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Post-sale Restrictions & Exhaustion of Intellectual Property Rights

An Analysis of Post-Sale Restrictions in the EU: Their Effects on Exhaustion and Enforceability between the Contracting Parties

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Summary

Exhaustion of rights is of critical importance for the free transfer of goods and as such, the functioning of any market economy. Exhaustion of rights is the consumption of rights in intellectual property subject matter as a consequence of the legitimate transfer of title in the tangible article that incorporates or bears the intellectual property in question. The principles of the exhaustion doctrine are still unsettled in many jurisdictions, including the EU. In the U.S., the Federal Circuit decided a case in 1992 where it argued an alternative rationale to the doctrine and upheld post–sale restrictions as preserving patent rights. The case has not been explicitly overruled and there are, as a result, two competing rationales behind the U.S. exhaustion doctrine. Part of the thesis is dedicated to the EU view on this alternative rationale.

The purpose of this thesis has been to examine the enforceability and effect of post–sale restrictions in relation to exhaustion of intellectual property rights and competition law in the EU, applying a law and economics perspective. The main focus has been to find whether a holder of an intellectual property right, by using post–sale restrictions, may control when exhaustion occurs, and also if post–sale restrictions preserve control over the sold goods by means of contract law. The analysis has included the application of traditional deductive legal method to construe current law in the EU and the U.S.. A comparison between the two territories focuses on the underlying rationale of the U.S. conditional sale doctrine that allows the intellectual property holder to preserve rights by post–sale restrictions and how this doctrine would be met if it surfaced in the EU. Another comparative issue discussed is the two jurisdictions' different views on the capability of a licensee to make an exhausting sale. In addition, a law and economics perspective has been added to the analysis of EU law, with a critical view of the design of the exhaustion doctrine and what implications would arise in relation to the use of post–sale restrictions.

The analysis construes the examination of the exhaustion doctrine elements and to what extend the proprietor may assert control over exhaustion or, following exhaustion, the good. The conclusion is that the proprietor has limited possibilities to control the occurrence of exhaustion but that he is more likely to succeed asserting control under contract law, although at risk of unenforceability defenses. Furthermore, the comparison finds that the CJEU is not likely to accept the alternative exhaustion rationale offered in the U.S. by the Federal Circuit, and that the EU attitude towards licensees making exhausting sales is better balanced than the U.S.' view because this attitude does not give incentive to structure transactions with intermediaries (to contract around exhaustion), which is also more economically efficient. Economic efficiency is found to benefit from intellectual property rights under the dynamic efficiency theory but only if they are properly limited so that their negative effects on the market, as market failures, are minimized. Exhaustion is an important instrument in promoting economic efficiency by limiting these negative consequences. This effect of exhaustion could be diminished if post–sale restrictions were allowed to dispose of it.

Sammanfattning

Konsumtion av rättigheter är en mycket viktig princip för den fria rörligheten för varor och även för en fungerande marknadsekonomi. Konsumtion innebär att immateriella rättigheter i ett fysiskt exemplar konsumeras vid en överlåtelse av äganderätten till exemplaret som innehåller eller bär på rättigheten. I många jurisdiktioner är principens olika rekvisit ännu inte klarlagda. Amerikanska Federal Circuit resonerade i ett rättsfall 1992 kring en alternativ grund för konsumtion där domstolen även avgjorde fallet till förmån för förbehåll som begränsade konsumtionen av rättigheter. Rättsfallet har inte blivit uttryckligen emotsagt av Supreme Court och som en följd finns nu två alternativa grunder till den amerikanska konsumtionsprincipen. Delar av uppsatsen behandlar EUs inställning till denna alternativa grund.

Syftet med uppsatsen är att undersöka förbehålls giltighet och effekt i relation till konsumtion av immaterialrättigheter och konkurrensrätt i EU utifrån ett rättsekonomiskt perspektiv. Fokus har legat på att utreda huruvida en innehavare av en immaterialrätt kan kontrollera vid vilken tidpunkt konsumtion inträffar och, om inte, huruvida en sådan innehavare kan använda sig av avtalsrätt för att få den andra avtalsparten att agera på ett visst vis. Analysen innefattar resultatet av framställningen avseende EU–rätt och amerikansk rätt. De båda jurisdiktionerna jämförs med fokus på argument underliggande den amerikanska "the conditional sale doctrine" som tillåter en innehavare av immaterialrätt att behålla vissa rättigheter genom förbehåll och hur dessa argument skulle mottas i EU. De två jurisdiktionernas olika inställning till huruvida en licenstagare kan göra en rättighetsutsläckande försäljning är också föremål för jämförelse. Slutligen har ett rättsekonomiskt perspektiv anlagts vid analysen av den EU–rättsliga regleringen. Perspektivet har särskilt fokus på uppbyggnaden av konsumtionsprincipen och vilka följder som kan anas i det fall man skulle tillåta förbehåll av nämnt slag.

Analysen tolkar framställningen av konsumtionsprincipens rekvisit och i vilken utsträckning innehavaren av immaterialrätten kan utöva kontroll över när konsumtion ska ske, eller, över det sålda föremålet. Slutsatsen är att det finns små möjligheter för innehavaren att utöva kontroll över när konsumtion ska ske, och att innehavaren eventuellt kan nå större framgång med kontroll genom ett avtalsförhållande förutsatt att inga ogiltighetsgrunder föreligger. En jämförelse visar att EU–domstolen troligtvis inte skulle godta den alternativa grunden för konsumtionsprincipen som förespråkas av amerikanska Federal Circuit. I min mening är EU:s attityd mot att en licenstagare gör konsumtionsgrundande akter att föredra eftersom den inte uppmuntrar till komplexa avtalsförhållanden endast för att kringgå konsumtion. Slutligen främjas ekonomisk effektivitet av immaterialrätter enligt den dynamiska effektivitetsteorin, men endast om rättigheterna begränsas så att deras negativa effekter minimeras. Konsumtion är ett viktigt instrument för denna begränsning och dess verkan skulle kunna minskas eller sättas ur spel ifall förbehåll tilläts att förfoga över konsumtionen.

Preface

There are many that deserve an honorary mention in regards to the journey leading up to this thesis. First, I want to thank my supervisor Hans Henrik Lidgard for his valuable feedback and guidance regarding the topic and purpose of this thesis. I also wish to extend my gratitude to Gernandt & Danielsson for having me during a much rewarding thesis internship and to Josefin Ström in particular for being a kind and generous mentor. Thanks also to Diego Mas Enrique who has offered his competent advice on the language of this work. Any errors remain mine alone.

I have thoroughly enjoyed these years of studying and much of it is thanks to my group of friends who have always been available for support: academically or otherwise. Thank you all.

Finally, thanks to my parents, my brother and Mike, for your unyielding love, patience and support. My success is as much yours as it is mine.

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Abbreviations

CJEU	Court of Justice of the European Union
EPC	Convention on the Grant of European Patents (the Munich Convention)
EPO	European Patent Office
IP	Intellectual property
IPRs	Intellectual property rights
TEU	The Treaty on the European Union
TFEU	The Treaty on the Functioning of the European Union
Trademark Directive	Directive 2008/95/EC to approximate the laws of the member states relating to trademarks
Trademark Regulation	Regulation 207/2009 on the Community trademark
TRIPS	Agreement on Trade–related Aspects of Intellectual Property Rights
TTBER	Regulation No 316/2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements
Unitary Patent Regulation	Regulation (EU) No 1257/2012 of the European Parliament and of the Council, implementing enhanced cooperation in the area of the creation of unitary patent protection
U.S.C.	United States Code
VRR	Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices

1 Introduction

1.1 Background

The International Centre for Trade and Sustainable Development recently published a paper presenting national experiences of the implementation of exhaustion policies.[1] In the paper's foreword, exhaustion is said to be of critical importance for the free transfer of goods and as such, the functioning of any market economy.[2] Exhaustion of rights means the consumption of rights in intellectual property ("**IP**") subject matter as a consequence of the legitimate transfer of title in the tangible article that incorporates or bears the intellectual property right ("**IPR**") in question.[3] It acts as a border marker of IPRs and defines the scope of them by terminating the right holder's control over a good.

There are other legal institutions with containing effects on IPRs, including competition laws and public policies. However, these institutions are applicable to all activities on the market and not only the exercise of IPRs. Exhaustion is not triggered by IPRs having an anti–competitive effect *per se* but by certain elements being at hand. The precise details of the exhaustion doctrine are still unsettled in most jurisdictions, including the European Union ("**EU**") and the United States ("**U.S.**") The consideration (or not) of the right holder's intent as an element of exhaustion is no exception. Although an important topic under EU law as regarded under the exhaustion element of consent, it has received far more attention in the U.S. in relation to the conditional sale doctrine that allows the proprietor to limit exhaustion by means of post–sale restrictions.

Exhaustion is commonly triggered by a good incorporating an IPR being "placed on the market", also referred to as a "first sale". Implied in this account of events is the intent of the right holder to agree to the termination of control by renouncement of the exclusive rights. Although, the right holder will often find it more attractive to remain in control and will therefore resort to certain restricting practices.

1.2 Purpose

This thesis examines the enforceability and effect of post–sale restrictions in relation to exhaustion of IPRs and competition law in the EU, applying a law and economics perspective. The main focus will lie on whether an IPR holder using

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[1] Ghosh, Shubha, *The Implementation of Exhaustion Policies: Lessons from national experiences,* ICTSD Programme on innovation, Technology and Intellectual Property, Issue Paper No. 40, International Centre for Trade and Sustainable Development, Geneva, 2013.
[2] Ghosh, p. v.
[3] WIPO, p. 4.

post–sale restrictions may control when exhaustion occurs, and also if post–sale restrictions preserve control over the sold goods by means of contract law.

1.3 Method and Materials

1.3.1 Theoretic Background

Traditional deductive legal method has been applied to construe current law in both the EU and the U.S.. The method is based on the use of sources of law and its practice embraces the interpretation of these sources within their hierarchy so as to draw conclusions on what the applicable law is and how it applies to a given issue.[4]

A comparison with the perspective on the conditional sale and first sale doctrine in U.S. patent law will lend arguments to my analysis where the arguments will problematize potential developments in the EU. The aim of the comparative study is to focus on the rules' efficiency in relation to their policy backgrounds.

Finally, I adopt a law and economics perspective in my analysis, so as to evaluate my findings concerning the EU approach. The perspective seeks to critically view exhaustion and post–sale restrictions in light of economic efficiency and the realization of the single market. In short, law and economics is a method of analysis where the effects of law are described in economic terms. As such, it is a useful tool to evaluate law and policy.[5] Economic analysis predicts what alternative will be the most economically efficient in reaching a set goal. The economic method assumes a state of *general equilibrium*. At this point, the benefit to society is greatest as there is allocative and productive efficiency; the marginal cost for producing the last unit is equal to the price that a consumer is willing to pay for it.[6] General equilibrium builds on utility–maximizing consumers and profit–maximizing companies acting in a market where competitive forces lead to the equality of marginal benefit and marginal cost.[7] Perfect competition on the market is essential for the creation of general equilibrium and so–called *market failures* may prevent this from occurring: monopolies and market power, externalities, public goods and severe information asymmetries.[8] The legal system thus has a central role in removing *market failures* to make the market more economically efficient.[9] The legal system may remove insecurities in transactions, and thereby transaction costs, by implementing rules that allocate risks or ownership of property.[10] Ownership is essential to efficient investments and use of resources and insecurities regarding the ownership of an item will lessen the incentive to engage in transactions and also incur increased transaction costs.[11]

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[4] See as described by Korling & Zamboni, p. 21 ff.
[5] Cooter & Ulen, p. 4.
[6] Dahlman, Glader, & Reidhav, p. 136.
[7] Cooter & Ulen, p. 43.
[8] Id., p. 43 ff.
[9] Dahlman, Glader, & Reidhav, p. 63.
[10] Id., p. 83 f.
[11] Id., p. 158.

In the context of this thesis' topic, it should be noted that there is an alternative to the traditional static economic efficiency theory, the *dynamic economic efficiency theory*. The dynamic efficiency theory builds on economic efficiency measured as based on pricing, supply and demand as well as the generation of and competition by new technology.[12] In contrast to the static efficiency theory, the dynamic efficiency theory does not have a clear market model (such as general equilibrium) for efficiency.[13] A point of great difference between the two theories is the presumption under dynamic efficiency theory that the market will benefit from some inefficiency in competition if the inefficiency is due to the promotion of technological development, as it has a potential that often outweighs the benefit of perfect competition.[14] IPRs are in accordance with the dynamic efficiency theory beneficial to the market, but at the same time a *market failure* in the form of a monopoly or market power.[15] It is critical to the efficiency of the market that a balance is struck where the benefits of IPRs outweigh their negative effects on the market.

1.3.2 European Union Law

In this thesis, EU law is treated as an autonomous legal system and no regard is made to procedural issues relating to the treatment or effect of EU law in the member states. The basic assumption is made that what is expressed by EU law is implemented and applied in the member states. The examination of EU law covers primary sources, secondary sources and supplementary sources. Relevant rules are found primarily in case law, construing the Treaty on European Union ("**TEU**") and the Treaty on the Functioning of the European Union ("**TFEU**") as well as in Directive 2008/95/EC to approximate the laws of the member states relating to trademarks and Regulation 207/2009 on the Community trademark, that in turn has been commented in official documents originating with the EU institutions and interpreted in case law from the Court of Justice of the European Union ("**CJEU**").

The supranational nature of EU law generates legal materials from all member states. I have concentrated my efforts to searching materials on the specific issue of post–sale restrictions and exhaustion. As a result, the use of sources outlining the general framework is limited to treatises accessible in Sweden, such as Marianne Levin's work from 2011.[16] Regarding specific issues, much has been written on exhaustion in regards to EU free movement, competition law, and parallel trade. Frequent commenters on these issues are Professors Hans Henrik Lidgard, Jens Schovsbo, Ole–Andreas Rognstad, Stefan Enchelmaier and Dr. Christopher Stothers (although not all cited in this thesis). EU treatment of restrictions imposed

[12] Dahlman, Glader, & Reidhav, p. 139 ff.
[13] Id., p. 140.
[14] Id., p. 141.
[15] See id., p. 169.
[16] Levin, Marianne, *Lärobok i immaterialrätt: upphovsrätt, patenträtt, mönsterrätt, känneteckensrätt i Sverige, EU och internationellt*, 10., [uppdaterade] uppl., Norstedts juridik, Stockholm, 2011.

by IPR holders is mainly commented on in relation to licensing and specifically in relation to the so–called block exemptions, see for example Lidgard's *Licensavtal i EU: kommentar till kommissionens förordning 240/96 om tillämpning av Romfördragets artikel 85.3 på vissa grupper av avtal om tekniköverföring,* 1. uppl., Publica, Stockholm, 1997, and more recently Gölstam, cited in the bibliography. These scholarly debates are important inspirations for this examination.

