# Working Guidelines

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## Question Q205

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

### Introduction

1) At the Boston Congress in 2008, AIPPI will consider the question of exhaustion of intellectual property rights in cases of recycling and repair of goods under Q205. Recycling and repair have become economically and ecologically more and more important for reasons of reducing the consumption of raw materials and energy and also of avoiding environmental problems associated with the disposal of waste plastics and other materials. From a consumers' view point, it may be beneficial to have a choice between genuine products made by the IPR holders and recycled products which are based on the genuine products but are marketed by third parties (recycling companies or others).

2) Antitrust issues may also have to be considered when the exclusive character of IPRs is reviewed with regard to the recycling and repair of goods. In this context, some voices see IPRs as a tool to close off a market for recycled or repaired goods which should –in their view– be open to everybody, since the IPR owner has already enjoyed the benefits from putting the original product onto the market in the first place.

3) The exhaustion of an IPR in general means that the IPR owner may not prohibit a third party from selling or trading a specific product based on his IPR any further. The reasoning behind the doctrine of exhaustion is that the product has been marketed either by the IPR owner or by a third party with his consent and that he may therefore not exercise any further his exclusive rights which have been conveyed to him through the IPR. The product can then circulate freely in the market. In particular, it may be resold, traded elsewhere, imported or exported as long as the requirements for exhaustion as set up by national laws are met. The exhaustion of IPR leads to a specific form of limitation of the rights under certain circumstances.

4) An important factor is the geographical scope of exhaustion. One can distinguish between a purely national exhaustion limited to the territory of the respective IPR which usually corresponds to the area of one country and an international exhaustion. International exhaustion means that rights are exhausted in one country even if the product was marketed by the IPR owner or with his consent in another country. Typically, the term "international exhaustion" is understood in the broadest sense and refers to a worldwide exhaustion of rights. A special case of international exhaustion is the concept of the so-called regional exhaustion which is applied e.g. in the European Union (EU) or the European Economic Area (EEA). Putting a product on the market in one country belonging to that specific region results in an exhaustion of rights in the entire region whereas marketing outside that region does not lead to exhaustion in the region.

5) The topic of Q205 plays a major role with regard to patents (including utility models). In particular, questions arise when the repair or the recycling of a product concerns parts which are related to the invention which is covered by patents or utility models and which

is incorporated in the product. In those cases, the repair or recycling may collide with the exclusive rights of the IPR owner. One may have to distinguish between a complete renewal of the product and a mere replacement of a broken part. If the patent or utility model only relates to the replaced part the situation seems rather easy to assess. In that case there is an infringement if the part is replaced without the consent of the IPR owner, and a distinction between replacement and renewal is obsolete. However, it becomes more complex when the patent or utility model relates to the entire product and only a part of this product is replaced. Depending on where the line has to be drawn between a renewal of the product and a simple replacement the doctrine of exhaustion of rights may lead to different legal consequences.

6) Similar problems arise regarding trademarks. While the trademark typically designates the product as a whole, one may question whether the repair or recycling of a product leads to a new product or whether the result still has to be considered as the old product in an improved or amended form.

7) Also designs should be considered in this context. Neighboring problems are well-known with regard to spare parts for cars. It has been widely discussed whether spare parts should or could be protected individually besides a design protection for the entire car or whether the rights of the owner of the design are exhausted. This discussion also has some impact on cases of recycling and repair of a product.

8) On the other hand, these problems seem to be less relevant in cases of copyright or other IPR. Obviously, the link of copyright with design protection cannot be ignored. To this extent also the exhaustion of the copyright may be investigated in the realm of Q205. However, other cases of copyrights or other IPR should be excluded from the discussion. Comments of the Groups are nevertheless solicited if these rights are particularly relevant in their jurisdiction.

9) Furthermore, issues of contributory or indirect infringement per se do not lie in the core of this question. These issues will be dealt with in parallel in the context of Q204. Within the framework of Q205 contributory as well as indirect infringement should only be considered as part of the broader discussion on what constitutes the production of a new piece of goods as opposed to merely altering the old product.

