

## **Report Q205**

in the name of the Swedish Group  
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### **Exhaustion of IPRs in cases of recycling and repair of goods**

#### **Questions**

##### **1) 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?*

Exhaustion with respect to patents, designs and trademarks is provided in the respective act. Similar to all EU countries exhaustion is regional (European Economic Area, "EEA exhaustion") and nothing else. Thus, the right holder has no right under intellectual property laws to prevent sales by licensees or buyers of products that have legitimately been put on that market in that area. On the other hand imports without consent emanating from outside the EEA will infringe on the exclusive rights, also if they have been put on the market in the relevant country outside the EEA by the right holder or someone with his consent. The principle follows from the European Court of Justice (ECJ) in Case C-355/96 (Silhouette) and is now expressly stated in all the relevant acts.

*In respect of patents*, the Patents Act (1967:837) in Sec. 3(3) No. 2 states that, "the exclusive right to a patent does not extend to the exploitation of a patented subject-matter, which has been put on the market in the European Economic Area by the proprietor or with his consent." It could be noted that the law is the same in regard of import of products as a result of a patented method. Following harmonisation under the Directive (98/44/EC), it is stated concerning biological material that the principle is applicable to "exploitation in the form of multiplication or propagation of patented subject-matter where the multiplication or propagation necessarily results from the application for which the biological material was marketed." However, the exhaustion principle applies to such material only to the extent that "...the material obtained is not subsequently used for other propagation or multiplication." In such cases, the exclusive right to a patent will apply. An exception to the principle concerning further propagation and multiplication of biological material is the so-called Farmer's Exemption which is found in Sec. 3 b of the Patents Act. This provision regulates the use of harvested plant propagating material for further propagation or multiplication under certain conditions laid down in Regulation (EC) No 2100/94.

*In respect of designs*, the Design Act (1970:485) Sec. 7 b states that, "The rights conferred by a design right shall not extend to a product which has been put on the market in the European Economic Area by the holder of the design right or with his consent."

*In respect of trade marks, the Trade Marks Act (1960:644) Sec. 4 a (1) states that, "The exclusive trade mark rights shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent." Sec 4 a (2) states that, "Paragraph 1 shall not apply where the condition of the goods is changed or impaired after they have been put on the market or where there exist any other legitimate reasons for the proprietor to oppose further commercialization of the goods." The exemption set forth in Sec 4 a (2) is further discussed under question 6 below.*

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?*

It follows from general principles in Swedish law that he/she who claims a circumstance also has the burden of proof for this. Thus, if he/she can make an opposite situation probable, the burden of proof will shift to the other party. The burden of proof for the legitimate origin of (parallel) imported goods will most probably fall on the defendant (the importer). But there is no statutory regulation of reverse burden of proof even for indirect product protection (process patents) under Swedish law, cf. Article 34 of the TRIPS Agreement.

As to trade marks it follows, inter alia, from the joined Cases C-414/99 to C-416/99, (Zino Davidoff & Levi Strauss) that in respect of goods imported from outside the EEA, the importer has the burden of proof regarding the prerequisites for a permitted import of goods from a country outside the EEA, i.e. he/she must be able to show that he/she had the right holder's consent to import the goods into the EEA. Furthermore, it follows from the ECJ Case C-173/98, (Sebago) that for there to be consent within the meaning of Article 7(1) of the Directive (89/104/EEC) such consent must relate to each individual item of the product in respect of which exhaustion is pleaded. The importer must thus be able to show that he/she had the right holder's consent for each single product imported.

