Study Guidelines

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2025 – Study Question

Exhaustion of trade mark rights

Introduction

1) The registration of a trade mark confers on the trade mark holder exclusive rights therein that give the trade mark holder the right to prevent third parties from using identical marks for identical goods as well as identical or similar marks on products that are either identical or similar, if such use could cause consumer confusion. For trade mark holders of reputed trade marks, these rights also extend to the use of identical or similar signs on unrelated products if such use without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of trade mark. However, these rights are subject to the principle of exhaustion of trade mark rights, also known as the "*first sale doctrine*". The exhaustion of trade mark rights and "*first sale doctrine*" will be jointly referred as exhaustion of trade mark rights.

2) According to the exhaustion of trade mark rights, a trade mark shall not entitle the trade mark holder to prohibit its use in relation to goods which have been put on the relevant market under that trade mark by the trade mark holder or with his consent. The above shall not apply where there exist legitimate reasons for the trade mark holder to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

3) Some countries follow the principle of national exhaustion or regional exhaustion, where trade mark rights are exhausted respectively only within the country or region of sale, restricting parallel imports. Others adopt international exhaustion, where trade mark rights are exhausted globally after the first sale, allowing parallel imports across borders.

Why AIPPI considers this an important area of study

4) The exhaustion of trade mark rights has not been studied in detail by AIPPI before. While AIPPI has focused on many areas of intellectual property law, the specific issue of exhaustion of trade mark rights has not been thoroughly examined.

5) The exhaustion of trade mark rights is an important issue as it balances the exclusivity of trade mark rights with the ownership / property rights to trademarked products already put on the market, as well as the rights of trade mark holder with principles of free trade and market access. It determines whether trade mark right holder retains control over the distribution, resale, or importation of goods after the first sale. It has significant implications for market competition, pricing strategies, and consumer access to goods. National and regional exhaustion allows trade mark holder to control cross-border trade, potentially maintaining higher prices and ensuring brand reputation through quality control, while international exhaustion promotes competitive pricing and broader consumer access by allowing parallel imports. These dynamics make exhaustion of trade mark rights a key factor in shaping global trade policies, brand management, and economic development strategies.

6) Exhaustion of trade mark rights has significant practical implications, particularly as a defense against trade mark infringement claims. This doctrine allows third parties to use or resell trademarked goods after putting on the market by trade mark holder or with his consent without infringing on the trade mark holder's rights. This is crucial because it limits the extent of trade mark control and provides a clear defense in cases where a trade mark holder might attempt to assert infringement claims after the initial sale of a product. Clarifying this doctrine ensures a balanced approach to protecting trade mark rights while fostering fair competition and market freedom.

7) The growing importance of the green economy also may have implications for the exhaustion doctrine in trade mark law. As the global focus shifts towards sustainability, the concept of trade mark exhaustion could play a role in promoting more sustainable practices. For example, the ability to resell, reuse, or repurpose trademarked goods without violating trade mark laws can encourage the circulation of goods in a more environmentally friendly manner. This prompts a larger discussion on whether the exhaustion doctrine should be reviewed to support efforts to reduce waste and extend product lifecycles in line with a greener economy.

8) The above makes it an important area for study and look for the possible harmonisation of various aspects of exhaustion, as understanding the nuances of how trade mark rights are exhausted across different jurisdictions can fill a gap in existing legal discourse and offer valuable insights for both practitioners and policymakers.

Relevant treaty provisions

9) There is no international provision on exhaustion of trade mark rights. The Paris Convention does not mention exhaustion of trade mark rights. TRIPS explicitly states that the issue of exhaustion of intellectual property rights, including trade marks, shall not be subject to dispute settlement under the WTO (Article 6). WTO members are free to adopt their own rules regarding exhaustion.

Scope of this Study Question

10) This Study Question will explore several key aspects related to the exhaustion of trade mark rights. It will examine the causes and criteria that lead to the exhaustion of trade mark rights, focusing on how different legal frameworks address this issue. Additionally, the study will investigate the legitimate reasons for opposing further commercialization of trade marked goods. Issues related to the refurbishment, disassembly, refilling, and subsequent resale of trade marked goods shall also be analyzed, especially in the context of sustainability and the green economy. Furthermore, the question of who bears the burden of proof in cases involving the exhaustion of trade mark rights will be explored, assessing whether current legal practices ensure fairness and clarity in disputes between trade mark right holders and third parties.

