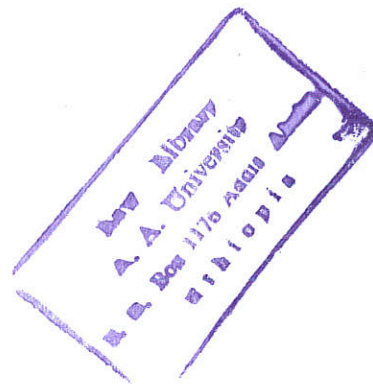


**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**The Impact of the Doctrine of Exhaustion of  
Intellectual Property Rights on International Trade:  
The Ethiopian Perspective**

By:  
Biset Beyene



Addis Ababa, Ethiopia  
June 2008

**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**The Impact of the Doctrine of Exhaustion of  
Intellectual Property Rights on International Trade:  
The Ethiopian Perspective**

By:  
Biset Beyene



Thesis in Partial Fulfillment for the Requirements for Masters of Law Degree at the Addis Ababa University School of Graduate Studies, Faculty of Law.

Addis Ababa, Ethiopia  
June 2008

**ADDIS ABABA UNIVERSITY**  
**SCHOOL OF GRADUATE STUDIES**

**The Impact of the Doctrine of Exhaustion of  
Intellectual Property Rights on International Trade:  
The Ethiopian Perspective**

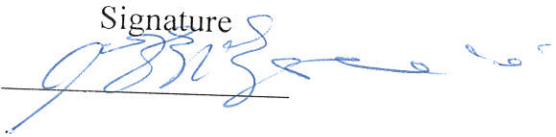


Approved by the Examining Board

Examiner

1. Mandefro Eshete (Dr. Juris)
2. Aman Asefa
3. Mola Mengistu

Signature

  
\_\_\_\_\_  
\_\_\_\_\_

## Declaration

I the undersigned, declare that this thesis is my own work and all the sources of materials used for this paper have been duly acknowledged.

Name: Biset Beyene

Sign: 

Addis Ababa University Faculty of Law

Date of Submission: June 19, 2008

# Table of Contents

Contents	page
Acknowledgments	
Abstract	
Introduction	
<b>CHAPTER ONE</b> .....	<b>3</b>
<b>PRELIMINARY CONSIDERATIONS</b> .....	<b>3</b>
1.BACKGROUND OF THE PROBLEM.....	3
2.STATEMENT OF THE PROBLEM.....	4
3.THE LITERATURE ON THE SUBJECT .....	5
4. WHAT EXHAUSTION IS ALL ABOUT .....	7
5. IPR EXHAUSTION: TECHNICALITIES .....	10
6.OBJECTIVE OF THE STUDY.....	11
7.RESEARCH METHODOLOGY .....	12
8.SIGNIFICANCE OF THE STUDY.....	13
<b>CHAPTER TWO</b> .....	<b>14</b>
<b>INTELLECTUAL PROPERTY: ITS NATURE AND CONTEXT IN INTERNATIONAL TRADE</b> <b>14</b>	
2.1 INTELLECTUAL PROPERTY RIGHTS IN GENERAL.....	14
2.1.1 <i>Property' Nature of Intellectual property</i> .....	14
2.1.2 <i>The problem of Intellectual property</i> .....	15
2.1.3 <i>The Various Forms of Intellectual property Rights</i> .....	17
A. <i>Patent</i> .....	17
B. <i>Copy right</i> .....	18
C. <i>Trademarks</i> .....	19
2.2 TRENDS IN INTERNATIONAL TRADE AND IPRS.....	20
2.2.1 <i>Developments in international Trade</i> .....	21
2.2.2 <i>The Birth of the General Agreement on Tariffs and Trade (GATT)</i> .....	26
2.2.3 <i>The Evolvment of GATT</i> .....	26
2.2.4 <i>Basic Principles of the current trading system under the WTO</i> .....	27
A. <i>Non- discrimination</i> .....	27
B. <i>National Treatment</i> .....	28
C. <i>Predictability</i> .....	29
2.2.5 <i>International Trade and Intellectual property</i> .....	29
<b>CHAPTER THREE</b> .....	<b>34</b>
<b>EXHAUSTION AND PARALLEL IMPORTS IN INTERNATIONAL TRADE</b> .....	<b>34</b>
3.1 WHAT EXHAUSTION IS ALL ABOUT?.....	34
A CONCEPTUAL UNDERPINNING .....	34
3.2 EXHAUSTION AND PARALLEL IMPORTS.....	38
3.3. SCOPE OF THE DOCTRINE OF EXHAUSTION.....	40
3.3.1- <i>Patent Exhaustion</i> .....	41
3.3.2 <i>Exhaustion of Trademark Rights</i> .....	45

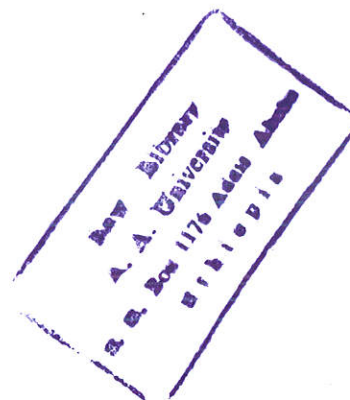


3.3.3 <i>Copyright Exhaustion</i> .....	51
3.4 THE VARIOUS REGIMES OF EXHAUSTION.....	55
3.4.1 <i>The National/Territorial Exhaustion</i> .....	57
3.4.2 <i>International /World-Wide Exhaustion</i> .....	57
3.4.3 <i>Regional/Community Wide Exhaustion</i> .....	58
3.5 THE DOCTRINE OF EXHAUSTION AND INTERNATIONAL TRADE.....	59
3.5.1 <i>Exhaustion in the USA</i> .....	60
3.5.2 <i>The Doctrine in the EU</i> .....	63
3.5.3 <i>Exhaustion in Other OECD Countries</i> .....	71
A. <i>Japan</i> .....	71
B. <i>Switzerland</i> .....	74
3.5.4 <i>Exhaustion and Developing Countries</i> .....	75
3.5.5 <i>Exhaustion and the WTO/TRIPS Regime</i> .....	78
A. <i>The General Agreement on Tariffs and Trade (GATT), 1947</i> .....	79
B. <i>The WTO Framework and Agreements</i> .....	80
<b>CHAPTER FOUR</b> .....	<b>85</b>
<b>THE DOCTRINE OF EXHAUSTION IN THE ETHIOPIAN CONTEXT</b> .....	<b>85</b>
4.1. THE IP REGIME IN ETHIOPIA - THE SETTING.....	85
4.1.1 <i>The Patent Exhaustion</i> .....	85
4.1.2 <i>The Copyright Exhaustion</i> .....	93
A. <i>The Scope of Exclusive Rights</i> .....	93
B. <i>Exhaustion of Copyright as a Limitation</i> .....	95
4.1.3. <i>Trade Mark Exhaustion</i> .....	98
4.2. PARALLEL IMPORTS AND EXHAUSTION OF IPRS. ....	102
4.3. EXHAUSTION AND ITS PRACTICE IN ETHIOPIA.....	104
<b>CONCLUSIONS</b> .....	<b>106</b>
<b>BIBLIOGRAPHY</b>	

## ACKNOWLEDGMENTS

Thank God! What else could I say? My advisor Mandefro Eshete(Dr. Juris.) also deserves special thanks for all what he has done to me by giving his scarce time and scholarly comments. My beloved wife Helen EYASU, a godly mom Desta Maereg Brothers Aschalew Ashgre, Setegn Ashgre, Eskadmas Ayenew, Tesfaye Abate deserves special thanks for their encouragement during my engagement in my LLM study. There are also a lot others who deserve gratitude to whom 'God bless you' is the thing all I can say for the time being.

God bless you all!!! I thank You !!!



## Abstract

*Intellectual creations and innovations, collectively known as intellectual property (IP) have been considered for long means to developmental goals of states. They have been inseparable in trade concerns of states too in the sense that they (IP), more often than not, are involved in trade between states seeking protection to intellectual property rights on one hand and at the same time those others seeking better benefit in trade terms from trading in goods involving new technology on the other. Their ubiquitous nature on one hand and the territoriality of the mode of legal protection on the other, being contrasting, pose difficulties in the effort of states to effective protection.*

*The place of the doctrine of exhaustion of IPRs is central in a cross-cutting matter in the effort seeking effective IPRs protection and that of freedom of circulation of goods. The doctrine of exhaustion of IPRs sets the limit between freedom of trade and optimal utilization of ones' property embodying IPRs on one hand and that of the person who endeavors in the inventive and creative efforts resulting in some thing of commercial, or otherwise may be of value. Parallel importation of goods also remains a concern closely intertwined with freedom of movement of goods and services as well as the effective protection of IPRs.*

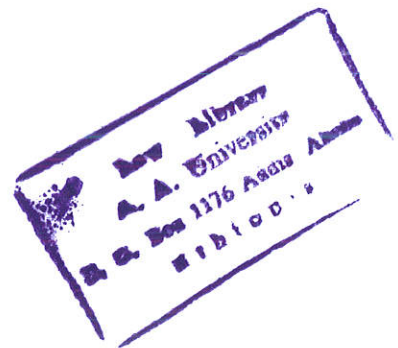
*The paper as such attempts to provide the nature of intellectual property, define the doctrine of exhaustion of IPRs and gives accounts of how it is applied in different countries where the concept is well known and the ground for such legal matter is fertile-in the industrially advanced trading states. Attempt has also been made to look in to the developments in international trade and the place of exhaustion of IPRs in the international trading system as is revealed through the GATT and other WTO instruments. It also considers the debate on whether the developing states are better off by adopting international exhaustion and/or allowing parallel imports or not and concludes in the affirmative.*

*The paper has also considered the status of the Doctrine of Exhaustion of IPRs in the Ethiopian legal arena and the experience in the courts which the researcher concludes that the laws lack clear position in some cases and absolute darkness in the courts as far as the concept of exhaustion of IPRs is concerned. Finally it is concluded that as accession to WTO is inevitable, sooner or later, the doctrine of exhaustion be given of the top priority with respect to Ethiopia's commitment in TRIPS and other WTO agreements – by taking legislative, judicial and administrative measures creating awareness to effective implementation of the doctrine.*



exhaustion in the Ethiopian scenario as it stands in the laws of the country. It is shown that the courts are not aware of the concept of exhaustion of rights as it relates to IPRs however no case involving it as an issue appeared before them.

The paper finally concludes that the exhaustion of IPRs could be a significant obstacle to international trade if not handled carefully. In this respect as Ethiopia is on its way to accede to the WTO membership then it is very important this issue is well known in the courts and other organs of government to create an enabling business environment and for the country to gain its due from international trade and foreign investment as in the majority of case these involves transfer of technology and protection to IPRs.



## **Chapter One**

### **Preliminary considerations**

#### ***1. Background of the Problem***

The world is advancing at a faster rate in science and technology in the century we are now than ever before. This advancement is by and large spearheaded by the growing volumes of inventions and creativity in all spheres of industrial activities, art and science. Concomitantly, therefore, the need to protect the growing inventions and creative works to the exclusive advantage of those who endeavor in the interest of keeping the pace of scientific and technological advancements with societal dynamic needs is necessary.

While the protection of inventions and creations, generally referred to as intellectual property rights (IPRs), is legitimately sought and done, it is always at odds with other legitimate interests as well. Intellectual property rights some times conflict with the social and economic interest of society (the public at large) which gives the protection to the former. This is practically so because IP owners enjoy a monopoly right over the economic advantages over their intellectual fruits.

Law and policy makers in all jurisdictions attempted to reconcile these notorious conflicts of interest between the IPR holder and the public through a number of exceptions to the monopoly right. Of all the limitations on the rights of the IPR owner the exhaustion of rights is the most important and widely recognized. Entrenched in various differing principles it divides states of the world in policy and approach shadowing on international trade. Its bearing particularly looms large when countries are committed to liberalize their trade while at the same time they are encumbered with obligation to protect IPRs within a unified global trading system – under the WTO framework.

The difficulty is still more noticeable particularly when seen from angles such as:

1. IP regimes are territorial: as envisaged in the Paris convention for example
2. Trade is becoming more and more unified world wide-with out boundary.

inventors/authors intellectual efforts, the later also have economic right resulting form the money spend to acquire an equivalent economic benefit over the corpus with the corresponding economic right.

The exhaustion principle, therefore, for purposes of delimitation of the right of the IPR owner and that of purchaser's right, who enjoyed proprietary right by virtue of their spending on the products resulting from the IPR owners efforts, provide a number of parameters. But the application of the doctrine of exhaustion is not as simple as it appears and applied territorially when in its application in relation to international trade. Its application accompanying international trade is not without controversy.

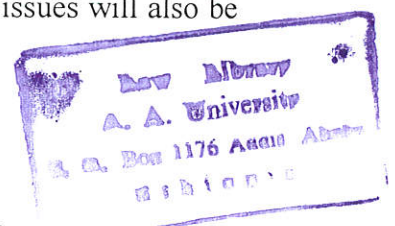
The issues involved and intended to be rised in this paper include

- What constitutes the exhaustion of IPR owner's right over the product/process patented, copyrighted or trademarked?
- Which of the three principles of exhaustion i.e. territorial, regional or international exhaustion that is favorable to international trade? Which is favorable to less developed countries like Ethiopia in their effort to gain from the global trading system?
- Should countries (particularly less developed countries) permit parallel importation of IPR protected goods? Why?
- How developing and least developed counties deal with the rigors of the mightier states regarding parallel importation?

This is only a description of the issues to be raised generally. Specific issues will also be raised in due course.

### **3. The Literature on the Subject**

At the advent of the 21<sup>st</sup> century, intellectual capital is surpassing the components of physical capital in importance: Land, natural resources and manual labor as the main



source of wealth creation.<sup>1</sup> In other words, that the world's economy is being driven by intellectual capital. States with high level of inventions and innovations are by far wealthier than those comparatively lagging in terms of inventions and innovations. As a result the emphasis given by states for the initiation and protection of inventions and innovations is self evident from a number of activities being carried out around the globe; states spend millions and even billions of dollars on research and inventive projects both by private and state agencies. The inventions and innovations once introduced in to the market in the form of commercial items to increase the wealth of such states the issue of IPR ownership would come in to the picture. Now that would be in the interest of both the private/corporate person who endeavors in the invention and that of the state to which this invention is associated. Despite the fact that IPR protection is largely territorial in nature, because of the growing international trade pattern and globalization of world market it become more and more intertwined with the global trading system as well.

Hence, it is therefore in this light the TRIPS agreement, one of the instruments drawn to operate with in the WTO system has provided in its preamble by way of stating its objective:

*"Members, desiring to reduce distortions and impediments to international trade, and taking in to account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, ..."*<sup>2</sup>

As can be understood from the terms of the preamble cited here in above the strategy of the TRIPS agreement is to strike a balance between the smooth operation of international trade between member states and at the same time that there would be due protection of IPRs as they related to international trade. Otherwise speaking it is said that in the terms

---

<sup>1</sup> F.M. Abbott, et al, *The International Intellectual Property System: Commenaries and Materials*, Kluwer Law International, 1999, P. xxvii

<sup>2</sup> TRIPS Agreement, preamble

of the preamble the TRIPS agreement balances two principles: trade liberalization as well as increased intellectual property protection, with the restrictions on trade this entails.<sup>3</sup>

Coming to the specific question of the doctrine of exhaustion as applied by different national jurisdictions and enshrined in the multilateral agreements we see that it has become a barrier threatening international trade liberalized and unhindered. The problem of exhaustion regarding international trade is by and large due to the variation of the principles states follow in the persuasion of IPR protection, national, regional or international protection<sup>4</sup>. Further more the question of parallel importation of IPR protected products adds fuel to the fire aggravating the issue particularly as seen from the perspectives of the developed and developing countries in their international trade.

#### **4. What Exhaustion is all about?**

The doctrine of exhaustion, also known as the doctrine of first sale in the United States, addresses the point at which the IPR holder's control over the good or service ceases.<sup>5</sup> In relation to the United States Patent Act it has been provided that, the exhaustion, 'first sale' doctrine divests the patent owner to its statutory rights of exhaustion with respect to a product once the patent owner has sold, without limitation, an article that fully embodies a patent invention.<sup>6</sup> No matter whether the sale is made either by the IPR owner himself or by his consent. For example, sale of a patented product, without any condition, by the patent-holder exhausts his patent right and the product can freely move after the first sale made by him<sup>7</sup>. The European Court of Justice (ECJ) has also provided from the European perspective, that a sale with approval of the IPR holder precludes any interference with the further distribution of the same products in another member state. Still the ECJ in its classical definition in a patent case, Sterling Drug case stated:

*"A derogation from the principle of free movement of goods is not justified where the product has been put on the market in a legal manner, by the patentee himself or with his consent, in the member state from which it has*

---

<sup>3</sup> M.C.E.S Bronckers, 32 (5) Journal of World Trade, 1998, p. 144

<sup>4</sup> Id

<sup>5</sup> Amber Hatfield Rovner, practical Guide Application of Product Based Infringement Immunities under the Doctrine of Patent Exhaustion and Implied License, State Bar of Texas, 2004, P. 230

<sup>6</sup> S.K. Verma, *Exhaustion of IPRS and Free Trade*, 29 IIC no 5, 1998 p. 537

<sup>7</sup> Id.

*been imported, in particular in the case of the proprietor of a parallel patent.*"<sup>8</sup>

First and foremost exhaustion is not an issue of contract, but is a doctrine which defines the limits of IPR itself, although, through a contract the parties to a sale of an item embodying IPR may limit the ambit of the exhaustion<sup>9</sup> The doctrine of exhaustion is an absolute limitation on the IPR holder in the sense that once he has recovered all the economic returns he is entitled or that would normally accrue to him from the IPRs, then the purchaser of that particular item embodying the IPR has every proprietary right against the whole world, including the IPR holder or the seller. While by definition of IPR holder's monopoly right is with regard to making, selling or offering for sale of the IP protected items, the right to use and exploit and dispose after purchases in any manner is also within the power of the purchaser. But due to the various natures of IPRs and utilization of the products thereof the right of the IPR holder may not be exhaustively outlined by law. Hence, the IPR holder in his sale or licensing agreement of the use of IPR/Protected product of technology may restrict, subject to some other legal limits, the use or exploitation of the product or technology.<sup>10</sup> In this respect a US Federal District Court in *Mallinckrodt* decision held that, an express contractual restriction by the patent owner precludes exhaustion of the withheld right, assuming there is no antitrust violation or patent misuse, if the parties so intended.<sup>11</sup> To escape the violations of other legal restrictions, such as antitrust the IPR holder must not impose contractual terms contrary to the latter, on the other hand, the purchaser of IPR protected item should not act contrary to the restrictions made by the contract regarding the use of the item purchased. Otherwise he (the purchaser) cannot avail himself of the doctrine of exhaustion.

Due to the increasing cross-border movement of goods and services and the increasing number of membership to WTO, the issue of the doctrine of exhaustion is becoming crucial. It has become important especially from the point of view of the position taken by the TRIPS Agreement as some authorities described reflecting an Agreement of

---

<sup>8</sup> Id

<sup>9</sup> Id

<sup>10</sup> John W. Osborne, *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*: Santa Clara Computer and High Technology Law Journal, 2004, 8

<sup>11</sup> Ibid

The Impact of the Doctrine of Exhaustion of IPRs on International Trade: The Ethiopian Perspective  
member states not to agree on the issue of exhaustion.<sup>12</sup> Article 6 of the TRIPS agreement which provides:

*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. (emphasis)*

This provision is said, by an authority on the subject, Bronckers, to have been a bone of contention and member states, failed to agree on the issue left the matter of exhaustion to the discretion of each member to decide<sup>13</sup>. Nor there is any provision in the TRIPS agreement that obliges member states to adopt the international exhaustion principle for the sake of international trade. Therefore, states can legally adopt any of the three principles of exhaustion, national/territorial, regional, or international as the USA, the European Union and Japan respectively do. As a result of this discretion therefore, WTO members can not legally oppose each others views about exhaustion.<sup>14</sup> Another, perhaps most important authority, Joseph Straus is of the opinion that it is not possible to answer universally the question as to whether the TRIPS agreement regulates international exhaustion on the basis of Art 6 alone, with respect to the entire spectrum of IPRs.<sup>15</sup> Professor Straus further went on to note that on the basis of some substantive law provisions of the TRIPS agreement arguments against the application of international exhaustion principle may be inferred from Art. 6 of the agreement itself.<sup>16</sup> To this effect he stressed that the words<sup>17</sup> While Verma the authority cited elsewhere here in above subscribe that the TRIPS Agreement, Art. 6 is neutral as to the commitment of member states regarding exhaustion and are free to elect any of the principle and argued that only

the application of international exhaustion is compatible with the WTO framework,<sup>18</sup> Straus is of the opinion that it is not possible to answer that the principle of international

---

<sup>12</sup> Fredrik M. Abbot, et al

<sup>13</sup> Bronckers p. 142

<sup>14</sup> Ibid

<sup>15</sup> Joseph Straus, *Implications of the TRIPS Agreement in the Field of Patent Law*, in Beier and Schricker (eds) *From GATT to TRIPS (Weinheim:VCH, 1996) P. 256*

<sup>16</sup> Ibid

<sup>17</sup> Ibid FN 137

<sup>18</sup> S.K. Verma, *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPS Agreement*, IIC, Vol. 29 No. 5, 1998.p. 566

exhaustion regulates the entire spectrum of IPR on the basis of Art 6. And he stated that the principles of international exhaustion of patent rights, for instance, directly contravene not only the substantive legal provisions of TRIPS patent law, but also the fundamental TRIPS rationale.<sup>19</sup> These multiple positions of states regarding the issue of the doctrine of exhaustion are feared to be exercised against the free movement of goods and services as sought by the multilateral trading schemes adopted by WTO. While GATT 1994 and other WTO instruments place obligation on states not to restrict the movement of goods in any manner other than tariffs the over protection of IPR may be used, it is feared and argued by some authorities, as quantitative restriction, which is prohibited under the GATT. S.K. Verma held the opinion that the restriction against parallel imports under domestic/territorial exhaustion amount to quantitative restrictions. He justifies on the ground that when states apply territorial (domestic exhaustion) they must be violating the GATT obligation under Art XI (1) which prohibits contracting parties to impose any quantitative restrictions or take other measures against imports and exports.<sup>20</sup> He stressed that territorial exhaustion when applied is none but considered as 'any other measure' and hence a non tariff barrier to trade contrary to GATT.

## 5. IPR Exhaustion: Technicalities

The issue of IPR exhaustion involves technical matters in the determination of its scope. Having manufactured/produced the material embodying the IPRs and sold it for a satisfactory compensation, whether as material or in the form of a manufactured article, the IPR holder, so far as that quantity of the product of his intellectual effort is concerned, has enjoyed all the rights secured to him by the IPRs grant, the products and the material of which it is composed, go to the purchaser for a valuable consideration, discharge of all the rights of the IPR holder previously attached to it. Because IP involves economic and moral right to the right holder if such right holder has been duly compensated

commensurate to the market value of the item resulted from his work plus the work is recognized as his by others, mainly by refraining from infringement (or by duly requiring his consent otherwise) then the IPRs holder should not tamper with those persons rights to use the items despite they are the result of his endeavor.

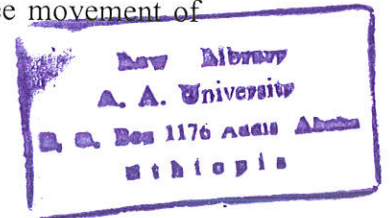
---

<sup>19</sup> **Id**

<sup>20</sup> *ibid*P. 554

While this is generally true the technicality arises when one considers specific cases in all arrays of IPRs, i.e. patent, copyright trademark, etc. and the nature of specific rights protected in all forms of IPR.

In patent the issues involved for instance include whether consenting to a component of a patented combination exhausted the right to the combination, or whether the use of a patented component with unpatented components exhausted the right of the patentee.<sup>21</sup> This issue may arise under the patent law in Ethiopia. In the case of copyright and other related rights the issue may be one involving when is a work said to be sold to the public? Will it suffice to agree with a publisher to publish the work once and that is all? What about the right of the author or other form of right protected by the law? And in the case of trademarks can, for example, a trademark owner oppose the marking of genuine goods belonging to the trademark owner by another person? What about remarking of the goods of the true trademark owner etc?<sup>22</sup> The determination of issues such as these and others is important to fully develop the jurisprudence of IP laws in any jurisdiction and giving effect to the rights enshrined by the laws in turn striking the intended objectives of IP laws, of course in harmony with other pernicious matters such as free movement of goods across international borders, to say the least.



## 6. Objective of the Study

Intellectual property is becoming prominently important in wealth creation in today's world of globalization. As such, the free enterprise economy while allowing for freer movement of goods across boundaries also requires the strict protection of individual property rights. Primarily due to, as mentored above, IP's increasing importance in the

industrialization, commerce and transfer of knowledge worldwide IPRs have become one of the major concerns of states in their international trade relation.

Of particular interest in the study of IPRs is also the principle of exhaustion of IPRs. It is so because the principle of exhaustion of rights has much to do with the delimitation of

<sup>21</sup> John W. Osborne, P. 13

<sup>22</sup> Fredrick-Karl Beier; *The Doctrine of Exhaustion in EEC Trademark Law-Scope and Limit*, (IIC, Vol, II No. 1/ 1979) P. 29

rights between the IPR holder and that of the (Prospective) purchaser of products/services embodying IPRs.

