

How to Stay Modern Feudalism? Comparing EU and US Methodologies in Containing Post-Sale Restraints by Way of IP Exhaustion



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1 Introduction: Freedom Versus Feudalism

This article puts the doctrine of exhaustion (also known as first sale doctrine) center stage as a central institution to limit post-sale restraints which unduly restrict free trade and competition. Two opposing decisions, of the Court of Justice of the

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European Union (CJEU) in *Kanzi* 2011¹ and the United States Supreme Court (USSC) in *Lexmark* 2017,² evidence that exhaustion remains one of the most contested concepts in intellectual property (IP) law. Since exhaustion involves high economic stakes, the constant dispute over its limits is not surprising: Any limitation triggers resistance;³ any novel technology or business idea brings about new questions, any legislative project pushes the limits.⁴ This article takes exhaustion as a springboard for an exercise to trace Hanns Ullrich's footprint on the contemporary mode of IP reflection, both methodologically and on interfaces of IP, competition, free trade and market freedoms. Yet it is not limited to re-iterating Hanns Ullrich's position on exhaustion,⁵ but is interested in how his pattern of thinking influences modern IP law and a contemporary reflection, *in concreto* regarding digital exhaustion, and business models of the circular economy.

The article is triggered by the intriguing character of the named decisions. The CJEU *Kanzi* decision of 2011 provokes an impulsive rejection because the CJEU narrowly frames its argument around 'essential features of IP' likely to shift privileges to the IP holder.⁶ What is 'essential'?⁷ The USSC *Lexmark* decision provokes resistance because it is arguably simplistic and lacks authority: Herbert Hovenkamp

¹ CJEU, 20.10.2011, Case C-140/10 *Kanzi* [2017] ECR-I 10075, ECLI:EU:C:2011:677.

² US Supreme Court, 30.05.2017, 581 US 1523 – *Impression Prods Inc v Lexmark*.

³ Rightfully stressed by Poorna Mysoor, 'Exhaustion, Non-Exhaustion and Implied Licence' (2018) 49 IIC 656, 683.

⁴ So does the project on the Unitary European Patent, of which the future at the time of writing is unclear. Art 6 Reg 1257/2012 (OJ of 31.12.2012, L-361) 1 and Art 29 of the Agreement on a Unified Patent Court (OJ of 20.06.2013, C 175/9) read: "The rights conferred by a European patent with unitary effect shall not extend to acts concerning a product covered by that patent which are carried out within the participating Member States in which that patent has unitary effect after that product has been placed on the market in the Union by, or with the consent of, the patent proprietor, unless there are legitimate grounds for the patent proprietor to oppose further commercialisation of the product."

⁵ Advocating "international exhaustion" in 'Technologieschutz nach TRIPS: Prinzipien und Probleme' (1995) GRUR Int 623; and carefully framing exhaustion by free trade rules and competition rules in the chapter 'GRUR – Teil A' in Ulrich Immenga and Ernst-Joachim Mestmäcker (eds), *Wettbewerbsrecht (EU), Teil 2* (5th edn, Beck 2012) esp. paras. 69-71, 77-89.

⁶ A concept of essentialness was already present in earlier cases, such as C-102/77 *Hoffmann-La Roche v Centrafarm* [1978] where the "essential function" limited the possible scope of injunction. The term "essential feature" later becomes central to the argumentation in the landmark decision *Usedsoft* (CJEU, 03.07.2012, C-128/11, *Usedsoft* [2012] ECLI:EU:C:2012:407). The case involves the sale of "used" client software and the court clarified that exhaustion occurs when a permanent use right is transferred and no copy remains with the transmitter of title.

⁷ I earlier defended this approach in *Kanzi* for its possible openness to balancing: see Christine Godt, 'Überforderung des EuGHs im Recht des Geistigen Eigentums?' in Axel Metzger (ed), *Methodenfragen des Patentrechts* (Mohr Siebeck 2018) 193, at 214. Here, my focus is on the Court's construction of exhaustion.

criticized the decision as ‘draconic’, a ‘wild extreme’,⁸ lacking a statutory basis.⁹ While both decisions are on exhaustion, the USSC decision raised a lot of public attention,¹⁰ and the CJEU’s decision went by almost unnoticed.¹¹ I chose the two decisions for their methodological tension.¹² My focus is neither on territorial exhaustion,¹³ nor on country specific differences,¹⁴ or digital exhaustion ‘only’.¹⁵

⁸Herbert Hovenkamp, ‘Reasonable Patent Exhaustion’ (2018) 35 YJREG 513, 513. He had found similar words for the Supreme Court’s decision in *Quanta*. Herbert Hovenkamp, ‘Post-Sale Restraints and Competitive Harm: The First-Sale Doctrine in Perspective’ (2010) 66 NYUAnnSurvAmL 487, at 546.

⁹An argument also forwarded by John F Duffy and Richard M Hynes, ‘Common Law vs. Statutory Bases of Patent Exhaustion’ (2017) 103 VaLRevOnline 1, at 15.

¹⁰Not least because the USSC decision overruled standing case law by the Court of Appeals of the Federal Circuit (CAFC).

¹¹The reason is apparent. The USSC case dealt with restraints on widely used consumer goods (toner cartridges); the CJEU was about the (less visible) production of apple trees.

¹²For an in-depth reflection on this selection, I am indebted to Dan Burk (personal communication of 02 March 2019). He suggested to better compare either *Kanzi* with *Bowman* (569 U S 278 [2013]), or *Usedsoft* with *Quanta* (553 US 617 [2008]). His main arguments: *Lexmark* was largely driven by a consumer protection logic, an aspect absent in *Kanzi*. And *Lexmark* was a foregone conclusion after *Kirtsaeng*, and mostly cleaning up loose ends from *Quanta*. In full respect of the mindful analysis of the US insider, I take the privilege of being a European outsider to “pick and choose”. Thanks to Dan, I consciously take the risk to compare “apples and pears” – an occupational hazard for every comparatist.

¹³Touching on the distinction of national or international exhaustion, on this discussion see two recent thoughtful reflections: Josef Drexler, ‘Patent Exhaustion and Free Transit at the Interface of Public Health and Innovation Policies: Lessons to be Learned from EU Competition Law Practise’ in Irene Calboli and Edward Lee (eds), *Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar 2016) 249; Olena Ivus, Edwin Lai and Ted Sichelman, ‘An Economic Model of Patent Exhaustion’, CESifo Working Paper No 6638, August 2017 = San Diego Legal Studies Paper No 17-265; Daniel J Hemel and Lisa L Oullette, ‘Trade and Tradeoffs: The Case of International Patent Exhaustion’ (2016) 116 ColumLRevOnline 17. On the principle of community exhaustion as a historic compromise: Jens Schovsbo, ‘The Exhaustion of Rights and Common Principles of European Intellectual Property Law’ in Ansgar Ohly (ed), *Common Principles of European Intellectual Property Law* (Mohr Siebeck 2012) 169, at 182 n 29.

¹⁴Although differences matter: In the US, the exhaustion debate is strongly influenced by concurring competences between the federal level (for IP) and the states (for common law to which the exhaustion doctrine is attributed). In addition, the US has widely refrained from policing post-sale restraints. Until the 1980s, US antitrust law restricted post-sale restraints to the commercial area, and contained some of them rigorously by defining “nine no-no’s”, including “tying”. But they were never rigorously enforced (Hanns Ullrich, ‘Lizenzkartellrecht auf dem Weg zur Mitte’ (1996) GRUR Int 555, at 557 with further references). When the US congress finally reversed rule and exception (35 US Code § 271 (d) No 5), it “left courts with empty hands. It is against this background the USSC *Quanta* and *Lexmark* decisions are to be understood”, explains Samuel F Ernst (personal communication of 23 March 2019).

¹⁵In that case, I would have juxtaposed the USSC decisions *ReDigi* and *Lexmark* with the CJEU cases: C-128/11, *Usedsoft* [2012] (supra n 6); CJEU, 10.11.2016, C-174/15 *Vereniging Openbare Bibliotheken* [2016] ECLI:EU:C:2016:856 and CJEU, 19.12.2019, C-263/18, *Tom Kabinet* [2019] ECLI:EU:C:2019:1111. For a *Lexmark–Usedsoft* discussion see Shubha Ghosh and Irene Calboli, *Exhausting Intellectual Property Rights* (CUP 2018) at 165; on *Usedsoft* see Christine

I am interested in post-sale use restrictions, and in the shift of argumentation with regard to exhaustion: How far (if at all) can an IP owner reach out to consumers (*Lexmark*), and to good faith market participants not integrated in the IP owner's production and distribution arrangement (*Kanzi*):¹⁶ Advocate General Jääskinen in *Kanzi* (not followed by the CJEU) and the USSC in *Lexmark* hold exhaustion to be an objective principle of free trade; the Court of Appeals of the Federal Circuit (CAFC, in *Lexmark*) and the CJEU (*Kanzi*) strengthened the proprietary element as a prerequisite of exhaustion. The clauses of interest command 'no refill', 'no resale', 'no reuse', 'no repair' and 'don't combine' ('negative duties').¹⁷ Inversely, they impose positive duties like 'return' to the seller, 'repair only with certain contractors' or 'transfer the same obligations to subsequent buyers' (prospectively in need of renegotiating with the IP holder).¹⁸ Two interests drive the following inquiry. First, these clauses are a novel recreation of feudal bonds and threaten freedoms and autonomy, as early identified by Drahos and Braithwaite.¹⁹ The problem will be exacerbated if digital exhaustion remains limited in the future.²⁰ Second, such

Godt and Jonas Simon, 'In Rem Effects of Non-exclusive Sub-licenses in Insolvency' in Christine Godt (ed), *Regulatory Property Rights* (Brill/Nijhoff 2017) at 207; Gustavo Ghidini, *Rethinking Intellectual Property: Balancing Conflicts of Interest in the Constitutional Paradigm* (Edward Elgar 2018) at 187, criticising *Usedsoft* for the missed opportunity to find new rationales for giving up the categorical distinction between rental and sale; Reto Hilty, 'Exhaustion' in the Digital Age' in Irene Calboli and Edward Lee (eds), *Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar 2016) 64, at 72 ff; Katharina de la Durantaye and Linda Kuschel, 'Der Erschöpfungsgrundsatz – Josef Kohler, *UsedSoft*, and Beyond' (2016) 8 ZGE 195 (applauding *Usedsoft* for correcting trends towards strengthening of the property notion, and rebalancing the equilibrium towards freedoms of subsequent market stages); Caterina Sganga, 'A Plea for Digital Exhaustion in EU Copyright Law' (2018) 9 JIPITEC 211.

¹⁶Thus, the article covers just a fraction of post-sale restraints discussed under competition law; see Markus Feil, *Lizenzkartellrecht* (Heymanns 2009); Frank Wijckmans and Filip Tuytschaever, *Vertical Agreements in EU Competition Law* (3rd edn, OUP 2018).

