The Exhaustion Theory Is Not Yet Exhausted:
Part 4

By Erik Verbraeken

It has been quite some time that I have not updated the "Exhaustion Theory Is Not Yet Exhausted" series. In the latest edition stemming from March 2014, the focus was laid on several U.S. decisions where the IP right holder contested that he had consented to a "first sale" of the product as a result of which his IP rights were to be considered as exhausted, and where as a consequence of such deemed consent the purchaser considered itself free to use or resell that product without further restraint from patent law.

This part 4 of the "Exhaustion Theory Is Not Yet Exhausted" series will have a closer look at some recent national court decisions from within the European Union where, for several reasons, the IP right holder considered that he had never authorized the products to be "put into circulation for the first time" (considered as the specific subject-matter of an IP rights by the European Court of Justice as defined in *Sterling Drugs vs. Centrafarm (C15/74)* for patent rights and *Winthrop vs. Centrafarm (C16/74)* for trademark rights). Such authorization or consent is an essential condition for the application of the exhaustion theory and the absence of such consent will entitle the IP right holder to pursue the protection of his rights. Consequently, legal proceedings were opened against either the trader or the purchaser of those goods by the IP right holder contending that he never authorized the sale.

Whether or not consent was given by the IP right holder arose in the following cases: (1) *Xerox vs. Impro Europe* (Court of Appeals Brussels, Belgium, decision of October 20, 2015) regarding the consequences of a contractual reservation of property on the supply of ink cartridges to wholesalers and end-customers, (2) *Living Tower vs. DKW* (District Court The Hague, The Netherlands, decision of February 8, 2017) regarding the consequences of a non-authorized sale by a joint design right owner, (3) *Piloxing vs. California Classic Cars* (District Court The Hague, The Netherlands, decision of March 16, 2016) regarding the consequences of a letter of intent where goods were made available to the (potential) licensee, (4) *Flynn Pharma vs. Drugsrus* (High Court London, England, decision of October 6, 2015, confirmed by Court of Appeal, decision of April 6, 2017) regarding the consequences of the transfer of a UK marketing authorization coupled with a contract manufacturing arrangement, (5) *A vs. B* (District Court Dusseldorf, Germany, decision of December 12, 2013) regarding the exhaustion of combination claims through the sale of individual components, (6) *FSEL vs. Verum* (District Court Amsterdam, The Netherlands, March 10, 2017) regarding the intricacies of the application of the exhaustion theory in a software context.

1. Preliminary Comments

Before examining the four above quoted court decisions, it may be helpful to summarize, in several bullet points, the applicable law on the exhaustion of IP rights as the same has been developed by the European Court of Justice since its first milestone decision of 1974 in the *Sterling Drug/Winthrop vs. Centrafarm* parallel trade dispute where it had to reconcile on the one hand the fundamental principle of the free movement of goods within the European Union (as laid down in *article 34 of the EU Treaty*) and on the other hand the protection of industrial property rights as a legitimate exception to such free movement of goods (as laid down in *article 36 of the EU Treaty)*.

- The specific subject matter of the industrial property that may be protected under article 36 is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements (*Sterling Drug/Winthrop vs. Centrafarm*, judgment of October 31, 1974 in *cases 15* and *16/74*).
- A derogation from the principle of the free movement of goods is not justified where the product has been put onto the market in a legal manner, by the patentee himself or with his consent, in the Member State from which it has been imported, in particular in the case of a proprietor of parallel patents (*Sterling Drug / Winthrop vs. Centrafarm*, judgment of October 31, 1974 in *cases 15* and *16/74*).
- The right of first placing a product on the market enables the patentee, by allowing him a monopoly in exploiting his product, to obtain the reward for his creative effort without, however, guaranteeing that he will obtain such a reward in all circumstances (*Merck vs. Stephar*, judgment of July 14, 1981 in *case C-187/80*).