11) The following issues are not within the scope of this Study Question:

- issues related to the parallel import of regulated products;
- issues related to unregistered marks;
- trade mark exhaustion in the Metaverse.

Previous work of AIPPI

12) AIPPI has studied and explored some relevant issues in the past Resolutions and on other occasions.

13) AIPPI Resolution Q156 (2001, Melbourne) on "*International Exhaustion of Industrial Property Rights*" concluded that "*there should be no international exhaustion of IPR",* while "*regional exhaustion may be applied in order to foster regional integration of different national economies"*. Additionally, it allows a trade mark holder "*to object to further commercialization where there are legitimate reasons (e.g. the modification of goods or their packaging) to do so*".

14) AIPPI Resolution Q205 (2008, Boston) on "*Exhaustion of IPRs in cases of recycling or repair of goods*" resolved that repair of trademarked product including maintenance work and minor interventions, should not constitute infringement. While reconstruction of such product which involves changing or reproducing an essential component of such product should constitute infringement. The principle of exhaustion does not apply to such reconstructed product. Considering recycling of the trade mark product, it should be addressed within the context of whether such recycling constitutes repair or reconstruction of such product. Notwithstanding the above "*trade mark exhaustion of a trade mark may oppose further commercialisation of the goods under the trade mark for legitimate reasons only, such as where the condition of the goods is cha*nged *or impaired after they have first been put on the market".*

15) The AIPPI Resolution Q240 (2014, Toronto) on "*Exhaustion Issues in Copyright Law*" provides a framework for understanding the principle of exhaustion in relation to copyrighted works. It defines exhaustion as the loss of a copyright holder's control over a tangible copy of a work following its legitimate first sale or transfer of ownership, with only the right of distribution being affected. Notably, the resolution clarifies that if a third party unknowingly purchases a copy from a buyer who defaults on payment, the initial seller's rights in that copy are still considered exhausted. Additionally, it emphasizes that while the distribution right may be exhausted, activities such as recycling or repair of copyrighted goods must be evaluated separately to determine whether they infringe on other rights, including reproduction, adaptation, or moral rights.

16) Additionally, the exhaustion of trade mark rights was generally mentioned in AIPPI Resolution Q80 (1983, Paris) on "*Trade marks and consumer protection*" and AIPPI Resolution Q85 (1985, Rio de Janeiro) on "*The Community Trade mark (and the Draft Regulations)*".

17) During the AIPPI World Congress 2024 in Hangzhou, the issues connected with exhaustion of trade mark rights were discussed during panel session "Trade Mark Exhaustion: Beware of Losing Your Monopoly".

Discussion

18) In the European Economic Area (further: EEA), the doctrine of exhaustion applies exclusively to goods bearing a trade mark that have been introduced into the market within the EEA territory with the consent of the trade mark holder. The key determinant for exhaustion is the act of "*putting goods on the market*," which the CJEU, in the Peak Holding case (C-16/03), interprets as enabling the trade mark holder to realize the economic value of the trade mark through transferring the right to dispose of the goods. Activities such as mere importation or offering goods for sale do not constitute market introduction under EU law. Furthermore, the principle of exhaustion in the EEA allows the resale of goods and the use of the trade mark in related advertising, provided such use does not create confusion or harm the brand's image. This is illustrated in cases such as Dior/Evora (C-337/95) and Portakabin (C-558/08). Additionally, exhaustion can extend to packaging intended for reuse, as clarified in Viking Gas (C-46/10), where, under certain conditions pertaining to labelling, the purchaser's rights include refilling or exchanging reusable goods, Soda-Club (C-197/21).

