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***Question B: "How can the holder of intellectual property rights protect its brands in the context of on- and off-line distribution and after-sales service, and does the existing framework for such protection strike a fair balance between the interests of rights holders and the interests of consumers?"***

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## **General Question B**

"How can the holder of intellectual property rights protect its brands in the context of on- and off-line distribution and after-sales service, and does the existing framework for such protection strike a fair balance between the interests of rights holders and the interests of consumers?"

### **Background**

There are numerous reasons for holders of intellectual property rights to protect their brands in the context of on- and off-line distribution and after-sales service. To give examples, they might want to maintain a certain quality of service throughout the entire value chain; they might want to ensure or increase brand recognition; secondary markets or repair markets might promise high returns, potentially even higher returns than the primary markets for the original product; they might want to protect their licensed merchants from unwanted competition; they might want to price discriminate between customer groups or regional markets.

The representatives of brands argue that it is their natural right to determine the ways and means of the distribution of their products and that after-sales services are an integral part of the experience that the companies are offering. They emphasize a holistic approach to competition and warn that limiting the downstream influence of the ultimate holders of intellectual property would harm innovation and, eventually and inevitably, consumers.

The holders of intellectual property rights realize the protection of their brands by employing direct contractual limitations, by attaching negative consequences to behavior that circumvents the desired distribution and after-sales infrastructure, or by building on practical measures. Examples of these categories are general terms and conditions dictating the business practices of licensed merchants, provisions limiting guarantees or product liability rights of consumers in cases of repairs by unlicensed providers, and product design that supports vertical integration, such as non-removable batteries.

Resale competitors, downstream service providers and consumer protection groups, however, are rather critical of the common practices employed by the holders of intellectual property rights. They fear that the measures which are taken to protect brands harm downstream competition and, thereby, also lead to higher prices and worse services in the long run. Furthermore, they refer to the liberty increasing effects of the various versions of the exhaustion doctrine which are challenges by holders of intellectual property rights aiming at protecting their brands.

In the recent past, the platform economy has become a highly significant way of the distribution of goods and services. For certain products, especially for consumer goods, the platform industry has even become the dominant form of distribution. In the wake of this development, the platform providers have emerged as crucial stakeholders in the debate on the adequate protection of brands.

As Art 6 of the TRIPS-Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights) explicitly does not set harmonized standards for the exhaustion of intellectual property rights, the national and regional supranational legal frameworks define the relevant legal boundaries. With respect to the question on parallel imports the GATT 1994 (General Agreement on Tariffs and Trade) might be of significance. Over the last years especially the discussion of the triggers and scope of the doctrine of exhaustion have gained momentum.

While not necessarily relevant to all National Rapporteurs, I still would like to point out the judgment of the European Court of Justice from 6 December 2017 on selective distribution systems at the intersection of intellectual property and competition law, Case C-230/16, ECLI identifier: ECLI:EU:C:2017:941. In his verdict, the Court stated that a supplier of luxury cosmetics may, in principle, set up a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods.

Specifically, the Court established that competition law (Article 101(1) of the Treaty of the Functioning of the EU, TFEU) must be interpreted as not precluding a contractual clause, which prohibits authorised distributors in a selective distribution system for luxury goods designed, primarily, to preserve the luxury image of those goods from using, in a discernible manner, third-party platforms for the internet sale of the contract goods, on condition that that clause has the objective of preserving the luxury image of those goods, that it is laid down uniformly and not applied in a discriminatory fashion, and that it is proportionate in the light of the objective pursued. The scope of this judgment, including the precise definitions of “luxury goods” and “luxury image” and the application of these terms, as well as the consequences for other potential interests in protecting brands are not yet fully conceivable.

## **Questions to National Rapporteurs**

### **Scope of Legal Protection**

1. Which interests of holders of intellectual property rights are considered legally protected interests in your jurisdiction? Where are such interests defined? Is there an exhaustive list of interests or categories of interests which are recognized by the law? Are there qualifying circumstances required for the recognition of a valid interest in the protection of a brand such as specific public perception of the brand, the quality of the products, or the value of the brand?
2. How, if at all, do the standards of the protection of brands available to holders of intellectual property rights vary by the type of distribution both regarding their statutory bases as well as their application?
3. Are there specific after sales services which are reserved to the holder of intellectual property rights by law in your jurisdiction? If at all, under which circumstances is it possible to enforce contractual limitations on subsequent sales in your jurisdiction

[specific questions on the exhaustion doctrine, see below]? Do the applicable standards differentiate between on- and offline distribution? If at all, to what extent is it possible to limit the usage of digital and physical products to commercial or non-commercial usage?