In this study, therefore, the researcher would like to focus on the identification of the scope of the doctrine's application as a defense for those who acquire proprietary rights over the out-comes of IP and adequate protection to the IPR holder in cases of infringement. Whenever there is a conflict between the two legal interests it calls for the proper application of the doctrine of exhaustion. The researcher beyond the discussion of the doctrine's nature and scope of application would also venture to study the impact of exhaustion of IPRs on international trade. This is particularly relevant and timely due to Ethiopia's application to a the Multilateral trading system, WTO, which in its overall trade policy and framework has made an intertwined relation between trade (in goods and services) and intellectual property through the adoption of the Trade Related Aspects of Intellectual Properties (TRIPS) Agreement. By way of exploring the experiences of developing countries and the advantages and disadvantages of the various principles of exhaustion of IPRs application in international trade a point would be made relevant to the Ethiopian prospect in the field of IP as it relates to its (Ethiopia's) efforts to gain form the international commerce and to be a destination of international commerce and to be a destination of international capital investment of which IP and know how comprises important portion.

## **7. Research Methodology**

The research Methodology to be employed in this work is the analytical approach of research. This method of research would enable the researcher to compare the views prevalent in different jurisdictions and deduce important points relevant to the developing countries in general and Ethiopia in particular in their domestic and international IP policy and international trade relations.

To achieve this, therefore, the researcher will employ all useful and relevant techniques to carryout the research work. Thus, all relevant books, journals, laws, international agreements, cases will be gathered and used.

## **8. Significance of the Study**

As it has been indicated elsewhere in this proposal by the researcher the issue of IP and particularly the question of exhaustion of rights is overwhelmingly becoming the concern of states. The reason is apparent. IP law and policy of states is proved to be a factor in liberalization of international trade in goods and services. The policy of states in IP and exhaustion of rights, therefore, in turn becomes important in their international trade.

Particularly it is significant to developing countries like Ethiopia for a number of reasons. Among the reasons the fact that major subjects of IPRs originate from industrialized nations, however requiring protection in the developing world as well, therefore, affected by the policy of exhaustion in the latter. Second, IP policy and exhaustion of right in particular is an important consideration for transnational movement of capital specially those kinds of related with IP and know-how, which developing nations very much aspire. The more favorable the states' policy in IP and international trade the more attractive it is to those who wants to invest in those states.

In this regard, Ethiopia as a developing country with least developed IP system needs to have a logically designed law and policy particularly that foster international trade and transfer of technology as well as making it a destination of cross-border investment.

This study therefore will be significant to indicate the IP policy that Ethiopia should follow in the interest of its international trade relations. It will also contribute in a general manner how the issue of exhaustion of IPRs should be approached in Ethiopia there by fostering the development of the jurisprudence in the field of intellectual property law in this country.

To sum up, the research would be of considerable significance to policy makers, courts, industrialists, students and those others interested in IP law and international trade as far as the issue of exhaustion of rights is concerned.

## Chapter Two

### Intellectual Property: Its Nature and Context in International Trade

#### 2.1 *Intellectual Property Rights in General*

##### 2.1.1 Property' Nature of Intellectual property

It is relatively modern phenomenon that the term property includes other rights such as: intellectual creation and inventions.<sup>23</sup> Originally the term 'property' could apply only to things corporeal.<sup>24</sup> But, it is no longer in place. Now the term property is used to a number of other forms of rights that man can make use of in the improvement of his life and comfort as well as to add to the bulk of his riches. According to M. Planiol the narrow and original meaning of the term that confined itself to things corporeal was caused to outgrow largely because of the progress of juridical life.<sup>25</sup> Hence, in the words of Planiol the term property now "includes all that constitutes and element of a fortune or of riches that are susceptible of appropriation in favour of an individual or a collectivity".<sup>26</sup> In relation to private persons property is "nothing other than the assets of which their patrimony is composed".

Planiol's expression of property seems to fit with intellectual property as a form of property right as well. In modern times it is intellectual property that is adding to greater part of the world's fortune goes without saying. With respect to Planiol's expression of property as a right based on susceptibility of appropriation by man rather it is intellectual property that best fits the concept of classification for sure creativity and inventiveness is painstaking than any thing else. So one can say, the moment a person creates a copyright able, patentable or any other commercially valuable product then it can be well said that this person has appropriated a right over such products, provided for some of them the procedures for protection are satisfied.

---

<sup>23</sup> Stephen P. Ladas, *Patents, Trademarks, and Related Rights* Vol. 1, 1975 p.3

<sup>24</sup> M. Planiol, *Treaties on the Civil Law*, P. 280

<sup>25</sup> Ibid

<sup>26</sup> Ibid

Another authority on the subject David Bainbridge emphatically provides that “intellectual property is property in a legal sense”<sup>27</sup> He says that intellectual property gives rise to a form of property that can be dealt with just as with any other property. Hence, it can be assigned, mortgaged and licensed,<sup>28</sup> notwithstanding its special nature.

In the taxonomy of property rights there is a tradition of dividing property in to corporeal and incorporeal. Intellectual property falls into the latter division because of their intangible nature. M..Palnion is critical of this classification. He claimed that things corporeal and incorporeal rights do not have the contrast made between rights and things is not a classification.<sup>29</sup> When property is generally subject to classification on the basis of the right that it gives rise to i.e. real rights and personal rights, intellectual property rights fall in to the category of *choses-in-action*, rights that are enforced only by legal action as opposed to possessory rights.<sup>30</sup> By definition the term intellectual property refers to a defined set of intangible products of human activity. It refers to an idea, the expression of an idea or the expression of an identity that is capable of being ascribed to a person.<sup>31</sup>

As a matter of corollary, therefore, the term intellectual property right refers to a bundle of legally enforceable interests that a person may hold with respect to intellectual property.<sup>32</sup> Although contested to be over broad intellectual property sometimes is defined as the negative of real property and personal property<sup>33</sup> while the holder of the right be able to exercise exclusive right by physical control of the things embodying the former, it just suffices to have physical control to exercise a right over the latter.

### **2.1.2 The problem of Intellectual property**

Having said the above on the nature of intellectual property, let’s now see the problem the nature of IPRs pose to the right holder.

---

<sup>27</sup> David Bainbridge, *Intellectual Property*, 4<sup>th</sup> edn. Pitman Publishing, 1999 p. 10

<sup>28</sup> Ibid

<sup>29</sup> M. Planiol, Supra note 24.P. 280

<sup>30</sup> Supra notes 27. p.10

<sup>31</sup> F.M. Abbott, *Protecting First World Assets in the Third World*, in Fredrick M.Abbot, et al ,The International Intellectual Property System, Commentary and Materials, part one, kluwer Law International, The Hague, 1999, p. 840

<sup>32</sup> Ibid

<sup>33</sup> Id

First and foremost as intellectual property right is a bundle of legally enforceable interests various components can not be similarly characterized in their entirety. Some forms of intellectual property give rise to monopoly rights while some other do not as such patent and copyright provide the best example in this respect. In almost all jurisdictions the grant of patent effectively gives the inventor, or more commonly his employer, a monopoly to work the invention to the exclusion of others for a period of time,<sup>34</sup> usually not exceeding 20 years. On the other hand, fundamentally and conceptually, copyright law does not give rise to monopolies and it is permissible for any person to produce a work which is similar to a pre existing work as long as the later work is not taken from the first.<sup>35</sup>

The protection of intellectual property rights requires a special attention due largely to its nature. It is generally accepted that the grant of intellectual property protection is a response to the public goods problem inherent in the production of information.<sup>36</sup> Because information is by its nature fluid and can be consumed by more than one person without depleting the amount available to others, once the originator releases the information, he or she cannot easily exclude others from its benefits whether or not they pay.<sup>37</sup> Unlike tangible wealth, which must be mined, grown or manufactured and is therefore subject to finite limitations of ownership or use, intellectual property wealth can be reproduced and used without depriving its creator owner of possession or use and almost without practical limit.<sup>38</sup> As a result, therefore, infringement of intellectual property rights is easier than deprivation /violation of any other form of property rights. Furthermore, the standard of proof as well as technical complexity of the subject matter makes the effective protection of intellectual property rights much more cumbersome. This is, however, setting aside all other problems and arguments raised in relation to the policy rationale why the state should /should not protect intellectual property rights, which is not of course the purpose of this paper to discuss.

---

<sup>34</sup> David Bainbridge, *Supra* note 27. p. 317

<sup>35</sup> *Ibid.* p.29

<sup>36</sup> Maureen A. O'Rourke, *Toward a Doctrine of Fair Use in Patent Law*, *Columbia Law Review*, Vol. 100 No. 5(June, 2000)p. p. 182

<sup>37</sup> *Ibid*

<sup>38</sup> F. M. Abbott, *Supra* note 1, p.6

### 2.1.3 The Various Forms of Intellectual property Rights

We have said that intellectual property' is a generic name for a bundle of property rights of intangible nature. However, they are named intellectual property rights' because of their commonly shared features and characteristic they each have their own peculiar nature distinguishing one another.

It is, therefore, important at this juncture to have a brief over view of each individual intellectual property rights so that it would help us understand how the application of the doctrine of exhaustion of rights is relevant to each of them, as well as the impact of each of them on international trade in this respect. However, our discussion would be limited to the major forms of intellectual property rights, having significant role on international trade, i.e. patent, copy rights and trademarks.



#### A. Patent

It is universally recognized that patent is a right granted to the inventor of a technological product or process that is new, useful and involves an inventive step. The effect of the granting of patent right is exclusion of others from the working of the invention for a limited period of time, usually 20 years. The inventor is required in the first place to sufficiently disclose his invention in a manner that would enable others work the invention. This precondition of disclosure is an important aspect of the inventor's consideration to the state/public. The disclosure of the information relating to the patent is called patent information, on the basis of which the public at large and competitors and researchers particularly can benefit, subject to the scope of infringing acts.<sup>39</sup>

By and large the monopoly of the inventor (patentee) is limited to the making of the invention, using the process (for a process patent) making the product available for sale and importing the product.<sup>40</sup> However, these may be important rights and limited only to the expiry of the terms and then after the invention falls in to the public domain and any one is free to make use of it.<sup>41</sup>

<sup>39</sup> David Bainbridge, Intellectual property, 4<sup>th</sup> edn. P. 318

<sup>40</sup> F.M. Abbot, et al Supra note 1. p.25

<sup>41</sup> David Bainbridge, Supra note 27, p. 318

Within the terms of the patent the inventor is required to make the invention and make the product available. Otherwise he/she may be subject to the compulsory licensing requirement. This is the case in almost all jurisdictions. The patentee is also bound by law not to abuse his monopoly right in patent licensing agreements.<sup>42</sup>

As to patentability, while all inventions satisfying the requirements of the law are patentable there are some limitations on patentability. Even if there is no consensus among many jurisdictions it is recognized in many countries that discoveries, as against inventions, are not patentable. However, the distinction between inventions and discoveries are yet blurred. Laws of nature or scientific principles that the researcher may 'find' are not patentable.<sup>43</sup> This is despite the fact that the discovery may have enormous commercial implications.<sup>44</sup>

Most of all the patent monopoly right is limited by the doctrine of exhaustion of rights. Even if, we said that it is a property right and the inventor has priority rights, then once he has made use of his proprietary right, the effect of the monopoly shall lapse. Therefore, all others in the line of the destination of the product are protected from the arms length of the patentee's monopoly right.

## **B. Copyright**

Copyright is granted to authors and artists to protect their creative expression against unauthorized copying or reproduction. Unlike the patent, the copyright does not establish a monopoly relating to the contents of the creation; ideas and thoughts remain in the public domain.<sup>45</sup> Therefore, the emphasis of the copyright protection is on the expression of the author or artist in his work or performance such being the case, two persons may independently create identical or similar works for which each of them are entitled copyrights protection to their respective work. Then, one can say because the content is not subject to protection, but the expression, copyright unlike patent does not establish monopoly. Copyright may subsist among others in original literary works, paintings, films and sound recordings.

---

<sup>42</sup> Maureen A. O'Rourke, *supra* note 36, p. 1199

<sup>43</sup> Friedrich M. Abbot, et al *The International Intellectual Property System, Commentary and Materials*, part one, Kluwer Law International, The Hague, 1999, p. 25

<sup>44</sup> *Ibid*

<sup>45</sup> *Ibid*

The creator of various works, literary and artistic, will have certain rights with respect to his/her work. These various rights conferred upon the creator by the express provisions of the law. Any other act outside the scope of the copyright is left to the public and the creator neither has cause of action nor remedies to claim against others.

The rights recognized in the majority of jurisdictions of the world and in Ethiopia include reproduction of the work; translation of the work; adaptation, arrangement or other transformation of the work; distribution of the original copy of the work to the public by sale or rental, importation, public display, performance of the work, broadcasting and other communication of the work to the public.<sup>46</sup> These are essentially economic rights which the creator is given exclusive right. However, authors and artists also have moral rights that among others the law conferred on them irrespective of whether or not owner of economic rights to claim authorship; to remain anonymous or use pseudonym; object any distortion or mutilation of work, to publish his work.

The copyright however important is with a number of limitations. For example, the work of an author may be cited by another within a certain limit, or that it may be used by other persons for certain legally prescribed purposes while the author of the work fully exercises his right.<sup>47</sup>

More than any thing else the doctrine of exhaustion is by far important limitation. Note that this doctrine applies and affects the economic rights of the author of the work alone.

### **C. Trademarks**

A trademark is a sign used on a good or in connection with the marketing of a product including goods and services.<sup>48</sup> The sign may consist of one or more distinctive words, letters, numbers, pictures, colour and drawings and the distinctive form of a product. Even in recent times some jurisdictions are allowing sound and scents to be used as trademarks.<sup>49</sup>

---

<sup>46</sup> Copyright and Neighboring Rights Protection Proclamation, Proclamation No. 410/2004 Federal Negarit Gazeta No. 55, 19<sup>th</sup> July 2004. Effective 24 July 2004. Art. 7

<sup>47</sup> Supra note 5 pp. 185-197

<sup>48</sup> F.M. Abbott, Supra note 31, p. 128

<sup>49</sup> Ibid

Trademarks law confers on the proprietor of the monopoly right to use the mark and exclude all others from using without having his prior consent to that effect. This being the case, in most jurisdictions the law is very careful in authorizing exclusive use of trademarks, especially when registration of marks is required. The reason for this extreme care is because once a sign is registered on behalf of someone unnecessarily while without satisfying the requirements of distinguishability' then it would be an imposition of monopoly on competitors and the public at large.

Trademarks general serve four important functions:<sup>50</sup>

1. Distinguish products of an enterprise from other products or service of the same enterprise; it helps consumers as well in distinguishing a product that is already known to him or advertised.
2. Used to refer a particular quality of products for which the trademark is used and stands for.
3. relate a particular product with the producer, origin of the product is distinguished by the mark affixed to the good or its container
4. It facilitates promotion and marketing of the goods and services.

All trademarks may not be necessarily registered for the proprietor to exercise his/her right. Traditionally trademark may be exercised by virtue of a registration or because of an establish regulation generated by actual presence in the market. Even though both registered and unregistered (but established) trademarks enjoy protection of the law, it is more difficult to resist infringement of a registered trademark than an unregistered trademark. Hence, the protection is strong for registered trademarks on actual grounds.

## **2.2 Trends in international trade and IPRs.**

Trade amongst nations is as old as the early formation of states. No doubt historically even before the formal existence of 'states' in its modern and ancient sense, various communities in different geographical location and with different cultural settings trade in goods. This interchange of goods (and service) is justified by the politico economic factors of its time at various stages of human/societal history.

---

<sup>50</sup>F. M Abbott, Supra note 31, pp. 129-30

However, it has not been easily and freely that states traded in goods through out the ages. International trade, unlike domestic exchange of goods, was subject to the prerogatives of those on the apex of political power. Governments justify why they should or should not trade with certain other states. This may be purely political or economic or even subject to considerations on the balance of the two.

### **2.2.1 Developments in international Trade**

Many faceted relation of states may be affected or subject to various factors. While it is true that interdependence of societies /states has been a clear case<sup>51</sup> with increasing impetus as the world advances in modern communications technology and the resulting globalization, historically trade amongst nations was subjects to the whim of governments. Whereas Adam Smith was quoted as noted emphatically that states should discriminate in favour of those who buy from them<sup>52</sup> during his times states were practically engaged in discriminatory trade practices with others chiefly on the basis of political considerations.<sup>53</sup> In fact it is political when one talks of relations between states. Discrimination of states on purely political ground cannot be said unjustifiable. The matter rather is while every matter involving state relations is spear headed by the political as trade is generally economic relation and to the extent it does not affect other interests of the states concerned as well as it is based on mutual terms, discrimination on a purely political ground is subject to attack.

In fact states trading in an organized world in the medieval times also founded their discrimination on strictly economic grounds such as protection of domestic producers against lower cost imports.<sup>54</sup>

In the middle ages, as we have said above, the consideration was whether trading with a particular state was 'fair' or 'unfair'<sup>55</sup> from both political and the limited economic stand point. States usually insert conditional most favored nation treatment clauses in their trade agreements on the basis of this consideration.

---

<sup>51</sup> Fredreick H. Hartmann; *The Relation of Nations*, The Macmillan Company, New York, 1963, P 145

<sup>52</sup> Gardner Patterson, *Discrimination in International Trade 1945 – 1965*, 1966 p.5

<sup>53</sup> Ibid p. 4

<sup>54</sup> Id

<sup>55</sup> Id

Other grounds on which discriminatory practices and policies were based include: they fostered freer trade,<sup>56</sup> non discrimination reinforced protectionist tendencies;<sup>57</sup> the most favoured nation rule introduced lethargy in to tariff reduction negotiations for it encouraged many countries to wait, hoping to obtain automatically the benefits of others lowering their tariff.<sup>58</sup>

For the most part of history of international trade relation between states was governed by bilateral agreements. Tariff concessions, quotas, national treatment or whatever affecting international trade was subject to bilateralism. However, multilateralism began to develop with formation of alliance of states for military or economic purposes<sup>59</sup> latter in the middle of the 19<sup>th</sup> century strong bilateralism has gradually grown in to larger multilateral organization such as customs unions and free trade areas at the end of the Second World War. While in fact it was not anticipated that customs unions and free trade areas would be major features of the international trade scene, it in fact has become the reality.<sup>60</sup>

Cross border trade in goods (and services) his to go ups and downs reportedly clockwise and anticlockwise at least in the past three hundred years. Goods crossed borders subject to the will and restrictions of states on both sides of the demarcations.

First international trade is an important aspect of international economics where mother earth's resources and human effect are to be distributed amongst its residents divided in political boundaries. Because of the inherent and often asserted sovereignty of states over their territory and subjects, and despite the economic actors are in fact the individual it has always been difficult to imagine international trade without the involvement of the state. Hence, throughout the past three or four centuries international trade has suffered from various policies and regulations.

It has also been fostered by various considerations of states and developments at national and international level.

---

<sup>56</sup> Ibid p. 6

<sup>57</sup> Ibid p. 7

<sup>58</sup> Ibid p. 8

<sup>59</sup> Ibid p. 4

<sup>60</sup> Ibid p. 120

No state is self sufficient in the satisfaction of demands for resources and consumptions.<sup>61</sup> Hence interdependence between states is more than apparent, and increases from time to time more than ever before. However, given the involvement of the state, international trade is not solely the concern of the 'economic man' while virtually if at all does not exist the 'economic state' led by a sole consideration of economic ideals. Nevertheless, with changing policies of states the degree of the interference by the state in international economics has varied tremendously from one extreme to the other.

One of the policy directions of European states in the recent past was mercantilism. This policy was adopted following loss of trade balance by a number of western European trading states in their trade amongst themselves and with the orient.<sup>62</sup> In order to strike a balance between excesses of imports over exports that were to be paid in precious metals such as gold and silver, European states put two remedies in to effect: regulating trade drastically particularly by reducing imports and requiring that goods be transported by ships owned by nationals; and determined to plant overseas colonies where they can get cheap supply of raw materials to the mother country in return accept the finished products.<sup>63</sup>

Nevertheless, with the publication of Adam Smith's *Wealth of Nations*, the serious errors of mercantilism were discovered. The central theme of his critique of mercantilism was that a nation is not wealthier only by its excess reserve of gold and silver nor it is so merely because it exported more and imported less.<sup>64</sup> He argued in *the Wealth of Nations* that import-export balance is no more an important index of the states' wealth and further held that it is rather because of the ability of its gold and silver to command more goods and services in satisfaction of its citizen's demands for them.<sup>65</sup> This was what is popularly known to be *laissez faire* that was meant to turn mercantilism anti-lock wise. However, despite Smith's forceful writings mercantilism served as a predominant international trade policy in to the nineteenth century.

---

<sup>61</sup> *Supra note 29*, p 132. As the world advances in science and technology the shift is from strive to be self sufficient to the solution of comparative advantage in which states devote their resources to mass production of specialized goods in which they are more suited and competitive in the international market.

<sup>62</sup> *Id.* p. 134.

<sup>63</sup> *Id.* p. 135

<sup>64</sup> *Ibid*

<sup>65</sup> *Ibid.*

In the second half of the nineteenth century England and other Western European countries such as Belgium, Holland and France began to adopt a new direction in their international trade policy-Freer trade.<sup>66</sup> But this free trade was not completely and every where free. As against England and others above mentioned, the USA a notorious protectionist state a bit liberalized its trade by reducing tariffs to lowest level, Central European and the Germanic states followed suit.<sup>67</sup>

The Cobden treaty of 1860 between England and France that lasted for about twenty years marked significantly freer trade by either abolishing tariffs or significantly reducing them for more than two thousand items traded between the two western trade giants.

The last years of the Anglo French free trade agreement however saw a drawback in the evaporation of free trade as production out run markets and competition become stiff. Beginning in 1879 Germany under the rule of Bismarck commenced permanent duties on industrial and agricultural products alike.<sup>68</sup> French followed suit in rising gradually but steeply. The United States erected a tariff wall to be climbed by goods abroad and other nations, England did likewise. Only Britain clung to the remnants of free trade up until it embraced protectionism in 1931.<sup>69</sup>

These protectionist policy were soon followed by a search for oversees colonies to be used as a safety valve as a French statesman, Jules Ferry, was quoted as saying “the protectionist system is a steam engine without safety value if it does not have as corrective and auxiliary a healthy and serious colonial policy”<sup>70</sup> Great Britain, France, Belgium, Holland and others added almost triple of the colonies they have before this era of imperialism. The whole of Africa except Ethiopia and Liberia were occupied primarily to serve European demand for raw materials. The same was true most of the region of south East Asia. Japan did the same in its region by occupying Korea and other surrounding areas dispossessing China.<sup>71</sup>

---

<sup>66</sup> Id p. 136

<sup>67</sup> Ibid

<sup>68</sup> Ibid p. 137

<sup>69</sup> Id

<sup>70</sup> Ibid p. 140

<sup>71</sup> Ibid p. 141

Notwithstanding determinants on native life the colonial expansion increased world's productivity and the growth of international trade both in terms of geographical destination and volumes.

However, contrary to Jules Ferry's expectation that following protectionism trade would much more depend between the colonies and their mother states, trade increased between European states themselves.<sup>72</sup> This was due largely to the abundant raw material sources which imperialism made possible.

Throughout the times before WWI trade rested up on a general acceptance of the gold standard and an almost universal convertibility of currencies. Because by gold it was possible to fix each currency in terms of that metal it contributed to the stability of world trade.<sup>73</sup> This stable situation has operated up until the out break of WWI (1914), which soon was destroyed by the war.

Given the tremendous disaster resulted by the World War I and the huge war debt up on belligerents' nation after nation abandoned the gold standard in the 1930s. This was soon followed by economic nationalisms where each state began to try to pull its own economy out of the mud. The devices of nationalism which states resorted to were not in fact new except that they had been used this manner. In the following five years after the war import quotas and other restrictive devices had come into use.<sup>74</sup> Suddenly there came the re-adoption of the gold standard in the years from 1925-29, and like a tide regression this new reappearance of the gold standard and freer trade was engulfed as a consequence of the Wall Street crush where economic nationalism set in with a vengeance.<sup>75</sup>

We have seen that tariffs were steadily rising since 1879. Between 1913 and 1915 alone tariffs increased by a third and even in the semblance free trade times of 1925-1929 there was no great down ward revision of these tariffs.<sup>76</sup> This built up on tariffs and other barriers to trade affected the volume of trade world wide.

---

<sup>72</sup> Ibid. p. 140

<sup>73</sup> Ibid p. 144

<sup>74</sup> Ibid p. 147

<sup>75</sup> Id.

<sup>76</sup> Id



### 2.2.2. The Birth of the General Agreement on Tariffs and Trade (GATT)

Negotiated immediately after the Second World War and completed in 1947, the General Agreement on Tariffs and Trade (GATT) came into effect in 1948. It involved 123 simultaneous negotiations of 23 states covering 45,000 items traded world wide.<sup>77</sup> The pre-existing bilateral concessions were multilateralized by virtue of the most favored nation clause the GATT contained most importantly.

The General Agreement generally marked the beginnings of an international solution to the trade problem which went beyond dollar grants and credits. In addition to the Most Favored Nation (MFN) clause that the GATT contain for equal treatment of all parties it also dealt with other trade problems such as national treatment, prohibition of quotas, anti-dumping and measures of counter veiling, and exceptions to the general prohibitions such as the privileges of customs union and free trade areas, restrictive measures to prevent danger to human health and environment trade and development and others. This paper shall deal with some features of the GATT and subsequent developments it entailed in the international trade.

