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Repair or Reconstruction -  
What Actions are a Patentee Allowed to Restrict  
before it affect Competition?

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# Sammanfattning

Konkurrensrätt och immaterialrätt är två rättsområden som båda är viktiga för att främja den ekonomiska utvecklingen i samhället. Tillämpning av dessa områden parallellt kräver noggrannhet och försiktighet. En balans måste urskiljas mellan å ena sidan ett rättsområde som genom sin skyddslagstiftning ger upphov till ensamrätt, å andra sidan ett rättsområde som främst existerar för att bevara konkurrensen på en fri ekonomisk marknad. Både i EU och USA har det uppmärksammats att utan ett tillbörligt skydd för immateriella rättigheter skulle incitament att investera frånhändas och minska värdet av innovation. Immaterialrätt och konkurrensrätt befinner sig i en dragkamp där det inte finns en självklar lösning, varken i lagstiftningen eller i rättsfall.

Konsumtionsprincipen är ett försök konstruera någon form av balans mellan dessa två rättsområden. Den innebär att ensamrätten till en skyddad produkt förbrukas i och med att produkten förts ut på marknaden, med innehavarens tillstånd. Köparen får då rätt att fritt använda produkten. Rätten att fritt nyttja inkluderar även rätten att reparera produkten när det krävs, dock innefattar denna rätt inte rätten att rekonstruera eller tillverka en ny produkt.

Resonemanget ovan visar på en viss tydlighet gällande vad som är accepterat inom ramen för konsumtionsprincipen; en köpare får lova att reparera men har ej rätten att rekonstruera en immaterialrättslig produkt. Likväl är det inte alltid obestridligt vilka göromål som faller inom vilken kategori. Olika metoder och argumentationer har tagits i anspråk av olika domstolar för att avgöra problemet. Beroende på hur domstolen väljer att dra skiljelinjen kommer det ha en direkt påverkan för rättsinnehavaren och tredjemans affärsstrategi.

# Summary

Competition law and intellectual property law are two equally important areas of law for creating a dynamic market and developing the economy. At first sight, these two areas of law seem to be in conflict; competition law seeks to regulate the market and promote efficient market competition, while the rationale for intellectual property right (“IPR”) is to grant their proprietor the exclusive right to dealing in them and protection against competitors.

Both the EU and the U.S. recognize the importance of providing an adequate system for protecting IPRs. In the absence of protection, inventors cannot profit from their work. This would risk depriving them of the incentive to invest in research and development. That said, certain behaviour with respect to intellectual property may have anti-competitive effects, which competition laws can and do protect against. Applying competition law and intellectual property law in parallel requires a careful balance if they are to maintain their different functions. The doctrine of exhaustion is such an attempt, trying to limit the exclusive right granted to a proprietor. Under the doctrine, the first sale of a protected article gives the purchaser a right to use it, but it does not include the right to replicate the patented invention. This can also be expressed by saying that the purchaser has a right to repair his article, but does not have the right to reconstruct it. Even though the doctrine of repair and reconstruction seems straightforward, it is not always clear where the line should be drawn. Various courts have used different methods in reaching their conclusion, which might both have an impact on competition and affect the business strategy of right holders and third parties.

Allowing a broad interpretation of the repair doctrine will tend to increase consumer welfare while a narrower interpretation will allow the patentee to control the market, and to a large extent the competition. However, neither

the U.S. nor the EU have any legislation on the point nor are there absolutely clear-cut case law decisions. As a result corporations have created alternative contract law-based solutions by imposing post sale restrictions.

# Preface

With this thesis, I now conclude my University years.

The topic I have chosen for this thesis deals with the interaction between competition law and intellectual property right. I investigate the tensions between upholding free competition while at the same time providing sufficient patent protection to ensure that the patent proprietor enjoys the rights granted him. Where are the outer boundaries of exercising a patent protection, before it becomes anticompetitive?

The writing process was sometimes difficult and felt like a never-ending story. However, I could not have done it without the support and encouragement of everyone around me.

Gracious thanks to Professor Hans Henrik Lidgard, my supervisor, for all his help and for believing in me.

There are some special people, who have made the last five years possible. Mum, Dad, Ludwig, Albin and Maximilian, without their constant support none of this would have happened! I also would like to thank my friends for being there.

Once again: A thousand thanks!

# Abbreviations

BGH	Bundesgerichtshof
CPC	Community Patent Convention
CJEU	European Court of Justice
EEA	European Economic Area
EEC	European Economic Community
EU	European Union
IPR	Intellectual Property
UK	United Kingdom
U.S.	United States of America
TEC	Treaty Establishing the European Community
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
EPC	European Patent Convention
EPO	European Patent Office

# 1 Introduction

## 1.1 Background

*“Before [the patent regime], any man might instantly use what another had invented; so that the inventor had no special advantage from his own invention. The patent system changed this; secured to the inventor, for a limited time, the exclusive use of his invention; and thereby added the fuel of interest to the fire of genius, in the discovery and production of new and useful things.”<sup>1</sup>*

*Abraham Lincoln*

In this quote, Abraham Lincoln described the purpose of the United States’ (“U.S.”) patent legislation. The same considerations underlie the policy behind patent legislation in the European Union’s (“EU”) Member States and the European Patent Convention (“EPC”). Intellectual property law regulates the creation, use and exploitation of creative or mental labour. An inventor acquiring an IPR is thereby rewarded with the grant of a right to exclude third parties.

Nevertheless, upon the initial sale of the invention, the right to exclude becomes exhausted. The authorized sale of the protected product gives the purchaser a right to use the product for whatever purpose he or she chooses. What happens though, when the product breaks or becomes damaged? It might require repair or parts may need to be replaced. Are you, as the purchaser, allowed to perform the necessary maintenance or may part of that action exceed your right to use?

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<sup>1</sup> Abraham Lincoln, second lecture on discoveries and inventions, delivered to the Phi Alpha Society of Illinois College at Jacksonville, Illinois, February 11, 1859 in Vol. III *The Collected Works of Abraham Lincoln*, Roy P. Basler ed. (New Brunswick, N.J., Rutgers University Press, 1953) p 363. Available at <http://quod.lib.umich.edu/l/lincoln/>



The right to use that a purchaser acquires certainly does not include the right to reconstruct or “make” a new product. Refurbishment which constructs a new version of the article can trigger the exclusive right a second time though the distinction between permitted and prohibited actions is not always clear-cut. Competing interests must be balanced; on one hand those of the proprietor and on the other those of the purchaser.

In the EU and various national jurisdictions, the impact of patent protections, relating to repair, on competition law has not been explicitly provided for though this fundamental problem has been considered in certain trademark cases. The reasoning in these cases will be of interest as similar reasoning might one day be applied to patent law cases.

One of these cases is the Swedish case Soda-Club<sup>2</sup>. The case concerned the question whether refilling gas cylinders, which were part of a trademarked home carbonation system, was an unlawful act of trademark infringement. The defendant Vikingsoda AB (“Vikingsoda”), is a company whose main business consists of refilling used CO<sub>2</sub> gas cylinders, such as the ones the plaintiffs’ Soda-Club Ltd (Israel), Soda Club International BV (The Netherlands) and Empire Sweden AB (jointly referred to as “Soda-Club”) home carbonation systems. After discovering Vikingsoda’s practice, Soda-Club sued it for trademark infringement.

Interesting, however, was an unexpected turn of events, when Vikingsoda complained to the Swedish Competition Authority, accusing Soda-Club of abusing its dominant position (by not permitting anyone else to refill their gas bottles).<sup>3</sup>

The investigation raised many questions; should it be possible to contract out of the doctrine of exhaustion? Should a rights owner be allowed to

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<sup>2</sup> *Soda-Club (CO<sub>2</sub>) SA, Schweiz, Soda-Club International B.V, Nederländerna v Vikingsoda AB, Stockholm Tingsrätt 2010-02-05, Case no. T 17919-09, Injunction decision (“Injunction decision”).*

<sup>3</sup> Konkurrensverket dnr 632/2009, Decision 2012-03-02 (“Konkurrensverket dnr 632/2009”).

extend its IPRs in such a way that it excludes third parties from the market? Can the scope of an exclusive right be utilised [in this way] by a dominant undertaking to infringe competition law?

The answers to these questions will depend on various factors such as the definition of the scope of the IPR and how the doctrine of exhaustion is determined. The definition of whether an action is a permitted repair or a forbidden reconstruction will determine whether and how companies can use the scope of their IPRs to exclude competitors from the market. Expanding an IPR and accusing a user of infringement when he or she repairs his or her property can have an effect on competitive markets and consumer welfare.

## **1.2 Purpose**

The purpose of this thesis is to investigate, from a competition law perspective, under what circumstances a third party may lawfully repair a patent protected product and when service or repair constitute unlawful reconstruction which infringes intellectual property right.

## **1.3 Methodology**

The traditional legal dogmatic methodology will be used to analyse the currently applicable legislation and the relevant EU cases. The subject under investigation has been inadequately discussed so far; this method thus aims to provide an understanding of the present legal landscape in the EU and to clarify how to approach the distinction between repair and reconstruction. Most of the European cases on this subject have viewed it as primarily an IPR issue, and due to the territorial nature of IPR, they have rarely considered the international and, especially the EU perspective. It is therefore necessary to consider national as well as EU law if we wish to have a complete understanding of the legal landscape in the EU.

The legal dogmatic method will be complemented by a comparative study of the legal situation in the U.S.. This method will provide the reader with a more nuanced understanding of the problem and suggest possible future developments in the EU. However, in using this method, the main focus is on describing an alternative perspective on the different reasoning taken toward the same questions and on suggesting how the EU should approach the problem in the future.

Additionally, the thesis will also employ a law and economics perspective when investigating the consequences legal developments might have on the incentives to innovate and market new products. IPR and competition law aim toward a common goal, the promotion of innovation and the enhancement of consumer welfare. Does the current system effectively achieve these objectives or would a different approach be more suitable?

## **1.4 Material**

In this thesis, the relevant case law of both the European Court of Justice (“CJEU”) and of several Member States will be of central importance. A range of academic books, articles and academic writings will also be consulted in order to illustrate the debate regarding repair and reconstruction. Furthermore, official documents from EU sources concerning the application and interpretation of relevant legislation will be of relevance. The sources used for the comparative analysis will include relevant U.S. case law and legislation. Academic books, articles and academic writing will also be of importance here.

Material for this thesis is found in printed books and learned journals as well as on the Internet. Due to the lack of interest in this subject within the EU, some comments and “blogs” found on the Internet will be reviewed with a critical eye and used for the purpose of inspiration only. In regard to cases from Germany, secondary sources will be used because of lack of relevant language skills.

## 1.5 Delimitations

This thesis will investigate the interaction between competition law and IP regimes. IPR is a generic term for various property rights, such as patents, trademarks, copyright, trade names and indications of origin. This thesis does not aim to cover the whole IP field. When the term “IPR” is used, it will refer primarily to patent law. In chapter four, case law regarding trademark rights will also be reviewed. When this kind of right is discussed it will be expressly identified as such.

The first part of this thesis is devoted to a general presentation of competition law, IPR, the exhaustion doctrine and the concept of implied license, from which the reader will obtain some basic knowledge of these topics. A deeper discussion on the functioning of Article 101 and 102 (the competition law articles) of the Treaty on the Functioning of the European Union (“TFEU”) falls outside the scope of this thesis.

Owing to the limited amount of repair and reconstruction cases in the EU, these cases will be extensively discussed, as will some Member State cases. The examination of national case law has been limited to cases from Sweden, Germany and the United Kingdom (“UK”). Only decisions from the Supreme Court level will be considered. The reason these countries have been chosen is because of their well-developed systems of IP protection, which have emerged as a result of their interaction with a global economic society. Due to limited space, there is no room for any comprehensive discussion of the European Patent Office (“EPO”) and the EPC. For the same reason there will not be any examination of the relevant national legislation regarding IPR.

In order to present a comprehensive comparative picture, the extensive number of U.S. cases had to be scrutinised and limited. Therefore, only cases decided by the U.S. Court of Appeals for the Federal Circuit (“Federal Circuit”) and the U.S. Supreme Court will be addressed.

## 1.6 Outline

Chapter two and three will provide a general introduction to competition law and IPR and to the interface between these two areas of law. The situations in the EU and the U.S. will be investigated and a conclusion will be presented with respect to their different approaches. This part will also include a general overview of the principles comprising the exhaustion doctrine and the concept of an implied license.

Chapter four will explore the EU perspective on the problem of repair and reconstruction. An analysis of the case law and doctrine of the national jurisdictions selected will follow. In the concluding section, similarities and differences will be analysed in order to clarify the status quo in the EU.

Chapter five will discuss the U.S. perspective on repair and reconstruction. I aim to compile and synthesize the opinions of the different courts to obtain a sense of current developments.

