

## **Report Q205**

in the name of the Malaysian 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?*

#### **Trademarks**

Exhaustion of rights with respect to trade marks are provided in the Malaysian Trade Marks Act 1976 ("the Act"). Section 40(1)(d) of the Act in essence provides that once a mark has been legitimately applied to a particular goods, whether by the registered proprietor or the registered user, the subsequent dealings with such trademarked goods is not an infringement. Section 40(1)(d) of Trade Marks Act 1976 is reproduced in full as follows:

*"(40(1) Notwithstanding anything contained in this Act, the following act do not constitute an infringement of trademark*

*d) in relation to goods connected in the course of trade with the registered proprietor or a registered user of the trademark if, as to those goods or a bulk of which they form part, the registered proprietor or the registered user in conforming to the permitted use has applied the trademark and has not subsequently removed or obliterated it."*

The Act does not stipulate specific conditions in which an exhaustion of rights in respect of a trademark occurs.

The rights of the registered proprietor are deemed to be exhausted once the trademark is applied on the relevant goods by the registered proprietor or the registered user. In other words, once the goods bearing the trademark are put into the market by the registered proprietor or the registered user, the registered proprietor cannot use those rights to prevent or hinder the importation of the trademarked goods into Malaysia or to prevent their sale in Malaysia. A registered proprietor and/or registered user of a trademark has the right to prevent deception as to the origin of the goods but such proprietorship or user right *per se* does not give a right to control dealings with the goods. Therefore, where exhaustion of rights in respect of a trademark occurs, there will be no trade mark infringement and the registered proprietor or user will not be able to enforce its trademark against a parallel importer.

#### **Industrial Designs**

Exhaustion of rights in relation to registered Industrial Design are provided by statutory law and Section 32(3) of the Industrial Designs Act 1996. Section 32(3) provides that the rights of the owner of a registered industrial design shall not extend to acts in respect of an article to

which the registered industrial design is applied by or with the consent of the owner after the article has been lawfully imported or sold in Malaysia.

Therefore, the rights of the owner of a registered industrial design are exhausted once the article, where the registered industrial design has been applied, has been lawfully imported or sold in Malaysia. In such situations, the owner of the registered design could no longer institute any proceedings for infringement of the registered industrial design.

### **Patents**

Section 58A of the Patents Act 1983 deems all acts of parallel importation of patented products to be no longer an infringement of the patent if the patented product was produced by or with the consent of the patent owner or its licensee.

Section 58A provides that:

- 1) *It shall not be an act of infringement to import, offer for sale, sell or use*
  - a) *any patented product; or*
  - b) *any product obtained directly by means of the patented process or to which the patented process has been applied,*  
*which is produced by, or with the consent, conditional or otherwise, of the owner of the patent or his licensee.*
- 2) *For the purposes of this section, "patent" includes a patent granted in any country outside Malaysia in respect of the same or essentially the same invention as that for which a patent is granted under this Act.*

It should be noted that Section 58A was incorporated into the Patents Act 1983 in 2000 and came into force on 1 August 2001. Prior to this, the doctrine of exhaustion of rights were based on common law principles.

### 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?*

### **Trademarks**

Under the Act, exhaustion of rights in respect of trade marks is limited to the territory of Malaysia only. Trade mark owners cannot complain if genuine goods are brought into Malaysia from overseas albeit without their consent.

The burden of proof lies with the defendant who wishes to rely on section 40(1)(d) or section 40(1)(dd) [see below] as a defence to a trade mark infringement. The defendant would have to prove that the products originated from the plaintiff or the plaintiff's user or manufactured by a third party with the express or implied consent of the plaintiff or its user and the products have been put in the Malaysian market by the plaintiff or the plaintiff's user or by a third party with the express or implied consent of the plaintiff or its user.

