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The European Union and United States Approach to Repair and Reconstruction of the Patented Invention

SPANDANA NAGESHKUMAR¹

ABSTRACT

The grant of patents to the inventors of the products gives them a competitive edge in the market place. The inventor or owner of the patent has an exclusive right to prevent anyone else from making, using, or selling the invention for a limited period of time. However, certain rights of the patent holder are exhausted post-sale of the patented product, i.e. the patent proprietor cannot restrict the buyer of the product from repairing it in order to maintain it in the functional condition. This paper intends to compare and contrast approaches adopted by the United States and European Union Courts to draw a fine line between the reconstruction of the product which amounts to patent infringement and permissible repair. It traces the history of the doctrine of exhaustion and analysis various landmark judgements passed by the courts in both the jurisdictions to ensure the balance between protecting the rights and interests of the patent holder and the consumer of the product.

I. INTRODUCTION

A patent is an exclusive right given to the inventor which enables him to commercially exploit his invention for a certain period of time. It thwarts the third party from manufacturing, using, selling, or importing the patented product without the consent of the patent holder. The sale of the patented goods results in exhaustion of the patent holder's right over the product. The purchaser of the product can use it in the manner he wants. He has a right to use, resell, or dispose of the product. The right to use includes the right to repair. The buyer does not have to take prior permission from the patent holder in order to carry out a repair which is necessary to keep the product in the functional condition. However, the purchaser cannot reconstruct the product. Reconstruction of the patented product is considered as patent infringement in most of the countries. This paper analysis the European Union (EU) and the United States (U.S)

¹ Author is a student of L.L.M. in Intellectual Property and Information Technology Law at Trinity College Dublin, University of Dublin, Ireland.

approach to repair and reconstruction of the patented product. Both EU and U.S do not have statutory law which governs the repair and reconstruction of the products. The EU and the U.S resolve the disputes regarding the repair and reconstruction of patented products by taking the facts and circumstances of the case into consideration. However, they both have adopted a different approach to distinguish between the permissible repair and prohibited reconstruction. This paper outlines the history of the doctrine of exhaustion in the EU and the U.S, compares and contrasts the approaches adopted by both the EU and U.S courts to draw a line between permissible repair and prohibited reconstruction which leads to patent infringement and the limitation on the rights of patent holder post-sale of the product. The paper concludes by stating that there is a need to establish international standard guidelines which help the courts to determine the difference between permissible repair and prohibited reconstruction thereby ensuring that the patent holder does not abuse his powers and dominate the market, protect the interests of the consumers and create a dynamic market.

II. DOCTRINE OF EXHAUSTION

The doctrine of exhaustion was introduced with the objective of limiting the exclusive rights conferred to the inventor and ensure healthy competition in the market. According to the doctrine of exhaustion, the intellectual property (IP) owner's rights on the product is exhausted once the product has been sold to a consumer. The authorized purchaser of the product has a right to use or resell the product. In the EU, the doctrine has been developed through a series of case law precedents set by the Court of Justice of the European Union (CJEU) and other national courts in the EU. In 1998, the European Court of Justice (ECJ) first discussed the doctrine of exhaustion in the *Silhouette*² case where it mentioned that for the purpose of application of the doctrine, the product has to be placed in the European Economic Area (EEA) market by the patent holder. In the U.S, the principle of exhaustion is often called "first sale doctrine" and has been a part of U.S patent law since late 1800.³ There are three types of exhaustions, namely, regional, national, and international. The EU recognises regional exhaustion. The ECJ, by aiming to facilitate the free movement of goods within the EU in accordance with Article 28 European Commission Treaty,⁴ has recognized the regional

² *Silhouette International Schmied GmbH & Co. KG vs Hartlauer Handelsgesellschaft mbH.*, (1998), <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:61996CJ0355&from=EN> (last visited May 20, 2020).

³ Amanda Löfström, *Repair or Reconstruction- What Actions are a Pantee Allowed to Restrict before it Affect Competition*, 2013, <http://lup.lub.lu.se/student-papers/record/3878749/file/3878751.pdf> (last visited May 20, 2020).

⁴ Summary Report Question Q205 Exhaustion of IPRs in Cases of Recycling and Repair of Goods, AIPPI.FR, <https://www.aippi.fr/upload/Boston%202008%20Q202%20203%20204%20205/sr205english.pdf> (last visited May 20, 2020).

exhaustion of Intellectual Property Rights (IPR). The U.S recognizes international exhaustion of patents.

