

AN ANALYSIS ABOUT THE EXHAUSTION PRINCIPLE IN INTELLECTUAL PROPERTY RIGHTS *

The basic logic behind the protection of intellectual property right (IPR) bases on the idea of providing novelties' appearance which would raise social welfare by stimulating people or enterprises' motive of creating novelty. Within the framework of the protection approved, the person or enterprise that has been the owner of right for a definite time, depending on the character of the right, has right to make a disposition of that right exclusively¹.

In order to get the benefits which have been waited in the name of the society, it is needed to bring some limitations to the owner of the right related to use of this right². Otherwise, an absolute unlimited protection in the area of IPR, brings on the result of the people or enterprises who have this right, to get the change hands, distribution of the subject of this right after being put on the market by themselves or the people they authorized under control too. This situation could create an excessive restrictive effect to the free circulation of the goods and the competition³.

Within the framework of this approach, a principle that tries to create a balance between free trade - protection of IRP and public benefit – and personal use freedom came into. This principle is “ exhaustion of right ” or as it is in USA application, first sale principle (first sale doctrine)⁴.

According to this principle, after good passes out of the owner of the right' s hand in legal ways and by will, owner of the right could not prevent the good to be a subject to trade again by people who bought this good. In other words, it is accepted that after first willing sale of a brand marked good for the first time, exclusive first sale right of the owner of the right over that good exhausts and he could no longer intervene to the circulation of the good.

When the first sale materializes, it is accepted that IPR fulfilled its actual purpose and with this sale, owner of the right obtains the benefits source from that right and beyond this, it is suggested that right and authority demand of him over the goods presented to the market is an occasion that goes beyond the aim⁵.

Exhaustion principle opinions separate into two groups as protectionist and liberal. Protectionist approach adopted national or regional exhaustion principle, however liberal approach adopted international exhaustion principle⁶.

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¹ TAKDEMİR, Yaşar, Marka Hakkının Tükenmesi İlkesi ve Paralel İthalat Sorununa İktisadi Bir Yaklaşım, www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

² ARKAN, S. (1998) Marka Hukuku Volume II. Ankara Üniversitesi Hukuk Fakültesi Publishes, Ankara, 1998, No:533, page 131

³ Ibid page 8-9-This opinion has been taken from (Fahrettin Kayhan, Türk Marka Hukuku Açısından Paralel İthalat ve Marka Hakkının Tükenmesi, Ankara Barosu Fikri Mülkiyet ve Rekabet Hukuku Review, Volume:1, Number: 1, page52)

⁴ TAKDEMİR, Yaşar, Marka Hakkının Tükenmesi İlkesi ve Paralel İthalat Sorununa İktisadi Bir Yaklaşım, www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

⁵ TAKDEMİR, Yaşar, Marka Hakkının Tükenmesi İlkesi ve Paralel İthalat Sorununa İktisadi Bir Yaklaşım, www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

⁶ For detailed information about different exhaustion principles see: Perşembe Konferansları -17, page 113 etc.

Protectionist Approach

National Exhaustion Principle: As to the national exhaustion principle, after the good that is subject to the right is presented to the market inside the country borders by owner of the right or another person that he authorized, owner of the right could not bring any limitation in framework of IPR related to the re-distribution of those goods or being subject to the trade⁷.

The result that this principle causes with regard to the said goods is that it recognizes to the owner of the right the fact of dividing the market. In framework of this fact the owner of the right could follow different price and sale policies considering specific conditions of each country⁸.

Regional Exhaustion⁹: Another principle accepted under the title of protectionist exhaustion principle is regional exhaustion principle. In consideration of the behind lying logic, it has no difference from national exhaustion principle. This principle is valid with regard to the countries those prefer integration way. As to this principle, with presentation of the good that is subject to the right to the market in any country that takes place in the region, the authorities of the owner of the right - related to this good' s being subject to the trade once again - considered as exhausted with regard to all countries included to the region. In this framework, free circulation of the goods in the region is enabled.

With regard to society brand mark law, 89/104 numbered Council Directive adopts regional exhaustion principle in industrial property¹⁰. As to this, member states are accepted as one region, intellectual and property rights exhaust in one sole (so European Union) region.

At the second item of the same article, it is indicated that brand mark owner could oppose to the re-sale of the relevant product with fair reasons. As an example of fair reasons, being changed or modified of the product following its first sale are shown. In this case, it is possible for the owner of the right to prevent re-sale of the product, ATAD case is on this way¹¹.

Moreover regional exhaustion application is not valid for the brand marked products those have been imported from third countries (outside the region). In Zino Davidoff/A&G Imports, Levi Strauss & Co, Levi Strauss (UK) Ltd / Tesco Stores, Tesco plc ve Costco Wholesale UK Ltd cases¹² those still have not been adjudicated, reporter Christine Stix-Hackl expresses that in parallel import of the brand marked products from third countries, national judicial bodies should investigate the approval of the owner of the right case by case¹³.