### 2.2.3 The Evolvement of GATT

GATT remained the only way of dealing with international trade at a multilateral level between its contracting parties for not less than five decades only because the intention of the international community's desire of establishing an International Trade Organization (ITO) has failed. The General Agreement was intended to be administered under the then would be international organization, but failing that continue to fill the gap both as a norm of international trade and a *defacto* institution through its secretariat.

However, despite its defect in formation, 'birth defect' as some call it, the General Agreement served as a forum of negotiation on matters of trade up until the formation of the World Trade Organization in 1994. So one can surely say the WTO has evolved from the 'defective' GATT.

---

<sup>77</sup> Ibid. p. 152

The establishment of WTO has brought about the completion of the half a century strive for a multilateral trade organization. The WTO was stronger and contained enormous packages that are meant to tremendously facilitate freer trade world-wide. Unlike the General Agreement that was basically intended to lower tariff barriers, a number of WTO agreements dealt with many more fields of trade. Some of these include, the General Agreement on Trade in Services, an equivalent of GATT, Technical Barrier to Trade, Agreement on Sanitary and Phyto-sanitary matters, Agriculture, textile and clothing, telecommunications, government purchases, industrial standards, food sanitation regulation and intellectual property.

Once a state is admitted to the WTO it is bound by all the packages of agreements indiscriminately, hence to live up to its expectations by respecting the principles of the international trading system.

#### **2.2.4 Basic Principles of the current trading system under the WTO**

##### **A. Non-discrimination**

This principle is covered by the Most Favored Nation (MFN) clause of the GATT 1947, now GATT 1994. Accordingly therefore contracting parties or members of the WTO may not discriminate other states in their trade relations. Therefore, if a state member granted a special favour to one state member then it is bound to do the same for all other members as well. This is automatic and is therefore recognized to be unconditional most favoured nation clause. This MFN clause is most important and is the pillar of the whole edifice of the system.

It is contained in Art. I of the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) although the principle is handled slightly differently in each agreement.

However, this principle is not without exceptions. Some exceptions are allowed to be exercised by members under strict conditions. For example, countries may form customs union or free trade area and establish especially favorable terms of trade between

members of the group which others outside the group cannot claim to avail under the MFN rule. Or states may raise trade barriers against products from specific countries considered to be traded unfairly. In some limited circumstances states are also allowed to discriminate in case of services.<sup>78</sup> This principle applies irrespective of the economic, political and other status, or strength of states.

### **B. National Treatment**

This is another important principle of international trade under the WTO system (under the GATT 1947 as well). The central theme of this principle is treating foreigners and locals equally with respect to all traded items and all aspects of international trade both imported and locally produced goods, services and intellectual property rights should be treated on equal footing, at least after they entered the market. All the three important WTO agreements contain the national treatment principle. Art 3 of TRIPS is concerned with this principle.

One of the most important objectives of the international trading system is the gradual removal of trade barriers. The barriers to trade include tariffs /customs duties and other restrictive measures such as import bars, or quotas that affect quantities imported and/or exported. At latter times other issues such as red-tape and exchange rate policies have also been discussed.<sup>79</sup>

Since the very inception of GATT in 1947 there have been eight rounds of trade negotiations first focusing on lowering of tariffs on imported goods. The result was therefore significant reduction of tariffs (6.3%) by industrial countries on industrial products. In the 1980s the negotiations had expanded to cover non-tariff barriers on goods and other areas of trade such as services and intellectual property rights.

The liberalization was designed to be gradually but progressively to the extent of zero tariffs. Hence, it is meant to achieve 'progressive liberalization' of trade when ever necessary with adjustments by the states concerned to balance national interest and international commitments.

---

<sup>78</sup> Fredrick M. Abbot, et al, Supra note 1, p. 317

<sup>79</sup>Id.

### **C. Predictability**

Another principle perhaps as important as non-discrimination and national treatment is the maintenance of predictability of policies and trade practices. This is to be achieved through bound tariffs. Once customs duties (tariffs) for certain commodities are agreed upon then they may not be raised unilaterally, but subject to negotiation with other trading partners. This principle of predictability secured business from arbitrary action of government which may result in loss of trade and investment to businesses. Furthermore, stability and predictability encourages investment and creates more opportunity of employment.<sup>80</sup>

In case a state exercises restrictive measures after negotiations with its trade partners it would be on conditions of compensating those other states for loss of trade as a result of changes in the bindings (granted concessions).

#### **2.2.4 International Trade and Intellectual property**

Originally the crux of the problem concerning intellectual property was that emanate from the very nature of the things themselves. International trade necessarily and by definition requires movement of goods across boundaries of nations. Once goods crossed national boundaries they are within the legal and administrative jurisdiction of the importing state. The exporting state does not have control as a seller does not have control over the things he sold. However, there are interests of such exporting state and those who produced the goods attached with the exported items: Intellectual property rights (IPRs).

On the other hand, intellectual property is a right that is granted by the state in the territory of which it has been invented or created and protection is sought as a result. And, it is territorial in nature.<sup>81</sup>

Despite this contrasting reality intellectual property rights protection remained national for a long period of time. Therefore, IPR holders who seek their titles protected everywhere goods bearing their title circulate were expected to file applications for grant of

---

<sup>80</sup> Ibid. p. 318

<sup>81</sup> Ibid p. 309

patent or other rights. Even then, there were a number of complex matters that may not justify the protection to the title holders, however. One of such differences was for example the difference of intellectual regimes in different states and the policy on international trade. There were also further hurdles that make filing for protection burdensome: the different administrative formalities required and the legal conditions to be satisfied by the applicant in each country in which protection is sought.<sup>82</sup>

Advancement in communications technology and consequently the huge movement of goods and people crossing boundaries world-wide necessitate the need to be alert about IPRs as the last quarter of the 19<sup>th</sup> century when few European states took the initiative to draft and conclude an agreement industrial property rights in 1883 at Paris. That was an important step in this field for, among others, it created the system of international filing of patents thereby avoiding the need to file in each state where the right holder seeks to protect his rights. These states where he possibly wants to file are states to which territory goods bearing IPRs are imported or where the IPR holder feels his rights (titles) are likely to be infringed. This is the case particularly with respect to patent and trademark rights that have much attachment to goods circulated across boundaries or countries.

Since the Paris Conventions on industrial property in the 1880s, there were gradual moves forward that solidify the legal basis of IPRs protection at an international level, however it was gradual. But with the advent of the GATT where trade becomes a multilateral issue the basis for the link between international trade and IPRS were laid down for the first time.<sup>83</sup> The General Agreement (1947) in a slight manner provided some rules concerning marks of origin and general exception in favor of intellectual property rights protection.<sup>84</sup>

Nevertheless the general concentration of the General Agreement was on providing rules for the gradual avoidance of tariff barriers to trade and norms establishing for the regulation of fair international trade by putting in place regulations in particular

---

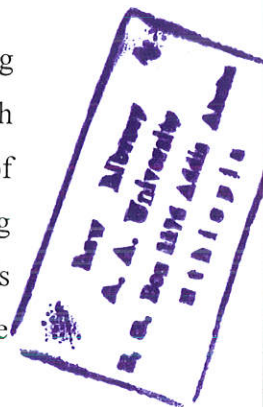
<sup>82</sup> Francis Gurry, *The Evolution of Technology and Markets and the Management of Intellectual Property Rights*, in FM Abbot, et al, supra note 1, p. 309.

<sup>83</sup> The General Agreement on Tariffs and Trade (GATT), 1947, Art. 1X

<sup>84</sup> Ibid. Art XX

concerning quantitative import restrictions (quotas), subsidies, and discriminatory taxes on imports, antidumping and countervailing measures. Therefore, the real connection between trade and IPRs was not created in a substantial manner at a multilateral level up until one year after the WTO had come in to effect<sup>85</sup> January 1, 1996, the day the TRIPS agreement come in to force.

The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) being with in the package of the WTO shares a number of legal provision (Principles) with other agreements particularly the older GATT law. But as its designation is indicative of its objectives the agreement provides for “adequate standards and principles concerning the availability, scope and use of *trade related intellectual property rights*”<sup>86</sup> (emphasis added) it was in fact designed to provide effective and expeditious procedures for the multilateral prevention and settlement of disputes between governments”<sup>87</sup>



The different WTO agreements, first and foremost, are there to promote free and liberal trade world wide. International trade has been subject to various barriers of which the protection of IPRs is one of the non-tariff barriers. The issue is, therefore, within the WTO framework the intention of member states negotiating TRIPS and other WTO agreements was to advance liberal trade. This is to imply that in case one talks or argues of IPRs and International trade whether due emphasis should be given to IPRs or that of unhindered trade; which of the two should be our premise.

F.M. Abbott, important author in the field argued that the position of liberal trade to be the premise when one talks of trade related IPRs protection. He further noted that this emphasis of the TRIPS' Agreement is to be located in the following terms of its preamble:<sup>88</sup>

Desiring to reduce distortions and impediments to international trade, and taking in to account the need to promote effective and adequate protection

<sup>85</sup> The WTO Agreements become operative as of 1 January 1995.

<sup>86</sup> Preamble, the Agreement on Trade-Related Aspects of Intellectual Property Rights, effective as of 1<sup>st</sup> Jan. 1996.

<sup>87</sup> Ibid.

<sup>88</sup> Frederick M. Abbott, Rapporteur, *Discussion Paper for Conference on Exhaustion of Intellectual Property Rights and Parallel Importation in World Trade*, Geneva, Nov. 6-7 1998, Committee International Trade law, in F.M. Abbot, et al supra note 1, p. 1785

of intellectual property rights, and *to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade.*(emphasis added )

This position seems to have the support of other authorities on the subjects. S. K. Verma, an intellectual in IPRs portrayed a similar view when he say the over and under protection of IPRS may be considered from the point of view of free circulation of goods as non-tariff barrier impairing the spirits of GATT (WTO).<sup>89</sup>

This position deserves favor. For one thing the TRIPS Agreement by itself portrays an objective based approach: protecting trade-related aspects of intellectual property. This must be emphasized by and large in the presence of a number of international instruments that deal with purely IPRs protection. The majority of these various instruments are administered by the world Intellectual Property Organization (WIPO). If states are concerned about purely protection of IPRs they have these other instruments, and not TRIPS that would be relevant. Second, the naming itself is self evident, *Trade-Related Aspects of Intellectual Property Rights* (emphasis added). As long as intellectual property constitutes significant economic interest of the growing volume of international trade, it is a necessary corollary that this interest needs to be protected. If states restrict the free flow of goods or put restriction on goods exported from or imported to them, for IPRs policy reasons the position of S.K Verma that it is non-but ‘any other non-tariff barriers’<sup>90</sup> is meritorious. The way Verma put the relationship between international trade and IPRs is also interesting to cite:

“... intellectual property rights are now part and parcel of the multilateral trading system of the GATT/WTO. *Their interface with international trade cannot be denied because they (IPRs) are made trade related.*<sup>91</sup>  
(emphasis added)

The question that may possibly arise at this juncture is what is the ‘trade-related aspect’ of intellectual property? In other words what is meant by ‘trade related aspect’ of IPRs?

---

<sup>89</sup> S.K. Verma, Supra note 5, p. 538

<sup>90</sup> S.K. Verma, Supra note 5, p.534

<sup>91</sup> Id.

Even if the researcher found no literature on this issue this question may be answered on the basis of the nature of things themselves.

First 'trade related' because the issue of IPRs protection must arise in the course of trade relation between states concerned. One of the states involved in the issue may be exporting (from where the goods or service originates) and the other importing state. If the standard of IPRs protection in the importing country, member to WTO is not satisfactory or such state fails to effect the TRIPS compatible rules against any violation of IPRs attached to the imported goods then the exporting state in whose territory the 'goods' or 'service' are protected may complain within the framework of the WTO/TRIPS Agreement. Second, most of the states' duty is to see that their WTO obligation is not violated by acts of citizens or legal persons operating within their jurisdiction, and when they find one to make the legal and administrative remedies available to those who suffered injury as a result. However, even if there is little room for IPRs violation outside the course of business (international trade) involving states, the WTO cannot be the appropriate forum to deal with IPRs violation to the extent violations arise outside the course of international trade.

The researcher would like to note in the meantime that even if the WTO is taken as model for dealing with matters of trade states can control matters of trade and IPRS with bilateral agreements, in which, as in all other cases the relation between trade of the WTO. It is also important to consider the matter from the outside WTO vantage point for issues of IPRs may arise in a trade relation but between states not member to WTO.

## Chapter Three

### Exhaustion and Parallel Imports in International Trade

#### 3.1 What Exhaustion is all about? A Conceptual Underpinning

The doctrine of exhaustion of rights is not easy to define; nor is it easier in practical application than explaining what it is all about, as it appears to be apparently straightforward.<sup>92</sup> Exhaustion of rights doctrine basically pertains to the nature of intellectual property rights in particular. As Fredrick M. Abbott, et al, rightly pointed out IPRs are 'Ubiquitous' in their nature. As a result:

'...They exist independently of the specific material good in which they are incorporated. Yet each and every copy of a protected product contains these IPRs. IPRs follow the product downstream, and potentially control the use of the product ... It therefore is necessary, at some point, *to put an end to the effect on the market of IPRs ... [hence the doctrine] exhaustion of rights.*<sup>93</sup> (Emphasis added).

Intellectual property rights cannot be exercised as such by mere possession of the products of intellectual effect. In the process of exercising its right the right holder has to deal with the products protected. As a matter of fact the intangible rights embodied in the product would be inseparably transferred to the purchaser through this transaction. The purchaser has an economic right over the corporeal thing he become a rightful holder. On the other hand, the owner of IPRs pertaining to those products still subsists in them to some extent. Therefore, the doctrine of exhaustion has the purpose of setting a limit beyond which an intangible asset (Intellectual property rights) may not be exploited on its conversion in to an economically realizable, marketable commodity.<sup>94</sup> In view of this various authorities attempt to define exhaustion of rights in a more or less similar fashion.

---

<sup>92</sup> John W. Osborne, Supra note 10,, p 646

<sup>93</sup> F.M. Abbott, et al, Supra note 1, p. 604-5

<sup>94</sup> S.K.Verma, Supra note 5, PP. 537-538

## Chapter Three

### Exhaustion and Parallel Imports in International Trade

#### 3.1 What Exhaustion is all about? A Conceptual Underpinning

The doctrine of exhaustion of rights is not easy to define; nor is it easier in practical application than explaining what it is all about, as it appears to be apparently straightforward.<sup>92</sup> Exhaustion of rights doctrine basically pertains to the nature of intellectual property rights in particular. As Fredrick M. Abbott, et al, rightly pointed out IPRs are ‘Ubiquitous’ in their nature. As a result:

‘...They exist independently of the specific material good in which they are incorporated. Yet each and every copy of a protected product contains these IPRs. IPRs follow the product downstream, and potentially control the use of the product ... It therefore is necessary, at some point, *to put an end to the effect on the market of IPRs ... [hence the doctrine] exhaustion of rights.*<sup>93</sup> (Emphasis added).

Intellectual property rights cannot be exercised as such by mere possession of the products of intellectual effect. In the process of exercising its right the right holder has to deal with the products protected. As a matter of fact the intangible rights embodied in the product would be inseparably transferred to the purchaser through this transaction. The purchaser has an economic right over the corporeal thing he become a rightful holder. On the other hand, the owner of IPRs pertaining to those products still subsists in them to some extent. Therefore, the doctrine of exhaustion has the purpose of setting a limit beyond which an intangible asset (Intellectual property rights) may not be exploited on its conversion in to an economically realizable, marketable commodity.<sup>94</sup> In view of this various authorities attempt to define exhaustion of rights in a more or less similar fashion.

---

<sup>92</sup> John W. Osborne, Supra note 10,, p 646

<sup>93</sup> F.M. Abbott, et al, Supra note 1, p. 604-5

<sup>94</sup> S.K.Verma, Supra note 5, PP. 537-538

Black's Law Dictionary defined the doctrine of exhaustion as:

'the principle that once the owner of an intellectual property right has placed a product covered by that right in to the market place, the right to control how the product is resold within [the internal] market is lost.'<sup>95</sup>

The doctrine is known in the United States as the 'first sale' doctrine. The application of the doctrine by and large has to do with the placing of the product on the market by the right holder. The main objective of the doctrine as is portrayed by the definition and the terminology used in the USA to delimit the rights of IPRs owner, of his exclusive rights, and the economic rights of the subsequent purchaser(s) of the products embodying IPRs.

Another authority on the subject, David Bainbridge writing from the European perspective defined the doctrine of exhaustion of rights as follows:

'... the owner of an intellectual property right which relates to *articles which have been put in to circulation by him or with his consent* [any where within the European community] cannot exercise *the right to prevent the subsequent import, export or sale of those particular articles*; the right is said to be exhausted.'<sup>96</sup> (Emphasis added).

Bainbridge as does Black's law dictionary defined the doctrine in terms of the effect of placing the product embodying IPRs by the right holder in the market. In both definitions it is noted that with the sale of the product the owner of IPRs parts with his control over those specific products/items with respect to the exclusive rights the law of IPRs has conferred up on him. The IPRs as has been noted in the foregoing discussions are of the nature that exclude other persons with respect to some acts reserved (exclusively granted) to the IPRs owner. Within the limits of the law and in conformity with the rules of fair use, the law has expressly authorized the IPRS owner and the purchasers of IPRs embodying products would enjoy economic benefits.

The doctrine of exhaustion of rights applies after the first sale, not only by the right holder alone, but also as Bainbridge noted in his definition by a third person even when the product is put on the market through the consent of the right holder. There are

---

<sup>95</sup> Bryan A. Garner, Blacks law Dictionary, (8<sup>th</sup> edn. Thomason, West Publisher, 2004)

<sup>96</sup> David I. Bainbridge, Supra note 27, P. xxx/x

conditions under which the doctrine of exhaustion seems to be operative against the IPRs owner.

The first condition has to do with the premise of granting IPRs itself. IPRs are granted by law basically because they are meant to encourage innovations, creative works and advancement of learning through them. If inventors and creators of the fine arts are to be encouraged there must be way of rewarding them. This method of rewarding basically consists of granting exclusive rights acts include the making, using, selling and offering for sale of the products embodying IPRs, the intellectual effects of the inventor/creator. However, once one way or the other the right holder has exercised the said right/rights, over the specific products and it is, therefore, rewarded, by way of price or royalties its right is exhausted there and then. Then after, the purchaser (the public at large) as consumer of those inventions/creations is entitled as far as their further movement and manner of utilization is concerned. What consists of a sufficient reward to the rights owner may be very technical. Nevertheless given the market and a complete exercise of the right holder of its rights, it suffices that it has recovered what it deserve in the circumstances by way of royalties or price. With respect to combination patents an American court held that recovery of a full royalty with respect to every aspect of the grant is a *sine qua non* for patent exhaustion.<sup>97</sup> The issue of royalty should normally work for copyright and trademark rights as well.

The other question that should be asked in considering exhaustion is consent of the rights holder. In Europe the courts consistently held that the consent of the owner of IPRs is a prerequisite for patent exhaustion in case the product is first marketed by a person other than the IPR holder. Bainbridge has also applauded the need for the consent of the right holder for the putting on the market of the goods/products embodying IPRs has a lofty position in the application of patent exhaustion.

In *Sebago Inc. V. GB-Unic SA*, a case before the European Court of Justice the issue sought to be determined by the Court was ‘does the consent of a trade-mark proprietor to the marketing of a certain type of goods within the EEA bearing his trade mark mean that

---

<sup>97</sup> John W Osborne, *Supra* note, 10, p. 668

it has exhausted its right to objects of its identical goods bearing the same trademark?<sup>98</sup>

The Advocate General of the European Community, Mr. Francis Jacobs, in his opinion on the case, argued that the consent of the trademark owner must be deemed to have been given with respect to the specific batch of goods he put in to circulation and not all other batch of goods remaining in his stock or that are to be produced after wards.<sup>99</sup> The Advocate General in his opinion based his argument on the meaning given to the terms ‘further commercialization of goods under Art 7(1) of the European community Trade-mark directive, which he construe to mean nothing but “the exhaustion principle concerns not other sales of the same type of goods but rather subsequent dealings with individual products following first sale.”<sup>100</sup>

The point is, therefore, as the definition given by Bainbridge has revealed the ‘first sale’ may take place either by the IPRs owner himself or by third person with his consent. In both cases the owner of the IPRs has let the circulation of the protected products and the consent is available for the purpose of exhaustion of its right with respect to the *particular batch* of products marketed/ put in to circulation.

Exhaustion of rights is not a matter of contract, but law. As such sale of a product bearing IPRs by owner of IPRs or with its consent without any limitation exhausts its rights concerning the use or further commercialization of the protected product.<sup>101</sup> And yet, the IPRs owner may as part of his deal may restrict the manner of use and/or resale of the product purchased. If the purchaser use or offer for sale contrary to the agreement with the IPRs owner that would be considered as the rights having not been exhausted and the IPRs owner would be entitled to assert his rights under the law for infringement even if the purchaser would have raised exhaustion.

In the aforementioned case, *Sebago inc. v. GB-unit SA* where the appellant Sebago, company incorporated in the United States of American is a proprietor of two Benelux trade-marks in the name ‘Dock sides’ and three Benelux trademarks in the name ‘Sebago’. All trademarks were registered for shoes. Second appellant, *Anciene Dubois et*

---

<sup>98</sup> Graeme B. Dinwoodie, et al., *International Intellectual Property Law and Policy*, lexis Nexis, 2001, p. 1278

<sup>99</sup> Ibid p.p. 1279

<sup>100</sup> Id

<sup>101</sup> SK Verma, *Supra* note 72. p. 539

*Fils SA*, is the exclusive distributor in Benelux of Sebago's shoes and other foot wear articles. The appellants, collectively Sebago, claim that the respondent, GB-Unic, infringed its trademarks by marketing the goods within the community without its consent.<sup>102</sup> The Court of Justice of the European Union held in its judgment that the 'further commercialization' of the trademarked goods depends on the basis of Art 7(2) of the community trade-mark which confirm the Advocate General's view saying "the principle of exhaustion concerns only *specific goods which have first been put on the market* with the consent of trade-mark proprietor." (emphasis added).<sup>103</sup>

### 3.2 Exhaustion and Parallel Imports

The concept of exhaustion is closely related to parallel imports.<sup>104</sup> Parallel imports is the importation of protected goods to a country where they have been exported from or to a country they have been protected by law by a person having parallel IPRs in the country of exportation. In other words it may be said that parallel imports include the reimportation of goods in to a country of export without the consent of IPRs holder; or the importation of goods produced elsewhere in to a country where there is a valid IPRs protection.<sup>105</sup> The US supreme court in its *L'anza* decision indicated that the term parallel importation or gray market as it is known otherwise, is used in the United State to refer to 'the importation of foreign manufactured goods bearing a valid United States trademark without the consent of the trademark owner'.<sup>106</sup>

In the case of *L'anza* decided by the US Supreme Court, the plaintiff at the lower court *L'anza* Research International Inc. sued the defendant, Quality King Distributors for affecting the integrity of its method of marketing the products to which copyrighted labels were affixed. In this case *La'anza* is a producer of hair care products like, Shampoo, conditioners etc. It distributes its products in the United Sates exclusively through authorized agents and retailers. *La'anza* also highly invest on the advertisement

---

<sup>102</sup> Dinwoodie, et al; Supra note 7 p. 1277

<sup>103</sup> Ibid. P. 1281

<sup>104</sup> S K. Verma, Supra note 72, p. 536

<sup>105</sup> Paul Demaret and Inge Govaere, *Parallel Imports, Free Movement and Competition Rules:- The European Experience and Perspective*. In Intellectual Property (Collection of Research papers, Turin, Italy, 2004) p. 147

<sup>106</sup> Graceme D. Dinwoodie, et al, Supra note, 98, p. 1246.

of its products in the United States. In fact the price of La'anza's products is high. The defendant at the lower court, now respondent, Quality King Distributors reimported La'anza's products which were sold to an English company. Now the products are available outside the La'anza authorized distributors and retail outlets. Lanza as a result brought suit against Quality King, which on appeal the US Supreme Court referred to as an unusual copyright case. The Supreme Court decided in favour of Quality King, the appellant on the ground of 'first sale' a principle applicable in case of parallel imports. The Court noted: "the whole purpose of the first sale doctrine is once the copyright owner places a copyrighted item in the stream of commerce by selling it, he has exhausted his exclusive statutory right to control its distribution."

In another United States case decided by the Second Circuit in 1920 where the plaintiff, Curtiss Aero plane and Motor Corp. enter into an agreement with Canadian agency for the government of Great Britain whereby the British Government through its Canadian enterprise make and use certain aero planes known as Curtiss JN-4 to which the plaintiff holds United States patent. The British government was contemplating to use the planes to be manufactured by its Canadian enterprise for war purpose. After the end of the war the agency of the government of Great Britain sold the aero planes and various parts to other dealers in them. These other persons, specifically the defendant, brought them in to the United States to sell and offer for sale in New York and Chicago as a result the aero planes and various spare parts are now available in the United States generally to the public. The plaintiff alleges that it was not within the contemplation of the parties ... that the aero planes were to be sold or used by the public or for other than war purposes, or in the United States. This allegation was denied by the Imperial Munitions Board of Canada the contracting party with the plaintiff.