In this context, the ECJ Case C-244/00 (Van Doren+Q) should also be mentioned. Here, the ECJ expressed the general principle that he/she who claims exhaustion has the burden of proof for this. However, the Court also came to the conclusion that the requirements deriving from the protection of the free movement of goods, enshrined *inter alia* in Articles 28 EC and 30 EC, may under certain circumstances mean that the above mentioned general principle needs to be qualified. The Court held that where the importer succeeds in establishing that there is a real risk of partitioning of national markets, particularly where the trade mark proprietor markets his/her products in the EEA using an exclusive distribution system, the proprietor of the trade mark has to establish that the products were initially placed on the market outside the EEA by him/her or with consent. If such evidence is adduced, it is then for the importer to prove the consent of the trade mark proprietor to subsequent marketing of the products in the EEA. This is in accordance with the traditional principle of altering burden of proof under Swedish Law.

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?*

There is no specific theory of implied licence under Swedish law, but it follows from general principles that as there are no formal requirements on contracts of IPRs, it could be a matter of proof whether consent has been given conclusively.

As to trade marks it furthermore follows from the judgment of the ECJ in the joined Cases C-414/99 to C-416/99, (Zino Davidoff & Levi Strauss) that implied consent suffices where it follows from facts and circumstances prior to, simultaneous with or subsequent to, the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his/her right to oppose placing of the goods on the market within the EEA.

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?*

There exists no legal definition of "repair" under Swedish law, even if it could be concluded from the definitions of the Design Act, equivalent to those in the Directive (98/71/EC) that repair re-stalls the product to its original shape. Nevertheless, some exceptions for repair are found:

*In respect of patents* Sec. 5(2) of the Patents Act (1967:837) states that, "Irrespective of patent rights the government may order that spare parts or accessories to aircrafts can be imported to be used for repair in Sweden of aircrafts belonging to foreign countries which give reciprocal advantages to Swedish aircrafts."

*In respect of designs* Sec. 7 a of the Design Act (1970:485) contains a special provision concerning an exception from design rights on the equipment of aircrafts or ships belonging to foreign states which temporarily enters Sweden. The application of the law is equivalent to imports of spare parts or accessories to such crafts for the purpose of repair. (Cf. Article 13(2) Directive 98/71/EC).

No other provisions concern this question specifically, but it is the general understanding that repair of patented or design protected products can be made until the point, where the repair is equal to a (new) production.

It could furthermore be noted that the Swedish Product Safety Act (2004:451) does not apply to goods to be repaired or reconditioned before they can be put into use, provided the trader clearly informs the consumer that it is such goods that are involved. Conversely the Act applies when the trader does not inform the consumer accordingly.

In general, Swedish law promotes the overarching objective of the EU established in the Lisbon Strategy. With regards to economic growth, the three guiding principles in EC law are economic freedom, market integration and consumer welfare in terms of economically efficient allocation of resources. At the outset, a national ban on the repair of patented or design-protected products seems to restrict the economic freedom to trade in that service. Furthermore, if the national ban on repair of patented or design-protected products is capable of hindering, directly or indirectly, actually or potentially, intra-Community trade, it is a measure having an effect equivalent to quantitative restrictions prohibited under Article 28 EC (Case 8/74 Dassonville).

Nevertheless, the unfolding of commercial forces without limitations would have detrimental effects also on trade itself. The integration of market exceptions from the principle of free

movement of goods and services are written into Article 30 EC. Justified grounds for prohibitions and restrictions on imports are e.g. public policy, protection of life and health of humans and protection of industrial and commercial property. The ECJ has successively advanced a non-exhaustive list of non-discriminatory trade restrictions which can be justified on grounds of mandatory requirements.

Consumer protection and general principles of *honest business practices* in commercial transactions were established in Case 120/78, (Cassis de Dijon). The broad application of the judgement was later on somewhat narrowed down by the ECJ in the joined Cases C-267 and 268/91 (Keck and Mithouard). Legitimate *objectives of economic and special policies* were elaborated for the first time by the ECJ in Case 150/80 (Oebel). *Public health* was further elaborated on by the Court in Case 174/82 (Sandoz). There it was established that in so far as there are uncertainties in the present state of scientific research, it is for the Member State, in the absence of harmonization, to decide what degree of protection of the health and life of humans they intend to assure, having regard, however, to the requirements of the free movement of goods within the Community. *Protection of the environment and animals* was further elaborated on by the ECJ in Case C-67/97 (Danish beer bottles). In addition, today there is an abundance of secondary EC legislation; sector and product specific directives approximate the national rules on e.g. environmental protection and consumer protection, to which Swedish law is adapted.