### **Industrial Designs**

Section 31(3) of the Industrial Designs Act 1996 provides that the rights of the owner of a registered industrial design shall not extend to acts in respect of an article to which the registered industrial design has been applied by or with the consent of the owner after the article has been lawfully imported or sold in Malaysia. This section implies that only national exhaustion applies to registered industrial design. The owner of the registered design has the right of 1st distribution of the article and once the article has been marketed and sold in Malaysia, the rights of the owner no longer extend to importation or sale of subsequent articles lawfully imported into Malaysia.

Breach of contractual restrictions by a purchaser would be treated as a breach of contract governed under the Contracts Act 1960 and enforceable in court by normal civil process. The burden of prove lies with the importer of those goods.

### **Patents**

Section 37(2)(i) of the Patents Act 1983 provides that *"the rights under the patent shall not extend to acts in respect of products which have been put on the market by the owner of the patent"*. Further, Section 58A makes the act of importing, offering for sale, or use of any patented product produced by or with the consent of the owner of the patent or his licensee no longer an act of infringement of the patent.

Prior to 2001 (before the incorporation of Section 58A into the Patents Act 1983), the High Court in the case of *Smith Kline & French Laboratories Ltd v Salim (M) Sdn Bhd* [1989] 2 CLJ 228 held that where the plaintiffs by themselves or by their associated company sell their patented product in the United Kingdom, without giving effective notice of any restrictions in respect of the re-sale and the product is purchased by a Malaysian merchant by way of import, the plaintiffs or the associated company who has the exclusive rights to import the product into Malaysia will not be able to take action for infringement against an innocent importer of the product. This seems to suggest that if a patent owner could impose restriction on importation and distribution of the patented product if it had given proper notice on such restriction of sale in a specific region or country.

### 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?*

### **Trademarks**

Section 40(1)(dd) provides that once a registered proprietor or registered user of a registered trade mark has at any time expressly or impliedly consented to a person using such trade mark in relation to goods or services authorised by them, such use will not become an infringing use. This section clearly legitimises parallel importation of gray market goods.

Section 40(1)(dd) is reproduced in full as follows:

*"(40(1) Notwithstanding anything contained in this Act, the following act do not constitute an infringement of trade mark*

*dd) the use by a person of a trade mark in relation to goods or services to which the registered proprietor or registered user has at any time expressly or impliedly consented to;"*

The difference between section 40(1)(dd) and section 40(1)(d) is in the application of the trade mark. Section 40(1)(d) envisages a situation where the mark is applied to the goods by the registered proprietor or the registered user, whereas the application of trade mark under section 40(1)(dd) can be effected by some third parties, provided the same is done with the express or implied consent of the registered proprietor or registered user.

## **Patent**

In the case of *Smith Kline & French Laboratories Ltd's* case, the doctrine of implied licence was raised by the defendants who imported the patented drug from a supplier in the UK without knowledge of any restrictions in respect of resale. The plaintiff argues that importation and resale of such patented drug would infringe the plaintiff's rights in the registered patent. To this end, there were no restriction or notice of conditions imposed on the patented drugs imported by the defendants from the UK and the learned judge, VC George J (as he was then) held that since the defendants did not have any notice of conditions imposed in respect of the drugs they had purchased in or imported from the UK, the defendants could not be held liable for infringement of the patent. His lordship referred to *Betts v Willmot* [1891] LR 6 Ch 238 and held that *"it seems inexplicable that the plaintiffs should not have indicated on the packaging and labelling of the products that they impose conditions in respect of re-sale. It is all very well for the plaintiffs to have their own trade policies and for them to divide the world into sections to suit their policies but they cannot expect the rest of the world to know of their policies or to give cognisance to them unless notice of the restrictions they impose is given to those who deal not only directly with them but to those who indirectly deal with them e.g., retailers and wholesalers not on their list. In respect of notices clarity is called for. That is just plain common sense."*

However, in view of incorporation of the new Section 58A into the Patents Act 1983, the distinction between implied license and doctrine of exhaustion with regard to parallel imports are no longer material as Section 58A deemed the rights of the patent owner to be exhausted when genuine patented products lawfully imported and sold in Malaysia to be no longer an act of infringement of the patent.