The circuit court in its judgment in favor of the defendant who sells and offers for sale the said aero planes and their various parts reasoned that 'the allegation deals with nothing but the right to bring in to the United States certain JN-4's which the plaintiff gave permission to make and *for every one of which it has been compensated*' (*emphasis added*) It further noted that the express language of the contract is that the aero planes and other articles should 'become and be the absolute property of the British government'

who sell to defendant. So, it went on to hold the plaintiff has been paid in excess of four million USD for the airplanes and engines, which plaintiff sold or agreed might be manufactured under license which contained no restriction on limitation as to time, or place or manner of use of the aero planes nor as to the ultimate disposition which might be made of them. Therefore, they were freed from the monopoly of the plaintiff's patents.<sup>107</sup>

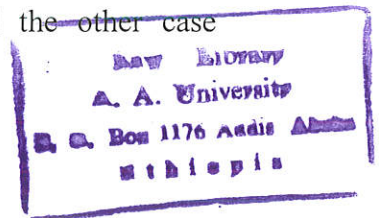
Parallel imports, as is illustrated in the cases above, involved the issue of exhaustion of rights. In the L'anza case the issue was whether the re-importation of the goods bearing copyrighted labels infringes the rights of the copyright holder or not. If there is no the products patented, copyrighted or trademarked has exhausted the exclusive right of the IPR proprietor over those protected products.

The other cases that we reviewed in the foregoing discussion involves the issue of parallel importation intertwined with exhaustion of rights and fall within the La'anza classification despite the fact that La'anza involved copyright and the other case trademark and patent.

### 3.3. Scope of the Doctrine of Exhaustion.

It has already been noted that the doctrine of exhaustion delimits the territory in which an intellectual property owner may exercise his exclusive rights against the general public. It is said to be an inherent limit on IPRs. And it is apparent from the definition of exhaustion that it becomes operative by virtue of the first authorized sale of the product that embodies a valid IPR. However, this way of stating the doctrine has a risk of oversimplifying the matter. The doctrine of exhaustion has a very technical complexity in its application than it is put simply in relation to the 'first sale' of the product. As is understandable to any one IPRs involve, as their subject matter, an extra ordinary dynamism in society-technology and the progress of the fine arts and science; which in turn contribute to the rapid transformation of society.

<sup>107</sup> InGraeceme Dinwoodie, et al, Supra note 98, (Curtiss Aeroplanes and Motor Corp. V. United Aircraft Engineering Corp. 266 F. 71 (2<sup>nd</sup> Cir, 1920)) pp. 1250-1259.



In an infringement suit by the proprietor of IPRs the defendant may raise, among others, the defense of exhaustion of rights with respect to certain acts which the plaintiff alleged to infringe his IPRs. The law of IPRs generally provides two ways of delimitation of rights of the IPRs owner and the general public. The first way of delimiting the right of the IPRs owner is by providing a list of acts that may be exercised exclusively by the proprietor of IPRs or under his authorization. These acts are, as a matter of law infringing if exercised by any one other than the IPRs owner or with his consent. The second way is generally by conferring some rights on the public or members thereto with respect to the enjoyment of the acts relating to IPRs without the need to have the proprietor's consent. As a result there is no infringement so long as done within the permissible limits of the law.<sup>108</sup> Even if these acts are apparently infringing the proprietor of IPRs cannot claim as infringing his exclusive rights.

Exhaustion and infringement are some what related primarily because, among others, the defendant in a suit may successfully raise the former, exhaustion of rights, as a defense. The scope of exhaustion starts at the first sale, the point where the purchaser of an IPRs protected product begin to enjoy economic rights over the products. While simultaneously the right of the IPRs holder ends to control the specific product sold and therefore, transferred to the buyer. However this is true, generally, exhaustion varies in its application from one form of IPRs to the other.

Let's now turn to the individual forms of IPRs to see the scope of exhaustion.

### **3.3.1- Patent Exhaustion**

The exclusionary rights of the patentee may be stopped at some point for several reasons. Exhaustion, being one of such reasons, as a matter of principle, empowers members of the public who acquire patented products in a lawful transaction to defend infringement suits brought by the patentee or his licensee.

---

<sup>108</sup> These are what are generally known in the various national laws as permissive acts.

invention.<sup>113</sup> In the *United States V. Unives Lens, Inc.* the patent owner held several patents with claims covering various aspects of making multi-focal eyeglass lenses. The patent owner practice sub sets of the patent claims to make lens blanks. It also licensed and sold those lens blanks to wholesalers and retailers. The wholesalers and retailers ground the lens blanks according to their customers' prescription. The patentee collected royalties from its licensees for the sale of each blank. The issue before the court, therefore, was whether the patent owner could control the extent to which a purchaser of the blanks could practice the incident claims necessary to grind the lenses in to finished lenses for eyeglasses, which infringed a different set of claims.'<sup>114</sup>

In fact the supreme court applied the 'patent exhaustion' doctrine and held that the patent owner relinquished its exclusionary rights against purchasers of the blanks, even though-being 'unfinished' – the blanks did not yet embody the specific patent claims at issue".

The court went on to note:

'the sale of a lens blank by the patentee or by his licensee is ... in itself both a complete transfer of ownership of the blank, which is within the protection of the patent law, and the license to practice the final stage of the patent procedure ... *each blank ... embodies essential features of the patented device and is without utility until it is ground and polished as the finished lens of the patent.*'<sup>115</sup> (emphasis added)

The purchaser of the patent product has been transferred with a complete ownership of the product. This follows from the very nature of sales transaction. In addition to that the fact that the products (the lens blanks) are 'unfinished' would also bring about, according to the supreme court, the right to practice the last stage of the patent process. The reason leading to this presumption of license by the patentee was where the sale of the blank is by a patentee or his licensee ... to a finisher, the only use to which it could be put and the only object of the sale is to enable the latter to grind and polish it for use as a lens by the prospective wearer.<sup>116</sup> The Supreme Court in its *Univis lens* and other decisions noted emphatically that the degree of 'completion' of the product is irrelevant and whether the

---

<sup>113</sup> Ibid

<sup>114</sup> Ibid

<sup>115</sup> Id, pp 232-33

<sup>116</sup> John W. Osborne, *Supra* note 10, p. 650.

article is sold in its completed form or unfinished the patentee has equally parted with the product to that extent as sold.<sup>117</sup>

After the Unives lens decision by the Supreme Court other US courts also followed the Unives lens reasoning to find exhaustion of combination claims under an essential features analysis. The court of *Cyrrix V. intel*, on facts similar to Unives lens, come to a conclusion of patent exhaustion “the patent exhaustion doctrine is so strong that it applies even to an incomplete product that has no substantial use other than to be further manufactured in to a completed patented and infringing article.”<sup>118</sup> The requirement for the application of the patent exhaustion in this case is whether the article sold has the essential features of the patent claim.

The other area of concentration regarding the scope of patent exhaustion is that of the repair and reconstruction right of the purchaser vis-a-vis the patentee’s exclusive right to make the patented product. On one hand the purchaser of a patented product has the same rights as any purchaser of personal property, ‘including the right to use it, repair it, modify it, or resell it, subject only to overriding conditions of sale.’ However, these rights do not include, and cannot be grown to the right to reconstruct an essentially new article on the template of the original, for the right to make the article remains with the patentee.’<sup>119</sup> In one case before the US Supreme Court *Aro manufacturing co., inc. v. Convertible Top Replacement Co.*, it has been noted that ‘mere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property.’<sup>120</sup> However, right of reconstruction of a patented entity cannot be extended to ‘in fact make a new entity’ after the patented product (as a new entity’), viewed as a whole, has become spent.<sup>121</sup>

Related with this is the right to repair by the purchaser of a patented product. Repair is “the disassembly and cleaning of patented articles accompanied by replacement of

---

<sup>117</sup> Ibid

<sup>118</sup> Id p.65

<sup>119</sup> Jazz photo corp. V. US Int’l Trade Comm..., in John W. Osborne, Supra note 10, p.667

<sup>120</sup> John W. Osborne, Supra note 10, p.667

<sup>121</sup> Ibid

unpatented parts that had become worn or spent, in order to preserve the Utility for which the article was originally intended.<sup>122</sup> Repair is not therefore infringing as such and may be exercised only as part of the property right of the purchaser through the shield of exhaustion of rights against the patentee who may claim, in case, of infringement of his exclusive rights under the patent grant.

### **3.3.2 Exhaustion of Trademark Rights**

Before discussing the scope of exhaustion of trademark rights it is worth discussing the purpose of conferring trademark rights to the proprietor, as is done with the discussion in scope of patent exhaustion. In determining the scope of exhaustion of trademark rights caution must be taken so that the balance intended to be struck by its application is not lost and affect the desirable limit necessary to the effective trademark protection.

Trademarks have long been used by manufactures and traders to identify their goods and distinguish them from goods made or sold by others.<sup>123</sup> They are valuable weapons of advertisement and marketing of goods /services closely associated with quality and good will. Therefore, trade marks serve the origin and guarantee function<sup>124</sup> of the goods which they represent to the consumer at large. To this effect the trademark proprietor is given an exclusive right to use the mark to goods he manufactured or services he rendered. As a matter of principle of law, therefore, any other persons, in competitions specifically, are not allowed to use the mark in a manner prejudicial to his interest and if found so ding are liable for trademark infringement.

As far as the exhaustion of rights is concerned once goods are manufactured marked and put on the market by the mark owner or his consent, the purchaser of the goods is entitled to resell, the goods and the mark owner is barred from asserting his trade mark right to interfere in the further commercialization of the goods.

---

<sup>122</sup> The Jazz Photo Decision, Supra note 10, p. 667

<sup>123</sup> David Bainbridge, Supra note, 27, 1999, P. 521

<sup>124</sup> Friedrich-Karl Beier, The Doctrine of Exhaustion in EEC Trademark Law-Scope and Limits, IIC, Vol. 10 No. 1, 1979, p.20

However this general principle that is normally meant to delimit the rights of the mark owner and purchasers of the marked goods, as is said earlier, may create inconveniences unless the details of the rule are further explained from the point of view of the limits of the principle of exhaustion of rights. This is by way of providing the scope of exhaustion of trademark rights and stating what cannot be within the power of the purchasers of marked goods lawfully placed on the market. If the general principle of exhaustion is left unexplained a number of practical problems will remain unsolved.

The first of such issues is whether the goods marked and placed on the market by the mark owner himself or with his consent may be repackaged or refilled in a different container to which the purchaser (who repackaged or refilled) reattach or attach the trademark? As is understandable the general principle of exhaustion stressing on the first authorized sale as point of exhaustion cannot give a solution as it stands. Therefore, the issue has been a subject of intense litigations in a number of European jurisdictions and before the European Court of Justice (ECJ).

Trademarks serve their function of origin and guarantee through the affixation of them on the goods, their wrappings, packages or containers. The exclusive right of the trade mark owner mainly consists of in the right to affix the mark on the goods<sup>125</sup> in any manner that enable purchasers or end users of the goods distinguish them through their mark as originate from the mark owner. However, there are several issues cropping up from the fact of placing the marked goods by the mark owner or with his consent, consequently the application of exhaustion of rights. What rights may the purchaser have with respect to the further commercialization of the goods in different circumstances?

One of such several issues is the lawful purchaser of the marked goods may want to resell the goods by repackaging them or in a different wrapping by reattaching the mark or as it was on its first sell. In most of the European jurisdictions and the European Court of Justice a more or less similar position is held with respect to the affixing of trademarks to the goods or their packaging and places them on the market.

---

<sup>125</sup> Ibid p. 23

German law provides, for example, that the trademark owner may bring action against any one who affixes the protected trademark to the goods or their packaging and then placing them on the market, irrespective of whether the goods were made by third parties or originating from the enterprise of the trademark proprietor, and irrespective of whether the goods were placed on the market by the trademark owner with or without the trademark being affixed.<sup>126</sup> The reason is, as stated earlier, because the right to affix the mark is reserved exclusively to the mark owner. In fact, it is to be noted that the right of affixation also extends to the right to bring trade marked goods in to commerce and also the right of using the mark on business papers and in advertising.<sup>127</sup> And goods marked and placed on the market by the trademark proprietor whose good or bad quality may be attributed to him.<sup>128</sup> If any third party, with out the authorization of the mark proprietor, had the right to affix the mark to goods, or their package, made by the trade mark proprietor, the German courts consistently held that there would be no assurance that goods with particular trademark in fact originate from the mark owner's enterprise and with the quality the consumer expects from products he is associated with the trademark so affixed. Therefore, under German jurisprudence it is held that the trademark owner may involve the exclusive right of affixation without any exception. This limitation on the application of the doctrine of exhaustion is also applicable to cases where any third party affixes marks in goods that in fact originate from the trade mark proprietor but without the trademark being affixed on them.<sup>129</sup> The mark owner manufacturer may, for one reason or another, want to put his goods on the market without the mark affixed on them. Among such reasons may be because the mark owner does not want the quality of the goods being lower to be attributed to him. And there is no obligation on him to affix the mark on his goods as such. If such goods without a mark are acquired by third parties and the purchaser refills or packs them in a different container or packaging and offers for sale the trademark owner is entitled to oppose the affixing of the mark on the goods that were marketed unbranded.<sup>130</sup>

---

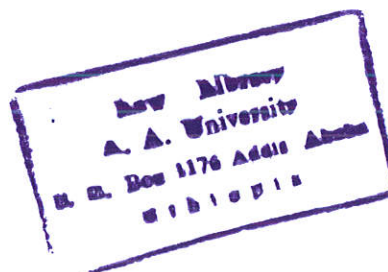
<sup>126</sup> Ibid p. 22

<sup>127</sup> Id p. 23

<sup>128</sup> Id.

<sup>129</sup> Ibid. p. 24

<sup>130</sup> Id



The trade mark proprietor's right of affixation is infringed in this case even if the goods to which the third party has affixed the mark are genuine. In this respect Beier has the following to say:

'Even if the placing of the goods on the market with a trademark affixed, exhaust the right to place on the market goods with the trademark with regard to the individual article or the given quantity of the contents of the packaging the right of affixation of the trademark proprietor continues to exist latently and is reactivated for each individual item as soon as the designation originating from the trademark proprietor disappears'.<sup>131</sup>

David Bainbridge explaining the same matter from the English and European perspective concurs with the position taken by Beier and German jurisprudence. Accordingly Bainbridge is of the opinion that having regard to the specific subject matter of trademark rights i.e. the exclusive right to use mark for purpose of putting a product on the market, and its function being to guarantee origin of the goods or services, any subsequent use of the mark by third parties impairing the guarantee of origin may be actionable by the proprietor of the trade mark.<sup>132</sup> Also considering the matter from the point of view of parallel importation Bainbridge noted that the trade mark proprietor may prevent the parallel importation of the repackaging in fact adversely affects the original condition of the product when they were put on market by the mark owner himself or his licensee.<sup>133</sup>

In *Bristol-Myers Squibb V. Paranova* a case in which the defendant, Paranova, a pharmaceuticals distributor, was sued for parallel importing of goods which it had repackaged, the European Court of Justice indicated that the parallel importer cannot rely on the exhaustion of trademark rights unless:

- it is shown that the exercise of the trademark right by the owner contribute to the artificial partitioning of the market.
- it is shown that the repackaging adversely affects the original condition of the goods/products

---

<sup>131</sup> Id

<sup>132</sup> David Bainbridge, Supra note, 27, p 590

<sup>133</sup> Ibid p. 591

- the owner of the mark has not received prior notice before the repackaged product is put on sale
- it is not stated on the new packaging by whom the product has been repackaged.<sup>134</sup>

In affirming these principles denying the purchaser of goods of the trademark proprietor the European Court of Justice laid down some useful guidelines for parallel importers who repackaged goods, particularly pharmaceutical products. First it laid down the acts that do not affect the original condition of goods. These are:

- the mere removal of blister packs, flasks, phials ampoules or inhalers from their original external packaging and their replacement in new external packaging.
- fixing self adhesive labels to the inner packaging, the addition of new user instructions or the insertion of an extra article;
- repackaging operations authorized and supervised by a public authority in order to ensure that the product remains in fact.<sup>135</sup>

However, the European Court of Justice do not accept the trademark proprietor to use his trademark right to oppose the repackaging of the goods. The court in its Bristol-Myers Squibb decision rejected the argument that repackaging might risk adversely affecting the original condition of the goods 'by repackaging blister packs coming from different batches with different use-by dates or light sensitive products that may be damaged by exposure to light during repackaging' saying 'such hypothetical risks of isolated error could not confer on the trademark owner the right to oppose repackaging.'<sup>136</sup> On the other hand act of the parallel importer, however, may be one that entitle the mark owner to oppose the parallel importation of the product repackaged where.

- the instructions given to the repackaged goods are inaccurate or omit important information.

---

<sup>134</sup> Graeme B, Dwoodie, et al, Supra note, 98, p 593

<sup>135</sup> David Bainbridge, Supra note, 27, p. 591

<sup>136</sup> Ibid

- any extra article inserted in the repackaged and parallel imported products does not comply with the method of use and dosages envisaged by the manufacturer; or
- the new packaging does not give the product adequate protection.

In any case the principle of exhaustion of trademark rights may not be availed by the trademark proprietor if the repackaging, refilling or otherwise altering the manner of presentation of the products in the market is such that affect the original conditions of the product and consequently, result in a poor representation of the trademarks reputation and good will. Therefore, the focus of the European jurisprudence developed through the community legislation and the ECJ case law is on the safeguard of the functions of trademark. As far as the act of subsequent purchasers and parallel importer do not affect the original condition of the goods and hence the reputation and good will of the mark then the principle of exhaustion may not be availed by third parties and will not be a bar against the mark owner to asserting the trademark rights to prevent parallel importation or the reselling of the product after repackaging.

The other point worth rising at this juncture is the scope of application of exhaustion of service marks. Even if exhaustion of trademark rights applies to both products and services it is fair to point out an obvious difference resulting from the very nature of the object of the mark i.e. product or service.

In case of marks to be affixed on products the marks are supposed to remain on the product of the mark owner as has been affixed when put on the market by the mark owner himself or his licensee. However, the nature of services rendered by service mark owners does not lend to the same character. Service marks represent the services rendered by the services mark proprietor. Black's law Dictionary defined service mark as 'a name, phrase, or other device used to identify and distinguish the services of a certain provider;' *service marks identify and afford protection to intangible things such as services, as distinguished from* the protection already provide for marks affixed to tangible things such as goods and products.<sup>137</sup> (emphasis added) From this nature of service marks it follow that the fact that some one, a third party, has received a service from the mark

---

<sup>137</sup> Bryan A. Garner, Black's law Dictionary 8<sup>th</sup> edn. 2004. p. 1400

owner may not bring about the subtleties of the principle of exhaustion as it would be the case in the case of product trade marks in which the third party may be in possession of the goods and normally one of his economic rights being the right to resell them. In fact the third party who received a service may not avail himself the principle of exhaustion in the sense the purchaser of trademarked goods may avail himself. For example, a person who is educated in Oxford<sup>R</sup>. University and has his/her LL.M, Ph.D, has in fact received a service by the service mark owner, Oxford University. Or a person who is consulted by Earnest and Young<sup>R</sup> has received a service to which the company is registered under that mark for the rendered service. However, both the Oxford Educated Ph.D holder and the one rendered with the consultation service of Earnest and Young are not entitled to open a business of the kind rendered by Oxford or Young and Earnest is an infringement and there is no possibility for the exhaustion principle to apply in favor of defendants or against the service mark owners. In other words, while in both trademark of goods and services the fact that third parties have purchase goods or have received services under a mark will not enter on them the right to deal with the mark concerned subsequently after the acquiring of the product or the reception of the service as such.

Obviously, the third party purchaser of trademarked goods has a comparatively wider latitude to use the mark in a repackaged goods as long as the basic function of trademark is not there by affected and there is no adverse effect on the reputation of the mark. But, there is no opportunity of this sort, due to the intangible nature of services in case of service marks.

### **3.3.3 Copyright Exhaustion**

As is the case with patent and trademark rights, copyright exhausts in principle on the first sale of the copyrighted work or on its first distribution by the copyright holder or with his consent. However, it has been said in the first chapter of this paper that copyright and other forms of intellectual property rights have their own distinguishing features susceptible to the application of different rules, in a number of respects, obviously including the application of the principle of exhaustion, in their details.

The objects of intellectual property generally are known for their fluid nature. However, the objects of copyright are much more fluid than those other forms of IPRs, such as patent and trade mark. They are fluid in a sense that they may be used by third persons who are not lawful owners simultaneously while the lawful owner is not yet deprived of making use of them. It is therefore, this special nature that necessitate the granting of monopoly rights on the inventive and creative works of individuals or legal persons. When one sees the objects of copyright such as literary, artistic, and scientific works in the form of Books or Audio, visual or audio visual works, live performances, broadcasting of all forms are much more fluid than any other form of protected rights, in the majority of the restricted acts.

When one or the other copyright works are transferred to a third person for utility, they reached thousands even millions of households without the right holder's knowledge where and by whom that the works are received.

Moreover, given the advancement of communications technology in the age of the internet, it is virtually difficult to stop the flow of these fluid forms of intellectual property via the electronic media specially the internet and e-mail.

The other relevant issue that needs to be raised in this connection is the convertibility of the various forms of copyright works to the other form of copyrightable form. This convertibility nature does not exist in other forms of IPRS, but in copyrightable works. Fixation and translation are some forms of conversion of copyrighted works from one form to the other. One cannot imagine a theatre without script of the play in which the copyright of the playwright subsist. Broadcasting of the live performance or the recording of the theatrical performance is another form in which a right of its own subsists in by copyright in the broadcasting persons /legal or physical/, as a neighbouring/ related rights to copyright.

In addition to these one can also mention the intermediate rights of the copyright holder recognized as economic rights-lending and rental rights. This is also unique to copyright in the sense that copyrighted works can be used over and over again without diminishing

their quality substantially and with additional many fold income being generated thereby. The patent and trademark rights do not recognize this intermediate right as such.

Last but not least is a distinguished right that subsist in the copyright works is that of the copyright holder's right to be recognized as the originator of the work.<sup>138</sup> This is referred to as the moral right of the author of the work protected by copyright. This seems to be the most enduring right protected by the laws of copyright in all jurisdictions of the world, though on a more or less varying philosophical ground.<sup>139</sup> At any rate it is generally recognized that the moral right is still vested in the author of a copyrighted work, even after the lawful transfer of economic rights.

As such copyright does not establish a monopoly right of the copyright holder as does trademark or patent rights. The various limitations on copyright holder's rights have in fact repercussions on the scope of application of the doctrine of exhaustion of copyright.

Whereas, the right to distribution precisely works for copy related rights in literary and artistic works, it does not work for some other works covered by copyright and referred to as non-copy related rights. These non copy related rights include the right to performance,<sup>140</sup> the right of communication to the public (of cable-originated programs)<sup>141</sup> and the right of broadcasting.<sup>142</sup>

The method of making copyrightable works available for public consumption, therefore, follows a different pattern compared to those of the copy related rights in the copyrighted works. Public performance presupposes the performance of the protected work in the presence of the public and as such the public enjoy (utilizes) the protected work by mere presence at the place where the work is being performed live, the right holder has partly

---

<sup>138</sup> Abbott et al, Supra note 1. pp. 1013 & ft. Feist public. V. Rural Telephone Service, US S. Ct.

<sup>139</sup> Ibid. p. 1083, "It is often said that one of the greatest differences between Continental European and Anglo-American Law is the treatment of 'droit Moral' ('Moral rights') of authors." Even in terms of terminology "in French copyright is referred to as *le droit d'auteur* (Italic), that is author's rights, and those rights are directed to protecting the expressions of the author's personality".

<sup>140</sup> Mihaly Fiscor, *The law of copyright and the Internet. The 1996 WIPO Treaties, Their Interpretation and Implementation*, Oxford University Press, 2002, p. 155

<sup>141</sup> Ibid. p. 156

<sup>142</sup> Ibid p. 157

brought the purpose of his work in to its target. Public performance, therefore, could be equated with the first placing of the copyrighted work on the market (copyrighted, patented or trademarked goods) under the doctrine of exhaustion of rights. Recording and broadcasting of the live public performance is subject to the authorization of the performing artist(s). Unlike other cases of copyright where third party purchasing a copy of the artists work recorded in a DVD or album the live performance of the copyrighted work of the performed would not exhaust and as such third parties will not have the right to record or broadcast the performance without the consent of the performer of the performances; whoever may be the right holder. However, if the neighboring right holder in the performances authorize third persons to record or to broadcast and make available the performances in the form of a phonograms or direct TV transmission, for example, the performer's right has exhausted in this respect and the third party recorder or broadcaster acquires a derivative right from the person having protection in the public performance.

In other words, public performance, broadcasting and communication of the work of copyright to the public are in fact the manners the copyright holder would do in the exercise of the copyright in the works to advance his economic rights /benefits of the copyright. And yet, all these methods of marketing the copyright work by themselves would not have the effect of exhausting the copyright in the works in the same manner as the first marketing of patented or trademarked goods do. The reason seems to be obvious:

First, the object of copyright itself is not incorporated in any tangible product or article in the case of public performances, broadcasting to other means of communication to the public; unlike the case with patents or trademarks in which case the rights are embodied in some tangible products representing the intangible right. If any person receiving a broadcast of a TV show or admitted as a spectator of a live public performance, the recording of the TV show by the recipient or that of a live performance by the spectator will be an infringement and cannot be defended on the basis of the doctrine of exhaustion of rights except as it may fall on the permissible acts.

Secondly, even if the copyrighted work has already been marketed, unlike the cases of the purchaser of patented or trademarked goods there is nothing tangible remaining in the hands of the recipient of a broadcast TV program or the spectator of the live public performance. As such there is no room the recipient or the spectator to claim the advancement of economic interests any more than he had enjoyed at the reception of the broadcast or the admission to the public performance.

