would additionally be required that an indication was made of who had refilled the cylinders, and under this/these condition(s) whether the recycler could additionally add his own trademarks to the cylinders.

It is not possible based on Danish case-law to reach a safe general conclusion on whether sale of recycled goods would always be conditioned on covering all occurrences of the trademarks on the products, or whether – as in cases of repair – it might be sufficient to indicate on the products that the goods were refilled etc. by the recycler. The most likely result is however that in general this would not be sufficient, i.a. a requirement to efficiently cover or remove all occurrences of the trademark would apply since the goods as such or the primary goods (e.g. the gas, toner etc.) is actually replaced with non-original goods leaving only the “packaging” or secondary goods (e.g. bottles, cassettes etc.) originating from the trademark owner.

iii) Case-law on use of trademarks in advertisements etc. for reused, repaired and/or recycled goods

In case V-55/04 the Maritime and Commercial Court applied the principles laid down by ECJ in case C-63/97 BMW and allowed the trademark owner to prevent use of the trademark in advertisement statements similar to the statements considered in BMW (“Your local Toyota specialist”, “Local Toyota garage of [city]”, “Toyota speciality”, “Toyota [city]”) since these statements were found to convey an impression of commercial connection with the trademark owner in the form of affiliation with the distribution network.

Similar principles were applied in Danish case-law prior to the EU Harmonization Directive⁵.

It could quite safely be concluded that Danish courts will apply the principles laid down by ECJ in cases C-337/95 Dior and C-63/97 BMW concerning use of trademarks in advertisements for parallel imported goods, also in cases concerning use of trademarks in advertisements for reused or repaired goods, i.a. the decisive assessment being whether there is a risk of conveying an impression of commercial connection with the trademark owner and his distribution network, cf. item 1.

Under Danish law it is assumed that according to the principles laid down by ECJ a third party repairer, recycler, seller of used goods etc. must never use the trademark in his advertising as his own distinctive business sign or part hereof, including use as names, trademarks, domain names etc. since this would convey the impression of a connection with the trademark owner. In accordance herewith (and with case-law prior to the EC Harmonisation Directive) the Maritime and Commercial Court in U 2000.2300 found that the trademark owner could prevent use of the trademark ROLEX as part of domain names and email address in connection with business in the form of sale of used Rolex watches on the internet since this use conveyed the impression of a relationship with the trademark owner.

Even though use of word marks (as opposed to the trademark owner’s special device marks) would appear more neutral and could more easily be seen as respecting the legitimate interests of the trademark owner, no general distinction could be made between word and device marks. In U 2001.439 the Maritime and Commercial Court following review and

⁵ In U 57.908 use of trademarks in headlines in advertisements for used vacuum cleaners was not itself found to constitute a trademark infringement since the advertisement expressly indicated that the business comprised sale and repair of various brands (contradicting an assumption of connection with the trademark owner). The court also assessed various advertisement statements concerning “as new” and “same guarantee” etc., but found that there was no risk of misleading the customers or confusing the used vacuum cleaners with the trademark owner’s new vacuum cleaners.

application of the principles laid down by ECJ in cases C-337/95 Dior and C-63/97 BMW allowed use of a Kappa device mark in connection with advertisements for parallel imported goods (even though the device mark did not correspond with the exact device mark actually used by the trademark owner in Denmark, but only with a device mark registered by the trademark owner in Denmark).

Danish case-law has not dealt explicitly with use of trademarks in advertisements for recycled goods such as refilled toner cassettes, gas cylinders etc. where the original goods have been replaced with unoriginal goods only leaving the original "packaging". If concluding that such goods may not be sold unless all indications of the trademark are removed (i.e. no exhaustion) then it follows from this conclusion that the trademark could normally not be used in advertisements. If concluding that recycled goods could in some instances be sold without removing all indications of the trademark, the access to use the trademark in advertisements would depend on the assessment of risk that the consumer apprehends a connection with the trademark owner or other forms of damage to the reputation of the trademark probably setting stricter limitations than in cases of repaired goods.

