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International exhaustion versus importation right: a murky area of intellectual property law

*Exhaustion or first sale doctrine in general*

The principle of exhaustion of intellectual property rights, in the English language better known as the first sale doctrine, stems from decisions of the German Reichsgericht in the first decade of this century.<sup>1</sup> With the lawful first sale of each single copy of a product, protected by any right of intellectual property, this right, with respect to further distribution of the copy, is "exhausted". Once the owner of a copyright, patent or trademark has first sold a copy of his protected product, he loses his control over the further vicissitudes of this copy on the market. The practical significance of this exhaustion is, that the original manufacturer cannot use his intellectual property rights to tie the successive buyers of his product to his own conditions, for instance fixed prices, for retail sales.

The dogmatic explanation of this exhaustion rule, as developed by the German Reichsgericht, has been provided by the patriarch of intellectual property law: Josef Kohler.<sup>2</sup> He regarded this rule as a necessary demarcation line between two colliding properties: the intellectual property right of the producer and the common proprietary right of the owner of a copy of a product he has bought. The latter should remain free to enjoy the specific privileges of traditional ownership: he should be free to resell or otherwise dispose of his property.<sup>3</sup>

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<sup>1</sup> RG, February 28, 1902, RGZ 50, 229 (Kölnisch Wasser) and RG, May 2, 1902, 51, RGZ 263 (Mariani) on trademarks; RG, March 26, 1902, RGZ 51, 139 (Guajokol-Karbonat) on patents; RG, June 16, 1906, RGZ 63, 394 (Koenigs Kursbuch) on copyrights.

<sup>2</sup> Kohler, *Urheberrecht an Schriftwerken*, 1907, and *idem*, *Lehrbuch des Patentrechts*, 1908.

<sup>3</sup> Of a different opinion: Reimer, *Der Erschöpfungsgrundsatz im Urheberrecht und gewerblichen Rechtsschutz unter Berücksichtigung der Rechtsprechung des Europäischen Gerichtshofs*, GRUR Int. 1972, 221, 225.

This idea has, to the dismay sometimes of interested circles,<sup>4</sup> in the mean time conquered the world.<sup>5</sup> In the U.S. Copyright Act for instance it finds its faithful expression in para. 109a: "... the *owner* of a particular copy or phonorecord ... is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord" (emphasis added).

*National or international exhaustion. The economic interests involved*

Once the exhaustion principle is established in intellectual property law, the next question is, whether this operates only on a territorial, national or regional scale or whether on the contrary it has worldwide effect. In the latter case one speaks of *international exhaustion*. The contrary solution, the *territorial exhaustion*, means that the exhaustion ends at the national (or in the case of the EC at regional) borders. Exports to foreign (or third) countries would not be covered, i.e. would remain reserved for the intellectual property owner. As soon as the domestically marketed product crosses national (or regional) borders, the intellectual property owner would be able to assert his parallel foreign rights and thus be able to invoke his foreign rights against any unauthorised so-called parallel importer abroad. This would imply a right of importation abroad for the intellectual property owner. The practical interests for the owner of such a right is considerable. For trademark owners Beier has a quarter of a century ago analysed the existing case law on this issue internationally and he reached the following conclusion:<sup>6</sup> "Concerning the interest by the trademark owner in

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<sup>4</sup> With respect to trademark law the thesis has been defended that the trademark owner should keep his claim, with respect to the branded product, also after the first sale. The absence of exhaustion would then enable the right owner to set his own (price) conditions for resale. See Drucker-Bodenhausen, Kort begrip van het recht van de industriële eigendom, Zwolle 1954, 122 and Draft for a Benelux Trademark Act of the Benelux Groups of AIPPI, Appendix B.I.E. 1954, no. 1.

<sup>5</sup> France and Belgium would seem to be exceptions. See, however, Beier, Industrial Property and the Free Movement of Goods in the Internal European Market, IIC 21, 1990/2, 131 (= GRUR Int. 1989/8-9, 603) who in footnote 53 with obvious satisfaction quotes "the sentence by Roger Gajac, one of the founding fathers of the new French Patent Act: '*Le droit français, depuis 1844, faisait l'épuisement sans le savoir*'." Beier also cites several modern decisions on trademark law of the *Cour de cassation*. See also Cohen Jehoram, Netherlands § 8 [1] [d], in: Nimmer-Geller, International Copyright Law and Practice, Matthew Bender, New York 1994, loose-leaf.