However, it could not have been so, for example, in the case of books or other IPRs embodied in tangible forms such as sound recordings and other phonograms already available for sale and capable of being possessed by the purchaser for continued use and exploitation of the protected work. This in fact directly contradicts the principle of exhaustion of IPRs as it is generally applicable to patent, Trademark and some forms of copyright works.

### **3.4 The Various Regimes of Exhaustion**

No doubt that IPRs are generally recognized to be territorial in their nature. 'From an historical perspective, IPRs are granted by the government of – and have effects only with respect to – territory of a single nation state.'<sup>143</sup> At the time the Paris and the Bern Conventions were negotiated the international order prevailing was the sovereignty of national states over their domestic affairs.<sup>144</sup> Legislations including those related to the protection of IPRs were, therefore, confined to the territories in which those laws were enforceable. This reliance on the national system of protection still continue to prevail even today at the time when the effort to internationalize protection of IPRs is made.

As it may, the different national systems share as a common basis,<sup>145</sup> the doctrine of exhaustion of rights. It is said that the recognition of the doctrine of exhaustion by the various national systems is a 'response to the ubiquity of intellectual property.'<sup>146</sup> Others also say 'the doctrine of exhaustion mediates, to some extent, the clash between territorial nature of intellectual property and an absolute vision of free international trade in

---

<sup>143</sup> Fredrick M. Abbott, et al; supra note 9, p. 602.

<sup>144</sup>Stephan P. Ladas, Supra note 51, P 145.

<sup>145</sup> Ibid p. 606

<sup>146</sup> Id.

goods.’<sup>147</sup> And in international trade we find three different regimes of exhaustion: the national /territorial exhaustion, the regional exhaustion and the international/world wide exhaustion. States choose one or the other regime for economic, political and other considerations. Significant importance is attached to the different kinds of exhaustion and the impact of each of them on international trade is of paramount importance, hence worth discussing.

It has been put in the following terms by Abbott, et al:

‘In international trade, the doctrine of exhaustion of rights answers the question whether the first sale of a product protected by intellectual property in country A, leads to the result that the right holder retains exclusive rights to the sale of the product in all other countries except country A, or whether the right holder loses (‘exhausts’) these rights. In the first case he may keep and enforce his rights by activating the possibilities of defense in other countries, e.g., obtain an import ban against a parallel importer. The answer depends up on which doctrine of exhaustion applies.’<sup>148</sup>

Abbott and et al further went on to say that, ‘the divergence from the proper principle of territoriality in intellectual property right is obvious, since territoriality is not about acts taking place abroad, but about the coordination of different rights.’<sup>149</sup> The conclusion is obviously that the various regimes of the exhaustion doctrine answer the same question differently on the basis of where the first sale of an IPRs protected item has occurred.

The differences in the regime of exhaustion of rights a particular state may follow often depend on the type of IPR affected as well.<sup>150</sup>

---

<sup>147</sup> Graeme B. Dinwoodie, et al, *International Intellectual property law and policy*, Lexis Nexis, 2001, p. 1223

<sup>148</sup> Id.

<sup>149</sup> Ibid, p. 607

<sup>150</sup> UNCTAD-ICTSD, *Resource Book on TRIPS and Development*, Cambridge University Press, Cambridge, 2005, p.95

### **3.4.1 The National/Territorial Exhaustion**

As its naming indicates this regime of exhaustions holds that only the first placing of the products embodying IPRs, by the right holder or with his consent, in the country of the grant exhausts' his/her exclusive rights in the IPRs. It, therefore, follows from this that the first placing of the goods outside the country where IPRs subsist would not normally exhaust the exclusive rights of the right holder. And when the IPRs holder still continue to legally control the further commercialization of the goods those goods embodying IPRs may not be reimported in to the territory from which they have been exported or if at all the goods were produced in territories other than where IPRs are accorded, the importation of those goods is still an exclusive right of the person in whom the right is vested, by law of that territory. The justification for territorial exhaustion basically emanates from nationalist tendencies to protect domestic IPR holders and preserving the internal market from outside competition, worse is with products emanating from the same market, through parallel importation.<sup>151</sup>

### **3.4.2 International /World-Wide Exhaustion**

This regime of exhaustion says that the placing of the goods, protected by IPRs, on the market any where in the world exhausts the exclusive rights of the right holder. Accordingly, it does not matter whether the protected products are sold in a country where there is no IPRs protection accorded to those goods and the first placing was effected by the protector himself, or by other person, with his consent.<sup>152</sup> Consequently, therefore, the IPRs holder in a particular country may not use his IPRs to prevent the entry of those goods sold abroad in to the domestic market to be in competition with his subsequent batches of products. This regime in its nature gives a wide latitude for free movement of goods and prized by some commentators to be in line with the very ideals

---

<sup>151</sup> S K Verma, supra note 5, p. 544

<sup>152</sup> F.M. Abbott, et al, supra note 1, p. 607

of the WTO.<sup>153</sup> The international exhaustion of rights has been used by different jurisdiction not in a uniform manner to all the different kinds of intellectual property rights as such.

### 3.4.3 Regional/Community Wide Exhaustion

The essence of the regional exhaustion presupposes the existence of common market or any other arrangement of similar nature between two or more states where the placing of product protected by IPR on the market of one of such states exhausts the exclusive rights of the right holder in other states. This regime of exhaustion has its birth from the jurisprudence of the European Court of Justice first in its decision of *Consten and Grunding V. Commission*.<sup>154</sup>

It basically emanates from the very purpose of abolishing barriers of trade between member states, which the exercise of industrial property right may result in the interference with the free movement of goods.<sup>155</sup>

This regime could achieve its objective of free movement of goods and services between member states, among others, by allowing IPRs holders a single right (first sale) to place their (protected) goods on the community market in the exercise of the exclusive right.<sup>156</sup>

For the purpose of exhaustion of IPRs the whole market of member states of such region or community. The live example, the EU, is considered as a single territory and does not matter where the IPRs holder may place his product as such. However, if the goods were placed in a market outside the community the rights of the IPRs holder in the community does not exhaust and may exercise them to prevent the importation of goods as infringing of community IPRs. The point is, therefore, all other states are third states from where importation or reimportation is infringing.

---

<sup>153</sup> S.K. Verma,, 5, p. 553

<sup>154</sup> F M. Abbott, et al, supra note 2 p. 1341

<sup>155</sup> Jochen Pagenberg, *The Exhaustion Principle and "Silhouette" Case*, IIC, Vol. 30 No. 1, 1999. p. 19

<sup>156</sup> F M Abbott, et al, supra note 9, p. 1341.

### 3.5 The Doctrine of Exhaustion and International Trade

The importance of intellectual property has become a fact making real differences in the economic power of nations as we join the twenty first century. We have said in the second chapter of this paper that land and capital are becoming secondary in the creation of wealth in the western societies, the rest of the world is also in continues strive to catch up with the advanced economies of the west using IPs as an instrument. Most of all, IP is becoming part and parcel of the issues in international trade. Concerned about the loss states are suffering from the failure of trading partners to protect intellectual property rights, they are putting in place different mechanisms to correct the losses and taking serious measures, including retaliation, the most extreme of all measures states could take in their international relations.<sup>157</sup>

The doctrine of exhaustion as a common feature of the IPRs system in all jurisdictions of the world has become an inseparable from the states international trade policy. In other words the IP system is having increasing momentum in international trade resulting in the need to appropriately designed exhaustion of IPRs policy as a matter of corollary. The subject matter of exhaustion, therefore, is a cross-cutting issue and hence require a close scrutiny for effective intellectual property rights protection as well as the maintenance of the free flow of goods and services both at the national and international level.

In the preceding section we have seen the various regimes of the doctrine of exhaustion. The variation in the exhaustion doctrine basically emanates from the states' policy towards intellectual property protection, their policy on international trade, protection of domestic industries etc.<sup>158</sup> In this section we will be examining among others, the various state practices of the exhaustion doctrine in their international trade relations as well as the respect to intellectual property protection. We will also examine the position of the doctrine in the multilateral trading system as can be drawn from the GATT and other WTO agreements such as TRIPS.



<sup>157</sup> Dr S.K.Kapoor, *International Law and Human Rights*, Central Law Agency, 2002, P. 912. The United States using its 'Super 301' clause repeatedly threatened what she calls 'unfair trading partners' particularly when the laws of those states, she believe and indeed provide unfair protection to IPRs.

<sup>158</sup> S.K. Verma, *supra* note 5, P. 54

### 3.5.1 Exhaustion in the USA

In the USA the doctrine of exhaustion has its origin from the decision of the Supreme Court in *Adams V. Burke* a patent case back in 1873 where it held:

“in the essential nature of things, when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use. The article ... passes without the limit of the monopoly. That is to say, the patentee or his assignee having in the act of sale received all the royalty or consideration which he claim 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 patentee.”<sup>159</sup>

The practice of the Courts in the United States has not been consistent with respect to all forms of IPRs. Up until the *Jazz photo* decision of the Court of Appeals for the Federal Circuit to the contrary, it has been maintained for long that the U.S. followed international exhaustion in the field of patents. The inconsistent ruling in the *Jazz photo* decision by the US Court of Appeals involved the disposable cameras in respect of which the appellant held a number of patents. The patentee, *Fuji photo*, sought to prevent importation of used disposable cameras in which third parties had replaced film. Some of those cameras were first sold in the United States and some were first sold abroad. The Court of Appeals for the Federal Circuit held that “*Fuji* exhausted its patent rights concerning the disposable cameras when they were first sold, and it could not prevent 3<sup>rd</sup> parties from refurbishing and reselling them.”<sup>160</sup>

The court in fact expressly concluded that *Fuji*'s patent rights were only exhausted where the authorized sale occurred in the United States.<sup>161</sup> And to the contrary of all prior US courts' decisions the Court stated in a manner strengthening its rule in favor of national exhaustion provides ‘... US patent rights as to cameras first sold outside the United States were not exhausted, and this importation of cameras first sold and repaired outside the United States could be blocked.’<sup>162</sup> The Court of Appeals for the Federal Circuit heavily

---

<sup>159</sup> Ibid. P. 538

<sup>160</sup> UNCTAD-ITCSD, *supra* note 123, p.

<sup>161</sup> Michael L. Vockrodt, *Patent Exhaustion and Foreign. First sales: An Analysis and Application of the Jazz photo Decision*, American Intellectual property law Association, 2005 P. 192

<sup>162</sup> *Supra* note 22 P 113

depended for its decision on *Boesch V. Graff*, a Supreme court case from 1890 as its source of authority.

In *Boesch* the US Supreme Court was to decided on the following facts: the patentee owned patents for lump burners both in the United States and Germany. The defendant purchased lump burners from a company in Germany that was not a licensee of the patentee but had the right to use the patent based on the prior user right exception under German law; and the lump burners were imported in to the US without the authorization of the US patentee. The Supreme Court found that the foreign sale did not affect the United States patent. The conclusion in this respect was put by the court in black and white saying 'the sale of articles in the United States under a United States patent cannot be controlled by foreign laws.'<sup>163</sup> In fact it does not follow that in international exhaustion of IPRs are controlled by laws of the foreign country where the first sale resulting in the exhaustion of IPRs has occurred. To the contrary, it is because the IP laws of the grant country allows the exhaustion of IPRs in the occasion of foreign first sale.

With respect to copyright we have a decision of the Supreme Court, *Quality king Distributors V. La'anza Research international*, 1998. Some authorities referred the decision in this case as one of the Supreme Courts policy endorsements.<sup>164</sup> In *Quality king* the facts involved were the re-importation of certain La'anza's hair care products bearing copyrighted labels in to the United States against the consent and will of the copyright holder, La'anza Research International. In fact the Supreme Court finds for Quality king applying international exhaustion to the circumstances of the case. The cases it used in its reasoning are worth mentioning at this juncture.

One is the *Bobbs-Merrill Co. V. Straus*, 210 US 339 (1908), in which petitioner, Bobbs-Merrill inserted a notice in its books that any retails sale at a price under 1.00 dollar would constitute an infringement of its copyright. The defendants, who owned a department store, disregarded the notice and sold the books at a price less than one dollar without Bobbs-Merrill's consent. The decision of the court in this case was that the excusive right

---

<sup>163</sup> Michael L. Vockrodt, Supra note 161, P. 192

<sup>164</sup> Fredrick M. Abbott, et al supra note 1, P. 1047

of the copyright holder to 'vend' the books had exhausted on their first sale, therefore, Bobbs-Merrill does not have the power to restrict the purchasers right with respect to the further vending of the books. The court went on to point out that the copyright holder, Bobbs-Merrill, though does have the power to limit exhaustion contractually; there is no contract in affixing notice in books sold in wholesale. The court expressed in the following terms.

In this case [Bobbs-Merrill] the stipulated facts show that the books sold by the appellant were sold at wholesale, and purchased by those who made no agreement as to the control future sales of the book, and took up on themselves no obligation to enforce the notice printed in the book, undertaking to restrict retail sales to a price of one dollar per copy<sup>165</sup>

Unlike in the case of patents the Supreme Court adopted a policy of international exhaustion in copyright as is revealed in the case we have been so far examining, *Quality King Distributors V. La'anza Research International*, the supreme courts decision in *American international pictures v. Foreman* is also an important decision that practically put Section 109 of the Copy Right Act, 1976, on the soil confining to domestic exhaustion. Verma cited the supreme courts holding as follows:

The exclusive right to vend a copy of a copyrighted work extends only to the first sale of that copy... even if the copy right holder places restrictions on the purchaser in a first sale (such as specifying the permissible uses of the article), the buyer's disregard of the restrictions on resale does not make the buyer or the person who buy in the secondary market liable for infringement. The first sale thus extinguishes the copyright holder's ability to control the course of copies placed in the stream of commerce.<sup>166</sup>

With respect to trademarks the doctrine in US is more or less tilted toward domestic exhaustion, subject to what the Supreme Court referred to as 'the common control' exception. In *K mart corp. V. Cartier, Inc, et al*, the court was required to decide whether the Federal Customs Service was right in prohibiting the importation of gray market

---

<sup>165</sup> Ibid p. 1050

<sup>166</sup> S.K. Verma, Supra note 5, p. 545

goods bearing valid United States trademark by its regulation implementing Section 526 of the Tariff Act 1930. The Court provided three scenarios of parallel importation.<sup>167</sup> Case I is the situation where a United States firm buys trademark owned by a foreign company to register and use it as a US trademark, however, the foreign firm or third party imported goods bearing the said trademark in to the United States and compete with the US firm in the gray market. In the second situation, case II, is a domestic firm which is a subsidiary of a foreign company has a trademark registered in the United States for a product manufactured abroad. Goods bearing trademark that is identical to the United States trademark are imported and compete with the domestic subsidiary. The third scenario, case III, is a situation where a domestic holder of a US trademark authorizes an independent foreign manufacturer to use that trademark in a particular foreign location. Again the foreign manufacturer or third party imported the foreign made goods.

The conclusion of the court in *K mart* decision was if a product protected by a United States trademark was first sold abroad by a company owned or under common control with a company in the United States, the US trademark could not be invoked to prevent parallel imports,<sup>168</sup> however, if the goods were put in a foreign market by the licensee, with the authority of the US trademark owner, those goods would be prohibited from importation under the Tariff Act.<sup>169</sup> Therefore, the Supreme Court endorsed explicitly domestic exhaustion under section 526 of the US Tariff. Act.

Hence, generally speaking while the US is by and large adherent of domestic exhaustion some limitation to this regime of exhaustion have also been recognized by the courts. Specially in the field of trademarks.

### **3.5.2 The Doctrine in the EU**

The doctrine of exhaustion of rights has a different position in the EU due largely to the political organization of the member states in a manner that facilitate market integration. The EU, therefore, followed a different approach from those other states such as the US

---

<sup>167</sup> *K Mart, Corp V. Cartier, inc, et al*, Supreme Court of the United States 486 US 281; 1988 U.S. Leis 2473 May 31, 1988, in *F.M Abbott, et al*, pp 1387-88

<sup>168</sup> UNCTAD-ITCSD, *supra* note 150, P. 95

<sup>169</sup> S.K. Verma, *Supra* note5. 545

and Japan. It has in fact a well developed jurisprudence in the field of intellectual property law generally and exhaustion of rights in particular.

The doctrine of exhaustion of rights known in common parlance as the free circulation rule was developed by the European Court of Justice in a series of cases in the 1970s.<sup>170</sup> Originally, the Court based its ruling favoring freer trade among members of the European community via the application of Art 85 of the Rome Convention.<sup>171</sup> However, that provision did have no relevance with respect to the intellectual property right as impediments to the intra community trade as such. Rather, the provision was apparently concerned with the control of certain types of agreements (Art 85), and certain types of Monopolistic behaviors (Art 86)<sup>172</sup> In 1996 the European Court of Justice in its *Consten and Grunding V. Commission* decision up-held the complaint that the petitioners had infringed Art 85 and affect the basic principles community market. The facts in the case revealed that Grunding, a Germany company, appointed Consten as their 'sole representative' in France. Consten registered GINT (derived from Grunding International) as a trademark in France subject to a declaration that it was intended to be placed solely on Grunding goods. It was also agreed that *consten* would transfer the mark to Grunding (or abandon it altogether) if they ceased to be sole distributors. Grundig also uses the mark on all its goods, including their German goods produced for export. *Consten* tries to prevent Grundig goods bearing the GINT trademark from entry into France. The court recognizing the French registration of the mark further went on to hold that " ...it was *by virtue of an agreement with Grunding* that it [Consten] was able to effecting registration."<sup>173</sup> (emphasis added). The court seemed to rely on the agreement most importantly because the key requirement of Art 85 on cartel and other business behaviors is agreement to the effect that the prevision aims to prevent.

However, a shift from Art 85 of the Rome Treaty to Art 30 was made, the emphasis being on 'measures having equivalent effect' on the free flow of goods between member states

---

<sup>170</sup> Joschen Pagendberg, The exhaustion principle and 'Silhouette' case, IIC Vol. 30 No. 1 1999 P. 19

<sup>171</sup> S. K. Verma. *Supra*, 545

<sup>172</sup> *Ibid.*

<sup>173</sup> *Ibid* – p. 217

as including all industrial property rights.<sup>174</sup> The difficulty the European Court found in establishing the free circulation rule on the basis of Art 85 was that it hardly gives sense when the barriers to free trade involves no agreement between those who are involved in the dispute over parallel importing of goods. Art 85 clearly refers to ‘Agreements affecting the internal market.’ As a result the use of Art. 30 were found to be appropriate to establish the exhaustion of rights doctrine.

The landmark case of the European Court of Justice in the field of IPRS in relation to the Community market was its *Centrafarm V. Winthrop* decision. In that case the court has conclusively established for all member states of the community that the exercise of national trademark rights, in order to prevent the parallel importation of genuine goods from other member states, is contrary to the provisions of the EEC treaty on the free circulation of goods within the common market.<sup>175</sup> Note worthy in the use of Art 30 of EEC Treaty is that the provision is not one concerned with intellectual property rights; furthermore, its aim was to secure the market integration of the member states by avoiding all barriers to trade including quantitative restrictions. And Art 30 specifically is about the avoidance of all barriers ‘having equivalent effect as quantitative restriction’ on community market. The use of intellectual property rights to affect movement of goods across the boundaries of member states is, therefore, found by the European Court of Justice to be against the EEC treaty, hence the purposes of the common market, exception, under Art 36, that the derogation from the common market principle under Art. 30 is justified,<sup>176</sup> and applied without discrimination and arbitrarily.

The reliance on Art 30 and 36 of the Rome Treaty to uphold the principles of the common market from the dangers of the use of IPRs as a shield has no more direct relevance at least for some forms of intellectual property rights.

In 1988 the first trade mark directive was adopted by the European Council and later in 1993 the community trademark regulation was issued. While the first was meant to modestly harmonies the national trade mark laws of member states, the later, however,

---

<sup>174</sup> Ibid

<sup>175</sup> Friedrich Karl Beier, The Doctrine of Exhaustion in EEC Trademark Law-scope and Limits, IIC. Vol. 10, No. 1 1979, p. 20

<sup>176</sup> IHT International Heiztechnik GmbH and Another V. Ideal- Standard GMBH and Another, European court of justice, case C – 9/93 In, Abbott and et al p. 153

was directly applicable by the member states to the extent matters are dealt with by the same and the national legislature do not have discretion as to how the rules will be implemented.<sup>177</sup>

The preamble of the Trademarks directive refers to the reasons why it was issued. The following excerpts of the preamble are relevant.

Whereas the trademark laws at present applicable in the member states contain *disparities which may impede the free movement of goods and freedom to provide services and may distort competition* within the common market; whereas it is therefore necessary, in view of the establishment and functioning of *the internal market, to approximate the laws of members states.* (emphasis added)<sup>178</sup>

According to the advocate general's opinion in the Silhouette case, before the ECJ, the terms of Art. 7 (1) "a trademark does not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the community under the trademark by the proprietor or with his consent," gives effect to the principle of community wide exhaustion as developed in the court's case law.<sup>179</sup>

The community trademark regulation has also contained an identical provision Art 13(1) with the trade mark directive (Art 7(11)). In Silhouette the perniial issue presented before the ECJ was whether the directive allows member states to apply a rule of international exhaustion. The referring German court was interested ECJ in particular to clarify the following issue:

'Is Article 7(1) of the first council directive 89/104 to approximate the laws of the member states relating to trademarks ...to be interpreted as meaning that the trademark entitles its proprietor to prohibit a third party

---

<sup>177</sup> F.M. Abbott, et al, supra note 1, p. 1266

<sup>178</sup> Cited by Advocate General of the European court of justice, Mr. Francis Jacobs, Graeme B.Dinwoodie, et al, Supra note 98, p. 1262

<sup>179</sup> Ibid

from using the mark goods which have been put on the market under that mark in a state which is not a contracting state?<sup>180</sup>

The European court of justice in response to the German Courts request decided that even if member states are given the right by the Trademarks Directive Art 5 to provide more extensive protection to trademarks, the directive cannot be interpreted as leaving the question of exhaustion open to the member states to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in a non-member country.<sup>181</sup> The court reasoned that interpreting the directive otherwise would not serve the purposes of both the directive as well as the European community Treaty. Art 100a – namely “Safeguarding the functioning of the international market”<sup>182</sup> The court further went on to conclude ‘a situation in which some member states could provide for international exhaustion while others provided for community exhaustion only, would inevitably give rise to barriers to the free movement of goods and the freedom to provide services.’<sup>183</sup>

In the field of copyright the principle of free movement of copyrighted goods as well was subject to the application of the EC treaty, Arts 30 and 36 in conjunction with Article 222.

In a typical copyright case before the ECJ the court was asked to interpret the same provisions.

The facts of the case revealed that ‘A’ was a copy right holder in a member state whose laws allow third parties to hire out copyrighted materials, in this case, film, once put in to circulation by the owner or with his consent. This owner has also assigned the right to produce the film to ‘B’ in another member state where the law prohibits hiring of copyrighted materials.

---

<sup>180</sup> Ibid p. 1264

<sup>181</sup> Ibid p 1274

<sup>182</sup> Id

<sup>183</sup> Id

A third person 'C' who operates a video shop managed to acquire a video cassette in state A, where the owner has put in to circulation, with a view to hire it out in the state where B is assigned to produce the film and the laws of which prohibit hiring without a distinction where the copyrighted material originate, in that state or any other state. A, the original copyright holder, and his assignee brought action against 'C' for infringing the copyright by hiring it without their consent.

The case was brought in the state where hiring a copyrighted material without the hiring a copyrighted material without the owner's or his assignee's consent is an infringement and the national court referred the matter to the Court of Justice of the European Communities and the question it posed was focused on the interpretation of Arts 30,36 and 222.

The question is worth mentioning at this juncture<sup>184</sup>

'Must ... EEC Treaty, Articles 30 and 36 conjunction with Art 222 be interpreted as meaning that the owner of exclusive rights (copyright) in a video recording which is lawfully put into circulation by the owner of the exclusive right or with his consent in a member state under whose domestic copyright law it is not possible to prohibit the (reseal and) hiring out of the recordings is prevented from restraining the hiring out of the video recording in another member state into which it has been lawfully imported, where the copyright law of that state allows such prohibition without distinguishing between domestic and imported video-recordings and without impeding the actual importation of video-recordings?'<sup>185</sup>

The defendant relying on the courts case law in *Dansk Supermarked V. Imerco* of 20 January 1980 and *Music Vertrieb Memberal V. GEMA* contends that the copyright holder has made a choice when he marketed his copyrighted materials in a member state

---

<sup>184</sup> Warner Brothers Inc. and Metronome Video Aps V. Erik Viuff Christensen, case 158/86, 68650158, court of Justice of the European communities, ECS CELEX LEXIS 2016, 17 May 1988, F.M. Abbott et al, supra note 1, 993

<sup>185</sup> Ibid p. 994

whose legislation does not confer an exclusive right of hiring out and must accept the consequences of his choice and the exhaustion of his right to restrain the hiring-out of that video-cassette in any other member state.<sup>186</sup>

The court held that the member states of common market may provide legislations for the protection of intellectual property protection the protection of intellectual property protection even better and different from other member states. Important in this respect is that the legislations should not be one discriminatory which affects the free circulation of goods across the boundaries of the member states of the common market. It is the discriminatory application of IPR rules by member states that Art. 36 of the EC treaty has at its center to fight in the interest of community market.

The court's reasoning has also gone further in to the special need of providing further protection to literary and artistic works basically because the sale of goods copyrighted would not sufficiently represent a return for the investment of persons such as film makers they should be further protected by the exclusive right of hiring. The Court, therefore, rejected the defendant's objection and concluded in an answer to the national courts query as follows.