Repair and Reconstruction

When the consumer legally buys a product he acquires the right to use it, which includes the right to resell, repair, or dispose of the product without the prior permission of the patent proprietor. Although the exclusive right of the patent proprietor exhausts after the sale of the product, the act of reconstruction of the product by the purchaser may trigger the protection given to patent proprietors even after the purchase. The purchaser of the patented product will have to carry out some repairs to maintain it in a working condition. However, the repair should not amount to the reconstruction of the worn-out product.⁵ There is a fine line between the repair and reconstruction of the product which has been established by the Courts in various judgements. The difference between an approved repair and unauthorized reconstructions depends on facts of particular cases. The EU and U.S perspectives of differentiating between repair and reconstruction of the patented product are discussed below.

III. THE EUROPEAN APPROACH

According to Article 64(3) of the European Patent Convention (EPC), the disputes relating to European patents shall be dealt with by the courts by applying national law along with the national patent granted in that state.⁶ The reconstruction of the patented products results in patent infringement, therefore it is prohibited. There are no set of guidelines that enable the courts to determine if the specific act constitutes permissible repair or prohibited reconstruction, therefore, the national courts of the United Kingdom (U.K), Germany and the Netherlands have formulated the distinction between repair and reconstruction during the case hearings based on facts. Currently, there is no statutory EU patent law that explicitly governs or precedes the decisions passed by the EU national courts with regard to the repair and reconstruction of patented products.

United Kingdom

The United Kingdom Patent Act 1997 is in line with the provisions of the EPC, which must be consistently applied across all the signatory states.⁷ However, the act does not define the term

⁵ Veronica Barresital, *Spares, Repairs and Intellectual Property Rights* (Christopher Heath & Anselm Kamperman Sanders eds., 2009).

⁶ Anirut Somboon, *Exhaustion in Cases of Recycling and Repair of Goods*, 2015, http://ethesisarchive.library.tu.ac.th/thesis/2015/TU_2015_5601040016_4664_2895.pdf (last visited May 20, 2020).

⁷ *Supra* Note 2

“repair.” The U.K Supreme Court’s decision in the *Schutz* case⁸ established the test to differentiate between “repair” and “making”. In this case, Schutz was an exclusive licensee and leading manufacturer of intermediate bulk containers (IBCs) in the U.K. The IBC consisted of a metal cage and a plastic container. The IBC was of a single-use container as the liquids transported in it would be toxic and therefore damage the plastic bottle which was a part of the IBC. However, the metal cage had a longer lifetime and therefore, Delta Container Limited (Delta) purchased the discarded IBCs which were originally sold by Schutz and replaced the worn-out plastic bottles inside IBC with the bottles manufactured and sold by Werit. Delta sold these cross bottled IBC in the market. The Schutz objected to the cross-bottling business of Delta and sued them for patent infringement under Section 60(1) (a) of the U.K Patent Act. Schutz also filed a patent infringement claim against Werit for selling the plastic bottles used in IBCs and thereby being a contributory infringer. The issue, in this case, was, if the replacement of the plastic bottles in the original IBCs sold by Schutz with the bottles sold by Werit constitutes patent infringement.

The U.K Supreme Court while deciding on this case emphasized that it would be a matter of fact and the degree to determine in each case if the replacement of the worn-out component of a patented product amount to “making” under Section 60 (1) (a) of U.K Patent Act. The court made the following observation;

“Given that (a) the bottle (i) is a freestanding, replaceable component of the patented article, (ii) has no connection with the claimed inventive concept, (iii) has a much shorter life expectancy than the other, inventive, component, (iv) cannot be described as the main component of the article, and (b) apart from replacing it, Delta does no additional work to the article beyond routine repairs ..., does not “make” the patented article.”⁹

The U.K Supreme Court held that Delta was not liable to patent infringement.¹⁰

As mentioned earlier, under the U.K law, there is no standard approach to draw a line between the permitted repair and unpermitted making or reconstruction which constitutes patent infringement. The court takes the facts and circumstances of the case brought before them while deciding on disputes relating to the repair or reconstruction of a patented product.

Germany

Germany is also a signatory state to EPC and under Section 9 of the German Patent Act 1936,

⁸ *Schutz Limited vs Werit Limited*, (2013), <https://www.supremecourt.uk/cases/docs/uksc-2011-0159-judgment.pdf> (last visited May 20, 2020).