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?*

Recycling as such is not legally defined, but the expression is found in and required and limited by a number of legislative acts assuring a sustainable environment. For instance, certain products have to be disposed of in specific ways and may not be left for free recycling. But apart from these, from an IPR perspective there should be no other obstacles to recycling of products than – provided that products are legally put on the market (and the rights are exhausted) – the already mentioned condition for repair; in this case, the recycling of the products must not correspond to a "new production" of the protected subject matter.

Sweden adheres to the principle of "renewing-repairing-reusing" to arrest and reverse the upward sloping curves illustrating negative impacts on the environment. Thus, limitations in the recycling of patented or design-protected products may sometimes be required to promote a sustainable environmental development; the central statutes on the matter being confined to the Environmental Act (1998:808). The Act transposes e.g. Directive (1999/30/EC) on concentrations on airborne fine dust particles and Directive (2002/96/EC) on waste electrical and electronic equipment. Thus, recycling of patented or design-protected products is permitted within the conglomerate framework of sector and product-specific rules safeguarding overriding mandatory requirements such as environmental goals and consumer protection.

It should also be noticed that the term "recycling" may have a different effect regarding patents on biological material. Such material may in many cases be self-reproducing and causing problems as to the balance between the extent of the patent right vis-à-vis the principle of exhaustion. As stated under 1), there are now statutory rules in place which limits the application of the exhaustion principle to only the first generation of multiplied or propagated subject-matter, thereby ensuring that the exclusive rights covers subsequent use of patented subject-matter for the propagating or multiplying of further generations. Such principle may well be challenged in the future by overriding environmental – or other – concerns. Already the so-called Farmer's Exemption mentioned under 1) above shows that the principle of retaining exclusive rights to further generations of biological material is not without exceptions. The

present political situation with pressing environmental concerns makes perhaps good ground for additional exceptions of exclusive rights when balanced towards other societal needs.

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 overarching principles elaborated by the ECJ within the realm of Article 28 and 30 EC apply with regards to trade marks in the same way as to other IPRs. When it comes to trade marks, however, particular questions may arise with regard to their goodwill or reputation. Ultimately, these questions concern the nature of competition in the specific field of trade on the market. For example, protection of reputation is necessary to maintain a fashion industry. On the other hand, a limited protection of reputation promotes price- and product-functionality based competition in the short run. A balancing of these reputation-based and innovation-based aspects, respectively, on the facts in the particular case is often necessary to avoid too high entry barriers for future commercialization of repaired and recycled products.

Besides free movement of products, the protection of reputation may trigger the competition law machinery. It can be concluded from the ECJ decision in joined Cases 56 and 58-64/66 (Consten & Grundig ) that as long as repair provided by a reseller does not harm the reputation summarized in a trade mark or trade name, the parallel trader should be entitled to provide that service. Thus, at the outset, any national ban on repair and maintenance of goods covered by a patent right or design right is today flawed if it hinders the free flow of goods or services within the EEA.

As mentioned under question 1), Swedish law transposes in Sec. 4 a (1) of the Trade Marks Act (1960:644) Article 7 of the Directive (89/104/EEC) as elaborated by the ECJ in cf. ECJ Cases C-173/98 (Sebago), C-414-416/99 (Zino Davidoff & Levi Strauss), C-244/00 (Van Doren+Q) as well as C-16/03 (Peak Holding). Section 4 a (2) of the Act recognizes the modified principle of exhaustion. The right holder may as mentioned above, have legitimate reasons to oppose further commercialization where the goods are changed or impaired after they have been duly put on the market, or where there exists any other legitimate reasons for the proprietor to oppose further commercialization of these goods. Thus, the right is not exhausted e.g. if repair impairs the goods, since the sale of such repaired and impaired products may have a negative impact on the trade mark's reputation. In such cases, continued sale of the goods may be prohibited by the trade mark proprietor unless the change or the repair is clearly stated on the goods, as otherwise could be injurious to the trade mark's reputation.

