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Design rights and the reuse of products – unlimited exhaustion?

A design law perspective

August 2022

Exhaustion of design rights in the EU

Rights conferred by the Community design

- “A registered Community design shall confer on its holder the exclusive right **to use** it and **to prevent** any third party not having his consent from using it. The aforementioned use shall cover, **in particular**, the making, offering, putting on the market, importing, exporting or using of a product in which the design is incorporated or to which it is applied, or stocking such a product for those purposes.”
- An unregistered Community design shall, however, confer on its holder the right to prevent the acts referred to in paragraph 1 only if the contested use results from copying the protected design.
- Article 19 of Regulation 6/2002 on Community designs.

Exhaustion of rights under the CDR

- “The rights conferred by a Community design shall not extend to acts relating to a product in which a design included within the scope of protection of the Community design is incorporated or to which it is applied, when the product has been **put on the market** in the Community by the holder of the Community design or with his consent.”
- Article 21 of Regulation 6/2002 on Community designs.

Exhaustion of design rights in the EU - 2

- The Design Directive (98/71/EC) sets out similar provisions (see Articles 12 and 15).
- Differs from the EUTMR (2017/1001) and the Trademark Directive (2015/2436), which both provide for limited exhaustion (articles 15(2)):
- “[Exhaustion] shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”
- The (identical) wording of the CDR and the Design Directive suggests unlimited Community/EEA exhaustion of Community design rights as well as national design rights in the EU.
- Suggests *inter alia* that there are no (design law) limits in the EU when it comes to secondary product markets, e.g. upcycling.

Unlimited – what does that mean? An example



- *Levi's is the holder of numerous Community design rights linked to its world-famous jeans.*
- *When Levi's puts jeans "on the market" in the European Economic Area that incorporate these designs, the exhaustion doctrine will apply.*
- *As a starting point, Levi's will no longer be able to enforce their design rights against "acts relating to" the jeans.*
- *What happens when (fictive) competitor Karen's decides to purchase 100 pairs of Levi's jeans with the intention to modify them (removing stitching etc.) and introduce them to the same market as (new) Karen's jeans?*

Infringement of Community design rights?

- *Under the unlimited EU exhaustion doctrine suggested by the wording of the CDR and the Design Directive (and explicitly disregarding trademark rights, principles of unfair competition, copyright, etc.), this would not amount to a community design infringement.*
- *Can this really be?*

Arguments in favour of unlimited exhaustion

- The market integration argument:
 - Unlimited exhaustion promotes the free movement of goods within the EU (market integration).
- The CJEU argument:
 - The CJEU has not heard many cases related to design law. However, in its few judgments in the field, the court has interpreted the CDR in ways which significantly (and to some extent unexpectedly) interfere with design rightsholder's exclusive rights.
 - See e.g. Joined cases C-397/16 and C-435/16 (Acacia v Audi and Porsche) on the interpretation of the repair clause in CDR art. 110.

Arguments in favour of unlimited exhaustion - 2

- The sustainability argument:
 - Design rights should carry a goal of serving progress in a wider sense (including sustainability) rather than just providing an incentive.
 - Just as the exhaustion doctrine can be an obstacle to sustainability, it can be used to promote sustainability. In fact, it is a key instrument when it comes to promoting sustainability, including e.g. upcycling.
 - When it comes to fashion and sustainability, policy initiatives - including for example EU's new strategy for sustainable textiles - advocate a shift to a climate-neutral, circular economy where products are designed to be reuseable, repairable and recyclable.

Arguments against of unlimited exhaustion

- Unlimited exhaustion reduces the incentive to create designs, which is the ultimate purpose of Community design rights.
- Caselaw could, at least to a certain extent, support that a principle of unlimited Community design rights does not apply.
- See e.g. case I-ZR 89/08 (Verlangarete Limousinen).

Case 1-ZR 89/08 (verlangarete limousinen)

- Judgement rendered by the German Bundesgerichtshof in 2010 in a community design dispute between Daimler AG and a manufacturer of armored limousines, which were essentially extended versions of the Mercedes S-Class.
- The German Bundesgerichtshof *inter alia* held that just (i) since Daimler AG had merely put standard versions of the S-Class on the market, and (ii) since the armoured limousines produced a different overall impression, the exhaustion doctrine did not apply.
- It has been argued that this judgment supports that “alterations of the original product are usually not allowed”, and that “this makes it possible for rightsholders to control over CE and SE related activities, which typically require alterations of products”. See “Paving the way for the Environment: Channeling Sustainability into the European IP System” by Taina Pihlajarinne, 2020, University of Helsinki.
- Will the CJEU agree? Time will tell.

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