⁷ HARWOOD, S., Parallel imports and the exhaustion of rights: the world focus Tibor Gold., 1999, page 1 www.shlegal.com/docs/parallelimports.pdf

⁸ TAKDEMİR, Yaşar, Marka Hakkının Tükenmesi İlkesi ve Paralel İthalat Sorununa İktisadi Bir Yaklaşım, www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

⁹ TAKDEMİR, Yaşar, Marka Hakkının Tükenmesi İlkesi ve Paralel İthalat Sorununa İktisadi Bir Yaklaşım, www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

¹⁰ 89/104 sayılı Konsey Direktifi md. 7/1

¹¹ 10 Ekim 1978 date and 3/78 numbered Centrafarm v. American Home Products decision. Centrafarm B.V. v American Home Products Corporation Case 3/78 [1978] ECR 1823, [1979] 1 CMLR 326

¹² C-414/99, C-415/99, C-416/99

¹³ TOY, Damla Ömür, Avrupa Birliği'nde Hakların Tükenmesi İlkesinin Uygulanması Ve Konuya İlişkin Rekabet Kurulu'nun 24485 Sayılı Kararı, http://www.turkhukuk sitesi.com/makale_58.htm

Liberal Approach

International Exhaustion Principle¹⁴: The last principle is international exhaustion principle that reflects a liberal point of view. As to this principle, in order the right to be exhausted, it is enough of the good to be presented to market in anywhere of the world. This principle, contrary to the other two principles, sets free parallel import.

In this way, after a good that is subject to IPR is presented to market in any place of world, third people who desire to, could import that good and the owner of the right in the country that is imported and the people that he authorized could not prevent this import by basing on IPR. This principle is adequate to the tendency of liberalization of international trade with regard to the basic philosophy that it bases on.

TRIPS Agreement and Exhaustion Principle

Exhaustion principle has been given voice especially by the specialists from USA in order to reach a settlement while GATT Uruguay Round deliberations – that TRIPS agreement had been interviewed and accepted - continue. As a natural result of liberalization of international trade in the context of TRIPS, it had been defended that international exhaustion principle should be accepted.

However, when disagreements related to this subject had become so big that prevent to reach a settlement, whole of the agreement faced the risk of being not accepted. Against this risk, TRIPS did not predict a direct arrangement related to exhaustion principle¹⁵.

At the article 6 of the agreement, the subject had been taken in hand as follows: “ *For the purpose of dispute settlement under this Agreement, subject to the provisions of Article 3 and 4, nothing in this Agreement shall be used to address the issue of exhaustion of intellectual property rights.*”¹⁶

This article in TRIPS Agreement in fact represents the settlement that could be reached (or could not be reached) between the parties those participated Uruguay Round. *Abbot* suggested that in these discussions, different country groups are with different exhaustion principles. In this framework, as developing countries claim a more liberal regime, EU insisted on regional exhaustion principle and USA mainly suggested in offers that predict limitation of parallel import in framework of current USA law and doctrines¹⁷.

In framework of this provision, the parties of the Agreement accepted that exhaustion principle had not been arranged in the scope of this Agreement and every country is free in this subject. After acceptance of this Agreement, debates in order to overview and change the Agreement related to acceptance of exhaustion principle in global meaning continued¹⁸.

¹⁴ MARTINEZ, F (2001), “Competition Policy And Trips Background Note”, www.ceps.be/Pubs/2001/Trips.pdf

¹⁵ TAKDEMİR, Yaşar, Marka Hakkının Tükenmesi İlkesi ve Paralel İthalat Sorununa İktisadi Bir Yaklaşım, www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

¹⁶ Article 3 and 4 are relating to national treatment and the most protected national record. A country has to take into consideration these articles during application of the exhaustion principle that he will follow. www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

¹⁷ ABBOTT, F. M., First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation, 1997, page 2, www.ballchair.org/downdocs/ITLCpara.doc

¹⁸ TOY, Damla Ömür, Avrupa Birliği’nde Hakların Tükenmesi İlkesinin Uygulanması Ve Konuya İlişkin Rekabet Kurulu’nun 24485 Sayılı Kararı, http://www.turkhukuk sitesi.com/makale_58.htm

Exhaustion principles applied to OECD countries are given as a table below.

Exhaustion Regimes in OECD Countries¹⁹				
National Exhaustion	National Exhaustion (That Includes Definite Exceptions)	Regional Exhaustion	International Exhaustion (That Includes Definite Exceptions)	International Exhaustion
Hungary Turkey Poland	USA (exception for adherent companies)	European Union	Japan (exception for sectors that have price control) South Korea (exception for national brand marks)	Australia, Canada Czech Republic Iceland, Mexico New Zealand, Norway, Slovakia Sweden

Source: O'TOOLE and TREANOR (2002)

Consideration

In general, throughout EU as The European Consumers' Organization is leading, consumer organizations defend that international exhaustion application should replace regional exhaustion application²⁰. In this framework, it is indicated that before 89/104 numbered Directive²¹ came into force, in countries such as Germany, Sweden and England international exhaustion principle was valid, whereas together with regional exhaustion application, an increase in brand marked product sales has been registered in these countries.

However, investigation results which have been published by International Chamber of Commerce at the date of 7 January 2000, display that approximately %68 of the enterprises which joined the investigation are against international exhaustion of brand mark and patent rights and the proportion of the enterprises which are in favour of this application has been limited with %23 for brand marks and %20 for patents²².

¹⁹ After Hungary, Poland, Czech Republic and Slovekia get into EU in 2004, they will be subject to regional exhaustion principle that EU accepted. www.rekabet.gov.tr/word/dergi13/4yasartekdemir.doc

²⁰ 23 Şubat 2001 dated "Trade Marks - the principle of exhaustion, a BEUC Position " titled report of The European Consumers' Organisation (BEUC) named enterprise. (It is possible to reach the report form the address www.beuc.org)

²¹ First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks Official Journal L 040 , 11/02/1989 P. 0001 – 0007.

²² TOY, Damla Ömür, Avrupa Birliği'nde Hakların Tükenmesi İlkesinin Uygulanması Ve Konuya İlişkin Rekabet Kurulu'nun 24485 Sayılı Kararı, http://www.turkhukusitesi.com/makale_58.htm