1.3.3 United States' Law

Concerning U.S. law, the examination covers legislation and case law, i.e. primary sources, as well as secondary sources including law reviews, treatises and articles. The primary sources' authority can be either mandatory or persuasive, whereas secondary sources can only hold persuasive authority. Rules relevant for this thesis are found in statutes (also called "black letter law") and common law, as defined in case law. The statutory rules relevant for the U.S. perspective are mainly found in the Patent Act[17] and also state contract law. Regarding courts' interpretation of these rules as well as relevant common law, federal courts have exclusive jurisdiction over patent matters. Cases may be brought in district court and any appeal is under the jurisdiction of the United States Court of Appeals, Federal Circuit (the "**Federal Circuit**"), whose judgments may be appealed to the U.S. Supreme Court. Accordingly, this thesis regards cases where judgment has been made by the U.S. Supreme Court or the Federal Circuit.

Secondary sources are plentiful and readily available, as American legal academics and professionals frequently comment different legal issues and most sources are available online through archival, legal websites, such as Westlaw, LexisNexis and Heinonline. Another online source is the Social Science Research Network (SSRN), where writers may publish their materials. Articles are by nature limited in scope to specific legal issues and may be descriptive, prescriptive or both, depending on the purpose and intended reader. Treatises, in contrast, are usually comprehensive and aspire to give an overview and structure to a legal framework in a descriptive manner.

1.4 Delimitations

Due to time and space constraints, all IPRs are not covered in the thesis. The EU exhaustion doctrine has grown largely within trademark law and as a consequence, much of the EU materials presented relate to trademark law. However, focus is also put on patent law where harmonizing law is in the EU pipeline. Even though the exhaustion rules are common for all "contracting parties" (including EEA countries), only CJEU case law is examined. The term "Community" is used throughout the paper as describing the geographical area in which exhaustion occurs, including the EEA countries. The presentation of U.S. law, providing a comparative perspective, is limited to patent law. The selection of cases is not comprehensive but rather made with the intent to illustrate the content of the

[17] United States Code Title 35.

elements. Both the EU and U.S. are signers to several international treaties of which none will be regarded as they do not regulate the material content of exhaustion. Finally, the economic perspective of this thesis is limited to the balance of IPR benefits and negative effects to the market. I aim to critically view the exhaustion rules from an economic efficiency point of view.

1.5 Disposition

As a border marker of IPRs, exhaustion is defined by policy considerations underlying the IPRs that it limits. Introducing the issue at hand, an outline introducing IPR policy considerations – together with an overview of restrictions employed as a means to extend IPR holders' control over articles sold – is provided in chapter two of the thesis. Chapters three and four, pertaining to the EU's and the U.S.'s applicable laws, make up the central part of this thesis. The chapters present (1) the elements of exhaustion as defined and interpreted, and (2) the treatment of post–sale restrictions in relation to IP in the jurisdiction. In chapter four, presenting U.S. law, emphasis will be added to supporting arguments and criticism of the enforcement of restrictions. The thesis concludes with my reflections. In turn, reflections will be presented on the EU and U.S. chapters. Next, a discussion will follow on the developments in the U.S. from an EU context; are there lessons to be learned? Thereafter, the economic efficiency of the EU model is assessed. Finally, there is a short summary of my conclusions.

2 Legal Context

2.1 Intellectual Property Law

2.1.1 Purpose

Protection for IPRs is motivated by considerations whereby society creates incentive for investments in creativity and development. In general, the idea is that creative expressions and inventions should be within the public domain for the benefit of development and society but that a lack of protection for them would have a deterring effect on those who are considering investment of time and capital into developing these assets. The protection should be balanced, so as to provide for the dissemination of ideas and innovations at the same time as to reward the inventor. While IPRs affect competition in a negative way by providing a monopoly-like position (i.e. a *market failure*), according to the theory of dynamic efficiency they also support competition as an instrument to drive development and further inventive activities.[18]

Generally, IPRs are granted nationally and provide certain exclusive rights for the proprietor, allowing him or her to prevent others from exploiting their work. The exclusive rights enable the proprietor to control, among other things, the distribution and use of the objects in which the IPR is incorporated. The exclusive rights are provided in order to protect the IPR holder from other's free-riding on the inventive activity and thereby allowing the IPR holder to regain the investment spent on research and development of the IPR. Control over distribution and use gives the IPR holder an advantage over other potential distributors of the same product.

2.1.2 In Relation to Trade

Plenty of efforts have been made on an international level to ease international trade and conditions for goods protected by IPRs; examples include harmonizing minimum levels of protection through the Paris Convention, the Berne Convention and the Agreement on Trade-Related Aspects of Intellectual Property Rights ("**TRIPS**") and offering procedural benefits through both the European Patent Convention ("**EPC**") and the Patent Cooperation Treaty to lessen the economic burden on the inventor seeking protection in several jurisdictions. The TRIPS agreement states that IPR protection should contribute to technological innovation and the transfer of technology so that both producers and users should benefit, and also that economic and social welfare should be enhanced.[19] However, the limitations to IPRs have not been a subject of cooperation; in the TRIPS

[18] Bernitz et al., p. 335.
[19] TRIPS Article 7.

agreement, the rule of exhaustion is explicitly excepted from the dispute resolution framework put into place to guarantee the minimum rights.[20]

Exhaustion of rights means the consumption of rights in IP subject matter, as a consequence of the legitimate transfer of title in the tangible article that incorporates or bears the IPR in question.[21] In the U.S., the doctrine is also commonly referred to as the “first sale” doctrine. Exhaustion of rights is critical to the functioning of any market economy because it permits the free transfer of goods.[22] If there was no exhaustion of rights, the consequence would be that the IPR holder could sue purchasers, and any subsequent purchasers, for infringement by using or selling the object incorporating the IPR.

2.1.3 Structure in the EU and the U.S.

In the EU, all member states have their own independent intellectual property laws. The EU has instituted “umbrella” laws, harmonizing the rules applicable, so as to further the internal market. The EU divides IPRs into industrial property rights including patents, trademarks, designs, and copyright and neighboring rights. Copyright and neighboring rights stand out against other IPRs due to the recognition of moral rights, as articulated in, for example, Article 6bis of the Berne Convention. IPRs are protected fundamental rights under Article 17 of the Charter of Fundamental Rights of the European Union.[23] Although IPRs were not intended to be regulated by the EU at the outset, see TFEU Article 345, they were not immune to other Community regulations such as the rules regarding free movement and competition law. The monopolies created are balanced by being restricted in time and scope and are subject to several limitations – one being exhaustion of rights.

U.S. intellectual property law is federal law.[24] Grounds for IPR protection are found in the Constitution. IPRs are not divided into industrial property rights, copyright and neighboring rights as in the EU but all IPRs fall under the term “Intellectual Property”. In the following, ”IPRs” will be used as a collective term for all immaterial rights irrespective of their origin.

2.2 Contract Law: Post–Sale Restrictions

Contract law is a body of law separate from IP law. Freedom of contract is an important principle in market economies and is only encroached upon if there are interests more important to the jurisdiction in question. Examples of constraints on freedom of contract may be unenforceability due to inequalities in the concluding or the effect of the contract and unenforceability due to the subject

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[20] TRIPS Article 6.
[21] WIPO, p. 4.
[22] Ghosh, p. v.
[23] Charter of Fundamental Rights of the European Union, 2012/C 326/02.
[24] See, for example the Copyright Act (under Title 17, U.S.C.), the Patent Act (under Title 35, U.S.C.) and the Lanham Act (under Title 15, U.S.C.) regulating trademarks.

matter of the contract (such as contracts regarding illegal acts). Restrictions can also be found in other bodies of law, such as competition (antitrust) law and if they do not modify exhaustion, they may violate competition rules depending on their construction. Therefore, drafters of an agreement regarding IP law have to consider several aspects: contract law, IP law, private international law and competition law. Although IP law and competition law have been enacted in large (multi–state) jurisdictions, contract law remains local in contrast. As a consequence, complex conflicts of law can arise in IP contract disputes.[25]

Ownership of the IPR and a physical object in which the IPR is incorporated are distinguished, transfer of the one does not mean transfer of the other. Post–sale restrictions of interest to this thesis can be narrowed down according to the following: the first objective of the IPR holder would be to avoid exhaustion altogether. Therefore, restrictions affecting the judgment of the elements of exhaustion are most attractive. The elements of exhaustion are specific for each jurisdiction and restrictions affecting them would, as a consequence, vary just the same between jurisdictions.

As described above, the IPR offers a monopoly–like position for the proprietor and exhaustion of rights limits that position. The proprietor may therefore try to limit the effect of exhaustion by use of certain restricting practices. Focus is put on what effects exhaustion have on the IPR holder's rights, i.e. what exclusive rights can no longer be enforced and are therefore of interest to attempt to retain? Some illustrative examples of restrictions are:[26]

- *territorial restrictions* or *limiting channels of distribution*: whereby the proprietor retains other territories or channels of distribution for its own purposes,
- *tying clauses*: obligating the buyer to buy other products or services together with the product incorporating the IPR,
- *field–of–use*: limiting the buyer to use or resell within certain product markets, consumer groups or technological field,
- *anti–repair/enhancement/modification*: prohibiting the buyer to alter the product, thereby forcing new purchases
- *price–fixing*: obligating the buyer to resell the product at, over or under a certain price
- *non–challenge clause*: obligating the buyer to not challenge the validity of the proprietor's IPR, sanctioned by termination rights or penalty fees

[25] The curious reader can find further reading on private international law rules in James J. Fawcett & Paul L.C. Torremans, Intellectual property and private international law, (2011) Oxford, Oxford University Press.

[26] See contents of restrictions, described as used in IPR licensing by Gölstam.

3 The European Union Regulation

3.1 Introduction

This chapter includes a general introduction to EU exhaustion of IPRs and its development under influence of competition and free movement law. Next, the regulation of trademarks and patents in the EU is laid out, followed by an outline of the elements of the exhaustion doctrine as it has been expressed in case law. Finally, the effect and enforceability of post–sale restrictions in a contract context (after exhaustion has occurred) is presented.

3.2 The European Union Competence Regarding Intellectual Property Rights

Neither the TEU, nor the TFEU contains any provisions directly regarding IPRs. Nevertheless, the creation of an economy based on knowledge and innovation is seen as a priority in the EU.[27] Furthermore, it is essential for the single market and in making the "fifth freedom", the free movement of knowledge, that there is a clear regime for IPRs.[28] Indirectly, the exercise of IPRs is considered to be a measure having equivalent effect to quantitative restrictions, prohibited by the TFEU Article 34 as hindering the free movement of goods.[29] Member states are, nevertheless, allowed to provide protection for IPRs according to TFEU Article 36. Stemming from TFEU Article 345, it expresses the general principle that the protection of intellectual and commercial property shall not be precluded by Article 34. Still, even though IPRs were not intended to be addressed on a Community level, they have been a topic of interest for the EU in many aspects of law. Already in 1964 the CJEU was challenged with settling tension between Community competition law and nationally granted IPRs. The joined cases *Consten & Grundig*,[30] were decided by the CJEU, presenting the *existence/exercise* dichotomy, meaning that the grant and existence of the IPR were not affected by Community law but that in contrast, the exercise of such a right was found to be subject to Community regulation and could be challenged accordingly.[31] IPRs do not necessarily have only negative effect on competition; they can have a positive effect when accompanied by rigorous application of competition rules to prevent abuses of rights.[32] In respect of the rules of free movement, the CJEU developed a balance test where not all protection of

[27] COM(2011) 215 final, p. 1.
[28] COM(2008) 465 final, p. 3.
[29] Case 78-70, Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG, [1971] ECR 487 [*Deutsche Grammophon*].
[30] Joined cases 56 and 58-64, Établissements Consten S.à.R.L. and Grundig-Verkaufs-GmbH v Commission of the European Economic Community, [1966] ECR 429 [*Consten & Grundig*].
[31] *Consten & Grundig*, p. 345, see also *Deutsche Grammophon*, paragraph 6.
[32] COM(2008) 465 final, p. 3.

the exercise of IPRs is accepted under Article 36, but only protection to the extent that the *specific subject matter* of the IPR is protected.[33]

Under the existence/exercise dichotomy, the grant and existence of an IPR remains exclusive to the member state and its laws.[34] Consequently, the idea of an EU exhaustion doctrine has been criticized on the grounds that exhaustion is inherently dependent on the existence of a right to be the limit of and that since EU law does not grant IPRs (Community trademarks and designs excepted), there cannot be an EU exhaustion doctrine. What we consider to be that exhaustion doctrine is merely expressions of community law limiting the exercise of IPRs that have already been subject to national exhaustion doctrine but not found exhausted.[35] Still, I will in the following use the term exhaustion, as the IPRs by definition are exhausted: i.e. the IPR holder is precluded from asserting his or her right due to EU regulation. Despite the intention of national property rights being excluded from EU rule, there is now a vast selection of community instruments regarding IPRs.

3.3 Intellectual Property Rights: The Framework

3.3.1 Trademarks

The first area of IP law to be completely harmonized in the EU was trademark law, today as expressed by Directive 2008/95/EC to approximate the laws of the member states relating to trademarks ("the **Trademark Directive**") and Regulation 207/2009 on the Community trademark ("the **Trademark Regulation**"). Both instruments secure identical exclusive rights for the trademark holder to exclude all third parties without the proprietor's consent from using identical or similar marks that may lead to confusion.[36] Moreover, both instruments have identical exhaustion rules–effectively harmonizing exhaustion:

> 1. [The/A Community] trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.
> 2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.[37]

Subsection 2 enables the proprietor to prohibit use of the mark even though the elements of exhaustion have been satisfied. These articles have been construed by the CJEU and a selection of cases is presented below, see section 3.4, to illustrate the elements of exhaustion. The CJEU has held that the *specific subject matter* of trademarks is that the proprietor has the exclusive right to use the trademark to put

[33] *Deutsche Grammophon,* paragraph 11.
[34] See TFEU Article 345 and *Consten & Grundig.*
[35] Westkamp, p. 318 f.
[36] Trademark Directive, Article 5, Trademark Regulation, Article 9.
[37] Trademark Directive, Article 7, Trademark Regulation, Article 13.

goods bearing it on the market for the first time and to control their initial marketing in the EEA.[38]

3.3.2 Patents

Patent law, in contrast to trademark law, has not been harmonized under EU law. There is a patchwork of harmonizing EU–issued rules for specific areas, for example: supplementary protection for medicinal products and plant protection products as well as protection for biotechnological inventions.[39] All EU member states have signed the EPC of 1973, effective from 1977, harmonizing the patent application procedure. As a result, the inventor may seek protection nationally state by state, or centralized through the European Patent Office (“**EPO**”), both procedures resulting in national protection provided by the states chosen by the applicant. Attempts at putting a community patent in place have been made sporadically, starting in 1989 with negotiations on the Community Patent Convention and further with a number of protocols, although without success.[40]

Recently, progress has been made on creating a European patent with unitary effect, beginning with the Council’s decision 2011/167/EU, authorizing enhanced cooperation in the area of the creation of unitary patent protection.[41] The so–called “patent package” will be instituted by three instruments: (i) Regulation (EU) No 1257/2012 of the European Parliament and of the Council, implementing enhanced cooperation in the area of the creation of unitary patent protection (“the **Unitary Patent Regulation**”), (ii) Council Regulation (EU) No 1260/2012, with applicable translation arrangements and (iii) the Agreement on the Unified Patent Court.[42] The purpose is for the system to be parallel to the existing national and European systems.[43] The rights granted to the inventor in accordance with the Unitary Patent Regulation will be those given by the member state’s law under which the unitary patent is subject, see Article 5 and 7 for determination of which member state’s law is applicable. The Unitary Patent Regulation also defines exhaustion, using the same elements as the Trademark Directive and Regulation Article 6:

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[38] Case C-16/03, Peak Holding AB v Axolin-Elinor AB (formerly Handelskompaniet Factory Outlet i Löddeköpinge AB), [2004] ECR I-11313 [*Peak Holding*], paragraph 35 and therein cited case law.
[39] See Council Regulation (EEC) No 1768/92 of 18 June 1992 concerning the creation of a supplementary protection certificate for medicinal products, Regulation (EC) No 1610/96 of the European Parliament and of the Council of 23 July 1996 concerning the creation of a supplementary protection certificate for plant protection products and Directive 98/44/EC of the European Parliament and of the Council of 6 July 1998 on the legal protection of biotechnological inventions.
[40] Levin, p. 55.
[41] See further, http://ec.europa.eu/internal_market/indprop/patent/index_en.htm, (as of March 22, 2014).
[42] See European Parliament press release, http://www.europarl.europa.eu/news/en/news-room/content/20121210IPR04506/html/Parliament-approves-EU-unitary-patent-rules (as of May 1, 2014).
[43] http://europa.eu/legislation_summaries/internal_market/businesses/intellectual_property/l26056_en.htm (as of May 1, 2014).

