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**Report Q205**

in the name of the Swiss Group
by Peter HEINRICH, Jens OTTOW, Fédéric BRAND, Gallus JOLLER,
Marcel BIRCHER, Robert G. BRINER and Lorenza FERRARI HOFER

# Exhaustion of IPRs in cases of recycling and repair of goods

## Summary

Under Swiss law, the principle of exhaustion of intellectual property rights is not expressly ruled by legal provisions, with the exception of exhaustion of copyright and of exhaustion of patent rights in respect of certain goods for agricultural use. However, this principle is generally admitted by doctrine and jurisprudence also for trademarks, designs and patents.

In the past years, the Swiss Supreme Court has developed different rules for patents, trademarks, copyright and designs. While international exhaustion clearly applies to trademarks and copyrights (at least insofar as performance right of the copyright owner is not affected), patent rights are considered to be exhausted only if the products are put into circulation on the Swiss market, provided that the enforcement of such national exhaustion does not result in a prohibited foreclosure of the Swiss market. In respect of design rights, no precedents exist.

The care and repair of released products is generally not considered to be a violation of exclusivity rights of the owner of intellectual property rights as their rights are exhausted once the products are released on the market. However, if the repair of a released product results in a re-manufacture or complete renewal or reproduction of the product protected by designs or patents or of a characteristic part thereof, such a repair violates the exclusivity rights of the design and patent owner.

Also the recycling or reuse of a product protected by design or patent rights is considered to be permitted under the principle of exhaustion. As concerns patents, the essential question is whether recycling or reuse amounts to implementing again the invention as a technical teaching. When it comes to design rights, be whether recycling or reuse amounts to realizing again the protected shape, i.e. producing a second time an object with the protected form.

However, no clear precedents exist on the exhaustion of intellectual property rights in case 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?*

I.1. Under Swiss law, the principle of exhaustion of intellectual property rights is not expressly ruled by legal provisions, with the exception of exhaustion of copyright (art. 12 Copyright

Law, CL) and of exhaustion of patent rights in respect of certain goods for agricultural use (Art. 27 b Subsection b of the Agriculture Act). However, this principle is generally admitted by doctrine and jurisprudence (BGE 126 III 129) also for trademarks, designs and patents.

**Conditions applicable to exhaustion**

The exhaustion of intellectual property rights results in the limitation of the exclusivity rights of the owner of intellectual property rights. If the owner, or any authorized third party for him, has put on the market for sale or trading products protected by patents, trademarks or designs, he is no longer in the position to hinder any further sale, processing, use and circulation of such products, for which he has already be rewarded. His exclusivity and limitation rights in respect of the released original products are exhausted.

Exhaustion occurs when the product has been put into circulation with the express consent of the owner of the intellectual property rights. If the patent or design owner just tolerates the use of the product by a third party, his exclusivity rights are not automatically exhausted.

Further, the owner must agree to *definitively give up his property rights* on the product, i.e. to release the same for sale or trade by a third party. A temporary grant of use of a product as well as the circulation of the product among holding companies only does not create the conditions for exhaustion of the intellectual property rights related to the product.

**Geographical scope of exhaustion**

Under Swiss law it is contentious whether national or international exhaustion applies to intellectual property rights, i.e. whether the exclusivity rights of the owner are already exhausted if the products are put on the market in any country of the world (international exhaustion) or only if they are put into circulation in Switzerland (national exhaustion).

In the past years, the Swiss Supreme Court has developed different rules for patents, trademarks, copyright and designs. While international exhaustion clearly applies to trademarks (BGE 122 III 469, Chanel) and copyrights (BGE 124 III 321, Nintendo; at least insofar as performance right of the copyright owner is not affected), patent rights are considered to be exhausted only if the products are put into circulation on the Swiss market (BGE 126 III 129, Kodak), provided that the enforcement of such national exhaustion does not result in a prohibited foreclosure of the Swiss market. In respect of design rights, no precedents exist. However, most Swiss authors appear to be in favour of international exhaustion because of the similarities of design right and copyright.

Furthermore, Swiss legislation has proposed to set out national exhaustion in respect of patent rights (also for patents on processes) in a revised text of the PatG (new art. 9a revised PaG).

*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?*

I.2. Swiss jurisprudence clearly admits international exhaustion only in respect of trademarks and copyright.

**International exhaustion**
With regard to the parallel import of trademark protected products the application of the principle of international exhaustion is justified only for products imported into Switzerland which have *any and all characteristics* as the ones distributed on the Swiss market (BGE 122 III 469, E. 5.e). If the imported products are identical, it is irrelevant whether they are imported into Switzerland in violation of contractual export interdictions or of selective distribution restriction. International exhaustion applies despite the infringement of any contractual obligations.