‘...Arts 30 and 36 of the Treaty do not prohibit the application of national legislation which gives an author the right to make the hiring out of video-cassettes subject to his permission, when the video-cassettes in question

have already been put in to circulation with his consent in another member state whose legislation enables the author to control the initial sale, without giving him the right to prohibit hiring out.<sup>187</sup>

In short, the conclusion of the Court of Justice is that member states may provide varying protection to IPRs and yet the protection accorded should not be at any rate discriminatory. Furthermore, even if a copyrighted work originating from a member states whose law does not accord an exclusive right on the copyright holder to hire out and imported into a member state whose law confers for such right, the copyright holder's exclusive of hiring-out has exhausted any ways. In other words the difference in

---

<sup>186</sup> Ibid p. 997

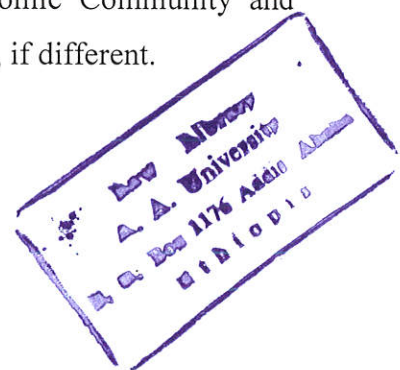
<sup>187</sup> FM Abbott, et al, supra note5. p. 1040.

the substantive rights granted among the member states could also lead to disapplication of the intera-union exhaustion doctrine.<sup>188</sup>

In another copyright case involving the diffusion and distribution of a film ECJ was asked to interpret the application of Art. 59, EC Treaty, concerning the freedom to provide service. The case involved the assignment of a film by a copyright holder called *Les films la Boette* (a French comp.) to a Belgian company, *Cine vog Films* for the distribution of a film entitled 'Le Boucher' in Belgium and to transmit in a TV broadcast after 40 months from the first screening of it on the cinema. Cine vog was accordingly an exclusive assignee in Belgium with respect to the distribution of the film. However, a group of Beligim companies engaged in cable television diffusion, called Coditel comp, relayed a German version of the film transmitted from Germany over their network. And it was this diffusion of the film to Belgium that precipitated Cine Vog to defend its assigned right against the assigner, les films La Boetie, and the diffusion companies, Coditel.<sup>189</sup>

The court in its decision for the plaintiff, now an appellee, reasoned on the ground of the nature of copyright, specially in the performing arts, such as film. It emphasized consistently as it did in *Warner Borothers, inc. V. Christiensen*, cited above, 'the right of a copyright owner and his assigns to require fees for any showing of a film is part of the essential function of copyright in this type of literary and artistic work.'<sup>190</sup>

In the field of patents the EU generally follows the same trends as it does in the field of copyright and trademarks. However, there are no decisions on importation of patented goods from outside the member states of the European Economic Community and European Free Trade Area to specifically talk of the EU's position, if different.



---

<sup>188</sup> Ibid

<sup>189</sup> Coditel v. Cine. Vog Films, European Court of Justice, Case 67/79, 18 March 1980., in F. M. Abbott et al, Supra note 1, p. 1042

<sup>190</sup> Ibid p. 1040

### 3.5.3 Exhaustion in Other OECD Countries

The doctrine of exhaustion, as it relates to international trade has also been a concern of the courts' of other states. Because of considerable volumes of trade in and out of OECD states it is worth discussing here the practice of exhaustion of IPRs in these countries focusing on Japan and Switzerland.

#### A. Japan

The doctrine of exhaustion in Japan was uniformly applied to all forms of IPRS before the *Parker case*<sup>191</sup>. In fact Japan stuck to the territorial exhaustion of IPRS. However, with the decision of the *Parker I case* by the Tokyo High Court in 1965, the direction in the policy of exhaustion has taken a different stance-international exhaustion. The *parker case* involved the importation of branded parker pens from Hong Kong against the consent and will of the Japanese trademark holder who brought a suit against the importer. The court in its decision against the trade mark owner reasoned that trademark law is intended to guarantee the source of origin and the quality of goods and to protect the goodwill of the trademark owner; and these aspects were not found to be affected by the importation of genuine products in these case<sup>192</sup>. The exception in this case is, according to the Court, when the local business has built-up its own goodwill.<sup>193</sup> The court seems to take similar path in other trade mark cases as well.<sup>194</sup>

In another case involving patent, *BBS Kraftfah arheugtechnik AG and BBS Japan, inc, V. Rasimex Japan*, before the Tokyo High Court, the defendant parallel importer contended that 'the imported products (aluminum wheels) are genuine products manufactured by the plaintiff in Germany, and that the plaintiff's patent right had been exhausted by placing the goods on the market in Germany, so there could be no remaining patent in Japan, and the court in fact upheld the pleas of the defendant saying the 'parallel imports from Germany did not infringe the plaintiff's Japanese patent right'.<sup>195</sup> Later, the matter was

---

<sup>191</sup> S.K. Verma, Supra. Note 5, P. 540

<sup>192</sup> Ibid

<sup>193</sup> Id

<sup>194</sup> Id

<sup>195</sup> Id

taken on appeal by BBS and the Supreme Court of Japan upholding the decisions of the High Court opined: the right under the Japanese Patent Act of a patent holder in Japan to block importation of a patented product was exhausted when the product was first sold abroad, subject to the possible imposition of contractual restrictions to the contrary thereby recognizing Japanese adherence to international exhaustion in the field of patents.<sup>196</sup> The court reasoned against plaintiffs' opposition of international exhaustion

'... it is naturally expected that, where a patentee has sold a patented product in other countries, the [first] purchaser the third parties who purchased the same from the [first] may import in to Japan, use or further sell to others as a business. ... in light of [these points] the patentee is not permitted to enforce his patent right in Japan [1] against the [first] purchaser of the product except where the patentee has agreed with the [first purchaser to exclude Japan from the territories for sale or use or [2] against the third parties subsequent purchasers who purchased the product from the first purchaser'.<sup>197</sup>

It seems that the doctrine of international exhaustion is deepened through the courts' application in Japan, basically, justifying its necessity for international trade of the modern times. While all courts concerned with issues of exhaustion have raised the importance the Supreme Court's BBS decision is of much significance. In this case the court reasoned.

'To enable such transactions and to set the conditions for international trade in modern day society, it is assured that in modern day society, it is assumed that the patentee who has transferred the ownership of patented goods abroad has endowed the transferee or any subsequent purchaser with the right to undertake further transactions with third parties, including the importation to Japan, use in Japan, and transfer of ownership on our domestic market'.<sup>198</sup>

---

<sup>196</sup> UNCTAD-ITCSD, *supra* note 150, P. 111

<sup>197</sup> BBS Kraftfahrzeugtechnik AG and BBS Japan, Inc. Supreme Court of Japan No. 1998 (July 1, 1997) excerpt in F.M. Abbott, et al, *Supra* note 1. p. 674

<sup>198</sup> *Ibid.* cited in, Christophor Heath and Mori, *Ending is Better than Merding-Recent Japanese case Law on Repair, Refill and Recycling*. IIC Vol. 37 No. 7, 2006; p. 858

And in particular the Supreme Court emphasized that ‘in the case where the marketing activities abroad have been undertaken by an affiliated company, [as is the case in BBS ], a subsidiary or a person with the same standing as the patentee, the case should be treated as if the patentee himself had marketed the patented products’,<sup>199</sup> resulting in the exhaustion of the Japanese patent holder’s rights.

A more recent case that attracted much publicity is the *Fuji Camera Case*,<sup>200</sup> thought before the Osaka High Court, which involved refill disposable Cameras. The facts in this case were also litigated in the United States before the federal Circuit for the 2<sup>nd</sup> division.<sup>201</sup> The facts in the case before the Osaka High court reveal that Fuji Films, Inc. holds patent rights in respect to ‘Film Unit with lens that has an unexposed film in camera body before hand, and that gives light exposure to film, through exposure mechanism by shuttering, and that will not be reused when such films are ejected after consumers have taken all the pictures’.<sup>202</sup> Unlike the case before the US court, the issue substantially litigated by the parties before the Osaka Court was on the extent of the purchaser’s right to recycle the product he purchased, i.e. the repair-reconstruction distinction. The defendant in this case had recycled these cameras by inserting a new film and a new battery. The plaintiff thought this act of the defendant to be an infringement of his patent rights.<sup>203</sup> The court in its decision against defendant relied on what is called in the Japanese Supreme Court case law ‘the fulfillment of functional test’.<sup>204</sup> The court reasoned that while ‘exchanging minor components of patented products or components that have a shorter life than the products themselves or repairing patented products by exchanging the damaged parts the patentee, could however, enforce his patent right against exchange of the main components comprising the substantial part of the patented product.’<sup>205</sup> The court went on to note that ‘when a consumer has taken all the pictures

---

<sup>199</sup> Ibid. P. 859

<sup>200</sup> Ibid P. 860, Tokyo District Court 31 August, 2000. (Unreported)

<sup>201</sup> The facts and the decision of the US Federal Circuit for the 2<sup>nd</sup> division has already been discussed under section 3.3.1 of this paper. The cases in US and Japan were brought by Fuji Films, Inc a patent holder in the two countries against importers and for infringements.

<sup>202</sup> Christopher Heath and Mineko Mori, *Ending is Better than Mending – Recent Japanese Case Law on Repair, Refill and Recycling* IIC, Vol. 37 No. 7, 2006, p. 860.

<sup>203</sup> Ibid. P. 861

<sup>204</sup> Id

<sup>205</sup> Id

using the built-in film, brings the Camera to a photo shop, and the photo shop sends the disposable camera to a photo processing station where the built-in-film is ejected, the patented products have done their duty under the normal conditions of use. Therefore, in this case, the patentee's patent rights over the patented products are not exhausted, be it nationally or internationally.<sup>206</sup> As far as the court is convinced that the act of the defendant with respect to the refurbishing of the disposable cameras is an act of infringement the fact that the refurbished cameras were the ones originally marketed by the patentee or with consent could not be defenses or establish exhaustion of rights against the patent holder in the disposable cameras.

The trend in Japan, as is revealed through the various court decisions, is towards the international exhaustion of rights in all forms of IPRs. However, all court decisions recognized the IPR holder's right to limit the scope of exhaustion by contrary agreement, though how far could it go is something that needs further examination against basic principles in different fields of law-IPRs, international trade and law of sales etc.

## B. Switzerland

The landmark Swiss case in the field of patent is the *Kodak V. Jumbo-Market*, decision in which the Federal Supreme Court expressed that states member to WTO are free to adopt any regime of exhaustion. And in fact the Supreme Court decided in favour of national exhaustion of patent rights in Switzerland.<sup>207</sup> The Court in this case relied on the interpretation of Art 6 and the foot note of Art. 28 of the TRIPS Agreement and the application of national legislation. Its finding partly reads:

“Pursuant to Art 28 of the TRIPS Agreement, the patent holder has *inter alia* the right to prevent third parties selling patented objects and importing such for this purpose. This provision with its protection of imports merely lays down that the import of products that infringe the patent must be prohibited, without itself laying down a prohibition on parallel imports. This follows not only from Article 6 of the TRIPS

---

<sup>206</sup> Ibid P. 862

<sup>207</sup> UNCTAD-ITCSD, supra note 150. p. 112

Agreement but is also clarified in a reference to Article 6 in a footnote to Art 28 of the Agreement. ... Exhaustion, and hence the question of whether in particular parallel imports can be prohibited by the party entitled to the patent, is not, however, regulated by Article 28 of TRIPS, but expressly reserved to national law pursuant to Art 6 of the agreement.”<sup>208</sup>

Consistent with its belief that the TRIPS agreement allows WTO member states to adopt their own exhaustion regime, the court followed international exhaustion in the field of copyright and trademarks. In 1996 the Supreme Court in Channel Case<sup>209</sup> justified international exhaustion of trademarks by the origin function of trademarks saying ‘[a]ccording to the Trademark Act. Art. 1(1), the purpose of trademark is to individualize the product thus marked ... [I]f, as in the case at hand, it [the channel trademark] has been applied to original products that the general public attributes to a certain group of companies, it fulfills precisely these functions even if the articles have entered Switzerland by way of parallel imports.’<sup>210</sup> The channel ruling was extended to apply in the later Nintendo (Copyright) case in 1998 by the Supreme Court itself.<sup>211</sup> Switzerland basically has had this freedom of adopting the national and international exhaustion due to its non-membership in the EEA, but EFTA, in the EU arrangement; so not bound to apply EU legislation.<sup>212</sup>

### **3.5.4 Exhaustion and Developing Countries**

Both the GATT 1947 and the WTO (GATT 1994 as is commonly referred to) provide provisions on the correlation and the necessity of the relation between trade and development.<sup>213</sup> The existing reality between the developed and developing, most

---

<sup>208</sup> Ibid foot note 255

<sup>209</sup> *Channel SA, Geneva and Channel SA, Glarus V. EPA SA*, Swiss Federal Court BGE 122II 469 23 October 1996, in FM Abbott, et as Supra note 9,.

<sup>210</sup> FM Abbott, Supra note 1, P. 1385

<sup>211</sup> UNCTAD-ITCSD, supra note 150. P. 112

<sup>212</sup> FM. Abbott, Supra Note 31 P. 1372

<sup>213</sup> Preamble of the Marrakesh Agreement establishing the World Trade Organization is April 1994, Marakesh, Morroco. The provisions of the GATT 1977 also provide among others for the relation between trade and development: furthermore, differential treatment of LDC’s was an important consideration.

importantly, the least developed states have become an insurmountable hurdle to the expectation of the latter in terms of gains from the international trade especially, the gap in technology and the values of trade with the attendant disparity in trade deficit as well as income have made the relation of the two worlds relations pernicious. Despite the provisions favorable to the developing and least developed states parties to GATT 1974 little has been achieved in terms of gains from international trade incomparably with the developed states parties.<sup>214</sup> That is why the debate on the share of international trade between the wealthiest north and the poorest south continues to date.

Despite the promises, of the WTO and the wealthier states there is little or none the promises make out of the undertakings so made. In the field of IPRs the relations is no different, even the wealthier nations seems to be tighter than in their pure trade relations.

The current state of affairs shows that most developing and least developed countries follow the policy of international exhaustion.<sup>215</sup> In fact, it seems that this regime of exhaustion is suitable for them and they better advocate same in their negotiation at the various fora and the WTO. Especially in the field of patents where the market is dictated by technological needs of the states, they would be better off if importation and re-importation of goods is made possible through the application of the doctrine of international exhaustion.

As to the choice of international exhaustion by the developing countries a number of arguments were made for and against. The principal advocate of international exhaustion as their best choice is Professor F.M. Abbott who in his article argued, in favour of parallel importation and international exhaustion, it enables them to have access to medicine and IPRs protected goods at reasonable prices thereby supporting public health policies of those states who otherwise could not afford.<sup>216</sup> The United States, in the fore front of the opposition against the policy of parallel imports and international exhaustion by developing countries, argued among others by interfering with proposals for tiered

---

<sup>214</sup> Frederick M. Abbott, the TRIPS Agreement, Access to Medicines, and the WTO Doha Ministerial conference, the journal of world intellectual property, p. 37.

<sup>215</sup> Recent WTO annual meetings, including the Seattle and Prague, and G 8/7 meetings were accompanied by opposition rallies.

<sup>216</sup> Supra note 76, p. 34

pricing by limiting the willingness of drug producers to sell to developing-country market at low prices; and further that 'it creates a risk of public health because of difficulties governments face in monitoring those imports'<sup>217</sup>The disparity in the out-look to ward the exhaustion policy emanates for naturally obvious reasons . The developed north being homes of the creative arts and innovations in technology while the developing (and importantly the least developed) even not able to be hosts of those outsider IPR holders (due to unattractive trade and IPRs policy) the gap between the two seems to continue indefinitely unabridged. As far as the issue of exhaustion is tied with the intercourse in international trade among states it is difficult to solve the problem on the choice difference between the two camps given the range of difference in reality.

To be more pragmatic and look for solutions, it is better to closely look in to the matter in situations where the parallel importation is allowed in a developing (or least developed state) and the developed states.

Because the concern of the industrial states is the revenue their IPR holders forgo as a result of parallel imports lets look the various situations following the diagram below. 'D' is a developed state, while U is a developing or least-developed state.

The situation which we set out to demonstrate here is whether it is state D or U which will be disadvantaged as a result of the adoption or otherwise of international exhaustion or not. Which of the two states have a compelling interest, without regard to the interest of the other, to adopt a policy of international exhaustion hence allow parallel imports? D or U?

Assume that 'U' has adopted international exhaustion policy allowing parallel importation of goods while 'D' does not. And further, goods, says pharmaceutical products, protected by IPRs are exported from state D or for that matter from another state, but D being the home state of the IPRs holder, and were re-exported back to the states of origin (exporting state) where the price is much higher than in 'U', where it has been first marketed. In this case the answer to our initial question should be that 'U' is in a better position by adopting international exhaustion, as far as it does so consistently to

---

<sup>217</sup> Ibid

all persons in the industry, i.e. without discrimination as to the origin of goods and parties (IPRs holders). If state U wants to encourage tiered priced goods to advance its public health or other policy it may, as F.M. Abbott<sup>218</sup> rightly suggested, enter undertakings with IPR holder in goods vital to the advancement of its public policy (such as health care, educational materials provision etc) to prevent the re-exportation of goods, thereby without negating the GATT<sup>219</sup> or other WTO commitments. Assuming on the other hand that states 'D' following international exhaustion and 'U' to the contrary, the parallel importation of goods from D to U (whether the goods are produced in U under license or imported from D) the parallel importation affects the IPR holder anyways in the eyes of D while no advantage is thereby gained by 'U' because of the restriction on parallel imports. As far as D is concerned it is its policy and no injury is suffered on her part as a result.

However, in the second scenario U is at a disadvantage for it shall be dependent on the availability of IPRs protected goods (such as patented medicine for its health care services) and there is less price competition because of the patent monopoly which otherwise would not be if other persons, other than the IPRs holder or his licencees, were allowed to parallel import the IPRs protected goods in to the state (U). That is in fact why a number of authorities<sup>220</sup> on the subject argue that international exhaustion and parallel imports are in consonant with, and in the advantage of free circulation of goods, hence promoting liberal trade, which is the central purpose of the WTO, and in favor of the developing states whose low income population would have goods and services at an affordable prices.

### 3.5.5 Exhaustion and the WTO/TRIPS Regime

Throughout the years the legal regime of international trade and the protection of intellectual property were dissociated. In 1883 the Paris convention for the protection of industrial property was adopted. The convention made the protection of industrial property rights territorial to each state party to the Convention. In 1947, the General

---

<sup>218</sup> F. M Abbott, Supra note 1, p. 34

<sup>219</sup> Art xx, GATT provides a general exception to the principal undertakings of states on quantitative restrictions and quotas, without of course contradicting the pillar provisions on Most-Favored – Nation (MFN) and National Treatment.

<sup>220</sup> S. K Verma Supra note 5, P 546

Agreement on Tariffs and Trade (GATT) was adopted and this time international trade was suspended aloft all the other legal regimes affecting it. The GATT in fact contains virtually no provision on the protection of intellectual property and the connectivity with international trade. In any case until the advent of the WTO and the adoption of TRIPS Agreement the relation between the two were not subject to a common regime as such.

### **A. The General Agreement on Tariffs and Trade (GATT), 1947.**

This international agreement, as its name indicates, is concerned with the reduction and, gradually, avoidance of tariff barriers to trade among member states to the GATT.<sup>221</sup> And if at all, little has been provided in this instrument concerning the relation between intellectual property and international trade among member states. Under the old GATT we have three instances where mention is made of intellectual property rights in relation to marks of origin, trademarks,<sup>222</sup> and patent, trademarks and copyright<sup>223</sup> and the general exception of GATT provision<sup>224</sup>

Arts IX and XII are not meant specifically to provide intellectual property protection as such. Their objective rather may be understood from their headings and contents. Art IX titled 'Marks of Origin' provides for the undertaking of states parties to guarantee equal treatment with respect to marks of origin of like products to all other states party in the importation and exportation of goods. The effect is, therefore, the requirement as to marks of origin would not be a non-tariff barrier to movement of goods as envisaged in the multilateral agreements as negotiated. The same is true with that of Art. XII of GATT. This provision, concerned with exoneration of states from their principal undertaking, allows them to put some measures in place to safeguard their external financial position and its balance of payments by restricting the quantity or value of merchandise permitted to be imported.<sup>225</sup> It is As an exception to the exception of the general rules that the GATT makes mention of patent, trade mark and copyright. The provision reads para. 1(3) contracting parties applying restrictions under this Article undertake

---

<sup>221</sup> Article III, GATT 1947, and GATT 1994

<sup>222</sup> Art IX of the GATT 1947 and 1994 concerns Treatment of like products by the states party to GATT

<sup>223</sup> Ibid Article. XX (d)

<sup>224</sup> Art XII of GATT, 1974, 1994. This Provision is the one that provide on exception to the principles of GATT where by states may restrict to safeguard their balance of payments position in case of difficulties.

<sup>225</sup> GATT 1947, 1994 Paragraph 1

(iii) not to apply restrictions which would prevent the importation of commercial samples or prevent *compliance with patent, trade mark, copyright or similar procedures.*(emphasis added)

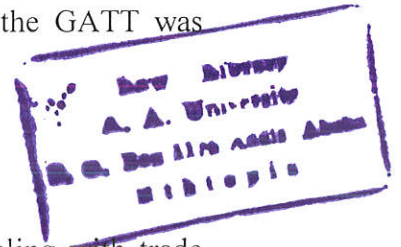
Therefore, the states parties to GATT may not apply Art. XII in a manner that affect procedure to comply with intellectual property protection.

Art. XX (d) most importantly provides that the undertaking of state in the GATT shall not be construed as to prevent states parties from adopting measures or enforcement necessary compliance with laws or regulations for the protection of patents, copyright and trademark, as far as these measures are inconsistent with the agreement.

To sum up, the GATT was not in fact the relevant instrument to protect intellectual property rights and that is why developing countries such as India and Brazil parties to the GATT resisted the US initiative to make the GATT a forum to discuss how due protection may be given to IPRs within GATT during the Tokyo Round;<sup>226</sup> but it had not been successful up until the conclusion of the Uruguay round with the successful conclusion of the WTO Agreement on 15 April 1994.<sup>227</sup> As a result the GATT was irrelevant to Exhaustion of IRRs as a matter of fact and law.

## B. The WTO Framework and Agreements.

With the advent of the WTO as a single international organization dealing with trade between member states the world has a more integrated rules of trade than the old GATT. In this respect mention may be made of the General Agreement on Trade in Services (GATS), Agreement on Technical Barriers to Trade (TBT), Agreement on Sanitary and Phytosanitary measures, (SPM) Agreement on Trade Related Investment measures (TRIM) and Agreement on Trade Related Aspects of Intellectual Property (TRIPS) are some to mention. Moreover, the system recognizing the importance of intellectual



<sup>226</sup> F.M. Abbott, *Protecting First world Assets in the Third world: Intellectual Property Negotiation in the GATT Multilateral Framework*, in F. M. Abbott, et al, cited Supper note31, p. 332.

<sup>227</sup> Committee on International Trade law: First Report of the Committee, Prof. Thomas Oppermann, chair, Profs. E.U. Peterman and F.M. Abbott, et al supra note31, p. 321.

property in world trade has specially dealt the matter specifically in the TRIPS Agreement. As we have said it earlier intellectual property is made trade related.

However, as far as exhaustion of rights is concerned the most relevant agreement (TRIPS) has failed to provide a mandatory provision with respect to exhaustion of IPRs. The only relevant provision in this respect and that gave rise to controversy as well as attracted scholars in the field is Article 6, which provide that.

*'For the purposes of dispute settlement under this agreement, subject to the provision of Arts. 3 and 4, nothing in this agreement shall be used to address the issue of exhaustion of intellectual property rights.'*

Almost all commentators agree the only thing clear and made a commitment on states in the field of exhaustion of IPRs is that it is subject to the basic common obligation of states in the WTO, i.e. the National Treatment and Most Favoured Nation treatment under Art. 3 and 4.<sup>228</sup> But, nothing may be implied from Art.6. TRIPS agreement as to what policies states members to WTO are bound to adopt in the field of exhaustion. Consequently, a number of intellectual property scholars believed that states are free to adopt any of the exhaustion regimes depending on their political preference and economic consideration.<sup>229</sup> And yet, there are scholars who contended this opinion and hold the position that having regard to the basic principles of WTO and the requirements to free movement of goods, in international trade, states are bound impliedly to adopt international exhaustion of IPRs.<sup>230</sup>

Art 6 of the TRIPS agreement was also subject to a number of interpretations in relation to exhaustion and the relationship between TRIPS and other WTO agreements, specifically the GATT and GATS. More interestingly, the question which is not fully/substantially dealt under Art. 6, may be subject to the dispute settlement under the TRIPS Agreement is worth noting. Some group of commentators argues that the question of exhaustion cannot be a subject of the dispute settlement under the TRIPS Agreement for it says 'For the purpose of dispute settlement [under this agreement] ... nothing in this agreement shall be used to address the issue of the exhaustion of intellectual property

---

<sup>228</sup> S K Verma Supra note \_5, p. 535

<sup>229</sup> Id.