<sup>6</sup> Beier, Territoriality of Trademark Law and International Trade, IIC 1, 1970/1, 48 (= GRUR Int.

preventing parallel imports, the decisions make it clear that in all instances, regardless of whether production or trademark ownership is centralized or not, the main purpose of a trademark infringement action against a parallel importer is to protect the marketing system in the import country from disturbances through the presence of undesired imports. The issue is the protection of sole distributors and the protection of licensed domestic manufacturers against outsiders. A more detailed analysis of the facts demonstrates further that as a rule price policy considerations are also connected with such considerations of marketing policy. Parallel imports mostly arise whenever the branded goods are considerably cheaper in the export country than in the import country. In view of his costs, the parallel importer can sell the goods profitably in the import country only in the case of a substantial price difference. And as a rule, he is only able to find a market if he offers the goods at a price cheaper than that fixed by the trademark owner and manufacturer or by his distributor in the import country. In most of the cases decided to date, it has been the general rule that the objective of a trademark infringement action against parallel importers was to prevent breakdowns in the domestic price structure, especially when this was secured through a system of vertical price maintenance and marketing restrictions. On the other hand, genuine trademark interest - such as a concern for the reputation of the marked goods - are seldom found. These economic facts and motivations cannot be overlooked if a satisfactory legal solution for parallel imports is to be found. If one takes these into account, the problem of parallel imports can be seen in its true light. It can be reduced, in most cases, to a single question - namely, whether trademark law with its territorial implications may be used to divide markets in order to enforce distribution and price policies."

In Australia three inquiries have been carried out by the Prices Surveillance Authority (PSA), in 1989 into book prices, in 1990 into prices of sound recordings and in 1992 into prices of computer software. In all three areas the PSA concluded that the right of importation in the Copyright Law of Australia had resulted in international price discrimination, with Australian consumers paying higher prices for books, sound recordings, and computer software than consumers in the other countries. The PSA

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1968, 8).

therefore favored, on economic grounds, the application of the theory of "international exhaustion" of the distribution right to allow parallel importation into Australia of lawfully made copies of books and sound recordings. In the mean time these findings and conclusions have of course also been criticized.<sup>7</sup>

The WIPO Bureau in describing these findings of the PSA concluded:<sup>8</sup> "The question of whether the theory of international exhaustion represents sound economic policy is at the heart of a deepening international debate in intellectual property and trade circles." The WIPO International Bureau declared itself not equipped to carry out an economic analysis of the likely effect - on competition and consumers' interests within the international trading system - of the absence of a right of importation.

A few such analyses have indeed been carried out by economists, who did find evidence of price discrimination between countries, although there seem to be also grounds for the conclusion that parallel imports may arise from a range of factors. Rothnie describes and analyses these economic surveys at length<sup>9</sup>. He mentions certain risks inherent in parallel imports, like free riding and consumer deception but he also concludes that in any given case, there would seem to be considerable likelihood that at least part of the price difference between the export and import markets arises from some attempt to practise price discrimination.

#### *National or international exhaustion. Legal traditions*

There is an overall legal tradition - with certain exceptions to be dealt with later - to the effect that the exhaustion of intellectual property rights is restricted to the national territory of the country, where the product has first been marketed. As a result the right owner can use his parallel patent or design or plant breeders rights abroad to prohibit parallel imports there. As Demaret wrote:<sup>10</sup> "National courts have seldom

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<sup>7</sup> See Rothnie, *Parallel Imports*, London 1993, 525.

<sup>8</sup> Memorandum of the WIPO Bureau for the Committee of Experts on a Possible Protocol to the Berne Convention, Fourth Session, Geneva, December 5 to 9, 1994, Copyright 1994, 214, para. 76-79.

<sup>9</sup> Rothnie, *op. cit.* (note 7), 562.

