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Pays-Bas
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Report Q205

in the name of the Dutch 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 the Netherlands, exhaustion with regard to patents, designs and trademarks is provided for in statutory laws:

- a) **patents:** art. 53(5) Dutch Patent Act 1995;
- b) **designs:** art. 3.19(4) Benelux Treaty on Intellectual Property;
art. 21 Community Design Regulation (see also art. 15 European Design Directive 98/71);
- c) **trademarks:** art. 2.23(3) Benelux Treaty on Intellectual Property;
art. 13(1) Community Trade Mark Regulation (see also art. 7 European Trademark Directive 89/104).

Generally, IPRs are exhausted when:

- i) the goods protected by the IPR have been put on the market in the European Economic Area (The European Union and the European Free Trade Association Members; "EEA") by the IPR owner or with his consent;
- ii) except (with regard to trademarks) where there exist legitimate reasons for the IPR owner to oppose further commercialisation of the goods, particularly where the condition of the goods is changed or impaired after they have been put on the market.

In addition, there is extensive case law (both on a national and EU level) on issues such as the consent of the IPR owner, when goods are considered to have been put into free circulation in the EEA, and the balance between exhaustion of rights and the right to oppose certain acts in relation to the further trade in the goods of the IPR owner.

The legal consequences of the exhaustion with regard to infringement and enforcement are essentially that once IPR protected goods have been put on the market in the EEA by the IPR owner or with his consent, he can in principle not oppose further trade in such goods in the EEA (unless an exception applies).

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?

Dutch law does not apply international exhaustion. The principle of regional exhaustion applies, which concerns the EEA.

In respect of trademarks, the ECJ in fact explicitly decided in the *Silhouette* decision that EU member states may not apply international (global) exhaustion (ECJ 16 July 1998, C-335/96).

The Netherlands are a member state of the European Union. Consequentially, regional exhaustion applies in the Netherlands. Putting a product on the market in one country in the EEA (or the Dutch Antilles, in respect of Dutch patents granted under the Dutch Patent Act 1995) results in an exhaustion of rights in the entire EEA, whereas marketing outside that region does not lead to exhaustion in this region.

The exhaustion rule is an exception to the exclusive right of the IPR owner. Under Dutch law (and ECJ case law), in principle the person invoking this rule has the burden of proof. However, the ECJ decided in the *Van Doren/Lifestyle* trademark case that the circumstances of the case can be such that the burden of proof will be shifted to the IPR owner, particularly if there is a real risk of partitioning of national markets, in particular where the trademark owner operates an exclusive distribution system. If the owner then however establishes that the products were initially placed on the market outside the EEA by him or with his consent, it is for the third party to prove the consent of the owner to subsequent marketing of the products in the EEA (ECJ 8 April 2003, C-244/00).

The element "*risk of partitioning the market, in particular where the trademark owner uses an exclusive distribution system*" of the *Van Doren/Lifestyle* decision has been interpreted by the Amsterdam Court of Appeal decision of 14 October 2004 (*Lancome/Kruidvat*), such that there is no artificial partitioning of the market (and thus no shift of the burden of proof) if the distribution system is in conformity with the rules of competition law, in particular the Block Exemption Regulation relating to Vertical Agreements (Regulation 2790/1999).

If the IPR owner takes the position that he has a legitimate reason to oppose further commercialisation of original goods put into free circulation with his consent (e.g. where the particular trade seriously affects the reputation of the trademark), the IPR owner has the burden of proving such (see e.g. Benelux Court of Justice 16 December 1998, *Dior/Evora II*).

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 theory of implied license is not developed in Dutch law (reference is also made to the Dutch report on Q187, footnote 4).

