

Report Q205

in the name of the Finnish Group
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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?

In Finland, regional, i.e. EEA-wide exhaustion is provided in the following sections of law: Trademarks Act, 10a§, Patents Act 3§, Act on Utility Models 3 §, Designs Act 5c§.

According to the provisions in the above referenced sections of law, the proprietor of an IP right may not prevent the use of a product, subject to the relevant IP right, on goods that the proprietor, or another person with his consent, has placed on the market within the territory of the European Economic Area.

According to a further specifying provision in the Finnish trademarks Act, the above referenced provision is not applicable if the proprietor has justified grounds for objecting to the goods being once again placed on the market, in particular if alterations have been made to the goods or if they have deteriorated after having been placed on the market.

As a consequence, a product that has originally been placed on the market within the territory of the European Economic Area by the proprietor of the IP right, or by another person with his consent, shall not be considered infringing, even if such a product is later brought to the Finnish territory without the consent of the right holder.

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?

Finland is bound by the provision in Art. 65. 2: Protocol 28, Art. 2 of the EEA -agreement: To the extent that exhaustion is dealt with in Community measures or jurisprudence, the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law.

In practise this means that Finland applies regional exhaustion, covering the contracting parties of the EEA-agreement.

The burden of proof regarding the origin of the products lies with the person who places them on free circulation in Finland. The outlines, set out by the European Court of Justice are followed.

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 provided for in the Finnish national law. Case law before the ECJ is followed.

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?

Finnish national law is silent on the issue of repair of products protected by patents or designs.

As a general principle, the right holder is, due to exhaustion of his right, not entitled to prevent repairing of individual products that he or a third party with his consent has placed on the market within the territory of the European Economic Area.

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?

Finnish national law is silent on the issue of recycling of products protected by patents or designs. There is no definition for the term recycling in this context.

As a general rule, the right holder is, due to exhaustion of his right, not entitled to prevent recycling of individual products that he or a third party with his consent has placed on the market within the territory of the European Economic Area.

Further, as the concept of recycling often incorporates a change in the use, intended for the product, such "new" use might not necessarily fall within the scope of protection, as defined in the patent, thereby preventing the patent holder from relying on his right against such new use.

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?

According to a specific provision In the Finnish trademarks Act, the trademark proprietor is entitled to prevent the release of recycled goods in free circulation, if he can establish justified

grounds for objecting to the goods being once again placed on the market. Such a possibility exists in particular in cases where alterations have been made to the goods or if they have deteriorated after having first been placed on the market by the mark holder. There is no Finnish Case law on this specific issue.

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 specific provisions in the Finnish legislation. Neither is there any Finnish case law. The outlines set out by the ECJ will be followed.

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

The Group finds that in Europe post sale restrictions by which the patent owner restricts the use, selling and marketing of the patent protected product after the product has been marketed for the first time with the patent owner's consent should not be permissible as far as they concern restrictions of free movement of goods¹.

On the other hand, restrictions – insofar that they do not concern the free movement of goods – concerning the use of the product marketed with the IPR owner's consent could be allowed on the condition that they have been set by the IPR owner before the product has been marketed for the first time. Especially considerations on product safety appear to support such interpretation.

Therefore the group finds that a marking stating that the product is to be used only once and disposed or returned after one-time use should be considered binding.

- 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?*

If the licensee sells products against the license agreement's provisions concerning the first sale and marketing of the product, the patent holder's rights do, according to the practise of the ECJ, not exhaust and the patent holder may stop further sale of those products².

The Group finds that conditions for such territorial restrictions should be considered valid unless considered restricting competition. However, no domestic case law exists to support this.

- 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?*

See above, under b): if the right holder has originally intended his product to be disposable, e.g. not to be re-used, it may be assumed that the product specifications will not allow for extensive re-use or recycling, due to product safety considerations.

¹ ECJ Case 58/80 Dansk Supermarked A/S v. A/S Imerco; Case C-16/03 Peak Holding AB v. Axolin-Elinor AB.

² ECJ Case 15/74 Centrafarm BV and Adriaan de Peijper v. Sterling Drug Inc; Case 187/80 Merck & Co Inc. v. Stephar BV and Petrus Stephanus Exler

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

A specific provision in Section 10a, subsection 2 of the Finnish Trademarks Act provides that the proprietor of the Trademark is entitled to prevent the use of his trademark in a product that has originally been put on the market within the EEA if he has justified grounds for objecting to the goods being once again placed on the market, in particular if alterations have been made to the goods or if they have deteriorated after having been placed on the market.

This provision of the law appears to support the right holder's entitlement to place contractual restrictions with regard to repair and recycling of the goods.

- 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?

The Finnish competition legislation does not contain provisions relating to this matter and furthermore antitrust aspects have not been considered problematic with this respect.

The European Commission has issued a block exemption on the application of Article 81 (3) of the Treaty to categories of technology transfer agreements which will expire on 30 April 2014. According to the block exemption, technology transfer agreements that fulfil the conditions set out in the block exemption are block exempted from the prohibition rule contained in Article 81(1) and are legally valid and enforceable.

Therefore, agreements that for example contain restrictions of the type, discussed under 7) should be valid and enforceable.

- 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?

- 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?

EEA-wide exhaustion is provided for in section 19 of the Finnish Copyrights Act. Such exhaustion does not concern lending or hiring of a work, including works in digital form.

- 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?

Due to the raised awareness on environmental issues, the general attitude towards re-using and recycling of products may on a general level be considered positive amongst the Finnish consumers.

Therefore, it should be taken into consideration that introduction of a categorical ban on repair and/or recycling of basically working and usable items on grounds of the concept of

regional exhaustion of intellectual property rights (which for the average consumer appears to be somewhat difficult to fully understand) might have a backfiring effect in terms of general respect towards Intellectual property rights amongst the consumers.

Consequently, the motivations for introducing of uniform guidelines to this effect should be carefully considered. For example the reasoning described above with regard the product safety issues could, however, be useful in motivating the introduction of such new 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 right holder should be entitled to prevent the re-release of a product that has originally been put on the market in cases where he has justified grounds for objecting to the goods being once again placed on the market.

Especially alterations to the goods, and eventual deterioration of the goods after the first release, as well as product safety issues should have a role in this consideration. Therefore, for example goods which have not been designed and specified to be reusable should not be recycled for their primary use.

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

The concept of implied licence appears to provide an easy to apprehend tool for managing the issue of exhaustion in conjunction of repair and recycling of goods protected by the various IP rights.

- 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?*

See above, under 1); for example alterations to the goods, and eventual deterioration of the goods after the first release, as well as product safety issues should have a role in this consideration.

- 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 group is positive towards the adoption of the concept of implied license in the assessment of the issue on a general level. In cases where the right holder has justified reasons to object to the re-release of the goods, such an implied consent could be considered as withheld.

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

Within the EEA, the provision in Article 81 (3) of the EC –treaty may have effect on the matter.

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

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