

## **Report Q205**

in the name of the Portuguese 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?*

In Portugal the exhaustion of IPRs is governed by law and it is foreseen in the Industrial Property Code, approved by Decree-Law no. 36/2003, of March 5 (IPC) in a specific way regarding each kind of right.

Thus, as far as Patents are concerned, the matter of the exhaustion is foreseen in art. 103 IPC.

As far as Designs and Models are concerned, it is foreseen in art. 205 IPC and as to trademarks in art. 259 IPC.

As far as Patents are concerned, the exhaustion occurs as to goods protected by it, after traded in the European Economic Area by the owner or by third parties with its consent.

As far as Designs and Models are concerned, the exhaustion occurs regarding the goods in which the same have been incorporated or to which they were applied to, after they have been traded in the European Economic Area by the owner or by third parties with its consent.

As far as trademarks are concerned, the exhaustion occurs regarding the goods traded in the European Economic Area under the same by the owner or by third parties with its consent.

One of the conditions for exhaustion to occur is that the trade of goods has been made by the owner or by third parties with its consent. The other one is that such trade has occurred in the European Economic Area. These conditions of exhaustion are common to the three kinds of Industrial Property Rights mentioned.

In what concerns to the consequences of the exhaustion the same are obviously specific to each kind of right.

Regarding the Patents the owner cannot prohibit the acts of exploration regarding the traded goods.

Regarding the Designs and Models the owner cannot prohibit the acts of use the same (marketing, importation, exportation as well as the storage for these purposes) regarding the traded goods.

Regarding trademarks the owner cannot prohibit its use as to the goods traded by himself or by third parties with its consent.

Thus, in general consequences of exhaustion occurs on the enforcement of the exclusive right, as the non-enforceability of the right operates as to the acts of exploration integrating the exclusive, regarding the goods put in the reference market, by the owner or by third parties with its consent.

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?*

The Portuguese Law foresees the regional exhaustion referred to the European Economic Area, whether to Patents, or Designs and Models and also to trademarks.

Given that the exhaustion constitutes an exception to the enforcement, the burden of the proof is related to the part, which invokes the constitutive facts of the exhaustion, i.e. as a rule the defendant in the judicial action.

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 implied license is not foreseen in the Portuguese Law.

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 repair is not foreseen in the Portuguese Law and a definition about it is not served by the law.

Thus, the situations shall be integrated in view of the precise scope of the protection granted by the Patent or by the Design or Model. For this purpose and as far as the Patent is concerned, one shall compare if the object of the repair constitutes or intervenes with the nucleus of the protected invention, which is defined by the respective claims. As far as the Design or Model is concerned, one shall compare if the object of repair identifies exactly in the same way as in the respective specification. As a rule the situation shall be integrated by means of the general principles of law, considering the balance between the interests in presence, by weighting the circumstances regarding the utility and life cycle of the goods, the social-economic and environmental effects emerging from the use of the goods, object of the repair, the existence of an availability of repair served by the owner himself, as well as to the eventual damages for the consumers. One shall also consider if the exercise of the exclusive right is not too anti-competitive in the specific case and whether the acts of the owner of the right do not represent

an abuse of right because those acts are deemed to be economically dysfunctional, i.e. if they are mainly directed to the conservation of a pure monopoly instead of keeping the interest protected that justifies the existence of the Patent, or the Design or Model right itself.

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?*

The recycling of goods protected by Patents or Designs or Models is not expressly foreseen in the Portuguese law, nor exists in the same a definition in this scope.

As in the case of repair, the situations shall be integrated by means of analysing the specific scope of protection granted by the Patent or by the Design or Model. For this purpose, and as far as the Patent is concerned one shall compare if the object of recycling constitutes or intervenes with the nucleus of the protected invention, which is defined by the respective claims. As to the Design or Model one shall compare if the object of recycling identifies exactly in the same way as in the respective specification. However, the situations shall be integrated by means of the general principles of law, a balance between the interests in presence being weighted. In this context the social-economic and environmental effects of the recovery of the goods object of the recycling shall be duly weighted, by assessing the impact of recycling in the investment disincentive of the investigation of alternative and more environment-friendly goods, as well as in the implementation of solutions aiming at the recovery of materials for the production and waste treatment.

In line with these factors one shall also weight the damages to the consumers and if the exercise of the exclusive right is not excessively anti-competitive, and if the acts of the owner do not represent an abuse of right, because those acts are deemed to be economically dysfunctional, i.e. if they are mainly directed to the conservation of a pure monopoly than to the protection of an interest that justifies the existence of the Patent or Design or Model right itself.