> The rights conferred by a European patent with unitary effect shall not extend to acts concerning a product covered by that patent which are carried out within the participating Member States in which that patent has unitary effect after *that product has been placed on the market in the Union by, or with the consent of, the patent proprietor*, unless there are legitimate grounds for the patent proprietor to oppose further commercialisation of the product. [My emphasis]

Article 6 implements the exhaustion rule as it is put forth in case law.[44] The rationale behind the regulation is that it will contribute to the attainment of the objectives of the EU as articulated in TEU Article 3(3) (the establishment of an internal market) and that unitary patent protection will foster scientific and technological advances and the functioning of the internal market.[45]

As the patent with unitary effect still has not come into effect, and the EPC only harmonizes procedural rules, the rules applicable to exhaustion of patent rights today are still the limits given by competition law in TFEU Articles 101 and 102 and the rule of free movement in TFEU Article 34 with the exception given in Article 36.[46] In contrast to other IPRs, patent exhaustion is by tradition general; i.e. all subsequent actions such as use, lending, renting, distribution and reparation (but not reproduction) cannot be excluded.[47] The CJEU has held that the specific subject matter of patents is the exclusive right of first placing the product on the market.[48]

Other community rules of relevance to post–sale restrictions and the exhaustion of patent rights are the block exemptions for technology transfer agreements and vertical agreements; see Regulation No 316/2014 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of technology transfer agreements (the "**TTBER**") and Commission Regulation (EU) No 330/2010 of 20 April 2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices (the "**VRR**"). These instruments clarify how certain practices should be exempted from competition law limitations. As such, they are also relevant for the analysis of restricting contract provisions and their status in EU law.

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44 Unitary Patent Regulation, premise 12 in the preamble.

45 Unitary Patent Regulation, premise 1 and 4 in the preamble.

46 The "patent package" enters into force from the date of entry into force of the Agreement on a Unified Patent Court (Unitary Patent Regulation, Article 18.2 and Council Regulation (EU) No 1260/2012, Article 7.2). The Agreement will entry into force when ratified by thirteen member states and is of May 11, 2014 ratified by two member states.

47 Levin, p. 311 f. Also note the wording of Article 6 of the Unitary Patent Regulation: "*The rights* conferred by a [...] patent [...]", compared to the wording of the Trademark Directive and Regulation: "[The/A Community] trade mark shall not entitle the proprietor to prohibit its *use* [...]"[my emphasis].

48 See Case 15/74, Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc, [1974] ECR 1147 [*Centrafarm*], paragraph 9; Case 187/80, Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exler, [1981] ECR 2063 [*Merck v Stephar*], paragraph 9 and Case 19/84, Pharmon BV v Hoechst AG, [1985] ECR 2281 [*Pharmon*], paragraph 26.

3.4 Exhaustion of Intellectual Property Rights

3.4.1 Background

Previous to the harmonizing of trademark law, and currently in regards to patents (outside of harmonized areas), the exercise of IPRs was limited (exhausted) by other Community rules and principles. The doctrine of exhaustion has grown from a body of case law emanating from free movement and competition law cases brought before the CJEU. Some of those cases are presented below in the outline of the exhaustion doctrine's elements. The doctrine shall promote the essential purpose of the treaty, "which is to unite national markets into a single market".[49] Accordingly, the doctrine has its base in the rule regarding free movement, see TFEU Article 34 (as limited by Article 36), and the rules regarding competition, see TFEU 101 and 102.[50] Free movement as a premise for the establishment of an internal market is a fundamental principle in the EU.[51] Derogations from free movement by exercise of IPRs are allowed, under the condition that they are justified for the purpose of safeguarding rights that constitute the *specific subject matter* of the IPR.[52] Following harmonization through the Trademark Directive, the elements of exhaustion have been further analyzed by the CJEU in that context. There is no reason to believe that the exhaustion doctrine would be construed differently for different IPRs.[53] The following presentation will be sectioned according to the elements of the rule: exhaustion occurs in relation to (i) goods, (ii) put on the market, (iii) by the proprietor or with his consent.

3.4.2 First Element of Exhaustion: Goods

As a limitation of the exclusive rights, the exhaustion doctrine's scope in relation to individual objects incorporating IPRs has been questioned. For example, does "goods" refer to a line or type of products, or does it refer to individual items? The seminal case regarding the definition of goods is *Sebago*.[54] The case was brought regarding shoes manufactured with Sebago's trademark in El Salvador that were imported to and sold in Belgium, where Sebago was the proprietor of two trademarks. There were no disagreements regarding the shoes being genuine goods.[55] Sebago and its exclusive distributor in Belgium (collectively Sebago) sued the selling company G–B Unic for infringement, arguing that they had not consented to the sale of those shoes in the Community. While Sebago claimed that consent had to be found for each batch of goods, G–B Unic argued that the lawful marketing of similar goods bearing the same trademark in the Community was sufficient to satisfy the element. G–B Unic's argument was supported with the

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[49] *Deutsche Grammophon*, paragraph 12.
[50] Ghosh, p. 36.
[51] Compare TEU Article 3.3 and TFEU Title II.
[52] *Deutsche Grammophon*, premise 11.
[53] Rognstad, p. 476.
[54] Case C-173/98, Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA, [1999] ECR I-4103 [*Sebago*]..
[55] Goods are "genuine" if their origin is true, that is, the business associated with the mark, see Levin, p. 447.

reasoning that the essential function of trademarks is to guarantee to the consumer the identity of the product's origin. Therefore, it could not be implied that the proprietor had a right to prohibit the import of genuine goods.

The CJEU found that the wording of Article 7(1) in the Trademark Directive alone did not provide a definition of "good".[56] The CJEU continued by finding that exhaustion only occurs in respect of individual items put on the market with the proprietor's consent in the territory there defined and referred to previous case law.[57] According to the CJEU, this interpretation was confirmed by Article 7(2) in its reference to "further commercialisation" of goods, showing that only specific goods are considered under the principle of exhaustion.[58] It may be noted that Article 7(2) differs from Article 5 and 7(1) in the sense that the first refers to goods in definite form (i.e. the goods with changed or impaired condition) and the two latter in the indefinite.[59] Conclusively, exhaustion is only effective in respect of individual, identifiable, goods put on the market within the EEA by the proprietor or with his consent.

3.4.3 Second Element of Exhaustion: Put on the Market

The Act

To trigger exhaustion of the IPRs in the individual good, the object has to be *put on the market*. The element consists of two parts: (i) the putting (the act) of an object incorporating the IPR (ii) on the market (the territory). Where the act is carried out within the territory, the element is satisfied. The definition on what act would effectively satisfy the active part of this element was left unsettled for some time. There have been some creative suggestions on alternative triggering acts in regards to exhaustion of trademark protection: production, stock–keeping, offer for sale and actual sale.[60] Production as a triggering event was discarded without much ado, as the proprietor at any time may choose to cancel production, to not market or sell the objects or to transfer the products to a jurisdiction outside the EU.[61] Stock–keeping as a triggering event *per se* would mean that protection for most products produced in the EEA area would be exhausted, and the adding of a subjective element was suggested. For example: "stock–keeping with intent to offer products on the Community market" would make a more reasonable triggering event.[62] Case law does not treat production as a triggering act and stock–keeping could be implied as discarded by some cases. For example, stock–keeping was probably at hand within the Community in *Silhouette*[63] even though it was not considered in the judgment.

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[56] *Sebago*, p 19.
[57] *Sebago*, paragraphs 19-20.
[58] *Sebago*, paragraph 20.
[59] See Lidgard I, p. 117.
[60] Id., p. 123.
[61] Id.
[62] Lidgard I, p. 125.
[63] See below in *The Territory*.

Offer for sale as a triggering act was argued in *Peak Holding*. Peak Performance Production produced and sold clothes and accessories marked with the trademark Peak Performance in Sweden and other countries. The company was granted use of the trademark by its proprietor, Peak Holding (another company in the same group). The garments in question in the case before the CJEU had been offered for sale in shops in the EEA following their import from a non–EEA manufacturing site. The parties disagreed on the conditions under which the garments had been offered for sale: Peak Holding claimed that they had been offered in Peak Performance Production's shops while the other party argued that they had been offered for sale by independent resellers. Later, they were offered for sale to final consumers in Copenhagen by a sister company to Peak Performance Production before the total consignment of (unsold) garments was sold to a French company. Peak Holding claimed that the sales contract included a clause whereby the French company was prohibited to sell the garments in other countries than Russia and Slovenia, with an exception of 5 % of the total quantity which could be sold in France. The garments came to be offered for sale by Factory Outlet in Sweden. Peak Holding sued Factory Outlet for infringement and Factory Outlet argued that the case should be dismissed as the trademark rights in the garments had been exhausted.

The CJEU found that the expression "put on the market" is a decisive element of exhaustion of rights and that as a result, it must be given a uniform interpretation in the Community legal order (as opposed to being open for national interpretation).[64] Next, the CJEU concluded that the wording alone was not decisive as to its meaning and that the interpretation therefore had to be made with regard to the scheme and objectives of the Trademark Directive.[65] In particular, the Trademark Directive is intended to ensure that the proprietor has the exclusive right to use the trademark to put goods bearing it on the market for the first time and to control their initial marketing in the EEA.[66] Furthermore, it is intended to enable others to further market an individual item without the proprietor being able to oppose that marketing.[67] The CJEU stated that a trademark's essential role in the system of undistorted competition, which the TEU seeks to establish, is fulfilled by it guaranteeing the quality of what is bearing the mark by the proprietor being in control of manufacture and supply.[68] It was not disputed that where the proprietor sells goods bearing his trademark to a third party within the EEA, those goods are put on the market in the meaning of Article 7.1.[69] In contrast, Peak Holding's import with a view to sell or the offer to sell goods within the EEA did not trigger exhaustion.[70] This followed because an offer to sell did not transfer the right to dispose of the goods to third parties and did not allow the proprietor to realize the economic value of the trademark. The interest to stay in control of the

[64] *Peak Holding*, paragraph 31-32.
[65] Id., paragraph 33.
[66] Id., paragraphs 35-36 and therein referenced case law.
[67] Id., paragraphs 37-38 and therein referenced case law.
[68] Id., paragraph 38.
[69] Id., paragraph 39.
[70] Id., paragraph 41.

goods to ensure their quality remained.[71] For these reasons, the CJEU drew the conclusion that a sale, allowing the proprietor to realize the economic value of his trademark, exhausts the exclusive rights conferred by the Trademark Directive.[72] Finally, the CJEU stated that this interpretation was supported by the wording of Article 5(3)(b) and (c) in the Trademark Directive, declaring the content of the rights conferred on the proprietor, which also distinguishes between different acts.[73]

A question rising from the CJEU's judgment in *Peak Holding* is to whom the sale needs to be made to trigger exhaustion. A rule that would trigger exhaustion by a sale to the end user only, or by *any* sale, would make the judicial review less complicated and it would also make the system predictable. Nevertheless, a rule where only a sale to the end user triggers exhaustion would impair the free movement of goods.[74] Another alternative is to set the dividing line somewhere in between the two extremes of the scale (exhaustion upon *any* sale vs. exhaustion upon sale to end user) and trigger exhaustion upon a sale to an intermediary. Such a sale can take place within different intermediary relationships and there is reason to separate them based on the economic links between the proprietor and the buyer, but also based on transfer of title.[75]

The Territory

As earlier described, the act has to be made within the relevant territory to satisfy the element of being "put on the market". In regards to the definition of the territory, member states practiced different definitions previous to the harmonization in the Trademark Directive.[76] As a consequence, the territory in which the act could be carried out and result in satisfaction of the element varied. As presented in chapter 2, the control over objects' distribution is one of the exclusive rights granted to the IPR holder. It is in this context that the IPR holder makes efforts to prevent parallel import and the parallel importer makes efforts to prove that the IPR has been exhausted. Much of the CJEU's case law regarding exhaustion is related to parallel import issues, as can be seen in the following. The relevant territory has been defined by the CJEU in *Silhouette* that confirmed previous case law establishing EU–wide exhaustion.[77] Silhouette, an Austrian company, produced, distributed and sold spectacles. The spectacles were in the higher price range and Silhouette refused to supply low–price distributors with the spectacles as it believed that it would be harmful to its image as a provider of high–

[71] Id., paragraph 42.
[72] *Peak Holding*, paragraph 40, compare exhaustion by "first sale" of copyright distribution right in Directive 2006/115/EC of the European Parliament and of the Council of 12 December 2006 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (codified version), Article 9.2.
[73] *Peak Holding*, paragraph 43.
[74] Lidgard I, p. 129.
[75] See Lidgard I, p. 128 ff.
[76] Lidgard II, p. 76 f.
[77] Case C-355/96, Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH, [1998] ECR I-4799 [*Silhouette*], see previously *Dansk Supermarked* (full citation below) and later confirmed by *Sebago*, paragraphs 17 and 22) and *Zino Davidoff & Levi Strauss* (full citation below), paragraph 32.

quality spectacles. In the case before the court, Silhouette had a large quantity of out–of–fashion spectacle frames that it had sold to a Bulgarian company with specific instructions to its representative that the purchasing company be made aware that the spectacle frames were not be exported to other countries than those in the former USSR. However not confirmed by the court, this was communicated by the representative to the purchaser. Shortly following the delivery of the frames to Bulgaria, the frames were reimported and offered for sale in Austria. Silhouette sued the offering company, Hartlauer, for infringement.