Finally, I will conclude this thesis with some words on the issues discussed while highlighting the conclusions of each part. The respective strengths and weaknesses in the two legal orders will also be discussed here. I will try to review both the similarities and differences between the systems and their use of law and argument in order to apply a new perspective to the EU approach.

## 2 Competition Law and Intellectual Property Rights

Competition law and IPRs are two areas of law which are both central to economic development. It is, however, noteworthy that enforcement of IPRs may be anti-competitive since the very nature of IPR provides the holder with an exclusive market position.

Over the years, competition law has developed into one of the levers used in the EU to achieve the objective of a free internal market. The situation regarding IPRs is somewhat different. To a large extent the scope of IP protection is one for the Member States to decide. This chapter aims to provide an overview of the primary functioning of competition law and IPRs in the EU.

### 2.1 Competition Law: A General Introduction

The economic policy of the EU is based on the principle of an open market.<sup>4</sup> According to Protocol 27 of the Lisbon Treaty, the internal market includes a system ensuring that “competition is not distorted”<sup>5</sup>, therefore, it lies within the Unions exclusive competence to establish “the competition rules necessary for the function of the internal market”.<sup>6</sup>

The competition rules consist of a combination of EU legislation, national rules, and agreements with international organisations and third countries.<sup>7</sup> The two main Treaty articles used for pursuing the free competition aims of

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<sup>4</sup> Article 119 TFEU deals with Economic and Monetary policy and explains Article 3 Treaty on European Union (“TEU”) which contains the Union’s objectives. Article 119 of the Treaty on the Functioning of the European Union, OJ 2008 C 115/47 (“TFEU”).

<sup>5</sup> TFEU Protocol (No 27) On the Internal Market and Competition

<sup>6</sup> Article 3 (1)(b) TFEU “The Union Shall have the exclusive competence in the following areas:...(b) the establishment of the competition rules necessary for the function of the internal market.

<sup>7</sup> Hans Henrik Lidgard, *Part I, Competition Classics” Material & cases on European Law and Practice*, (Lund, Maria Magle Publishing, 2011) (“Competition Classics”), p. 33.

the Union are Articles 101 and 102 TFEU.<sup>8</sup> Article 101 TFEU prohibits agreements between undertakings which restrict competition and Article 102 TFEU prohibits abuses of a dominant position.<sup>9</sup> Both of them have direct effect in the Member States and on their citizens and the rules have been given meaning through a lengthy process of interpretation by the EU institutions<sup>10 11</sup>.

The EU competition policy serves one goal; to make sure that the market can operate as efficiently as possible to deliver the best outcomes for EU citizens.<sup>12</sup> Still, the *modus operandi* reflected in the Commission's enforcement efforts are not established in the Treaties<sup>13</sup> and has therefore been subject to much debate. A number of principles, such as enhancing efficiency, consumer welfare, the protection of small and medium sized companies and creating a single European market have been emphasised as goals of central importance.<sup>14</sup> Whatever principles are used to enforce the rules, EU competition law is autonomous and must be applied uniformly even if the application of other rights in the Member States may vary.<sup>15</sup> Today, however, consumer welfare is well established as the touchstone for the Commission's enforcement efforts. Its aim is to protect the market as a way of ensuring an efficient allocation of resources, in both static and dynamic terms.<sup>16</sup>

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<sup>8</sup> Renato Nazzini, *The Foundations of European Union Competition Law The Objectives and Principles of Article 102* (Oxford, Oxford University Press, 2011) ("Foundations of European Competition Law"), p. 2.

<sup>9</sup> Id.

<sup>10</sup> Namely the European Commission, and the Court of First Instance (now the General Court "CFI"), the European Court of Justice, (now the Court of Justice of the European Union) ("CJEU").

<sup>11</sup> Foundations of European Competition Law, Fn 8 supra, p. 11.

<sup>12</sup> Neelie Kroes, European Competition Policy- Delivering Better Markets and Better Choices, SPEECH/05/512, 15 September 2005, ("Kroes"), p. 2

<sup>13</sup> Foundations of European Competition Law, Fn 8 supra, p 3.

<sup>14</sup> Paul Craig & Gráinne de Búrca, *EU Law, Text, Cases, and Materials*, 5<sup>th</sup> ed. (Oxford, Oxford University Press, 2011) ("Craig & de Burca 5<sup>th</sup>"), pp 959-960.

<sup>15</sup> Jonathan D.C Turner, *Intellectual Property Law and EU Competition Law* (Oxford, Oxford University Press 2010) ("Turner"), p. 4.

<sup>16</sup> Roger J. Van den Bergh & Peter D. Camesasca, *European Competition Law and Economics: A Comparative Perspective*, 2d Ed. (London, Sweet & Maxwell, 2006) ("Van den Bergh & Camesasca"), p. 5.

## 2.2 Intellectual Property Rights: A General Introduction

Intellectual property is a generic term for different rights such as patents, trademarks, copyright, trade names and indications of origin, each of which, however, providing its creator with a right to a legal monopoly for a limited period.<sup>17</sup> Such protection is based on moral and ethical arguments giving creators natural and human rights over their labour.<sup>18</sup> From an economic point of view, the purpose of these rights is to protect creativity and to promote innovation.<sup>19</sup> The creator is given the possibility of recovering research and development costs invested and generally benefitting from his work.<sup>20</sup> Without an adequate system of rights providing such protection, there is a risk that free riders will undercut competition, drive the price of products down to marginal levels and deter investors from investing money in new products.<sup>21</sup>

The EU Treaties neither define nor mention the term “intellectual property”.<sup>22</sup> Despite that, Article 345 TFEU<sup>23</sup> refers to “property ownership” and Article 36 TFEU<sup>24</sup> uses the term “industrial and commercial property”. The competence for EU institutes to act in this field is very limited, since such competence largely belongs to the Member States.<sup>25</sup> That said, some harmonisation has taken place with the view to limiting the risk that national

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<sup>17</sup> Paul Craig & Gráinne de Búrca, *EU Law, Text, Cases, and Materials*, 3<sup>d</sup> ed. (Oxford, Oxford University Press, 2003) (“Craig & de Burca 3<sup>d</sup>”), p. 1088.

<sup>18</sup> Article 27 of The Universal Declaration of Human Rights stating everyone’s right to the protection of his scientific, literary or artistic production.

<sup>19</sup> Marianne Levin, *Lärobok i Immaterialrätt: Upphovsrätt, patenträtt, mönsterrätt, känneteckensrätt i Sverige, EU och internationellt*, 10th Ed. (Stockholm, Nordstets Juredik, 2011) (“Levin”), p. 51.

<sup>20</sup> Thorsten Käseberg *Intellectual Property, Antitrust and Cumulative Innovation in the EU and The US*, (Oxford, Hart Publishing Ltd., 2012) (“Käseberg”), p. 11.

<sup>21</sup> Id.

<sup>22</sup> Turner, Fn 15 supra p. 8.

<sup>23</sup> Article 345 TFEU states that the Treaties shall in no way prejudice the rules in Member States governing the system of property ownership.

<sup>24</sup> Article 36 TFEU lists the defences that could be used by Member States to justify national measures that impeded free movement of goods.

<sup>25</sup> Article 345 TFEU.



IP protections may generate obstacles to the creation or maintenance of the internal market.<sup>26</sup> Here primacy is given to the EU rules.<sup>27</sup>

In regard to patent right, there is no unified protection in the EU today, even if patent law is a very technical area of law and in a free economy, patent protection constitutes an important matter.<sup>28</sup> Indeed, there are two systems; the national patent system and the European patent protection granted by the EPO in accordance with the rules in the EPC (which all Member States are signatories to).<sup>29</sup> The EPC is however limited in scope and only provides a set of rules standardising national patent applications.<sup>30</sup> It does not create a single European patent system but only a single system controlling how patents are granted. Once a patent is granted under the EPC, it becomes a bundle of national patents, subject to the national rules of the states selected in the application.<sup>31</sup> Questions regarding infringement and the public interests are left to be decided by national legislation.<sup>32</sup>

Since the 1960s, there has been a wish to harmonise patent law and establish a truly Community patent. Attempts have been made to this effect but they all failed. As a result, the Commission issued a Green Paper on Community patents and the European patent system. After extensive consultation, the Commission adopted a Communication in 1999 as a follow-up to the Green

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<sup>26</sup> E.g: Directive 2008/95/EC of 22 October 2008 to approximate the law of the Member States relating to trade mark, Directive 98/71/EC of the European Parliament and Council of 13 October 1998 on the legal protection of designs, Directive 98/44/EC of the European Parliament and Council of 6 July 1998 on the legal protection of biotechnological inventions and Directive 2001/29/EC of the European Parliament and of the Council of May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society.

<sup>27</sup> Case 144/81 *Keurkoop BV v. Nancy Kean Gifts BV*, 14 September 1982 ([1982] ECR 2853, paras 18-20

<sup>28</sup> Hanns, Ulrich, *Patent Protection in Europe: Integrating Europe into Community or Community into Europe?*, Eur. L. J. (2002) ("Ulrich"), p. 434

<sup>29</sup> Id at pp. 435-436.

<sup>30</sup> Id at. p. 436.

<sup>31</sup> Vincenzo, Di Cataldo, *From The European Patent to a Community Patent*, 8 Colum. J. Eur. L 19 (2002) ("Di Cataldo"), p. 20

<sup>32</sup> Ulrich, Fn 28 supra, p. 457.

Paper. The aim was to announce various measures that the Commission was planning to take in order to make the patent system more attractive.<sup>33</sup>

The Lisbon Treaty opened up for further possibilities. Article 118 TFEU gives the Union power to “[T]o establish measures for the creation of European intellectual property to provide uniform intellectual property right protection throughout the Union[...].”<sup>34</sup> This thus makes it possible for the EU to establish a EU patent system. On 4 December 2009, the Council adopted conclusions on an “Enhanced patent system in Europe”.<sup>35</sup> The agreed package covers the elements needed to bring about a single patent system and establish a new patent court in the EU and it is expected to be adopted the future.

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<sup>33</sup> Commission of the European Communities COM (2000) 412 final of August 1, 2000, OJEC 2000 C E 337, 278, *Proposal for a Council Regulation on the Community patent*, (“Commission”), p. 5.

<sup>34</sup> Article 118 TFEU.

<sup>35</sup> Council of the European Union, 1766871710 REV 1, *Press release 2057th Council meeting, Competitiveness (Internal Market, Industry, Research and Space)*, (10 December 2010) (“Council meeting”), p. 9.

# 3 The Relationship Between Competition Law and Intellectual Property Rights

This chapter aims to give a more comprehensive view of the interaction between competition law and IP law. Applying competition law and IPR in parallel requires a careful balance if they are to maintain their different functions. The CJEU has tried to strike this balance with its doctrine of existence and exercise<sup>36</sup>; while in the U.S., the courts have chosen a different approach.

Competition law seeks to regulate the market and its participants, promote efficient market competition and a high level of economic performance. On the other hand, the essential feature of IPRs is the creation of protection against competitors by granting the rights holder an exclusive right.<sup>37</sup> IPR provide legal barriers against third parties entering the market, while the competition law serves to keep the market open.<sup>38</sup> At first sight, these two areas of law seem to be in conflict. One aims at what the other tries to prevent.<sup>39</sup> But on taking a closer look, one realizes that they both seek to create markets beneficial to the development of new and better technology, products and services going to consumer to lower price.<sup>40</sup> Together they are essential to enable truly undistorted competition.<sup>41</sup>

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<sup>36</sup> Joined cases 56 and 58-64, *Etablissements Consten S.a.R.L. and Grundig-Verkaufs-GmbH v Commission*, Judgment of 13 July 1966 [1966] ECR 299, (“Consten & Grundig”), p. 345.

<sup>37</sup> Levin, Fn 19 supra, p. 51.

<sup>38</sup> Käseberg, Fn 20 supra, p. 8.

<sup>39</sup> Turner, Fn 15 supra, p. 3.

<sup>40</sup> Richard Whish & David Bailey *Competition Law*, 7th Ed. (Oxford, Oxford University Press, 2012) (“Whish & Bailey”), pp. 769-770.

<sup>41</sup> Turner, Fn 15 supra, p. 3.