There has however been limited discussion on this topic in legal literature. In his thesis of 1988, Hoyng takes the position that an implied license could perhaps be assumed to exist in case of delivery (for purposes of reparation) of an essential part of a patented product to a person using a product lawfully put on the market (which would otherwise constitute indirect infringement) (W.A. Hoyng, *Repareren in het octrooirecht* (1988), p. 214). However, the Dutch Group concludes that such an implied license seems to be *contra legem* (at least to the literal text of the law, as Hoyng also acknowledges).

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?

Patents

The Dutch Patent Act does not address the issue of repair. Repair is only marginally dealt with in recent case law. Older case law exists, but dates back from an era before recognition of the concept of indirect infringement.

Repair without replacement of (significant) parts is generally considered to be covered by the rule of exhaustion and is thus considered to be allowable.

Repair by gradual replacement of all parts is, however, considered equal to manufacture, and hence infringement.

Repair by replacement of parts that are considered "essential" to the claimed invention may, depending on the circumstances, also qualify as an infringing act of manufacture. In such case, the sale of the parts is normally considered an indirect infringement and repairing the product applying such parts constitutes an act of tort (District Court The Hague 23 June 1999, *Impro/Liko*).

Designs

Simple repair (repair without the replacement of parts) of a protected design is considered to be covered by the rule of exhaustion and is thus considered to be allowable.

If the design of part of a composite product is protected, use of such design cannot be prohibited where this serves to repair the composite product so as to restore its original appearance (art. 3.19(3) Benelux Treaty on Intellectual Property). It is important to note that the above exception only applies to designs filed on or after 1 December 2003. Designs filed before that date are covered by the former law and do enjoy protection for repair purposes.

In addition to the above, the law prohibits that a design right be exercised in the case of:

- a) import of spare parts and accessories for the purpose of repair of ships and air ships which are registered in a foreign country and which are temporarily on Benelux territory; and
- b) repair of such vehicles (art 3.19(2) Benelux Treaty on Intellectual Property).

The law does not contain a definition of the term "repair".

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?

Patents

The issue of recycling is not dealt with by the Dutch Patent Act.

Once a patented product has been put on the EEA market by, or with consent of, the IPR owner, however, the rule of exhaustion applies. The IPR owner therefore cannot prohibit resale of the product.

Recycling by breaking down the product and remanufacturing the product would be considered infringement, even if original parts are used.

If a product needs to be recycled because it does not function any longer and if such recycling involves replacing parts that are essential to the invention, this would constitute an indirect infringement.

Basically, recycling components of a patented device is permissible if this is limited to normal repairs or when a product is manufactured which falls outside the scope of protection of the relevant patent.

Designs

Once a product protected by design rights has been put on the EEA market by, or with consent of, the IPR owner, the rule of exhaustion (art. 3.19(4) Benelux Treaty on Intellectual Property) applies and the rights owner cannot prohibit the resale thereof.

In the case of recycling, case law provides little guidance. It may be argued that recycling is allowed from a design law perspective **unless** the act of recycling would involve (partial) destruction of a relevant part of the design of individual products and the subsequent recreation of products without the IPR owner's consent. In the latter case, it can be argued that the recycler *de facto* has produced an unlawful copy of the protected design.

The law does not contain a definition of the term "recycling".

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 Benelux law is based upon the European Trademark Directive 89/104 ("Trademark Directive") and thus contains the same stipulations which are applicable to the repair or recycling of products such as reuse of articles with a protected trademark. Dutch case law does not provide for additional rules regarding the exhaustion of trademark rights in case of repair or recycling, but follows closely the more general rules provided by the European Court of Justice ("ECJ").

Pursuant to art. 2.20 Benelux Treaty on Intellectual Property ("BTIP") (compare art. 5(1) Trademark Directive), the registered trademark confers an exclusive right on its owner. Further to art. 2.20(1)(a) BTIP, the owner of that exclusive right shall be entitled to prevent all third parties, not having his consent, from using in the course of trade any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered. Art. 2.20(2) BTIP sets out in a non-exhaustive way the types of use which the owner may prohibit under art. 2.20(1) BTIP.