⁹ *ibid*

¹⁰ *ibid*

the buyer's right to use includes the right to repair the product and therefore, it is often been addressed under the general principle of exhaustion which has been taken into account by the German Court while deciding on many cases.¹¹

In 2004, the German Supreme Court, Bundesgerichtshof (BGH) in the *Flugelradzahler* case¹² held that replacement of the components of the patented product is permitted if the components replaced are usually expected to be replaced during the life span of the product. However, the replacement is not permissible if 'the technical effects of the invention are reflected in the replaced parts.'¹³ BHG took the particular nature of subject matter into consideration to draw a line between permissible repair and prohibited reconstruction. BHG also held that while resolving such disputes it is important to strike a balance between the patent holder's interest in exploiting the invention and buyer's right to use.¹⁴

In *Palettenbehälter's* case¹⁵, where the plaintiff held an exclusive license to manufacture and sell the pallet containers which was patented. The container consisted of an inner container, flat pallets, and bars of metal in the shape of a basket.¹⁶ The defendant was indulged in the business of selling and exchanging the inner containers which were originally sold by the plaintiff. The plaintiff filed a patent infringement case against the defendant. The German Supreme Court noted that the plaintiff's patent rights on the container exhausted when the container was put in the market for sale by the patent proprietor. The court referred to the *Schutz* case and stated that it is critical to take into account if the technological effect of the patented product resided in the exchanged component. However, this basis is only significant if the replacement of the components is considered as a normal repair in the opinion of the market. If the purchasers and the trade circles are of the opinion that the replacement of a component constitutes a rebuilding of the patented product, the action leads to patent infringement, irrespective of the claim that the replacement of component does not embody the technical aspects of the patented product. Besides, it is pivotal to evaluate whether the used invention has any commercial worth to end-user once the inner container is worn-out. If the used invention has commercial value after the inner container is worn-out, the end-user will likely consider replacing the worn-out component and it is considered to be a permissible repair.

The Netherlands

¹¹ Supra Note 2

¹² German Federal Supreme Court (Bundesgerichtshof), Impeller Flow Meter (*Flugelradzahler*) Case No. XZR 48/03 (2004). (English Translation)

¹³ *ibid*

¹⁴ Toshiko Takenaka, *Patent Law and Theory: A Handbook of Contemporary Research* (2008)

¹⁵ German Federal Supreme Court, *Palettenbehälter II*, *Schutz vs. Mauser*, Case No. XZR 97/11 (2012)

¹⁶ Supra Note 2

The Dutch Patent Act 1995 does not define the term “repair” or “recycling”. According to the Netherlands courts, in order to draw a line between permissible repair and prohibited reconstruction, that constitutes a patent infringement, the component repaired or replaced must not be considered as an essential part of the claimed invention.¹⁷ If the repair is carried out by replacing all the components of the patented product then it is considered equal to the manufacturing of the product therefore, it constitutes infringement. If the repair is carried out by replacing the essential component of the patented product is held as patent infringement, depending on the circumstances.¹⁸ The sale of essential components of the patented product is generally considered as an indirect infringement.¹⁹

The United States Approach

The U.S Supreme Court distinguished between repair and reconstruction for the first time in *Wilson’s case*.²⁰ The court held that the purchaser has a right to replace the unpatented cutting knives which are part of the planning machine which is patented. The replacement of knives is a permitted repair because the lifetime of the knives is about sixty to ninety days while the lifespan of the machine is many more years. The court observed that the replacement of the knives did not change the identity of the planning machine rather preserved it.²¹

The Supreme Court for the first time illustrated what constitutes prohibited reconstruction in the Cotton-Tie case.²² The plaintiff held the patent for manufacturing the metal cotton bale-tie. The tie consisted of buckle and band. Every buckle was imprinted with the words “Licensed to use once only”. When the cotton-bale arrived in the cotton-mill, the ties were cut and used, and then ties were sold as scrap iron. The defendant, in this case, bought these ties as scrap iron from the cotton mills and recreated them and put them in the market for sale again. The court observed that the defendant’s action of putting together the discarded tie pieces constituted reconstruction. The imprinted words “Licensed to use once only” was a significant factor that led the Supreme Court to hold that the defendant’s action constituted patent infringement. Under the U.S laws, the patent holder can impose post-sale restrictions through contracts or engraving signs such as “single use only” on the patented products.

¹⁷ Supra Note 4

¹⁸ Supra Note 3

¹⁹ *ibid*

²⁰ *Wilson vs. Simpson*, (1850).

²¹ Julius A Shafran, Patents: Infringement of Patented Combination: Reconstruction or Repair, 49 California Law Review 988–993 (1961), <https://www.jstor.org/stable/pdf/3479072.pdf?refreqid=excelsior%3A65f14d58dba8dbaed2872f801f10ea68> (last visited May 24, 2020).