In this context it should be noted that under Swiss law import restrictions based on intellectual property rights fall to be assessed under anti-trust law and are therefore not generally considered as permitted by law (art. 3 II Law on Cartels).

**No regional exhaustion**
Swiss law and doctrine distinguishes between national and international exhaustion of intellectual property rights only, and does not know the principle of regional exhaustion for intellectual property rights protected in Switzerland. if national exhaustion applies, as this is the case for patent rights, the prohibition rights of the patent owner are exhausted only in respect of the products put in circulation on the Swiss market.

**National exhaustion; burden of proof**
If the patent owner claims a violation of his exclusivity rights by the import into Switzerland of original products put in circulation on a foreign market, the defendant can oppose the claim by the proof of the facts that lead to exhaustion, namely that the goods have been put on the market with the intent of the owner of the right (according to the general principle of the burden of proof, art. 8 Civil Code). Art. 8 stipulates that unless otherwise provided by law, a person deriving his rights from the existence of an alleged fact shall prove the same.

Even if the defendant has the burden of proof regarding exhaustion of the patent rights, this does not mean that the importer has to give evidence about the actual 4 origin of each imported product. In most cases, such evidence is impossible to be given, as the importer only knows his direct suppliers. Therefore, it is generally sufficient that the importer proves that identical products are released for sale and trade in the country of origin.

*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?*

I.3. Under Swiss law, exhaustion of intellectual property rights does not originate in an "implied license" granted by the owner of such intellectual property rights, but applies ipso iure and is a limitation of the intellectual property rights as such. Thus, exhaustion of the exclusivity rights cannot be precluded or barred by contract.

*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?*

I.4. **Right of repair**
The subsequent processing or revision of products protected by designs or patents can only qualify as a violation of the exclusivity rights of the design or patent owner if such products were put into circulation without his consent.

The right to process and use a product belongs to the exclusivity rights of the design and patent owner and is exhausted once the product is put on the market for further sale or trade.

Any subsequent processing of the released product, including its care and repair, does in principle not qualify as a violation of exclusivity rights of the design owner.

Equally, the substitution of a component which is not independently protected by a patent is permitted.

**Definition of repair**

If the repair of a released product results in a re-manufacture or complete renewal or reproduction of the product protected by designs or patents or of a characteristic part thereof, such a repair violates the exclusivity rights of the design and patent owner. As the right to originally manufacture products is not subject to exhaustion, a repair which in economical terms is equivalent to a complete re-manufacture is seized by such manufacture right, even if the remanufacture process takes place in the context of a repair.

However, no jurisprudence of Swiss courts exists in respect of the definition of repair and the line is to be drawn between a renewal of the product or a simple repair and replacement of a broken part of a product.

Further, an express autonomous right to manufacture components for repair purposes, as provided in the EU-legislation on design protection, does not exist under Swiss law.

*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?*

I.5. Under Swiss law, it can be assumed that the recycling or reuse of a product protected by design or patent rights is considered to be permitted under the principle of exhaustion. As concerns patents, the essential question should be whether recycling or reuse amounts to implementing again the invention as a technical teaching. The equivalent question regarding designs should be whether recycling or reuse amounts to realizing again the protected shape, i.e. producing a second time an object with the protected form.

The recycling of original products qualifies as a subsequent permitted use once the exclusivity rights of the patent or design owner are exhausted, provided that this use is the intended one for the product at the time of its release on the market, e,g. original refurbished Ipods are resold on the market as for the same use of new Ipods.

However, no jurisprudence or prevailing doctrine exist in respect of the definition of recycling.

When discussing recycling or reuse, the mere aggregation of existing parts of an existing product (e.g. combining the parts of two or more used cars to form one refurbished car) should not be regarded as a new implementation or realization of the design. The reason is that the owner of the intellectual property right has had its compensation – even twice or thrice.

*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?*

I.6. Swiss law does not provide for specific principles in respect of the repair or reuse of "branded" products.

However, the repair or reuse of trademark protected products are generally assumed to be permitted following the exhaustion of the exclusivity rights of the trademark owner. Repair or reuse of the trademarked goods seems not necessarily to amount to using again the sign constituting the trademark, in particular not if the repair was done upon request of and for the owner of the branded products.

In fact, the modifications of the products following their repair or maintenance qualify has a subsequent permitted use if such repair or maintenance services are done in order to permit or facilitate the further sale of the products and insofar as the integrity of the products is maintained.