<sup>10</sup> Demaret, *Patents, Territorial Restrictions, and EEC Law*, IIC Studies, Vol. 2, Weinheim 1978, 62.

provided substantive reasons to explain why patentees should be allowed to exclude goods from the national market which were manufactured abroad under the protection of a parallel patent. In general, reasoning of a formal nature has satisfied the courts, which have occasionally justified their decision by noting the territorial character of patent protection." This "reasoning of a formal nature" is a faulty one. It rests on a "confused and superficial use" of the word territoriality, as Beier has rightly remarked.<sup>11</sup>

The territoriality principle is merely a rule of international private law, of collision law. Lately the European Court of Justice has in paragraph 22 of its Ideal-Standard decision of 1994,<sup>12</sup> quite sharply defined what territoriality in international intellectual property law really means: "This principle of territoriality, which is recognized under international treaty law, means that it is the law of the country where protection ... is sought which determines the condition of that protection. Moreover, national law can only provide relief in respect of acts performed on the national territory in question."

Territoriality pertains to *rights* and it does not all imply that mere *facts*, like the first marketing of a product, are territorially restricted.<sup>13</sup> There are well-known examples of other facts with respect to intellectual property, that nobody would dream of limiting to the country where they have occurred. The mere fact that an artist creates a work of art in France has the cross-border effect that copyrights in the work arise in well over 100 countries, and the publication of an invention in the United States has the international effect of destroying its novelty worldwide with the result that no patent can be granted anywhere else. As Beier said:<sup>14</sup> "the practice is especially widespread of referring to the 'generally recognized' principle of territoriality in lieu of relevant argumentation, and to use this dogmatized principle as a magic

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<sup>11</sup> Beier, Territoriality of Trademark Law (see note 6), 58.

<sup>12</sup> Court of Justice of the European Communities, June 22, 1994, case C9/93 (Ideal-Standard), GRUR Int. 1994/7, 614.

<sup>13</sup> Cohen Jehoram, The delicate balance between Industrial Property and European Law: The Law as it stands, Legal Issues of European integration, 1976/2, 71, and in: Cohen Jehoram, Kernpunten van intellectuele eigendom en mediarecht - Central Issues of Intellectual Property and Media Law, Zwolle 1984, 199. See also Schricker-Loewenheim, Urheberrecht, München 1987, 308.

<sup>14</sup> See note 11.

formula without dealing with it in substance."

Two general exceptions to this widely accepted rule of national exhaustion<sup>15</sup> should be mentioned: trademark and copyright law. The Dutch Supreme Court in 1956 ruled<sup>16</sup> that the scope of the Trademark Law was to guarantee that no others than the right owner market similar products under the same trademark and in doing so appropriate the advantages, which the right owner expects from the message, given by the trademark, that the branded product is put on the market by him. Consequently, if a person other than the (foreign) right owner (i.e. a parallel importer) markets products under the trademark, he only infringes the right of the owner if the branded products do not - in the last resort - originate with this right owner. This means that importation of genuine branded goods cannot be banned anymore on the basis of trademark law. The Dutch Supreme Court has thus on the grounds of the function of trademarks established a rule of international exhaustion in trademark law,<sup>17</sup> to the dismay of trademark owners.<sup>18</sup> This example has been followed by quite a number of other Supreme Courts, like the Swiss Bundesgericht<sup>19</sup> and the German Bundesgerichtshof.<sup>20</sup> As Beier remarked,<sup>21</sup> all three courts also expressly state that it

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<sup>15</sup> The situation in the common law countries is not so clear. See Rothnie, *op. cit.* (note 7), 302: "... the legal treatment of parallel imports by the 'common law' results in a legalistic, complicated and confused body of law. There is no consistency in approach across the different categories of intellectual property, nor is there much coherence in the treatment of parallel imports involving the same subject matter." p. 583: "... within the 'common law world' there is an unresolved tension in treating parallel imports between an approach based on 'universality' and one based on 'territoriality'." At the last page, 597, of his in-depth study, Rothnie sums it up: "... inconsistencies, complexities and uncertainties."

<sup>16</sup> Dutch Supreme Court, February 14, 1956 (Grundig I), NJ 1962, 242, *Ars Aequi* 1957, 25, note Beekhuis, GRUR Int. 1957, 259.

<sup>17</sup> See about this: Cohen Jehoram, Articles 30-36 EEC and intellectual property, S.E.W. 1982, 374, and in: Cohen Jehoram, Kernpunten van intellectuele eigendom en mediarecht, Central Issues of Intellectual Property and Media Law, Zwolle 1984, 221.