Reputation was also in focus when the Swedish Supreme Court has supported the fairly common attitude in European countries that the refill of marked bottles or containers represents infringement of the trademark. This was the law before the entry of the present Trade Marks Act in 1960, but it has also been confirmed to be the law in fairly modern times, see NJA (=Supreme Court reports) 1988 p. 183 – Sodastream.

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?*

According to general principles of Swedish contract law, a “blank” provision would not be binding on a third party without making sure that the third party is aware of (and accepts) the condition. An exception is, however, where such conditions are based on mandatory requirements such as consumer protection, product safety, cultural national exceptions, public health, health of animals and environmental protection as well as the repression of criminalized conducts.

To inform the consumer of the conditions of the goods may furthermore have legal consequences for the trader. As mentioned above under 4), a trader cannot be held liable for product safety according to the Swedish product safety Act (2004:451) when the trader clearly informs the consumer of the need to repair or recondition the goods.

Contractual restrictions could be made as far as they are not in conflict with EC competition law, cf. the Regulation (EC) No. 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements. But the scope of such agreements between non-competitors is fairly limited.

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

A provision is only binding when having been expressly accepted by the party affected by the condition – or this party indeed acts in accordance with the provision. The Swedish group could, however, nowadays also imagine a binding effect by something equivalent to a shrink wrap licence, for instance, that you make clear of that by opening the bottle or container, you have been made aware of the specific condition. But even then this may be doubtful.

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?*

This question could plainly be answered as follows: Within the EEA, freedom of contract prevails *inter-partes*, and exhaustion prevails in extra-contractual situations. Obviously, however, the question raises much more complex problems. The Swedish group is, however, concerned with the exact meaning of this question and the interrelation between its various parts. We shall, therefore, try to answer the three sentences one by one as we have understood them:

- 1) The *first sentence* targets contractual restrictions exclusively (*inter-partes*). The view of the Swedish group is that, on condition that special contractual terms are not contrary to EC competition law, cf. Articles 81-82 EC and Commission Regulation (EC) No. 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, professional trading parties are free to agree on what they want. In addition, however, the principle of contractual freedom is subordinated mandatory requirements such as consumer protection, product safety, cultural national exceptions, public health, health of animals and environmental protection as well as the repression of criminalized conducts.
- 2) The *second sentence* gives the example where a licensee is entitled to put recycled or repaired products into circulation on one geographical market and a patentee seeks to invoke the patent rights to prevent third parties from trading in those products outside that territory. The contract between a licensee and a patentee does not determine the right for a third party to trade in the patented goods. If the licensee has rightfully put the products into circulation in one EEA Member State, a patentee with a commercial link to that licensee cannot invoke the patent rights in another EEA Member State to prevent third parties from parallel importing those products.

As long as there is a commercial link between the holder of the exclusive rights to an invention on the export market, and the holder of those patent rights on the import market, EEA wide exhaustion applies. In case there is no such commercial link between these right holders, third party's trade conflicts with the exclusive rights of the patentee on the import market. If the licensee has rightfully put the products into circulation outside the EEA, also a patentee with a commercial link to that licensee can invoke the patent rights in an EEA Member State to prevent third parties from parallel import those products. The exhaustion is as mentioned EEA wide.