<sup>230</sup> , Ibid. PP 552 -553, S K Verma, one of the leading scholars in this field is the ardent supporter of this view, Ibid. PP 552 -553

rights.<sup>231</sup> On the other hand contending this position another group take the stance that exhaustion may still be subject to dispute settlement under the WTO agreements to the extent it's application by states (member of the WTO) contravene their commitments, for example under the GATT, GATS or the TBT Agreements.<sup>232</sup> This latter group of commentators relied on the general policy of the WTO as a framework of international trade relations on one hand, the adequate protection of intellectual property rights on the other. To this effect they cite the preamble of the TRIPS agreement as having the purpose of striking a balance between the two interests. The following is the most relevant statement of the preamble:

‘Members, desiring to reduce distortions and impediments to international trade, and taking in to account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade; ...’<sup>233</sup>

Others held that if the protection of intellectual property rights by states caused injury to the interest of other member states this could not be reviewed against other WTO agreements such as the GATT but the TRIPS Agreement, and only against the TRIPS Agreement alone.<sup>234</sup> They tried to justify their argument further by the reference of the TRIPS Agreement as *lex specialis* rather than *sui generis*.<sup>235</sup> There is no WTO dispute settlement body jurisprudence on the application of the exhaustion issue and its relation with other WTO agreements. However, it is argued, because in the majority of cases the Appellate body has placed great reliance on the plain language of the WTO agreements and for certainly the plain language supports the view that the issue of exhaustion and relevant TRIPS rules could be examined in a dispute under an agreement other than TRIPS,<sup>236</sup> the position that TRIPS and other WTO agreements are *lex specialis*, therefore, self contained and not subject to review against other body of rules is unconvincing. This,

---

<sup>231</sup> The TRIPS Agreement, Art 6

<sup>232</sup> Macro C.E. S. Bornckers, Supra note 3, pp. 142- 143

<sup>233</sup> Fredrick M. Abbott Supra note 88, pp. 1784 -1885

<sup>234</sup> Macro C.E.J. Bronckers, supra note 3, p. 144

<sup>235</sup> Ibid. p. 142

<sup>236</sup> UNCTAD-ITCSD, supra note 150, p. 105

of course, is without denying that TRIPS is a special agreement governing trade and IPRs subject matter, or *lex specilis*.<sup>237</sup>

Some IPRs experts/scholars and industrialists specially in the field of pharmaceuticals take the view that by virtue of Art 28 of the TRIPS agreement states are bound to preclude international exhaustion of patent for the rights states are bound to confer on the patent holder. According to this provision a patent shall confer on its owners the exclusive rights:<sup>238</sup>

.Where the subject matter of a patent is a product, to prevent third parties not having the owner's consent from the acts of: making, using, offering for sale, selling, or importing for these purposes that product.

Where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process at least, and from the acts of: using, offering for sale, selling or importing for these purposes at least the product obtained directly by that process.

Nevertheless, this provision of the TRIPS agreement concerning patent rights does not resolve the exhaustion issue as simply as it is claimed by those advocating the preclusion of the international patent exhaustion. The reason is, principally because, the footnote of this provision to the word importing have made a cross reference to the effect that the right of importation is subject to that of Art 6 of the TRIPS agreement that excludes exhaustion from the dispute settlement under other provisions of the TRIPS agreement.<sup>239</sup>

Except that one may say the problem in the scope and interpretation of Art 6, TRIPS would be solved through the WTO, DSB or the Appellate Body, the issue is not yet resolved.

The intellectual property rights issue in world trade has become an integral part relatively recently. And it is exhaustion of IPRs that has the most compelling effect on world trade. The exhaustion policy that may be adopted by states members to WTO will have a direct effect on liberal trade. On the other hand this same policy would have its own effect on

---

<sup>237</sup> Ibid. p. 109

<sup>238</sup> TRIPS Agreement, Art 28(1).

<sup>239</sup> Macro C.E.S. Bronckers, *supra* note 3, p. 142

the IPRs holders as matter of corollary. As far as this writer is concerned the doctrine of exhaustion, as is generally provided in the TRIPS agreement, Art 6, is not to be reviewed under the TRIPS agreement in dispute settlement. Whatever exhaustion policy states adopt it is clear from the wordings of the application of the policy adopted as such would be subject to the National Treatment and Most Favoured Nation principles, pillars of the WTO agreements. If a member state applied its exhaustion policy contrary to these basic principle with which it is bound then the plain language of Art 6 applied and may be reviewed under the TRIPS agreement.

The citation of Art 28(1) made by some experts and industrial groups to support their claim of exclusion of international exhaustion in patent does not hold water as such at least, to use it as a proof of absence of freedom to choose exhaustion policy by states. The reason once again Art 28(1) specially the importation right of the patent is subject to Art. 6 of TRIPS.<sup>240</sup> As far as the states member to WTO agree to disagree on the exhaustion issue and we do not have a case law on the subject the time is not ripe to precisely put the scope and interpretation of the very general provision as it stands now.

---

<sup>240</sup> See supra not 92

## **Chapter Four**

### **The Doctrine of Exhaustion in the Ethiopian Context**

#### **4.1. The IP Regime in Ethiopia - the Setting**

Ethiopia have had its laws on various intellectual property (IP) areas since the issuance of Proclamation No. 123/1995, the Proclamation on Inventions, Minor Inventions and Industrial Design in 1995, proclamation 410/2004, Copyright and Neighboring Rights Protection Proclamation in 2004 and Proclamation 501/2006, the Trademark Registration and Protection Proclamation, in July 2006. However insufficient and incompatible with the advanced needs of the state we have had provisions on copyright and the rights of authors and artists in the Civil Code of 1960.

The existing modern laws on the various areas of IP seem to be designed to provide adequate protection and attract foreign investment which may basically have IP as its essential component.

The compatibility of these various areas of IP laws with the WTO regime is an important consideration in an accession process like Ethiopia is undergoing. And it is a must that this question (of compatibility) is answered by Ethiopia as it may arise from WTO member states upon their reaction to the Memorandum of Foreign Trade Regime (MFTR). However, as the scope of this paper is limited to exhaustion of IPRs, the researcher focuses on the IP laws and policy of Ethiopia as it relates to exhaustion of IPRs on the basis of the laws and the MFTR if found relevant.

##### **4.1.1 The Patent Exhaustion**

As laws on the rights relating to inventions in other jurisdictions normally do, the Ethiopian law on Invention, Minor Inventions and Industrial Designs, provides for the rights of the inventor and the limits thereto. The basic rule as to what constitutes for the rights of the patentee is to be found under Article 22 of the proclamation. The right of the patentee in respect to his invention, product or process, are clearly and exhaustively

listed to be the *right to make, use or otherwise exploit the patented invention.*<sup>241</sup> And these exclusive rights of the patentee may not be availed by third parties except as may be authorized by him<sup>242</sup> Along with these exclusive rights the law has imposed up on the patentee some obligations with a view to strike a balance: his individual interest, as is protected through the reserved exclusive rights aforementioned, with that of societal interest in return for the protection he is given: a reason commonly sited justifying patent rights.<sup>243</sup> These obligations include duty to work or authorize other persons to work the patented invention,<sup>244</sup> under the pain of loss of right or compulsory license.<sup>245</sup>

As far as exhaustion of rights is concerned it is clearly provided under Article 25(1) C that ‘the rights of the patentee shall not extend to, among others, acts in respect of patented Articles which have been put on the market in Ethiopia’ by the patentee himself or with his consent. This is the single most important provision in the proclamation determining the scope of exhaustion of patent rights. As it is clear from the phrase ‘*patented Articles ... put on the market in Ethiopia...*’ the patent proclamation envisaged national domestic exhaustion. As a result once a patented product or one obtained through a patented process is put in the market in Ethiopia the patentee cannot subsequently control the resale or use of the product as such; as he is parted from his right and concerns the exclusive right of the purchaser. The value the purchaser invests to acquire proprietary right, as a matter of corollary, on one hand and the fact that the patent owner has been fully remunerated on the other justifies exhaustion of rights i.e the IPRs owner divests himself from the product in the control of further commercialization or its use otherwise.

Two points are very important, hence worth rising at this juncture under the proclamation. These two points are important to determine the scope of patent exhaustion. First, what is the scope of the exclusive rights of the patentee under Art 22(1)? By this it is to mean the scope of each individual right reserved for the patentee

---

<sup>241</sup> Proclamation, NO. 123/1995; *Proclamation Concerning Inventions, Minor Inventions Industrial Designs*, Negarit Gazeta 54<sup>th</sup> year No. 25, 10<sup>th</sup> May 1995, Art. 22(1).

<sup>242</sup> Id.

<sup>243</sup> Edwin C. Hettinger, *Justifying Intellectual Property*, Philosophy and Public Affairs, Vol. 18, No. 1, (Winter, 1989) P. 32

<sup>244</sup> Trademark Registration and Protection Proclamation, Article 27(1) 4(2)

<sup>245</sup> Ibd, Article 29 (1) cum. Art. 30(1)

i.e the right to make, use or otherwise exploit. The determination of the scope of each of them is by far important to determine the scope of patent exhaustion under Article 25(1) (C) of the same proclamation. Second, where is the exact limit of the patent exhaustion? Does it apply to both product and process patent also apparatus and method claims equally? If so, what is the basis?

In most jurisdictions the scope of the patent is the range of products or processes for which the patent holder has the right to 'exclude others from making, using or selling the invention'<sup>246</sup> In this respect one may at glance conclude that Art 22(1) of the proclamation is more generous to the patentee than to the purchaser (the public) as it uses a more swallowing terminology 'the exclusive right to ... *otherwise exploit* the patented invention'. (Emphasis added). In other jurisdictions the scope of the exclusive rights granted by patent and the scope of the patent claim were the source of intense litigation and judicial deliberation. However, in Ethiopia there is a dearth of judicial decision on any of the above and non or little has been said on the scope of the exclusive rights. What constitutes the exclusive 'right to make' the patented invention? How can we distinguish 'making' from 'repairing' or 'reconstructing'? Similarly what constitutes 'the exclusive right to use' the patented invention? From the point of view of product patent and process patent what the patent exclusion looks/ etc are important questions that we need to have answers.

The literature based on other jurisdictions clearly show that 'the exclusive right to make' is literally taken to mean the patentee's right to work or commercially manufacture<sup>247</sup> the invention or to authorize the act of making some by any other person. However, this synonymous definition/ explanation of the right to 'make' is not sufficiently clear, if for example, a third person, who is not authorized to make the invention makes the invention substantially in the same way but for a different purpose which the patentee never contemplated. What if the third party make the inventions half way in the inventive process of the invention and adds some components unpatented to produce a better result

---

<sup>246</sup> Yusing Ko. *An Economic Analysis of Biotechnology Patent Protection*, The Yale Law Journal Vol. 102, No. 3 (Dec. 1992. p. 779)

<sup>247</sup> Christopher Heath and Mineko Mori, *Supra* note 202, P. 857. This explanation is based on the decision of the Japans supreme Court in BBS car wheels III as quoted in Heath and Mori.

in the same field? Another point worth mentioning as far as the right to ‘make’ is concerned the delimitation between the *permissible repair* and the impermissible *reconstruction*. As in any other jurisdiction the patent law in Ethiopia has not made such delimitation but a matter left for judicial analysis on case by case basis having regard to the patent law rationale and policy from both the patentee’s and the public interest point of view.

The US Federal Circuit Court has been cited as defining ‘repair’ in its *Jazz photo Corp. V International Trade Commission* decision as “the disassembly and cleaning of patented articles accompanied by replacement of unpatented parts that had become worn or spent in order to preserve the utility for which the article was originally intended.”<sup>248</sup> As such repair has been taken to be a legitimate act of the purchaser in the furtherance of the optimal utilization of his economic right subsisting in the product. In reconstruction the act of the third party purchaser is far beyond the optimal utilization, but remaking the patented item and hence constitutes infringement. The idea behind is clear and it has been said that the sale of the product should not be a vehicle for ‘a second creation of the patented entity’<sup>249</sup>. Most importantly, therefore, if a part of the patented item is worn out, therefore spent, the substitution of this parts is the reconstruction of the patented items replica constituting remaking, resulting is the infringement of the exclusive right to make the invention of the patentee.

The other point that must be raised in relation to the exclusive right of the patentee is the ‘use’ and ‘otherwise exploit’ rights provided in the proclamation.

As far as the ‘use’ right is concerned it means to apply the patented product commercially with a view to gain economic benefits from the invention. If the patentee chooses to sell the product involving IP (patented product) then he chooses to be reimbursed with the financial return and the purchaser will acquire the economic rights subsisting in the product. The purchaser is entitled and is free, because of the doctrine of exhaustion, to exercise all the rights an owner of goods has against the thing he own which most importantly consists of the economic right to exploit for all purposes the invention is

<sup>248</sup> Jhon W. Osborn Sopra. Note10, P. 667

<sup>249</sup> Id.



meant for. The exclusive right to use, therefore, is wide enough to cover the employment of the invention in different forms as part of component of other goods thereby gaining economic return from such deployment of the invention otherwise the invention individually may not result in.

On the other hand the exclusive right to 'otherwise exploit' can be the exploitation of the invention in any form other than the 'to make' and the to 'use' rights which may include the right to sell, offer for sale or consent to making, or using by third parties, attachment or the determination of manner of making and use of the invention by third parties etc. In all these cases the patentee is said to act within his exclusive right granted under Art 22(1) and the scope of these exclusive rights go as far as the border of exhaustion of rights begins.

It has been mentioned that the doctrine of exhaustion of rights is otherwise known as the 'first sale' doctrine in the United States. In fact this name as a matter of law fits to be used in the Ethiopian laws as well. Ethiopia clearly provided for national exhaustion of patents as against international exhaustion in other areas of IPRs.

This is clearly provided under Art 25(1) (c) of the proclamation in the following terms:

The rights of the patentee *shall not extend to ... acts in respect of patented Articles which have been put on the market in Ethiopia, by the owner of the patent or with his consent*<sup>250</sup> (emphasis added)

Therefore, the fact that whether the patented article is 'put on the market in Ethiopia' or not matters greatly. In this regard it is appropriate to rise the issue of 'what is meant by putting on the market in Ethiopia?'

For the purpose of Art 25(1) C of the proclamation putting 'on the market in Ethiopia' should mean putting the patented article in the domestic market as against the international market either by the patentee himself or with his consent. As a result, therefore, if a patentee or his license sells the patented article to any purchaser in Ethiopia

---

<sup>250</sup> Supra note 241, Art 25(1)C

who either further commercializes (a wholesaler or retailer) the product, the right of the patentee has exhausted with respect to all other rights except those provided as exclusive rights under Art 22(1) of the proclamation. This is so even when the purchaser later exports the goods to a foreign market for the purpose of those batch of goods (specifically put on the domestic market) from which the patentee parted with his rights save for those rights mentioned above.

On the other hand, if the patentee directly exports or sales the goods to a foreign purchaser (this must be know from the customs formalities required for export of goods) then the goods are not with in the ambit of Article 25(1) (c) and the patentee is not excluded from asserting his right of patent for his rights are not exhausted by the foreign sale. Once again the foreign sale must be made to a foreign purchaser, in the first place, by the patentee himself or with his consent and if the product is exported to foreign purchasers by third parties who buy them from the domestic market the right has exhausted and no issue is involved for the “first sale”, in its American sense has taken place in Ethiopia.

The US Supreme Court decision in *Quality King Distributors V. La'anza Research Interil, Inc.* which has been quoted in this paper in chapter three is a prime example to mention. In that case La'anza a producer of shampoos, conditioners and hair care products sold its products to an English company which in turn sold to Maltese and the goods were re-imported back to the US giving rise to the action against Quality King Distributors by La'anza.. The theory on which La'anza relies was partly the goods were first marketed outside the US and therefore it's intellectual property right has not exhausted by the foreign sale and therefore Quality King and other distributors must be excluded from importing back to the US market to sale outside the La'anza distribution chanel.<sup>251</sup> Very important in this respect is the relation between Art 25(1) C, which provides national/domestic exhaustion of patents and that of the exclusion of the patentees import monopoly right under Art 22(2).

---

<sup>251</sup> Graeme B. Dinwoodie. *et al*, sopra note 241, PP. 1238 - 39

National exhaustion of IPRs emphasizes that the products be placed first in the domestic market for the rights of the patentee to exhaust thereby. And, it seems that these theory is based on the territoriality of patents. The result of national/domestic exhaustion, as is evident from other jurisdictions and the literature, is that imported goods, be it re-imported or goods of a parallel patent, may be blocked by asserting ones' patent right to oppose their marketing in the domestic market to compete with the patented products. Patentees in those states following the national exhaustion regime seriously assert their patent rights seriously to repulse or claim damages for infringements resulting form such importation without their content.<sup>252</sup> If exhaustion occurs when a good or service is first put on the market outside the country of patent, that is any where in the world, then this is a case of international exhaustion and no patentee may object the importations of the patented goods, from a foreign market, called parallel imports, in to the domestic market.<sup>253</sup> Coming back to the Ethiopian case, while Article 25(1) C clearly provides for national /domestic exhaustion, which as a matter of definition prohibits parallel imports, it is inconsistent with Art 22(2) that denies the patentee import monopoly rights.

It is apparent that national exhaustion negates parallel imports. However, the Ethiopian law of patents provides for these clearly contradicting rules. It has been suggested herein above states following the national exhaustion principle automatically rules out parallel imports. But what is provided under Art. 22(2) is a contradiction in terms in that if the patentee does not have import monopoly rights. It mean nothing but third parties may lawfully import the patented articles which the patentee himself first put on a foreign market, therefore his patent has not exhausted thereby as per Art. 25(1) (c), or produced and marketed by a parallel patent holder in a territory outside Ethiopia.

Commentators say that the granting of patent alone may not address the technological and economic needs of the society. Since the patent confers on the patentee a monopoly over his invention, as far as the scope of the excusive rights goes, there is a need that the public at large gets, in exchange to the protection, the results of the invention while the patentee is equally remunerated for his effort. As such, along with the exclusive rights

---

<sup>252</sup> UNCTAD-ICTSDSupra note, 150, 93

<sup>253</sup> Id.

the law provides for accompanying duties, such as the right to work the invention in Ethiopia. This duty is important for two reasons. First, it helps the society solve technological problems, a rationale behind grant of patents, and second, the working of the patent/invention helps the inculcation of the technology in the field. In any case, as long as the invention results in a commercially important product and there is a high demand in the market the patentee has the incentive to produce and reap the maximum benefit out of that. But, there is no guarantee that he does not abuse his monopoly (it is natural in monopoly unless restrictions are put in place) by fixing excessive prices and at the same time assert and over assert monopoly rights including over parallel imports.

The Ethiopia legislature seems to prefer this course of action when it provides for the denial of import monopoly right of the patentee under art 22(2). Even if the denial of import monopoly is not without justification its conceptual contradiction with the national exhaustion theory is very important to consider. The result of this contradiction is clearly whether in fact Ethiopia is following national exhaustion (Art 25(1) C) or international exhaustion since the effect of denial of import monopoly is nothing but worldwide exhaustion. As long as the justification for Art. 22(2) lies in the need to benefit the public from competitive prices and this however could be achieved by through the adoption of international exhaustion of patents then the contradiction is nothing but unnecessary conceptual collar for the smooth application of the patent exhaustion in Ethiopia.

Agreeably it can be said that the public interest for competitive price of the patented articles which international exhaustion achieves stands on strong basis by denying import monopoly, while the author insists that the conceptual contradiction is unnecessary and one can assert that Ethiopia follows a *defacto* international exhaustion. Some opined that failure to provide for import monopoly right in the exclusive right of the patentee under art 22(1) is a defect in the patent law. They ground their reasons on two points. First, it would preclude the sale of products manufactured in the country but not products imported from foreign countries. Secondly, if the owner of the patent had no means of prohibiting the sale of imported products he would be incapable of practicing

manufacturing the product.<sup>254</sup> Therefore, the protection that the national exhaustion theory upholds is defeated by the same law when the patentee is precluded from asserting his patent against parallel imports.

In sum, therefore, the patent exhaustion, as it stands now, may be characterized in an approach avoidance dilemma between the two regimes of exhaustions i.e. national and international exhaustion-which may be reconciled only through legislative efforts, and in the mean time, perhaps, through the court based jurisprudence.

#### **4.1.2 The Copyright Exhaustion**

The Ethiopian law providing for Copyright and Neighboring Rights Protection is Proclamation No. 410/2004, issued in July 2004. This law represents an effort to modernize and comprehensively protect copyright and related rights some of which were inadequately addressed in the Civil Code.<sup>255</sup> This proclamation provides for the rights of the author, computer programs, sound recordings, performances & data base etc.

The relevant provisions to copyright exhaustion are Articles 7 and 19 of the proclamation.

#### **A. The Scope of Exclusive Rights**

The proclamation expressly provides for the exclusive rights of the author or owner of work under Article 7. Accordingly, the author or owner of a work has the exclusive right to carry out or authorize the reproduction of the work,<sup>256</sup> translation of the work,<sup>257</sup> adaptation, arrangement for other transformation of the work,<sup>258</sup> distribution of the original or a copy of the work to the public by sale or rental;<sup>259</sup> importation of original or

---

<sup>254</sup> Aschalew Ashagre, The doctrine of Exhaustion of Patent Rights, Paper Presented for a course in LLM Program. Addis Ababa University, Faculty of Law. He vigorously upheld this position in subsequent discussion with the researcher (Date Tikimt 25 2000)

<sup>255</sup> The Civil Code of the Empire of Ethiopia, 1960 Book III. Title XI provides for Literary and Artistic Ownership. Even if these provisions are not totally obsolete most of them have been repeated by the proclamation 410/2004

<sup>256</sup> Federal Negarit Gazeta, Proclamation 410/2004, Copyright and Neighboring Rights Protection Proclamation, 10<sup>th</sup> Year No. 55 July 19, 2004 Art. 7(1) a.

<sup>257</sup> *Ibid.* Art. 7(1)b

<sup>258</sup> *Ibid.* Art. 7(1)c

<sup>259</sup> *Ibid.* Art. 7(1)d

copies of the work;<sup>260</sup> public display of the original or a copy of the work,<sup>261</sup> performance of the work,<sup>262</sup> broadcast of the work,<sup>263</sup> and other communication of the work to the public.<sup>264</sup>

These exclusive rights of the author or owner of a work are, however, subject to some restrictions provided for under Articles 9 through 19. The limitation to which these exclusive rights are subject include reproduction for personal proposes; quotation; reproduction for teaching; reproduction by libraries, archeries and similar institutions; importation for personal purposes, private performance free of charge and display of works.

As is the case in all intellectual property rights the exclusive rights and the limitation thereto in the law reflects the legislature's desire to strike a balance between the individual who contribute by exerting his intellectual efforts and for the good of the public at large to whom he owes the background to his work-on which he built on.<sup>265</sup> With this 'it seeks to guard both over-and under protection of information relative to the social optimum and the concomitant social costs associated with each state'<sup>266</sup> As against the patent, copyright has exacting limitations on the exclusive rights of the copyright holder. As such the list of exemptions to third parties from Articles 9 through 19 is obvious in this regard they are meant to adequately address the public goods problem by guarding against over protection. As is the case in other jurisdictions with developed copyright system the fair use doctrine has been elaborated which, among others, include the limitations on the exclusive rights that we have mention herein before. As such, the fair use has been traditionally defined in the United States as 'privilege in other than the owner of the copyright to use the copyrighted material in a reasonable manner without his consent.'<sup>267</sup> Had it not been for the exemptions the law provides under Arts. 9 to 19, all the acts would have been considered infringement when exercised by third parties

---

<sup>260</sup> *Ibid.* Art. 7(1)e

<sup>261</sup> *Ibid.* Art. 7(1)f

<sup>262</sup> *Ibid.* Art. 7(1)g

<sup>263</sup> *Ibid.* Art. 7(1)h

<sup>264</sup> *Ibid.* Art. 7(1)i

<sup>265</sup> Maureen A. O' Rourke, *Supra* note 36, P. 1183

<sup>266</sup> *Ibid.*

<sup>267</sup> *Ibid.* P. . 1188

without the authorizations of copyright holder under Art. 7. The definition of 'fair use' given above may fairly fit the concept under Ethiopia law as well.

## **B. Exhaustion of Copyright as a Limitation**

In the Ethiopian copyright law one can say that the doctrine of exhaustion is provided only latently/implicitly. The doctrine of exhaustion is known not by its nomenclature in the fullest description and nature, as it is provided in the law as we have defined the term in the preceding chapters. Once a copyrighted article is put on the market the copyright holder or owner of work shall have no right to control the manner of exploitation of economic rights in that specific article. In its fullest sense, therefore, exhaustion is a matter of law not contract.

The doctrine of exhaustion of copyright, as is said above, could be understood by having regard to the nature of the exclusive rights and the limitations thereto.

As such, the rights of the copyright holder or the owner of work shall lapse once the specific article is put to sale for he has already been fully remunerated for his efforts and investment except when the nature of the right so requires the law has extended the exploitation of the right by the copyright holder further than the circulation in the market.

Now turning to the specific provisions providing for exhaustion of copyright, thought latently, we find Art 7 and 19. Under Art 7, which provides for the exclusive rights of the author or owner of work, it is said that he shall have the exclusive right to 'distribution of the original or a copy of the work to the public by *sale* or *rental*. It will be more apparent when we read this provision together with Art.19 of the proclamation. Under article 19, the hallmark of the exhaustion doctrine, the result of the marketing of the article is provides as the author or owner of work shall have no authority to control once he has put it in the market for which he has been remunerated. Art. 19 reads, 'where a copy of a published work has been *sold to the public such a copy may,....without authorization and payment of remuneration, be redistributed by means of sale,*' while Art. 7 (1) (d) talks about the first lawful distribution of the copyrighted article.