- The consent that is implicit in an assignment of rights is not the consent required for application of the doctrine of exhaustion of rights. For trademarks, consent implies that the owner of the right in the importing Member State must, directly or indirectly, be able to determine the products to which the trade mark may be affixed in the exporting Member State and to control their quality. That power is lost if, by assignment, control over the trade mark is surrendered to a third party having no economic link with the assignor *(Ideal Standard vs. IHT*, judgment of June 22, 1994 in *case C-9/93*).
- A sale which allows the proprietor to realise the economic value of his IP rights exhausts the exclusive rights thereof, more particularly the right to prohibit the acquiring third party from reselling the goods (*Peak Holding vs. Axolin-Elinor*, judgment of November 30, 2004 in *case 16/03*).
- Exhaustion occurs solely by virtue of the putting on the market in the EU by the proprietor. Any stipulation, in the act of sale effecting the first putting on the market in the EEA, of territorial restrictions on the right to resell the goods concerns only the relations between the parties to that act (*Peak Holding vs. Axolin-Elinor*, judgment of November 30, 2004 in *case 16/03*).
- Where a licensee puts goods bearing the mark on the market he must, as a rule, be considered to be doing so with the consent of the proprietor of the trade mark; but the license agreement does not constitute the absolute and unconditional consent of the proprietor of the trade mark to the licensee putting the goods bearing the trade mark on the market (*Christian Dior vs. COPAD*, judgment of April 23, 2009 in *case C-59/08*).
- Various regulations adopted by the European Council codify the exhaustion rule in applicable legislation, especially in the area of trademark law (both the Community Trademark Regulation and the Trademarks Directive provide for the exhaustion of the trademark when the trademarked goods have been released within the EU market by the proprietor or with his consent).

A key element in the decisions of the European Court of Justice for the application of the exhaustion theory is the consent by the proprietor of the intellectual property right to the introduction of the product on the marketplace. According to the Court's ruling in the *Christian Dior vs. COPAD* case, consent is tantamount to the proprietor's renunciation of his exclusive right and constitutes the decisive factor in the extinction of that right. The extent to which contractual reservations of rights can be considered sufficient to deny consent have already been dealt with at several occasions by the European Court itself, including, *inter alia*, in the above mentioned cases of *Peak Holding vs. Axolin-Elinor* and *Christian Dior vs. COPAD*, but also in the cases of *Greenstar vs. Hustin and Goossens*, judgment of October 20, 2011 in case *C-140/10* and *Oracle vs. UsedSoft*, judgment of July 3, 2012 in case *C 128/11*. In these cases, the court recognized that contractual reservations to sales transactions do not prevent exhaustion from occurring, to the extent that the transaction allows the proprietor to realise the economic value of his intellectual property right. Regarding reservations to licensing transactions, although in principle exhaustion of the intellectual property right occurs when the goods are put on the market by a person with economic links to the proprietor (*e.g.* a licensee), nevertheless the license agreement does not constitute the absolute and unconditional consent of the proprietor of the intellectual property right to the licensee putting the goods bearing the trade mark on the market; therefore, there may be situations where the holder of the rights cannot be deemed to have consented to the introduction of the product on the market, *e.g.* when a directive of the European Union explicitly reserves certain rights to the intellectual property owner (*e.g.* the right to prevent damage to the reputation of the mark recognized under the Trademark Directive) or where the violation bears on one of the essential features of the intellectual property right (although the Court of Justice did not indicate, in the above mentioned *Greenstar vs. Hustin and Goossens* decision, what should be considered as essential features of the Community plant variety right).

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This fourth article in the series of "Exhaustion Theory Is Not Yet Exhausted" chronicle will now focus on some national court decisions that have had to deal with non-consent arguments of the intellectual property owner regarding the impact of such non-consent on the exhaustion of rights following the introduction of the product on the market.

2. *Xerox vs. Impro Europe* (Court of Appeal Brussels, Belgium, Decision of October 20, 2015)

Impro Europe BVBA has set up a trade in unused printing accessories such as toners, cassettes and cartridges. It sources those articles from companies that, following their initial order for such products from the original manufacturer, find themselves confronted with overstock or remainder items. Impro Europe acquires such unused overstock from such companies and then resells those products mainly over the internet.