19) In the United States, the "*first sale doctrine*" governs exhaustion of trade mark rights. Once a trademarked product is sold with the right holder's authorization, the trade mark holder's rights are generally exhausted, allowing the resale of genuine goods. However, this principle does not apply when the goods are materially different from those originally sold, as held in Davidoff v. PLD (263 F.3d 1297). A material difference is any variation significant enough to affect consumer decisions, as demonstrated in Bourdeau Bros. (444 F.3d 1317), where functional and design discrepancies in John Deere harvesters for different markets constituted material differences. Two notable exceptions to this doctrine are the quality control and sponsorship exceptions. The quality control exception allows trade mark holders to challenge goods that fail to meet

their standards, even if the differences are not immediately apparent to consumers (RFA Brands, 2014 WL 7780975). The sponsorship exception addresses instances where resellers mislead consumers into believing they are endorsed by or affiliated with the trade mark holder (Australian Gold, 436 F.3d 1228).

20) Canada adopts a similar material-difference standard but places greater emphasis on the potential risk of harm to the public. Goods posing such risks may be barred from importation, as in Dupont v. Nomad Trading (55 C.P.R. 97), where damaged products were prohibited. However, where risks can be mitigated through accurate labeling, Canadian law typically applies the general first sale doctrine.

21) In India, the law permits resale of lawfully acquired goods and recognizes the principle of international exhaustion, as confirmed in *Kapil Wadhva v. Samsung Electronics* (FAO(OS) 93/2012) and Seagate Technology LLC v. Daichi International (CS(COMM) 67/2024, I.A. 4731/2024, I.A. 5897/2024, I.A. 6336/2024 & I.A. 6337/2024). Nevertheless, trade mark holders retain the right to oppose resale if the condition of goods changes or deteriorates after their initial market entry.

22) In Japan, the Trademark Act does not explicitly define the principle of exhaustion of trade mark rights, aside from limitations outlined in Article 26. The Act states that "transfers" without a license may constitute infringement. However, Japanese courts have established through precedent that trademark rights are exhausted after the first sale if the transfer does not undermine the trademark's ability to identify the source of goods or guarantee their quality, and if the goods remain unaltered. In the *Fred Perry* case (Supreme Court, February 27, 2003), the court ruled against exhaustion in international parallel imports where (i) the trademark was lawfully applied by a registrant or licensee abroad, (ii) the trademark identified the same source as in Japan, and (iii) there was no risk to the quality assurance associated with the trademark. This case highlights the importance of preserving the trademark's core functions in determining exhaustion.

23) China presents a less clear stance on exhaustion of trade mark rights. While its law does not explicitly address the doctrine, provisions suggest a restrictive approach, potentially disallowing parallel imports. The vagueness of China’s legislation leaves room for interpretation, often favoring trade mark holder's rights over market liberalization.

24) In a landmark decision on January 19, 2024 (4A_171/2023), the Swiss Supreme Court addressed the lawfulness of customizing luxury branded products, particularly ROLEX watches. The case involved a Swiss company that customized ROLEX watches, either upon customer request or through selling stock customized watches. The Court distinguished between two business models: (a) customization requested by customers on their own watches, deemed lawful as ROLEX’s trade mark rights were exhausted when the watches were first marketed under the principle of international exhaustion; and (b) the commercialization of stock customized watches, considered unlawful as it infringed ROLEX’s trade mark rights, which remain intact when modifications are made without the trade mark holder’s consent. This ruling underscores the nuanced application of trade mark law to customized branded goods.

25) A recent ruling by the Korean Patent Court *Louis Vuitton v Gangnamsa* dated October 28, 2024 (2023NA11283), determined that disassembling and reconstructing luxury bags into entirely new products constitutes trade mark infringement. The court found that the process of transforming the original items into products with different sizes, shapes, and functions resulted in new goods, distinct from the originals, and therefore not covered by exhaustion of trade mark rights. Citing the 2003 Supreme Court decision in *Fuji Film Co Ltd v Noh* (2002Do3445), the court emphasized that alterations harming the original product's identity equate to the creation of a new product, infringing on the trade mark holder's rights. Arguments that the modifications were carried out at the request of the original owners were rejected, with the court concluding that the trade marks were used in connection with the service provider's business. An appeal has been filed, challenging the ruling as overly restrictive of consumer rights and lawful product modifications.