As conclusion trademarks may, in cases of exhaustion, i.e. where used, repaired goods may legally be sold by the third party without covering the original trademarks, also be used in advertisements for used and repaired goods.

iv) Danish case-law concerning various other interferences in the goods:

U 1979.593 (Maritime and Commercial Court): Sale of rejected, undecorated porcelain carrying the trademark of the porcelain manufacturer for porcelain painting purposes did not imply consent to commercial resale by a third party porcelain decorator following decoration by the third party and still carrying the porcelain manufacturer's trademark. This applied even if the name of the porcelain decorator was also indicated on the porcelain since this could be apprehended as a porcelain decorator connected with the trademark owner. However, the court found that the sale by the third party porcelain decorator would be lawful if prior to sale (i) the porcelain manufacturer's trademarks were either removed or covered in a permanent manner, or in cases where the trademarks were not removed or covered (ii) it was indicated on the porcelain in a permanent manner that the porcelain was delivered undecorated from the porcelain manufacturer and by whom it was decorated.

U 2001.2105 (Maritime and Commercial Court): The Court recalled ECJ's judgement in case C-349/95 Ballantine and found that the trademark owner could prevent sale of cosmetic products by a parallel importer following removal of bar codes and production serial numbers by cutting away parts of the packaging in violation of the national regulations on cosmetics implementing EC directives on cosmetics (e.g. no exhaustion due to the exception in Section 6 (2)).

U 2006.3158 (Supreme Court): In connection with a retailer's change of supplier the retailer continued sale of his surplus stock of fixing elements from the first supplier carrying imprinted the first supplier's well-known trademarks. The fixing elements were removed from the original packaging which carried certain colours and trademarks owned by the first supplier and placed in either (i) packaging originating from the new supplier and carrying trademarks as well as certain colours other than the colours used by the first supplier, or (ii) neutral white packaging only indicating the generic designation of the product and the number of pieces but no trademarks, colours etc.

The Supreme Court found that the trademark owner could prevent the marketing of the products in the second supplier's own packaging. As regards the repackaging into neutral packages the Supreme Court states that at least under the special circumstances applying, namely the nature of the products (suitable for being sold by the piece) and that it was established that the first supplier had in general accepted sale of the fixing elements by the

piece from boxes where the original lid with product instructions was removed the sale from neutral packaging was not considered a trademark infringement.

By implication the Supreme Court appears to have made reservation that under some circumstances repacking into neutral packaging without any trademarks (i.e. the mere de-branding and/or interference in the original packaging) might constitute a trademark or marketing practices infringement. The Maritime and Commercial Court indicates an interpretation of EC case-law to the effect that de-branding in connection with re-packaging (as opposed to the subsequent reaffixing of the trademark) would usually in itself constitute a trademark infringement. Such interpretation does not seem to comply with neither EU case-law or Danish theory. However, neither Danish nor EC case-law seems to rule out the possibility that the interference with the goods consisting in amending the original packaging might in itself overstep the boundaries in Section 6 (2). However such result would at least imply that not all occurrences of the trademark are removed or covered, i.e. that there is still at least one trademark left on the goods or on the packaging to infringe by the sale of the repackaged goods. This was actually the case since the trademark was still imprinted on the fixing elements, and under that condition the Maritime and Commercial Court would seem right in generally finding that under such conditions the mere debranding (only) on the packaging would constitute a trademark infringement.

Danish case-law concerning various other interferences in the goods applies the principles laid down by ECJ and supports the above conclusions in respect of sale of repaired or recycled goods.

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?*

No. Under Danish law exhaustion is mandatory and cannot be modified by any contractual regulation or any express intention of the patent proprietor, and it would therefore not be 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 express intentions of the patent proprietor may imply a licence. By way of example, if the patent proprietor markets products on which it is printed "FOR SALE ALL OVER THE WORLD", then import of the product from a non-EEA state to Denmark will be lawful, not because of exhaustion but because of licence, i.e. the patent proprietor's undertaking not to enforce his patent rights in situations of parallel import.

Further, to the extent "the express intentions" of the patent proprietor are comprised by a contract with the buyer of the product, then such "express intentions" may limit the buyer's right to dispose of once patent protected products. Whether such contractual rights and obligations – which in practice would broaden or limit the scope of justified actions by third parties as compared to the results following from rules on exhaustion – are lawful, valid and enforceable are, however, not dependant on the Danish IPR acts, but instead on i.a. general law of contracts and property, applicable competition law and the Danish Marketing Practices Act. A breach of such contractual restrictions will therefore never constitute a patent infringement. If the restrictions are valid, the effect of any breach will be subject to contractual regulation and general Danish law of Obligations. (Cf. item 2 above.)