Some of those products that are offered for sale by

Impro Europe originate from Xerox Corporation. The particular feature at stake in this case was that Xerox supplied the consumables to its customers under two different formats: (1) supplies made under a maintenance agreement, where the client pays for the machine under a "price per page" formula, and where consumables will then be made available by Xerox following an order from the customer based on the individual machine's meter configuration, (2) supplies made in the absence of a maintenance services agreement, where Xerox sells the ink cartridges or cassettes on a "per unit" basis to the customer. The products ordered under the different formats, although identical in composition, can be distinguished by their different packaging and different purchase channels. Xerox did not contest that its IP rights were effectively exhausted for all products that it had sold to customers under the second format; however, Xerox contended that it had never "put into circulation" the products supplied under the first format because of its reservation of title to the goods and the contractual obligation to return unused cartridges to Xerox without compensation.

The Brussels Court of Appeal concurred with Xerox (and overruled the decision of the lower court who had retained that, despite these elements of fact, the IP rights of Xerox to the trademarked products were exhausted). The Court considered that the products were merely made available to the customer as part of the maintenance agreement, and were not sold to the customer as evidenced by the contractual restrictions quoted above. Under these circumstances, the goods cannot be said to have been "put on the market … by the proprietor or with his consent" which would have been a ground for exhaustion under *article 9* of the Community Trademark Regulation for the goods in question.

Impro claimed that irrespective of the contractual reservations made in the agreements, the Xerox products were effectively acquired by its clients because they were paid for through the maintenance fee, but this argument was dismissed by the court. Likewise, the argument that these contractual reservations were merely a "legal loophole" in order to shield the market from parallel trade was rejected.

This case provides a good illustration of how the particular details surrounding the various commercial transactions within the supply chain for the products will ultimately determine the navigational direction to either the "absolute" exhaustion rule defined by the European Court of Justice in the *Peak Holding* decision (where the Court concluded that exhaustion takes place irrespective of any contractual reservations that "concern only the relations between the parties to that act") or the "relative" exhaustion rule defined by the European Court of Justice in the *Christian Dior* decision (where the Court underscored that the license agreement does not constitute the absolute and unconditional consent of the proprietor of the trade mark to the licensee putting the goods bearing the trade mark on the market). Unlike the facts in the *Peak Holding* decision where the goods were effectively introduced to the marketplace through a sales transaction (despite the breach by the intermediate vendor of the resale restrictions that were agreed with the supplier and trademark owner), in the *Christian Dior* case as well as in the present case, the goods were not sold by the proprietor to his own clients but made available to the other party, either through a license to manufacture and sell the goods under the trademark of the proprietor in the *Christian Dior* case or through a consignment structure where the client orders the cartridges for future use with his printing machine as part of his maintenance agreement with the vendor (and owner of the trademark) in the present case.

The Brussels Court of Appeal's decision can also be distinguished from the *Oracle vs. UsedSoft* decision of the European Court of Justice (decision of July 3, 2012 in *case C-128/11*) where the significant difference was that although the transaction was contractually labeled as a license, for all economic purposes the transaction qualified as a sale. "The making available by Oracle of a copy of its computer program and the conclusion of a user licence agreement for that copy (were) intended to make the copy usable by the customer, permanently, in return for payment of a fee designed to enable the copyright holder to obtain a remuneration corresponding to the economic value of the copy of the work of which it is the proprietor." In that light, the argument of Impro that the goods were already paid for through the maintenance fee could have been accepted if the end-user was indeed authorized to keep the unused cartridges after they were ordered. However, because the cartridges were provided under a pro rata pricing formula based on the annual printing volume with a price per page, it can be said that the unused cartridges were not paid for—they were left in consignment with the customer for future use and only during such future use could the consumables be considered to have been paid for under the maintenance agreement.

3. *Flynn Pharma Ltd. vs. Drugsrus Ltd.* (High Court London, UK, Decision of October 6, 2015, Confirmed by Court of Appeal on April 6, 2017)

This case dealt with the transfer of a marketing authorization in the UK for a drug called phenytoin sodium by Pfizer to Flynn Pharma. This transfer came about because the patent rights of Pfizer had expired and was no longer considered essential in the product line of that company. In order to avoid the product from disappearing altogether from the UK market,

Flynn Pharma took over the marketing authorization rights. Various agreements were concluded between the parties in this respect, including an outsourcing agreement where Flynn Pharma contracted the manufacture and the supply of the drug out to Pfizer from its German facilities. Pfizer manufactured the products ordered by Flynn Pharma in accordance with the specifications provided by the latter. Flynn Pharma retained the marketing responsibility under the UK regulatory requirements.