### 3.1 The EU

As mentioned above, competence with regard to IPR is to a large extent still the province of the Member States. Questions such as validity, existence and infringements are then limited to the territories where the relevant IPRs have been granted.<sup>42</sup> However, this division between the Member States and the EU should not be understood as an absolute prohibition on the Union institutions applying Community law to IPRs. If this were the case, it could lead to the destruction of the internal market with its concomitant free movement of goods. To avoid this problem, the CJEU created the doctrine of existence and exercise.<sup>43</sup> However, the doctrine in it self is vague, and provides no specific guidance. Therefore, to determine what circumstances exercise of an IPR is permitted under EU law, the CJEU developed the doctrine of “specific subject-matter”.<sup>44</sup>

Furthermore, the first cases<sup>45</sup> regarding existence and exercise were grounded on Article 36 EEC which governed the free movement of goods.<sup>46</sup> Only later was the doctrine incorporated into competition law. The court held, in the case of *Parker, Davis & Co.*<sup>47</sup>, that competition law was similar to the considerations governing the free movement of goods and could also be used to limit the exercise of an IPR.<sup>48</sup> The competition rules come into play when an IPR develops into a source of market power or when it restricts competition beyond what is justified by the protection of its

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<sup>42</sup> The Intersection of IPR and Competition Law: Studies of recent developments in European and U.S Law, Hans Henrik Lidgard & Jeff Atik Eds. (Gothenburg, Konkurrensverket, 2008) (“Lidgard & Atik”), p. 31, Available at [http://www.kkv.se/upload/Filer/Trycksaker/Rapporter/ovrigt/IPR\\_and\\_CompetitionLaw.pdf](http://www.kkv.se/upload/Filer/Trycksaker/Rapporter/ovrigt/IPR_and_CompetitionLaw.pdf).

<sup>43</sup> Ulf Maunsbach, “Swedish Soda Club Dispute- Competition Law and IPR Intersection” in *National Developments in the Intersection of IPR and Competition Law: from Maglite to Pirate Bay*, Hans Henrik Lidgard Ed. (Oxford, Hart Publishing, 2011) (“Maunsbach”), pp. 145-146.

<sup>44</sup> David T. Keeling, *Intellectual Property Rights in EU Law, V. I: Free Movement and Competition Law*, (Oxford, Oxford University Press, 2003) (“Keeling”), p. 66.

<sup>45</sup> Consten & Grundig Fn 36 supra; Case 78/70 *Deutsche Grammophon Gesellschaft, v Metro-SB Grossmärkte GmbH*, 8 June 1971 [1971] ECR 489 (“Deutsche Grammophon”).

<sup>46</sup> Today Article 36 TFEU.

<sup>47</sup> Case 24/67, *Parke, Davis & Co. v Probel, Rees, Beintema-Interpharm and Centrafarm*, 29 February 1968, [1968] ECR 55 (“Parker, Davis & Co.”)

<sup>48</sup> Id at p. 71.

“specific subject-matter”.<sup>49</sup> The reason for applying competition law in these situations results from concerns regarding the economic functions of the protection of intellectual property on the one hand and the prohibition of anti-competitive conduct on the other.<sup>50</sup>

Applying the principle of “specific subject-matter” can be a complex matter. In certain situations, a particular exercise will fall within the scope of the “specific subject-matter” and thus justified even if it may lead to a reduction of competition, while an exercise of an IPR that goes beyond the “special subject-matter” will almost always will be prohibited by competition law.<sup>51</sup> This relates to how the “specific subject-matter” is defined. The CJEU has held, in regard to patents, that:

[T]he special subject matter of the industrial property is the guarantee that the patentee, to reward the creative effect of the invention with a view to manufacturing industrial products and putting them into circulation for the first time ... as well as the right to oppose infringements.<sup>52</sup>

To put the CJEU’s solution in perspective, we will compare it with U.S. antitrust law where this topic has also been discussed.

## 3.2 The U.S.

The foundation of U.S. antitrust law is to a great extent similar to that of the EU although the U.S. Sherman Act seeks to promote competition while EU competition law seeks to promote a competitive environment. The U.S. authorities early recognised the necessity and importance of regulating both competition law and IPR.<sup>53</sup> As one of the only countries in the world to

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<sup>49</sup>Keeling, Fn 44 supra, p. 66.

<sup>50</sup>Turner, Fn 15 supra, p. 3.

<sup>51</sup>Maunsbach, Fn 43 supra, p. 146.

<sup>52</sup>Case 15/74 *Centrafarm BV v Sterling Drug Inc.* 31 October 1974 [1974] ECR 1148, (“Sterling Drug”), para 9.

<sup>53</sup>E.g. The Patent Act of 1790 (Ch. 7, 1 Stat. 109-112 [April 10, 1790]); Trade-Mark Act of 3 March 1881, ch. 138, 21 Stat. 502, “An Act to authorize the registration of trade-marks and protect the same.”

operate in such way, the patent statute and the copyright law are based on a section of the Constitution which empowers the U.S. Congress:

“[T]o...promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”<sup>54</sup>

The U.S. Supreme Court has the competence and is the ultimate authority for both IP law and antitrust legislation which permits a more systematic approach to the interaction problem than is the case in the EU (see the competence division between the Member States and the EU). In its work, the Supreme Court seeks to achieve a balance between adequate incentives for innovation and at the same time not undermine competition.<sup>55</sup>

Furthermore, what distinguishes the U.S. from the EU is its underlying policy in the sense that the U.S. have always been far more libertarian<sup>56</sup> and conflicts relating to the intersection of competition law and IPR are often balanced in favour of the IPR holder.<sup>57</sup> However, a key fact relevant to the differences between the U.S. and EU is that when the first U.S. antitrust legislation, the Sherman Act, was enacted in 1890, the U.S. already possessed an integrated market which thus did not need such high degree of encouragement and protection.<sup>58</sup>

In 1995, the U.S Department of Justice and the Federal Trade Commission (the “Agencies”) issued their joint Antitrust Guidelines for the Licensing of Intellectual Property<sup>59</sup> with the intention of clarifying the relationship between competition law and IP protection. The Guidelines embody three general principles: (a) for the purpose of antitrust analysis, the Agencies regard intellectual property as being essentially comparable to any other form of property; (b) the Agencies

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<sup>54</sup> Article I § Section 8 Clause. 8 of the United States Constitution

<sup>55</sup> Käseberg, Fn 20 supra, p. 251.

<sup>56</sup> Valentine Korah, *Intellectual Property Rights and the EC Competition Rules*, (Oxford, Hart Publishing, 2006) (“Korah”), p. 169.

<sup>57</sup> Global Competition Review: *The Antitrust Review of the Americas 2013*, p. 16, Available at <http://www.globalcompetitionreview.com/reviews/46/the-antitrust-review-americas-2013/>, (Last visit, 18 March, 2013),

<sup>58</sup> Korah, Fn 56 supra, p. 169.

<sup>59</sup> U.S. Department of Justice & the Federal Trade Commission *Antitrust Guidelines for the Licensing of Intellectual Property* (6 April 1995) (“Antitrust Guidelines for the Licensing of Intellectual Property”), Available at <http://www.justice.gov/atr/public/guidelines/0558.htm>

do not presume that intellectual property creates market power in the antitrust context; and (c) the Agencies recognize that intellectual property licensing allows firms to combine complementary factors of production and is generally pro-competitive.<sup>60</sup>

Certain practises with respect to IPR may have anti-competitive effects, which the antitrust law can and does review. IPRs are neither particularly free from scrutiny under antitrust law, nor particularly suspect under it. The same general antitrust principles apply when the conduct observed involves an IPR, as is applied to conduct regarding any other form of tangible or intangible property.<sup>61</sup> The Guidelines emphasize, however, that IPRs do still have special characteristics compared to other property and this should be accounted for when analysing their antitrust effects.<sup>62</sup> Failing to condemn an inefficient approach to IPRs could slow down innovation and economic growth. But not challenging illegal activities involving IPRs could have considerable negative consequence on both consumers and competition.<sup>63</sup>

### **3.3 The Doctrine of Exhaustion**

To maintain a dynamic market, it is imperative to limit the exclusive right granted to an IPR proprietor and, in order to achieve this, the doctrine of exhaustion was introduced. The general idea behind this doctrine is that an exclusive right extends only to the first sale of the protected article. After the first sale, the right holder can no longer control what happens with the article.<sup>64</sup> There are three different classification of exhaustion namely national, regional, and international. Depending on which of these types applied by a country or region will it have an effect on international trade.<sup>65</sup>

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<sup>60</sup> Id at p. 2.

<sup>61</sup> Id at p.3.

<sup>62</sup> Id at p. 3.

<sup>63</sup> Id at p. 2.

<sup>64</sup> Ivo Van Bael & Jean-Francois Bellis, *Van Bael & Bellis Competition Law of The European Community*, (The Hague, Kluwer Law International, 2005) (“Van Bael & Bellis”), p. 591.

<sup>65</sup> Frederick M. Abbot, “Intellectual property rights in world trade” in *Research Handbook in International Economic Law* Andrew T. Guzman & Alan O. Sykes, Eds. (Cheltenham, Edward Elgar Publishing 2007) (“Abbott”), p. 445.

In the EU, the doctrine of exhaustion was developed through the jurisprudence of the CJEU. The first case on the subject was *Silhouette*<sup>66</sup>, which clarified that in order for exhaustion to apply the product had to be placed on the market in the EEA<sup>67</sup> (regional exhaustion) by the proprietor himself or by an operator with economic links to him.<sup>68</sup> It was further developed in the *Peak* case<sup>69</sup> where the term “placed on the market” was interpreted. The Court emphasised that if the product in question, was to be regarded as having been placed on the market, it must actually be offered for sale if the exhaustion principle was to apply. The mere fact that the proprietor had imported the goods into the EEA area, with the intention of selling them there was not enough for the IPR to be regarded as exhausted.<sup>70</sup> The owner must have the actual opportunity to realize the economic value connected to the trademark.<sup>71</sup>

In the U.S., the exhaustion doctrine is often referred to as the “first sale doctrine” and has been a part of patent law since the late 1800’s. The basic principle follows those recited above.<sup>72</sup> However, in the U.S., it has long been questioned whether the doctrine can be limited. Since the application is triggered by an authorized sale by the patent rights holder, the question revolves around whether exhaustion can be avoided when the sale of the patented article is subject to conditions or restrictions.

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<sup>66</sup> Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, 16 July 1998 [1998] ECR I-4799. (“*Silhouette*”)

<sup>67</sup> The principles of Community exhaustion were extended to the EEA by Article 2(1) of *Protocol 28 on Intellectual Property* of the EEA Agreement, holding that the Contractual Parties shall provide for such exhaustion of intellectual property right as laid down in Community law and interpreted according to relevant ruling by the CJEU.

<sup>68</sup> *Silhouette*, Fn 66 supra, para. 31.

<sup>69</sup> Case C-16/03, *Peak Holding AB v Axolin-Elinor AB, formerly Handelskompaniet Factory Outlet i Löddeköpinge AB*, 30 November 2004 (Grand Chamber) [2004] ECR I-11313, (“*Peak*”.)

<sup>70</sup> *Id* at para. 44.

<sup>71</sup> *Id* at para. 40.

<sup>72</sup> Mineko Mohri, *Maintenance, Replacement and Recycling - Patentees' Rights in the Aftermarkets. Germany, the U.S. and Japan* (Munich, Herbert Utz Verlag, 2010.) (“*Mohri, (1)*”), p. 46.



### 3.4 Implied License

In both the UK and the U.S., the courts have long recognised the possibility of imposing post-sales restrictions, such as tying arrangements, field of use restrictions, duration or numbers of uses restrictions. Through an implied license, the patentee will try to control the product's future and integrity while limiting the application of the doctrine of exhaustion.<sup>73</sup> The concept is often used as an instrument to facilitate an objective standard of reasonability into the contractual relationship.<sup>74</sup> It is applicable to situations where the patented products were first sold in a country outside the jurisdiction reviewing the purported infringement as well as to situations where the question of repair and reconstruction is at issue.<sup>75</sup>

Situations regarding implied license are similar to the one concerning the exhaustion doctrine. Purchasing a product with an implied license still gives the buyer an implied right to use and resell the product but there is an important difference; the doctrine of exhaustion stems from the inherent limits on the IP grant, while an implied license is a quasi-contract that depends upon the beliefs and expectations of the parties to the transaction.<sup>76</sup> Additionally, infringement founded under the doctrine of exhaustion is often totally focused on the product sold while an accusation of infringing under an implied license may result from the conduct of the patentee.<sup>77</sup>

The concept of an implied license was exported into the field of IPR, especially into patent law, with the intention of introducing a degree of reasonableness and order into the enforcement process.<sup>78</sup> However,

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<sup>73</sup> Christina M. Sperry, Note: *Building A Mystery: Repair, Reconstruction, Implied Licenses, and Hewlett-Packard Co. v. Repeat-O-Type Stencil Manufacturing Corp.* 5 B. U. J. Sci. & Tech. L. 9. (1999) ("Sperry"), para. 3.

<sup>74</sup> Orit Afori, Implied License: An Emerging New Standard in Copyright Law, 25 Santa Clara Computer & High Tech. L.J. 275, (2009) ("Afori"), p. 284.