By contrast to the extra-contractual situations described above, a conflict between the freedom of contract and the principle of exhaustion may occur if the licensee ships the recycled or repaired products to appointed third parties, which sell those products outside the territory allotted to the licensee. The contract concerned is either a mere distribution license or a production license. If it is a mere distribution license, the licensee has no patent rights in the allotted territory. If the contract is a production license involving a right to repair and recycle the products, however, the licensee has the patent rights in that territory. The commercialization of patent rights e.g. within the EEA is often divided between different holders of exclusive licenses in the Member States. In that case the contractual party called patentee in the question is the previous holder of the patent rights in the designated territory. Now, the question arises whether this "patentee" in either meaning, or another undertaking commercially linked to that contractual party, can invoke patent rights in another territory than that allotted the licensee, to prevent third parties appointed by the licensee to parallel import the recycled or repaired products. This question concerning a quasi-contractual situation must be answered in the same way as the question on third parties' extra-contractual parallel trade. The principle of EEA wide exhaustion prevails irrespective of how third parties have come across the products concerned.

3) The *third sentence* alludes to the contractual restrictions referred to in the first sentence and concerns from a European perspective whether such a contractual arrangement is in accordance with Article 81 EC, which has direct effect in national law. Can the patentee invoke contractual terms to prevent the licensee from selling or shipping the recycled or repaired products to retailers or end users? In our view, the patentee can invoke such a contractual clause as long as it does not have a considerable impact on the market operability.

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?*

Yes, all mandatory requirements such as consumer protection, product safety, cultural national exceptions, public health, health of animals and environmental protection as well as the repression of criminalized conducts.

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

It follows from the differently formulated scope of the exclusive rights as such, that trade mark protection subsists by secondary use, as for instance has been mentioned by refilling, cf. the above mentioned case NJA1988 p. 183 – Sodastream, while design rights will in principle be assessed in a similar way as patents.

As the same geographical scope of exhaustion applies for all IPRs within the EEA, what was said under 7c) about the possibility to invoke a patent right to prevent parallel trade, applies the same to trade mark rights and copyrights. However, the Community Trade mark (CTM) renders it easier for the proprietor to keep at least Community-wide rights in one hand. CTMs can be invoked beyond patent rights if the trade in repaired or recycled



goods is in breach of Article 13(2) of the Trade Mark Regulation (EC) No. 40/94. On the national level, the similar Article 7(2) of the Trade Mark Directive (89/104/EEC) applies, implemented in Sec. 4 a of the Trade Marks Act (1960:644). Even if the products are not altered or changed really, there is a residual protection against dishonest trade practices under that provision. Therefore, in case the contract between a licensor and a licensee is merely a distribution license, the licensor would seek to rely on the trade mark rights.

Further concerning contractual relations on the national level, Sec. 34(2) of the Trade Marks Act (1960:644), (similar to Article 8(2) of Directive 89/104/EEC) provides that, "The proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to its duration, the form covered by the registration in which the trade mark may be used, the scope of the goods or services for which the licence is granted, the territory in which the trade mark may be affixed, or the quality of the goods manufactured or of the services provided by the licensee." The effect of this provision is mainly that the sanction for trade mark infringement be applicable to the situation, which otherwise (only) would be a breach of contract.

If the licensor seeks to rely on contractual terms instead of on the IPRs as such, the competition law machinery might come into play on either national level or on EU level; an exclusive distribution agreement is only accepted under Article 81 EC as long as it does not distort competition.

#### 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 EC competition law is predominantly transposed in the Swedish Competition Act (1993:20). Above, we have already mentioned a number of instances where competition law should be considered and consulted. Both vertical and horizontal agreements and concerted practices involving IPRs may conflict with the Swedish Competition Act, since Article 81 EC has direct effect in the Member States. For instance, a vertical distribution agreement between an undertaking holding a significant market share on the production level and an undertaking holding a significant market share on the retail level, shielded by trade mark rights (licenses), may be actionable.