When answering the questions posed by the Austrian court, the CJEU declared that exhaustion only occurs when "the products have been put on the market in the Community (in the EEA since the EEA Agreement entered into force)" and that this followed directly from the wording of the directive.[78] Furthermore, the CJEU viewed an interpretation of the directive with the effect that Article 7 does not comprehensively resolve the question of exhaustion of rights as contrary to the wording of the article and also against the scheme and purpose of the rules of the Trademark Directive.[79] Accordingly, the CJEU was of the view that the only interpretation fully capable of ensuring that the purpose of the Trademark Directive was achieved (safeguarding the functioning of the internal market) was that Articles 5 to 7 completely harmonized the rules relating to the rights conferred by a trademark.[80] Consequently, the relevant territory as exhaustion is concerned is the EEA and there is no room for the member states to provide otherwise. The effect of *Silhouette* is that within the EEA, the IPR holder could no longer control the further distribution or use of the object incorporating the IPR after it has been put on the market by the proprietor or with his consent. Whether or not IPR protection is given in the state where the object is put on the market is irrelevant; the right is still exhausted.[81]

3.4.4 Third Element of Exhaustion: By the Proprietor or With His Consent

Put on the Market by the Proprietor or Someone Sufficiently Linked to Him

The final element that needs to be satisfied for exhaustion to be triggered is that the individual item has been put on the market *by the proprietor* or *with his consent*. In some cases, the products are sold by an undertaking linked to the proprietor in a manner that the CJEU has evaluated the sale as if it had been made by the proprietor. It should be noted that the nature of consent given by the proprietor to the undertaking in such a relationship is not the consent that triggers exhaustion

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[78] *Silhouette*, paragraph 18.
[79] Id., paragraphs 21-22.
[80] Id., paragraphs 25-27.
[81] See CJEU cases *Merck v Stephar* and joined cases C-267/95 and C-268/95, Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v Europharm of Worthing Ltd, [1996] ECR I-6285 [*Merck v Primecrown*].

since it is not given for individual products.[82] Examples of relationships that substitute for a sale made by the proprietor are economic links such as licensing, group affiliation such as parent/subsidiary and exclusive distribution agreements but not assignment.[83] In the absence of such a relationship, the proprietor is able to invoke its rights against import of products incorporating the IPR even if they have been produced following an assignment of rights to another party (without such links to it) in other member states (unless the proprietor has consented to such import). In contrast, an assignment for a geographical area of only part of the whole territory which the right covers (for example a regional assignment of a nationally granted IPR) is rendered void as being against the principle of free movement and does not create separate sources of trademarked products.[84] These examples are retrieved from trademark case law, but similar notions are at hand in other case law.[85] Compulsory licenses do not satisfy this element as only voluntary dispositions are regarded.[86] Recall also that the CJEU stated in *Sebago* that consent has to be expressed for individual objects. That means that there is no consent where a licensee produces more than the approved number of objects or when the licensee puts the object on the market in a territory to which the consent did not extend.[87]

Put on the Market by a Third Party with the Proprietor's Consent

If there is no link between the proprietor and the seller as described above but it is a third party marketing the product on the EEA market, the CJEU investigates whether the proprietor has renounced its rights by consenting to the act. Consent may be express or implied. In joined cases *Zino Davidoff & Levi Strauss,* the CJEU answered questions regarding the nature of consent required to trigger exhaustion. In *Zino Davidoff*, the proprietor (Davidoff) owned two trademarks registered in the U.K.. The products were sold both within and outside of the EEA. Davidoff had an exclusive distributor in Singapore, with which it had contracted that the distributor would only sell the products in certain territories outside the EEA and that it would include in its sales contracts a prohibiting clause binding the purchasers to not sell the products outside the assigned territory. Products originating from Singapore were later imported to the U.K.. Davidoff sued the company that imported and sold the products for infringement, arguing that the exclusive rights in the products had not been exhausted because Davidoff had not consented to them being put on the EEA market. In *Levi Strauss*, jeans (genuine goods) were imported from countries outside the EEA. Both the proprietor and the license holder of the U.K. trademarks (collectively Levis) had been very particular about the distribution of their product, only selling the jeans by granting licenses to other retailers or through a selective distribution system. They had consistently refused to sell the products to the companies that later came to sell them in the U.K. following their

[82] See Case C-9/93, IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH, [1994] ECR I-2789 [*IHT*], paragraph 43.
[83] See *IHT*, paragraphs 34, 45-46.
[84] See *IHT*, paragraph 53.
[85] See *Centrafarm*, paragraph 20.
[86] See *Pharmon.*
[87] Levin, p. 312.

import to the EEA. The products were originally obtained from countries in North America, where Levis had informed their authorized retailers, both orally and in writing, that the jeans were only to be sold to end purchasers in certain quantities. Levis was not in a contractual relationship with the companies that it sued.

The CJEU reasoned that the Trademark Directive limited exhaustion to cases where goods had been put on the market in the EEA and allowed the proprietor to market products outside the area without exhausting its rights within the EEA, in line with its holding in *Silhouette*.[88] Next, the CJEU discussed whether consent should be given a uniform interpretation or if it should be interpreted as a matter of national law. The CJEU found that the concept of consent should be given a uniform interpretation.[89] If it would be a matter of national law, the concept could carry different meanings depending on the legal system concerned. This could result in a variation of protection for trademark holders and was therefore contrary to the Trademark Directive's objective as put forth in the preamble.[90]

This particular holding is interesting in the light of the argument made by the English judge who had referred the *Zino Davidoff* case to the CJEU. He argued that there was no presumption against consent in Community law, but that the issue of consent had to be evaluated with regard to all relevant circumstances including the nature of the goods, the circumstances under which they were put on the market, the terms of any contracts for sale and the provisions of any applicable law.[91] The contract under which Zino Davidoff had put the products on the market outside the EEA was found by the English court to be concluded under English law (or a law assumed as being the same) and consequently, the importing company was free to market the goods in the EEA since English law assumes that "[w]hen a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his licence to sell the article, or to use it wherever he pleases as against himself."[92]

The CJEU established in *Zino Davidoff & Levi Strauss* that consent is to be uniformly interpreted and it also discussed the nature of consent as express or implied. It concluded that the intention to renounce exclusive rights must be *unequivocally demonstrated*, which normally will be expressly stated.[93] Consent may, nevertheless, be implied by facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market.[94] The same criteria for determining consent

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[88] Joined cases C-414/99 to C-416/99, Zino Davidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others, [2001] ECR I-8691 [*Zino Davidoff & Levi Strauss*], paragraph 33.
[89] Id., paragraph 43.
[90] Id., paragraph 42.
[91] High Court, Laddie, J., Zino Davidoff SA v. A&G Imports Ltd., May 18, 1999, [1999] 2 C.M.L.R. 1056 [*Laddie, J.*], paragraphs 36 and 38.7.
[92] *Laddie, J.*, paragraphs 28-29.
[93] *Zino Davidoff & Levi Strauss*, paragraphs 48-60.
[94] Id., paragraphs 46-47.

are always applicable when a third party puts goods on the EEA market, irrespective of the goods originating within or outside of the EEA.[95] Implied consent may not be inferred from the mere silence of the proprietor and it may not be inferred from: the fact that the proprietor fails to communicate their opposition against subsequent marketing within the EEA; that the goods are not marked with a warning that prohibits their placing on the market within the EEA; that title has been transferred without restriction and that in such absence of restrictions, the governing law of the contract includes at least a right to market the goods subsequently within the EEA.[96]

In *Coty Prestige*,[97] the proprietor Coty Prestige manufactured perfumery goods under its own and also third party trademarks, which it marketed throughout the world by the means of a selective distribution system. The standardized agreement concluded between Coty Prestige and its distributors contained a term where Coty Prestige remained in title to all advertising material and the distributors were prohibited to commercially use the material, in particular samples, testers or miniatures. The materials could, according to the contract, be withdrawn at any time by the proprietor. The testers at issue in the case were original bottles with original perfume without their original seal, instead labeled "Demonstration". The box containing the bottle had also been made in black and white rather than color and had been provided with the text "Demonstration" and "Not for sale". Following Coty Prestige obtaining two testers in Germany, it sued Simex Trading, who had imported the testers from Singapore, for infringement. Simex Trading claimed that the trademark rights had been exhausted, while Coty Prestige maintained that title to the testers never had passed and that it was advertising material. The national court dismissed the application, holding that exhaustion had occurred on grounds that a *de facto* right of disposal (the use of all the bottle's content) was transferred and that the contractual restrictions did not have any effects on exhaustion.

The CJEU pointed to the proprietor's control over the first putting on the market in the EEA as being essential.[98] It also confirmed *Sebago* by reciting the rule that rights are only exhausted in respect of individual products.[99] It distinguished *Peak Holding*, as the issue was not regarding goods carried out in the EEA by the proprietor or someone with economic links to him, but instead the products were put on the market by a third person.[100] In such circumstances, exhaustion can only occur as a result of the proprietor's express or implied consent. The CJEU stated that implied consent, in the absence of evidence to the contrary, is precluded when the goods are marked with the wording "Demonstration" and "Not for sale", there is a prohibition on sale, no transfer of ownership, the goods may be recalled at any

[95] Case C-324/08, Makro Zelfbedieningsgroothandel CV, Metro Cash & Carry BV and Remo Zaandam BV v Diesel SpA, [2009] ECR I-10019 [*Makro*], paragraph 35.
[96] *Zino Davidoff & Levi Strauss*, paragraphs 55-57, 60.
[97] Case C-127/09, Coty Prestige Lancaster Group GmbH v Simex Trading AG, [2010] ECR I–4965 [*Coty Prestige*].
[98] *Coty Prestige*, paragraph 30.
[99] Id., paragraph 31.
[100] Id., paragraphs 33-34.

time and they are clearly presented so that they are distinguishable from regular goods provided by the proprietor.[101] Consequently, there was no consent for Simex Trading to put the testers on the market within the EEA.

3.5 Effect and Enforceability of Restricting Contract Provisions

3.5.1 Intellectual Property Rights and Contract Law

IPRs can be transferred, just like other property, between parties.[102] As a general rule, regular contract principles apply to these transfers as if they were any other type of property.[103] Explicit comments on post–sale restrictions in relation to exhaustion are few. Outside IP case law, post–sale restrictions are judged in a contract law setting and case law is scarce, as most contractual disputes are resolved through arbitration or other non–official dispute resolution. The contract is often construed strictly by its wording, which emphasizes the importance of vigilance when contracting about IPRs.[104]

3.5.2 Post–Sale Restrictions' Effects on Exhaustion

As noted in chapter two, the main objective for the IPR holder is to not have the IPRs exhausted. Contract restrictions expressing the IPR holder's intent regarding the sold item could be a source of proof to be taken into account when judging if there is consent or not. However, the CJEU has shown suspicion against contract terms attempting to apply post–sale restrictions. For example, in *Peak Holding*, the CJEU stated that a sale made directly by the proprietor is not also subject to the element of consent to trigger exhaustion.[105] Consequently, "[a]ny stipulation, in the act of *sale effecting the first putting on the market in the EEA*, of territorial restrictions on the right to resell the goods concerns only the relations between the parties to that act" and cannot preclude exhaustion.[106] In *Dansk Supermarked,*[107] a Danish company agreed with an English manufacturer that the English company would manufacture a china service and that sub–standard pieces (approximately 20 percent of the production), which were not delivered to the Danish company, could be sold in the U.K. but not exported to Denmark or other Scandinavian countries. The case came before the court after another Danish company bought a series of china services in the U.K. and marketed them in Denmark. The CJEU found, based on the rules of free movement, that the IPRs regarding the sub–standard china had been exhausted when they were lawfully marketed in a member state by the proprietor or with his consent. Furthermore, the contract term prohibiting export to Scandinavian countries could not be relied on to classify the marketing of

[101] Id., paragraph 48.
[102] Levin, p. 502.
[103] Bernitz, p. 408.
[104] Levin, p. 502.
[105] *Peak Holding*, paragraphs 52-53.
[106] *Peak Holding*, paragraphs 54-55, [my emphasis].
[107] Case 58/80, Dansk Supermarked A/S v A/S Imerco, [1981] ECR 181 [Dansk Supermarked].

imported goods as an improper or unfair commercial practice, as it would derogate from the rules of free movement. In *Zino Davidoff & Levi Strauss,* the CJEU stated that since consent may not be inferred by silence, "the preservation of [] exclusive right[s] cannot depend on there being an express prohibition of marketing within the EEA."[108] Therefore, national rules on sales restrictions against third parties are not relevant in a dispute concerning the preservation or extinction of IPRs between the proprietor and a subsequent trader in the distribution chain.[109]

In contrast to the suspicion against post–sale restrictions shown above, *Coty Prestige* taught us that a restricting contract term may preclude implied consent.[110] In *Copad*, the CJEU recognized that a trademark holder may invoke its rights against a licensee acting in breach of a license term on condition that the term is recognized in Article 8(2) in the Trademark Directive.[111] This despite that "[w]here a licensee puts goods bearing the mark on the market he must, as a rule, be considered to be doing so with the consent of the proprietor of the trade mark, for the purposes of Article 7(1) of the Directive,"[112] meaning that the proprietor may not rely on the contract in order to invoke trademark rights against the licensee.[113] Although *Copad* and *Dansk Supermarked* may seem similar, they are different in some respects; as the respondent in *Dansk Supermarked* was not a licensee, and the proprietor had consented to the putting on the market of the sub–standard china, where *Copad* assumes consent by license.

3.5.3 Post–Sale Restrictions' Enforceability in Contract Law

The secondary goal for the IPR holder, assuming that exhaustion is not affected by post–sale restrictions, would be to retain some control over the products even after exhaustion has occurred. Some cases explicitly state that the contract provision is a question of contract law alone and that it has no effect on the IPR or third parties; recall the holding in *Peak Holding* recounted above. Now, if the restriction is "only valid between the parties", it is subject to the laws of the EU just like any other contract term.