The owner of the exclusive trademark rights is, however, not entitled to prevent third parties not having his consent from using in the course of trade any sign which is identical with the trademark if such use is necessary to indicate the intended use of a product, in particular as accessories or spare parts thereof, provided such use is in accordance with fair practices in industrial or commercial matters (art. 2.23(1)(c) BTIP). In that case, such information is necessary in order to preserve the system of undistorted competition in the market for that product.

On the basis of case law, a third party is authorized to use a trademark in a referring manner, in the event that such use is necessary to inform the public that the third party is specialised in the field of repairs or resale of original products (see inter alia ECJ 23 February 1999, C-63/97 (*BMW/Deenik*) or where a party sells compatible products, to inform the public thereof (ECJ 17 March 2005, C-228/03 (*Gillette/LA- Laboratories Ltd Oy*)).

As indicated, the ECJ decided in *BMW/Deenik* that a trademark owner may in principle not prohibit a third party from using the mark for the purpose of informing the public that he carries out the repair and maintenance of goods covered by that trademark and put on the market under that mark by the owner or with his consent, or that he has specialised or is a specialist in the sale or the repair and maintenance of such goods.

However, the ECJ also decided in this case that it is not lawful to use the mark in such a way that may create the impression that there is a commercial connection between the third party and the trademark owner, and in particular that the third party's business is affiliated to the trademark owner's distribution network or that there is a special relationship between the two undertakings. The trademark owner may thus still prohibit the use of the trademark by any third party in the event that such use can create such confusion amongst the public.

Regarding recycling/reuse of products, there is in particular case law on the refill of gas cylinders. The Benelux Court of Justice ("BCJ") ruled in *Shell/Walhout* (BCJ 20 December 1993) that the refill of empty gas cylinders bearing a trademark with gas not originating from the trademark owner (without his permission) constitutes a trademark infringement. This rule was also applied in later decisions such as *ADG* (Court of Appeal The Hague 3 November 1994) and *Primagaz* (Court of Appeal Amsterdam 9 July 1998).

In the *Valeo* decision (BCJ 20 December 1993), the BCJ ruled that a trademark owner cannot oppose trademark use on reconditioned goods, i) if the product basically remains the same original product (no new product is created) and ii) removal of the trademark is not possible without an adverse impact on the quality of the product or if it would otherwise be unreasonable (i.e. economically impossible) to require such removal **and** the third party makes every reasonable effort to inform the public that these are in fact reconditioned goods and not original goods.

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?*
- 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?*

Under Dutch law, a marking has no influence on the exhaustion of rights (except in when such markings contain conditions which are made part of an agreement, in which case these are

only binding on the parties). There is case law regarding markings of music records and CD's intended to restrict their use, according to which such markings do not prevent exhaustion.

Under the European Trademark Directive (art. 8(2)) and the Benelux Treaty on Intellectual Property (art. 2.32(2) and 3.26(2)), only a limited number of restrictions can be incorporated in a trademark or design right license agreement that will prevent exhaustion. These articles provide that the IPR owner may enforce its exclusive rights against licensees if the licensee acts in contravention of the license agreement where the duration, regional exclusivity, type of goods or the quality of the goods is concerned. According to case law, violation of terms of a license agreement that are not in this list will not prevent exhaustion (e.g. failure to pay the license fee). In such case, the IPR owner may still have a contractual claim against his licensee, but he has no claim based on his trademark or design right.

There are no statutory provisions or case law on contracting out of exhaustion. However, under European Community law there is a delicate balance between the protection of the interests of the owner of intellectual property rights and the interests of free movement of goods and services and free competition. The basic rule is that the protection conveyed by an intellectual property right may not extend beyond its specific object of protection. This rule would most likely also determine whether contracting out of exhaustion would be possible.

At the moment, there is no clearly prevailing view or guidance on how this area of the law will develop.