¹⁷Those bans can be qualified, such as "no resale in discount stores", "no resale on digital platforms". However, these terms characterizing classical exclusive distribution schemes are not at the center of interest of this article.

¹⁸*Lexmark* involves a "no refill" clause, *Kanzi* an obligation "to transfer the license to third parties" (also called 'chain clause').

¹⁹Peter Drahos and John Braithwaite, *Information Feudalism* (Earthscan 2002).

²⁰This question is wide open. The latest CJEU ruling *Tom Kabinet* (supra n 15) left many questions open; and the consultations on the (digital) reform of the Vertical Block Exemption Regulation (current Reg 330/2010 will expire 31.05.2022) are ongoing. Almost certainly will they include specific language for e-commerce and platforms. In defense of digital exhaustion: Aaron Perzanowski and Jason M Schultz, *The End of Ownership: Personal Property in Digital Economy* (MIT Press 2016); Molly Shaffer Van Houweling (2016, supra n 13) 44, at 62: "remote control property rights"; Christina Mulligan, 'Personal Property Servitudes on the Internet of Things' (2016) 50 GaLRev 1121; Caterina Sganga (2018, supra n 15). Opposing Digital Exhaustion: Friedrich Karl Fromm and Wilhelm Nordemann (eds), *Urheberrecht* (12th edn, Kohlhammer 2018) 154 summarizing the (German) debate, and describing the transposition of the CJEU *Usedsoft* by the German Federal Court of Justice (Bundesgerichtshof, hereinafter BGH), with further references.

clauses re-emerge in business models of the future circular economy: The user is obliged (sic has ‘the right’) to give consumed products back, and to require maintenance as a service.²¹

Recollecting Hanns Ullrich’s insistence that patent law has to delineate its limits itself and cannot delegate this immanent task to competition law (for it comes too late, lacks resources, and is too singular), the article will proceed as follows. Section 2 revises the concepts of exhaustion, and analyses the two cases as to their underlying theories. Section 3 then raises the question how strict the exhaustion principle has to be, and how its strictness has to be proceduralized. Section 4 applies the finding to the emerging business models in the circular economy. Section 5 draws a conclusion.

2 Exhaustion Revisited

2.1 *The Doctrine of Exhaustion*

The doctrine of exhaustion is commonly defined as limiting right holders’ control to ‘authorized first market placement’, and best understood as an institution which balances the interests of property and trade.²² It is based on two competing models, the ‘implied contract’ and the ‘objective principle’.²³ The implied contract theory is (commonly²⁴) assigned to the common law tradition doctrine against restraints on alienation,²⁵ the objective principle, inversely, to the civil law world, originating in Kohler’s ‘System der “Benützungslehren”’.²⁶ The implied contract theory leaves more leeway for the parties and allows arrangements with third-party effects.²⁷ This is the most important difference of IP compared to chattel property, namely that IP

²¹ So-called “pay-for-performance” contracts.

²² Katharina de la Durantaye and Linda Kuschel (2016, supra n 15) 209; Karlheinz Konrad, Daniela Timm-Goltzsch and Hanns Ullrich, ‘Kartellrecht’ in Hanns Ullrich and Mathias Lejeune (eds), *Internationaler Softwarevertrag* (2nd edn, Verlag Recht und Wirtschaft 2006) para 740.

²³ Concisely explained by Jens Schovsbo (2012, supra n 13) 172.

²⁴ For the opposite attribution see Shubha Ghosh and Irene Calboli (2018, supra n 15) 7, attributing the “implied license” model to Kohler.

²⁵ Poorna Mysoor (2018, supra n 3) at 665 notes that the implied contract model finds support with non-common law lawyers, Reto Hilty, *Lizenzvertragsrecht: Systematisierung und Typisierung aus schutz- und schuldrechtlicher Sicht* (Stämpfli 2001) 262 n 290; id (2016, supra n 13) 64, 67.

²⁶ Jens Schovsbo (2012, supra n 13) at 172 (although he cautions against “boxing” to national legal systems); Katharina de la Durantaye and Linda Kuschel (2016, supra n 15) 207; Poorna Mysoor (2018, supra n 3) 665.

²⁷ Jens Schovsbo (2012, supra n 13) 172; William Cornish, David Llewellyn and Tanya Aplin, *Intellectual Property* (8th edn, Sweet & Maxwell, Thomson Reuters 2013 [9th edn 2019 announced, but unavailable]) 268 paras 6-15.

holders are allowed to impose limited conditions upon selling goods, while a vendor of ordinary goods may not.²⁸ The objective principle approach conceives exhaustion as ‘immanent limit of the right’,²⁹ looks at the regulatory aims and appears to be more apt to internalize policy goals.³⁰ Formerly, it was applied as rendering contracts beyond exhaustion void. Today, the principled approach would hold that a party cannot contractually exclude exhaustion, unless parties aim at a proprietary restriction with regard to ‘specific forms of use’.³¹ The leading idea of this approach is that the IP holder is only entitled to one opportunity to exploit his right.³² In essence, the two elements, consent and first market placement, mirror the tension of the two theories.

The doctrine emerged globally around the turn of the nineteenth to the twentieth century.³³ Today, the scope differs only slightly across different IP rights.³⁴ The central idea common to both underlying concepts is to release the concrete item which embodies the protected creation/teaching/sign from the control of the owner. As far as this basic notion is concerned, exhaustion aims at a workable rule consistent with the capitalist order to which the unconstrained market alienability (in other words, the transfer of full title) is central.³⁵ In a more modern diction, the

²⁸ Christopher Heath, ‘Parallel Imports and International Trade’ (July 1999) ATRIP/GVA/99/6 at 3, referring to the Commonwealth Privy Council in *National Phonograph Company of Australia Ltd v Menck* [1911] [28] RPC 229, 248.

²⁹ Rudolf Krasser, *Patentrecht* (7th edn, Beck 2016) at 820 (“immanente Schranke”): He explains: “Dass der Berechtigte den Gebrauch und weiteren Vertrieb nicht verbieten kann, hat seinen Grund darin, dass diese Handlungen seiner Erlaubnis nicht bedürfen, nicht darin, dass dies erteilt anzusehen wären.” / “That the title holder cannot prohibit the use or the further distribution is due to the fact that these acts do not require any authorization, not that the authorisation is deemed to be granted” (CG tr).

³⁰ Jens Schovsbo (2012, supra n 13) 175.

³¹ BGHZ 145, 7 - *OEM-Version*.

³² Again in plain words, Christopher Heath (1999, supra n 28) at 4 with reference to RGZ 51, 139 [26.03.1902] – *Duotal*.

³³ *For patents*: England: *Betts v Willmott* (1871) LR 6 Ch App 239, Germany: RGZ 51, 139 (26.03.1902) – *Duotal*; USA: broad contours first in *Bloomer v McQuewan*, 55 US 539 (1852), fully in *Adams v Burke*, 84 US 453 (1873); *For copyright*: Germany: RGZ 63, 394 – *Koenigs Kursbuch* (16.06.1906); USA: *Bobbs-Merrill Co v Straus*, 210 US 339 (1908); in the Netherlands: HR, NJ 1952, No 95 (25.01.1952) *For trademark*: In Germany traditionally “international exhaustion” (until ECJ, C-355/96, *Silhouette/Hartlauer*: the argument: EC Trademark Directive commands regional exhaustion); in the US: *Apollinaris Co Ltd v Scherer* 27 F 18 (CCSDNY 1886).

³⁴ The copyright holders’ exclusionary power extends to stages of circulation of the work subsequent to its first marketing; see Gustavo Ghidini (2018, supra n 15) at 186. The noteworthy statutory exemptions to exhaustion are: the rental/lending rights, the re-utilization of an online database, the right of communication and making available to the public [discussed by Poorna Mysoor (2018, supra n 3)]; Caterina Sganga (2018, supra n 15) and the so called “droit de suivre” which is acknowledged by many countries.

³⁵ In the common law tradition enshrined in the “rule against restraints on alienation” (the “impeccable historic pedigree”, Lord Coke 1628 cited by the USSC in *Lexmark*, 2017) or simply stipulated by civil codes, such as § 137 German Civil Code (Bürgerliches Gesetzbuch, hereinafter BGB).

doctrine effectuates the co-existence of two property titles ('fragmentation'), IP on the one hand, and a property title to the tangible object on the other hand.³⁶ From the perspective of competition law, the remuneration justification of property limits the interest of the IP holder to the first marketing opportunity.³⁷

Distinct from this is the question whether exhaustion fosters innovation. Herbert Hovenkamp argues that a 'doctrinal' exhaustion rule deters innovation.³⁸ In contrast, Ariel Katz submits that exhaustion furthers efficient resource use and 'wetland innovation'.³⁹ Wolfgang Kerber finds a set of contradictory arguments (among others, why exhaustion incentivizes the IP holder!⁴⁰), concluding that all need to be considered in each individual case. Ghosh and Calboli concur.⁴¹ While Kerber argues that there is a need to limit the restrictions set by the IP holder, he argues that these limits do not necessarily have to be drawn by the exhaustion rule.⁴² Anecdotal evidence supports the argument that too much control by the IP holder suppresses innovation.⁴³ Samuel Ernst emphasizes that quantitative evidence is difficult to produce.⁴⁴

³⁶Katharina de la Durantaye and Linda Kuschel (2016, *supra* n 15) at 210 are right in observing that exhaustion is less about balancing the interests between a thing and creation [CG: and invention], than between interests in power spheres, which is better articulated in the bundle-of-rights model. See at 211 for examples of overlapping statutory rights of the copyrights holder and the users.

³⁷Early in CJEU, 31.10.1974, Case C-16/74, *Centrafarm BV and Adriaan de Peijper v Sterling Drug Inc* [1974] ECR 01147, ECLI:EU:C:1974:114 para 9: "In relation to patents, the specific subject matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with the view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licenses to third parties, as well as the right to oppose infringements." Rudolf Krasser, *Patentrecht* (5th edn, Beck 2004) at 820; Hanns Ullrich (2012, *supra* n 5) para 77: protected is the "Erstverwertungsinteresse" (the financial interest in first market placement, CG tr); CJEU Case C-128/11 *Usedsoft* [2012] (*supra* n 6) para 63: "A restriction of the resale of copies of computer programs downloaded from the internet would go beyond what is necessary to safeguard the specific subject-matter of the intellectual property concerned" (emphasis added CG).

³⁸Herbert Hovenkamp (2018, *supra* n 8).

³⁹Ariel Katz, 'The First Sale Doctrine and the Economics of Post-Sale Restraints' (2014) *BYULRev* 55.

⁴⁰Wolfgang Kerber, 'Exhaustion of Digital Goods' (2016) *ZGE* 149, 154.

⁴¹Shubha Ghosh and Irene Calboli (2018, *supra*, n 15) 198: "The analysis mandates a fact-intensive inquiry, similar to what one might find in antitrust or competition law review of a business practice".