26) The CJEU's decision in *Hewlett Packard v. Senetic* (C-367/21) clarified the burden of proof concerning exhaustion of trade mark rights. While EU law does not explicitly address this issue, the Court held that national rules requiring the defendant to prove exhaustion must align with the principle of free movement of goods. If placing the burden on the defendant enables the trade mark holder to partition markets and maintain price disparities across Member States, the burden must shift to the trade mark holder. In this case, Hewlett Packard argued that goods sold by Senetic, purchased from unauthorized EEA sellers, had not been previously placed on the EEA market. However, Hewlett Packard's exclusive control over serial number data, inaccessible to third parties, made it impossible for Senetic to verify market origin. The Court concluded that the burden of proof must rest with the trade mark holder in such circumstances, to prevent anti-competitive practices and ensure compliance with the principles of EU law.

27) The exhaustion of trade mark rights seeks to balance trade mark protection and market efficiency, with approaches varying globally, as outlined above. The EU and EEA emphasize regional exhaustion, the U.S. and Canada prioritize material differences, and India adopts international exhaustion, while China's stance remains ambiguous. Furthermore, recent cases highlight differing views on upcycling: Swiss courts permit modifications that preserve trade mark function (Rolex v Artisans de Genève), whereas Korean courts view significant alterations as trade mark infringement to protect brand identity. These contrasting rulings underscore the need for further discussion on the scope and application of exhaustion of trade mark rights in evolving markets.

You are invited to submit a Report addressing the questions below. Please refer to the 'Protocol for the preparation of Reports'.

Questions

I) Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

Causes of/criteria for exhaustion of trade marks rights

1) Can exhaustion of trade mark rights result from any of the following?

a) an act involving the transfer of ownership of goods bearing the trade mark, e.g. the sale of the good, donation or exchange agreement;

b) an act that does not involve a transfer of ownership but transfers the right to dispose of the goods, provided the trade mark holder receives remuneration reflecting the economic value of the goods, e.g. rental or lease ;

c) an act such as placing the goods in the possession of a third party, where the third party does not have independent authority to dispose of the goods, e.g. where the goods are sold on consignment, or there is a retention of title clause over the goods until payment is made in full.

2) Can exhaustion of trade mark rights be caused by any of the following?

a) a contract of sale,

b) a contract of sale with an explicit reservation of ownership,

c) a contract of cross-border sale within a business concern,

d) an exchange agreement,

e) a donation agreement,

f) a distribution agreement,

g) a licence agreement,

h) a rental agreement,

i) a lease agreement,

j) a leasing contract,

k) handing over of goods to a forwarder, carrier, agent,

l) transit of goods,

m) other, please clarify.

3) Which of the following conditions must be met for the trade mark right to be exhausted when goods are put into the market?

a) goods are put into the market exclusively by the trade mark holder or with its consent;

b) goods are put into the market by an entity having a business relationship with the trade mark holder even without the trade mark holder's consent;

c) goods are put into the market by the licensee or sublicensee even without the trade mark holder's consent.

4) What is required regarding the trade mark holder's consent to exhaust the trade mark rights?

a) the consent must be expressed in a manner which unequivocally demonstrates the trade mark holder's intention to place the goods on the market in the territory concerned;

b) the consent may be implied, but this does not allow a presumption of the existence of consent, e.g. it cannot be inferred from silence;

c) the consent must exist at the time of putting the goods into the market;

d) the consent may be expressed a posteriori.

5) Can contractual agreements or practices override the principle of exhaustion of trade mark rights?

a) No, contractual agreements or practices cannot override the principle of exhaustion of trade mark rights.

b) Yes, through explicit contractual provisions (e.g., a clause explicitly stating "no exhaustion applies").

c) Yes, by indirect mechanisms, such as structuring the transaction as a service agreement rather than a sale.

d) Yes, by including explicit restrictions on the product itself (e.g., labeling it "not for resale").

e) Other, please clarify.