In general, the operations of small and medium sized undertakings escape Article 81 EC according to the *de minimis* rules laid down in Commission regulation (EC) No 69/2001 transposed in national law. Both on EU level and on national level, however, competition is out of necessity regulated in an abundance of product- and sector specific legal frameworks and e.g. regulation 69/2001/EC does not apply to a number of sectors of the industry i.e. agriculture and transportation. The distribution of cars, spare parts and after service poses a prominent example of sector specific regulation of vertical contractual arrangements. Commission regulation (EC) No 1400/2002 on motor vehicles seeks to ensure efficient competition in the market by preventing selective distribution and other forms of restrictions. This also implies a right for qualified undertakings to access information and equipment covered by IPRs such as copyrighted diagnostic software. There are, however, no reported cases on the matter from Swedish courts.

Mergers and acquisitions involving IPRs may distort dynamic competition in breach of Council Regulation (EC) No 139/2004 (the EC merger regulation) which is transposed in national law. On EU level the EC Commission has recognized the problem with market concentrations as to trade marks e.g. in Case IV/M 190 (Nestlé-Perrier).



Besides contractual arrangements or concerted practices in breach of Article 81 EC and market distorting mergers and acquisitions, the refusal to license IPRs may constitute an abuse of a dominant position in breach of Article 82 EC. For instance, the refusal to grant a garage license allowing objectively speaking qualified undertakings to repair cars of a certain brand may distort competition in such a way. Whereas e.g. patent rights and copyrights can be subject to compulsory licensing, this does not apply as to trade marks. Compulsory licensing is closely related to the "essential facility doctrine", which is recognized even if not fully accepted under Article 82 EC in EC law and, thus, in Swedish law. In spite of the fact that compulsory licensing of trade marks is prohibited under international law the issue was observed in the *travaux préparatoires* to the Trade Marks Act (1960:644) in a slightly different context regarding a ruling by a district court on the refusal to license the reputed trade mark "Pommac" for a soda prévendus.

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?*

Environmental aspects could, not least today, constitute a good ground for releasing the strict interpretation of trade mark law in cases of reuse of for instance bottles. A good example of a more environmental friendly application of the law is the Norwegian Supreme Court's decision of 25 September 1975, where the reuse of trade marked paper bags was not considered a trade mark infringement. On the other hand, taking unfair advantage of reputation and risk of misleading the consumers must be the prime leading principles.

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?*

Regarding copyrighted products the exhaustion is as for all other IPR protected products regional. But copyright legislation and principles contain a number of obstacles to free repair and recycling, of which the most essential are the moral rights in a broad sense: A copyrighted work must not be changed without the author's permission; such changes infringes the copyright. But apart from such droit moral aspects, the recycling of copyrighted materials gives certain concerns in respect of the marketing of such products; the author's exclusive right to reproduction. Any form of reproduction of a work, except for private purposes, will constitute an infringement. This means, for example, that presentation of photographs of recycled or repaired items for sale can only be made with the permission of the copyright holder, be it original fashion clothes or a collection of empty perfume bottles. Indeed, the copyright prevents the "mechanical" sales of such items. In a country like Sweden, where the threshold for copyright protection seems rather low this can be regarded as an obstacle against any recycling of copyrightable works as long as the original work is to be recognised in the recycled products.

However, use/reuse of trade marked products which are legitimately put on the market, in copyright protected work such as paintings, drawings, photographs and/or other artistic works, is legitimate and falls outside the trade mark holders' rights. The exclusive trade mark right is limited to the use of the trade mark as a way of distinguishing goods and/or services.

Regarding the relation between trade marks and unfair competition it could be reminded of that the ECJ in Case C-63/97 (BMW) transplanted the principle of "honest practice in industrial and commercial matters" written into Article 6(1) (c) of the Trade Mark Directive

(89/104/EEC), into the wording of Article 7(2) of the Directive. It could be noted that the Swedish Supreme Court a few weeks before this decision in a similar but not identical case about VOLVO repairs found infringement, see NJA 1998 p. 474 – VOLVO. Thus, it can be concluded that, even if a repair or recycling practice is not considered to change or impair the goods, parallel trade in those goods within the geographical scope of exhaustion (EEA) could still be actionable under Swedish law if the conduct is deemed contrary to honest practice.

