Peru
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Report Q205

in the name of the Peruvian 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?

1.1) There are provisions in the Peruvian Law, which expressly regulate the exhaustion of IPRs with respect to patents, designs and trademarks. Decisions rendered by the Institute for the Defense of Competition and Intellectual Property – INDECOPI have developed case law only in the matter of exhaustion of trademark rights.

1.2) The legal provisions applicable to the exhaustion of industrial property rights in the Peruvian law are the following:

- With respect to trademarks: article 158° of the Andean Decision 486, concordant with article 171° of Legislative Decree 823°.
- With respect to patents: article 54° de the Andean Decision 486, concordant with article 66° of Legislative Decree 823°.
- With respect to industrial designs: article 131° of Decision 486, and article 66° of Legislative Decree 823 referred by article 155° of the same body of laws.

1.3) The conditions for the application of the exhaustion of IPRs are the following:

- In the case of patents and industrial designs: That the product protected by the registration has been introduced into the commerce of any country by the patent or industrial design owner, or by another person authorized by said owner or economically related to said owner.
- In the case of trademarks: That the product protected by the registration has been introduced into the commerce of any country by the registration owner or by another person authorized by said owner or economically related to said owner, in particular when the products and the containers or packages which have been in direct contact with the products concerned, have not undergone any change, alteration or deterioration.

1.4) In the case of violation of the right by a third party and in enforcement of the IPRs, the owner has the right to file infringement actions against whoever infringes the owner's right, without prejudice to the civil and criminal actions arising therefrom.

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?

2.1) In Peru, the international exhaustion of IPRs is applied pursuant to Decision 486. This is inferred from the content of articles 54° and 158° which, among the conditions under which exhaustion is applied, establish that exhaustion applies in cases of legal sale or introduction of trademark-distinguished products, or patented or industrial design-protected products into the commerce **of any country** of the world.

2.2) Decision 486 does not provide for additional conditions for international exhaustion compared to regional or national exhaustion.

Nevertheless, the Trademark Office decided in a case subject to its jurisdiction, years ago, when Decision 344 was in force, in which the IPRs' owner limited the assignment of use of the trademark, thereby restricting its use to a certain territory, according to what was agreed in the contract, the assignee being prevented from using the trademark out of said territory, either directly or through subsidiaries, or through the export of products bearing the trademark.

The defendant manufactured the products in its country, where said company was supposed to commercialize them, and contrary to the restriction agreement, the defendant commercialized products bearing the trademark in a different territory, the Peruvian territory. The Trademark Office concluded that said products were being illegally introduced into the national commerce, without the authorization of the trademark owner; consequently, the exhaustion of IPRs was not applied. The company was punished for infringement of the plaintiff's IPRs.

The effect of non-compliance with the contractual restrictions by the assignee of use or licensee, is the generation of an infringing behavior not only of one contractual clause but also a violation of the trademark right, which would empower the owner to enforce the rights inherent to said owner, filing an action against the infringer before INDECOPI, without prejudice to the civil and criminal actions arising therefrom.

The plaintiff, owner of the right, always has the burden of the proof.

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?

3.1) The theory of the implied license does not have place in the Peruvian legislation. The Peruvian civil code establishes that the contract is the agreement between two or more parties, to create, regulate, modify or extinguish a legal relationship. Contracts are legally binding with respect to what is stated therein, so the lack of specific rules does not give place to further interpretations of rights and duties.

3.2) Law establishes that the license agreement has to be in writing for recordal effects.

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?

4.1) Despite not being legally provided for in the national nor Community law, it is inferred from article 54 of Decision 486 and from article 66 of Legislative Decree 823 that for patents and designs it shall be allowable the repair by a third party of patented products and their subsequent commercialization, in the following cases:

a) acts performed with the consent of the titleholder.

b) acts performed at a private scale and which are not commercial.

c) acts exclusively performed with experimental purposes, with respect to the subject matter of the patented invention.

d) acts exclusively performed with teaching, scientific or academic research purposes.

4.2) Factors which should be considered and weighed:

a) The repair has to be restricted to the restoration of something damage, used or faulty compared to the patented product and does not have to become the manufacture of said product. In the analysis, the repair scope shall predominate and whether said repair involves substantial protected elements.

b) Technical considerations which make the repair necessary.

c) The need of consent or authorization or the titleholder.

d) The adequate information provided to the consumer on the condition of the patented product.