Under EU competition law, agreements that prevent, restrict or distort the competition in a manner that affects trade between the member states are prohibited according to TFEU Article 101(1). Agreements that do not affect trade between the member states are not prohibited and there are also other agreements that escape the application of Article 101(1) by means of the exemptions in Article 101(3). A prohibited agreement that is not exempted under Article 101(3) is automatically void, see Article 101(2). Agreements that improve production or distribution of goods or that promote technical or economic progress, while

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[108] *Zino Davidoff & Levi Strauss*, paragraph 64.
[109] Id., paragraph 65.
[110] *Coty Prestige*, paragraph 48 (see note 105 above).
[111] Case C-59/08, Copad SA v Christian Dior couture SA, Vincent Gladel and Société industrielle lingerie (SIL), [2009] ECR I-3421 [*Copad*], paragraph 51.
[112] *Copad*, paragraph 46.
[113] Id., paragraph 47.

allowing consumers a fair share of the resulting benefit, are exempt. The existence and exercise of IPRs are not of themselves incompatible with EU competition law, but will only violate competition rules in exceptional circumstances, in particular when the proprietor has market power and the exercise is likely to eliminate competition in the relevant market.[114]

The exemption in TFEU Article 101(3) is clarified in certain aspects by the block exemptions TTBER and VRR. It is important to note that TTBER is only applicable to technology transfer agreements, i.e. a licensing agreement (and not sales agreements) for the purpose of production or an assignment of rights for the purpose of production, see Article 1 of the TTBER. The "safe harbor" provided by the TTBER is only available for competing parties with a combined share of less than 20 percent of the relevant market and non–competing parties with a combined share of less than 30 percent of the relevant market, see Article 3 in the TTBER. Some restrictions are prohibited, no matter if the agreement otherwise would be exempted from TFEU Article 101(1), and the prohibitions are differently worded depending on if the companies are competitors or not. Some examples of prohibited restrictions are: price–fixing, output restrictions, allocation of markets or customers, restriction of licensee's ability to exploit its own technology rights, grant–back clauses and non–challenge provisions.[115]

The VRR exempts agreements between parties on different levels of the production or distribution chain. An agreement containing provisions regarding the assignment or use of IPRs by the buyer is exempted only if the provision is ancillary (not the primary object), directly related to the use, sale or resale of products by the buyer or its customers, and not restricting competition in a manner that is not exempted by the regulation, see Article 2(3) in the VRR.[116] In the case that the agreement includes an IPR license, it has been argued that the applicability of the VRR depends on the proximity of a contract to a vertical supply agreement rather than to a license, where the TTBER instead may be applicable.[117] Certain provisions in a vertical agreement will, however, take it outside the safe harbor provided by the VRR, for example: price–fixing terms, territorial restrictions, active or passive sales restrictions in selective distribution systems, cross–supply restrictions within a selective distribution system, non–compete obligations and indirect obligations to not sell competing brands.[118]

In *Consten & Grundig*, the CJEU struck down an agreement between the proprietor and an exclusive distributor containing restrictions that neither the proprietor nor other concessionaires or wholesalers would sell, actively or passively, products

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[114] COM(2008) 465 final, p. 9.
[115] TTBER, Articles 4-5. Further guidance on the TTBER may be found in Communication from the Commission – Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements, 2014/C 89/03.
[116] Further guidance on the provision may be found in the Guidelines on Vertical Restraints, 2010/C 130/01.
[117] Westkamp, 302 ff.
[118] VRR, Articles 4-5.

within the area of the exclusive distributor and that the exclusive distributor would register the trademark affixed to the proprietor's products so as to be able to prevent others from importing products into the area of exclusive distribution.[119] The agreement was found to distort competition in the single market by separation of national markets there within.[120]

IPR protection is not market power in itself.[121] Still, an IPR holder with a dominant position is subject to TFEU Article 102 when exercising the IPR. For example, refusal to license may violate competition law, as could a restriction on further distribution.[122] In *Sot. Lélos kai Sia*, the refusal by a proprietor with a dominant position to supply an existing customer without an objective reason was found to be abusive where it was liable to eliminate a trading party as a competitor.[123] An actor is presumed as having a dominant position if its share of the relevant market is 50 percent or more, while 40 percent or more usually is enough to find that the actor has a dominant position.[124] Although Article 102 does not have a provision similar to Article 101(2), rendering the agreement void if it violates the prohibition, it is likely that Article 102 has the same effect.[125]

If the contract term is not classified as anti–competitive, it may still violate the principle of free movement.[126] Agreements that have a market dividing effect have been held as against the rule of free movement.[127] It should be noted that the principle of free movement prohibits *between member states* quantitative restrictions on imports and all measures having equivalent effect, see TFEU Article 34. Nevertheless, if the enforcement of the term is considered a measure having equivalent effect, the contract term will only be left effective if it is within the *specific subject matter* of the IPR. Recall that the specific subject matter for trademarks is that the proprietor has the exclusive right to use the trademark to put goods bearing it on the market for the first time and to control their initial marketing in the EEA; and that the specific subject matter of patents is the exclusive right of first placing the product on the market. In *Dansk Supermarked*, the proprietor had restricted the English manufacturer to only sell the sub–standard china in the U.K. and not to the Scandinavian countries. That restriction could not be relied on as preserving IPRs that could be invoked against a third party importer because the IPRs had been exhausted when the sub–standard china was lawfully marketed in the U.K. by the proprietor or with his consent.[128]

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[119] *Consten & Grundig*, p. 343.
[120] *Consten & Grundig*, p. 343.
[121] Lidgard II, p. 257, see also *Deutsche Grammophon*, paragraph 16.
[122] Levin, p. 24.
[123] Joined cases C-468/06 to C-478/06, Sot. Lélos kai Sia EE and Others v GlaxoSmithKline AEVE Farmakeftikon Proïonton, formerly Glaxowellcome AEVE, [2008] ECR I-7139 [*Sot. Lélos kai Sia*].
[124] Bernitz, p. 393.
[125] Bernitz, p. 393.
[126] *Deutsche Grammophon*, paragraph 7.
[127] Lidgard I, p. 60, Lidgard II, p. 250.
[128] *Dansk Supermarked,* paragraph 12.

4 The United States Regulation

4.1 Introduction

The following comparative perspective provided by U.S. law will be concentrated to patent law, where interesting developments have taken place regarding the patent owner's right to control IPR protected objects following their sale. In 2008, the Supreme Court (hereinafter also "the Court") decided the first patent exhaustion case since 1942, *Quanta*.[129] The hope was that the Court in this case would resolve the uncertainties of the compatibility of the first sale doctrine and the conditional sale doctrine put forth by the Federal Circuit in *Mallinckrodt*.[130] However, *Quanta* did not mention *Mallinckrodt* at all, leaving uncertainties unsolved and creating new questions regarding the conditional sale doctrine's standing as good law.

This chapter includes a general introduction to U.S. patent law and exhaustion hereunder, followed by descriptions of the doctrines of "first sale" (or exhaustion) and conditional sale. Finally, the enforceability of post–sale restrictions in contract law is explored.

4.2 Patent Law and Exhaustion of Patent Rights

Protection for IPRs is long recognized in the U.S., as the U.S. Constitution authorizes Congress to grant exclusive rights in the form of copyrights and patents, see Article I, Section 8

> The Congress shall have power [...] To 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.

Consequently, IPR protection is given by federal law and laws instituted on the state level may be preempted to a certain extent.[131] Accordingly, the rights conferred by copyrights, patents and trademarks may be found in the Copyright Act, the Patent Act and the Lanham Act, respectively. The Copyright Act is the only statute containing a black letter rule of exhaustion.[132] There are no similar statutory exhaustion rules for patents or trademarks but the principle has instead developed in common law.

Federal courts have exclusive jurisdiction over patent matters.[133] Cases may be brought in district court and any appeal is under the jurisdiction of the Federal

[129] Quanta Computer, Inc. v. LG Electronics, Inc., 553 U.S. 617, 128 S.Ct. 2109 (2008).
[130] Mallinckrodt, Inc. v. Medipart, Inc., 976 F.2d 700 (Fed. Ct. 1992).
[131] Federal law preemption is described below in 4.5.3.
[132] 17 U.S.C. § 109 (a)-(d).
[133] 28 U.S.C. § 1338.

Circuit, whereby judgments may be appealed to the U.S. Supreme Court.[134] Applicable laws for the protection of patents are found in Title 35 of the United States Code (the "**U.S.C.**"). The inventor is granted rights to exclude others from exploiting the patented invention.

> [...] the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States, and, if the invention is a process, [...] products made by that process [...][135]
> Whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefore, infringes the patent.[136]

If the patent holder would exercise such a right to exclude, the accused infringer may use one of several defenses, for example: the doctrines of implied license and first sale.[137] In patent law, an authorized sale includes an *implied license* to use the patented article.[138] The idea is that the inventor, when selling the invention, implicitly grants the buyer a license to use it.[139] The *first sale doctrine* authorizes the buyer to use and sell the article. Also known as exhaustion, the first sale doctrine is the expression of the theory that the inventor surrenders the right to control the use and sale of the invention upon selling it to the buyer.[140] Exhaustion is effective, securing certain rights to the buyer, and the patent holder may not restrict use in a manner that would interfere with for example the right to repair.[141] The doctrine has been laid out in case law and was restated by *Quanta* as: "the initial authorized sale of a patented item terminates all patent rights to that item."[142]

There are two competing rationales for the exhaustion of patent rights by applying the first sale doctrine, the first being that "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward [...] by the sale of the article."[143] The prominent rationale is that the purpose of patent law is fulfilled upon the first sale of the product as the patent owner has the opportunity to collect its rewards for its invention. The second, alternative rationale is that the first sale doctrine rests on implied agreement and may be altered by express agreement or other circumstances.[144]

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[134] McJohn, p. 353-354.
[135] 35 U.S.C. § 154 (a)(1).
[136] 35 U.S.C. § 271.
[137] McJohn, p. 343-347.
[138] Id., p. 344.
[139] Id. See as developed in *Adams*, *Univis Lens* (full citation below) and mentioned in *Monsanto* (full citation below.
[140] McJohn, p. 344.
[141] Ghosh, p. 3.
[142] *Quanta*, at 625.
[143] See *Adams* and *Univis Lens*.
[144] McJohn, p. 344.

4.3 Alternative Rationales for Exhaustion

4.3.1 An Infringement Defense: The "First Sale" Doctrine

The 1800s

Preceding *Quanta* is a line of cases where the Supreme Court has developed the first sale doctrine. *Bloomer v. McQuewan*, decided in 1852, is often referred to as the first case where the Supreme Court applied the first sale doctrine.[145] The patent holder had sold the right to construct and use machines covered by the patent at issue. During the term of the patent, Congress extended the length of the term. The purchaser continued to use the machines after the original term had expired and the patent holder sued the purchaser for infringement. The Court rejected the claim of the patent holder, holding that the purchaser gained ownership of the machines made during the original term and that, accordingly, "when the machine passes to the hands of the purchaser, it is no longer within the limits of the monopoly".[146]

Two decades following *McQuewan*, in *Adams v. Burke,* a patent holder assigned its patent on coffin lids to a company with the restriction that the company only had the right to make, sell, and use the products within a ten–mile radius of the city of Boston. Adams, who had been assigned the remaining patent rights sued Burke for infringement by use of the coffin lids at a location seventeen miles from Boston. Burke had purchased the coffin lids, free of conditions or restrictions, in Boston by the company based there. The Supreme Court rejected the infringement claim, stating that "a purchaser [...] of a single coffin acquired the right to use that coffin for the purpose for which all coffins are used."[147] Furthermore, "[i]t would be to engraft a limitation upon the right of use not contemplated by the statute nor within the reason of the contract to say that it could only be used within the ten–miles circle."[148] This was motivated with the rationale that when "the patentee or his assignee having in the act of sale received all the royalty or consideration which he claims for the use of his invention in that particular machine or instrument, it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees."[149]

Early 1900s

In the early 1900s, the Supreme Court upheld post–sale restrictions on a patented article's use in *A.B. Dick*. The patent holder had sold a patented rotary mimeograph machine on which a notice was attached that the buyer was obligated to only use unpatented stencil paper and ink made by the patent holder in the operation of the machine. The Supreme Court held that the patent (regarding the machine) was not

[145] Bloomer v. McQuewan, 55 U.S. 539, 1852 WL 6732 (U.S.Pa.) (1852).
[146] *McQuewan*, at 549.
[147] *Adams*, at 456.
[148] Id.
[149] Id.

exhausted by the "first sale" because of the restriction placed on the buyer by the notice on the machine. Applying a rationale partly based on the implied license doctrine, the Court reasoned that where an unconditional first sale will transfer the patented object with an unrestricted implied license to use or dispose of the object, a conditional first sale (by means of an explicit restriction) limits the scope of the implied license and consequently the scope of exhausted rights.[150] In addition, previous to this conclusion, the Court noted "[t]hat defendants might be sued upon the broken contract, or for its enforcement, or for the forfeiture of the license, is [...] plain."[151]

A.B. Dick was followed by other Supreme Court cases that distinguished and ultimately overruled it.[152] In *Motion Picture Patents*, a patent holder limited the purchaser's use of its film projectors to show only film made under a patent held by the same company. The Court noted that, "the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents, but is 'to promote the progress of science and the useful arts'."[153] Finally, the Court recited the rule that, "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it."[154] It was obvious to the Court that its conclusions were such that *A.B. Dick* had to be regarded as overruled (i.e. that restrictions could not be used to preserve patent rights).[155]

Mid–1900s

The Court's most recent patent exhaustion case preceding *Quanta*, *Univis Lens*, was decided in 1942.[156] Univis Lens Company held patents on bi–focal and tri–focal lenses and licensed others to perform certain segments of the patent procedure and thereafter to sell the products to other Univis licensees, and finally consumers, at set rates. Univis was charged with violating the Sherman Act (i.e. violating antitrust rules) by using price–fixing terms. Univis used its patent as an asserted defense to the suit. The Court adopted the same rationale for patent rights as Adams: "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward [...] by the sale of the article."[157] The authorized sale of an object was a relinquishment of the patent monopoly with respect to the article sold. In the case that the article was not finished, the sale included an

[150] Henry v. A.B. Dick Co., 224 U.S. 1, 32 S.Ct. 364 (1912), at 26.
[151] *A.B. Dick*, at 14.
[152] See, Bauer & Cie v. O'Donnell, 229 U.S. 1 (1913); Straus v. Victor Talking Machine Co., 243 U.S. 490 (1917); Motion Picture Patents Co. v. Universal Film Manufacturing Co., L.R.A. 1917E, 1187, 243 U.S. 502, 37 S.Ct. 416 (1917) and Boston Store of Chicago v. American Graphophone Co. 246 U.S. 8 (1918).
[153] *Motion Picture Patents*, at 510 f., citing Pennock v. Dialogue, 2 Pet. 1, 7 L. ed. 327.
[154] *Motion Picture Patents*, at 516.
[155] Id., at 518.
[156] Univis Lens Co., Inc. v. United States, 316 U.S. 241, 62 S.Ct. 1088 (1942).
[157] *Univis Lens*, at 251.

implied license to finish the patent procedure, meaning that the patent holder could not preserve patent rights beyond the sale by selling unfinished lens blanks.[158]

The 2000s

It would be more than 60 years before the Supreme Court decided another patent exhaustion case. *Univis Lens* was confirmed by the Supreme Court in *Quanta.* LG Electronics ("LGE") had bought a portfolio of patents of which it later included a number of them in a license to Intel Corporation ("Intel").[159] The licensing arrangement between the parties was complex and included, as far as was relevant to the case, separate master and license agreements. The master agreement provided that Intel was to provide its buyers with a written notice that Intel's license did not extend to products made "by combining an Intel product with any non–Intel product". The master agreement also provided that a breach of it would not have any effect on – and would not be grounds to terminate – the license agreement.[160] The license agreement authorized Intel to, "'make, use, sell (directly or indirectly), offer to sell, import or otherwise dispose of its own products practicing the [licensed] patents" and included a clause stating that LGE and Intel would not grant licenses to third party buyers regarding combinations of licensed products with products not originating with either LGE or Intel. In addition, the license agreement stated that it was not intended to modify the effect of patent exhaustion. Quanta Computer ("Quanta") bought products from Intel that it used by combining them with other (non–Intel) products in a manner that the combination exercised LGE patents, ignoring the written notice provided by Intel in accordance with the master agreement. LGE sued Quanta for infringement of the licensed patents, who in turn, defended the use by arguing that the patent rights in the products had been exhausted.