²² *Cotton Tie Company vs. Simmons*, (1882)

In *Aro's* case,²³ the U.S Supreme Court explained what constitutes permissible repair. In this case, the plaintiff held the ownership of the combination patents for a convertible top for an automobile which consisted of a metal frame and a fabric that stretched over the frame. The fabric was not patented and its lifetime was shorter than that of the frame. The purchasers of the automobile replaced the worn-out fabric with a new fabric sold by the defendant. The plaintiff filed a patent infringement case against the defendant alleging that the replacement of fabric constituted prohibited reconstruction. The plaintiff sued the defendant on the grounds of contributory infringement. The U.S Supreme Court held that “Replacing individual unpatented parts, one at a time, different parts successively, or the same part repeatedly was no more than the owner’s lawful right to repair.” Therefore the defendant was not liable for contributory patent infringement.

However, the U.S Courts had not set guidelines to distinguish between the permitted repair and the prohibited reconstruction in the earlier cases. In 1997 the U.S Federal Circuit Court in *Sandvik Aktiebolag's case*²⁴ established a four-factor test which helped to draw a line between repair and reconstruction²⁵ which is discussed below.

Four Factor Test

- i. “The nature of the defendant’s action”.²⁶ If the undertaking of the defendant is complex or difficult then it more likely constitutes prohibited reconstruction.
- ii. “Nature the of the patented product and how it is designed”.²⁷ If the lifetime of one of the components of a patented device is shorter than the lifetime of that device then replacement of the component constitutes repair which is permissible.
- iii. “Whether a market has developed to manufacture or service the part at issue”.²⁸ If the market has already developed to manufacture or service the component in issue then it constitutes repair.
- iv. “Objective evidence of the intent of the patentee”.²⁹ If the patent holder of an invention is selling the replacement component or is offering repair service, then it is evident that the patent holder intended to replace or service the worn-out

²³ *Aro Manufacturing Co vs. Convertible Top Replacement Co, Inc*, (1964).

²⁴ *Sandvik Aktiebolag vs. E.J. Company*, (1997).

²⁵ Margreth Barrett, *Intellectual Property* (2 ed. 2008)

²⁶ *ibid*

²⁷ *ibid*

²⁸ *ibid*

²⁹ *ibid*

components in order to prolong the lifetime of the invention and the replacement constitutes permissible repair.

The Court after applying the four tests held that the defendant's action of replacing the worn-out tip of the patented drills constitutes patent infringement. The Court made the following observation:

- i. The re-tipping patented drill service offered by the defendant was complex and difficult.
- ii. The lifetime of the tip which was replaced was not shorter than that of the patented drill.
- iii. The defendant was the only player in the market who offered the service to replace the worn-out tip of the patented drill.
- iv. The patent holder did not manufacture and sell replacement tips or offer service to re-tip the worn-out tips which indicate that the patent holder did not intend to replace the tip of the drill.

Therefore, the defendant's action of replacing the worn-out tip of the patented drill constituted reconstruction rather than repair.

Limitation on Post-Sale Rights of the Patent Proprietor in the U.S

In 2017, the U.S Supreme Court while passing the judgement in *Impression Product* case³⁰ limited the scope of post-sale rights of the patent holder. In this case the plaintiff Lexmark is a U.S based multinational company indulged in the business of manufacturing and selling of the printers and ink cartridges to the consumers in the U.S and other parts of the world. The defendant Impression Products is a company based in West Virginia that is indulged in the business of repairing the printers and reselling the ink cartridges. Lexmark offered its consumers two pricing options: a full price ink cartridge that the consumers can dispose of after it runs out of ink and low-priced ink cartridge which were sold through the company's "Return Program". The low priced cartridges were fitted with a microchip in order to restrict its reuse and the customers had agreed to return the empty cartridges only to Lexmark. The dispute arose when Impression Products started buying the low priced empty ink cartridges which were sold through Lexmark's Return Program, refilling them with new ink and removing microchip and selling the cartridges in the market. The Lexmark sued Impression Products for patent infringement. While deciding on the case the Judges considered 2 questions:

³⁰ *Impression Products, Inc. vs. Lexmark International, Inc.*, (2017)

1. Whether Impression Products infringed Lexmark's patents by importing the empty ink cartridges into the U.S that Lexmark had sold to customers overseas?³¹
2. Whether Impression breached Lexmark's patent rights by refilling the cartridges sold through Return Program and selling them in the U.S market when Lexmark had specifically barred the reuse and resell of the ink cartridges sold by them?³²

As mentioned earlier, according to the doctrine of exhaustion the patent holder's rights on the product are completely exhausted after the sale of the product. The purchaser has a right to use, sell, license, or dispose of it. The Lexmark conflict raised the question about the extent to which the proprietor of the patent can impose a restriction on what purchaser does with a patented product once they have purchased it and enforce those restrictions under the patent law. Furthermore, the case sought clarification on the application of the doctrine of exhaustion to the goods sold overseas, where the U.S patent law is not applicable, which are then re-imported for sale in the U.S.³³

The U.S District Court held that Lexmark's patent rights on the Return Program cartridges sold within the U.S had exhausted. However, the rights on the cartridges that were sold overseas had not exhausted.