<sup>18</sup> The Dutch Supreme Court decision has immediately been criticized by Bodenhausen in BIE 1957, 42. But then this author was even opposed to national exhaustion: see note 4 *supra*. Critical on international exhaustion, which was laid down also in the Benelux Trade Mark Act, Mak-Molijn, Introduction to trademark law in the Benelux, Deventer 1982, 102.

<sup>19</sup> Swiss BG, October 4, 1960 (Philips), GRUR Int. 1961, 294.

<sup>20</sup> BGH, January 22, 1964 (Maja), GRUR Int. 1964, 202.

<sup>21</sup> Beier, Territoriality of Trademark Law (see note 6), 65.

is not a legitimate purpose of trademark law to ensure to the trademark owner the right of sole distribution of his branded goods through all marketing channels down to the ultimate consumer, and that trademark protection does not permit the trademark owner to use his mark for the purpose of market division and price differentiation.

Also in copyright law the prevailing opinion is, at least in Germany<sup>22</sup> and the Netherlands,<sup>23</sup> that universal exhaustion applies if in both countries of export and import the copyright is in the same hands. The copyright owner can, however, split his right geographically, by assignment or license. If the domestic copyright owner has assigned or licensed his right for the foreign country to a third party, he is again deemed to be in a position, in the domestic market, to ban parallel imports. Especially in the area of record producing such territorially limited licenses, and the resulting possibilities to act against parallel imports, are usual.<sup>24</sup>

It is officially recognized that such territoriality creating agreements have effect against third parties,<sup>25</sup> a phenomenon which is not altogether unusual in copyright law.<sup>26</sup>

Finally it should be mentioned that as a result of the findings of the PSA in Australia, described above, the Australian Copyright Amendment Act 1991 has in effect repealed the right to block imports of copies of a "non-infringing book". In

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<sup>22</sup> See for Germany § 17, paragraph 2 of the Copyright Act, Ulmer, *Urheber- und Verlagsrecht*, Berlin-Heidelberg-New York 1980, 237. Schricker-Loewenheim, *op. cit.* (note 13), 307 and Dietz, Germany § 8 [1] [b] in: Nimmer-Geller, *International Copyright Law and Practice*, Matthew Bender, New York 1994, loose-leaf.

<sup>23</sup> See for the Netherlands, Cohen Jehoram, *Uitputting in het auteursrecht*, *Informatierecht/AMI* 1987/2, 27, and *idem*: Netherlands (note 5) § 8 [1] [d].

<sup>24</sup> Compare the decision of the Bundesgerichtshof of October 28, 1987, GRUR 1988, 373, rebuttably presuming that no exhaustion had taken place on the factual ground that licenses granted to record companies are usually limited to the territory of but one country. See Dietz, *op. cit.* (note 22), footnote 15. See also the facts in the case decided by the European Court of Justice, on February 9, 1982, Case 270/80 (Polydor), E.C.R. 1982, 329.

<sup>25</sup> Ulmer, *op. cit.* (note 22), 236, Reimer, *op. cit.* (note 3), 224 and Cohen Jehoram, Netherlands (note 5).

<sup>26</sup> See for instance the rule laid down in the Dutch and German Copyright Acts that a transfer of rights shall comprise only such rights as are specifically mentioned in the instrument of transfer or as are necessarily implied from the nature or purpose of the transaction: Cohen Jehoram, Netherlands (note 5), § 4 [2] [c], and Dietz, Germany (note 22), § 4 [2] [c].

Singapore and Malaysia the legislator has also intervened, this time to undermine the territoriality principle in copyright more generally.<sup>27</sup>

### *Exhaustion in the EC and EEA*

In the supra-national context of the European Community an EC-wide exhaustion of intellectual property rights has been established by a whole series of decisions of the European Court of Justice.