⁴²Wolfgang Kerber (2016, *supra* n 40) 168.

⁴³As evidenced by the arguably failed GM experiment with its EV1. For a critical account see Chris Paine's documentary (2006) 'Who Killed the Electric Car?'; 'GM von Dokumentation Überumpelt' (*Wirtschaftswoche*, 16 July 2006); 'General Motors und die Sache mit dem EV1' (*Zürcher Tages-Anzeiger*, 11 July 2006).

⁴⁴Samuel F Ernst, 'Patents Exhaustion for the Exhausted Defendant: Should Parties be Able to Contract Around Exhaustion in Settling Patent Litigation?' (2014) *JTechL&Pol'y* 455, 477. An attempt was made by Benjamin R Shiller, 'Digital Distribution and the Prohibition of Resale Markets for Information Goods' (2013) 11 *Quantitative Marketing and Economics* 403, analysing secondary digital markets on profits generated by producers of video games.

The literature is divided on the doctrinal question of whether exhaustion limits the property right⁴⁵ or spells out the (internal) limits to which property can restrict competition.⁴⁶ Consequently, the technical legal construction has remained unresolved,⁴⁷ jurisprudence therefore unclear.⁴⁸ The implied contract model construes exhaustion as being in the well-understood, reasonable discretion of the right owner: Property is the rule, exhaustion the exception. In its tendency, it assigns more discretion to the IP holder.⁴⁹ Since rooted in the principle of privacy, it tends to support the argument that even if exhaustion has occurred the contractual terms might not be automatically void (only where the alienability of the product is impaired). Contractual violations may trigger non-exhaustion. Where no exhaustion occurs, the property title can be enforced against third parties, including against those who acquired in good faith. The implied contract doctrine keeps proprietary and contractual remedies apart.⁵⁰ The principled approach construes exhaustion as a rule. It delineates IP and other market freedoms in the interest of trade and competition. Exceptions may be grounded in sector specifics⁵¹ and justified business models,⁵² but must be justified and reasonable. In its tendency, the principle invalidates contracts beyond exhaustion.⁵³ Inversely, where contractual terms are

⁴⁵Proponents are Gerhard Schricker, ‘Bemerkungen zur Erschöpfung im Urheberrecht’ in Peter Ganea and others (eds), *FS Dietz* (Beck 2001) 447, 545; Ansgar Ohly, ‘Anmerkung zu EuGH, 03.07.2012 – C-128/11 *Usedsoft/Oracle*. Erschöpfung des urheberrechtlichen Verbreitungsrechts beim Verkauf “gebrauchter” Software’ (2013) *JZ* 42; Poorna Mysoor (2018, supra n 3). This concept is mirrored by the formulation of exhaustion in the (projected) Art 6 Reg 1257 and Art 26 Agreement Unified Patent Court (supra n 4). The rule formulates exhaustion as an exception to the rule, and submits exhaustion to the caveat that the patent proprietor may have legitimate grounds for opposing further commercialization of the product.

⁴⁶Hanns Ullrich (2012, supra n 5); his position is mirrored by the CJEU in C-128/11 *Usedsoft* [2012] (supra n 6) para 63; and CJEU, 04.10.2011, joined Cases C-403/08 and C-429/08 *Karen Murphy* [2011] ECR I-9083, ECLI:EU:C:2011:631 paras 105 and 106.

⁴⁷Hanns Ullrich (2012, supra n 5) para 41: “unresolved problem”.

⁴⁸For the inverse rationale of the relationship of exhaustion and contract violations: CJEU, 30.11.2004, Case C-16/03, *Peak Holding* [2004] ECR I-11313, ECLI:EU:C:2004:759; CJEU, 23.04.2009, Case C-59/08, *Copad* [2009] ECR I-03421, ECLI:EU:C:2009:260.

⁴⁹An example is the argumentation of the plaintiff in the “Nespresso” capsule dispute. The patent owner submitted that the capsule is deemed to fully finalise the manufacture of the coffee machine and that an unauthorised producer of capsules would indirectly direct the consumer to violate the patent. The Higher Regional Court of Düsseldorf (Oberlandesgericht, hereinafter OLG) rejected this chain of arguments (OLG, 16.08.2012, 4b O 81/12).

⁵⁰This was the underlying rationale of the CJEU in C-16/03, *Peak Holding* [2004] (supra n 48) para 56.

⁵¹The restrictions to EU-wide exhaustion for the cinematographic industry would qualify as such an exemption, as adjudicated by the ECJ in *Coditel I* (ECJ, 06.10.1982, Case 262/81, *Coditel I*, ECR 03381, ECLI:EU:C:1982:334).

⁵²Such as exclusive distribution systems, regulated by the EU Block exemption on vertical restraints (Reg 330/2010, OJ of 23.04.2010, L-102, 1).

⁵³Historically, property law contained those clauses via title transfer rules. Preconditions such as transfer of possession (German Law) or consideration (Common Law) limited the effect of bilateral

violated, exhaustion will not occur.⁵⁴ It is unclear if proponents of the principled approach defend good faith acquisition in the later chain as an institution which eliminates remedies against third parties. The central questions revolve around three questions: to what extent should the owner be able to retain control;⁵⁵ to what extent can exhaustion be ‘contracted around’,⁵⁶ and to what extent are third parties protected against IP holders who extend exhaustion⁵⁷ and against non-obvious restraints.⁵⁸

These problems have been exacerbated by exempting rental and lending of copyrighted works from exhaustion,⁵⁹ rules originally conceived as singular excep-

restrictions on third parties. So did the rule on “no restraints on alienation”, equivalent in continental jurisdictions such as § 137 BGB (explicitly acknowledged by the Reichsgericht in RGZ, 16.06.1906, 63, 394 – *Koenigs Kursbuch*).

⁵⁴This is the rationale of the CJEU in C-59/08 *Copad* [2009] (supra n 48) para 51.

⁵⁵In this regard, even Hanns Ullrich is ambiguous. In framing the first sale doctrine as a result of market structures (Hanns Ullrich 2012, supra n 5) he grants wide discretion to the owner (Karlheinz Konrad, Daniela Timm-Goltzsch and Hanns Ullrich 2006, supra n 22) para 749. This opens the door for misinterpretations; see Reto Hilty (2001, supra n 25) at 262 n 290, where Reto Hilty (to my understanding wrongly) classifies Ullrich as a scholar advocating the implied contract theory.

⁵⁶The tone of debate *in this regard* is very different in the US compared to the EU. The reference to contractual remedies while denying proprietary remedies appears already defensive in the US (Shubha Ghosh, ‘Patent Exhaustion on Trial in the United States’ in Mark Perry (ed), *Global Governance of Intellectual Property in the 21st Century* (Springer 2016) 51-70; Shubha Ghosh, ‘Incentives, Contracts, and Intellectual Property Exhaustion’ in Irene Calboli and Edward Lee (eds), *Intellectual Property Exhaustion and Parallel Imports* (Edward Elgar 2016) at 3-22; for the tone of the European debate see Lucie Guibault, *Copyright Limitations and Contracts* (Kluwer 2002).

⁵⁷This situation is especially critical for suppliers of machine parts to a user who is arguably “finally manufacturing the product” (supra n 43). In the cumulation of defining the (commercial) user as “finisher of manufacturing” and the (full) responsibility for the supporting action of the main violator under the doctrine of indirect violation (§ 10 German Patent Law (hereinafter German PatG); Art 26 UPC-A), the IP holder has (under European law) an injunctive relief against the third-party supplier (I owe the clarification of this consequence to Rudolf Krasser, 28 February 2020), if the supplier “knew” or “could have known” that the user was violating (or would violate) the patent (the violation does not have to have occurred yet), Rudolf Krasser and Christoph Ann, *Patentrecht* (7th edn, Beck 2016) § 33 VI at 830-841. The European protection standard in this regard is relatively higher compared to US 35 USC § 271(c) which requires the violation to have occurred. With regard to the necessary standard as to when the supplier should have known, the US Supreme Court commanded in *Global-Tech Appliances Inc v SEB SA* (131 S Ct 2060, 2067-68 [2011]) a strict “willful blindness test”, where the plaintiff bears the burden for “plausible facts”.

⁵⁸For proprietary remedies the situation is complex. Not only are property remedies divided in injunction (no fault required) and damages (fault required). Whether or not proprietary remedies are available may depend on the (non-cogent) legislative equation of contractual and proprietary violation (eg § 15 II sentence 2 German PatG). In addition (conceptually related), third-party protection by rules of good faith acquisition is unsettled in the IP field; see *infra* Section 3.

⁵⁹A development the EU Commission identified as prompted by the *Coditel* cases (C-62/79 [1980] ECR I-881; C-262/81 [1982] ECR I-3381, supra n 51) and which was legislated in the EU from 1991 on, although not mandated by the WIPO World Copyright Treaty (WCT), as explained by Caterina Sganga (2018, supra n 15 at 217 para 20). However, the *Coditel* cases do not require to be

tions to the rule.⁶⁰ In addition, other ‘inside’ IP measures, like the private use/private copies exemptions,⁶¹ and ‘outside’ institutions, like antitrust law, have lost the rigidity to shield secondary markets and consumer markets from the IP reach-through due to generous block exemptions. With many countries paralleling a contract violation with an IP violation, at least by the direct contract partner,⁶² the pressure has risen to also accept post-sale restraints.

Currently, we observe a counter movement. Jens Schovsbo takes as his starting point the analysis that the prerequisite of *consent* ‘does not refer to national contract law but to harmonized trade mark law’. He concludes that courts should read into each individual case the exhaustion policy decision underlying the Community/Union act.⁶³ Under this premise, exhaustion is neither ‘subjective’ nor ‘objective’, but dependent on the legal act.⁶⁴ Poorna Mysoor combines the implied contract doctrine with overriding public policies.⁶⁵ She gives preference to the implied contract doctrine, unless public policies deserve cogent recognition. The problem here is which policies are cogent. She only considers property and free trade, mentioning competition only once. The intricacies of who to incentivize remain out of the picture. The test submitted by Durantaye and Kuschel⁶⁶ or Sganga⁶⁷ reflect

read as exemption to exhaustion as such, but rather as an exemption to community exhaustion! On the global parallel developments: Shubha Ghosh and Irene Calboli (2018, supra n 15) at 192-198.

⁶⁰ Axel Funk and Gregor Zeifang, ‘§ 1 – Urheberrecht’ (2006, supra n 22) at 75 para 43.

⁶¹ The paradigm shift occurred with the Napster case in 2001 (239 F3d 1004 [9th Cir]), not only in the US but also in Europe.

⁶² Eg Germany: § 15 Sec 2 German PatG; CJEU Case C-16/03 *Peak Holding* [2004] (supra n 48); CJEU Case C-59/08 *Copad* [2009] (supra n 48): the only exception: the EU border control measure regulation explicitly exempts mere contract violations; cf Art 1(5) EP and Council Reg (EU) 608/2013 concerning customs enforcement of intellectual property right (OJ of 29.06.2012, EU L 181/15).