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?*

Nor the Portuguese Law, or the practice establish any specific principles regarding the recycling or repair of trademark's goods. Thus, the situations shall be analysed case by case, the special details involving the availability of the repaired or recycled goods in the market being weighted. However, one can admit that the non-misleading of the consumers regarding the state of the goods is an essential factor in determining the occurrence of trademark exhaustion, as it depends on the trademark function perceived by the consumers in the trade of goods resulting from repair or recycling, if a distinctive function or a descriptive function by reference to the products initial origin. In this sense one may admit the non occurrence of the trademark exhaustion if the situations of repair and or recycling offer the same risks of trademark infringement than those emerging from the alteration or modification of the state of original goods made after these have been put in the market, in the European Economic Area by the owner or by third parties with its consent.

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?*

Although it is not a determining factor, if the marking is reasonable and justified it can be a contribution to avoid the exhaustion of the right, but this could only be considered as one among several circumstances to weight in analysing the specific situation.

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

If, for instance, the reuse of the good may offer any risks to the health and security of the consumers, if it may cause any kind of pollution or if the degradation of the goods after the reuse is postponed or implies a diverse process from the existing one, if the owner is obliged by a special law to implement and maintain a special treatment of respective wastes, among others.

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?*

As a rule the contractual restrictions are not important.

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?*

The marking may contribute to weight the intention of the right infringement, the traded discipline intended by the owner being expressed.

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?*

In some circumstances one may invoke antitrust reasons, if the invocation of a right of exclusive is made with manifest excess as to the justification of existence of the right, for example with a purpose completely favourable to competition, without any other ground basing the invocation and oponibility of the right.

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?*

In the present state of global development and attentive to the problems resulting from the "greenhouse effect", which puts at stake the Mankind survival, all factors whether downstream or upstream, which may contribute to make the situation worse have to be considered and adapted or rethought so that its consequences in this phenomenon can be minimised.

Thus, so that the balanced policy between the protection of intellectual property and public interest be achieved, privative rights have to be equacionated paying attention to those problems affecting the globe, and assessing the best solutions aiming at the control of pollution or promoting adequate incentives to investigate and achieve not so toxic and many

more biodegradable alternative raw materials, and of more economical and effective waste treatment processes, and of better quality and with long duration goods.

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?*

If before the IP rights it is difficult to admit the non exhaustion of rights regarding situations of repair and recycling, as far as the author's rights are concerned and to unfair competition the admissibility of the non exhaustion shall be even more demanded and restricted.

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?*

One shall admit the exhaustion whenever the goods are reasonable suitable to a reuse after the first consumer cycle, its immediate waste being avoided, provided that the repaired or recycled good does not constitute the nucleus of the invention of the design or model and its re-trade does not imply the misleading of the consumers regarding the state of the same and the liability of the trademark owner on the respective availability in the market.

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

No.

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?*

Although the delimitation of a frontier is not ease the same shall be established by means of integration criteria. For instance, the repair of a given good, which gives it a new originary use will put it back in competition with the genuine (original) goods, and this may be understood by consumers as an alternative one. In such a situation the competition with the genuine (original) goods corresponds to a counterfeiting of the same, the owner of the right being able to enforce the same. These situations are also important as far as trademarks are concerned.

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 owner's intention regarding the exhaustion of a right on the repair and recycling would represent a deviation to the rule of exhaustion, which shall be maintained as a standard rule. These situations shall be integrated by means of general criteria, the application of which shall be dependent on specific circumstances of each case and from the reasonable point of balance of the interests at presence.

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

Given that the industrial property rights create situations of exception regarding the principle of free competition and that the exhaustion of the right imposes itself by reasons of need in preserving the free competition, once the objects justifying the existence of a right of exclusive of industrial property are satisfied, for the integration and regulation of the cases of repair and recycling, the rules of competition shall also be invoked and weighted by analysing the case in the perspective of the respective ratio.

- 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 approach to criteria of orientation for the integration of the cases is always desirable. However, given to the environmental concerns that may be involved in the consideration of the exhaustion regarding the cases of repair and recycling, the estimation of exceptions to the exhaustion as a consideration of the investments made by the owners in the implementation of structures for the waste treatment and goods potentially repaired and recycled may be an integrated solution for some of the environmental problems emerging from the excessive growth of the waste of those goods that the non exhaustion as a rule may cause.

- 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.*

Given that the environmental problem is nowadays global and important the harmonization of this specific problematic of exhaustion shall be made on an international level, the intervention of all member states in which industrial property rights are legally regulated being convened, bearing in mind that the value to preserve is not of a simple economic or politic scope.