<sup>75</sup> Mark A. Lemley & Julie E. Cohen, *Patent Scope and Innovation in the Software Industry*, 89 Cal. L. Rev. 1, (2001) ("Lemley"), p. 33.

<sup>76</sup>Id at p. 31.

<sup>77</sup> Amber Hatfield Rovner, *Practical Guide to Application of (or Defense Against) Product-Based Infringement Immunities Under the Doctrines of Patent Exhaustion and Implied License* 12 Tex. Intell. Prop. L. J. 227, (2004) ("Rovner"), p. 246

<sup>78</sup> Id at p. 276.

enforcement of an implied license can sometimes be problematic. In order to establish the scope and extent of the license the courts need to consider different aspects,<sup>79</sup> such as the reasonable expectations of the parties<sup>80</sup> and the relevant circumstances of each case.<sup>81</sup>

In the EU the concept of implied license has been a matter for the CJEU to rule on. In *Davidoff*<sup>82</sup>, the owner of the mark Davidoff COOL WATER had sold products to a company in Singapore. Even though the mark's owner instructed that the product was to be sold only in Asia it was later reimported into the UK.<sup>83</sup> The defendant argued that the owner had consented to re-importation and by that had also exhausted its exclusive rights internationally.<sup>84</sup>

From a continental internal European perspective, this case would be easy to determine, following the doctrine of exhaustion. The rights holder had neither by itself nor through any economically linked operator placed the product on the EEA market. Yet from a Common Law perspective, it was not that simple.<sup>85</sup> The High Court of Justice of England and Wales decided to refer the matter to the CJEU for a preliminary ruling asking how to interpret “with [the proprietor’s] consent” in Article 7(1) of the Trademark Directive<sup>86,87</sup>. Did the consent have to be express or could be indirectly understood?

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<sup>79</sup> Mark D. Janis, *A Tale of the Aprocypal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law*, (1999) (“Janis”), p. 496.

<sup>80</sup> Afori, Fn 74 supra, p. 284.

<sup>81</sup> Janis, Fn 79 supra, p. 497.

<sup>82</sup> Joined cases C-414/99 to C-416/99, *Zino Davidoff SA and Others v Tesco Stores Ltd and Others*, 20 November 2001 [2001] ECR I-8691 (“Davidoff”).

<sup>83</sup> *Id* at paras. 9-12.

<sup>84</sup> *Id*.

<sup>85</sup> Hans Henrik Lidgard, *Samtyckes betydelse vid interntionell varumärkerkonsumtion – EG-domstolens avgörande i “Davidoff-fallet”*, NIR, Nordiskt Immateriellt Rättsskydd, 2002, Nr. 1 pp. 3-15 (“Davidoff-fallet”), p. 6.

<sup>86</sup> First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks OJ 1989 L 40/1.

<sup>87</sup> *Davidoff* Fn 82, para. 16.

The CJEU started off with emphasising that the termination of a proprietor's exclusive rights is a serious matter with respect to which consent must be clear. Consequently, the consent of the proprietor to giving up its exclusive rights must be unequivocally demonstrated. It can be express but it is also possible to derive the existence of implied consent from facts and circumstances prior to, simultaneous with, or subsequent to, the placing of the goods on the market outside the EEA, clearly demonstrating that the proprietor has indeed renounced his rights.<sup>88</sup> Significantly, there must be no doubt as to what the proprietor meant.<sup>89</sup>

This case concerned a trademark right; however, these same principles also apply to an implied license on a patented product. A patentee can restrict the product's use through the instrumentality of an implied license as long as the lack of consent to exhaustion is unequivocally demonstrated. However, this may affect other areas of law, as we will see in chapter four.

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<sup>88</sup> Id at paras. 45-46.

<sup>89</sup> Id at paras. 45-46.

## 4 Repair and Reconstruction

The scope of a patent's protection determines the extent of what the proprietor can claim as his exclusive right. If one without any right to a patent puts the technology to commercial use that falls within a patent's claims, they will infringe the patent.<sup>90</sup>

This chapter aims to define what practices are allowed, after the purchase of a patented product, in order to maintain it in working condition without committing an infringement. The distinction between repair and reconstruction will be examined from EU and U.S. perspectives. It will also investigate how this definition can or will effect competition law.

When a buyer legally purchases a patented product, he or she acquires the right to use it, which includes the opportunity to sell, repair or otherwise dispose it. Notwithstanding that the patentee's exclusive right is exhausted by the first sale, specific maintenance actions may trigger the protection even after the purchase. Knowing which actions of refurbishment are permitted and which not is difficult. The distinction between permitted repairs and unpermitted reconstructions often depends upon the facts of the specific case.<sup>91</sup> However, a rule of thumb may be derived from the case law; "repair" does not include a complete reconstruction of a worn-out product.<sup>92</sup>

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<sup>90</sup> Vladimir Bastidas Venegas, *Promoting Innovation?: A Legal and Economic Analysis of the Application of Article 101 TFEU to Patent Technology Transfer Agreements*, Doctoral Thesis (Stockholm, Department of Law, Stockholm University 2011), pp. 104-105. Available at: <http://su.diva-portal.org/smash/record.jsf?pid=diva2:447368> (Last visit 11 May 2013.)

<sup>91</sup> Mineko Mohri, "Repair and Recycle as Direct Patent Infringement?" in *Spares, Repairs and Intellectual Property Rights*, Christopher Heath & Anselm Kamperman Sanders Eds (Alphen aan den Rijn, Kluwer Law International, 2009) ("Mohri, Repair and Recycle") pp. 59-60.

<sup>92</sup> Id at pp. 59-60.

## 4.1 The Approach and Method Developed in the EU

As mentioned above, patent law remains an unharmonised area in the EU.<sup>93</sup> However, intellectual property law issues concerning unpermitted uses, violations of proprietors' rights and control of secondary markets have been addressed in a Union trademark case.<sup>94</sup>

The *Viking Gas* case was referred to the CJEU by the Supreme Court of Denmark, which sought an answer to the question:

[W]hether and, if so, in which circumstances, the holder of an exclusive licence for the use of composite gas bottles intended for re-use, the shape of which is protected as a three-dimensional mark and to which the holder has affixed its own name and logo that are registered as word and figurative marks, may prevent, pursuant to Articles 5 and 7 of Directive 89/104, those bottles, after consumers have purchased them and consumed the gas initially contained in them, from being exchanged by a third party, on payment, for composite bottles filled with gas which does not come from the holder of that licence.<sup>95</sup>

Plaintiff, Kosan Gas A/S (“Kosan Gas”), the holder of an exclusive licence holder, sold and produced so-called composite bottles which held carbon dioxide gas (lightweight bottles).<sup>96</sup> The shape of those gas bottles was registered as a three-dimensional Community trademark and as a Danish three-dimensional trademark in connection with gaseous fuels and containers used for liquid fuels.<sup>97</sup> When a consumer first purchases a bottle from Kosan Gas, the consumer pays for the gas as well as for the bottle, which then become the consumer's property. A consumer may therefore exchange the bottle, at one of the Kosan Gas's dealers, for a new bottle filled by Kosan Gas and will then only have to pay the price of the gas.<sup>98</sup>

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<sup>93</sup> See Chapter 2.2.1 EU legislation

<sup>94</sup> Case C-46/10 *Viking Gas A/S v. Kosan Gas A/S, formerly BP Gas A/S* 14 July 2011 [2011] ECR n.y.r. (“Viking Gas”).

<sup>95</sup> Id at para. 15. (Directive 89/104 is now Directive 2008/95/EC of the European Parliament and the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks OJ 2008 L 299/25.)

<sup>96</sup> Id at paras. 8-9.

<sup>97</sup> Id.

<sup>98</sup> Id at para. 10.

Viking Gas entered the market, offering a service under which consumers could have a onetime exchange of their existing composite bottle in return for a full one.<sup>99</sup> Viking Gas attached its labels to those bottles along with information regarding the gas filling stations and with a further label providing, inter alia, information requested by law. The name and the figurative mark of Kosan Gas were neither removed nor covered.<sup>100</sup> Upon learning of Viking Gas' actions, Kosan Gas sued Viking for trademark infringement.

Kosan Gas submitted that the doctrine of trademark exhaustion did not extend as far as to authoring Viking Gas to refill for sale Kosan Gas trademarked bottles with gas that it supplied. The doctrine only prevents a trademark owner from prohibiting resale of such composite bottles when it contained the original gas and could not be interpreted so that it related to reuse of their packaging, since the packaging is not a product. Even if allowing the broader sense of exhaustion would mean that a competitor was only permitted to reuse the packaging but not substitution the product (the gas), for refilling with Viking Gas' own product.<sup>101</sup>

Viking Gas took a contrary view, holding that full exhaustion of the trademark occurred when the consumer first bought the product, the bottle, from Kosan Gas. The right conferred on the proprietor of a trademark cannot be extended to the point where the purchaser of that product is prevented from using it for the purpose for which it was originally placed on the market.<sup>102</sup> In addition, Kosan Gas had previously sold gas in other bottles for years. Those bottles had not been registered as shape trademarks, but like the composite bottles, they bore the word and figurative marks of Kosan Gas. Viking Gas submitted that Kosan Gas had accepted, and continued to

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<sup>99</sup> Id at para. 11.

<sup>100</sup> Id.

<sup>101</sup> Id at para. 20.

<sup>102</sup> Id at para. 17.

accept, the fact that other firms refilled those types of bottles although they bore Kosan Gas' name and logo.<sup>103</sup>

First, the CJEU pointed out that the composite bottles, which were intended for re-use, could not be regarded as packages of the original product. The price paid by the consumers when they first purchased this special type of bottle was not only for the gas but also included the bottle itself (whose price was higher than that of other kinds of gas bottles). This indicated that the bottle itself had an economic value, which permitted the proprietor to realise the economic value of the trademark. In previous case law<sup>104</sup> the Court has held that a sale which allows the realisation of the economic value of a trademark, exhausts the exclusive right of the proprietor. Consumers have a legitimate interest in refilling and reusing the gas bottle a number of times in order to recoup the value of their initial investments.<sup>105</sup>

The CJEU stressed the importance of striking a balance between the legitimate interests of the parties involved. On the one hand, the interests of the proprietor of the trademark; on the other, the interests of purchasers including their interest in fully enjoying their property right, and the general interest in maintaining undistorted competition.<sup>106</sup> Finally, the Court held that:

[T]o allow the licensee of the trademark right constituted by the shape of the composite bottle and proprietor of the marks affixed to the bottle to prevent, on the basis of the rights related to those marks, the bottles from being refilled would unduly reduce competition on the downstream market for the refilling of gas bottles, and would even create the risk of that market's being closed off if the licensee and proprietor were to succeed in imposing its bottle because of its specific technical characteristics, the protection of which is not the purpose of trademark law.<sup>107</sup>

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<sup>103</sup> Id at para. 12.

<sup>104</sup> Peak, Fn 69 supra.

<sup>105</sup> Id at paras. 30-32.

<sup>106</sup> Id at para. 31.

<sup>107</sup> Id at par. 34.

## 4.2 The Approaches and Methods Developed in the National Courts

### 4.2.1 Sweden

As mentioned above, the distinction made between repair and reconstruction is generally a matter of national IP law, rather than EU competition law. That said, the Swedish Patent Act<sup>108</sup> does not contain any provision explicitly detailing what constitutes permitted uses of patented products. Rather, principles and case law provide the answer.<sup>109</sup>

The opportunity to clarify the fundamental problems concerning the intersection between competition law and IPR was recently given to the Stockholm District Court in the *Soda-Club* case<sup>110</sup>. The facts of the case are very similar to the once in *Viking Gas*, although here, the proceedings were launched by the Competition Authority, which had initiated its own investigation.<sup>111</sup>

The plaintiff, Soda-Club, is one of the world's largest manufacturers, distributors and marketers of home carbonation systems and owns several Union registered trademarks.<sup>112</sup> On the first purchase of a home carbonation system from a Soda-Clubs dealer, the purchaser receives a starter package containing a full CO<sup>2</sup> gas cylinder with the trademark SODA-CLUB engraved upon it.<sup>113</sup>

The defendant, Vikingsoda, is a company seeking to become established on the Sweden gas refill market.<sup>114</sup> In order to achieve this, it initiated a collaboration with a leading German company, from which it purchased used gas cylinders. The majority of those cylinders were labelled with the

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<sup>108</sup> Patentlagen (1967:837).

<sup>109</sup> Levin, Fn 19 supra, p. 65.

<sup>110</sup> Injunction decision, Fn 2 supra.

<sup>111</sup> Konkurrensverket dnr 632/2009, Fn 3 supra.