Legitimate reasons to oppose further commercialization of the trade marked goods

6) What types of reasons may be deemed legitimate for prohibiting the use of a trade mark in relation to goods subject to exhaustion of trade mark rights?

a) alteration or impairment of goods,

b) harm to brand reputation,

c) risk of consumer confusion,

d) deceptive marketing practices,

e) repackaging without notice,

f) defects in goods,

g) economic reasons, such as maintaining higher prices in certain markets,

h) trade mark holder's subjective preferences about who resells their goods,

i) other, please clarify.

7) Under what circumstances can a trade mark holder oppose the refurbishment, disassembly, refilling, or subsequent resale of trade marked goods when trade mark rights have been exhausted?

a) alteration or impairment of goods,

b) harm to brand reputation,

c) risk of consumer confusion,

d) deceptive marketing practices,

e) repackaging without notice,

f) defects in goods,

g) economic reasons, such as maintaining higher prices in certain markets,

h) trade mark holder's subjective preferences about who resells their goods,

i) other, please clarify.

8) Under what circumstances can a trade mark holder oppose the debranding, rebranding, cobranding, or subsequent resale of trade marked goods when trade

mark rights have been exhausted?

j) alteration or impairment of goods,

k) harm to brand reputation,

l) risk of consumer confusion,

m) deceptive marketing practices,

n) repackaging without notice,

o) defects in goods,

p) economic reasons, such as maintaining higher prices in certain markets,

q) trade mark holder's subjective preferences about who resells their goods,

r) other, please clarify.

9) Can considerations related to the green and sustainable economy influence the assessment of legitimate reasons for altering the condition of goods? If so, in what circumstances?

a) In a situation where customization was requested by customers on their own goods, the rights to which have been exhausted in accordance with the law, i.e. the customer has bought the goods and then approached a third party for customization.

b) In a situation where the commercialization of the customized goods, the rights to which have been exhausted in accordance with the law, occurs after modifications are made to the goods, and the modifications were not made due to a customer's request, but as a business model, i.e. a business buys several of the goods, modifies them, and then sells the modified goods to the public.

c) Other, please clarify.

Burden of proof

10) Which party bears the burden of proof to demonstrate that the trade mark rights were exhausted, solely the party invoking exhaustion of trade mark rights, or generally the party relying on the trade mark rights?

11) Can the burden of proof shift to the other party, and if so, under what circumstances?

II) Policy considerations and proposals for improvements of your Group's

current law

12) Do you consider your Group's current law or practice relating to exhaustion of trade mark rights adequate, or do you consider that the law should be changed? Please answer YES or NO and explain.

13) Could any of the following aspects of your Group's current law or practice relating to the exhaustion of trade mark rights be improved? If YES, please explain.

a) Causes of/criteria for exhaustion of trademark rights.

b) Legitimate reasons to oppose further commercialization of trademarked goods.

c) Burden of proof.

14) Do you consider your Group's current law or practice relating to exhaustion of trade mark rights adequately address the goals of a green and sustainable economy, and how can legitimate reasons for opposing further commercialization be aligned to promote sustainability?

15) Are there any other policy considerations and/or proposals for improvement to your Group's current law falling within the scope of this Study Question? Please answer YES or NO and explain.

III) Proposals for harmonisation

16) Do you believe that there should be harmonisation in relation to issues regarding exhaustion of trade mark rights? Please answer YES or NO.

*If YES, please respond to the following questions **WITHOUT** regard to your Group's current law or practice.*

Even if NO, please address the following questions to the extent your Group considers your Group's current law or practice could be improved.

Causes of/criteria for exhaustion of trade marks rights

17) Should exhaustion of trade mark rights result from any of the following?

a) an act involving the transfer of ownership of goods bearing the trade mark, e.g. the sale of the good, donation or exchange agreement;

b) an act that does not involve a transfer of ownership but transfers the right to dispose of the goods, provided the trade mark holder receives remuneration reflecting the economic value of the goods, e.g. rental or lease;

c) an act such as placing the goods in the possession of a third party, where the third party does not have independent authority to dispose of the goods, e.g. where the goods are sold on consignment, or there is a retention of title clause over the goods until payment is made in full.