The Supreme Court held that following an authorized first sale, post–sale restrictions on the use of the product cannot be enforced through a patent infringement suit.[161] While LGE argued that Intel was not authorized to sell products for use in combination with non–Intel products, the Court noted that the license agreement did not restrict Intel's right to sell products to third parties that intended to combine them with non–Intel parts.[162] Furthermore, the provision requiring notice to the buyers appeared only in the master agreement and even the breach of that agreement would not have challenged the validity of the license agreement. As a result, the Court found that the sale by Intel was authorized. LGE also argued that Quanta lacked a license to practice the patents, as stated in the license agreement, but the Court dismissed this argument by pointing to Quanta's assertion of right to practice the patents being based on the doctrine of exhaustion

[158] Id., at 249.
[159] The patents at issue in the case were *method patents* and *Quanta* presented the important holding that method patents are subject to exhaustion just like any other type of patent. For the purpose of this thesis though, I focus on the Court's reasoning regarding the occurrence of exhaustion and its comment on possible enforcement of post-sale restrictions.
[160] *Quanta*, at 623 f.
[161] Id., at 638.
[162] Id., at 637.

and not on an implied license.[163] Finally, the Court added a footnote to its judgment, noting that

> the authorized nature of the sale to Quanta does not necessarily limit LGE's other contract rights. LGE's complaint does not include a breach–of–contract claim, and we express no opinion on whether contract damages might be available even though exhaustion operates to eliminate patent damages.[164]

In its outline of the history of the exhaustion doctrine, the Court referred to the rationale behind patents as put forth in the Constitution and further observed by the *Motion Picture Patents* case.[165] Still referring to *Motion Picture Patents*, the Court cited the rule that "the right to vend is exhausted by a single, unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put upon it."[166]

The exhaustion doctrine has been upheld following *Quanta* in *Bowman v. Monsanto,*[167] regarding patented soy beans whose planting had been restricted to only one growing season. The Court held that while the purchaser would be free to consume the beans himself, feed them to his animals or sell them, the exhaustion doctrine did not allow him to make new patented beans. This is what he did by planting the beans and harvesting them.[168] The Court also emphasized the basis of the exhaustion doctrine as, "'[T]he purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward ... by the sale of the article'; once that 'purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold.'"[169] The Court added in footnote 3, that the exhaustion doctrine could not protect the purchaser in reproducing the beans, no matter where they were purchased (patent holder or other) and that the right to plant, harvest and market one crop followed from the license accompanying the beans.[170] In the event that the patent holder would sell the beans without such a license, the Court was of the opinion that the purchaser might reasonably claim that the sale came with an implied license to plant and harvest one crop.[171]

Quanta has received a lot of attention because of the specific facts in the case regarding the restrictions allegedly placed on Intel and subsequent buyers. The hope was that the Court would resolve the uncertainties of the compatibility of the first sale doctrine and the conditional sale doctrine arising from the Federal Circuits opinion in *Mallinckrodt*, described below. However, the Court did not

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[163] Id.
[164] *Quanta*, footnote 7 at 637.
[165] Id., at 626, referring to the U.S. Constitution and *Motion Picture Patents.*
[166] Id., at 626, referring to *Motion Picture Patents*.
[167] Bowman v. Monsanto Co., 133 S.Ct. 1761 (2013), (While the Federal Court adopted a reasoning based on *sui generis* protection for self-replicating technologies, the Supreme Court gave its opinion with a reasoning based on exhaustion not extending to reproduction of the product.)
[168] *Monsanto,* p. 1766 f.
[169] Id., p. 1766, referring to *Univis Lens*, at 251.
[170] Id., footnote 3, p. 1767.
[171] Id.

mention *Mallinckrodt* even in passing. Following *Quanta*, arguments have been made both for and against *Mallinckrodt* and the conditional sale doctrine still being good law. The principal arguments in that debate will be laid out following the presentation of the conditional sale doctrine.

4.3.2 The Partial Bargain: The Conditional Sale Doctrine

According to the conditional sale doctrine, a post–sale restriction placed in a sales agreement will preserve the IPR holder's right to invoke patent rights against the buyer (or subsequent buyers).[172] The doctrine is an alternative view of what satisfies the purpose of the federal patent statute of promoting innovation by allowing the patent holder to receive a reward for its invention. The idea is simply that the patent holder may make a partial bargain where the purchaser is restricted by contract because the patent holder retains some rights in the item in return for a lesser payment than the full value of the patent right.[173]

The Federal Circuit has upheld post–sale restrictions as preserving patent rights in two cases. In *Mallinckrodt*, the patent holder owned a patent on a device used for the delivery of medicinal materials in the form of an aerosol mist for treatment and diagnosis of lung conditions. The company manufactured and sold devices to hospitals along with an attached notice and a package insert containing the statement that the device was for a single use only. Ignoring these notices, some hospitals sent their used devices to a reconditioning company that cleaned and returned the devices to the buyers for reuse. Mallinckrodt sued the reconditioning company for infringement and inducement to infringe.

The *Mallinckrodt* court was of the opinion that not all restrictions on the use of patented goods are unenforceable and that the right to exclude may be waived in whole or in part.[174] Furthermore, the enforceability of the restriction did not rely on the structure of the transaction and the Court declined to make a distinction between the purchaser acquiring the product from a manufacturing licensee or a manufacturing patentee.[175] That opinion relies in part on *General Talking Pictures* as valid case law to form a base for the conclusion that exhaustion should not be dependent on the structure of the transaction, arguing that the parties should not be able to dispose of exhaustion simply through structuring the transaction.[176] *Mallinckrodt* also comments the case law on which the district court had relied as only establishing that price–fixing and tying restrictions are *per se* illegal but not

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[172] LaFuze, Chen, & Burke, p. 303.
[173] See B. Braun Medical, Inc. v. Abbott Laboratories, 124 F.3d 1419 (Fed. Ct. 1997), at 1426.
[174] *Mallinckrodt*, at 703.
[175] *Mallinckrodt*, at 705.
[176] *Mallinckrodt*, at 705.*General Talking Pictures* regarded a licensee selling the patented product in violation of the license and the court upheld the restriction on the license, stating that "the [licensee] could not convey to [the buyer] what both knew it was not authorized to sell." (General Talking Pictures Corp. v. Western Elec. Co., 304 U.S. 175, 58 S.Ct. 849, 82 L.Ed. 1273 (1938) and General Talking Pictures Corp. v. Western Elec. Co., 305 U.S. 124, 59 S.Ct. 116, 83 L.Ed. 81 (1938), collectively *General Talking Pictures*).

holding that *all* restrictions were illegal.[177] It further argued that a patent owner "should not be in a worse position, by virtue of the patent right to exclude, than owners of other property used in trade."[178] Accordingly, the conditional sale doctrine is limited to upholding restrictions that are "reasonably within the patent grant [without] having an anti–competitive effect not justifiable under the rule of reason."[179]

The Federal Circuit affirmed *Mallinckrodt* in *Braun*, also preceding *Quanta*. Braun had sold its products to another company for two types of uses, but explicitly excluded a third type of use that the parties instead continued to negotiate. The parties never reached agreement on the third use for the products and the buyer contracted with a third company to provide substitute products, which came to practice the patent that Braun owned. The Court recited that the exhaustion doctrine, "[did] not apply to an expressly conditional sale or license. In such a transaction, it is more reasonable to infer that the parties negotiated a price that reflects only the value of the 'use' rights conferred by the patentee."[180]

Mallinckrodt has been criticized for not clearly separating issues of restrictions placed on a purchaser when the seller is the patentee and when the seller is a manufacturing licensee.[181] Restricting terms in general were not disputed, since there was consensus regarding the recognition of restricting terms in licenses.[182] Rather, the controversy over *Mallinckrodt* related to the enforceability of restricting terms in an agreement between a purchaser and a manufacturing patentee. While licenses are relations in which the parties have interests, a sale confers property rights on the purchaser. The license is in essence an authorization by the proprietor to do something that otherwise would be considered an infringing act and if the licensee performs an act that is not authorized by the license, it is infringing on the proprietor's right.[183] A sale, in contrast, is not such an authorization; it conveys property rights and the owner of the product need no further authorization to use it.[184]

As noted above, *Quanta* did not mention *Mallinckrodt* at all. This is as expected, since the license agreement between LGE and Intel was found unconditional; the Court did not have a reason to address the conditional sale doctrine.[185] Conversely, the fact that the Court did not consider the possibility of Quanta being bound by the notice given by Intel suggests that the authorized sale triggered exhaustion and that the restriction could not preserve patent rights. In respect to these arguments, one may well note the distinction between the seller's capacity as authorized or not

[177] *Mallinckrodt*, at 704.
[178] *Mallinckrodt*, at 708.
[179] *Mallinckrodt*, at 708.
[180] *Braun*, at 1426.
[181] Stern, p. 465.
[182] See *General Talking Pictures*.
[183] Stern, p. 465.
[184] Id.
[185] LaFuze, Chen, & Burke, p. 309 f.

and the enforceability of a condition in a sale by an *authorized* seller. Another view on *Mallinckrodt*'s standing as good law is that *Quanta* indeed held that exhaustion makes *all* post–sale restrictions unenforceable, at least under patent law, but that is was silent on the question whether restrictions would be enforceable under contract law, as in *Mallinckrodt*.[186]

4.4 Enforceability of Restricting Contract Provisions in Contract Law

4.4.1 Introduction

Now, even though there are valid arguments to say that the conditional sale doctrine is still good law and not overruled by *Quanta*, it would still be a great risk to the patent holder to rely solely on this doctrine. One option is *not to transfer ownership* and instead license the distribution or use of the product. According to case law, an agreement that title does not pass will normally control the classification of the transaction.[187] Also recall that the *Quanta* court opened a door for the possibility to recover contract remedies. In order to successfully sue and recover remedies based in contract law, the term in question has to be enforceable in contract law. In addition, as being regulated by state law, the contract is subject to federal laws such as antitrust rules, patent misuse rules and also intellectual property rules; see further description on federal preemption of state law below.

4.4.2 Unenforceable on Grounds of Public Policy

Contracts are regulated by state law and, consequently, there may be differences between the states regarding specific rules. With that in mind, for the purpose of this thesis, the contract law rule will be retrieved from the Restatement (Second) of Contracts.[188] Under the Restatement, a contract clause may be unenforceable on grounds of public policy, § 178

> (1) A promise or other term of an agreement is unenforceable on grounds of public policy if legislation provides that it is unenforceable or the interest in its enforcement is clearly outweighed in the circumstances by a public policy against the enforcement of such terms.
> (2) In weighing the interest in the enforcement of a term, account is taken of
>   (a) the parties' justified expectations,
>   (b) any forfeiture that would result if enforcement were denied, and
>   (c) any special public interest in the enforcement of the particular term.
> (3) In weighing a public policy against enforcement of a term, account is taken of
>   (a) the strength of that policy as manifested by legislation or judicial decisions,
>   (b) the likelihood that a refusal to enforce the term will further that policy,

[186] WIPO, p. 15, paragraph 37.
[187] McJohn, p. 213.
[188] The Restatement (Second) of Contracts, developed by the American Legal Institute (ALI).

(c) the seriousness of any misconduct involved and the extent to which it was deliberate, and
(d) the directness of the connection between that misconduct and the term.

If the term is unenforceable due to public policy, it is generally considered void *ab initio* (the term may not be enforced upon either party's election), as opposed to voidable (the term is unenforceable on election by a party).[189]

With regards to the issue at hand, relevant policies are the public policies and objectives underlying patent law and the doctrine of exhaustion. The Supreme Court has held some contract terms unenforceable as interfering with patent law policy, such as a term where the buyer agrees to not challenge the validity of the patent because the term undermined the strong federal policy that invalid patents should not be enforced.[190] Also, a term where the parties agreed that royalties would be paid under a license beyond the term of the patent was held unenforceable because it extended the term of the patent.[191] Nevertheless, a term stating that royalties were to be paid for an unpatented invention was upheld where the Court found no conflict with specific patent law policy and also that the general goals of encouraging inventive activity and disclosure were furthered by the agreement.[192]

The Patent Act includes a provision reciting the policy and objectives of patent law, 35 U.S.C. § 200

> It is the policy and objective of the Congress to use the patent system to promote the utilization of inventions arising from federally supported research or development; [...] to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise without unduly encumbering future research and discovery; to promote the commercialization and public availability of inventions made in the United States by United States industry and labor; to [...] protect the public against nonuse or unreasonable use of inventions[...].[193]

Recall that the patent exhaustion cases described previously have recited rationales and objectives for patent law and exhaustion of patent rights. Regarding patent law, the incentive–to–create is recited in the U.S. Constitution. In respect to exhaustion of patent rights, the principal arguments are that the reward received upon the product's first sale fully gives the incentive to create (see for example *Adams* and *Univis Lens*) and that the circulation of goods should be promoted (see *Adams*). *Quanta* agreed with *Univis Lens* that the product moves outside the limits of the patent monopoly once it has been passed through an authorized first sale and the patent holder has been compensated for the relinquishment of rights.[194]

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[189] See discussion on "void" and "voidable" in Hogg, Bishop, & Barnhizer, p. 485 ff.
[190] See Lear v. Adkins, 395 U.S. 653 (1969).
[191] See Brulotte v. Thys Co., 379 U.S. 29 (1964), also mentioned under *Patent misuse*.
[192] See Aronson v. Quick Point Pencil, 440 U.S. 257 (1979).
[193] 35 U.S.C. § 200, added Dec. 12, 1980, Public Law 96-517, sec. 6(a), 94 Stat. 3018;amended Nov. 1, 2000, Public Law 106-404, sec. 5, 114 Stat. 1745.
[194] *Quanta*, at 631.

Public policies other than patent law policies that have rendered restricting contract terms unenforceable are the policies against restraints on alienation[195] and against restraints of trade. In respect to vertical agreements, the impact of these policies has shifted from holding vertical restraints as *per se* prohibited, to assess them on a case–by–case basis under the rule of reason.[196]

4.4.3 Unenforceable by Law

Federal Preemption of State Law

Apart from a term's enforceability under contract law, contract law's nature as state law also makes the enforceability of the term subject to the supremacy clause in the U.S. Constitution: Article VI, second paragraph:

> This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Courts apply three types of federal preemption of state law: (i) explicit preemption, (ii) field preemption (where federal law preoccupies the entire field) and (iii) conflict preemption, if (a) it would be impossible to comply with both federal and state law, or (b) state law stands in the way of accomplishment of the objectives of the federal law.[197] Patent law does not expressly preempt state law but the objectives of patent law have preempted conflicting state law according to the type of preemption under (iii) (b).[198] As an example, the Supreme Court has found in a line of cases that when a product is in the public domain, state law granting exclusive rights in the product is preempted.[199]

The very purpose of a post–sale restriction is to preserve a measure of control for the benefit of the patent holder, despite the product having been taken outside the limits of the patent monopoly.[200] Accordingly, the restriction, if viewed as frustrating or interfering with patent law objective as reflected by the doctrine of exhaustion would be unenforceable; alternatively, if the removal of access to patent remedies through the exhaustion of patent rights is enough to meet the objectives of patent law, the restriction could be enforceable.[201]

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[195] Black's Law Dictionary on **restraint on alienation: 1.** A restriction, usu. in a deed of conveyance, on a grantee's ability to sell or transfer real property; a provision that conveys an interest and that, even after the interest has become vested, prevents or discourages the owner from disposing of it at all or from disposing of it in particular ways or to particular persons.
[196] Server & Casey, p. 623.
[197] McJohn, p. 554 f.
[198] McJohn, p. 558 f.
[199] See Bonito Boats v. Thunder Craft Boats, 489 U.S. 141 (1989), Sears, Roebuck & Co. v. Stiffel, 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, 376 U.S. 234 (1964).
[200] Server & Casey, p. 604.
[201] Id.