<sup>112</sup> Injunction decision, Fn 2 supra, p. 2.

<sup>113</sup> Injunction decision, Fn 2 supra, p. 3.

<sup>114</sup> Id.



trademark SODA-CLUB.<sup>115</sup> Vikingsoda contracted with the German company to refill the cylinders and re-mark them with the Vikingsoda logo, an operation that required the removal of the original SODA-CLUB label.<sup>116</sup>

When Soda-Club became aware of Vikingsoda's conduct, they commenced proceedings before Stockholm District Court, seeking to thereby establish Vikingsoda's infringement of their Union trademarks.<sup>117</sup>

Vikingsoda objected by stating that Soda-Club had, by placing the bottles on the market, exhausted their trademark rights as a result of which, there was no infringement. The re-labelling and co-branding of the cylinders was thus equally not an act of infringement and, incidentally, did not give an impression of a commercial connection between the two companies.<sup>118</sup>

In response, Soda-Club produced its license agreement in order to demonstrate that the ownership of the cylinders had never been transferred to the consumers and therefore their trademark right had never been exhausted. According to this argument the cylinders had never been placed on the market.<sup>119</sup>

The District Court issued an injunction and imposed a fine directed against both the use of Soda-Club's trademark and the removal of its label on the gas cylinders.<sup>120</sup> While proceedings were pending before the court, Vikingsoda complained to the Swedish Competition Authority alleging Soda-Club's had abused its dominant position.<sup>121</sup> The court then decided to halt the proceedings pending the conclusion of the Competition Authority's investigation.

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<sup>115</sup> Id.

<sup>116</sup> Id.

<sup>117</sup> Id at pp. 3-4.

<sup>118</sup> Id at p. 4.

<sup>119</sup> Id at p. 3.

<sup>120</sup> Id at p. 8.

<sup>121</sup> Konkurrensverket dnr 632/2009, Fn 3 supra.

Vikingsoda requested that the Competition Authority deliver a decision which would have the effect of terminating Soda-Club's abuse of its dominant position, primarily on the refilling market. The claimed abuse consisted of:

- Imposing unfair and anticompetitive contract terms on retailers,
- Restricting consumers' use through the license agreement,
- Threatening to take legal action against independent refilling companies.<sup>122</sup>

According to Vikingsoda, the effects of these courses of conduct made it almost impossible for an independent refilling company to establish itself on the market.<sup>123</sup>

The Competition Authority's began its investigation by clarifying that Soda-Club could be presumed to hold a dominant market position by virtue of its 80% market share of the distribution market in home carbonation systems and its 60-70% share of the gas refilling market.<sup>124</sup>

Through the license agreement Soda-Club reserved title to its cylinders in order to ensure that no one, except Soda-Club, was permitted to refill them. Soda-Club agreed that the license limited competition, in regard to its own cylinders, but that this in no way amounted to abuse of dominance. Resellers were in no way hindered from introducing a competing product and consumers are not hindered from using competing cylinders.<sup>125</sup> It argued that even if there had been a restriction of competition, the behaviour was justified for objectively necessary reasons based on regulatory requirements and consumer safety. The Competition Authority did not accept this defence holding that it was not for Soda-Club to assess the requirements since they are the responsibility of the competent authority.<sup>126</sup>

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<sup>122</sup> Injunction decision, Fn 2 supra, p. 2.

<sup>123</sup> Id at pp. 2-3.

<sup>124</sup> Konkurrensverket dnr 632/2009, Fn 3 supra, p. 6.

<sup>125</sup> Id at pp. 6-7.

<sup>126</sup> Id at p.4.

Moreover, the Competition Authority went on to determine whether Soda-Club's behaviour could amount to tying behaviour. Soda-Club sold their cylinders along with a requirement that they were the only company permitted to refill them. This behaviour had the effect that independent companies were not able to penetrate the market. This in turn led to depriving consumers of the advantage of increased competition. If distributors entering the market were required to sell competing products, they would be forced to introduce parallel systems to ensure that the correct cylinders were returned to the proper manufacturers. This would lead to increased overall costs for both distributors and the customers. Enforcing a system such as this would constitute an abuse of a dominant position.<sup>127</sup>

Considering all the above stated facts, the Competition Authority's preliminary investigation indicated that Soda-Club's actions on the market might be contrary to Chapter 2 §7 of the Swedish Competition law<sup>128</sup> in combination with Article 102 TFEU. They determined that if Soda-Club's behaviour was regarded as in accordance with trademark law, this would rule out any competitor's ability to challenge Soda-Club's dominance. Soda-Club had, through its license and distribution agreements, acted in a way that clearly appeared to be contrary to the competition rules. The fact that consumers and the distributors were not *de facto* prohibited from setting up parallel system does not change that conclusion.<sup>129</sup> Soda-Club's conduct could therefore have the effect of closing the refilling market since the opportunity to refill was no longer available to other firms. When the court rules on the question of trademark infringement, it must, according to the Competition Authority take into account that Soda-Club may have violated the provisions of the competition rules. The Competition Authority was not convinced that the District Court had taken sufficient account of this relationship in its initial decision.<sup>130</sup>

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<sup>127</sup> Id at p. 8.

<sup>128</sup> Konkurrenslagen (2008:576), Chapter 2 §7 prohibits abuse of a dominant position.

<sup>129</sup> Id at p. 9.

<sup>130</sup> Id at p. 10.

In June 2012 the District Court delivered its judgment, still holding that Vikingsoda’s business activities were not to be permitted. In regard to the competition law aspect, the District Court held that this could not affect its assessment under trademark law.<sup>131</sup>

## 4.2.2 The UK

Section 60 of the UK Patent Act 1977<sup>132</sup> sets out the framework for what may constitute a direct patent infringement. Under Section 60(1) (a) of the Act, patent infringement occurs when a person, without the consent of the proprietor, “[M]akes, disposes of, offers to dispose of, uses or imports the product or keeps it whether for disposal or otherwise.” The Act is in conformed with the provisions in the EPC, which must be to applied consistently across all signatory states.

The meaning of the word “makes” has been interpreted in several cases, which confirmed that the term is to be treated as quite distinct from “repair”. Under UK law, repairing a patented product is not an infringement in the sense of “making” a new product; however it is not an independent right enforceable by expressed or implied license.<sup>133</sup>

Under an early UK case, *Solar Thomson Engineering Co. Ltd. v. Barton*<sup>134</sup>, the right to repair was held to be grounded on an implied license. The Court explained that the implied license included a right to repair, but did not extend to making a new product.<sup>135</sup> It also confirmed that if a purchaser of a patented article was permitted to repair it, he must be allowed to repair parts

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<sup>131</sup> Soda-Club (CO2) SA, Schweiz, Soda-Club International B.V. Nederländertna v Vikingsoda AB, Stockholms Tingsrätt, Case no. 2012-06-15 T 17919-09, Decision (Tingsrättesn Decision“.)

<sup>132</sup> Patents Act 1977, 1977 c. 37 ("UK Patents Act".)

<sup>133</sup> Ester Derclaye, “Repair and Recycle between IP Rights, End User Agreements and Encryption”, in *Spare, Repairs and Intellectual Property Rights*, Christopher Heath & Anselm Kamperman Sanders Eds (Alphen aan den Rijn, Kluwer Law International, 2009) (“Derclaye”) p. 28.

<sup>134</sup> *Solar Thomson Engineering Co. Ltd. and Another v Barton* [1977] R.P.C. 537(CA (Civ Div) March 17, 1977.)

<sup>135</sup> *Id* at p. 557, (Per Buckley, L.J)

crucial to the functioning of the patented article.<sup>136</sup> However, in 1977 the UK replaced the Patent Act of 1949, with the Patent Act 1977 to make UK law more in line with the EPC. With this change, the reasoning in the case law also changed as was reflected in *United Wire* case.<sup>137</sup> Here, United Wire Ltd. owned patents for heavy-duty screen used to recycling drilled mud. The screen consisted of two main parts: a frame, supporting the filter, and a filter mesh. The defendant was in the business of reconditioning worn out frames and fitting them with brand new meshes.<sup>138</sup> These activities were alleged to infringe United Wire's patents.<sup>139</sup>

The defendant claimed that even if the product they sold was a screen in line with the plaintiff's invention, this was not an infringement. The activity they performed was no more than a repair of the screen that had been marketed with the consent of United Wire. Therefore through the marketing of the screen United Wire's exclusive right was exhausted and anyone who purchases a screen could prolong its life by repair regardless of whatever the plaintiff's implied license contained.<sup>140</sup>

Lord Hoffman, who gave the leading speech of the House of Lords, agreed with the Court of Appeal. The Court of Appeal had found that the concept of an implied licence was not useful.<sup>141</sup> It held that the focus should rather be on whether the defendant had "made" the product within the meaning of section 60 (1) (a) of the UK Patent Act.<sup>142</sup> Lord Hoffman continued by stating:

It is quite true that the defendants prolonged the useful life of the frame. It would otherwise presumably have been scrapped. But the screen was the combination of frame and meshes pre-tensioned by attachment with adhesive according to the invention. That product ceased to exist when the meshes were removed and the frame stripped down to the bare metal. What remained at that stage was

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<sup>136</sup> Id at p. 555, (Per Buckley, L.J.)

<sup>137</sup> *United Wire Ltd v. Screen Repair Services (Scotland) Ltd.* [2001] F.S.R. 24 (CA Civ Div July 20 2000) ("United Wire".)

<sup>138</sup> Id at para. 12.

<sup>139</sup> Id at paras. 8-10.

<sup>140</sup> Id at para. 13.

<sup>141</sup> Id at paras. 14-15.

<sup>142</sup> Id at para. 15.

merely an important component, a skeleton or chassis, from which a new screen could be made.<sup>143</sup>

The defendant had, therefore, infringed the patent.

In March of this year the UK Supreme Court<sup>144</sup> delivered its judgment in *Schütz*<sup>145</sup>, which it distinguished from *United Wire* case.<sup>146</sup> Here the appellant, Werit, sold bottles for intermediate bulk containers (“IBC”) used to transport liquids to a reconditioner Delta Containers Limited (“Delta”).<sup>147</sup> Delta acquired IBCs originally sold by plaintiff Schütz, and replaced the Schütz bottles with Werit bottles, which it fitted into the IBC’s.<sup>148</sup> Schütz alleged that the re-bottling by Delta constituted patent infringement by way of “mak[ing]” under Section 60(1) (a) of the 1977 UK Patent Act.<sup>149</sup> Schütz filed a proceeding against Werit seeking relief on the ground that Werit had infringed its patent. It was held to be common ground that if Delta infringed the patent, so did Werit. These allegations were met by Werit’s denial of any infringement.<sup>150</sup> When the case reached the Supreme Court, the only relevant question was whether Delta had infringed the patent by “making” as defined by under Section 60(1) (a).<sup>151</sup>

The Court commenced by making it clear that the interpretation of Section 60(1) (a) and the word “makes” must be a matter of the facts of the case at hand.<sup>152</sup> Moreover, as the 1977 Act was intended to conform with the provisions in the EPC, it was important that the Court followed the approach established by courts in other signatory states, such as Germany. The Court

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<sup>143</sup> Id at para. 21.

<sup>144</sup> The Supreme Court replaced the Appellate Committee of the House of Lords as the highest court in the UK. It was established by Part 3 of the Constitutional Reform Act 2005 and came into force 1 October 2009.

<sup>145</sup> *Schütz (UK) Limited v Werit (UK) Limited*, [2013] UKSC 16 (Civ.); [2013] All E.R. 177 (Appeal taken from Eng.) (“Schütz”.)

<sup>146</sup> Id at para. 12.

<sup>147</sup> Id.

<sup>148</sup> Id.

<sup>149</sup> Id at paras. 13-14.

<sup>150</sup> Id at para. 19.

<sup>151</sup> Id at para. 20.

<sup>152</sup> Id at paras. 25-26.

reviewed four decisions of the German Supreme Court<sup>153</sup>, one of them reviewing the same claim in the German equivalent of the *Schütz* patent.<sup>154</sup> In addition, the Court compared them with the facts of the *United Wire* case.<sup>155</sup>

As mentioned above, the Court stressed that it would be a matter of fact and degree, to be assessed in each case as to whether replacing a worn or damaged part of a patented article amounted to “making”.<sup>156</sup> In order to determine whether Delta “made” a new article the Court performed a multifactor analysis. It included factors such as the lifetime of the IBC compared to that of the bottle, the expectation whether it would be replaced and the inventive step involved.<sup>157</sup> Weighing the various factors, the Court reached the conclusion that by replacing the bottle in the IBC, Delta did not “make” an article identical to the one claimed in the patent. Accordingly, Werit was held not to have committed patent infringement.<sup>158</sup>

The important difference between the two cases, *United Wire* and *Schütz*, is the relationship between the replaced part and the inventive step.<sup>159</sup> In *United Wire*, the Court held that the original product ceased to exist when the wire meshes were removed since the inventive concept largely resided in, or was closely connected to, the replaced part. In *Schütz*, however, there were two products which were distinguishable from each other. The bottle that was replaced could not be said to be included in any aspect of the inventive step. The Court therefore concluded that if the part replaced during the repair represented the inventive step of the patented product, or

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<sup>153</sup> Federal Supreme Court (“BGH”) 17 July 2012 Case No. X ZR 97/11 – *Palettenbehälter II*, *Schütz v. Mauser*, BGH 4 May 2004 Case No. X ZR 48/03 – *Flügelradzähler*, BGH Case X ZR 45/05 – *Laufkranz* and BGH 27 February 2007 Case No. X ZR 38/06 GRUR 769 – *Pipettensystem*.