The Court has had to consider the consequences of first sale of copies or products in cases concerning patents, trademarks, copyrights and neighbouring rights. In all these cases the Court has not been willing to isolate within any one national territory the relevant market in which such first sale might "exhaust" the right to control further distribution. Right holders in vain invoked the territorial character of their rights. In their view - as we have seen - the territoriality principle in intellectual property law also implied that exhaustion should be deemed limited to the national territory of the country of first sale. This approach had anyway to yield to the EC-principle of free movement of goods. The entire Internal Market has become the relevant market for finding the critical first sale. Once a protected copy or product is sold, either by the right holder or with his consent, anywhere in the Internal Market, the right holder, trying to assert a right to control further cross-border distribution may encounter the "Eurodefense" that his right is exhausted. Exhaustion has become EC-wide, and indeed somewhat wider. As a result of the Agreement on the European Economic Area (EEA) not only the 15 EC Members, but 3 more EFTA-countries, Iceland, Liechtenstein and Norway, now constitute the relevant free trade area.<sup>28</sup>

As the Court for instance ruled in the *Centrafarm/Sterling Drug* case:<sup>29</sup> "the exercise by a patentee of the right given him by the laws of a Member State to prohibit

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<sup>27</sup> See Rothnie, *op. cit.* (note 7), 248, 251.

<sup>28</sup> Compare Cohen Jehoram-Smulders, *The Law of the European Community and Copyright*, § 1 [b] [iii] and § 2 [1] [c], in: Nimmer-Geller, *International Copyright Law and Practice*, Matthew Bender, New York 1994, loose-leaf.

<sup>29</sup> European Court of Justice, October 31, 1974, Case 15/74, E.C.R. 1974, 1147.

the marketing in that State of a product protected by the patent and put on the market in another Member State by such patentee or with his consent would be incompatible with the rules of the E.C. Treaty relating to the free movement of goods in the Common Market." About the relevant rules of the E.C. Treaty, its articles 30 and 36, the Court said in its Dansk Supermarked Judgment<sup>30</sup> that these "must be interpreted to mean that the judicial authorities of a Member State may not prohibit, on the basis of a copyright or of a trademark, the marketing on the territory of that State of a product to which one of these rights applies if that product has been lawfully marketed on the territory of another Member State by the proprietor of such rights or with his consent."

It is true that according to article 36 of the Treaty restrictions on imports can be *justified* on grounds of protection of industrial and commercial property. But this very wording of the intellectual property exemption<sup>31</sup> of the main rule on the free movement of goods, laid down in article 30, then calls for an *evaluation* of the intellectual property prerogatives the right holder invokes before the Court. In the past the Court has often used constructions like the "specific object" of an industrial property right which would be immune from the free movement of goods, or would take precedence over it.<sup>32</sup> One particular intellectual property claim would, however, not come under the safeguarded "specific object" or "substance" of the intellectual property right. The (presumed) *national exhaustion* privilege of the right owner, his right to oppose parallel imports from other Member States, would not belong to that core of intellectual property rights which is safeguarded by article 36. This particular territoriality aspect of intellectual property law had to yield to the EC principle of the free movement of goods.

In its Terrapin decision<sup>33</sup> the Court used a slightly different construction: "In the particular situation (i.e. the present state of Community Law) the requirements of the

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<sup>30</sup> European Court of Justice, January 22, 1981, Case 58/80, E.C.R. 1981, 181.

<sup>31</sup> The Treaty words "industrial and commercial property" must indeed be read as: "intellectual property". See Cohen Jehoram-Smulders, *op. cit.* (note 28).

<sup>32</sup> See Cohen Jehoram, Articles 30-36 EEC and intellectual property (note 17) *supra*.

<sup>33</sup> European Court of Justice, June 22, 1976, Case 119/75, E.C.R. 1976, 1039.

free movement of goods and the safeguarding of industrial and commercial property rights must be so reconciled that protection is ensured for *the legitimate use* of the rights conferred by national law, coming within the prohibitions on imports 'justified' within the meaning of Article 36 of the Treaty, but denied on the other hand in respect of any *improper exercise* of the same rights of such a nature as to maintain or effect artificial partitions within the Common Market." (emphasis added) Here interestingly the reliance of an intellectual property right owner on the *territoriality* of the exhaustion of his rights is even qualified as an "improper exercise of the same rights".

There is, however, a limit to this impropriety in the Court decisions. The Court can only decide on the basis of the EC Treaty and for the EC and EEA. Therefore the (presumed) national exhaustion of intellectual property rights can only be made EC- or EEA-wide. This exhaustion does not stretch beyond the borders of the EEA. The widened exhaustion is applicable only between Member States.<sup>34</sup> The EC Court could not impose a wider *international exhaustion*.