The appeal was filed at the Federal Circuit Court. The Court held that Lexmark's patent rights had not been exhausted when it sold the cartridges to the overseas costumers. Therefore, Lexmark has a right to sue Impression Products for patent infringement as they imported the ink cartridges originally sold by Lexmark, refilled them, and sold them in the U.S market without authorisation.

The Federal Court while addressing the second question stated that Lexmark's patent right was not exhausted by the first sale. The Court held that Lexmark's was within its rights to sue Impression Products for patent infringement on the grounds that the patent proprietor who sells an item with clear resale or reuse limits can enforce those restrictions through a patent infringement claim.

Impression Products filed an appeal in the U.S Supreme Court. The Court reserved the Federal Circuit Courts Decision and held that the decision of the patent proprietor to sell a product exhausts all his patent rights in the products, irrespective of any restrictions imposed by the

³¹ Emma Barraclough, US Supreme Court Rewrites the Rules on Patent Exhaustion [WWW.WIPO.INT](http://www.wipo.int/wipo_magazine/en/2017/04/article_0008.html) (2017), https://www.wipo.int/wipo_magazine/en/2017/04/article_0008.html (last visited May 26, 2020).

³² *ibid*

³³ *ibid*

patent proprietor or location of the sale.³⁴

In this case, the U.S Supreme Court interpreted the doctrine of exhaustion and established clear ownership of the patented product which is bought by a purchaser. Through the judgement passed by the Court in Lexmark's case, it is evident that the doctrine of exhaustion should be regarded as a subject of value to protect both patent proprietors and purchaser's rights and therefore should not be interpreted in a narrow perspective. The Court's decision in Lexmark's case gives rise to grey market goods in the U.S. The decision encourages companies across the world to collect the products and send them back to the U.S at a higher price.³⁵ The decision is considered to have a negative impact on the patent holders as it expands the scope of the patent exhaustion doctrine. The patent holders cannot stop the re-importation of the goods as all their rights vested in the patented product exhausts once the product is sold irrespective of the location of sale.³⁶ However, on the brighter side, the judgement is that it ensures that the patent proprietor does not dominate the market by creating a monopoly and the consumers will get access to a wider range of products to choose from.

IV. CONCLUSION

The doctrine of exhaustion intends to protect the rights of patent proprietors and the purchasers. Striking a balance between the Competition law and IPR fosters the growth of a dynamic market and economy of the nation. It is important to protect the interests of the patent owners and also the buyers. Therefore, it is necessary to determine to what extent the patent holder has rights over his invention after selling the patented product to the purchaser.

Through the above research, it is clear that it is difficult to draw a line between permissible repair and prohibited reconstruction which constitutes patent infringement. As there are no statutory laws or guidelines set to draw a line between repair and reconstruction in both EU and U.S, the national courts of the EU and the U.S have formulated the distinction between repair and reconstruction by considering the facts of the cases. On one hand, the European Courts while distinguishing between the repair and reconstruction consider whether the component replaced is an essential part of the patented product. If so, then it constitutes reconstruction which is not permissible because it leads patent infringement. On the other

³⁴ D. Brian Kacedon & Kevin D. Rodkey, *The Aftermath of Impression Products v. Lexmark* (2017), <https://www.finnegan.com/en/insights/articles/the-aftermath-of-impression-products-v-lexmark.html> (last visited May 26, 2020).

³⁵ Gene Quinn, *Patent Exhaustion at the Supreme Court: Industry Reaction to Impression Products v. Lexmark* IPWATCHDOG.COM (2017), <https://www.ipwatchdog.com/2017/05/30/patent-exhaustion-supreme-court-industry-reaction-impression-products-v-lexmark/id=83822/> (last visited May 26, 2020).

³⁶ *ibid*

hand, the U.S courts while deciding over the issue concerning reconstruction do not consider if the replaced component is an essential part of the product but rather look into if the patented product was spent³⁷. The lack of a standard guideline to determine the difference between repair and reconstruction has often resulted in inconsistent and erratic judgements by the courts. So it is very much necessary to establish standard international guidelines that help the courts in distinguishing between the permissible repair and prohibited reconstruction.

³⁷ Supra Note 12