<sup>154</sup> *Schütz*, Fn 145, at paras 37-47.

<sup>155</sup> *Id* at para. 55.

<sup>156</sup> *Id* at para. 58.

<sup>157</sup> *Id* at paras. 61-70.

<sup>158</sup> *Id* at para. 77.

<sup>159</sup> UK Patent Act Article 1 (1) “A patent may be granted only for an invention in respect of which the following conditions are satisfied, that is to say- ... (b) it involves an inventive step....” Article 3 “An invention shall be taken to involve an inventive step if it is not obvious to a person skilled in the art, having regard to any matter which forms part of the state of the art ....”

was closely connected to it, these actions would most likely constitute “making” of the product.

### 4.2.3 Germany

The German Patent Act, Patentgesetz, § 9 (1)<sup>160</sup> corresponds in large part to the UK Patent Act Section 60(1) (a), which is explained by Germany also being a signatory of the EPC. Under Section 9, the right to repair a patented product is included in the right to use and it has therefore, often been addressed under the general principle of exhaustion which has been considered in several cases.<sup>161</sup>

In *Flügelradzähler*<sup>162</sup> the German Supreme Court, Bundesgerichtshof (“BGH”) distinguished an admissible repair from a prohibited reconstruction, holding that the differences could only be determined in the light of the particular nature of the subject matter of the invention involved.<sup>163</sup> The Court held that disputes of this kind required a careful balancing between the patentee’s interest in exploiting its invention and the purchaser’s right to use.<sup>164</sup>

Like the U.K court in *Schütz*, the BGH stated that the important question is whether the identity of the reconstructed article is maintained despite the replacement of parts or whether the measures constitutes the “making” of a new product. The more the technical and/or economic advantages of the invention that is realized in the replacement, the more likely such replacement represents an inadmissible reproduction that is not covered by the right to use. However, the owner of a patented product needs to be

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<sup>160</sup> Patentgesetz Article 9 (1) “ [A] patent shall have the effect that the patentee alone shall be authorized to use the patented invention. A person not having the consent of the patentee shall be prohibited from making, offering, putting on the market or using a product which is the subject matter of the patent or importing or stocking the product for such purposes ...”. (unofficial translation)

<sup>161</sup> Mohri (1), Fn 72 supra, p. 78.

<sup>162</sup> BGH 4 May 2004 Case No. X ZR 48/03 – *Flügelradzähler*.

<sup>163</sup> Mohri (1), Fn 72 supra p. 78.

<sup>164</sup> Toshiko, Takenaka, *Patent Law and Theory: A Handbook of Contemporary Research*, Toshiko Takenaka Ed (Cheltenham, Edward Elgar Publishing Ltd, 2008) (“Takenaka”), p. 489.



permitted to replace parts if the parts exchanged are commonly expected to be replaced during the product's lifetime<sup>165</sup> although such an act will still not be permitted if the technical effect of the invention is precisely reflected in the replaced part.<sup>166</sup>

The BGH developed this reasoning in its *Pipettensystem* case.<sup>167</sup> The plaintiff in this case manufactured and sold a patent covered pipette system containing a recyclable hand pipette and a syringe. The invention allowed easy coupling and separation of the syringe from the pipette, without the need to touch it (thus avoiding bacterial contamination). The defendant here sold syringes that could be used along with the plaintiff's patented hand pipette.<sup>168</sup> The Court found that the replacement component, the syringe, constituted a "means" under §10 of the Patent Act<sup>169</sup> because it operated in conjunction with the plaintiff's invention. However, the sale of such "means" was permitted due to application of the doctrine of exhaustion. Replacing such parts, which a purchaser could expect to exchange numerous times during its lifespan was therefore not a "making" or construction of a new product.<sup>170</sup> It is clear that a patentee has a commercial interest in extending its patent right to also cover the replacement market, but this interest is not protectable. If a patentee could have the possibility of extending its right to a secondary market it would grant it an impermissible commercial advantage since it would be able to control the total output.<sup>171</sup>

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<sup>165</sup> Mark R. Patterson, "The competitive effects of patent field-of-use licences", in *Research Handbook on Intellectual Property and Competition Law* Josef Drexler Ed. (Cheltenham, Edward Elgar Publishing Ltd, 2008) ("Patterson"), pp. 183-184.

<sup>166</sup> Derclaye, Fn 133 supra p. 29.

<sup>167</sup> BGH 27 February 2007 Case No. X ZR 38/06 GRUR 769 – *Pipettensystem*.

<sup>168</sup> Mohri (1), Fn 72 supra p. 71.

<sup>169</sup> Patentgesetz Article 10 (1) "A patent shall have the further effect that a person not having the consent of the patentee shall be prohibited from supplying or offering to supply within the territory to which this Law applies a person, other than a person entitled to exploit the patented invention, with means relating to an essential element of such invention for exploiting the invention, where such person knows or it is obvious from the circumstances that such means are suitable and intended from exploiting the invention...". (Unofficial translation)

<sup>170</sup> Mohri (1), Fn 72 supra, p. 71.

<sup>171</sup> Id at p. 72.

As mentioned in the previous section, the equivalent of the *Schütz* patent was considered by the BGH in *Palettenbehälter II*<sup>172</sup>. The plaintiff in this case held an exclusive license to sell and manufacture a patent protected pallet container. The container consisted of an inner container, flat pallets and bars of metal in the shape of a basket. The defendant sold and exchanged the inner container in containers originally sold by the plaintiff. The plaintiff sued the defendant for patent infringement.<sup>173</sup> The BGH began by pointing out that, by the doctrine of exhaustion, the exclusive right belonging with the patented product is exhausted when the product is put on the market by the proprietor itself or with the consent of the patentee.

The BHG continued by referring to precedents which held that the answer to the question of whether the identity of the container was maintained had to be reached by balancing the different interests involved. Moreover, it was also important to consider whether the technical effect of the patented invention resided in the part exchanged. This criterion is, however, only crucial if the exchange of the parts is regarded as a normal repair according to the prevailing market opinion.<sup>174</sup> If consumers and trade circles believe that a replacement constitutes a remanufacture of the patented product, the action will constitute a patent infringement, notwithstanding any argument that the replacement does not reflect the technical aspects of the innovation.<sup>175</sup> Furthermore, it is of importance to consider whether the used product is commercially worthless to the end consumer at the point when the inner container become worn out. If the used product still has commercial value, it is more likely that the end customer will perceive an exchange as being a mere repair.<sup>176</sup> The BGH remanded the case to the

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<sup>172</sup> Federal Supreme Court 17 July 2012 Case No. X ZR 97/11 – Palettenbehälter II, Schutz v. Mauser.

<sup>173</sup> *Replacement of parts of a patented product – German decision Pallet container II (Palettenbehälter II)*, 8 J. Intell. Prop. L. & Prac. 319 (2013) (reprinted from GRUR Int.)

<sup>174</sup> See Tobias Wuttke DE - German Supreme Court "Pallet Container II" 19 September 2012 in EPLAW Patent Blog Available at <http://www.eplawpatentblog.com/eplaw/2012/09/de-german-supreme-court-pallet-container-ii.html> last visit 28 May 2013

<sup>175</sup> Id.

<sup>176</sup> Id at p. 87.

Court of Appeal to ascertain consumers' and trade circles' understandings and expectations.<sup>177</sup>

### 4.3 Concluding Remarks

When a patented product is sold, the exclusive rights in the patent claims is normally exhausted, and the purchaser acquires the full benefits of the product, which includes the right to repair it when it is defective. However, some repair activities fall outside of permitted use. Knowing what is a permitted use is essential to avoiding such an IPR infringement. The problem is, however, that the distinction between a permitted repair and an unpermitted reconstruction is usually a matter depending upon the facts and degree in the specific case.<sup>178</sup> Further, the manner in which the doctrine of repair and reconstruction is defined not only has an impact on determining infringements it will also have a correlative effect on competition. Rights holders may try to use their exclusive rights to rule out competitors' ability to challenge them on the market.

The CJEU has attempted to better define the relationship between IPR and competition law by introducing the doctrine of exhaustion and the principles of existence and exercise. It has integrated various EU policies and tried to ensure that the achievement of the Union's objectives would not be opposed. From the case law, it may be seen that the CJEU favours a narrow interpretation of the doctrine of exhaustion, which leads to more dynamic competition. Even though one of the main purposes of IP protection is to ensure recoupment of investments made in research and development, this is not to be achieved by blocking competition. Applying a more restrictive interpretation of the exhaustion rule, in line with *Kosan Gas*' approach, would lead to greater limitations on consumers' right to enjoy their property and would tie them to a single suppliers. Competition on the market would be restricted and consequently the secondary market would vanish. The

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<sup>177</sup> Id. (At the time this thesis was written the Court of Appeal not yet issued a decision.)

<sup>178</sup> Mohri, *Repair and Recycle*, Fn 91 *supra*, pp. 59-60.

Swedish Competition Authority follows the same approach and indicates an unwillingness to accept any attempt by a proprietor to extend its exclusive so as to manipulate the doctrine of exhaustion in its favour. According to the Swedish Competition Authority, this kind of behaviour is something that should be considered in an IP infringement procedure.

Nevertheless, U.K and German law converged closer in both of the *Schütz* cases. Both the U.K and the German courts emphasised that the question that should be examined first is whether a defendant's act amounted to a "making" of a new article. However, a clear-cut answer is not easy to find. Whether or not a conduct will be regarded, as a repair or amount to a "making" a new product will often depend on the context of each case.

Applying the "making" test can give rise to strange and sometimes questionable results e.g. a tennis racquet manufacturer being able to monopolize the repair of its products, or a photocopier manufacturer being able to control the supply of paper used in it.<sup>179</sup> It is therefore important to add some additional steps in determining what maintenance a third party may perform. The intention of patent law is to grant the creator an exclusive right to allow him to recover his investment. Like competition law, patent law is important for creating a dynamic market and it is important that it offers good and sufficient protection. Nevertheless, it is clear from the case law that is not in the interest of patent law to extend its exclusions to the replacement market.

Both the UK Supreme Court and the German BGH have adopted the general rule that an act is considered to constitute an infringement if, according to the prevailing market opinion, the replacement of a part constitutes a remanufacture of the patented product. However, if the purchaser can expect a component of the product to be exchanged several times during its useful life, this will most likely not be regarded as "making" or constructing a new

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<sup>179</sup> Brian Whitehead & Richard Kempner, *Manufacture or repair revisited: Schütz (U.K.) Limited v Werit UK Limited, Protechna SA*, [2011] EWCA Civ 303, 29 March 2011, 6 J. Intell Prop. L. & Prac. 515, (2011.), p. 516.

article. Compared to the “making” test, there is a risk in referring to the “prevailing market opinion”. It might have the result that patentees will try to claim that any renewal of his product is an infringement, even if the part exchanged is not an essential part of the invention. From a competition law perspective there is a risk is that a patentee may try to control a broad downstream market. A focus on customers’ expectations and understanding will mean not only that these cases will become a battle of witnesses and market reviews but also that their outcome will be hard to predict.

Adding a few additional points appears to be necessary. Even if the patentee’s right is exhausted by the first sale, he still owns the rights to his invention. Courts tend to locate the protectable interest of a patentee if they are focussed on finding the key inventive step when scrutinising the patent claim. Actions falling outside of the exclusive protection will be regarded as a permitted repair. Accordingly, it seems as if the EU and the Member States all lean towards a common approach. When courts must choose between extensive property protection and dynamic competition, they will usually take the opportunity to protect competition.