4.3) Peruvian legislation on industrial property does not provide for a specific definition of the term "repair" in this context.

5) Recycling of products protected by patents or designs

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

5.1) Neither national nor Community law expressly provides for the conditions allowing the recycling of patented or design-protected products. It is inferred from the interpretation of article 54 of Decision 486 and article 66 of Legislative Decree 823 that these acts would be allowable in the following cases:

a) acts performed with the consent of the titleholder.

b) acts performed at a private scale and which are not commercial.

c) acts exclusively performed with experimental purposes, with respect to the subject matter of the patented invention.

d) acts exclusively performed with teaching, scientific or academic research purposes.

5.2) Factors which should be considered and weighed:

a) The need of consent or authorization by the titleholder.

b) The adequate information provided to the consumer on the patented product.

5.3) Laws on industrial property have not developed a specific definition of the term "recycling" in the context of industrial property rights. Nevertheless, the term is generically defined in the Peruvian Technical Rules, according to which "recycling is the activity that allows to reuse waste material through a transformation process, for its initial purpose or for other purposes."

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?

6.1) Article 158° of Decision 486, concordant with article 171° of Legislative Decree 823, have legally prohibited third parties from modifying or altering the characteristics of trademarked products during their commercialization without the authorization of the owner of the trademark or of any person economically related to said owner, particularly when the products and the containers or packages which have been in direct contact with the products concerned, have not undergone any change, alteration or deterioration. Repair and recycling can be set within this generic prohibition framework.

6.2) The General Secretary Office of the Andean Community decided in a case subject to its jurisdiction, in which the **questioned national decision allowed the commercialization of products only by adopting the necessary measures to inform final consumers that the modifications had not been made by the manufacturer**. The Secretary Office stated that although article 158° of Decision 486, which is part of the Andean Community legal system, establishes that the registration of a trademark does not grant the owner the right to prevent a third party from performing commerce acts with the product protected by said registration, this is allowed only if these **products have not undergone any change, alteration or deterioration**.

Consequently, the Peruvian Government, through the issuance of the questioned decision, contradicted the Andean Community legal system, particularly the rule established by article 158° of Decision 486.

In a case dated after the decision of the Secretary Office, in which a parallel importer commercialized pharmaceutical products by reproducing their packages, the Intellectual Property Chamber of INDECOPI decided that the defendant was not empowered or authorized by the plaintiff to manufacture or modify the immediate package or to repack the products identified with the trademark, so said behavoir infringed the industrial property rights of the plaintiff company. In this infringing case, the exhaustion of rights of the trademark owner was not applied.

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?

The declaration of the owner of the patent is important since it is an express manifestation of the owner's will of not giving its consent for the recycling or repair of the patented product. A conduct not respecting the conditions or limits established by said owner

would constitute an illicit conduct which would avoid the application of the principle of exhaustion of patent rights of the owner and would legitimate the owner to prevent the infringer from performing commercial acts with respect to the patent-protected product. The consent is considered a determining element since it makes possible the limitation of the exclusive right.

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

The express purpose of the owner has to be based on technical issues, and use limitations have to respond to the own nature of the products.

Moreover, the express purpose of the owner does not have to contravene the free competition rules.

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?*

The commercialization of patented products, disregarding a restriction agreement in which commercialization of the products is limited to a certain territory, is considered illegal if the products are introduced in any country other than such territory, and, consequently, this non-authorized use of the sign is considered an infringement of the IPRs of the owner.

In this case, the patent owner can stop the sale or delivery of such products by third parties outside the designated territory on the basis of its patents.

For the application of the restriction, the latter has to be stated in a written document.

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?*

None.

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

The same rules are applied to designs and trademarks.

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 market demands that company freedom be developed always searching the greatest benefit of users. In that sense, Legislative Decree 701 rules on the elimination of monopolistic, controlling or restraining practices of freedom of competiiton.

According to the national and Community law, the exhaustion of IPRs is recognized in Peru. If not, import monopolies would be created, since exclusive distribution would enjoy an absolute territorial protection.

On the other hand, the possibility of repairing or recycling products protected under industrial property rights must be submitted to the owner's prior consent.