Under this set-up, Pfizer continued to manufacture and sell the phenytoin sodium in all countries except the UK under its own trade mark Epanutin. Flynn Pharma sold the same product, as manufactured by Pfizer under the outsourcing agreement, as Phenytoin Sodium Flynn in the UK. For all practical purposes, the respective capsules were the same: they looked the same, they had the same size and colour, even down to the word "Epanutin" that figured on the capsule itself commercialized by Flynn Pharma.

At a certain moment, Drugsrus started to import into the UK the Epanutin drug that it purchased in Germany, and that it rebranded as Phenytoin Sodium Flynn; one of the reasons for doing so was directly related to the specific situation of the UK prescription pharmaceutical market, where pharmacies are obliged to supply to the patient the drug that is prescribed by the doctor in accordance with the prescription form; in order to access the market for "directed" prescription forms (*i.e.* where the doctor does not merely provide a generic reference *e.g.* phenytoin sodium but a specific reference like, in this case, Phenytoin Sodium Flynn), Drugsrus therefore decided to proceed to rebranding.

Against the opposition of Flynn Pharma regarding these rebranding practices, Drugsrus argued that because of the connection between Flynn Pharma and Pfizer, the partnership set up by the parties and structured through several agreements amongst which an asset sale agreement, an exclusive supply agreement, a quality agreement and a limited trademark license agreement from Pfizer to Flynn Pharma, the arrangement resembles an exclusive distributor relationship between the parties. Since the phenytoin sodium capsules that were sold on the German market by Pfizer under the Epanutin trademark are strictly identical to the phenytoin sodium capsules supplied by Pfizer to Flynn Pharma under the same name (figuring as an identicode on the capsule shell) where only the packaging material has been branded with the new name "Phenytoin Sodium Flynn," the rule formulated by the European Court of Justice in the Ideal Standard case should apply that exhaustion occurs when control is in the hands of a single body, *e.g.* the manufacturer in the case of products marketed by the distributor.

The High Court however declines to follow this logic; instead of proceeding to a "look alike" exercise in order to qualify the relationship between the parties, the court should rather look whether the trademark owner uses its intellectual property right in order to get a second bite of the cherry such that the prevention of imports constitutes a disguised restriction on trade. Hence, the question is whether there is anything arising from the agreements where Flynn Pharma retains the right to exercise control over the quality of Epanutin sold in other Member States and the product sold as Phenytoin Sodium Flynn in the UK. The answer to that question should be negative: the fact that Flynn Pharma chooses to acquire its supplies of Phenytoin Sodium Flynn from the same manufacturer as makes Epanutin for other Member States, does not mean that the same entity is responsible for the quality of the two products for the purpose of applying the free movement provisions. What matters is whether there is anything in the suite of agreements which gives Flynn Pharma power to control the quality of the Epanutin supplied by Pfizer in other Member States or anything that entitles Pfizer to control the specification of the Phenytoin Sodium Flynn supplied in the UK. Such control is not granted to either company over the other's products. Flynn Pharma's trademark rights in the name Phenytoin Sodium Flynn are therefore not exhausted in respect of packages of Epanutin placed on the market in other Member States by the very same company that manufactures in parallel, on order of Flynn Pharma, a corresponding pharmaceutical drug for the UK market.

The Court of Appeal confirmed the High Court decision, agreeing that Flynn had no control over the Epanutin sold by Pfizer which Drugsrus sought to import, and that sales of the imported product were likely to affect the guarantee of origin (*e.g.* because any product defect might negatively reflect on the Flynn trademark for which Flynn could not be held accountable).

