Republic of Korea
République de Corée
Republik Korea

Report Q205

in the name of the Korean 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?

There is no statutory law directed to the exhaustion of IPRs. However, the Korean courts have held that IPRs including patent, design and trademark rights are exhausted if the product in question is made/sold by 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?

Although there are no specific provisions in the Korean IP laws, the Korean courts allow parallel importations under the doctrine of international exhaustion regardless of whether the IPR concerned is a patent, design right or trademark right.

Specific rules have been established by the courts for trademarks, as follows: parallel importation must be permitted when (i) a trademark owner in a foreign country attached the mark on the imported products; and (ii) the source of the imported products is recognized to be the same as that of the products of a Korean trademark right holder due to a close legal or business relationship between the foreign trademark owner and the Korean trademark owner (Supreme Court Case No. 2002 Da 61965). There should be no substantial difference in quality between the imported products and the products of the Korean trademark right holder (Supreme Court Case No. 2006 Da 40423).

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?

Unlike the doctrine of exhaustion of IPR, there seems to be no precedent which ruled on or discussed the theory of implied license. This, however, does not mean that the theory has no place in Korea. On the contrary, commentators view that the implied license theory can be applied as appropriate when dealing with issues such as parallel importation and repair/ reconstruction.

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 product should not have been used longer than the contemplated service life. Further, the identity of the product should not be altered.

For example, restoring the shape and color of a bumper by flaw removal and painting was found not to infringe the design right on the bumper. This is because the bumper had not been used longer than the contemplated service life and the identity of the bumper was not altered notwithstanding the flaw removal and painting (Supreme Court Case No. 99 Do 2079).

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?

In the context of this question, no definition is available for the term "recycling" either in the statutory law or the case law.

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 reply described in item 4) concerning patent and design also applies to trademark.

It was found to infringe a trademark right of a third party to restore consumed instant cameras by refilling films and adding wraps bearing a different mark, because: i) the original trademark still remained in several places of the restored cameras; and ii) there was an explicit notice in the original packaging that the camera body will not be returned after film development. The service life of the camera body ended when it was opened for film development. The identity of the camera was altered by the film refill and wrapping (Supreme Court Case No. 2002 Do 3446).

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?*

Yes. Please refer to the reply described in item 6) above.

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

The real question is whether or not the third party's act shall be deemed an act of production. In reaching an answer to this question, the court will consider objective properties of the product, ordinary practice of use, the purpose of law and the function of trademark.

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?*

There has been no precedent on the issue of extension of such contractual restrictions to third parties in the context of exhaustion of IPR. It is contemplated that the court will rule on a case-by-case basis while considering various factors such as the intention of contracting parties, the industry/market practice and the purpose of IPR laws (instead of setting a universal rigid rule).

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?*

No.

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

There are no notable differences.

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?

No.

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?

Not available.

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?

No.

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?

Not available.

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 contemplated service period of the product should not have passed yet. Further, the identity of the product should not be altered by the repair or recycling.

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

Yes.

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 should be drawn between the area where the identity of the original product is maintained and the area where the identity alters.

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?*

Such intent should be considered (but not be the only factor) in determining whether or not the IPR concerned has been exhausted. Factors such as business practices and the purpose of IPR laws should also be considered. Further, other socio-economic factors such as environmental protection and saving natural resources and energy may also be considered.

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

Yes.

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.*

Not available.

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.*

There have been only a small number of cases thus far on the issue of exhaustion of IPR relating to repair/recycling in Korea. Further, it is our understanding that the cases on this issue in other countries related only to limited types of products. In view of the foregoing, we should gain further experience on this issue and continue to discuss based on such experience.

Summary

The exhaustion of IPR under the first sale doctrine should be effective even for a product which was repaired or recycled, if the contemplated service period of the product has not yet passed and the identity of the product has not been altered notwithstanding the repair or recycling. Exemption under the implied license theory may also be applicable under the same conditions as the doctrine of exhaustion. When there are contractual restrictions to exhaustion between the right holder and the purchaser of the product, such restrictions may be effective to a third party. When determining the effectiveness of such restrictions, however, other factors such as business practices and the purpose of IPR laws should also be considered. Further, other socio-economic factors such as environmental protection and saving natural resources and energy may also be considered.

Résumé

L'épuisement des droits de propriété intellectuelle sur le fondement de la doctrine de la première mise en circulation trouve à s'appliquer même dans le cadre de la réparation ou du recyclage d'un produit, à condition que la durée de vie projetée du produit ne soit pas encore dépassée et que l'identité du produit n'ait pas été altérée du fait de la réparation ou du recyclage. Une exemption sur le fondement de la théorie de la licence implicite pourra également être applicable dans les mêmes conditions que pour la doctrine de l'épuisement. Lorsqu'il existe des restrictions contractuelles à l'épuisement convenues entre le titulaire du droit et l'acheteur du produit, ces restrictions pourront être étendues aux tiers. Toutefois, lors de la détermination de l'applicabilité de ces restrictions, d'autres facteurs tels que les pratiques commerciales et la finalité de la législation en matière de droits de propriété intellectuelle pourront être pris en compte. Il pourra également être tenu compte de facteurs socio-économiques comme la protection de l'environnement ou la préservation des ressources naturelles et énergétiques.

Zusammenfassung

Die Erschöpfung von Rechten des Geistigen Eigentums sollte unter der Erstverkaufsdoktrin sogar hinsichtlich reparierter oder recycelter Ware gelten, wenn die vorgesehene Nutzungsdauer der Ware noch nicht abgelaufen ist und die Identität der Ware durch die Reparatur oder das Recycling nicht verändert wurde. Unter der Doktrin der Implizierten Lizenz kann unter den gleichen Umständen eine Ausnahme gegeben sein, wie bei der Doktrin der Erschöpfung. Wenn hinsichtlich der Erschöpfung verträgliche Beschränkungen zwischen dem Rechtsinhaber und dem Käufer der Ware bestehen, können die Beschränkungen auch gegenüber einem Dritten wirken. Bei der Bestimmung der Gültigkeit solcher Beschränkungen sind jedoch andere Faktoren wie Geschäftsgepflogenheiten und der Zweck der Gesetze zum Schutz des geistigen Eigentums zu berücksichtigen. Ferner können andere sozial-ökonomische Faktoren, wie Umweltschutz, Schonung natürlicher Ressourcen und Energieeinsparung zu berücksichtigen sein.