### 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?*

## **Patent**

The term "repair" is not defined in the Patents Act 1983. The conditions of permitting repair of patented products were developed through common law that an owner or user of a patented product has an implied licence to repair the patent product and keep it in working condition without infringing the patent. There are no case law in Malaysia on point dealing with "repair" of a patented product but the Malaysian courts would likely be persuaded to adopt the approach taken by the UK courts in cases such as *Solar Thompson Engineering Col Ltd v Barton* [1977] RPC 537, *Dunlop Pneumatic Tyre Co Ltd v Neal* [1899] 16 RPC 247 and *British Leyland Motor Corp v Armstrong Patents Co* [1986] RPC 279 in determining whether the scope of repair made on the patented product is permissible.

The factors that should be considered in determining whether the repair is permissible are subjective and often determined by the extent of the repair works done on the patented product. The pertinent question to ask is whether such repair works amount to making the patented product. If the scope of repair requires the patented product to undergo a patented process, it would nonetheless still infringe the patent encompassing the patented process. In view of the development in the House of Lords decision in *United Wire v Screen Repair Services* [2001] RPC 13, it is likely that the Malaysia courts would not rule repair as an act of infringement unless it amounts to making the product itself. In the said case, Lord Hoffman held that:

*"Repair is one of the concepts (like modifying or adapting) which shares a boundary with "making" but does not trespass upon its territory. ... As a matter of ordinary language, the notion of making and repair may well overlap. But for the purpose of the statute, they are mutually exclusive. The owner's right to repair is not an independent right conferred upon him*

*by licence, express or implied. It is a residual right, forming part of the right to do whatever does not amount to making the product”.*

### **Industrial Design**

The term “repair” is also not defined in the Industrial Designs Act 1996. However, due to the nature of design protection, it would be difficult to infringe a registered design right by merely repairing the article unless the repair involves making the article by applying the registered design to the article. Similar considerations for patents would also be applicable for Industrial Design, that is, whether the repair amounts to making the article to which the registered design has been applied.

#### 5) *Recycling of products protected by patents or designs*

*Under what conditions is a recycling of patented or design-protected products permitted under your national law? What factors should be considered and weighed? Does your law provide for a specific definition of the term “recycling” in this context?*

There is no statutory definition on the term “recycling” of patented or design-protected products and there is no express restriction on recycling of products under the Patents Act 1983 or the Industrial Designs Act 1996. However, the cardinal principle on whether such acts amount to infringement would depend on the extent of effort or modifications done to the product.

In terms of patent laws, recycling of used products for the same application may be subject to more stringent test as such acts would encroach upon the exclusive rights granted to the IPR owners vis-à-vis the right to make and exploit the subject invention. There is no case law in Malaysia which can assist in defining the scope of permissible acts in recycling a patented product but it is likely that recycling a patented product for commercial gain would be considered as making the product for commercial exploitation of the patented invention if it is utilised for the same purpose as the patented product.

#### 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?*

Our law and practice has not established specific principles concerning the repair or recycling of products nor is there any special issue or case law that governs the exhaustion of trademark rights in case of repair or recycling.

#### 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?*

It is unlikely that the express intention of the IPR owner would play an important role in determining whether the repair of a patented product is permissible as the exclusive rights of the patent owner would deemed to be exhausted and the owner of the product would have a residual right to repair the product. However, in the context of recycling a patented product, it is likely that the act of recycling the product for 2<sup>nd</sup> use may trespass upon the patent owner’s right to exploit the invention. Therefore, if the patent owner had expressed intention that the product shall not be recycled for 2<sup>nd</sup> use or subsequent sale, the court may be persuaded to take the view that the act of recycling are not within the

purview of residual rights of the owner of the patented product and the act of recycling the product for subsequent commercialisation or use would amount to infringement of the patent.