To conclude, the exhaustion of trade mark rights is not absolute within the geographically delineated area established by the ECJ even if the goods remain the same. But even more important is that the residual protection of the trade marks turns on the “honest practice” maxim known from Article 10bis of the Paris Convention give the national courts a wide range to decide according to the special condition on the respective market. In addition, a possible sponging conduct by a repair shop, – reference to a certain trade mark that takes advantage of its goodwill – may also be precluded as unfair competition under the Swedish Marketing Practices Act (1995:450).

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?*

There exists no global exhaustion principle. Each legislator is free to decide which exhaustion principle he considers best from economical trade, political and legality aspects. Nor is it evident that this principle should be the same for all IPRs. The present position of the EU is, however, same treatment of all IPRs and EEA-wide exhaustion. Another position seems to require international consensus on reciprocal treatment.

The Swedish group has in addition chosen to answer to these questions by taking the examples mentioned above:

- a) *Refurbishment of used patented or design-protected one-time use cameras with replacement film and new coverings:*  
Should be OK, if also the trade mark is removed, which causes no problems under trade mark law;
- b) *Refill of once-used ink or toner cartridges for home or office printers or copy machines:*  
Should be OK, if also the trade mark is deleted;
- c) *Reconstruction of a car from parts of two or more used or dysfunctional cars:*  
Should be OK. The car as such is not patented and rights to patented and design protected parts are exhausted. The car will not be sold as new. This specific example

represents also probably often established practice and is regarded as a normal and legal conduct.

- d) *Recovery of a drug from urine of a patient and sale of the recovered drug:*

Should not be possible. Apart from product safety aspects, such recovery is an example of new production of the patented subject matter, which constitutes an infringement and probably should continue to do so in the view of the Swedish group.

- e) *Reuse of disposable syringes that are designated to be used only once:*

Should not be possible irrespective of IPR aspects because of safety risks.

- f) *Refill and sale of a container bearing a protected trademark to a party different from the first buyer of that product:*

As mentioned before, this is an issue which should indeed be discussed. In principle the Swedish group is of the opinion that there are many good reasons to no longer protect the trade mark in such situations, where environmental arguments could be raised for the continued use. This situation is also well established in the private market, where a lot of reuse of bags, bottles, etc. is well-established. But again, there probably has to be some safeguards built in to the system in order to protect buyers from deception, for instance if the buyer of the first original product is the one asking for a refill and gets another generic product back this should be made clear.

- g) *Repair and resale of a used product bearing a protected trademark to a third party:*

This case, indeed, deserves to be discussed. Its solution could e.g. be depending on how the repair is made, how the product is sold and what the tradition in this line of products is. As has been mentioned, in the view of the Swedish group, for instance, there is a fairly long tradition that considerable repairs re make on cars, which are still sold under the original mark. As long as the buyer does not get the impression that the product is in better condition than it is, this is and would be good practice in other markets than the car market. Today second hand prestigious clothes or furniture seems fully legitimate and up-to-date – however, as previously mentioned under Question 10 above, marketing of second hand products may be subject to limitations under copyright legislation.

- 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?*

In the view of the Swedish group none, where his/her or the reputation of the goods is not seriously endangered, nor the consumers' safety.

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

The Swedish group does not see any extra-ordinary questions arising with regard to antitrust issues on the ground 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.*

The increasing national and global pursuit for sustainable development could lead to a shift of balance between exclusive rights and environmental, social, economic or other needs that are necessary for creating an ecologically desired society. Policy concerns give weight to the fulfillment of environmental quality objectives which today penetrates every sector of society. One interesting case of "recycling" is patent rights to living matters as long as the object of the patent is included generation after generation. Although exhaustion of patent rights to such material only applies to the first generation of derived subject-matter, other needs have

had a balancing effect on this particular limitation of the exhaustion principle (i.e. that the patent rights revives once second or further generation material is produced). The interests of small scale farmers to retain and use propagating material from patent protected seed have for instance resulted in the so-called farmers' privilege. But the question could be raised whether not patent rights ought to be exhausted after a certain number of generations?