- 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?*

To the extent that the patent right has been exhausted in the EEA in respect of a particular product, cf. conditions for exhaustion re 1, such product may be marketed anywhere in the EEA without infringing the patent.

The marketing of the product may infringe contractual obligations. The validity of such obligations will require a concrete assessment in each separate case. Invalidity may follow from Danish general law on contracts and/or property and/or from applicable competition law and other mandatory law.

- 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?*

No. Only the conditions for exhaustion apply, cf. re 1.

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

The answers re (a) – (d) also apply to designs.

In respect of trademarks, exhaustion is mandatory as stated in respect of patents re (a) and cannot be modified by any contractual regulation or any express intention of the trademark proprietor as stated in respect of patents re (a) and (b). However, the Trademarks Act Section 40 (3) contains a rule which explicitly modifies the statements concerning license made in respect of patents re (b). Section 40 (3) stipulates that the trademark owner may invoke the rights attached to the trademark against a licensee in case of licensee's violation of conditions in the license agreement concerning i.a. the geographic territory in which the goods may be sold with the trademark affixed, i.e. that a violation of the license in this respect is considered a trademark infringement.

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?

As a starting point Danish competition law respects IPR protection to the effect that enforcing IPR usually will not in itself constitute a violation of Danish competition law. However, the Danish group expects that antitrust considerations may be relevant in the delimitation of the scope of exhaustion since this delimitation is not in anyway fixed, but is based on a concrete discretionary assessment in which antitrust considerations could be a relevant criterion. Even though at this stage there are no explicit indications of an antitrust criterion in Danish case-law the consideration of the interests of the recyclers etc., which renders it necessary to conduct a careful consideration of the delimitation of IPRs, could in itself be construed as an antitrust consideration. Thus, antitrust considerations and/or the interests of the recyclers etc. may in concrete cases affect the discretionary assessment to the effect of stretching the limits of lawful recycling of particular products in order to substantiate a sound competition or prevent substantiation or creation of a dominant position.

Further, antitrust considerations may imply that specific anticompetitive contractual restrictions are considered as void.

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?

Under Danish law, the possibility of concluding contractual restrictions that de facto have the same effects as a patent right is subject to considerable legal uncertainty.

Such uncertainty may impede the competition that the exhaustion rules are envisaged to secure. The Danish group therefore suggest that these issues are further clarified.

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?

i) Trademark, design and copyright protection

The fact that an object enjoys protection according to the Designs Act or Trademarks Act (3D trade dress marks) does not exclude additional protection of the same object according to the Copyrights Act and vice versa, cf. explicitly the Designs Act Section 50 and the Copyright Act Section 10 (1). Whether protection pursuant to various IPR acts may be invoked depends on whether the various conditions for invoking such protection as set forth in each of the IPR acts are present, including that the rights are not exhausted.

In the BP Gas case V-182-05 it was not necessary for the court to deal with the question of whether the gas cylinders could have been refilled with third party gas and sold if the cylinder as such had not been protected as 3D trade dress mark and all trademarks had been permanently covered or removed. The most likely result would appear to be that such actions would normally not constitute a trademark infringement. If this is assumed it would be decisive to consider whether protection of the package as such pursuant to the Design Act or Copyright Act could instead be used to prevent reuse, repair and recycling.

As regards the design right, design protection of packaging, bottles, containers etc. would indeed be possible and would cover the design of such packaging as such, which would in relation to the design protection be considered "the product" (and not the goods inside the packaging, i.a. gas or toner/stainer etc.). Consequently the exhaustion of the design right in connection with the first sale of the product (as packaging for other goods) would also concern the packaging as such, and it would not make sense to draw the distinction between exhaustion of the goods and not of the packaging that was decisive for the result in the BP Gas judgement on trademark exhaustion. Thus, even though the protection conferred by a design right to i.a. a gas cylinder would appear similar to the protection conferred by a 3D trade dress mark showing a gas cylinder - both protecting the appearance of the gas cylinder as such - the result in respect of exhaustion of the design protection would probably be the opposite, namely that a design right to the composite gas cylinder could not – subsequent to the first marketing within the EEA with the design proprietor's consent – be used to prevent a third party from selling the gas cylinder after having refilled it with gas originating from a third party.