⁶³ Jens Schovsbo (2012, supra n 13) at 186: “the effects of the will of the parties is measured according to the rules in EU legislation”.

⁶⁴ His example is Art 7(2) Dir 2015/2436 (former Dir 2008/95/EC) “where the condition of the goods is changed or impaired” (two conditions which emerged from CJEU case law).

⁶⁵ Poorna Mysoor (2018, supra n 3).

⁶⁶ Though arguably only for copyright: Katharina de la Durantaye and Linda Kuschel (2016, supra n 15).

⁶⁷ Caterina Sganga (2018, supra n 15).

Ghidini's quest for 'constitutional balance', which needs to be explored in more depth (*infra* 4).

Still unresolved is the public-private interface,⁶⁸ embodied *inter alia* in the question who shall be entitled,⁶⁹ and how strict the rule needs to be.⁷⁰

Overall, specifications can be formulated between the two extreme positions of 'no exhaustion' and the principled invalidity of contractual bounds: a 'weak', a 'moderate' and a rather 'strong' ('sticky') version of the first sale doctrine.⁷¹ From a bird's-eye perspective, it appears that the German Supreme Court until the mid-20th century, backed up by literature,⁷² adhered to the 'rather strong version', holding contracts invalid which reach beyond exhaustion. The argument appeared logical, and was buffered by the remuneration argument. The remuneration theory grants the owner just one opportunity to generate profit.⁷³ With the overall trend in competition law to hold vertical restraints more efficient than detrimental, legislatures and courts globally moved to the other side of the spectrum.⁷⁴ In addition, with an EU-test rationale in place which rests on 'justifying' otherwise prohibited measures (fundamental freedoms test, [now] Art. 101 III AEUV), the thought pattern has changed;

⁶⁸ A perspective still vibrant in Kohler's reflections on "Benützungformen", most evident from the formulation of his first principle. Josef Kohler, *Handbuch des deutschen Patentrechts* (first published 1904, Scientia 1980) at 452: "Jedes Patent gibt sämtliche genannte Ausübungsrechte, soweit sie nach der Art der Erfindung möglich sind: es ist unstatthaft, etwa ein Patent zu erteilen mit bloßem Gebrauchs, ein anderes mit bloßem Herstellungsrecht" (old orthography in the original). Here, Kohler formulates design rules which "translate" the public privilege into a property right.

⁶⁹ Hanns Ullrich (2012, *supra* n 5) para 106 clarifies that a placement of exhaustion in market freedoms results in a private enforcement scheme (which depends on the willingness to defend the position), whereas a placement in competition policy results in an entitlement of the state.

⁷⁰ The political underpinnings remain. Those who put the implied license first fear the "curtailment of the rights", eg Poorna Mysoor (2018, *supra* n 3) 683.

⁷¹ Ariel Katz (2014, *supra* n 39) at 61-63; further elaborated by Olena Ivus. Edwin Lai and Ted Sichelman (2017, *supra* n 13) at 33: "When transaction costs are low, the regime of opt-out patent exhaustion is socially optimal, at least statically, because it allows welfare-enhancing price discrimination via downstream licensing. Conversely, when transaction costs are high, the regime of opt-out leads to a greater loss of static efficiency". In other words (at 34): "When transaction costs are large, [...] mandatory exhaustion is more likely to be optimal. If not, presumptive exhaustion is more likely to be optimal."

⁷² Dietrich Reimer, 'Der Erschöpfungsgrundsatz im Urheberrecht und gewerblichen Rechtsschutz unter Berücksichtigung der Rechtsprechung des EuGH' (1972) GRUR Int 221, 227.

⁷³ Karlheinz Konrad, Daniela Timm-Goltzsch and Hanns Ullrich (2006, *supra* n 22) para 728 with references to case law; also Rudolf Krasser, *Patentrecht* (5th edn, Beck 2004) 820.

⁷⁴ It would be mistaken to assume that the principle does not allow for balancing as reasoned by Jens Schovsbo (2012, *supra* n 13) at 172. For an economic analysis of this argument see Ariel Katz (2014, *supra* n 39). His focus though is to analyse the efficiency argument, which supports relaxing antitrust standards for post-sale restraints. He shows that the very same efficiency does not support the abolition of the first sale doctrine altogether. He identifies efficiency gains for cases of imperfect vertical integration, but he advocates for modern policies on resource efficiency and downstream innovation to justify exhaustion. He supports rules which flow from the "sticky" first sale doctrine.

no automatism is required. This is the background against which the courts' argumentation in *Kanzi* and *Lexmark* has to be analysed.

2.2 *Kanzi* (CJEU 2011⁷⁵)

The *Kanzi* decision revolves around a modern so-called 'club variety' business model. It combines the plant breeders' right with a trademark. In this business model, licensed producers pay a license fee, commit to process standards and submit to territorial exclusivity, a no-resale obligation for trees, and a marketing concept, which includes an exclusive distribution network and product standards. Thus, 'club varieties' mimic industrial production and distribution chain contracts. *Kanzi* is the trade name of the apple variety 'Nicoter', which is a crossbreed between the varieties of 'Gala' and 'Braeburn'. In this case, all rights were transferred to a single marketer (at the time of the lawsuit: Greenstar Kanzi Europe—GKE). Originally, the novel crossbreed was the result of a cooperative research project between the University of Leuven (Belgium) and the nursery 'Jo Nicolai' in 1992. 'Nicoter' was granted European Plant Variety protection in 2001 and US patent protection in 2006. Nicolai transferred its rights to 'Better3Fruit', a start-up of the University of Leuven, in exchange for an exclusive license to produce trees and apples, and, under specific conditions, to transfer trees to third parties, including a chain clause.

The central issue in *Kanzi* is whether Nicolai's contractual obligation vis-à-vis 'Better3Fruit' not to sell trees without the transfer of all license obligations has an effect on exhaustion. In 2004, Nicolai sold 7000 trees to Mr. Hustin, who the Court qualifies as a 'grower'.⁷⁶ The contract transfers the license to produce, but it does not include the chain clause (here: the duty to contract with GKE). Mr. Hustin later supplied the trees to Mr. Goosens, who brought *Kanzi* Apples to the market in 2007. Does GKE have a right to an injunction against Mr. Hustin and Mr. Goosens?

Advocate General (AG) Jääskinen proposed limiting the contractual obligations to the contract parties,⁷⁷ and argued for an objective approach to the license agreement.⁷⁸ He openly submitted that the Court may reject the precedent in

⁷⁵ See supra n 1.

⁷⁶ On the selection of cases see supra n 12. A "grower" (in *Kanzi*) is not a "duplicator" (as in *Bowman*). This is, first, a factual difference between the two cases. A grower buys plants from the breeder, thus operates at a second market stage. As explained by the USSC in *Bowman*, a duplicator is not a "second successive stage". Second, the farmer *Bowman* was not "in good faith". That would not have mattered had the IP right been exhausted. Yet, in *Kanzi*, the protection of a good faith purchaser was the central argument for the GA to deny *in rem* effects of the chain clause in question.

⁷⁷ CJEU Case C-140/10 *Kanzi* [2017] ECLI:EU:C:2011:463, Opinion of AG Jääskinen, paras 49 and 52; the central argument of the Belgian first-instance court (Antwerp Commercial Court) in *Kanzi*, and the French appeals courts (Court of Appeal in Paris, Court de Cassation) in *Copad* (see Opinion of the CJEU, C-59/08) para 12.

⁷⁸ CJEU Case C-140/10 *Kanzi* [2017] Opinion of AG Jääskinen (supra n 77) para 57.

*Copad*⁷⁹ based on the argument that the trademark system and the plant breeders rights differ.⁸⁰ The Court, however, does not follow. Although it departs from the Regulation's distinction between propagating material and harvested material, the Court assigns, in contrast to the AG,⁸¹ only a procedural meaning to the distinction (paras 26–29), and finds no conclusive guidance for the case. The Court turns to Art. 16 Reg. 2100/94, which regulates exhaustion for plant breeders' rights. Because the law is silent on third-party effects of contractual violations, the Court turns to *Copad*. It reiterates the two central elements of exhaustion (first market placement and consent), and refers to recital 14 of Reg. 2011/94 ('protection [...] is not to be excessive'). At this point the Court reasons that 'an infringement of any clause [...] does not always result in a vitiation of the [right] holder's consent. In particular, that consent cannot be considered to be vitiated where the [licensee] contravenes a provision of the licensing contract which does not affect the consent to the placing of the goods on the market and therefore has no effect on the exhaustion of the holder's right'.⁸² If, however, the violation relates directly to the *essential features* of the right, the material was placed on the market without the holder's consent, so that the right is not exhausted.⁸³ In one aspect the Court concurs with the AG:⁸⁴ it infers from Art. 94 Reg. 2100/94 that good faith of the third party is irrelevant (para 48), and refers the case back to the referring court to determine whether an *essential feature* was violated.⁸⁵

The facts of the case leave open whether the grower knew about the contractual restraints between Nicolai and Better3Fruit. Based on the rationale that good faith is irrelevant, the clarification was neither important for the AG, nor for the Court. The AG's argumentation rests on the privacy of contract; the Court's rests on a proprietary rationale: The instance court may clarify whether the violation of the contract (sic: between the owner and the first licensee) amounts to 'a' property right violation (of the third party). This would be the case if the violation relates directly to an *essential feature* of the right. The disregard of the expected 'standard knowledge' flies in the face of any property lawyer: The 'standard of knowledge' is an essential element of property systems. It is at the heart of principles, transfer rules and economics. In rejecting the systemic relevance between Art. 13 and 94 Reg. 2100/94, the Court disregards the normatively protected expectation of third parties, in this case the expectations of growers under a breeders' right system.

⁷⁹Ibid para 46; CJEU Case C-59/08 *Copad* [2009] ECR I-3421, ECLI:EU:C:2008:672, Opinion of AG Kokott; CJEU Case C-16/03, *Peak Holding* [2004] ECR I-11313, ECLI:EU:C:2004:324, Opinion of AG Stix-Hackl – territorial resale restrictions.

⁸⁰CJEU Case C-140/10 *Kanzi* [2017] Opinion of AG Jääskinen (2017, supra n 77) para 50.

⁸¹Ibid para 36.

⁸²CJEU Case C-140/10 *Kanzi* [2017] para 41.

⁸³CJEU Case C-140/10 *Kanzi* [2017] para 43.

⁸⁴Ibid para 62.

⁸⁵Appellate Court Ghent, 01.12.2014, 2012/AR/2038, decided the contractual violation be an "essential feature".