#### *The European Community and international exhaustion*

Where the EC Treaty precluded the European Court from further promoting international free trade, the European Executive, the Council of Ministers, could step in. In its consecutive Regulations and Directives in the field of intellectual property it could prescribe full international exhaustion. There were indeed original proposals for European legislation, which *did* include the principle of "worldwide exhaustion".<sup>35</sup> Ivo Schwartz, the highest official in the European Commission for harmonisation of those subjects at the time, conceded in a 1985-article on Community trademark legislation<sup>36</sup> that there were a number of reasons, in particular the origin-indicating function of a

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<sup>34</sup> European Court of Justice, June 15, 1976, Cases 51, 86 and 96/75 (EMI-CBS), E.C.R. 1976, 811, 871 and 913.

<sup>35</sup> See about this Bronckers, The Impact of TRIPS: Intellectual Property Protection in Developing Countries, Common Market Law Review 31, no. 6, December 1994, 1245, and more specifically p. 1267, and Beier, Industrial Property and the Free Movement of Goods in the Internal European Market (see note 5 *supra*).

<sup>36</sup> Schwartz, Community Trade Mark Legislation, EIPR Vol. 7, Issue 3, March 1985, 70.

trademark, which militated in favour of inclusion of the international exhaustion principle, not least the fact that this principle is part of current law in a number of Member States and in certain third countries. In the meantime, however, representatives of European industry had seen their chance to bear pressure on their respective governments to try to roll back in Brussels the unwelcome rule established by the national courts on the international exhaustion of trademark rights.<sup>37</sup> The combined forces of industry and national governments then indeed succeeded to have the EC Commission perform an about-face of 180 degrees.<sup>38</sup> Article 7, paragraph 1 of the first Trademark Directive of December 21, 1988,<sup>39</sup> now establishes the rule of *only* Community-wide exhaustion, and the same rule is to be found in Article 13, paragraph 1 of the Council Regulation of 20 December 1993 on the Community trade mark.<sup>40</sup>

Beier has still proposed the hopeful explanation that while the Member States are of course compelled to at least adopt the EC-wide exhaustion of rights, they would still be *at liberty* to go beyond this minimum requirement, and to *retain the principle of international exhaustion*.<sup>41</sup> This is certainly not the opinion of the European Commission, which - with the new texts - feels now "empowered to conclude, at the appropriate time, bilateral or multilateral agreements with important trading partners to secure mutual acceptance of the concept of international exhaustion."<sup>42</sup>

The principle of merely Community-wide exhaustion has now also been laid down in two EC Copyright Directives: in Article 4 sub c of the Directive of May 14, 1991 on the legal protection of computer programs<sup>43</sup> and even more explicitly in Article 9, paragraph 2 of the EC Directive of November 19, 1992 on rental, lending

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<sup>37</sup> Compare Mak-Molijn, *op. cit.* (note 18 *supra*), 103.

<sup>38</sup> Beier, see note 5 *supra*. See now also Van Kaam and Molijn, *Merkenbescherming in de Benelux*, 3rd edition 1994, 146.

<sup>39</sup> O.J. EC No. L 40 of February 11, 1989.

<sup>40</sup> O.J. EC No. L 11/1 of January 14, 1994.

<sup>41</sup> Beier, see note 5 *supra*.

<sup>42</sup> Schwartz, see note 36 *supra*.

<sup>43</sup> O.J. EC No. L 122/42 of May 17, 1991.

rights and certain related rights,<sup>44</sup> which now says: "The distribution right shall not be exhausted within the Community in respect of an object as referred to in paragraph 1, *except* where the first sale in the Community of that object is made by the right holder or with his consent." (emphasis added) Reinbothe and Von Lewinski deduct from the little word "except", that Member States are prohibited under this paragraph from applying international exhaustion.<sup>45</sup> On explicit questions on this issue from a Member of the European Parliament the responsible Commissioner, Mr Vanni d'Archirafi, also answered on April 28, 1994: "The Commission considers that the wording of Article 9 prevents Member States from applying what is known as 'international exhaustion' and is to be understood as giving the right to the right holders to prevent parallel imports from third countries."<sup>46</sup>