In respect of the Copyright Act exhaustion following from the first sale to others within the EEA – also comprising a first sale of the copyright protected article as packaging for goods – would according to the exhaustion rule in Section 20 of the Copyright Act imply that further distribution in the form of resale is allowed. In accordance with this assumption the ECJ in case C-337/95 Dior stated that principles similar to trademark exhaustion apply to the exhaustion of copyright protection in respect of sale and resale of commercial goods

and also that protection afforded by copyright in respect of commercial goods should not be broader than the protection conferred by the trademark under the same circumstances.

ii) Marketing Practices Act

In a range of the Danish exhaustion cases mentioned under item 6) above the Danish courts have additionally referred to the Danish Marketing Practices Act Sections 1 (general standard on fair marketing practices) and/or 18 (protection of distinctive business signs against third party use not in accordance with fair marketing practices). In cases where the trademark rights are not exhausted the court often (but not always) finds that there is a trademark infringement as well as an infringement of Section 1 and 18 of the Marketing Practices Act. In cases where the trademark rights are exhausted and the courts consequently find that there is no trademark infringement the court often (but not always) also explicitly addresses whether there is instead an infringement of Sections 1 and/or 18 in the Marketing Practices Act.

The additional protection following from the Marketing Practices Act also supplements the protection of design and appearances pursuant to the Design Act and Copyright Act of commercial goods on the market. The Marketing Practices Act also supplements the protection following from patent rights since it protects secret know how. However, the Marketing Practices Act does not provide any protecting in respect non-secret technical information, nor does the Marketing Practices Act afford a supplementary protection to a technical product after the lapse of a patent right or to a product the design of which is merely technically conditioned.

The consequence of the parallel authority in the Marketing Practices Act is that even in cases where the ECJ might interpret the exhaustion rule in the EC directives on trademarks and designs in a manner that "overrules" the interpretation by Danish courts of the trademark and design exhaustion rules, the Danish courts might still reach the same practical results based on the supplementary authorities in the Danish Marketing Practices.

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?

IPR exportation and importation rules would in practice imply that IPR issues could arise in several jurisdictions in case of larger scale cross-boarder recycling or repair concepts.

When adding possible issues on law of contract and law of property, which IPR owners could attempt to induce by various clauses concerning recycling and repair indicated on the original goods, in general sales conditions, in distribution agreements etc. that could also arise in several jurisdictions and difficult choice of law and venue issues depending on in which country the IPR owner would chose to attack the recycling concept it might in practice be almost insurmountable to complete a legal clearance prior to the launch of a larger scale cross-boarder recycling or repair concept.

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 possibility of repairing or recycling IPR protected, in particular patent protected, goods is linked to significant financial interests but governed by unclear rules.

The Danish group first and foremost believes that a clarification of the rules, in particular the interplay between IP laws, contract law, property law and competition law, would benefit all involved parties.

The Danish group finds that in many cases the present Danish rules of exhaustion, which also appear to be in concordance with ECJ rules and case-law strikes a fair balance between the involved interests. Express rules should, however, address the IP owner's power to use contractual restrictions in order to de facto monopolize or prevent a reasonable recycle/second-hand market.

Further in the field of trademarks express rules should continue to make room for concrete evaluations by national courts of the risk of damage of the reputation of trademarks in connection with the specific sale and marketing of repaired or recycled goods.

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

The Danish group considers statutory regulation of exhaustion as better means to secure the balance envisaged by the IPR framework than a subjective orientated implied licence approach.

- 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 Danish group considers that the present Danish rules and case-law regarding exhaustion strike a fair balance.

- 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 Danish group suggests that contractual restrictions that aim at re-establishing the same legal effects as not exhausted IPR should be invalid.

- 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 Danish group believes that antitrust law is indeed a relevant source of law in relation to cases of repair or recycling of goods. The Danish group, however, also realises that application of antitrust law is often linked with significant uncertainty, and the Danish group therefore suggest that antitrust considerations are used as a platform for a more express regulation of the possibility of repairing and recycling goods.