# 5 The U.S. Perspective

## 5.1 The Approches and Methods Developed by the U.S Courts

The history of patent law cases regarding repair and reconstruction is, if not exactly rich, at least varied and the courts have often chosen to use vague language.<sup>180</sup> The Supreme Court first described the U.S. doctrine of repair and reconstruction in *Wilson v. Simpson*<sup>181</sup>. The Court was faced with the question of whether the purchaser of a patented wood-planing machine might replace its cutting-knives when they became dull or broken. When examined the fact at hand, the Court noted that the knives expected lifetime was between sixty to ninety days, while the machine's frame had a lifespan of many more years.<sup>182</sup> As the knives were of a temporary nature and had to be replaced while the identity of the machine was preserved, even after the replacement, the Court considered the replacement of the knives as an permitted repair.<sup>183</sup>

The first case where the Supreme Court held illegal reconstruction was *Cotton-Tie*<sup>184</sup>. The plaintiff owned a patent for producing cotton-bale ties,<sup>185</sup> consisted of a metal buckle and a band. Each of the buckles was engraved with the words "Licensed to use once only".<sup>186</sup> When the cotton-bale arrived to the cotton mill, the ties were cut and consumed, and became scrap-iron and sold as such.<sup>187</sup> The alleged infringer bought the discarded ties, recreated them and made the ties ready to use again.<sup>188</sup> The Court found that the conduct by the defendant, when putting together the pieces of the old band, was an action of unlawful repair and stated:

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<sup>180</sup> Patterson, Fn 165 supra, p. 194.

<sup>181</sup> *Wilson v. Simpson*, 50 U.S. 109 (1850) ("Wilson".)

<sup>182</sup> *Id* at p. 125.

<sup>183</sup> *Id* at p. 126.

<sup>184</sup> *American Cotton-Tie Co., (Ltd) v. Simmons*, 106 U.S. 89 (1882) ("Cotton-Tie".)

<sup>185</sup> *Id* at p. 90.

<sup>186</sup> *Id* at p. 91.

<sup>187</sup> *Id* at p. 91.

<sup>188</sup> *Id* at p. 91.

The band was voluntarily severed by the consumer at the cotton-mill because the tie had performed its function of confining the bale of cotton... Its capacity for use as a tie was voluntarily destroyed. As it left the bale it could not be used again as a tie. As a tie the defendant reconstructed it....<sup>189</sup>

It seems as if the significant factor for the Supreme Court leading them to find the defendant guilty of an impermissible reconstruction, was the engraved words “Licensed to use once only” which restricted the use.<sup>190</sup>

Subsequently, the Supreme Court explained its view of conduct that could constitute permissible repair in *Aro Manufacturing Co. v. Convertible Top Replacement Co* (“Aro I”).<sup>191</sup> In *Aro I*, the plaintiff owned a patent on a convertible top mechanism, which included a combination of unpatented parts, such as the flexible top fabric. The defendant sold and manufactured replacement fabric tops intended for use with Aro’s patented combination. In essence, the Supreme Court had to resolve whether replacing the spent top fabric constituted an infringing reconstruction of the patented clime covering a combination of unpatented parts.<sup>192</sup> It concluded, “that reconstruction of a patented entity, comprised of unpatented elements, is limited to such a true reconstruction of the entity as to in fact ‘make’ a new article,...”<sup>193</sup> Replacing individual unpatented parts, one at a time, different parts successively, or the same part repeatedly was, according to the Court, “no more than the owner’s lawful right to repair.”<sup>194</sup>

However, Justice Harlan’s dissent<sup>195</sup> outlined a multi-factor test that should be used when deciding a case concerning repair and reconstruction. First, the dissent reemphasized the idea introduced in *Wilson v. Simpson*<sup>196</sup>, namely the need to compare the life of the part replaced with the useful life

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<sup>189</sup> Id at p. 94 – 95.

<sup>190</sup> Arthur J. Gajarsa, Evelyn Mary Aswad, & Joseph S. Cianfrani *How Much Fuel to Add to the Fire of Genius? Some Questions About the Repair/Reconstruction Distinction in Patent Law*, 48 Am. U. L. Rev. 1205, (1999) (“Gajarsa”), p. 1213.

<sup>191</sup> *Aro Manufacturing Co., Inc., v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476 (1964) (“Aro I”).

<sup>192</sup> Gajarsa, Fn 190 supra, p.1210.

<sup>193</sup> Aro I, Fn 191 supra, p. 346. (Citation omitted.)

<sup>194</sup> Id at p. 346.

<sup>195</sup> Id at p. 369-380 (Justice Harlan joined by Justices Frankfurter and Stewart.)

<sup>196</sup> *Wilson*, Fn 181 supra.

of the product considered as a whole. Second, the dissent considered the importance of the replaced element to the inventive component of the patented product. The third factor to examine was how important the replaced part was to the patent combination. The dissent asserted that one also needed to consider the reason behind the replacement: was it because the part was worn-out or was it because of some other purpose? The last factor to consider was the balancing between the different interests at stake.<sup>197</sup>

The Court tried to set clear limits on what is allowed and outline the boundaries of permissible repair. In many ways it seemed to deliver a straightforward judgment, consequently, trying to argue that a repair in line with the case was a reconstruction could be difficult.<sup>198</sup> However, the Federal Circuit managed to identify an action of impermissible reconstruction in a case similar to *Aro I*. In *Sandvik Aktiebolag*<sup>199</sup>, the patent claims at issue were directed to a drill with a shank portion and a unique carbide tip geometry. The drill tip was not separately patented. After using the drill for some time, it would become dull and require re-sharpening, as to which Sandvik issued guidelines. The defendant in this case offered a drill repair service, which included re-sharpening and re-tipping of Sandviks' drills. Re-tipping was a service elected when the drill tip could no longer be re-sharpened.<sup>200</sup> Sandvik claimed that the re-tipping service was an impermissible reconstruction of the patented drill and the defendant's action therefore constituted an infringement.<sup>201</sup>

Like the dissent in *Aro I*, the Federal Circuit listed a number of factors required in order to establish whether the defendant had simply repaired the product or made a new article. These included the design and nature of the article and whether a market had developed to service or manufacture the

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<sup>197</sup> Sperry, Fn 73 supra, pp. 15-18.

<sup>198</sup> Gajarsa, Fn 190 supra, p. 1215.

<sup>199</sup> *Sandvik Aktiebolag v. E.J. Company*, 121 F.3d 669 (Fed. Cir. 1997) cert. denied sub nom *E.J. Company v. Sandvik Aktiebolag* 523 U.S. 1040 (1998) ("Sandvik").

<sup>200</sup> Id at p. 671.

<sup>201</sup> Id at p. 672.



part at issue. The Court also reviewed if there was any objective evidence indicating the intent of the patentee.<sup>202</sup> The opinion continued and held that the drill tip was to be regarded as “spent” when the tip could no longer be reshaped unless it was re-tipped. In fact, in situation like this, when re-tipping was the only opportunity left, the tip could rather be removed. Second, the work performed by the defendant was a rather complex procedure, which shows that re-tipping is more likely to be reconstruction. Once again the Federal Circuit compared the action at hand with the *Wilson v. Simpson*<sup>203</sup> case and held that the drill tip’s was not such parts that could be expected to have a shorter life than the rest of the machine. The drill tip was not manufactured to be a replicable part and was not attached in a manner which could be easily detached.<sup>204</sup> Nor was there any evidence of a substantial market for re-tipping or selling replacement drills like those manufactured by Sandvik. This suggested that the proprietor had not intended for its drill to be re-tipped. The Court concluded by holding that there is not bright-line test for determining this kind of problem. The intention of the proprietor can be an indicator but cannot alone determine whether it is repair and reconstruction issue but based on all the facts specific to this case the procedure by the defendant had to be considered as a reconstruction.<sup>205</sup>

Following the case-law above neither the legislation, nor the courts have been able fully to clarify the repair and reconstruction doctrine. As a result alternative solutions are sometimes invented in order to avoid an arbitrary application of the law. One of these attempts was addressed in the Federal Circuit case *Mallinckrodt*.<sup>206</sup> Mallinckrodt imprinted its devices, which were sold to hospitals with the notation “single use only.”<sup>207</sup> However, after the hospitals used the product the one time they turned to a third party,

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<sup>202</sup> Id at p. 673.

<sup>203</sup> *Wilson*, Fn 181 supra.

<sup>204</sup> *Sandvik*, Fn 199 supra, p. 674.

<sup>205</sup> Id.

<sup>206</sup> *Mallinckrodt, Inc. v. Medipart, Inc.*, 976 F. 2d 700 (Fed. Cir. 1992.) (“Mallinckrodt”)

<sup>207</sup> Id at p. 701.

Medipart, to service the device so that it could be reused.<sup>208</sup> Mallinckrodt claimed that, by performing this action, Medipart induced infringement by the hospital and infringed the patent itself.<sup>209</sup>

Rather than following the rule in *Cotton-Tie*, the District Court did not consider whether or not the “single use only” notice was legally sufficient to constitute a valid agreement. Instead, the District Court granted summary judgment in favour of Medipart and held that a patent holder could not restrict the initial purchaser’s use of the product, as this would violate the exhaustion doctrine.<sup>210</sup>

On appeal, the Federal Court disagreed with the District Court’s reasoning and reversed, holding that there was nothing supporting the view that a patent holder could not so restrict the use of its product.<sup>211</sup> What the court first examined was whether or not the doctrine of first sale was applicable and found that due to the conditions on the sale implying “single use only,” the doctrine was inapplicable. Next, the Court had to determine the validity of the printed restriction in regard to patent law. It concluded that what it should consider was whether the restriction was reasonably within the scope of the patent, or whether the patentee had ventured beyond and into behaviour with an anti-competitive effect. If the restriction was found to be reasonably within the patent grant, because, for example, it relates to subject matter within the scope of the patent claims, the examination ends.<sup>212</sup> If the contrary conclusion is reached and the effects extended beyond the legal right to exclude, there might be anticompetitive effects. However, such effects do not automatically prohibit the restriction. In that case, the use restriction should then be reviewed under antitrust law in accordance with the rule of reason.<sup>213</sup>

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<sup>208</sup> Id at p. 702.

<sup>209</sup> Id at p. 701.

<sup>210</sup> Id.

<sup>211</sup> Id.

<sup>212</sup> Id at p. 708.

<sup>213</sup> Id.

Following the Court's reasoning it appears that a patentee can impose a use restriction, and through that entirely contract out of the repair and reconstruction doctrine. This use restriction will be viewed as a contract, or more specifically as a license agreement regulating the buyers' right under the patent. Consequently, if the buyer violates this restriction it breaches a contract, which will lead to patent infringement.<sup>214</sup>

The doctrine of exhaustion is a longstanding principle, established around the middle of the nineteenth century, which says that the owner of a patent protected invention is free to do anything he likes with the product, as long as he is the lawful owner.<sup>215</sup> Under these circumstances the patent holder cannot sue for patent infringement for something that the rightful owner does, as long as it does not amount to a reconstruction. *Mallinckrodt* thus opened up the possibility that, under the terms of a use restriction, the patent holder may sue for infringement due to a breach of contract.<sup>216</sup> Consequently, this indicates that even if the exhaustion doctrine is well established there may be circumstances where it is difficult to determine whether it is actually triggered.

The pro-freedom of contract reasoning in *Mallinckrodt* was not to be found in the Supreme Court decision in *Quanta Computer, Inc. v. LG Electronics, Inc.* ("Quanta")<sup>217</sup>. At issue in *Quanta* was a licence agreement between LG Electronics ("LGE") and Intel permitting Intel to make, manufacture and sell microprocessor or chipsets using LGE patents. The agreement contained limitations stipulating that no license would be granted to any third party for any combination of the products purchased by Intel with non-Intel products. In order to give effect to this limitation, Intel agreed in a separate agreement to give notice to its customers about this term.<sup>218</sup> The defendant, *Quanta*, purchased microprocessors and chipsets from Intel and installed them in

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<sup>214</sup> Dan Hunter, *The Oxford Introductions to U.S. Law: Intellectual Property* (Oxford, Oxford University Press, 2012) ("Hunter".) pp. 128-129.

<sup>215</sup> Mohri, *Repair & Recycle*, Fn 91 *supra*, p. 61.

<sup>216</sup> Hunter, Fn 214 *supra*, pp. 128-129.

<sup>217</sup> *Quanta Computer, Inc. v. LG Electronics, Inc.* 553 U.S. 617, 635 (2008) ("Quanta".)