Therefore, although the products in question were exactly the same, Flynn Pharma's consent to the outsourcing of the manufacturing of the Epanutin drugs by Pfizer for the purpose of future commercialization of the same under the Phenytoin Sodium Flynn trademark in the UK, did not equate to a consent by Flynn Pharma to the introduction of the same drug independently by Pfizer in Germany. In parallel with the Court's ruling in Ideal Standard: the consent implicit in any outsourcing operation is not the consent required for the application of the exhaustion theory. A parallel can also be drawn with the *Sebago* case (*Sebago vs. GB-UNIC*, judgment of July 1, 1999 in *case C-173/98*) where the question was raised whether the consent of the trademark proprietor to the marketing in the EU of one batch of goods would exhaust the

rights conferred by the trade mark as regards the marketing of other batches of these goods coming from outside the EU if they are identical. The Court answered in the negative: for there to be consent within the meaning of the exhaustion theory, such consent must relate to each individual item of the product in respect of which exhaustion is pleaded. In the absence of any control of Flynn Pharma regarding the conditions of manufacturing and sales of the Epanutin drug by Pfizer in those countries where Pfizer continues to be an active player, Flynn Pharma cannot be said to have consented to those drugs being sold on those markets, and it therefore stop their imports within the UK, even if those Epanutin drugs are identical to those sold by Flynn Pharma under the Phenytoin Sodium Flynn label.

Drugsrus has submitted a petition for permission to appeal to the Supreme Court.

4. *Piloxing vs. California Classic Cars* (District Court Rotterdam, The Netherlands, Decision of March 16, 2016)

Piloxing is a leading fitness company and owner of the Piloxing trademark. In the course of negotiations with a Dutch company that showed its interest in the exploitation of the Piloxing fitness concept, Piloxing authorized the company to commence the manufacture of merchandise bearing the Piloxing trademark. However, ultimately the negotiations broke down, and in order to reduce its losses, the Dutch company sold the merchandise to a third party, California Classic Cars (CCC), a company that (in spite of its name) is also involved in "fitness experience." Subsequently, Piloxing introduces a cease-and-desist order against CCC in order to prohibit further use and sales of these merchandise articles bearing the Piloxing trademark. CCC opposes that the products have been legitimately acquired by it with the consent of Piloxing who had authorized the manufacture of the merchandise articles.

Despite the preliminary consent that Piloxing had given to the Dutch company to have those merchandise articles manufactured with the purpose for future introduction on the marketplace as part of a business relationship that was still in the course of negotiation, the District Court considers that this consent on behalf of Piloxing (that it qualifies as a license) is not sufficient in the sense that Piloxing would have, through this consent, exhausted its trademark right. The mere granting of a license to have the products manufactured does not (yet) extend to an introduction of those products on the marketplace under the control of the trademark owner through which the latter has realized the economic value of its trademark right, in accordance with the requirements of exhaustion laid down in the *Peak Holding* decision of the European Court.

At the time that the sale was made to CCC, Piloxing and the Dutch company had entered into a transaction agreement where Piloxing had agreed to buy back the merchandise articles. On this basis, the District Court that at the time of sale, Piloxing had acquired the property of these articles, where the Dutch company was merely holding these articles for Piloxing. Consequently, the sale of these articles to CCC was made without the consent of Piloxing, as legal owner of these articles, implying that Piloxing had not exhausted its trademark right.

It is probably this breach of the transaction agreement that triggered the decision of the District Court, since this transaction agreement ended the license of the Dutch company regarding the trademarked products. The case would probably have been more complex if such transaction agreement had not existed, in which event the Dutch company would have found itself in the hybrid situation where on the hand, it had received the consent from the trademark owner to proceed to the manufacture of the merchandise articles, but on the other hand, the parties were still in negotiation about the set-up of their business relationship. Would this preliminary consent of the trademark owner regarding the manufacture of these products have been sufficient to consider that the subsequent sale of these products exhausted the trademark right of Piloxing? There are some reasons for doubt, since the European Court mentioned in the *Christian Dior vs. COPAD* case that "where a licensee puts goods bearing the mark on the market he must, as a rule, be considered to be doing so with the consent of the proprietor of the trade mark" and that "the proprietor of the trade mark cannot plead that the contract was wrongly implemented in order to invoke, in respect of the licensee, the rights conferred on him by the trade mark." Despite the qualifying comment from the European Court that "the licence agreement does not constitute the absolute and unconditional consent of the proprietor of the trade mark to the licensee putting the goods bearing the trade mark on the market," the reserved rights of the trademark owner were considered limited to those that are listed as legitimate restrictions in the Trademark Directive, all of which are related to a contravention by the licensee of "any provision in his licensing contract"—which was non-existent in this case (the license was implied). An implied license may eventually be considered to amount to deemed consent, where the licensor bears ultimately the business risk that the licensee exceeds the scope of his license. Cf. the comment of the European Court in the *Peak Holding* case that any contractual limitations in a sales context concerns only the relations between the parties to that act; this appears to be the case likewise in a licensing context, unless the breach of the contractual limitation relates to one of the grounds recognized in the Trademark Directive.