With regard to Industrial Design rights, since Industrial Designs protection encompass 2 dimensional form such as patterns and ornaments and 3 dimension form such as shape and configuration, whether such express intention given by the owner of the Industrial Design would necessary depend on the nature and process of repair or recycling method use. However, in view of the limitation of rights under Section 32(3) of the Industrial Designs Act 1996, it is unlikely that express notice by the owner would have any implication on the recycled product unless the shape and configuration, pattern or ornament applied to the article has been altered to be qualified as a fraudulent or obvious imitation of the registered industrial design.

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

[See 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?*

Yes, such condition may be enforceable by the general laws of contracts but not by way of patent or design rights. Such contractual rights are only enforceable against the licensee but do not extend to acts done by third parties.

- 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 other objective criteria that could play a role in determining contractual restrictions.

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

Similarly, contractual restrictions in a license agreement are only enforceable between the IPR owner and its licensee. Such rights would not be enforceable against third parties who are not privy to the contract.

- 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 currently no antitrust laws and policy in place in Malaysia.

- 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?*

#### **Quality of the products**

Exhaustion of rights should occur where parallel imports are in no relevant way distinguishable from those being sold directly in the home market. However, where goods are different in quality and home consumers could be confused about them, it may be justify preventing the entry of such parallel imports.

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?*

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?*

Conditions under which IPR are exhausted in cases of repair and recycling of goods:

- Where a clear reference is affixed to the repaired or recycled goods themselves clarifying that:
  - The products have been repaired or recycled by the party who is responsible for the repairing and/or recycling of the products;
  - the IPR owners and users have no control over the quality of the repair and recycling of the products; and
  - the IPR owners and users are not responsible for the quality of such repaired or recycled goods.

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

**Trademarks**

The repair and the recycling of goods should only be allowed under the concept of an implied license if all the conditions set out in paragraph 1) of Section II above are fulfilled. Otherwise, the person repairing or recycling a trademarked product should seek the consent of the proprietor.

**Patents**

The repair of goods should be a residual right of the owner of the goods and concept of implied licence would no longer play any role in determining the scope of repair. With regard to recycling of goods, the concept of implied licence should not be allowed as there is a tendency for such recycled goods to jeopardise the scope of patent protection conferred to the patent owner and undermines the fundamental principal of patent protection, i.e., the exclusive right to exploit the invention

**Industrial Designs**

The repair and the recycling of goods should only be allowed under the concept of an implied license if all the conditions set out in paragraph 1) of Section II above are fulfilled.

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?*

### **Trademarks**

A line may be drawn with the consumers' interests in mind, i.e. as long as consumers are not confused or misled, it is permissible to recycle, repair and re-use trademarked goods. Otherwise, there should be trademark infringement.

### **Patents**

The line should be drawn by considering the interest of the state, the reward to the inventor for his innovations and the public in by offering a cheaper alternative to a patented product. It is difficult to draw the line based on commercial assessment on the value of the product as the dilution on the scope of monopoly conferred by patent protection may work at the expense of future innovation.

### **Industrial Designs**

Similar stand to the Trademark should be taken for Industrial Design as the value of the Industrial design resides in the aesthetic features of the article. As long as consumers are not confused or misled by the recycled or repaired article and marked as used/recycled goods, recycling and repair of articles should be permitted.

- 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?*

Recycling and repair of protected goods should rightfully be governed under separate legislature in which these goods are defined and regulated rather than by construing the intent of IPR holders or contractual restrictions on the goods. Goods which are protected due to health hazards, security reasons or public interest should be left to the regulatory mechanism rather than IP laws.

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

As Malaysia has no laws governing antitrust issues, it would be premature to consider the concept of antitrust laws in cases of repair or recycling of 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.*

- 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.*