A question that must be raised here is where should the first sale of the article takes place for the right of copyright holder or owner of work to exhaust?

Different jurisdictions follow different rules concerning the territorial scope of exhaustion of rights. As is evident from the *Quality King Distributors V. La'anza Research International* decision the United States follows national /territorial exhaustion regarding copyright,<sup>268</sup> whereby only the placing of the copyrighted articles in the domestic market would result in the exhaustion of the copyright holders rights. Australia<sup>269</sup> follows international exhaustion for the same subject-copyright. However, Australia is said to have taken continues measures in the liberalization of its copyright regime as far as parallel importation is concerned.<sup>270</sup> To be specific, the government had planned to allow importers of copyrighted materials to import freely as soon as they are marketed anywhere in the world without the need to wait the Australian copyright holder to release.<sup>271</sup> This is a clear case of further liberalization of the international exhaustion regime subject to some restrictions that, while third parties are entitled to import form abroad in to Australia without the consent of the copyrighted holder. They were bound to wait until the domestic right holder to release for the domestic market.

The Ethiopian law does not provide for a specific market for the copyrighted article to be placed on for the purpose of exhausting the rights of the copyright holder. In this regard what Art 19 provides is 'where a copy of a published work has been sold to the public....' unlike the patent law which provides that only the putting on the domestic market would exhaust a patent. However, in the terms of Article 19 the phrase 'sold to the public' may be construed to mean sold to nay section of the public in the world without national/territorial limits. In fact the term public has no special technical term in law except to the ordinary English meaning to mean 'people' or 'everyone.' As such this may lead us to say that the meaning purported by Art. 19 is sale of the copyrighted article any where would exhaust the right of the copyright holder as far as the further redistribution and

---

<sup>268</sup> Graeme Denwoudie, etal, Supra note 98, P. 1246

<sup>269</sup> UNCTAD-ICTSD, Supra note. 150, On P. 111

<sup>270</sup> Ibid-foot note 252.

<sup>271</sup> . Id

exploitation of the copy for which the copyright holder has been remunerated upon its first marketing.

However, such interpretation of Article 19 does not solve the problem once and for all. As we read Art. 7(1) (e) which expressly provides for the import monopoly right of the author or owner of work, putting restraints on parallel importation of his work by third parties the assertion that there is international exhaustion would only be a myth/illusion. We have no doubt that the selling to the public of a copy of work by the author or owner of work exhausts the copyright- good news to the public. And it is no doubt that the author has the exclusive right to import the original or copies of his work. The question that follows from this would be where is the market for resale of the articles by subsequent purchasers in the exercise of his economic right of resale? A question the law does not address directly and probably awaits the analysis by the judges and scholars.

As far as this researcher is concerned first having said that Art. 19 provides for international exhaustion it is necessary to admit the limitations the law as well puts on the 'international exhaustion regime.' For the author or owner of work there is one united market to put on his copyrighted article/work. And this would exhaust the right of the copyright holder. However, as we come to the resale of this already marketed/put on sale/ copy of a published work by third parties who purchased or other wise acquired, a right the import monopoly right of the copyright holder under Art. 7(1)(e) gives rise to a distinction between domestic market and international (foreign) market. Wherever the sale may takes place third parties are not allowed to import those articles in to the domestic market (wherever they might be put to sale) without the consent of the copyright holder.

This is exactly the rivers of the patent regime which provides for domestic/national exhaustion but gives third parties the freedom to import the patented articles without the consent of the patentee.

### 4.1.3. Trade Mark Exhaustion

The Trademark Registration and Protections Proclamation (Proclamation No. 501/2006) is the latest of all IPRs protection laws issued in July 2006. It seems that the accelerating factor behind the issuance of this law, in addition to the growing share of the manufacturing and service rendering private sector, is Ethiopia's stride in to the WTO accession process.<sup>272</sup>

Unlike the case of patent and copyright the subject matter of the trademark owner's right is based not solely to ensure that the owner has adequate protection for his painfully inventive or creative endeavors. However, is not also totally devoid of this justification. In this respect one can surely say that the quality and reputations of the product satisfying consumer demand is the result of the endeavor of the mark owner's enterprise. As such this endeavor is to be represented as a matter of marketing tool through the trademarks affixed to such goods. Therefore, the best efforts of the mark owner would be rewarded only if the continue to reach the consumer who gives his products regard through the marks as identification of origin from other similar products. In this respect the purpose of trademarks have been long established to 'protect the mark owner against competitors wishing to take advantage of the status and reputation of the trademark' and on the other hand 'to guarantee to consumers that the product has the same origin.'<sup>273</sup> These two purposes of trademark protection we referred to as 'specifies subject matter' of trademark. As such they (specially the second) make trademark distinguishable from patent and copyright protection.

Coming to the Ethiopian law of trademark we find provisions giving exclusive rights to the mark owner with specific purpose to address the same problem that we see here in above. The relevant provision providing for exclusive rights is Art 26 of the aforementioned proclamation<sup>274</sup>.

---

<sup>272</sup> Ethiopia has already the MFTR to the WTO secretariat up on circulation by the working party member states have forwarded questions on the MFTR for clarification.

<sup>273</sup> Fredrick Karl-Beir, *Supra* note 22, p. 29

<sup>274</sup> Proclamation No. 501/2006, Trademark Registration and Protection Proclamation, Federal Negarit Gazeta 12<sup>th</sup> year No. 37, 7<sup>th</sup> July 2006.

The law recognizing two mode of acquiring trademark ownership one by registration of a mark by the Ethiopian Intellectual Property Office (EIPO) and the other by establishing status as ‘well known’ trademark with out the need to be registered before, it gives ultimately the same protection.<sup>275</sup>

The protection the law confers on the mark owner consists of the exclusive right of using the trademark on goods and services for which the mark has been registered. The law also confers up on the mark owner the right to exclude third parties from using the trademark, even a sign resembling it, in a way that is likely to mislead the public for goods or services in respect of the trademark is registered, or for other goods or services in connection with which the use of the mark or sign is likely to mislead the public or any use of a trademark or a sign resembling it without a just cause, and in conditions likely to be prejudicial to his interest and other similar acts. As such only up on the authorizations of the mark owner that third parties may use the registered or well know trademark in a manner that mislead the public that the goods originated from the mark owner.<sup>276</sup>

The limitation to the exclusive right of the mark owner includes exhaustion<sup>277</sup> and *bonafide* use of their name, or exact indications concerning the kind, quality, quantity, destination, value, etc by third parties.<sup>278</sup> Art 27(1), the provision on exhaustion reads as follows:

Registration of trademark *shall not confer up on the owner the right to preclude third parties* from using the trademark in relation to the goods lawfully sold in any country under that trademark, provided that these goods have not undergone any change. (Emphasis added).

On the basis of Art 27(1) of the proclamation exhaustion is a limitation on the right of the mark owner so that he could not assert his trademark right to preclude the lawful and economic rights subsequent purchasers may exercise on goods marketed under that

---

<sup>275</sup> Ibid Art. 23 and 26(4)

<sup>276</sup> Ibid. Art 26(2)

<sup>277</sup> Ibid. Art. 27(1)

<sup>278</sup> Ibid. Art. 27(20)

trademark. Therefore, it is defense for third parties who may deal with those goods to further economic advantages that may as well accrue as a result of the trademark. In many European jurisdictions the courts were faced with issues concerning the manner of subsequent marketing of goods bearing protected trade marks. As a result there is a well developed jurisprudence on exhaustion of trademark rights. The issues before the courts cover among others, parallel imports, reaffixing of marks, repackaging and refilling of goods marketed by the mark owner.

While the issue of parallel imports has to do with the diversity of the policy unique to the European context the states with their own national IP regime on one hand and the effort to maintain regional integrity in free circulations of goods, the rest of the issues before the European national courts and the European court of justice aimed at the guarantee of origin purpose of trademarks. Some of these issues may be validly raised under Art. 27(1) of the proclamation. One requirement for the doctrine of exhaustion to apply is that the 'goods have not undergone any change' subsequent to the lawful sale by the mark owner or with his consent. However, a number of specific issues regarding what constitutes undergoing change to preclude the defendant from availing the defense of exhaustion are also important to rise.

In Germany, the European origin of the doctrine of exhaustion, the courts and the literature unanimously agreed that third parties are not allowed to repackage the goods and re/affix the protected mark to the goods put on sale by the trademark proprietor or third party irrespective of whether the goods were marketed with the mark affixed or not.<sup>279</sup> According to Beier the reason for this prohibition against third parties not to affix the mark even as genuine goods emanate from the rule that only the trademark owner has the exclusive right to apply the trademark for the goods registered.<sup>280</sup> It is further noted that even if the goods originated from the enterprise of the mark owner because of the function of trademarks the proprietor is responsible to the public only for such goods as have been marked by himself or with his concert, and which are presented to the public as his.<sup>281</sup> Even if the goods were marketed partly without bearing the mark third parties cannot affix marks relying on the ground that the goods are genuine. Partly because the

<sup>279</sup> Friedrich Karl-Bier, *Supra* note 22, P. 22.

<sup>280</sup> *Ibid.* P23

<sup>281</sup> *Id.*



goods marked and unmarked may not have corresponding standards and propriety. Best instances under German and European experience is repackaging the goods in a different wrap and affixing the mark by third parties, or while the mark owner sales his goods in a larger container such as barrels, third parties refill them in different size containers and affix the mark for the purpose of resale/retail. It has been emphatically argued that any permission to affix the marks on the repackaged or refilled goods would endanger the trademark owners reputation for the goods so repackaged or refilled may change their quality when exposed to air or light. And most importantly that it encourages a widespread threat of misuse of trademarks.<sup>282</sup>

A cursory look at Art. 27(1) of the proclamation gives a similar setting as is seen in German cases mentioned above. However, for the doctrine of exhaustion to apply first and foremost the goods put on the market by the trademark owner must be bearing the mark registered for them. If the goods, though genuine and originating from the mark owner or with his consent, were put to sale unbranded the affixing of the marks on such goods is an infringement and no defense is available in the first place. Furthermore, even if the goods were lawfully marketed bearing the registered trademark exhaustion does not apply if they have 'undergone any change'.

The relevant question in practical cases before the courts could be what constitutes 'undergoing change' for the purpose of excluding exhaustion?' This question is better approached from two angles. On one hand we may consider the issue pragmatically in that if the change is only to preserve the goods in a manner that could reach the ultimate consumer but there are changes on the cover without substantially affecting its content then it may be tolerated. However, we may also consider on the other hand this may create a loophole to a widespread misuse of marks threatening mark owners, therefore, business, and the ultimate consumer. Therefore, we may considered that the good as undergoing change so such act is an infringement precluding application of exhaustion.

An important issue that always accompanies exhaustion in all jurisdictions is that of its scope. In this respect Ethiopia, unlike copyright and patents unequivocally (with not limitation) follows the international exhaustion of trademarks. As such in the terms of Art

---

<sup>282</sup> Ibid. 25

27(1) of the proclamation the right of the trademark owner exhausts once he' lawfully *sold the goods in any country under that\_ trademark*, provided that these goods have not undergone any change.' (Emphasis added). Nor he has the right to exclude the importation of the goods in to the domestic market except when the goods originate from a licensee who is bound to use the trademark within a particular territory provided for in a license agreement.<sup>283</sup>

## 4.2. Parallel imports and exhaustion of IPRs.

The issue of parallel imports has been a concern in a number of international fora and international trade. It has a lot to do with price discrimination and division of market in both domestic and international trade. However, it is generally agreed that restriction on parallel imports while contrasts the idea of free trade it has also been considered as an increased protection to the intellectual property right protection scheme.

In the Ethiopian context the issue of parallel importation of goods/articles protected by intellectual property rights is arguably unsettled and may be considered a bit contrasting with the basic tenets of the exhaustion doctrine. This is clearly noticeable from the foregoing discussions in the case of copyrights and patent cases. The issue we need to rise and answer in this respect is should we allow parallel imports or restrict it to Ethiopia's advantage?

Once again our major laws on IPRs with the exception of trademark law have something to say on parallel importation.

As the Ethiopian market gains importance, given significant population, with increased purchasing power in the future, therefore, both domestic and international IPRs protection claims would mount proportionately. In this regard the issue of parallel imports no doubt would seize an important place.

As to the option of allowing or restricting parallel imports a number of authorities, industrial groups and governments take opposing stances. Scholars such as Abbott<sup>284</sup> and Cottier<sup>285</sup> hold the position that developing countries are better off by adopting

---

<sup>283</sup> Proclamation 501/2006 Supra note274, Art. 31(2)a.

<sup>284</sup> Abbott, Supra note, 88, P. 1794

<sup>285</sup> Ibid, P. 1788

international exhaustion and allowing parallel imports as a matter of principle. Even Cottier insist that domestic and regional (intra-union) exhaustion are outdated and no more relevant to the existing international trading system.<sup>286</sup> However, restriction on parallel import and modification to the international exhaustion rule is better adopted on case by case basis using the permissive holes of Art XI and XX(b) of GATT 1994 . In this respect Abbott provides the need to provide restriction on imports such as on pharmaceuticals marketed at low prices in a developing country may be restricted from exportation based on specific laws dissenting from the free movement of goods rules. On the other hand industrial groups in the north hold an opposing position that the encouragement of inventions and creative expressions are the best way to pursue international welfare and advancement of standard of living. And they argue to this effect the IPRs holder be given the opportunity to set off his production cost by selling at places where the society can afford increased prices while maintaining the lowest possible price in countries where there is a less level of purchasing power, an idea which may be, according to advocates of this position, by the free parallel importation.<sup>287</sup> But, this has been seriously attacked by Abbott as well as Cottier on account that beneficial price discrimination does not take in to consideration the existence of competition ( works only for monopolies) and, therefore, it would fail if the strategy to set off costs from those markets where he can sell at high prices is exposed to competition from other producers of the same good or substitution putting to sale at lower prices than he sells.<sup>288</sup>

In the Ethiopian legal reality, as we have seen above the patentee is denied exclusive right of importing the patented products whereas, the copyright holder is given this exclusive right. Nothing is said in this respect as far as trademarked goods are concerned. Therefore, it can be said that with its anomalous limitation Ethiopia follows domestic exhaustion of patents and international exhaustion of copyrights, while it recognized a fully fledged international exhaustion with respect to trademarked goods. Given the technological needs of Ethiopia and other ways of coercing the patentee to locally produce the invention, to make them affordable and enable transfer of technology, the limitation on his import monopoly right is unwarranted limitation to that of the patentee.

---

<sup>286</sup> Ibid. P. 1789.

<sup>287</sup> Id

<sup>288</sup> Id.

One thing the legislature sees obvious: by denying import monopoly right he will be subject to competition from external producers giving advantage to the consumer to buy the goods at a competitive price. At the same time, understandably, given the nature of copyright and neighboring rights being more fluid than other form of IPRs the fact that he is allowed to have import monopoly may be justified to enable him recover his costs of creation and marketing. As is said in our discussion of trademarks exhaustion, it is justifiably that Ethiopia followed international exhaustion with free parallel imports of genuine goods marketed either by the mark owner himself or with his concert.

### 4.3. Exhaustion and Its Practice in Ethiopia

The issue of exhaustion is seriously litigated before the courts in Europe and the United States. The bulk of cases before the courts, therefore, contribute to the development of the theory and its application. As such the courts in these jurisdictions are clear on the technicalities of IPRs exhaustion.

The matter in Ethiopia is exactly the reverse. Perhaps because European States and the U.S. have a well developed economy based on industrialization and trade with sufficient ground precipitating the issue on issues intertwined with trade and industry. As a result there is every possibility to try IP cases there. Investigation of the court cases in Ethiopia, at the Federal High Court, reveals no single case ever litigated on the issue of exhaustion so far as, a matter of defense. The judges also assuredly say that they never encountered a case involving such defense.<sup>289</sup> Even an interviewed high court judge say that the concept (of exhaustion) is not well known, except among the academia, by the majority of lawyers and judges.<sup>290</sup>

As far as the researcher is concerned from among files involving IPRs no single case is available and the search in the records was to no avail. The researcher has also made his effort to investigate on the status of parallel importation. However, officers at the Customs Authority of Ethiopia, surprisingly enough, query if there exists such law empowering the Authority to seize infringing goods on the border on the application of

---

<sup>289</sup> Dereje Etecha, , Judge, Federal High Court, 9<sup>th</sup> Division Interview , Monday Tir 28, 2000 E.C. It is this bench entertaining IP related cases in its first instance Jurisdiction.

<sup>290</sup> Eshetu Giref, Interview, Head Boarder Measure and Customs Clearance, Ethiopian Customs Authority, Interviews Tikmt 19, 2000 E.c.

the IPRs holder. And when the researcher showed them the provisions of the law on the power of the Authority in the trademark and copyright proclamation they said that it was not know to them.<sup>291</sup> However, others claim that they knew some cases concerning importation of infringing goods (trademark) seized by the customs Authority of Ethiopia but the case was before the police for investigation.<sup>292</sup>

What is more, the memorandum of Foreign Trade Regime prepared by the Ethiopian government to its accession to the WTO has made no mention of this important issue as a matter of policy. The researcher does not have the chance to see whether this has been raised by the WTO member states who submit question on the Memorandum of Foreign Trade Regime. However, the researcher would say that as this is an important policy matter affecting international trade it should have been part of the document.

---

<sup>291</sup> Tamirat Kidanemariam, Interview, Consultant and Attorney at Law, Addis Ababa Tikimt 23, 2000 E.C

<sup>292</sup> Id.

## Conclusions

Almost five years has elapsed since Ethiopia applied for accession to the WTO. Its accession is not expected to be longer than 5 years hereafter. Preparations to set the play ground in order are under way. The legal regime governing intellectual property rights is already in place. And details on their implementations are expected to be legislated in due course. What is more, the administration of the IPRs regime is as well in place. However, for the system to be complete and more efficient, specially with the involvement of foreign elements, there is a need to create awareness and capacity building in the courts and in the existing administrative set up.

The writer would not assert that the courts so far failed to address issues involving exhaustion. It is premature to say any thing/comment/ on such matters for no single case has ever appeared before them. All cases before the Federal High Court involve infringement allegations. But in all cases before the federal courts no affirmative defenses such as exhaustion were raised. But exhaustion exhibits, as we learn from the experience of other jurisdictions, more technicalities than any other defense in an infringement suit. It will be more technical as the courts have to deal with cases in the foreseeable future with no jurisprudence on the matter but with untested laws and judicial inexperience of the matter.

However, once this is clear, the laws on patent, copyright and trademark are most importantly designed on WIPO model laws for developing countries. As IPRs are basically of immediate interest to developed countries with high spending on research and development (R & D) it is used (designed) to address the question of encouragement, by adequate protection, and that of providing for a way out to technological, commercial, economic and social problems. This role is played by IPRs serving as (Bridge).

The need to create awareness on IP and its adequate protection can not be sufficiently addressed by simply putting appropriate legislation, no matter how well drafted it may be. Rather the experience in the real world shows that developed nations like the USA and others use IP as a means to monopolize the world market through the multinational companies and at the same time use their economic and political superiority as a weapon to enforce their wish some times with sever retaliation. The repeated use of the 'Super

301' Act of Congress to take appropriate measures against China and India is only a recent example. Any country with significant market for those developed WTO member states to place their goods is always readily amenable to such attack.

It is shown in the discussion under chapters three and four that various states, most importantly the USA and the EU and other OECD countries have surmounted the technical difficulties of the application of the doctrine of Exhaustion of rights not on mere legislation of rules as such. Rather the courts, and the administrative organs as in the USA, jurisprudence have contributed a lot for conceptual clarity and convenient application of the doctrine. But the conceptual clarity of the law in countries such as Ethiopia where case law is not the primary source of law is very important. In this respect the patent and copyright laws are subject to contradiction and lack conceptual clarity for those interested in exhaustion of rights and parallel importation of goods. As long as the courts are not tested we can not be sure what the real fate of the scope of exhaustion and parallel importation in Ethiopia. However the revisiting of the existing rules on exhaustion of patent and copyright exhaustion is reconsidered in the interest of conceptual clarity.

As such in addition to the law, which is one step in the right direction, Ethiopia needs to build its capacity in the field of IP empowering the courts, the Police and others involved in the enforcement of the law relating to IP is of absolutely necessity as of now. Even if, no single case ever appeared before the courts it is a litmus test to show that there is no awareness on the subject of exhaustion in the law enforcement organs.

## Bibliography

### Books

- Abbot, Friedrich M, Thomas Cottier et al, *The international Intellectual Property System, Commentary and Materials*, part one, Kluwer Law International, (The Hague, 1999).
- Arthur, Miller R; *Intellectual Property Rights : Patents, Trademarks, and Copyrights in a Nutshell*, 3<sup>rd</sup> ed. , S Paul, West Pub. 2000.
- Assefa Endeshaw , *Intellectual Property Policy for Non-Industrial Countries*, Brookfield, USA, Dartmouth, 1996.
- Bainbridge, M. David, *Intellectual Property*, 4<sup>th</sup> edn. (Pitman Publishing, 1999)
- Dinwoodie, Graeme B., et al. *International Intellectual property Law and Policy*, (Lexis Nexis, 2001.).
- Fisor, Mihaly *The law of copyright and the Internet. The 1996 W/PO Treaties, their Interpretation and Implementation*, (Oxford University Press, 2002.)
- Gardner Patterson, *Discrimination in international Trade 1945 – 1965*, (Princeton University press, Princeton, New Jersey, 1966.)
- Goldstain, Paul; *Copyright, Patent, Trademark, and Related State Doctrines, Cases and materialson the Law of Intellectual Property*. Rev. 3<sup>rd</sup> ed. (Westbury, New York.)
- Hartmann, Fredreick H.; *The Relation of Nations*, (The Macmillan Company, New York, 1963)
- Ladas, Stephen P., *Patents, Trademarks, and Related Rights, National and International protection*, (Harvard University Press, Cambridge, Massachusetts, Vol. 1, 1975)
- May, Christophor; *A Global Political Economy of Intellectual Property Rights: The New Enclosures*, (Routledge, London, ,2000.)
- Reddy, G.B., *Intellectual Property Rights and the Law*, 1 st ed. (Hyderabad, Gogia Law Agency, 2000).
- World Intellectual Property Organization , *Intellectual Property Reading Material*: 2<sup>nd</sup> ed., (Geneva, Switzerland, 1998).



## Journal Articles

- Abbott, Frederick M.; *The TRIPS Agreement, Access to Medicines, and the WTO Doha Ministerial conference*, the Journal of World intellectual property, 2001.
- Beier, Friedrich-Karl; *The Doctrine of Exhaustion in EEC Trademark Law-Scope and Limits*, IIC, Vol.10, 1979.
- Demaret, Paul and Inge Govaere, *Parallel Imports, Free Movement and Competition Rules:- The European Experience and Perspective*. In Intellectual Property (Collection of Research papers, Turin, Italy, 2004)
- Heath, Christopher and Mineko Mori, *Ending is Better than Mending – Recent Japanese Case Law on Repair, Refill and Recycling* IIC, Vol. 37 No. 7, 2006.
- Ko., Yusing; *An Economic Analysis of biotechnology Patent Protection*, The Yale Law Journal Vol. 102, No. 3 (Dec. 1992.)
- Osborne, John W., *A Coherent View of Patent Exhaustion: A Standard Based on Patentable Distinctiveness*: Santa Clara Computer and High Technology Law Journal, 2004.
- O'Rourke, Maureen A., *Toward a Doctrine of Fair Use in Patent Law*, Columbia Law Review, Vol. 100 No. 5 (June, 2000)
- Rovner, Amber Hatfield; *Practical Guide Application of Product Based Infringement Immunities under the Doctrine of Patent Exhaustion and implied license*, ( State Bar of Texas, 2000).
- Schaz, Ulrich; *The Exhaustion of Patent Rights in the Common Market*, IIC Vol.2 No. 1 1970.
- Pagenberg, Jochen, *The Exhaustion Principle and "Silhouette" Case*, IIC, Vol. 30 No. 1, 1999.
- Verma, S.K., *Exhaustion of Intellectual Property Rights and Free Trade-Article 6 of the TRIPS Agreement*, IIC, Vol. 29 No. 5, 1998.
- Vockrodt, Michael L.; *Patent Exhaustion and Foreign. First sales: An Analysis and Application of the Jazz photo decision*, American Intellectual property law Association, 2005.

The Civil code of the Empire of Ethiopia, 1960 Book III. Title XI provides for Literary and Artistic Ownership. Ever if this provisions are not totally obsolete most of them have been repeated by the proclamation 410/2004

Proclamation 410/2004, *Copyright and Neighboring Rights Protection Proclamation*, Federal Negarit Gazeta, 10<sup>th</sup> Year No. 55 July 19, 2004.

Proclamation No. 501/2006, *Trademark Registration and Protection Proclamation*, Federal Negarit Gazeta 12<sup>th</sup> year No. 37, 7<sup>th</sup> July 2006.

Proclamation NO. 123/1995 Proclamation Concerning inventions, Minor Inventions Industrial Designs, Negarit Gazeta 54<sup>th</sup> year No. 25, 10<sup>th</sup> May 1995.

### **ternationl Agreements**

The General Agreement on Tariffs and Trade (GATT,1994)

The Trade Related Intellectual Property Rights (TRIPS, Approved on First June 2004)

### **Materials**

Garner, Bryan A., Blacks law Dictionary, (8<sup>th</sup> edn. Thomas West Publisher, 2004)

UNCTAD-ICTSD, Resource Book on TRIPS and Development, Cambridge University Press, Cambridge, 2005.