<sup>218</sup> *Id.* at p. 2110.

computers. LGE brought a suit against Quanta claiming that by combining the product purchased from Intel with other computers' infringed LGE's patent. However, LGE did not assert patent right in either the microprocessor or the chipsets themselves.<sup>219</sup>

In this case, the Court had to decide whether patent exhaustion applies to the sale of components of a patented system that must be combined with additional components in order to practice the patent method. The Supreme Court was faced with several questions, but the significant ones for this thesis were whether the sale of a component that substantially embodies (but does not contain all elements of) a patent can exhaust the patent and whether the sale at issue triggered patent exhaustion despite an attempt by the patent holder to condition the sale by imposing contractual restriction.<sup>220</sup>

Regarding the extent to which a product must embody a patent in order to trigger the doctrine of exhaustion, the Court observed that the sale of a component that does not contain all the element of a patent can activate patent exhaustion. Furthermore, it held that exhaustion is triggered when two conditions are cumulatively satisfied. First, the component's reasonable and intended use is to practice the patent, and second, the component embodies essential inventive features of the patent.<sup>221</sup> In this case Intel's microprocessor or chipsets lacked function until they were incorporated into a computer system. Regarding the essential inventive features, the inventive part is not the fact that microprocessor or chipsets are combined with other parts; rather, it is included in the design of the Intel Products themselves and the reason why these products work together. A sale of such components could, therefore, trigger patent exhaustion.<sup>222</sup>

The limitation directed to Intel was only specified in the agreement between LGE and Intel. Even if Intel had not provided the consumer with the notice,

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<sup>219</sup> Id at p. 2111.

<sup>220</sup> Id at p. 2112.

<sup>221</sup> Id at p. 2113.

<sup>222</sup> Id at p. 2117-2119.

this would have no effect on the doctrine of exhaustion. Intel's right to sell the microprocessor or chipsets was not conditioned on the notices or any decision of Quanta to ignore by LGE directions.<sup>223</sup>

The Supreme Court confirmed the longstanding doctrine of exhaustion but it did not consider the issue raised in *Mallinckrodt*, namely the validity of the post-sale restriction. It did make it clear that patent exhaustion applies despite explicit restrictions implied by the patentee, as long as there has been a lawful sale of the patented article.<sup>224</sup> This however caused confusion in some business sectors where post-sale restrictions have become accepted.

Agricultural companies have embraced the patent system for the protection of their advances in genetically modified seeds. Unpatented seed stock allows farmers to reserve a percentage of the seeds of a harvest and use this in planting in the following years, but patented crop seeds typically make this impossible, either through technological methods that render the stock incapable of reproducing or through agreements with farmers at the time of the purchase of the seed. The license forbid reuse, and ignoring this limitation can land the farmer in court defending a patent infringement.<sup>225</sup> In *Bowman v. Monsanto Company*<sup>226</sup> Monsanto patented Roundup Ready soybean seed, which makes certain crops tolerant to the herbicide glyphosate. Monsanto sells the seeds subject to a licensing agreement that allows growers to plant the seed in one growing season.<sup>227</sup> The agreement does not authorize the grower to save and replant the soybeans. Bowman purchased Roundup Ready soybean seeds for his first crop of each growing season although, after harvesting the soybeans, Bowman saved them and replanted them next season. Subsequently, when Monsanto discovered this practice they sued Bowman for patent infringement. Bowman raised the

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<sup>223</sup> Id at p. 2122.

<sup>224</sup> Mohri, Repair & Recycle, Fn 91 supra, p. 64.

<sup>225</sup> Hunter, Fn 214 supra, pp. 128-129.

<sup>226</sup> *Bowman v. Monsanto Company* ---S.Ct.---, 2013 WL1942397 U.S., 13 May 2013 ("Bowman".)

<sup>227</sup> Id at p. 1.

defence of patent exhaustion, claiming that Monsanto could not control his use because they had been subject to a prior authorized sale.<sup>228</sup>

The Court started to explained the purpose of the exhaustion doctrine and patent law and held that the rationale behind it was thought to only restricts a patentee's right as to the “particular article” sold. The doctrine of exhaustion leaves the patentee's ability to prevent a buyer from making new copies of the patented article untouched. This is exactly what Bowman did. However, if Bowman were allowed to save the seeds each year, this would reduce the need for the purchase of new seeds. Monsanto, while retaining its patent, would obtain no benefit from farmer’s annual sale and production of the Roundup Ready soybeans. Consequently, Monsanto’s patent would give rise to limited benefits.<sup>229</sup> What Bowman was asking for is an exception from a well-establish legal concept, namely that the doctrine of exhaustion does not cover the right to “make” a new product.<sup>230</sup>

The Court stressed that the reasoning in the holding is limited to the special situation, rather than to every case involving self-replacement. In other situations, self-replacement might be a necessary step in the use of the product. In this case, Bowman planted the soybeans for the purpose of reproducing them and by doing so deprived Monsanto’s their right, under patent law, to be rewarded from the sale of each article.<sup>231</sup> Therefore, the Supreme Court found that Bowman infringed Monsanto’s patent.

## 5.2 Concluding Remarks

The debate on how to distinguish a repair from the reconstruction of a patented article has been ongoing in the U.S.. The U.S. Supreme Court has attempted to clarify the point although it is hard to find a solution which will apply to all cases. Likewise, in the European courts, the facts of the specific case play a huge role in arriving at solution. However, from *Aro I* it is clear

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<sup>228</sup> Id at p. 3.

<sup>229</sup> Id at p. 4-5.

<sup>230</sup> Id at p. 5

<sup>231</sup> Id at p. 6.

that the reconstruction of an unpatented part will be a repair. According to the majority, this was the critical factor in determining the scope of the patent. Thus, refurbishment falling outside the patent's scope will be regarded as a permitted repair. A possible result of this reasoning is that the range of activities, regarded as repair, could be extended and the patent monopoly would be restricted to the very core of the patent's claim. It may then also be possible for a patentee who believes that a use to which a purchaser will put the invention will infringe the patentee's right, to seek an additional patent covering such use.<sup>232</sup> Companies might thus patent multiple variations of a single invention to create a portfolio of patents that will protect them against competitors' designs.<sup>233</sup> The potential effects of such patenting strategies could lead to a stagnating market.

In *Sandvik* the Federal Circuit adopted the multi-factor test applied by the dissent in *Aro I*. The court concluded that even if the drill tip at issue was not separately patented, the product as whole was effectively worn out and therefore the defendant's actions constituted an infringement. Reading between the lines, it seems as if the Federal Circuit tried to balance the object's commercial value to the consumer and the economic interests of Sandvik. As Sandvik encouraged the user to refurbish the drill tip, it seemed fair to judge that when this could no longer be performed the drill tip was to be discarded.

However, infringement litigation is time-consuming and the outcome is always unpredictable. To avoid this, a patentee might seek to condition its sales with a view to controlling the market. Conflicting signals have been sent by the courts concerning contractual restrictions on a purchaser's right to use and this possibility of limiting the application of the exhaustion doctrine. In *Mallinckrodt*, the Federal Circuit confirmed that a purchaser of a patented product would infringe the patent when it used the product in violation of a lawful restriction or condition imposed by the seller or patent

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<sup>232</sup> Id at p. 192.

<sup>233</sup> Hunter, Fn. 214 supra, p. 130.

holder. By upholding this restriction, the court effectively, allowed *Mallinckrodt* to control the application of the doctrine of exhaustion. However, in the *Quanta* case, the U.S. Supreme Court, did not reach the same conclusion and revisited the exhaustion doctrine. The Court stressed that the exclusive right contained in a patent claim is exhausted when an article embodying the essential features of the claim is transferred in an authorized sale. But the Court did not discuss *Mallinckrodt* and left it open whether the doctrine of exhaustion could be contracted out of. It may be said that it at least clarified the point that a mere unilateral notice to the consumer is not sufficient to prevent patent exhaustion. This issue then became even more confusing after *Bowman* case, where the Supreme Court permitted Monsanto's attempt to impose a license agreement that limited the farmer's use of seed.

In each of the cases above mentioned, it was important to strike a balance between the purchasers' right to use on the one hand, which includes the right to repair, and on the patentee's right to exclude on the other. It is sometimes necessary to abandon patent law thinking and to scrutinise the contractual restrictions under antitrust law, even if the U.S. Agency's often recognise license agreement to generate pro-competition effects. The Supreme Court and the Federal Circuit do not always seem to come to the same conclusion. The Federal Circuit is more inclined to be restrictive in determining what could be a permissible repair, thereby allowing the patentee a second chance to impose its monopoly right. The Supreme Court decisions reflective rather the line of reasoning of the EU and its Member States. However, one needs to remember that the Supreme Court is, as its name suggests, the highest level of court and when the two courts rules on the same subject matter, any contrary ruling by the Federal Circuit is overruled.



## 6 Final Words

The repair and reconstruction doctrine divides renovation activities into two categories. An owner of a patented product is permitted to repair but is not permitted to reconstruct. Underlying this principle is the doctrine of exhaustion, which gives the purchaser of a patented product the right to use the product.

However, even if the doctrine of repair and reconstruction seems straightforward, it can in practice be problematic to determine what behaviour is permitted. The problem is often handled on a case-by-case basis, which does not help to ensure any kind of legal certainty.

Reading the case law, it is clear that the courts try to balance the two competing interests; on one hand the purchaser's property rights and on the other the patentee's economic interests. From a patent proprietor's point of view, the risk is not merely that someone is taking advantage of his creation, but also that a significant economic interest is at stake. If replicating a patent article was a protected interest, a patent right would decrease in value after the first sale and its value as an incentive to innovation would vanish. It is, however, important to limit the possibility of a patentee to expand its exclusive right. For obvious reasons, a patentee often tries to control all uses of his product. Typical repair activities, such as maintenance, services, the sale of replacement parts and recycling are activities that might be offered by third parties, and not necessarily by the original right holder. If the patentee has the opportunity to control these markets it will directly affect the right holders or the third party repairer's business strategy.<sup>234</sup>

It is important to acknowledge the effect of this behaviour from a competition perspective. By imposing post-sale restrictions on the purchaser, the patentee still controls the article after the first sale. Generally,

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<sup>234</sup> Mohri, Repair and Recycle, Fn 91 supra, pp. 59-60.

this is not behaviour supported by the courts. Whether the license involved is express or implied, courts tend to lean more in favour of a free market and permit buyers to receive the full benefit of using the product. Allowing a patentee to evade the doctrine of exhaustion and limit the purchaser's right to use would have consequences not only on consumer welfare but also on the structure of the market. The stronger the monopoly power of the patent is, the greater the possibility that the exercise of the patent will have anticompetitive effects. However, even if one of the rationales of patent law for patentees is the right to exclude others from making, using or selling a patented invention, they are only allowed to do so to the extent this is within the scope of the patent granted. Use of an IPR in such a way that it will have anti-competitive effect will no longer fall within the scope of the patent. It is therefore important, from a competition law perspective, to acknowledge the limited grant and scope of its protection.

Reading the U.S. case law, it seems that courts are willing to accept use restrictions in some circumstances. In such cases, it appears to me that the courts tend to reverse its examination. Instead of locating the inventive step, and analysing the doctrine of exhaustion it seems that they rather start off with analysing the various affects of the different outcomes. Both for the medical device industry and for agriculture we have seen the possibility of imposing use restrictions. Once again we fall back on a very complex distinction of what should be permitted. The only straightforward test which can be deduced is a "we know it when we see it" test.

However, the CJEU opinion and the different Member State courts reflect more the U.S. Supreme Court position than that of the U.S. Federal Circuit. From a continental European perspective, an express contract imposing post-sale restrictions would most certainly only be enforceable between the parties that entered into the contract.

According to the Federal Circuit in the *Mallinckrodt* case, the deciding factor was the intention of the patentee. From the competition law

perspective, it seems more reasonable to make use of the theory that the UK and German Court referred to, namely prevailing market opinion and the evaluation of the inventive concept. Allowing a broad assessment of the doctrine of repair will increase consumer welfare by giving consumers a greater variety to choose from - whether the products of the patentee or refurbished products. Patentees will probably oppose this by arguing that in such a case nobody would purchase the more expensive original products. However, there will always be consumers who prefer new products due to their quality and the availability of the manufacturer's warranty.

IPR and competition law are two areas of law which are always changing, especially in the EU. The very object of competition law has changed over the years, and will continue to do so. Nonetheless, they remain two equally important systems for the key interests of society.

Whether the EU and the Member States will follow the U.S. Federal Circuit and allow use licenses is not clear. Reading the *Davidoff* case, one sees the possibility of limiting the scope of the doctrine of exhaustion, but only in situations where the patented product is sold outside of the EEA. Additionally, there is a possibility under the competition provision Article 101 TFEU, which allows certain anti-competitive behaviour to be justified if reasons can be stated. Soda-Club tried to justify its license agreement by citing safety and health reasons but the Competition Authority did not accept this. As stated above, there can be other business areas where safety and health reasons can be so used. However, there is always a risk inherent in allowing a patentee to limit the purchaser's right to use. It would make it possible for the patentee to exceed the exclusivity granted under patent law and consequently it would give him the power to control the secondary market.

Finally, it would have been helpful, if the Swedish Court of Appeal had referred a questions to the CJEU, seeking an interpretation of what effect an abuse of dominance may have on an infringement proceedings.

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