The question is: why did the Court find neither guidance in the system's differentiation between 'variety constituents' and 'harvested material',⁸⁶ nor in the characteristics of statutory breeders' and farmers' rights? The Court, however, found guidance for the limited effect of contractual violations on exhaustion in recital 14. Yet, the case-characterizing overlap of the trademark and the breeder's system is not reflected. These two systems, however, have different goals. Trademark aims at distinctions in the market place (which necessarily must survive the supply chains). Breeders' rights aim at a comparatively open innovation system, with secure freedom to operate for colleague breeders and farmers. The so called 'cascade solution' is part of this fine-tuned plant variety system.⁸⁷ While breeders' and farmers' rights were not directly at stake in *Kanzi* since the case dealt with 'growers and traders', it was the task of the Court to balance the breeders' rights system against the trademark system: To what extent can limitations be contracted out with effect on third parties? It is a blatant statement that the Court rejects the relevance of (good faith) expectations of market participants, if proprietary remedies depend on normative evaluations of contract violations as infringing on 'essential' or 'non-essential features' of property rights. This raises the recently newly tabled question of the 'numerus clausus' in IP law.⁸⁸

What is an 'essential feature' of a property right? Is a 'feature' distinct from a 'function', a term the Court had used until then?⁸⁹ What is the effect of the argument to distinguish 'essential' from 'non-essential' features? The CJEU first employed the term 'feature' in *Kanzi*, and picked it up again in *Usedsoft*. In both decisions, the court used the argument in order to decide at what point a contract violation amounts to a violation of property, only it came to inverse conclusions.⁹⁰ Exactly because of the *in rem* effect, these cases go to the heart of modern functionality of property in contractual networks, and are on the table of courts worldwide. This is the parallel to the USSC *Lexmark* decision in 2017, only that Mr. Hustin and Mr. Goosen are professional growers (not consumers). A grower, in terms of producing plants, is a normal professional. According to the published facts of the case, Mr. Hustin and Mr. Goosens were not part of a contractual production scheme. It is unclear if they were familiar with the 'club variety' business model.⁹¹ The problem at hand is as old as the concept of modern property for the purposes of production and trade: Can

⁸⁶The so called "cascade solution"; see Christine Godt, '§ 10' in Axel Metzger and Herbert Zech (eds), *Sortenschutzrecht* (Beck 2016) para 40.

⁸⁷*Ibid.*

⁸⁸Christina Mulligan, 'A Numerus Clausus Principle for Intellectual Property' (2013) 80 *TennLRev* 235; Thomas W Merrill and Henry E Smith, 'Optimal Standardization in the Law of Property: The Numerus Clausus Principle' (2000) 110 *YaleLJ* 1, 4.

⁸⁹*Eg* in the *Coditel I* and *II* (1982, *supra* nn 51, 59).

⁹⁰CJEU Case C-140/10 *Kanzi* [2017] (*supra* n 1) – possibly no exhaustion, back-referral to the national court); CJEU Case C-128/11 *Usedsoft* [2012] (*supra* n 6) – possibly exhaustion, back-referral to the national court.

⁹¹CJEU Case C-140/10 *Kanzi* [2017] Opinion of AG Jääskinen (*supra* n 77) para 23, and the decision (*supra* n 1) para 15 convey the same information: "On 24.12.2004, Nicolai sold 7 000 apple

contractual restrictions limit third parties' freedom to operate? Or inversely: How far does the property power extend? Does it matter if the third party knew or could have known? The re-emerged importance of the delimitation of property and contract caught public attention when those licensing nets became public that have been knitted around key technologies by universities – apportioning and allocating markets.⁹² Jens Schovsbo wrote in a contribution published in 2012 that the European Court of Justice subscribed to the principled approach.⁹³ With this decision, at the latest, the CJEU took a turn. By employing its essential–nonessential distinction, the court upgraded the 'consent side' of the definition. The essential–nonessential distinction sidelines the statutorily molded expectation of market participants, and unjustifiably strengthens the position of the IP owner.

The essential–nonessential feature distinction has to be opposed for four reasons. First, it neglects the interests of trade. The CJEU's disrespect for the GA's argument is not understandable. Good faith acquisition protects legitimate expectations, and is—from a civil law perspective—a central principle to protect free trade. The common law equivalent in this context⁹⁴ is the principle 'no restraints on alienation'. The Court's deviation from this bulwark of property thought cannot be explained.⁹⁵ Second, the distinction between essential and nonessential features shifts the determination of exhaustion in practice towards what the property holder deems essential. This turn to an upgrade of the subjective elements stands in contrast to the turn in case law since the mid-1990s, which has strengthened the objective limits inherent to property. In *Magill*,⁹⁶ the leading case for the relationship between IP rights and competition (and very influentially commented on by Hanns Ullrich⁹⁷), the CJEU inversed the former 'existence–exercise divide' and re-conceptualized intellectual

trees of the Nicoter variety to Mr Hustin. In that transaction, Mr Hustin did not undertake to comply with any particular conditions with regard to the growing of the apples or the sale of the harvest."

⁹²Jorge L Contreras and Jacob S Sherkow, 'CRIPS, Surrogate Licensing, and Scientific Discovery' (2017) 355 *Science* 698-700; for an analysis centered on genome editing technology see Christine Godt, 'The Appropriate Scope of IP Rights in the Area of Genome Editing' in Tade Spranger (ed), *Genome Editing under Gene Technology Law* (Lexxon 2021) 44.

⁹³Jens Schovsbo (2012, *supra* n 13) at 175.

⁹⁴The common law does not recognise good faith as a general principle. It is a subordinated element to the "notice" requirement: Alison Clarke and Paul Kohler, *Property Law* (CUP 2005) 518. The role of information in the protection of market participants, the transaction costs involved, and the structure of the market stages are important elements which justify the exhaustion principle.

⁹⁵Not by the composition of the court, since the majority of the *Kanzi* judges were socialized in the civil law tradition: A Tizzano, President of the Chamber, M Safjan, M Ilešič, E Levits and JJ Kasel (Rapporteur).

⁹⁶CJEU joined Cases, 06.04.1995, C-241/91 P and C-242/91 P *Magill* [1995] ECR I-743, ECLI:EU:C:1995:98; the most recent refinements are formulated by CJEU, 16.07.2015, Case C-170/13 *Huawei* [2015] ECLI:EU:C:2015:477 and CJEU, 04.10.2011, Case C-429/08 *Karen Murphy* [2011] (*supra* n 46).

⁹⁷Hanns Ullrich, 'Intellectual Property, Access to Information, and Antitrust' in Rochelle Dreyfuss, Diane L Zimmerman and Harry First (eds), *Expanding Boundaries of Intellectual Property* (OUP 2001) 365.

property rights as a means of competition. Similar to *Kanzi*, the *Magill* Court had to answer the question of how far the owner's control may reach. In this case, a publisher had requested access to BBC TV listings (which were IP-protected in Ireland) in order to bring out a compiled overview of daily programs. The Court found that the innovation interest of the public cannot be overridden by an IP right. It held that IP rights are limited by the (objective) principles of competition. Under the condition that the product is new and depends on utilizing the preceding IP right,⁹⁸ the owner is obliged to grant a license (again, with remuneration⁹⁹). In contrast to *Magill*, the CJEU in *Kanzi* upgrades the subjective element (the 'will', consent). Thereby, it (again) reconfigures property as a rule and restrictions as exemptions.

The third reason to reject the essential–nonessential feature distinction is that it undermines the adjudication for those business models which depend on the qualification to be exempt from exhaustion, such as in the case of classical cinematography.¹⁰⁰ Such an exemption cannot be grounded on subjective will, but requires a thorough analysis of the peculiarities and an authoritative exemption. Fourth, the recurrence to an 'essential function' of the plant breeders' right does nothing to resolve the tension of the given case, namely the overlap of the plant breeders' system and the trademark system. Instead, it undermines the balance of market participants in the plant business as legislated by the plant breeders' system, it thwarts the expectations of plant growers and it disrespects the fine-tuned exhaustion for this sector set out in Arts 13 ff. Reg. 2100/94.¹⁰¹ The (undisclosed, and therefore illegitimate) consequence of this conceptualization is that the trademark system trumps the specificities of the breeders' system.

2.3 Lexmark (*USSC 2017*)

In *Lexmark*, the US Supreme Court took the opposite stance. It triggered great public involvement.¹⁰² The case dealt with the business model of Lexmark, a manufacturer of printer and toner cartridges. Lexmark markets its patent-protected ink cartridges on a double track. Refillable cartridges are more costly than non-refillables. For 'regular' cartridges, the absolute title is transferred to the buyer. 'Return' cartridges

⁹⁸Fine-tuned (and distinguished) by CJEU, 26.11.1998, Case C-7/97, *Bronner* [1998] ECR I-7791, ECLI:EU:C:1998:569.

⁹⁹Hanns Ullrich, 'Patente und technische Normen' in Matthias Leistner (ed), *Europäische Perspektiven des Geistigen Eigentums* (Mohr Siebeck 2010) 14 at 89.

¹⁰⁰*Coditel* I and II (1982, supra nn 51, 59).

¹⁰¹For the finetuning by reversal of proof: Christine Godt, 'Art 16 GSortG' (2016, supra n 84) at 250, para 8.

¹⁰²The court was supported by numerous amicus curiae briefs (<https://www.scotusblog.com/case-files/cases/impression-products-inc-v-lexmark-international-inc/> accessed 1 March 2022), including a noteworthy paper by IP professors who used the intervention as an educational clinic, a fine compilation of literature.

are not allowed to be re-filled or transferred. They are secured by a microchip which sends signals to the printer indicating the toner level and preventing the printer from being used with refilled cartridges. After the Supreme Court had previously ruled in 2014 that the violations of respective limitations are, for domestic sales, contract violations, but not (in that case) copyright violations,¹⁰³ the case at hand focused on imported cartridges, and therefore on international exhaustion. With reference to its prior decision in the copyright case in *Kirtsaeng v. John Wiley* in 2013, the Supreme Court unanimously found that Lexmark's patent rights are exhausted upon first sale domestically for 'regular' and 'return' cartridges alike. Restrictions remain enforceable under contract law. For international exhaustion, the majority (7 of 8 justices) aligned *Lexmark* (patents) with *Kirtsaeng* (copyright). Not only did the Court find that 'differentiating between the patent exhaustion and copyright first sale doctrines would also make little theoretical or practical sense'. It found that the common law rule against restraints on alienation is not limited by the territoriality of patent statutes.¹⁰⁴

More important for the present inquiry, the Court rejected the idea of an express-reservation rule:¹⁰⁵

The theory behind the express-reservation rule wrongly focuses on the expectations of the patentee and purchaser during a sale. More is at stake when it comes to patent exhaustion than the dealings between the parties, which can be addressed through contracts. Instead, exhaustion occurs because allowing patent rights to stick to an already-sold item as it travels through the market would violate the principle against restraints on alienation. As a result, restrictions and location are irrelevant for patent exhaustion; what matters is the patentee's decision to make a sale.¹⁰⁶

Previous to *Lexmark*, with *Quanta* the USSC had reacted to the CAFC theory of 'partial conveyance', which implied the application of the common law's 'nemo dat' rule¹⁰⁷ to this instance.¹⁰⁸ *Quanta* was perceived as the USSC 'reconceiv[ing]

¹⁰³ 'Case Comment: Lexmark International, Inc v Static Control Components, Inc' (2014) 128 HarvLR 321–330.