5. *Tower Living vs. De Kleine Winst* (District Court The Hague, The Netherlands, Decision of February 8, 2017)

The infringement claim in this procedure was brought at the initiative of the distributor, Tower Living, with respect to a furniture collection named "the Daan collection"; the latter was developed by two individuals, A and B, who held a joint copyright on the collection. In accordance with the exploitation agreement between A and B, A had granted the right to distribute the copyrighted collection in The Netherlands to Tower Living. The latter complained to A that a competitor, De Kleine Winst, commercialized the same collection in The Netherlands; it appeared that De Kleine Winst had purchased the Daan furniture items from the other co-owner, B, who (in accordance with the exploitation agreement) had sold the furniture in the European Union without having the corresponding contractual rights to do so, since the commercialization rights for the European Union were vested in A. Therefore, A contended that its copyright in the Daan collection in The Netherlands was not exhausted by the prior sale that was realized by B, to the extent that B had disregarded the territorial restrictions to which it had agreed in the exploitation agreement. In addition, even in the absence of this agreement, under Dutch law the exploitation of a jointly owned copyright can only occur with the consent of the joint owners. In the absence of an authorization by A to the sale of the furniture items by B to De Kleine Winst, A could not be said to have consented to the introduction of those products on the marketplace by B.

The District Court ruled (not unsurprisingly) in favor of De Kleine Winst, on the basis of the case law developed by the European Court of Justice in the *Ideal Standard* decision: the exhaustion of rights applies where the owner of the IP right in the importing State and the owner of the IP right in the exporting State are the same or where, even if they are separate persons, they are economically linked. Joint owners of an IP right are considered to be economically linked and to exercise a unitary control over their right; consequently, the introduction of the products on the marketplace by one co-owner can be opposed to the other co-owner who has given deemed consent thereto. The limitation of rights agreed in the exploitation agreement between the co-owners cannot be opposed to a third party under the rules of privity of contract.

6. *A vs. B* (District Court Dusseldorf, Germany, Decision of December 12, 2013)

In a case that resembles the *U.S. Quanta vs. LG* situation, the patent held by the plaintiff held a claim directed to a data memory system having two components, a data memory and a memory controller, that are incorporated in servers. Although the defendant had regularly acquired the two distinctive components from its suppliers, who were authorized by the patentee to bring these products on the market, respectively (in accordance with the terms of the license agreement) as semiconductors and processors, neither the suppliers nor the defendant had acquired the right to combine the two components in order to form a system as claimed in the patent.

The court considered that in general, there was no reason to hold that the sale of a component protected by one patent should lead to the exhaustion of the rights conferred to by a different patent which is directed to an overall device comprising that component. Although the data memories and the memory controllers at issue could reasonably only be used for building the patented memory system, the fact that the suppliers' licenses extended only to the use of the components as semiconductors respectively processors prevented that an implied consent to use the system claim of the patent-in-suit could be found. The court recognized one possible exception though, although it did not further elaborate on this possibility in the absence of its application to the case at hand: where the inventive concept of the respective patents is the same and is substantially embodied in the components, the consent of the patent holder to bring the components on the market might lead to the implied consent of the patent holder regarding the combination patent.

7. *FSEL vs. Verum* (District Court Amsterdam, The Netherlands, Decision of March 10, 2013)

Although the court only expressed a provisory ruling in this fast-track procedure for a preliminary injunction, it demonstrates the difficulties of exercising intellectual property rights in an IT environment. The dispute occurred as a result of a sale of assets by the judicial administrator following the insolvency of the original licensee; the assets (including the software licenses) are transferred to a new so-called "restart" company.

