Israel
Israël
Israel

Report Q205

in the name of the Israeli Group
by Tal BAND

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?

Israeli case law provides for the exhaustion of trademark rights. Some uncertainty exists regarding the exhaustion of patent and design rights. In the past, district courts have deemed parallel importation of patented products as constituting patent infringement, in certain circumstances. However, in a later Supreme Court decision, it was noted, in an *obiter dictum*, that the doctrine of international exhaustion should apply to patent rights. A recent district court decision applied international exhaustion with regard to design rights and allowed the parallel importation of goods protected by a registered design (including translated user manuals). The criteria for the exhaustion of IP rights are not expressly detailed and are referenced almost solely with regard to questions of parallel imports.

The recently enacted Copyright Law, 2007 is the only IP legislation which expressly considers exhaustion of rights. The act excludes from its definition of "infringing copy" any copy of the protected work that was created abroad with the consent of the copyright owner, thus allowing parallel importation of copyrighted works (and overturning previous case law which prohibited parallel importation of copyrighted works under the old Copyright Law).

Some restrictions to the doctrine of exhaustion arise from case law. For instance, while the parallel importation of trademarked goods (of genuine origin) does not constitute trademark infringement, exploitation of the trademark owner's goodwill by the parallel importer, if accompanied by unfair competition, may entitle the trademark owner to relief under the Unjust Enrichment Law, 1979.

With regard to copyright exhaustion, a Supreme Court decision, while not expressly referring to parallel importation, deemed it an infringement to broadcast to cable television subscribers a sports event that was exclusively licensed to another broadcaster in Israel, by airing a foreign channel that had obtained its license for the event for a different geographical area.

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?

Exhaustion as applied to trademark rights is international. As noted above, it is still of some speculation whether international exhaustion applies to patent rights.

A recent district court decision interpreted previous case law of the Supreme Court as allowing parallel importation of trademarked goods of genuine origin, even in breach of contractual limitations on the third party supplying the goods to the importer. The decision further noted that similar principles should apply to the parallel importation of goods protected by registered design rights. However, said interpretation may stretch previous case law beyond its certain boundaries.

An IP proprietor may be allowed tort relief against a parallel importer if the latter induced a distributor to breach a contract restricting his export of the protected products.

The burden of proof regarding the origin of parallelly imported goods is likely to lie with the parallel importer. The claim that prima facie infringing use of another's IP right is, in fact, non-infringing, is an affirmative defence, thus shifting the burden of proof to the defendant, i.e. the parallel importer.

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 undeveloped under Israeli law. In one case it is applied as a form of equitable estoppel rather than of patent 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 Patents Law, 1967 and the Design Ordinance do not grant the IP holder exclusive rights to repair protected products and in fact do not address the issue.

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?

Assuming the first sale doctrine applies in Israel with regard to patented products, the recycling of protected products, if accompanied by unfair competition, may still be liable under the Unjust Enrichment Law, 1979.

In one case, a distributor of recyclable gas canisters for the carbonation of water sought relief against a competitor who used the plaintiff's canisters in his own distribution network, purchasing them from the plaintiff's clients and distributors and re-branding them. No patents were involved but while it was held that the distributed canisters were the property of the

plaintiff's clients and thus could be purchased by the defendant, the Supreme Court found the defendant liable on grounds of unjust enrichment. It should be noted, however, that the basis for this ruling was the defendant's practice of tortious unfair competition, i.e., inducement of the plaintiff's distributors to breach a contract and the creation of an artificial shortage of the plaintiff's canisters.

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 sale of replacement parts for goods protected by trademark is permissible for so long as no passing-off or confusion with respect to the origin of the goods is likely to arise. Use of the trademark should be limited to the extent necessary for describing the nature of the replacement part. However, it is not permissible to manufacture a replacement part that is itself protected by an IP right.

In one case, the re-use of articles bearing another's trademark (i.e., distributing a beverage in recycled bottles imprinted with another's trademark) was considered as trademark infringement.

7) *IPR owners' intention and contractual restrictions*

a) *In determining whether recycling or repair of a patented product is permissible or not, does the express intention of the IPR owner play any role? For example, is it considered meaningful for the purpose of preventing the exhaustion of patent rights to have a marking stating that the product is to be used only once and disposed or returned after one-time use?*

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

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?*

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?*

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

No case law on the specific issues has been raised.

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 Restrictive Trade Practices Law, 1988, the principal antitrust legislation in Israel, does not apply to restrictive arrangements solely involving the right to use patents, designs, trademarks or copyrights, for so long as said arrangement is between the IP proprietor and the party receiving the right to use the IP right. However, any monopoly gained through the exploitation of patents is not immune from antitrust issues.

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?

I cannot see why it should differ.

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?

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?

2) Should the repair and the recycling of goods 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?

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?

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

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.