

Milestones (01/2018)

Exhaustion of patent rights and the limits to the right of permissible use

Some thoughts on the BGH's judgement "Drum Unit"



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In its judgement *Drum Unit* (BGH, judgement of October 24th 2017, case no. X ZR 55/16), the German Supreme Court (BGH) has revisited its case law on patent exhaustion and, in particular, on the differentiation between permissible use of a patented product and the unlawful "re-manufacturing" of a patented product. The decision is of considerable interest to the recycling and spare parts industry.

I. The case

The defendant is specialised in "rebuilding" toner cartridges for laser printers. It collects used original manufacturer's toner cartridges within the European Economic Area, strips them down and disassembles the photoelectric drum unit of the cartridge into a photoelectric drum and a coupling member. The used photoelectric drum is disposed of and the coupling member of the original

cartridge is connected to another photoelectric drum to create a "new" photoelectric drum unit. This photoelectric drum unit is then installed in a refurbished cartridge housing.

The plaintiff and original manufacturer of the toner cartridges claims this conduct would lead to an inadmissible re-making of a "drum unit", which according to the patent claim, consists of a photoelectric drum and a coupling member. The lower courts found that the defendant's behaviour constituted the unauthorised creation of a new version of a drum unit according to the patent claim, enjoined the defendant from continuing the practice of rebuilding the drum units and ordered it to pay damages for past infringement.

II. The judgement

The BGH has overturned the judgements of the lower courts and dismissed the action.

At the outset, the BGH refers to its standing case law: wherein the question for differentiating between permissible use and the unauthorised creation of a patented product, is

whether, or not, the measure under review maintains the identity of the specific item of the patented product as put on the market. The answer to this question is to be considered by balancing the patent owner's interests which are worthy of protection on the one hand, and the user's interests on the other. This assessment needs to "take due account of the unique character of the patent-protected product". In short, the court needs to carry out an assessment as to whether, or not, the modified (e.g. recycled, rebuilt) item of the product can still be considered as being the very product that was originally put on the market with the patent owner's consent. The legal reasoning behind this is that the rights under a patent exhaust with respect to a specific item of the patented product. As a consequence, the customer buying from an authorized source may make use of the product item free from the patent owner's prohibitive IP rights.

The BGH goes on to clarify that the above assessment must not be based on the device as traded in the market (in this case: the toner cartridge), but always on the product referred to in the patent claim, irrespective of whether or



not this product is traded on the market as such.

Applied to the case in hand, the assessment does not need to focus on whether the exchange of the photo-electric drum constitutes a measure to preserve the identity of the toner cartridge. Instead, it needs to be evaluated whether the exchange of the drum (i.e., the combining of a photo-electric drum with a coupling member of an original drum unit) can be considered as a measure to maintain the functioning of the original drum unit. In its judgement *Pallet Container II* (BGH, judgement of 17.07.2012, X ZR 97/11), the BGH maintained the position that this assessment should focus primarily on whether, or not, the customer sees the given measure as an act of "repair", which preserves the identity of the product item. Accordingly, how the commercial public considers the measure in question (repair or new creation) is of primary relevance.

Since in the case in dispute, the drum unit is traded solely as a component of the toner cartridge, but not offered as an independent product, a public understanding with respect to the product "drum unit" does not exist. The lower courts dealt with this problem by establishing the prevailing public's understanding based on objective criteria, from which they derived a fictive

public understanding with respect to the drum unit.

The BGH rejected this approach and stipulated that in all cases in which it is not the patented product as such that is offered, the "primacy of the public understanding" should apply. The Court states that:

"if the product protected by the patent claim is not absolutely identical to the product that can be obtained on the market, this has the consequence that the prevailing public understanding does not apply as a criterion in setting the boundary between intended use and the creation of something new."

From this the BGH concludes:

"In the situation referred to, a new creation may only be said to exist if the technical effects and advantages of the invention are precisely reflected in the parts exchanged."

Hence, in the absence of a prevailing public understanding with regard to the product referred to in the patent claim, the only point to examine is whether the measure ultimately results in the benefits and the effects of the invention being put into effect anew. The BGH answers this question in the negative in the present case, given that it was only the coupling member which incorporated the benefits of the

invention. However, precisely this element of the original drum unit was not replaced.

III. Comment

With this decision, the BGH formally maintains the requirement of the "prevailing relevance of the public understanding" as formulated in its judgement *Pallet Container II*. The decision establishes, however, a highly relevant exception from this test in cases in which the product defined by the patent claim is not sold as such, but exclusively as a component of a larger product unit. Although the BGH does not state this specifically, the thinking behind the judgement is likely that, in determining the boundary between authorised repair work and the unauthorised creation of a new patented product, greater attention should be paid to whether the benefits of the invention are realized anew as a result of the specific measure. Should this hold true, it cannot be excluded that the BGH will further restrict or modify the "primacy of the public understanding" in pertinent cases.

In any event, the judgement will be well received by the recycling and spare parts industry. Following this judgement, product recycling is permitted when done under similar factual circumstances. What is more, the risk of contributory patent infringement, which is faced by the suppliers of spare parts, is reduced.

Additional information:

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This is because, if the replacement of a component (in this case: the photoelectric drum) lies within the permitted use of the claimed product and if the part exchanged is not an essential element of the invention, then customers of the patented device are "entitled" to use the invention within the meaning of Section 10 (1) the German Patent Act. As a consequence, there can also be no contributory infringement (e.g. by delivering photoelectric drums to the recycling company) to such measures of permissible use. This entitlement can be invoked by anyone in possession of an "exhausted" item of the patented product, which also includes those who acquire the "exhausted" product item (e.g. for the purposes of recycling) from a legitimate user.

IV. Practical Recommendations

In light of the decision of the BGH, patent owners should consider the following:

- Patent claims that relate to components of larger units should be formulated in such a way that the claim only includes elements that reflect essential elements of the invention. Patentees should ensure that every element in the claim (but at least the means that will likely be exchanged) is assigned a contribution to the invention in the specification (where possible).

- To address the risk of being unable to obtain patent protection for the replacement part alone, it is recommended to include sub-claims in the application that build on each other and that add additional elements from claim to claim.
- In addition, one should also consider putting the device according to the patent claim on the market as an independent product, so that a prevailing public understanding can actually develop with respect to this product. Sales in Germany would be sufficient for this. The number of units circulated would not need to be large. However, it seems advisable to sustain the sales over a certain period of time, such that an actual public perception could develop.

Recycling companies, on the other hand, are advised to procure proper documentation explaining that the used original products they rebuild or refurbish have been originally put on the market within the European Economic Area with the consent of patentee. Contrary to the situation in the USA, where in its judgement *Impression Products v. Lexmark International, Inc.*, the *Supreme Court* recently established the principle of "worldwide exhaustion" of intellectual property rights, the principle of "EU-wide" exhaustion continues to apply in Europe.

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