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 Dutch Competition Act ("DCA") applies to all economic activities in the Netherlands as a matter of "*ordre public*" and therefore also applies to repairs and recycling activities. The DCA is a mirror image of European Community competition laws.

The DCA prohibits agreements and concerted practices which have as their object or effect the restriction of competition. In addition, it prohibits an abuse of a dominant position.

There is no specific case law in the Netherlands relating to the influence of competition law on repairs and recycling in the context of intellectual property laws.

The Dutch group considers that in line with EC competition law, the competition laws would only under exceptional circumstances come into play in the context of repairs, recycling and intellectual property laws. In this context the Dutch group considers that the existence of IPRs does not in principle preclude recycling activities, but could prevent the recycling party from using the particular IPRs (or from using the IPRs in a particular manner). This does not necessarily equate to a relevant foreclosure of the market for recycled products as such.

Likewise, the existence of an IPR does not automatically lead to a finding of dominance (ECJ case C-241 and 242/91, Magill). Where an alleged abuse in the secondary market for repair services would occur (such as tying or predatory pricing), it is expected that first an (exceptional) finding of dominance in the primary market would have to be made (as in the Commission decision in Pelican/Kyocera, Commission Competition Policy newsletter winter 1995, p.13).

When a dominant IPR owner operates a particular scheme which would restrict repair services (such as predatory pricing, refusals to supply parts, discriminatory pricing), there could be a violation of competition law (Digital Equipment Corporation, XXVIIth Report on Competition Policy 1997, para 69).

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?

The Dutch group is of the opinion that under most circumstances public interest is not at stake where IPRs would prevent a particular form of recycling. Recycling of products (understood as re-using materials or parts to create new products) as such is not affected by the IPRs, but only the use of e.g. a particular trademark, design or the assembly or manufacture of a patented product. In most circumstances, such use of an IPR can and should be avoided. The recycling party could under normal circumstances simply abstain from trademark use or assemble or manufacture an otherwise non-infringing product.

One exception could be where recycling is made impossible because the Trademark or Design right owner has made it technically or economically impossible to remove trademarks or designs on parts or goods that are to be recycled. Only under such (exceptional) circumstance should the recycling party be entitled to use the relevant trademark or design right, provided that the reasonable interests of the IPR owners are observed. In respect of the latter, a more detailed proposal is made in relation to Question II.1 of this report.

10) *Interface with copyrights or unfair competition*

While the present Question is limited to patents, designs, and trademarks as noted in the Introduction above, does your Group have any comments with respect to the relationship between patent or design protection and copyrights or between trademarks and unfair competition relative to exhaustion and the repair and recycling of goods?

The Dutch group considers that its position on IPRs and recycling as expressed in this report applies equally in respect of patent protection and copyrights.

The Dutch group considers that the doctrine of unfair competition is a complementary doctrine which could protect the interests of IPR owners, where no infringement of IPRs occurs in connection with repairs or recycling, but an unfair competitive advantage is sought by parties engaging in these activities (e.g. discrediting statements directed at the IPR owners, misleading advertising etc.).

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?

The Dutch group is not aware of further existing problems.

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 principle of exhaustion should in each case ensure a fair balance between the IP owner and the users or further traders in IP protected goods. In each case, where goods are put into free circulation with the consent of the IP owner, the rights associated with the physical goods in the original state are exhausted and in principle, further trade cannot be opposed.

The Dutch group considers that in the EEA, the principle of regional (as opposed to global) exhaustion should apply.

Normal repairs of trademark or design protected goods should belong to the rights of the owner of the goods, which may only be restricted in exceptional cases (e.g. in case of dangerous goods).

In the context of patent law, the patentee should have a reasonable opportunity to obtain a return on investment. In view of the limited duration and under normal circumstances significant investments in research and development, there are arguments to adopt a strict approach to the principles of exhaustion.