¹⁰⁴ Thus openly rejecting the preceding Federal Circuit Court's rationale (2016) that patent law trumps common law. Supreme Court (2017): "The territorial limit on patent rights is no basis for distinguishing copyright protections; those do not have extraterritorial effect either. [...] Exhaustion is a distinct limit on the patent grant, which is triggered by the patentee's decision to give a patented item up for whatever fee it decides is appropriate. The patentee may not be able to command the same amount for its products abroad as it does in the United States. But the Patent Act does not guarantee a particular price. Instead, the Patent Act just ensures that the patentee receives one reward—of whatever it deems to be satisfactory compensation—for every item that passes outside the scope of its patent monopoly."

¹⁰⁵ In this regard "cleaning up loose ends from *Quanta*" (cf Burk, supra n 12). The case involved a "written notice requirement", in principle a duty to transfer the restriction. In that case, the information was "suppressed" on legal grounds because it was linked to a classical price maintenance obligation violating competition law.

¹⁰⁶ 581 US 1523 (2017) 13–18.

¹⁰⁷ A doctrine of common law property, Alison Clarke and Paul Kohler (2005, supra n 92) 393–402.

¹⁰⁸ As Herbert Hovenkamp (2010, supra n 8) explains at 487, 502: 'since a seller can only convey as [much of a] good of title as he possesses, downstream purchasers were also subject to the conditions

conditional sales to be a matter of contract law rather than property’,¹⁰⁹ yet the rejection of the ‘conditional sale doctrine’ remained contested.¹¹⁰ Against this background, the public reacted strongly to the *Lexmark* ruling. The ruling ‘dramatically extends the reach of patent exhaustion’.¹¹¹ ‘It’s good for consumers’.¹¹² Industry will reinforce contractual enforcement.¹¹³

In *Lexmark*, the USSC might have overstretched the historical reference to Lord Coke of 1628. It thereby conveyed the impression that the court hides behind old doctrine. Yet, this *lex ante* approach only rebutted the *lex posterior* approach of the Court of Appeals for the Federal Circuit. What qualifies the USSC decision as strong is that it consolidated clear objective limits to the scope of IP.¹¹⁴ The Court deliberately worked on exhaustion as a safeguard against power exerted ‘through the chain’. Chief Justice Roberts writes: ‘extending the patent rights beyond first sale would clog the channels of commerce, with little benefit from the extra control that the patentees retain’.¹¹⁵ Like the CJEU, the Supreme Court carves out the principle of exhaustion as an objective confine to the exertion of property. However, in contrast to the CJEU, the Supreme Court does not develop the argument by departing from the subjective will of the patent owner. The court construes ‘first marketing’ as a fact which is to be objectively defined, not subjectively by reference to the owner.

2.4 Analysis

The inverse results of the two decisions reveal central teachings for the exhaustion principle. Exhaustion is not only about the interface of IP and competition law. It is as such about the relationship of property and contracts. The question of whether contractual terms survive the first marketing (in order to exert proprietary remedies

of the original sale’. When acting outside the limited granted use, the patentee can sue for both patent infringement and breach of contract.

¹⁰⁹Christina Mulligan (2013, supra n 86) 283.

¹¹⁰Ibid at 284 with further references to the dispute.

¹¹¹Newsletter of Cleary Gottlieb, ‘Alert Memorandum, The Supreme Court’s *Lexmark* Ruling on Patent Exhaustion: The Strategic Implications for Patentees’ 05 June 2017 <<https://client.clearygottlieb.com/51/323/uploads/2017-06-05-the-supreme-court-s-lexmark-ruling-on-patent-exhaustion%2D%2D-the-strategic-implications-for-patentees.pdf>> accessed 1 March 2022.

¹¹²Marc Lemley, cited by Adam Liptak and Vinu Goel, ‘Supreme Court Rules Patent Laws Can’t Be Used to Prevent Reselling’ *New York Times* (New York, 30 May 2017) <<https://www.nytimes.com/2017/05/30/business/supreme-court-patent-rights-lexmark.html>> accessed 1 March 2022.

¹¹³Cleary Gottlieb (2017, supra n 109) 3-5.

¹¹⁴In this regard, it should have satisfied also Herbert Hovenkamp, who had earlier criticized the CAFC for the transaction costs the “conditional sale doctrine” produces (2011, supra n 8) at 502-503.

¹¹⁵US Supreme Court, *Lexmark* Syllabus, 581 US (2017) 7-8.

against the buyer) is only a prerequisite. The core of the contemporary debate aims at claims along the chain downstream and at economies of scale; the interest is in *in rem* rights against third parties (including consumers).¹¹⁶ *Kanzi* and *Lexmark* unite in the question: Can the freedom of contract reside over exhaustion?

The existing ambiguities have several origins. Apart from the two original theories (infra 2), legislative intervention, partly reflecting judicial adjudication, has added differentiation.¹¹⁷ Patent and plant variety laws (as they currently are in effect) stipulate that contract violations give rise to property violation, but only with regard to the licensee.¹¹⁸ The rules aim at licensed producers who overstep volumes or time lines. Trademark regulations exempt exhaustion ‘where there exist legitimate reasons, especially where the condition of the goods is changed or impaired’.¹¹⁹ Supplementary rules condition license violations to become property infringements.¹²⁰ These rules limit the forms of contractual violation that qualify as infringement, and remedies can only be brought against the licensee.¹²¹ They distinguish between impairment of products (which impair the good will, thus the property title, and therefore grant *in rem* rights), and violations of contractual relationships (*no in rem* rights). Only the youngest norm, Art. 6 Reg. 1257/14 on the European Patent with unitary effect, which is not yet in effect, mixes formulations. It adopts the formulation of the trademark exhaustion model, but omits the qualifications.

It is against this background that the quadrangle of CJEU, USSC, GA Jääskinen (in line with the lower instance courts in *Copad*¹²²) and the CAFC are to be interpreted. Against the two basic concepts of implied contract (contract violations escape exhaustion: the ‘separation model’ of proprietary and contractual remedies) and the principled approach (contracts do not survive exhaustion) (supra 2.1), an additional model has emerged under which unconditioned *in rem* rights become available, expanding proprietors’ control. It exempts exhaustion for specific

¹¹⁶The proposed rule in Art 6 Reg 1257/14 (supra n 4) covers the chain downstream, as does § 24 Sec 2 German Trademark Act = Art 7(2) Dir 2008/95/EC EC Directive on Trademark Harmonisation.

¹¹⁷Most importantly, exhaustion is differently formulated for copyright and in ‘industrial’ property (patents, trademark). The idea is that in copyright, exhaustion applies only to the right of dissemination, except rentals (§ 17 Sec 2 German Copyright Act). This reasoning is reflected by inverse wording (explicit permission). As a matter of principle, exhaustion does not extend to unauthorised copies. In patent and trademark law, it is argued that the exhaustion ‘limits the property right’, and does not apply to the right to manufacture or branding. From this perspective, exhaustion leaves the underlying property right intact. Conceptually, exhaustion does not split property (remedies) from contractual remedies (cf however Shubha Ghosh).

¹¹⁸§ 15 Sec 2 German PatG, § 11 Sec 3 German Plant Varieties Code.

¹¹⁹Reflecting ECJ-Case law on repackaging, C-102/77 *Hoffmann-La Roche* [1978] (supra n 6); more recently, CJEU, 26.04.2007, Case C-348/04 *Boehringer Ingelheim et al* [2007] ECLI:EU:C:2007:249.

¹²⁰GA Jääskinen saw these differences, C-140/10 (2017, supra n 77) at para 50.

¹²¹§ 30 MarkenG; Article L713-4 French Code de la Propriété Intellectuelle; Art 8 Dir 2008/95/EC on Trademark Harmonization; Art 16 Reg 2017/1001 Union Trademark.

¹²²Court of Appeal Paris and Court of Cassation (C-59/08 *Copad*, supra n 48) para 12.

situations (business models, impaired goods, rentals). The justification is that ‘essential’ features/functions of the IP rights would otherwise be impaired.

In addition, there is confusion as to the basic conceptions of property. How is third-party protection conceived? The standard answer in IP is exhaustion. Yet, as the cases reveal, open questions trigger intuitions which are differently framed in different jurisdictional traditions. Reference is made to ground rules of (tangible) property law such as the ‘rule against alienation’ as stipulated by judges in 1625 (*Lexmark*), good faith acquisition (*Kanzi*) or the *numerus clausus* (US literature). Yet all these concepts are contested. All limit the property owners’ reach beyond property via contracts. These concepts are not only contested for economic interests; jurisdictions have developed different answers molded in unique institutions which shape the intuitions of lawyers, as evidenced in the argumentation.

Hovenkamp argues¹²³ that the ‘conditional sale’ concept is conceptualized as an expression of the common property law ‘*nemo dat*’ principle.¹²⁴ This rule is rooted in the common law. It exerts strong property protection, whereas the concept of ‘good faith acquisition’ is rather weak in common law and conceptualized as an exception. Common law provides third-party protection by equity,¹²⁵ which acknowledges third-party effects of contracts. In Europe, the civil law tradition does not accept the ‘*nemo dat*’ rule as a base principle.¹²⁶ Instead, it recognizes good faith acquisition as good title transfer, protecting free trade,¹²⁷ both in the form of title acquisition and in burden-free acquisition of title. Yet, civil law jurisdictions differ as to its extent. In the nineteenth century, German property law developed a rather strong good faith concept built on possession or registration.¹²⁸ The Roman traditions protect good faith *as far as* trust in registries is available, utilized and trustworthy. The difference between the Romance and German tradition is characterized by a different reflection on the contract–property divide.¹²⁹ In France, third-party protection is less provided by principle, but rather by way of an elaborate reflection on the situation, worthiness and rationale of third-party protection.¹³⁰ The

¹²³ Herbert Hovenkamp (2010, *supra* n 8).

¹²⁴ Alison Clarke and Paul Kohler (2005, *supra* n 92) 393-402.

¹²⁵ *Ibid* at 453 ff and at 669 ff.

¹²⁶ Only comparative property lawyers may conceptualise “*nemo dat*” as a base rule; cf Sjef van Erp, ‘General Issues: Setting the Scene’ in Sjef van Erp and Bram Akkermans (eds), *Property Law* (Hart 2012) 37, 53.

¹²⁷ In German law, the more famous institution of trade protection is the abstraction principle, which is not at stake here; for further reading see Christine Godt, ‘Regulatory Property Rights’ (2017) 6 EPLJ 158, 167.