18) Should exhaustion of the trade mark rights be caused by any of the following?

a) a contract of sale,

b) a contract of sale with an explicit reservation of ownership,

c) a contract of cross-border sale within a business concern,

d) an exchange agreement,

e) a donation agreement,

f) a distribution agreement,

g) a licence agreement,

h) a rental agreement,

i) a lease agreement,

j) a leasing contract,

k) handing over of goods to a forwarder, carrier, agent,

l) transit of goods,

m) other, please clarify.

19) Which of the following conditions must be met for the trade mark right to be exhausted when goods are put into the market?

a) goods should be put into the market exclusively by the trade mark holder or with its consent;

b) goods should be put into the market by an entity having a business relationship with the trade mark holder even without the trade mark holder's consent;

c) goods should be put into the market by the licensee or sublicensee even without the trade mark holder's consent.

20) What should be required regarding the trade mark holder's consent to exhaust the trade mark right?

a) The consent must be expressed in a manner which unequivocally demonstrates the trade mark holder's intention to place the goods on the market in the territory concerned;

b) The consent may be implied, but this does not allow a presumption of the existence of consent, e.g. it cannot be inferred from silence;

c) The consent must exist at the time of putting the goods into the market;

d) The consent may be expressed a posteriori.

21) Should contractual agreements or practices override the principle of exhaustion of trade mark rights? If yes, which of the following:

a) No, contractual agreements or practices should not override the principle of exhaustion of trade mark rights.

b) Through explicit contractual provisions (e.g., a clause explicitly stating “no exhaustion applies”).

c) By indirect mechanisms, such as structuring the transaction as a service agreement rather than a sale.

d) By including explicit restrictions on the product itself (e.g., labeling it “not for resale”).

e) other, please clarify.

Legitimate reasons to oppose further commercialization of the trade marked goods

22) What types of reasons should be deemed legitimate for prohibiting the use of a trade mark in relation to goods subject to exhaustion of trade mark rights?

a) alteration or impairment of goods,

b) harm to brand reputation,

c) risk of consumer confusion,

d) deceptive marketing practices,

e) repackaging without notice,

f) defects in goods,

g) economic reasons, such as maintaining higher prices in certain markets,

h) trade mark holder’s subjective preferences about who resells their goods,

i) other, please clarify.

23) Under what circumstances should a trade mark holder have the right to oppose the refurbishment, disassembly, refilling, or subsequent resale of trade marked goods when trade mark rights have been exhausted?

a) alteration or impairment of goods,

b) harm to brand reputation,

c) risk of consumer confusion,

d) deceptive marketing practices,

e) repackaging without notice,

f) defects in goods,

g) economic reasons, such as maintaining higher prices in certain markets,

h) trade mark holder's subjective preferences about who resells their goods,

i) other, please clarify.

24) Under what circumstances should a trade mark holder have the right to oppose the debranding, rebranding, cobranding, or subsequent resale of trade marked goods when trade mark rights have been exhausted?

a) alteration or impairment of goods,

b) harm to brand reputation,

c) risk of consumer confusion,

d) deceptive marketing practices,

e) repackaging without notice,

f) defects in goods,

g) economic reasons, such as maintaining higher prices in certain markets,

h) trade mark holder's subjective preferences about who resells their goods,

i) other, please clarify.

25) Should considerations related to the green and sustainable economy influence the assessment of legitimate reasons for altering the condition of goods? If so, in what circumstances?

a) In a situation where customization was requested by customers on their own goods the rights to which have been exhausted in accordance with the law, i.e. the customer has bought the goods and then approached a third party for customization;

b) In a situation where the commercialization of the customized goods the rights to which have been exhausted in accordance with the law, occurs after modifications are made to the goods, and the modifications were not made due to a customer request, but as a business model, i.e. a business buys several of the goods, modifies them, and then sells the modified goods to the public.

c) Other, please clarify.

Burden of proof

26) Which party should bear the burden of proof to demonstrate that the trade mark rights were exhausted, solely the party invoking trade mark exhaustion, or generally the party relying on the trade mark rights?

27) Could the burden of proof shift to the other party, and if so, under what circumstances?

Others

28) Please comment on any additional issues concerning any aspect that you consider relevant to this Study Question.

29) Please indicate which industry sector views provided by in-house counsel are included in your Group's answers.