In view thereof, the Dutch group is of the opinion that the patentee can oppose any refurbishing or recreation of patented goods, even if original parts were used.

On the other hand, recreating a device from recycled original parts, whilst the device is outside the scope of protection of the patent, would not amount to an infringement.

A third party's unauthorised manufacture and/or supply of essential parts for the invention, not being staple goods, should amount to an indirect patent infringement and should not be allowed under the principles of exhaustion.

In the context of design rights and trademarks, there seems little justification for a wide application of exhaustion principles in the context of recycling, since in most cases manufacturing new or partly new products from recycled parts would as such not require the use of the trademark or a copy of the original design.

Specifically in the context of trademarks, recycling of goods would normally lead to either new products or, at least, altered products. In principle, the exhaustion rules should only apply to the products in their original form, so a trademark or design right owner should, under normal circumstances be entitled to oppose third parties from marketing recycled goods bearing the original trademark.

An exception to this principle may be made where for technical or economic reasons, the original trademark cannot be removed, whilst the third party supplier nevertheless remains under the obligation:

- a) to take all reasonable efforts to inform the public that the products in question are recycled or (partly) composed of used parts and are not original goods;
- b) to refrain from any action which will adversely affect the reputation of the trademark owner or the products in question;
- c) to refrain from creating the impression that the trademark owner has consented to such use, or has any form of association with the third party, in each case where such is not justified; and
- d) to refrain from taking unfair advantage of the trademark or causing dilution of the trademark.

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

The Dutch group is of the opinion the doctrine of implied license has little added value and its objectives could presumably be attained by applying and, where necessary, further refining the principles of exhaustion.

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 can probably only be determined on a case by case basis, each instance striking a balance between the interests of the IP owner and third parties interests in free competition and free movement of goods.

As indicated above, under normal circumstances the Dutch group considers that the promotion of recycling does not necessarily imply or merit the restriction of the rights of IP owners.

The principles that may be used as a reference in determining where the line should be drawn, are further explained above in reply to Question II.1.

- 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 Dutch group considers that in respect of the intent of the IPR owners and possible contractual restrictions, the normal principles of exhaustion should apply and that there is no need to develop specific rules in this context in respect of recycling and repair.

In line with these principles, the Dutch group considers that under normal circumstances there is no justification to allow IPR owners to restrict the principles of exhaustion, which may be considered to belong to public order and the ownership rights of parties who have lawfully obtained IP protected products, specifically in the context of repair and recycling.

The above does not detract from the possibility that IPR owners restrict the use of particular goods in contracts (if compliant with competition law), such as field of use restrictions, but the IP rights associated with the physical goods protected by IPR are exhausted. If the contracting party commits a breach of contract, there may be a cause of action resulting from this breach against this party, but the IPRs may not, with certain exceptions (e.g. certain cases where license agreements are violated), be invoked against third parties not bound by such a contract.

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

Competition law applies to all economic activity and in the opinion of the Dutch group, repairs and recycling should not be an exception.

The Dutch group considers that the existing framework of competition law provides adequate safeguards against restrictive agreements or concerted practices, as well as potential abuses of a dominant position in the context of repairs and recycling.

The group does not consider it necessary or desirable to develop an antitrust regime specifically addressing issues relating to repair and recycling.

- 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 Dutch group has no such suggestions. The Dutch group is not aware of any acute or significant problems caused by a lack of harmonisation in the field of repair and recycling.

- 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.*

The Dutch group is not aware of any significant problems caused by a lack of harmonisation in the field of repair and recycling.

Where distortions of international trade would occur because of diverging legal systems in this area, harmonisation in this field may preferably be achieved on a European level, either through legislation or through the interpretation of such legislation by the European Court of Justice. This could ensure a level playing field in the common market.

On a global level, harmonisation may be achieved through the WTO, and on a more informal level through the continued exchange of ideas and solutions in the context of WIPO and AIPPI.