The software in question was an analysis tool named "FDR" in order to scan computer programs before their implementation. The original licensee ("Verum 1") received the right to distribute, disclose and modify the FDR software for such purposes from the proprietor, FSEL, through a so-called Server License on the one hand (unlimited user right in consideration of a lump sum payment) and Client Access Licenses (through which customers of Verum 1 could proceed to the analysis of their computer programs) on the other hand (1-to-1 licenses entitling FSEL to a "per-user" royalty). Verum 1 developed its own software code, Dezyne, that authorized its customers to make an internet network connection with FDR that was stored on one of

the servers of Verum 1. A total of 129 Client Access Licenses were commercialized by Verum 1.

Following the bankruptcy of Verum 1, a corporate restructuring was initiated that resulted in the creation of Verum 2, to whom the above license rights were then transferred. FSEL subsequently summoned Verum 2 to cease the use of the software because the license rights had been transferred without the authorization of FSEL. Verum 2 considered that FSEL had exhausted its copyrights on the software through the grant of the above (paid-up) licences and that consequently, Verum 1 had the right to transfer the Server License and the 129 Client Access Licenses to Verum 2.

The question before the court was the *UsedSoft* decision of the European Court of Justice, where exhaustion was retained in relation with the downloading of a copy of the software program from the (Oracle) website server to the individual computer, could be extrapolated to the present circumstances where the FDR software program was not downloaded but accessed. Because of the fast-track procedure, the court foes not provide a straightforward ruling, relying on the complexity of the questions before it. The request for a preliminary injunction is refused, however, the court notices that although the intellectual property rights of FSEL with respect to the Server License are probably exhausted (which was not contested by FSEL), the same is not necessarily true for the 129 Client Access Licences. A procedure on the merits will have to determine if and to what extent the rights of FSEL have been exhausted or not for this last category.

8. Conclusion

Although there still remains some uncertainty where the red line between exhaustion and non-exhaustion of rights resides, the absence of consent in the sense of the absence of authorization as a result of the breach of the contractual terms of agreement between the IP right holder and his counterpart is not, by itself, sufficient to avoid exhaustion. In most cases, the fact that the IP right holder has entered into an agreement with another party that is the contractual foundation for the introduction of his products on the marketplace will represent as least an implied consent—the terms of the agreement through which the IP right holder has authorized the other party to commercialize the said products do not, in principle, contribute to the qualification of the consent provided by the IP right holder, to the extent that a violation of such terms would negate the consent of the IP right holder. The ruling of the European Court of Justice in the *Peak Holding* case that any restrictions on the right to resell the goods concerns only the relations between the parties to that act and cannot therefore be opposed to third parties has thus found a favorable echo in the decision of the Dutch District Court regarding the working of the alleged territorial restrictions agreed between respective co-owners of a copyright—these restrictions did not prevent exhaustion to occur as a result of the first sale made by one of the co-owners within the European Union.

However, as the list of above national decisions demonstrate, there are still multiple opportunities available to the IP right holder to circumvent the application of the exhaustion theory through "smart contracting," provided that the IP right holder does not rely on the mere breach of contract terms alone in order to build its argument for a withholding of consent in the sense of the exhaustion theory; the IP right holder must show an additional objective element that supports his claim that the product was introduced on the market without his consent. Such objective elements can be:

- The nature of the contract as was the case in *Xerox vs. Impro* and *Flynn Pharma vs. Drugsrus*;
- The cessation of the commercial relationship as was the case in *Piloxing vs. CCC*;
- The limited license rights combined with different patent claims as was the case in *A vs. B*;
- The limited user access rights with respect to specific software licenses as was argued in *FSEL vs. Verum*;
- The existence of legislative grounds for opposition as the European Court of Justice recognized in *COPAD vs. Christian Dior*.

The next article in this series will address some of the recent national court decisions regarding another complicated aspect in the relationship between the free movement of goods and the protection of intellectual property rights within the European Union: who has the burden of proof to demonstrate that the goods have been introduced with or without the consent of the IP Right holder? ■

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