## Previous work by AIPPI

10) So far, the specific problems of exhaustion of IPRs with respect to recycling and repair have not been considered by AIPPI.

11) Q146 "International Exhaustion of Patent Rights" reported to the Council of Presidents in Oslo in 1999 about the concepts of international and regional exhaustion and of implied consents given by IPR owners.

12) At the Melbourne Congress in 2001, it was resolved in Q156 "International Exhaustion of Industrial Property Rights" that there should be no international exhaustion of IPR. This resolution was primarily concerned with the question of parallel imports and geographical aspects of exhaustion and also affirmed the Resolution Q101 on "Parallel Import of Patented Products" adopted in Barcelona in 1990.

13) At the Executive Committee Meeting in Berlin in 2005, Question Q187 "Limitations on exclusive IP Rights by competition law" was considered. In the resolution, separation of granting and maintenance of IPRs from remedies for anticompetitive acts was advocated. At the same time

it was resolved that the competition law rules may apply only to the exercise of IPRs, but not to the issues of patentability or of granting of patents.

14) Also, AIPPI considered "Patents and the protection of environment" in Montreal in 1995 (Q128). A broad range of issues such as conflict between patentability and environmental protection were discussed. The Resolution did, however, not touch upon the exhaustion of IPR in the context of recycling of goods.

## Discussion

15) AIPPI would like to analyze the doctrine of exhaustion in light of the specific circumstances of recycling and repair. Repair may be defined as restoring something damaged, worn, or faulty to its original condition suitable for the intended use of the product. These acts should be distinguished from a complete reproduction or reconstruction which may have to be treated differently with regard to IPR and exhaustion. These latter forms are of interest in cases where they are done by using original parts which had been put on the market by the IPR owner. On the contrary, a reproduction which is based solely on parts made by third parties will be irrelevant in the context of Q205. Typical cases to be investigated and analyzed by the Groups will comprise situations in which a part of a larger unit (the product as a whole which is protected by a patent or a utility model) is replaced and where this specific part is essential for the patented product and for the invention incorporated in the product.entire unit.

16) Recycling may provisionally be defined as acts whereby products that have served their initial utility are being reused but have not been reduced to ingredients. For the purpose of this Working Question the definition should exclude the use of a product in its entirety to manufacture a new and different product, e.g. the use of waste paper for the production of so-called recycling paper or the use of plastic bottles for the production of other plastic goods. Also excluded will be the use of ingredients or components in the same sense, e.g. to form a new and different product. The core of the question concerns situations in which a used product will be recycled and will be used as virtually the same product as it is the case with regard to refilled ink cartridges or the like. Where jurisdictions have developed programs concerning recycling and repair of IPR-protected products such programs should also be discussed regarding the relationship of the economic aspects on the one hand and the adequate protection of IPR on the other hand.

17) The following situations may serve as examples in practice:

a) refurbishment of used patented or design-protected one-time use cameras with replacement film and new coverings;

b) refill of once-used ink or toner cartridges for home or office printers or copy machines;

c) reconstruction of a car from parts of two or more used or dysfunctional cars;

d) recovery of a drug from urine of a patient and sale of the recovered drug;

e) reuse of disposable syringes that are designated to be used only once;

f) refill and sale of a container bearing a protected trademark to a party different from the first buyer of that product;

g) repair and resale of a used product bearing a protected trademark to a third party.

Please note that this list serves as a non-exhaustive overview of practical examples to illustrate the problems and issues which may occur in connection with IPR and their exhaustion in cases of repair or recycling. The Groups will be most welcome to add cases from their own jurisdiction to their explanations.

18) As mentioned above, patented products very often comprise components which have to be replaced regularly because of the wear they undergo in their daily use. Unless such parts have clearly no connection to the patented invention, the question arises as to what extent the parts are connected to the invention and what the consequences are concerning the exhaustion of the patent rights when these parts are replaced. Then there are also situations in which a part is not intended to be replaced regularly, but where the part breaks unexpectedly. Both kinds of situations may have to be treated differently in consideration of statutory laws and court decisions developed around exhaustion theories and the so-called repair vs. reconstruction dichotomy for patents.