¹²⁸ Granting strong third-party protection for property rights related to immovables by way of *public faith*, § 892 BGB.

¹²⁹ Reflected in the contentious debates about so called “Eurohypothecs” and non-possessory pledges.

¹³⁰ While the *numerus clausus* principle is assigned to the civil law tradition, it has lost much of its authority; see Bram Akkermans, ‘The Numerus Clausus Principle’ in Michele Graziadei and Lionel Smith (eds), *Comparative Property Law – Global Perspectives* (Edward Elgar 2017) 100-120;

legislative IP rules which require contract violations to give rise to proprietary remedies sit only uneasily with a principled divide of contract and property remedies.¹³¹ However, the recent reform of the French Code Civil reflects an openness towards combining contracts with proprietary effects.¹³²

In IP law, a conception of third-party protection is not well developed. A discussion on a ‘*numerus clausus*’ has remained purely academic. Burden-free good faith acquisition of title has been rejected.¹³³ Yet we see third-party effects of licenses emerging,¹³⁴ with regard to ‘grandchild licenses’ (once digital exhaustion has occurred),¹³⁵ and with regard to declarations in standardization processes concerning standard essential patents.¹³⁶ These developments counterbalance the legitimate expectations of a property holder with the legitimate expectations of the other market participants. It would be mistaken to conceptualize these expectations subjectively, as the terms ‘consent’ (in exhaustion) or ‘good faith’ (burden-free acquisition) might suggest. These expectations are embedded in market principles which form the economic order. Overall, today’s (mostly multi-jurisdictional) take on exhaustion has abandoned any automatism between property exhaustion and contract (in-)validity; respectively between contract violation and non-exhaustion. The default rule is: Where exhaustion occurs, the IP holder might be relegated to contractual remedies (*Lexmark*). However, those may or may not be valid; where exhaustion does not occur, proprietary remedies remain available (*Kanzi*).

Blandine Mallet-Bricout, ‘Le *numerus clausus des droits réels*: la fin d’un mythe’, *Conférences Albert Mayrand (19ème conférence)*, Thémis, 2017 (hal-01683344).

¹³¹ As Shubha Ghosh, ‘Patent Exhaustion on Trial in the United States’ (2016, supra n 56) formulates: “Under German legal doctrine, contractual post sale restraints are extensions of property control. Where exhaustion occurs, contractual terms fall under the scrutiny of competition law”.

¹³² Introducing 2013 “la fiducie”, see Blandine Mallet-Bricout, ‘Le Fiduciare: véritable pivot ou simple rouage de l’opération de fiducie’ (2013) 58 McGillLJ 905; and 2016 “une obligation réelle environnementale”, see Blandine Mallet-Bricout, ‘The “obligation réelle environnementale” in French law’ in Siel Demeyere and Vincent Sagaert (eds), *Contract and Property with an Environmental Perspective* (Intersentia 2020) 215.

¹³³ Discussed in proceedings of the CJEU Case C-140/10 *Kanzi* [2017] Opinion of AG Jääskinen (supra n 77) para 62; judgement (supra n 1) para 49. This concept would require one to accept that contracts, as far that they exert third-party effects (such as those contracts violations equalling property infringements stipulated by law; and those cases where contract violations hinder exhaustion to occur) are “burdens” to property.

¹³⁴ On the tensions of third-party effects of contract in general: Sjeff van Erp, *Contracts als Rechtsbetrekking* (Tjeenk Willink, 1990); Siel Demeyere, *Real Obligations at the Edge of Contract and Property* (Intersentia 2020).

¹³⁵ CJEU – *Usedsoft*, on contracts with *in rem* effect, Christine Godt and Jonas Simon (2017, supra n 15) 207.

¹³⁶ OLG Düsseldorf, 22.03.2019 - I-2U31/16, as proposed by Hanns Ullrich, ‘Patente und Technische Normen: Konflikt und Komplementarität in patent- und wettbewerbsrechtlicher Sicht’ in Matthias Leistner (ed), *Europäische Perspektiven des Geistigen Eigentums* (Mohr Siebeck 2010) 14 (94); on this decision Peter Picht in this volume.

Thus, linkage between contract and property again takes center stage. This is a far better analytic frame than inquiring into the nature of the contract.¹³⁷ The rental–sale distinction implies the risk of narrowing the inquiry to whether a tangible or an intangible object was transferred.¹³⁸ The ‘nature of the copy’¹³⁹ or the business model is chosen by the IP holder (distribution versus communication, even if ‘functionally interpreted’¹⁴⁰). The property–contract distinction can re-direct attention towards market structures (competition) and the conflict of interests involved (alienability as a systematic prerequisite; fundamental freedoms; self-direction and autonomy of users; third-party protection). For the analysis of the two cases, common teaching in textbooks on property can be kept in mind: It is because of the *in rem* effect that property entitlement has to be clearly limited, by inherent *and* by external boundaries. Inherent (private law) limits are set by private law, trade law and competition law. External limits are set by public regulations, like data protection or research law. Private law, as an institutional custodian, sets limits to restrictions of alienability (rule against perpetuities), restricts third-party effects of contracts (doctrine of ‘no contracts at the expense of third parties’), and legislates the prerequisites of property of when property might emerge, and which entitlements are assigned. Trade law vertically secures the liberties of traders to set prices as they wish and to sell to whom they want, most notably by installing the inherent boundary of exhaustion for IP rights.¹⁴¹ Competition law horizontally limits privately re-erected restrictions on competition, most notably by territorial exclusivity and prohibitions of non-compete agreements.¹⁴² Considering that we recently have begun observing numerous contractual restrictions to goods and services, the systematic setting in which property rights operate has to be taken into account.

The *Kanzi* decision of the CJEU is to be criticized for ignoring the conflict between the trademark and the breeders’ rights system.¹⁴³ Even if the reform of 1994 restricted the straightforward general breeders’ exemption, and abolished the privilege for vegetables altogether, in all other areas (here fruit trees) breeders expect use rights und growers expect freedom to operate. This is what Schovsbo meant with

¹³⁷ Concurring with Gustavo Ghidini (2018, supra n 15) 187; Poorna Mysoor (2018, supra n 3) 678.

¹³⁸ A problem which a concept based on implied consent, such as proposed by Poorna Mysoor (2018, supra n 3), perpetuates.

¹³⁹ Ibid at 683 – a concept which remained opaque to the author.

¹⁴⁰ Mihály Fisor, *The Law of Copyright and the Internet* (OUP 2002) at 203; Péter Mezei, ‘Digital First Sale Doctrine Ante Portas – Exhaustion in the Online Environment’ (2016) 6 JIPITEC 23 para 122; id, *Copyright Exhaustion: Law and Policy in the United States and the European Union* (CUP 2018).

¹⁴¹ First and most prominent cases on territorial restraints as violating EU fundamental freedoms: CJEU, 31.10.1974, Case C 16/74 *Centrafarm* [1974] (supra n 37); Joined cases CJEU, 04.10.2011, Cases C-403/08 and C-429/08 *Karen Murphy* [2011] (supra n 46).

¹⁴² References supra n 49.

¹⁴³ Council Regulation (EC) No 2100/94 of 27.07.1994 on Community Plant Variety Rights [1994] OJ of 01.06.1994, L-227/1.

‘consent refers to harmonized EU law’:¹⁴⁴ consent as a condition of exhaustion is an objective concept. This is similar to the shift in contract law on the Continent towards the objective assessment of declarations by the end of the nineteenth century.¹⁴⁵ In modern parlance, it is all about the legitimate (objectively legitimized) expectations of market participants. It is the market which determines the will. In ignoring the regulatory frame, the CJEU misinterpreted the exhaustion rule and wrongly decided the case.

2.5 *Interim Conclusion*

Against this background, we can summarize our analysis as follows: By reverting to a subjective interpretation of ‘first market placement’, the CJEU in *Kanzi* wrongly decided the case. In contrast, the US Supreme Court in *Lexmark* strengthened the objective limits of IP rights and laid the groundwork for a more convincing analysis. The court thus validated the responsibility of patent law to define its own limits. This decision deserves applause.

3 **Strict Rules Versus Open Frames**

3.1 *A Methodological Question*

Both cases raise the methodological question: How strict does the exhaustion rule have to be? The degree of strictness depends on where exhaustion is positioned: Is exhaustion rooted in property or in competition? Which principle is the rule, which one the exception? This impacts the structure of the test. Is the CJEU distinction between essential and non-essential a ‘less strict’ test compared to the USSC approach in *Lexmark* (as Hovenkamp’s critique might suggest)?

Today, the majority of both legal and economic scholars prefer more open, economic, complex, dynamic and flexible frames. On the surface, it is against this background that the USSC language in *Lexmark* met with resistance. It was criticized for not balancing the numerous economic interests, and ignoring efficiency rationales. However, at which point does the balancing exercise risk a systematic

¹⁴⁴ Jens Schovsbo (2016, supra n 13) at 186.

¹⁴⁵ Stipulated in § 157 BGB, which complements the subjective ground rule of the “will theory” in § 133 BGB, conceptualised as protecting the recipient of declarations. In English law, in contrast, declarations of intent only take effect if their receipt is acknowledged upon receiving, thus is based on information exchange and the assessment is as a matter of principle “objective”, Edwin Peel, *Treitel on the Law of Contract* (14th edn, Sweet & Maxwell 2015) at 9.

‘balancing away’ of values which are less articulate, not represented (like typically public, collective and diffuse interests, such as competition or consumer interests)? What if costs and benefits cannot be measured (as Samuel Ernst cautioned), or cannot be readily measured? At which point do we need rigid rules?

3.2 *Functions of Rigidity and Flexibility*

The reasoning in principles has a long double-edged tradition. In the seventeenth and eighteenth century, strong principles played a central role in installing a free trade order against the restorative power of feudalism.¹⁴⁶ ‘Property’ as a principle became a driving force in the French Revolution.¹⁴⁷ The abstraction principle evolved as a stronghold of a German-type doctrine, devised for balancing the seller’s interests with free trade (the buyer’s interests), and immunizing the transformation towards industrialization against a politization. It was the opposition against feudal bonds and the protection of trade (inter alia price maintenance and resale restrictions¹⁴⁸) that were countered by a principled approach. In the early twentieth century, the principled reasoning came under pressure. In the US, the realists sought to integrate social effects into legal reasoning.¹⁴⁹ In Europe, doctrines and principles were misused to bypass the rule of law.¹⁵⁰ Modern influences of US-American scholarship (which cannot be reduced to ‘the’ Chicago School of law and economics¹⁵¹) contributed to resolving the European impasse.¹⁵²

¹⁴⁶ Ernst Bloch, *Naturrecht und menschliche Würde* (first published 1961, Suhrkamp 1983) passim; Uwe Wesel, *Geschichte des Rechts* (Beck 1997) 403.