4. To what extent does trademark law in your jurisdiction allow the holder of a trademark to determine the terms of usage of the protected name or symbol in the context of on- and off-line distribution and after-sales service relating to a product branded with the trademark in question?
5. Are holders of intellectual property rights allowed to engage in geo-blocking? What limitations are there to geo-blocking? Does competition/antitrust law limit the possibilities of geo-blocking? In reverse, does the principle of territoriality in copyright law provide a valid justification of otherwise anti-competitive behavior?
6. What rights and practical possibilities do holders of intellectual property have to protect their brands on e-commerce platforms against the providers of the platforms? What rights do holders of intellectual property have to protect their brands on communication platforms against the providers of such platforms? What are common practices to protect brands on e-commerce and communication platforms? What duties, if any, do platform providers have to protect brands or assist in the protection of brands?
7. What protections are available to rights holders against reverse engineering in your jurisdiction? Are there specific rules against decompilation and, if so, how do these rules differ from general protections against reverse engineering? Are the rules against reverse engineering working effectively in practice in your jurisdiction? What, if any, are the shortcomings of the rules against reverse engineering?

### **Limitations of Legal Protections**

8. What are the general standards for exhaustion in your jurisdiction? What are the legal provisions governing exhaustion in your jurisdiction? Does your jurisdiction follow the concept of national, of regional, or of international exhaustion? What is the relevant trigger for exhaustion? Does exhaustion require an actual sale in the legal sense of the word? Can rental agreements or leasing trigger exhaustion?
9. What is the geographical scope of exhaustion? To what extent is it possible to limit the exhaustion of intellectual property rights? What practices do you observe to circumvent the doctrine of exhaustion? Who bears the burden of proof concerning exhaustion?
10. Does the doctrine of exhaustion in your jurisdiction apply to digital goods? If not, should the doctrine cover digital goods? If yes, or if exhaustion covers digital products that are tied to a physical medium, what is the effect of registration

requirements for software or smart products in your jurisdiction?

11. As the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) specifically excludes setting any rules on exhaustion, from the perspective of your jurisdiction, do you see a need for international agreements regulating or harmonizing the standards governing the exhaustion of intellectual property rights?
12. How does the exhaustion of intellectual property in your jurisdiction affect the possibilities to protect brands? What are the practical issues presently discussed concerning the exhaustion of IP? Under what circumstances, if at all, does your jurisdiction allow for parallel importing of products?
13. How does competition/antitrust law limit the possibilities of holders of intellectual property when protecting their brands? Are there general principles defining the relationship between the protection of brands and competition/antitrust law? What are the landmark cases defining the limitations of competition/antitrust law?
14. Are there limitations on providing products including software “as a service” to enable competition in downstream markets? Are there limitations on bundling sales with the conclusion of contracts for services? If yes, to what extent do these limitations impact the control over after-sales services?
15. Who bears the burden of proof for the violation of consumer interests or the accordance of the protective measure with consumer interests? Is the present attribution of the burden of proof appropriate?
16. Is there an explicit right to repair in your jurisdiction? If so, what is the scope of this right? Is there product-specific regulation aimed at opening up the repair market, such as provisions requiring removable batteries? Is the holder of intellectual property rights obliged to provide replacement parts or software updates? If yes, can this obligation be limited or are there time constraints to this right?
17. To what extent can guarantees or product liability be limited in case of third party repairs or unlicensed updates or the “breaking of seals” on the product?

### **Balance of Interests**

18. Are consumers’ rights directly or indirectly protected by the constitution in your jurisdiction? If yes, to what extent? What are the major cases defining the boundaries of the constitutional protection of consumers’ rights? Are the constitutional rights of consumers in your jurisdiction limited to protection against state action or can they invoke their constitutionally protected interests against private entities?

19. To what degree are consumers' interests taken into account in your jurisdiction when balancing interests, exercising discretion, or construing abstract legal terms? What are the relevant provisions considering consumers' interests in relation to the protection of brands?
20. What kind of consumers' interests are recognized by the rules limiting the possibilities of holders of intellectual property to protect their brands? Is there a general priority of the interests of the holders of intellectual property rights, of downstream competitors, or of consumers? What are the interests with which plaintiffs or defendants were able to persevere in court?
21. Specifically, to what degree are consumers' interests included when exercising discretion in competition/antitrust law? Do you consider the more economic approach in competition/antitrust law sufficient to capture consumers' interests? If no, what additions or alternations do you deem necessary to capture the full picture of consumers' interests?
22. Do you believe that the present balance of the interests of holders of intellectual property rights and consumers is appropriate? What are the known effects of protective measures by holders of intellectual property rights consumer welfare and consumer surplus? How has the balance between the interests of rights holders and the interests of consumers evolved over the recent past? Are there any current attempts to re-balance the interests?