In this context, the subsequent removal of control codes and of any kind of distribution identification signs from products protected by trademarks is not considered to be a modification of the characteristics of the products and is therefore permitted once the product has been released for sale or trade on the market (BGE 122 III 485). In contrast, a later modification of the packaging can result in a trademark violation insofar as it may alter the characteristics of the product, its fitness for use or its value. An evaluation must be take place from case to case.

As regards reuse, a line has to be drawn between marks for the reused good as such on one hand and marks for goods for which the reused products serve as containers. In case of a mark registered for the reused product as such (e.g. a watch) the trademark right will be exhausted. But the trademark right is not exhausted if the mark is registered for a product that has not been reused (e.g. the liquid in the reused bottle). A brewery cannot bottle beer in used bottles bearing the trademark of another brewery, an oil company cannot use components of gas stations bearing the mark of another oil company.

*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?*

I.7.a. As under Swiss law exhaustion of intellectual property rights applies ipso iure, an interdiction of the owner of such intellectual property rights not to recycle or further use the alienated products is not relevant for third parties. The violation of such interdiction may represent a breach of contract, but does not hinder the exhaustion of the intellectual property rights.

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

*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?*

*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?*

*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?*

I.8. Swiss law on Cartels (KG) does not apply to such effects on competition that result exclusively from laws governing intellectual property. As a result, recycling or repair restrictions, insofar they are prohibited because they represent a violation of intellectual property rights, e.g. a reconstruction of the original product within a repair process, can be enforced even if the owner of the concerned intellectual property rights has a market dominant position.

However, import restrictions based on intellectual property rights, such as the national exhaustion of patent rights, fall to be assessed under KG and are not generally permitted (art. 3 II KG).

In respect thereof, the Swiss Supreme Court suggested that it is not justified to grant the patent owner additional reward for the import of original patent protected products he put on to the market in the first place and for which he had already enjoyed the benefits, assuming that the legal framework in the country of origin is equivalent to the one of Switzerland, as this may be the case for the EUcountries (BGE 126 III 129 E. 8c). According to this decision, the exclusive position of a patent owner on the Swiss market in respect of parallel imported and patent protected products had to be balanced with the consumers' interests.

Moreover, under Swiss KG recycling or repair restrictions for imported products may be considered unlawful if they result in a territorial restriction by a market dominant player (according to art. 5 or 7 KG).

*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?*

No remarks.

*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?*

**I.10. National v. international exhaustion**

Under Swiss law, national exhaustion applies only in respect of patent protected products. Accordingly, differing exhaustion principles may come to application in respect of products bearing trademarks whose minor components are protected by a patent, e.g. a brand perfume with a patent protected spray nozzle.

Within the revision of the Swiss Patent Act (PatG), the Swiss legislator has suggested to resolve such controversy by applying the principles of the international exhaustion when the patent protected component of the product has a minor significance (art. 9a III revised PatG).

**Exhaustion v. Unfair Competition**

With regard to resale of refurbished or recycled products the question may arise whether the consumers may be misled about the original characteristics of the products protected by patents, trademarks or designs. However, as under Swiss law the subsequent modification of

a product following the exhaustion of the exclusive rights is permitted if no entire reproduction or re-manufacture takes place, the Swiss group believes that the risk of misleading and unfair statements for the consumers is quite limited.

In any case, the principles of a transparent and correct information always apply and consumers should be informed about the fact that the products had been repaired, or refurbished respectively.

*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?*

I.11. The principle of exhaustion of rights should also be reviewed in respect of refurbished copyrighted products, such as software.

## 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?*

II.1. Patent, design, trademark rights and copyright should be considered exhausted when the owner of such intellectual property rights had already been compensated by the first sale. Therefore, the question to be discussed should be whether and under which conditions the owner of intellectual property rights may be considered to be sufficiently rewarded by the initial sale of his products.

In respect of the importation of repaired goods from a country where the legal and commercial conditions are inferior to the ones of the country where the repaired goods are going to be sold, it might therefore be argued that the owner of the intellectual property rights was compensated less than what he would have been if his goods had been sold and repaired in the more profitable market and that for such reason his rights cannot be considered to be exhausted.

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

II.2. No. For reasons of legal security, the Swiss group of AIPPI is in favour of an application of the exhaustion principle ipso iure.

*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?*

As concerns patents, the essential question should be whether recycling or reuse amounts to implementing again the invention as a technical teaching. The equivalent question regarding designs should be whether recycling or reuse amounts to realizing again the protected shape, i.e. producing a second time an object with the protected form.

*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?*

II.4. Please refer to question II.2 above.

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

Market restraints should be considered in case IP laws are not able to strike the right balance.

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.*

II.6. The Swiss Group suggests that also exhaustion of copyright should be harmonized.

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.*

No remarks.