Antitrust

The Sherman Antitrust Act prohibits anti–competitive conduct and results.[202] However, a patent holder acting within the limits of the patent monopoly is not subject to antitrust rules, as actions within the patent monopoly are the exercise of rights granted by federal (patent) law and supported by federal policy favoring the incentivizing of innovation. The Sherman Act prohibits some practices as *per se* anti–competitive, while others are scrutinized under a rule of reason, asking whether the challenged practice promotes or suppresses market competition.[203] Although possession of a patent does not give rise to a presumption of market power, an agreement made by a patent holder with market power or, for example, the practice of cross–licensing to control a market, may trigger antitrust laws.[204] A safe harbor is offered in 35 U.S.C. § 271 (d) for certain practices but does not provide patentees general immunity from antitrust laws.[205] Some examples of contract terms in violation of antitrust laws are: price–discrimination, "tying" clauses, bad–faith claims of infringement and fraud in obtaining patent rights.[206]

Patent Misuse

Patent misuse is a doctrine separate from antitrust law and does not require showing an antitrust violation.[207] It is an affirmative defense to a patent infringement claim and is applicable where the patent holder uses practices that effectively broaden the physical or temporal scope of the patent grant, with anti–competitive effect.[208] The patent is then unenforceable until the misuse ends and its consequences are dissipated.[209] Examples of terms held as attempts to broaden the scope of the patent are the tying clause in *Motion Picture Patents* and a royalty clause demanding the payment of royalties beyond the expiration of the patent term.[210]

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[202] 15 U.S.C. § 1-2.
[203] For an illustrative distinction between *per se* illegal and illegal by "rule of reason", see Justice Breyer's dissent in Leegin Creative Leather Products, Inc. v. PSKS, Inc. 551 U.S. 877, 127 S.Ct. 2705, (2007).
[204] McJohn, p. 347, see also Illinois Tool Works Inc. v. Independent Ink, Inc, 547 U.S. 28, 126 S.Ct. 1281 (2006).
[205] McJohn, p. 347.
[206] Id.
[207] Id.
[208] McJohn, p. 347, Server & Casey, p. 612.
[209] Server & Casey, p. 613.
[210] See *Brulotte.*

5 Analysis

5.1 Introduction

In the introductory chapter of this thesis, I sought answers to two questions: (1) whether the proprietor may control when exhaustion occurs by use of post–sale restrictions and (2) if the post–sale restrictions will secure control through contract over objects incorporating the IPR after they have been sold. As to whether post–sale restrictions would affect the occurrence of exhaustion, I have laid out the elements of exhaustion to see what they are and how they are evaluated. The development in the EU is mostly uniform while the U.S. view on post–sale restrictions' effect on exhaustion can be said to have two alternatives offering different solutions. In the case that restrictions do not affect the occurrence of exhaustion, the question arises whether they are enforceable under contract law and thereby would offer the proprietor recourse. In any case, a law and economics perspective on these questions is motivated by the legal system surrounding IPRs being fundamental and closely linked to economic efficiency in market economies, as it establishes possibilities for the proprietor to recoup investments and also promotes the dissemination and trade of objects incorporating IPRs.

My reflections are divided into four topics. I will begin by presenting my concluding remarks on the EU and U.S. chapters and then continue with reflections on the U.S. views from an EU perspective before I critically assess the EU regulation from an economic efficiency perspective.

5.2 Concluding Remarks on the EU Chapter

5.2.1 The Exhaustion Doctrine

The negative effects of national IPRs on fundamental EU principles and the express EU undertaking of creating an internal market with free movement of goods were soon recognized and early CJEU case law, consequently, limits the exercise of national IPRs. Today, IPRs have become important instruments for the EU to further technological development and the doctrine of exhaustion serves as an aid to perfect competition on the internal market. The establishment of the internal market is supported by EU competition law and the principle of free movement of goods and these are the primary rules underlying the exhaustion doctrine, balancing the exercise of IPRs.

The exhaustion doctrine is expressed as prohibiting the proprietor to invoke IPRs in respect to goods put on the market by the proprietor or with his consent. While several alternative interpretations of the elements of the doctrine have been argued and suggested, the closer meaning of the rule has been laid out in case law, as the CJEU has interpreted the different elements. In respect to the definition of *goods*, the CJEU interpreted the Trademark Directive in *Sebago* and held that exhaustion only is effective in respect to individual items. The goods then have to be *put on the market* and the CJEU stated in *Peak Holding* that the interpretation in this respect has to be uniform in the Community legal order. Furthermore, the interpretation of the required act is that exhaustion is triggered by a sale through which the right holder can realize the economic value of the IPR. An offer to sell is not sufficient to satisfy the element, as this does not transfer the right to dispose of the good (bearing the trademark) to the buyer and it does not allow the proprietor to recover its reward (the economic value of the trademark). The rationale behind the CJEU's reasoning was that trademark law should contribute to undistorted competition.

The CJEU defined the relevant territory in *Silhouette* as the EEA and also stated that an interpretation where member states could provide exhaustion rules regarding acts outside the relevant territory would be contrary to the wording, scheme and purpose of the Trademark Directive. The solution chosen, with complete harmonization of the rules relating to the rights conferred, was the only solution capable of fully ensuring that the purpose of the Trademark Directive is achieved, to safeguard the functioning of the internal market. Exhaustion occurs if the goods have been put on the market *by the proprietor* or with his consent; if it is done by the proprietor or someone sufficiently linked to the proprietor, the CJEU will not evaluate whether there is consent. The relationship with the proprietor substitutes for consent. Compulsory licenses are excluded, as it has to be a voluntary disposition.

The act of putting the goods on the market, if it is not the proprietor or someone sufficiently linked to him, has to be *with the proprietor's consent*. Consent is to be given a uniform interpretation in the EU according to *Zino Davidoff & Levi Strauss* and it has to be given for individual objects, according to *Sebago*. The reason for consent to have a uniform interpretation is that, if it did not have a uniform interpretation (but would be judged according to national law), the protection of IPRs could vary throughout the Community. Consent may, according to *Zino Davidoff & Levi Strauss,* be express or implied but not inferred from the proprietor's silence. Consent can be found previous to, simultaneously or after the goods has been put on the market. Implied consent is precluded if the proprietor has applied express restrictions. Conclusively, we have deduced a rule of exhaustion prohibiting the proprietor to invoke IPRs in respect of an individual object, sold within the EEA, by the proprietor or someone linked to him, or with his express or implied consent.

I would like to make some comments on the CJEU's judgment in *Peak Holding*. The judgment could be interpreted as that: if the bar for satisfaction of the *put on the market* element would be set at "merely" an offer to sell, it would be harmful to competition in the manner that competitors may dispose of the goods without the proprietor having realized its rewards. This judgment (or others, also decided regarding the Trademark Directive) could be argued as being specific for trademark law, and if they are, the development in patent law may look quite different. The specific subject matter of trademark is that the proprietor is in control over the quality of the goods and their putting on the market and the specific subject matter of patents is that the proprietor has the exclusive right to first put the good on the market. The difference lies in the possibility of the trademark holder to restrict free movement of the goods in order to secure their quality. A patent holder does not have the same leverage and a patent exhaustion case may not warrant an equally strict judgment from the CJEU. However, if the CJEU focuses on its reasoning behind not finding offer for sale as sufficient in trademark cases – i.e. the "transfer to third parties [of] the right to dispose of the goods" is part of triggering exhaustion, and that an offer would "not [be] allow[ing] the proprietor to realize the economic value" – it seems reasonable that these arguments could be applied to patent law as well. An observation is that it seems farfetched that the CJEU would evaluate, *in fact,* if the proprietor has received his reward. A more reasonable assumption would be that it is the *possibility* to realize the rewards that is the right criteria.

The question of to whom the sale has to be made to satisfy the element has not been addressed by the CJEU but some alternatives have been suggested. I would like to change the perspective, and ask instead: when is it *not* a sale satisfying the element, i.e. when are restrictions enforceable because exhaustion has not occurred? I argue that the answer lies in the relationships that satisfy the element of consent. A sale to a buyer, whose further commercialization of the goods would exhaust IPRs due to the buyer's link to the proprietor, should not exhaust the IPRs. In reverse, a sale to a buyer who is not linked to the proprietor in such a way – a third party – who instead would require the proprietor's consent to further commercialize the goods, should exhaust the IPRs. In this manner, the different elements of the rule are consistent and also, in my opinion, in alignment with competition law. A sale to a third party should reasonably exhaust the IPRs, otherwise the proprietor would be able to control large sections of the market by means of its IPR.

Most of the elements of exhaustion are questions of fact, objectively decided. The elements that a proprietor might argue to avoid exhaustion in a case where restrictions have been used, are (1) that it is not a sale but instead a license, (2) that there are no sufficient links to the proprietor and (3) that there is no consent. I will not discuss option (1) (Restrictions between the proprietor and a party that is sufficiently linked to him are not of relevance for this thesis unless it is argued that a sale between the parties would trigger exhaustion and I do not argue that this is the case.) but options (2) and (3) are of main concern. The proprietor could argue that there are no sufficient links to him and if he succeeds in proving that, the other party would, as a third party, have to prove that the proprietor has consented to the further commercialization of the goods (within the EEA). Consent is only at issue when it is a third party without links to the proprietor that is commercializing the goods. As we have seen in the line of cases that have laid out the elements of exhaustion, there is a difference between *consent in the negative* (negating consent by the use of restrictions) and *consent in the positive* (expressing consent). Naturally, consent in the positive will satisfy the element. Consent in the negative will, however, only preclude a finding of implied consent (see *Coty Prestige*). As a result, my conclusion is that the proprietor cannot control when exhaustion occurs through the use of post–sale restrictions, other than avoiding a finding of implied consent.

5.2.2 The Enforceability of Post–Sale Restrictions in Contract Law

Post–sale restrictions may still preserve some measure of control for the proprietor even if they do not preserve IPRs, by deterring the buyer from unwanted behavior by threat of being charged with breach of contract. There is no sign that restrictions are invalid between the parties, unless they are anti–competitive or against the principle of free movement. Such a restriction, even if only enforced by contract law, is by nature attempting to preserve rights similar to IPRs. Therefore, it can be assumed that the main threats against its enforceability are the same rules that have limited the exercise of IPRs, namely the principle of free movement and competition law. Normally, if the restriction is challenged as restricting the free movement of goods, the proprietor would argue that the restriction of free movement is warranted to protect the specific subject matter of the IPR. Nevertheless, the chances of succeeding with such an argument – when the IPR has been exhausted and the issue is exclusively contractual – are in my opinion slight. Consequently, the IPR holder is bound by the same rule of free movement as any other proprietary passing title in an object.

In regards to competition law, the restriction will be judged under two provisions: the rule prohibiting agreements that prevent, restrict or distort competition between member states and the rule prohibiting the abuse of a dominant position. The prohibition on anti–competitive agreements is only applicable if the anti–competitive effect is between member states. That effect may vary depending on the type of the restriction. A territorial restriction, where the buyer is prohibited to further commercialize goods into certain other member states, would be at risk of violating the provision. Other restrictions may not be as at risk: for example field–of use restrictions. An agreement that otherwise prevents, restricts or distorts competition may escape application of competition rules by the exemption that allows for agreements that improve production or distribution of goods or that promote technical or economic progress, while allowing consumers a fair share of the resulting benefit. Two block exemptions clarify this exemption and provide for safe harbors for agreements that are anti–competitive but have an overall effect of such a nature that they are exempt: the TTBER and the VRR. The TTBER is not of interest here since IPRs are not exhausted under license agreements and the TTBER is concerned with licenses. As a result, it is not of any help to the proprietor in the issue at hand. The VRR could offer recourse but is only applicable in vertical agreements. It is only applicable on IP licenses if the licensing is ancillary to the "actual" agreement. Again, as we are not concerned with an IP license, this is not an issue. With regard to the provision prohibiting abuse of a dominant position, a proprietor of an IPR is on level with other, non–IPR holding, dominant position holders in this case. The IPR has been exhausted and any restrictions in the contract will be judged independently and with the dominant position in mind.

Conclusively, a post–sale restriction imposed by contract with the intent to preserve some measure of control for the proprietor by deterring the buyer by threat of being charged with breach of contract, will not have any advantage of the exhausted IPR. However, if the agreement instead is vertical and the primary object of it is not the licensing of an IPR, the VRR could exempt the agreement from being struck down as anti–competitive. The fact that the agreement containing the restriction is regarding an object incorporating the IPR has no bearing on the evaluation on whether a proprietor has abused his dominant market position.

5.3 Concluding Remarks on the U.S. Chapter

5.3.1 The First Sale Doctrine

In the U.S., the doctrine of exhaustion, referred to as the "first sale" doctrine, has developed in case law. Recently, in 2008, the U.S. Supreme Court decided its first patent exhaustion case since 1942, *Quanta*. The *Quanta* court stated that the initial authorized sale of a patented item terminates all patent rights to that item. Two underlying rationales have been pointed out to motivate the "first sale" doctrine: (1) the sale of the object embodying the patent includes an implied license and (2) the (new) owner of the object has a proprietary right to use it and a restriction would be an unjustified restriction on alienation. The cases leading up to *Quanta* have been mostly uniform: *McQuewan* held that a sale passes the object outside the patent monopoly and *Adams* followed by holding that the sale conferred upon the purchaser the right to use the object for the purpose that all such objects were used and that when the patentee receives full royalty in the sale, the object is open to the purchaser's use without further restriction on account of patent monopoly. For a brief moment, a restriction preserved patent rights because it was in fact a limited implied license according to *A.B Dick* but *Motion Picture Patents* overruled the permissive decision towards restrictions in *A.B. Dick* and held that the right to vend is exhausted by a single unconditional sale. The purpose of patent law is to promote progress of science and art and, accordingly, to reward the patentee for his invention. Aside from *A.B. Dick*, the Supreme Court seems to have been, through time, unanimous in its decisions; following a passing of title to an object embodying a patent, the patentee may not invoke his rights to prevent the buyer from disposing of the object.

5.3.2 The Conditional Sale Doctrine

The lower court, the Federal Circuit, argues that it is not bound to follow all the Supreme Court cases and instead reasons that there also is room for another view on post–sale restrictions. It has upheld post–sale restrictions in two cases, *Mallinckrodt* and *Braun*, holding that not all restrictions are unenforceable but that some restrictions preserve patent rights for the patentee. The rationale was that the proprietor may renounce his rights in whole or in part and that a partial bargain, made for only part of the patent rights, is enforceable because it puts a limit on the implied license granted to the purchaser. The Federal Circuit recognized that restrictions such as price–fixing and tying clauses were prohibited *per se* but reasoned that other restrictions should be evaluated just as any other provisions in a contract. The clause will be effective in preserving patent rights if it is valid between the parties.

The standing of *Mallinckrodt* and *Braun* as good law following the *Quanta* decision by the Supreme Court has been debated. As the *Quanta* court explicitly held that the license agreement between LGE and Intel was not restricted, the arguments made that *Quanta* did not decide upon an issue of a conditional sale are reasonable. However, this would not resolve questions about the fact that the restriction was placed by Intel, and not LGE, on Quanta. In any case, *Quanta* did not mention either *Mallinckrodt* or *Braun* and it would be bold to argue that they are overruled, despite them being omitted in the judgment. It would be more reasonable to argue that *Quanta* simply did not express *any* opinion on these cases from the Federal Circuit.