- 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.*

Please see item 11) above.

- 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.*

None.

Summary

Danish IPR acts stipulate (mandatory) regional exhaustion of rights covering the EEA. Case-law on recycling/repair is sparse. For patents and designs the legitimacy of repair/recycling depends on whether there is an "act of making". This assessment would probably depend on (i) patents: The proximity of actual acts and the core of the patent, (ii) designs: The actual extent of "restoring", "remaking" or "reconstruction". For trademarks sale of repaired goods preserving trademarks would

probably be legitimate when indicating relevant information (repair by repairer, use of unoriginal spare parts etc.) on the goods. Recycling preserving trademarks would most likely not be allowed. The Danish Group suggests express regulation dealing with exhaustion and the interplay between IPR and laws on contracts, property and competition in respect of repair/recycling. The regulation should be based on antitrust considerations, and deal with the legitimacy of contractual restrictions aiming at re-establishing the effects of (exhausted) IPR or monopolizing the secondhand market.

Résumé

Les lois danoises sur les droits de propriété intellectuelle stipulent un épuisement régional (mandataire) des droits, qui couvre l'EEE. Pratique juridique concernant recyclage/réparation n'existe guère. Quant aux brevets d'inventions ainsi que dessins et modèles, la légitimité dépend de la façon dont il y a un acte de fabrication. Cette évaluation dépend probablement de: (i) brevets d'inventions: La proximité de l'acte effectif et le fond du brevet d'invention, (ii) dessins et modèles: l'étendue effective de la "restauration", "renouvellement" ou "reconstruction". Quant aux marques de fabrique, la vente de produits réparés conservant les signes de marques serait probablement légitime quand l'information importante (réparation par un réparateur, emploi de pièces de rechange qui ne sont pas l'original etc.) est indiquée sur les produits. Très probablement, le recyclage conservant le signe de marques ne serait pas autorisé. Le Groupe danois propose une réglementation explicite au sujet de l'épuisement et de la corrélation entre les droits de propriété intellectuelle et les lois de contrat, de propriété et de concurrence concernant la réparation/recyclage. Cette réglementation devrait être basée sur des considérations du droit de concurrence et concerner la légitimité des restrictions contractuelles visant à rétablir les effets des droits de propriétés intellectuelles (épuisés) ou monopoliser le marché d'articles d'occasion.

Zusammenfassung

Das dänische Immaterialgüterrecht sieht eine (zwingende) regionale Erschöpfung der Rechte innerhalb des EWR vor. Rechtspraxis betreffend Recycling/Reparatur ist kaum vorhanden. Bei Patenten sowie Mustern und Modellen hängt die Rechtmässigkeit von Reparatur/Recycling davon ab, ob ein "Herstellungsakt" vorliegt. Für die Beurteilung sind wahrscheinlich die folgenden Kriterien entscheidend: (i) Patente: Die Nähe der tatsächlichen Handlungen und der "Kern" des Patents, (ii) Muster und Modelle: Der tatsächliche Umfang der "Instandsetzung", "Erneuerung" oder "Wiederherstellung". Bei Markenrechten ist der Verkauf von reparierten Waren, die die Marke beibehalten, wahrscheinlich rechtmässig, wenn die entsprechende Information (Reparatur durch einen Reparaturbetrieb, Gebrauch von nicht originalen Ersatzteilen usw.) auf den Waren angebracht wird. Recycling, bei dem die Marke beibehalten wird, ist höchstwahrscheinlich nicht erlaubt. Die Dänische Gruppe empfiehlt eine ausdrückliche Regelung, die die Erschöpfung und dem Zusammenspiel von Immaterialgüterrecht und Vertrags-, Eigentums- und Wettbewerbsrecht betreffend Reparatur/Recycling behandelt. Eine solche Regelung sollte auf wettbewerbsrechtliche Gesichtspunkte gestützt werden und sich mit der Rechtmässigkeit von vertraglichen Einschränkungen auseinandersetzen, die darauf zielen, die Wirkung (erschöpfter) Immaterialgüterrechte wiederherzustellen oder den Gebrauchtwarenmarkt zu monopolisieren.