*TRIPS and Berne Protocol: indecision in this murky area*

The issue of national or international exhaustion has been deliberately left open in the GATT Agreement on Trade-Related Aspects of Intellectual Property Rights, TRIPS. Article 6 TRIPS: "For the purposes of dispute settlement under this Agreement ... nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights." On the most eminently trade-related aspect of intellectual property rights one could not agree in the TRIPS-negotiations. The situation has been summed up by Cottier, who had been a member of the Swiss delegation to the GATT Uruguay Round:<sup>47</sup> "Both, the concepts of national and international exhaustion, are not entirely satisfactory from a trade related point of view. National exhaustion (or regional exhaustion in the case of the European Union) is not satisfactory from a consumer's point of view. It allows for considerable market segmentation and

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<sup>44</sup> O.J. EC No. L 346/61 of November 27, 1992.

<sup>45</sup> Reinbothe and Von Lewinski, *The EC Directive on Rental and Lending Rights and on Piracy*, London 1993, 105.

<sup>46</sup> *Informatierecht/AMI* 1994/7, 143.

<sup>47</sup> Cottier, *The Value and Effects of Protecting Intellectual Property Rights within the World Trade Organization*, *Annuaire ALAI* 1994, 13.

differential pricing policies to the extent that (cheaper) parallel imports can be banned in any case. International exhaustion on the other hand, is deficient from the right holder's point of view."

Bronckers, in discussing both opposed principles, stresses the fact that the TRIPS Agreement as a rule bans import restrictions, unless these can be justified *inter alia* as necessary for intellectual property rights. Thus, he argues, the "world-wide exhaustion principle" is more in line with the GATT's spirit.<sup>48</sup> Cottier on the other hand is of the opinion that the introduction of international exhaustion, after committing oneself to TRIPS, may amount to frustration of legitimate expectations created by increased protection of intellectual property rights and may be estopped.<sup>49</sup>

Complete indecision on the issue also reigns in the WIPO Committee of Experts on a Possible Protocol to the Berne Convention. In two Memoranda, prepared by the WIPO International Bureau for the Third Session in June 1993 and the Fourth Session in December 1994,<sup>50</sup> the proposal was made to state that, under the present text of the Berne Convention, it is obligatory to protect the exclusive rights of the copyright owner to authorize the importation (for distribution) of copies of works. This choice for national and against international exhaustion was again based on the old fallacious principle of the "territorial nature of copyright".

In the WIPO-Committee indecision reigned supreme. The Chairman, in summarizing the discussion had to conclude:<sup>51</sup> "In respect of the proposed right of importation, the views of delegations were roughly equally divided between those supporting the right, those opposing it, and those who reserved their positions. The observers from non-governmental organizations were nearly unanimous in their support of inclusion of the right in the protocol." This last unanimity, of NGO's, was not

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<sup>48</sup> Bronckers, *op. cit.* (note 35 *supra*), 1268.

<sup>49</sup> Cottier, *The Prospects for Intellectual Property in GATT*, *Common Market Law Review* 28, 1991, 383, especially 399.

<sup>50</sup> WIPO Document BCP/CE/III/2-III, §§ 22-49 and WIPO Document BCP/CE/IV/2, §§ 73-84, *Copyright 1994*, 214.

<sup>51</sup> Report of the Fourth Session, December 5-9, 1994, of the Committee of Experts on a Possible Protocol to the Berne Convention, WIPO Document BCP/CE/IV, 3, para. 71.

reached merely because I, as the ALAI-representative, reserved my position in "this murky area of intellectual property law".

### *An intermediate solution*

A compromise solution would be to follow the example, already provided by the national copyright law of a number of countries, and to accept in principle an international exhaustion, which can, in practice however, be restricted to national or regional territories by contracts with effect vis-à-vis third parties. This rule could be codified in the Protocol to the Berne Convention as far as copyright is concerned. At the next revision of TRIPS one could consider the same intermediate solution for all intellectual property rights.<sup>52</sup>

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<sup>52</sup> Compare also Beier, *Industrial Property and the Free Movement of Goods* (see note 5 *supra*), to whom this would also appear to be an acceptable compromise, for patents, utility models and industrial designs, although not for trademarks, where he would like to retain the old strict international exhaustion principle.