Faced with that, and in the light of the regulations mentioned, it shall be verified if the IPRs's owner is at a dominant position and if so, if the exercise of the infringing actions are abusive when these are destined to try to monopolize a market and to control strata of this market such as the commercialization of products protected by IPRs, upon their introduction into the

market. In these cases the situation of the companies that commercialize repaired or recycled products shall be evaluated, bearing in mind technical considerations, legal requirements and other reasonable sustained considerations, and the same that not having the consent of the owner of the rights, can be subject of infringing actions. Said actions may be destined to obtain greater benefits and cause damages to these companies, situation that would not have been possible if the position of domain had not exist.

Although case law has not been development in this issue, the essential in these cases will be to demonstrate if said practices correspond to the common exercise of an industrial property right, or if it is a behavior that affects the freedom of competition, particularly when it constitutes an abuse of the dominant position in the market by the owner of the rights.

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?

Factors that should be considered in the discussion:

- Reasons of public interest, to supply the internal market;
- Emergency reasons;
- Issues of public health.

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?

The Copyright Law does not allow parallel imports. The doctrine of "International exhaustion of the right" is not admitted.

Regarding the relationship between trademarks and unfair competition, we can mention that the Court for the Defense of Competition of INDECOPI, in a case submitted to its jurisdiction on the modification and alteration of products, defined said behaviors as deceiving actions, considering that consumers would not be able to recognize said modifications nor the consequences derived therefrom. The unfair acts in the form of deceit are defined in article 9 of the Repression Law of Unfair Competition.

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?

An issue not dealt with and that is relevant because of the consequences thereof, is that related to the safety and public health in the cases of recycling of products.

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?

For these cases, it shall be requested the written consent of the owner of the right. The failure to obtain this written consent shall entitle the owner of a right to bring an infringement action.

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

No, since our laws do not consider the concept of implied license.

3) *Where and how should a line be drawn between permissible recycling, repair and reuse of IP-protected products against prohibited reconstruction or infringement of patents, designs and trademarks?*

The line shall be drawn at the point where these acts do not conflict with the owners' rights, bearing in mind the dimension of the modifications of the protected products and the preservation of the trademark goodwill.

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 effect would be to permit, through legal means, in this case the contractual system, the obtainment of ways of control that allow, given the failure to comply the imposed restrictions, to prevent the exhaustion and parallel import of protected, recycled and repaired 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?*

Antitrust issues should be considered in cases of repair or recycling of goods when the behavior of the owner of an industrial property right identifies practices not corresponding to the common exercise of a right, being a behavior that affects the freedom of competition, mainly when said behavior constitutes an abuse of the dominant position in the market by the owner of the rights.

The issue of necessary repacking or necessary relabeling, or the controlled repacking so that the imported product may be commercialized in the importing country, could lead to the analysis of the behavior of the owner of industrial property rights, since an opposition by said owner to commercialization may constitute a covered up restraining practice.

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.*

An issue that should be subject of future harmonization is that referring to the definition of the concepts of repair, recycling and reuse within the context of industrial property, in order to determine which practices are permitted and which are illegal.

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.*

a) To create harmonization guidelines of the trademark legal system with the rules governing the defense of competition, the unfair competition, the protection of consumers, health and public security rules, and customs rules.

b) To provide tools allowing the IPRs's owner to control the recycling and repair of protected products.

Summary

1) The general rule of law is that the Peru Legislation recognizes international exhaustion of Industrial Property rights in respect to patents, designs, and trademarks, so that the right holder cannot oppose to the importation of goods which have been placed in commerce by the right holder, a licensee, or any authorized person.

2) The exhaustion of IPRs is applicable only in cases the product is imported in its original form.

3) Importation of the goods covered by a trademark right can be objected by the trademark owner when the products, the containers, or the wrapping material which have a direct contact with the products have suffered an amendment, alteration, deterioration, without the consent of the trademark holder.

4) For the IPRs title holder to validly object the importation of goods, he must produce documentary evidence in that whoever provided the original goods acted in violation of the contractual obligation and that therefore the goods were placed in commerce without his authorization or consent.

5) Importation of branded goods where the goods, its containers or its wrapping material have been amended without the title holder consent, is subject to an infringement action and will end marketing of the goods.