A shift in balance towards further limiting the rights of the patent holder may fit well in a policy objective of fulfilling overriding environmental goals. It could be discussed whether such balance is best achieved by restricting already existent rights. It is also imperative to note that legislative limitations may not have the desired practical effect. This is especially visible in plant breeding technologies. It has been shown that patent holders aim to control the fertility of further generations of plant propagating material by rendering the material sterile or infertile after the first harvest, thus making further use of seeds impossible. In such situations, technological developments will override legal rules, thereby shifting the focus from IPR rules to the regulation of technological measures.

- 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.*

In the view of the Swedish group, this task is a little premature before having seen the responses from the national groups around the world. But it is our firm conviction that there will be a number of issues, which not least in the light of the present environmental problems deserve new IPR solutions and where product safety seems to be the most decisive factor for possible amendments to present practices.

### **Summary**

IP rules on repair and recycling of products follow the normal IPR principles. Mandatory requirements such as protection of public health, environment, and consumers and fairness of commercial transactions as well as competition rules override the exclusive rights. A few exceptions from the general principles are made in trade mark law where the various interests are ultimately balanced on the principle of honest practice in industrial or commercial matters. The interests of the proprietor to shield business interests vested in the trade mark and the interests of consumers not to be misled or endangered is central. Also environmental issues might require some sacrifices of traditional trade mark rights. The balancing of interests is, however, only possible on the facts in each case and no general position is to be located. Copyright rules create certain obstacles to repair and recycling both with regard to these acts as well as with regard to the marketing of the repaired and recycled products.

### **Résumé**

Les règles de la propriété intellectuelle pour les produits réparées et réutilisées suivent les règles normales. Conditions obligatoires telles que la protection de la santé publique, l'environnement, et les consommateurs et bonne meurs dans les transactions commerciales aussi bien que le règlement de la concurrence dépassent les droites exclusives. Quelques exceptions aux principes généraux sont faites dans la loi de marque où les divers intérêts sont finalement équilibrés selon le principe de bonne meurs commerciaux. Les intérêts du propriétaire de protéger des intérêts commerciaux investis dans la marque et les intérêts des consommateurs de ne pas être trompé ou mis en danger est central. En outre les issues environnementales pourraient exiger quelques sacrifices des droites traditionnelles de marque. L'équilibrage d'intérêts est, cependant, seulement possible sur les faits chaque cas et aucune position générale ne doit être localisé. Les règles de droit d'auteur créent certains obstacles de la réparation et la réutilisation et à l'égard du marketing des produits réparés et réutilisés.

## **Zusammenfassung**

Die rechtliche Regelung reparierter und wiederverwerteter Produkte folgt den normalen Schutzregeln. Aber vorgeschriebene Anforderungen wie Schutz des öffentlichen Gesundheitswesens, des Klimas und der Verbraucher und die Gute Sitten im Handelsverkehr sowie Konkurrenzregeln haben Vorrang vor die ausschliesslichen Rechte. Einige Ausnahmen von den allgemeinen Grundregeln sind im Markenrecht gebildet, in dem die verschiedenen Interessen auf dem Prinzip der Guten Sitten schliesslich ausgeglichen sind. Die Interessen des Eigentümers, die Geschäftsinteressen, die in der Schutzmarke bekleidet werden und die Interessen der Verbraucher abzuschirmen nicht irreführt zu werden oder gefährdet worden ist zentral. Auch Klimaausgaben konnten einige Opfer der traditionellen Schutzmarkerechte erfordern. Das Ausgleichen von Interessen ist jedoch nur möglich auf den Tatsachen jeder Fall und keine allgemeine Position lokalisiert werden soll. Das Urheberrecht verursacht bestimmte Hindernisse zu reparieren und die Wiederverwertung, sowie in die Hinsicht auf das Marketing der reparierten und aufbereiteten Produkte.