At this point, I would like to pick up on the earlier comment that a difference should be made in the distinction between the seller's capacity as authorized or not and the enforceability of a condition in a sale by an *authorized* seller. As noted in the chapter on the conditional sale doctrine, the controversy of *Mallinckrodt* was not whether restrictions could be used or not, as they are recognized in license agreements (recall *General Talking Pictures*) as having the effect that the licensee cannot convey to the buyer what both knew the licensee was not authorized to sell; but, the controversy of *Mallinckrodt* regarded the enforceability of a restriction placed in an agreement by an *authorized* seller. My interpretation of this, together with other case law, is that a restriction placed in a sales agreement by an authorized seller intends to affect the exhaustion of patent rights while a restriction in the license agreement is intended to affect the *authority* of the licensee. *Mallinckrodt* approves of both uses. Applied on *Quanta*, there was indeed reason for the Court to address the doctrine of conditional sale because the licensee was authorized to make the sale and the question was actually if the authorized seller could insert a restriction that would preserve patent rights. The issue remains unaddressed.

The lower courts may, if similar cases are filed, choose to argue that the Supreme Court in fact did overrule *Mallinckrodt*; or they could choose to follow the Federal Circuit precedent. Another argument that these courts may use is that they cannot follow the rule put forth in *Mallinckrodt* because it is the same rule that was stated in *A.B. Dick,* which was overruled in *Motion Picture Patents*. In *A.B. Dick*, the Supreme Court stated that where an unconditional first sale will transfer the patented object with an unrestricted implied license to use or dispose of the object, a *conditional* first sale (by means of an express restriction) limits the scope of the implied license and consequently the scope of exhausted rights. Similarly, *Mallinckrodt* stated that the right to exclude may be waived in whole or *in part* and upheld the restriction as neither *per se* unenforceable, nor unenforceable for other reasons, and accordingly enforceable as preserving patent rights. Because the rules put forth in *A.B. Dick* and *Mallinckrodt* are similar (some would argue that they are identical), an argument can be made that *Motion Picture Patents*, as standing Supreme Court precedent, and overruling *A.B. Dick*, also invalidates the rule stated by the Federal Circuit in *Mallinckrodt.* When the Federal Circuit decides a case upon appeal, it is likely to follow its own precedent and uphold *Mallinckrodt* and the conditional sale doctrine. Conclusively, it does in fact look like there are two parallel doctrines regarding exhaustion of patent rights in the U.S. currently, and that the Supreme Court, for some reason, declined to address the compatibility of them within the framework of the fact pattern present in *Quanta*. The application of either doctrine in the lower courts will depend upon what set of arguments the court is inclined to side with.

5.3.3 Enforceability of Post–Sale Restrictions in Contract Law

The restriction may, even though it does not preserve patent rights, be enforceable in contract law and serve the patent holder as a second option of recourse. There are several grounds of unenforceability that a contract drafter has to regard. *Patent misuse* is an affirmative defense that the buyer may argue in a patent infringement claim, meaning that the proprietor has extended the physical or temporal scope of the patent (by contract) with an anti–competitive effect. Patent misuse does not require a showing of a violation of antitrust law, as it is an independent doctrine. However, *antitrust* is similar in the manner that the patent holder for the most part is "safe" as long as he acts within the grant of the patent and that he may be at risk to violate antitrust rules if he ventures outside of the grant by preserving patent–like control through restrictions. Indeed, some restrictions are prohibited *per se*, such as price–fixing or tying clauses; while others are judged according to the rule of reason, asking whether the challenged practice promotes or suppresses market competition.

A judgment of a term under antitrust rules requires that the scope of the patent grant is known. The express scope of the patent grant is found in law, where the rights conferred are found and an argument that the scope extends further would have to be supported by the objectives of patent law. The exact scope of the patent grant is also relevant in respect to *federal preemption* of state (contract) law. As we have seen in case law and in the Patent Act, the objective of U.S. patent law is to promote progress in science and the useful arts and that accordingly, the right should secure that the proprietor receives his reward for his invention by the first sale of objects embodying the patent. The exhaustion doctrine then acts as a balancing act, allowing for the dissemination of objects after the proprietor has received his reward for that object. As we may deduce that the very purpose of a post–sale restriction is to preserve control to the benefit of the patent holder beyond the limits of the patent monopoly, the question we need to answer is whether the removal of patent remedies by exhaustion of patent rights is enough to satisfy the objective of patent law. I would argue that the removal of patent remedies by exhaustion of patent rights is in fact enough to satisfy the objective of patent law, and that a restriction otherwise enforceable under contract law should not be preempted by federal law as against the objectives of patent law.

5.4 Comparison

5.4.1 Introduction

Both the EU and the U.S. are advanced, developed, market economies with all possibilities present to drive technological development forward. The two main points that I would like to discuss following the conclusions on their separate chapters are: (1) that U.S. law has an alternative reasoning behind the exhaustion doctrine that allows for limitation of exhaustion, and (2) that there is a difference between the two jurisdictions regarding their treatment of exhaustion upon a sale by a licensee.

5.4.2 An Alternative Rationale to the Doctrine of Exhaustion

As noted in the conclusion on the U.S. chapter, it does in fact look like there are two parallel doctrines regarding exhaustion of patent rights in the U.S. at the moment. While the one is similar to the EU rationale – that following the proprietor receiving his reward, the IPR cannot be invoked to control the object – the other is not. The alternative U.S. rationale is that the right for the buyer to use the object is given by an implied license included in the sale and that accordingly, the proprietor may control the scope of that license by express contract.

The CJEU has held that the element of consent should be given a uniform interpretation and should accordingly be open to be give the term whatever content is necessary based on its own merits in an EU perspective. In theory, the CJEU would then be free to allow for an implied license reasoning. Per my analysis, however, it is unlikely that this reasoning would be recognized by the CJEU. Recall the case *Zino Davidoff*, where Judge Laddie found, by construing consent according to national law, that the buyer is unrestricted in his disposition of the goods *unless restricted by contract*. The CJEU answered the referred questions by holding that implied consent may not be inferred from the mere silence of the proprietor and it may not be inferred from: (i) the fact that the proprietor fails to communicate their opposition against subsequent marketing within the EEA, (ii) that the goods are not marked with a warning that prohibits their placing on the market within the EEA, (iii) that title has been transferred without restriction and that in such absence of restrictions, the governing law of the contract includes at least a right to market the goods subsequently within the EEA. Conclusively, a rationale for exhaustion based on implied license cannot be found at the present in the EU and is not likely to be recognized by it, even if would be argued.

5.4.3 Exhaustion's Dependency of the Transaction's Structure

The second comparative point I would like to discuss is a difference between the two jurisdictions regarding their treatment of exhaustion upon a sale by a licensee. In the U.S., there is standing precedent that holds restrictions in a licensing agreement as enforceable against third parties. The Supreme Court held, in *General Talking Pictures*, that the licensee could not convey to the buyer what both knew it was not authorized to sell. Accordingly, the IPRs were not exhausted because the licensee had not made an authorized sale. In contrast, the rule under EU law is that the sale by a licensee, as a party sufficiently linked to the proprietor, exhausts IPRs without evaluating whether there is consent. The issue of the proprietor's consent is only a factor when it is a third party making the sale. The U.S. perspective was criticized by the Federal Circuit in *Mallinckrodt*, as it pointed out that exhaustion should not be dependent on the structure of the transaction –sale by a proprietor as opposed to sale by a manufacturing licensee – also arguing that the parties should not be able to dispose of exhaustion simply through structuring the transaction. This is a valid point, and I believe that the EU model is better balanced as a licensee, by its relationship with the proprietor, makes exhausting sales. This will prevent the use of intermediary manufacturing licensees to contract around the exhaustion doctrine.

A possible reason to this difference is the jurisdiction's view on agent law. A licensee has a legal authority (legal capacity) and the proprietor may give the licensee terms of reference that limits what actions the licensee is allowed to take. The difference between the two boundaries – the legal authority and the terms of reference – is their effect in respect of third parties. While an act taken by the licensee within the legal authority but outside the terms of reference cannot be challenged by the proprietor but the licensee may be liable for breach of contract, an act taken outside of both the legal authority and the terms of reference can be challenged by the proprietor and also make the licensee liable for breach of contract. Applied to the two different views on exhaustion upon a sale by a licensee in the EU and the U.S., it may be argued that, the terms of the license agreement in the EU are terms of reference rather than the boundaries of the legal authority, while in the U.S. the terms decide the boundaries of the licensee's legal authority. I find the EU view more reasonable, as it will promote foreseeability for third parties outside of the license agreement and, as a result, trade in those objects. The limitations put on the licensee are by agreement and only of interest between the contracting parties. Accordingly, the proprietor should be limited to recover breach of contract remedies from the licensee rather than being able to invoke IPRs against the third party buyer.

5.5 Economic Efficiency

5.5.1 Intellectual Property Rights and the Dynamic Economic Efficiency Theory

The economic method assumes a state of general equilibrium where the benefit to society is greatest; supply and demand meet where the marginal cost for producing the last unit is equal to the price that a consumer is willing to pay for it. General equilibrium is the market model for the *static efficiency* theory and it builds on utility–maximizing consumers and profit–maximizing companies acting in a market where competitive forces lead to the equality of marginal benefit and marginal cost. Perfect competition on the market is essential for general equilibrium and anything that prevents perfect competition is called a *market failure*. Market failures may come in different forms, monopoly and market power being one. This is the reason why IPRs do not easily fit into the static efficiency market model; they grant the owner a monopoly–like position on the market by law, which is exactly the kind of market failure that the legal system normally plays a large role in removing. Under the *dynamic efficiency* theory, however, IPRs fit more readily in. The theory does not have a clear market model like the static efficiency theory and it rests on more factors, such as pricing, supply and demand as well as the generation of and competition by new technology. In contrast to the static efficiency theory, the dynamic efficiency theory accepts some inefficiencies in competition if they are due to the promotion of technological development as this has the potential to and often outweighs the benefit of perfect competition. Accordingly, IPRs are not only market failures under the dynamic efficiency theory but also beneficial to the market. However, it is critical to the efficiency of the market that a balance is struck where the benefits of IPRs outweigh their negative effects on the market.

Despite that IPRs are actual property rights whose grant and existence lies exclusively with the EU's member states, they are recognized as important instruments to the market by the EU. The creation of the internal market is a fundamental goal of the EU and can be seen as an ambition to create a state of general equilibrium. The internal market shall be free of internal borders, promoting free movement in several categories and provide for free competition. Stress has been placed by the EU's institutions on the creation of an economy based on knowledge and innovation and it is seen as essential to the single market and in making the "fifth freedom", the free movement of knowledge, that there is a clear regime for IPRs. I agree that it is essential that the regime is clear and foreseeable, as any uncertainties would cause the market actors to approach their transactions with more caution and result in a rise of transaction costs.

5.5.2 Effects of Intellectual Property Rights on the Market

Applying the dynamic efficiency theory on IPRs, they are beneficial to the market as they will contribute to technological development and competition. However, if the protection is too strong, the negative effects of IPRs as market failures may outweigh the benefits they bring. The same could be argued regarding too weak protection: the incentive to invest in research and development would not be enough to render the level of technological development that would benefit the market enough to outweigh the negative effects of IPRs as market failures. The grant of an IPR is not absolute: it is subject to certain conditions and is, aside from the doctrine of exhaustion, also limited in time (certain exceptions apply to trademarks), by territory and scope of protection. In that manner, consideration has been made of their negative effects on the market. The exhaustion doctrine then operates as a balancing instrument, allowing the proprietor to recoup his investments (the incentive to create) and preventing him from unnecessarily keeping the products from being freely traded on the market.

5.5.3 Post–Sale Restrictions' Effects on Exhaustion as an Efficiency–Balancing Instrument

Deciding the content of the exhaustion doctrine is a balancing act, where the question is how far the goods should be allowed to penetrate the market structure before they become free of the proprietor's control. Exhaustion has to occur late enough for the proprietor to receive his rewards, any sooner and he will not have the incentive to create. Conversely, exhaustion has to occur soon enough that the goods are not burdened by the proprietor's exercise of control when they instead should be freely traded on the market. Assuming that balance is struck and exhaustion occurs at a time most beneficial to the economic efficiency of the market, post–sale restrictions, if preserving IPRs, would disturb that balance. The only reason from an economic efficiency perspective to allow post–sale restrictions to affect exhaustion and preserve IPRs would be if the exhaustion doctrine does not promote economic efficiency in an optimal way; then, the post–sale restrictions could "correct" this inefficiency by setting the point of exhaustion at a more optimal point in time.

I argue that balance should be found as early in the process as possible, preferably by the exhaustion doctrine. Consequently, I argue that economic efficiency would not be promoted if post–sale restrictions would be allowed to preserve IPRs. In contrast, my analysis regarding these restrictions in contract law is that economic efficiency would not benefit from a stricter approach against such a contract. Outside IP law, there is a working system in place for all contracts, no matter if the subject matter relates to objects incorporating IPRs. To apply stricter rules to a contract relating to objects incorporating IPRs would have no purpose and would affect all – not only the proprietor – who would trade in such objects. After the IPR is exhausted, the owner (IPR holder or not) of the object has to play by the same trading rules as for all other merchandise. As a result, I find no benefit to economic efficiency if post–sale restrictions in a contract regarding an object incorporating an IPR would be prohibited only for the reason that it regards such an object.

5.6 Final Conclusions

This thesis analyzes two different legal systems in respect to IPR exhaustion and the effect on exhaustion by post–sale restrictions. The conclusions drawn from the EU and U.S. chapters identify the elements of exhaustion, so as to predict how the proprietor may argue that one or more elements have not been satisfied. Post–sale restrictions' enforceability in contract law has also been outlined under both headlines. In short, the proprietor may not – neither in the EU, nor in the U.S. – control when exhaustion occurs by the use of post–sale restrictions, unless permitted in the U.S. by the conditional sale doctrine. Apart from this odd bird challenging the established rationale of U.S. patent exhaustion, both systems appear to be working towards the same goal by the same means. The enforceability in contract law of post–sale restrictions is independent of the object incorporating an IPR and the drafter has to observe the same boundaries of unenforceability as for other agreements, although restrictions preserving patent–like protection in the U.S. are at risk to be held unenforceable by federal preemption of state law.

The two main points discussed in the comparison between the two systems are: (1) that U.S. law has an alternative reasoning behind the exhaustion doctrine that allows for limitation of exhaustion, and (2) that there is a difference between the two jurisdictions regarding their treatment of exhaustion upon a sale by a licensee. I conclude that a rationale for exhaustion based on implied license cannot be found at the present in and is not likely to be recognized by the EU, even if it would be argued. Regarding the difference in a licensee's ability to make an exhausting sale in violation of restrictions placed upon it by the proprietor, U.S. law holds the restrictions enforceable in IP law where EU law does not.

Finally, from an economic efficiency perspective, it is critical that a balance is struck where the benefits of IPRs outweigh their negative effects on the market. Assuming that balance is struck by exhaustion occurring at a time most beneficial to the economic efficiency of the market, post–sale restrictions – if preserving IPRs – would disturb that balance. In contrast, I find no benefit to economic efficiency if post–sale restrictions in a contract regarding an object incorporating an IPR would be unenforceable in contract law only for the reason that it regards such an object.

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