19) Regarding trademarks and designs similar problems may arise. The reuse of containers bearing protected trademarks by a third party supplier may also be considered as a kind of recycling that may contribute to the reduction of waste and provide consumers with possible benefits, while it may weaken the trademark owner's position. For example, when a third party supplier refills a used container bearing a protected trademark with the same kind of goods as the original filling and either returns the refilled container to the owner of the container or sells it to another user, it may be questioned if such acts constitute a trademark infringement or whether the acts are permitted under the doctrine of exhaustion of rights.

20) Currently, different countries or regions are taking different approaches. The European Union has developed its own "regional" exhaustion under the regime of the free trade of goods within the EU and the European Economic Area. In the United States the U.S. Supreme Court and the Court of Appeals for the Federal Circuit have produced a series of precedents without setting clear standards, and Japanese courts have developed a unique doctrine concerning exhaustion. A fine line between the permissible repair and infringing reconstruction is difficult to draw, but is important for businesses in order to make their decisions. Depending on such a line an act may constitute the infringement of an IPR in one country while it may be permitted in another country. This becomes in particular relevant where used or recycled products cross borders and undergo processing for recycling or repair in one country in order to be sold in another country. Frequently, recycling and repair are done on an international scale. For example, used ink cartridges collected in one country may be shipped to another country for processing and refilling and processed and refilled products may be shipped from there to a third country.

21) Also the legal concept of implied licenses which is recognized in some jurisdictions may lead to different conclusions as regards the infringement of IPR through acts of repair or recycling. This concept applies in particular in connection with contracts relating to transactions with regard to a product which is protected by an IPR. If the contract does not contain specific regulations, one may assume that the counterpart of the IPR owner obtains an implied license to use the product. One will then have to determine to what extent such an implied license covers also the repair or the recycling of the product.

22) The intent of the patentee or contractual restrictions will have to be considered in this connection. Examples are indications on products or their packaging that they are to be used only once or licensing provisions according to which products sold to a third party should not be covered. Such aspects play a negligible role in Japan (2005(ne)10021, a grand panel decision of the IP High Court, January 31, 2006), while contractual restrictions are apparently given weight in the U.S. (LG Electronics v. Bizcom Electronics, 453 F.3d 1364 (Fed. Cir. 2006)).

23) Antitrust issues may also play a role in this context. IPR holders could abusively exercise rights conveyed by patents, designs or trademarks in order to protect sales not only of the original product but also of spare parts or of consumables. In such a situation IPR holders could try

to expand the scope of protection conveyed by their IPR and to prohibit the repair or the recycling of a protected product going beyond what would be acceptable in consideration of antitrust aspects. This might be the case where third parties whose business is the recycling or the repair of goods are excluded from entering the market in that respect.

24) The various factors mentioned above and the different interests of the IPR owners and third parties (mainly the public) have to be balanced. On the one hand, there are the incentives for inventors, the development of new technologies and designs, and the encouragement of investments. On the other hand, one has to consider the legitimate interests of the public in freely trading and using goods which have been put on the market by the IPR owner (or with his consent) and for which the IPR owner has already received benefits, mainly in form of a financial compensation. It will be important to find a reasonable balance, weighing these factors and taking into consideration the basic justification for the existence of IPRs, the need for sustainable economic and ecological developments in modern societies, and consumers' benefits.

## Questions

### I) Analysis of the current statutory and case laws

The Groups are invited to answer the following questions under their national 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?*

*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?*

*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?*

*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?*

*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?*

*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?*

*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?*

*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?*

*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?*

*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?*

*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

The Groups are invited to put forward proposals for adoption of uniform rules regarding the exhaustion of IPRs in cases of recycling and repair of goods. More specifically, the Groups are invited to respond to the following questions:

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?*

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?*

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

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.*

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.*

**Note:**
It will be helpful and appreciated if the Groups follow the order of the questions in their Reports and use the questions and numbers for each answer.