¹⁴⁷ Alfons Bürge, *Das französische Privatrecht im 19. Jahrhundert* (Klostermann 1991) passim.

¹⁴⁸ Rightfully explained as “servitudes” and translated as “remote control property rights” by Molly Shaffer Van Houweling (2016, supra n 20) at 62; also Christina Mulligan (2016, supra n 20).

¹⁴⁹ Recently explained and put in context by Saki F Bailey, *The Common Good on Common Goods: The Decommodification of Fundamental Resources through Law* (PhD thesis, University of Gothenburg, 2020) Ch 3.

¹⁵⁰ Ilka Kauhausen, *Nach der Stunde ‘Null’* (Mohr Siebeck 2007) 17, 200-202, 276.

¹⁵¹ Such as the influential (late 1970s) paper of Guido Calabresi and A Douglas Melamed, ‘Property Rules, Liability Rules, and Inalienability’ (1972) 85 HarvLRev 1089.

¹⁵² On the influence of European emigrants to the US, inter alia: Marcus Lutter, Ernst C Stiefel and Michael H Hoeflich (eds), *Der Einfluss deutscher Emigranten auf die Rechtsentwicklung in den USA und in Deutschland* (Mohr Siebeck 1993).

Hanns Ullrich was part of this jurisprudential change. Strongly influenced by Ernst Steindorff,¹⁵³ he became interested in the legal embeddedness of markets,¹⁵⁴ and got acquainted with a proportionality reasoning in private law. He became an expert on the interface of competition policy and industrial property,¹⁵⁵ and was the first to conceive of patents as instruments of dynamic competition (not as an exception).¹⁵⁶ One of his central teachings is that IP owes its incentive character to competitive market forces, not to the legal exclusionary right.¹⁵⁷ He gives priority to the market, but not ‘on principle’. The rationale is that the market, as a system, will secure the freedoms of many, and not only of few. Where regulation protects the freedom of a few (e.g. IP law), those only deserve recognition as far as they serve the market dynamic¹⁵⁸ (and thus the freedoms of others). This point of departure made him advocate international exhaustion.¹⁵⁹ Later, the strength of the single market as protected by the unity of European Union law prompted his critique of an ‘enhanced –externally extended – cooperation’.¹⁶⁰ Departing from the strict hierarchy which prioritizes market freedoms over market property, he supported the balancing of all interests involved.¹⁶¹

¹⁵³ Ernst Steindorff was a prisoner of war in the US, and assistant to Walter Hallstein in the 1950s during the Paris Treaty negotiations. His PhD was supervised by Walter Hallstein; his habilitation by Heinrich Kronstein (who was exiled in the US between 1935 and 1951). Steindorff became a professor (first in Frankfurt am Main, later in Tübingen) and served as legal adviser to the European Commission, and became the first president of the German Chapter of the International Federation of European Law (FIDE), Antoine Vauchez, *Brokering Europe-Euro-Lawyers and the Making of a Transnational Polity* (CUP 2015) 26.

¹⁵⁴ Steindorff suggested the PhD topic to Hanns Ullrich, which he eventually wrote under supervision of Arwid Blomeyer: Hanns Ullrich, *Das Recht der Wettbewerbsbeschränkungen des gemeinsamen Marktes und die einzelstaatliche Zivilgerichtsbarkeit* (Duncker & Humblot 1971).

¹⁵⁵ Hanns Ullrich, ‘Fortschritt im deutschen Patentkartellrecht’ (1973) 137 ZHR 78; id, ‘Staatsgrenzen und Warenzeichen’ (1974) GRUR Int 291; id, ‘Die wettbewerbspolitische Behandlung gewerblicher Schutzrechte in der EWG’ (1984) GRUR Int 89 (91); id, (1995, supra n 5) 623, 633 ff; id, (2012, supra n 5); id and Andreas Heinemann, ‘GRUR – Teil B’ in Immenga and Mestmäcker (eds), *Wettbewerbsrecht (EU) Teil 2* (5th edn, Beck 2012).

¹⁵⁶ Hanns Ullrich (1984, supra n 153) at 91. Often in opposition to the majority opinion in the profession at a given time.

¹⁵⁷ Ibid at 92 “Das Patent] verteilt Marktchancen, [...] nicht verbürgt es Gewinn- oder Marktanteile”. Most influential: Hanns Ullrich (2001, supra n 95) 365; id, (2012, supra n 5) at 1567 para 9.

¹⁵⁸ Hanns Ullrich and Andreas Heinemann (2012, supra n 153) 1694-1698, paras 21-23.

¹⁵⁹ Hanns Ullrich (1995, supra n 5) 623, 635.

¹⁶⁰ Hanns Ullrich, ‘The European Union’s Patent System after Brexit: Disunited, but Unified?’ in Matthias Lamping and Hanns Ullrich (eds), *The Impact of Brexit on Unitary Patent Protection and its Court*, Max Planck Institute for Innovation and Competition Research Paper No 18-20, 43-92.

¹⁶¹ In this spirit, he edited numerous books, inter alia Inge Govaere and Hanns Ullrich (eds), *Intellectual Property, Public Policy and International Trade* (Lang 2007); Inge Govaere and Hanns Ullrich (eds), *Intellectual Property, Market Power, and the Public Interest* (Lang 2008).

In Hanns Ullrich's reasoning, exhaustion *is an expression* of the free trade principle (as protected by the rules of free movement of goods and services).¹⁶² This foundation renders exhaustion strict, because it is 'the rule'.¹⁶³ Since the market principle is the very base of IP rights, exhaustion *cannot*—as a matter of logic—'limit' property rights. Conceptualized this way, exhaustion is an *internal* limit of IP.

3.3 Categorizing Exhaustion

Against this background, we can differentiate three case categories of exhaustion:

- (1) Repackaging cases. Parallel imports between EU Member States cannot be prevented, because exhaustion occurs regionally in the EU. It is the rule. Only if (in the wording of the *Kanzi* Court) 'an essential feature' of trademark law is concerned (the transparency function on who the manufacturer and the re-seller are; or the good will preserve where goods are systematically damaged), can the trademark owner object to the marketing (exception in need of justification).¹⁶⁴
- (2) Re-sale prohibitions in selective distribution. These cases differ in the fact that distribution is not 'prohibited' but 'channeled'. Other than that, they follow a similar rationale. Exhaustion occurs in the EEA (the rule). The owner may, however, retain her rights when the marketing is not consented to (exception).¹⁶⁵ In contrast to the first category, where exhaustion occurs by default (but might be excluded), the single market rationale translates in cases of exclusive distribution schemes into a reversal of proof for the conditions of exhaustion (on the first level). The German Supreme Court clarified in 2012 that it is not the mere use of an exclusive distribution scheme which makes market partition possible, which reverses the burden of proof. What is required is a real risk of market partition. The proof of a real risk does not require the substantiation of intent. It suffices that the defendant disclose her source inside the EEA and the prohibition of the trader to re-sell outside the distributive system. In that case, the court assumes the intent of market partition.¹⁶⁶ However, the contractual supply chain must be

¹⁶²Hanns Ullrich (2012, *supra* n 5) para 41 ff.

¹⁶³From this perspective, the wording of § 24 German Trademark Law or the exhaustion rule of Art 6 Reg 1257/2014 for the proposed European Patent with Unitary Effect are conceptually misworded.

¹⁶⁴CJEU, Case C-348/04 *Boehringer Ingelheim* [2007] (*supra* n 117) marginal No 28.

¹⁶⁵CJEU, Case C-59/08 *Copad* [2009] (*supra* n 48).

¹⁶⁶BGH, 15.03.2012, I ZR 137/10 *Converse II*, GRUR 2012, 63 para 30 with reference to BGH, 23.10.2003, I ZR 193/97 *Stüssy II*, GRUR 2004, 156, 158).

closed. If the defendant purchased from an unauthorized dealer, the burden of proof is not reversed,¹⁶⁷ and the court will presume non-exhaustion.¹⁶⁸

- (3) Re-use prohibitions. The IP holder might exclude exhaustion by explicitly reserving her right by way of concluding a rental contract instead of a sale.¹⁶⁹

Current law currently distinguishes exhaustion as to the object (cinematography, software, e-books). This group is qualified by specific business models. I submit that these cases form one line with *Coditel I*. These cases imply that specific business models rule out exhaustion occurring on the first level. Yet conditions limit this exception.

This thought pattern is familiar. It mirrors the testing of fundamental freedoms and basic rights. Notwithstanding differences between EU and national applications of the test,¹⁷⁰ it is this type of constitutional test which has many voices. Elsabe van der Sijde¹⁷¹ has conceptualized the test for property in general. She reasons that law has to recognize the interaction ‘between the regulation of property (as a subsystem of the property system, which in turn is a component of the constitutional system) and other components of the legal system’.¹⁷² In order to escape a ‘principled’ decision, she proposes ‘a system’. The idea is that a system requires a balance, whereas ‘principles’ invoke either-or decisions. Her central point is that disputes regarding the protection of entitlements must be addressed with reference to the objectives of the system as a whole and regulation is understood as a mechanism through which

¹⁶⁷ BGH, 15.03.2012, I ZR 137/10 *Converse II*, GRUR 2012, 630 paras 32-33. In this case, there is no risk of market partition by the plaintiff.

¹⁶⁸ It remains an open question how to conceptualise good faith on the side of the defendants. German law (§ 30 Sec 2 Trademark Act; § 15 Sec 2 Sentence 2 PatG) is widely understood as if contractual violations equal property violations. However, both laws only talk about violations of the direct licensee and say nothing about claims against third parties. Considering that the main purpose of the equation is to have claims against third parties (not only additional claims of proprietary nature against the contractual partner), the central question becomes, do third parties in good faith have an estoppel against the proprietary claim. Under current German law, good faith is irrelevant for injunctive relief; bad faith is required for damages.

¹⁶⁹ Karlheinz Konrad, Daniela Timm-Goltzsch and Hanns Ullrich (2006, *supra* n 22) para 749. In the light of the problems caused by exempted digital exhaustion, one wonders if Hanns Ullrich would uphold this exemption unconditionally today . . .

¹⁷⁰ Compared to the German testing of basic constitutional rights, there is no automatism under EU law. The consequence of one rule (level of prohibition) can be remedied by another rule (level of justification). At least the wording differs, even if the thought pattern is the same. Under EU law, a rule which is – on the first level – prohibited can still be valid. There is no precluding automatism; a void norm can “revive” by justification. The exercise structures the balancing process.

¹⁷¹ Elsabe van der Sijde, ‘Reconsidering the Relationship between Property and Regulation: A Systematic Constitutional Approach’ (Dissertation, University of Stellenbosch 2015) <https://www.researchgate.net/publication/339795976_Reconsidering_the_relationship_between_property_and_regulation_A_systemic_constitutional_approach> accessed 1 March 2022.

¹⁷² *Ibid* at 278.

constitutional values are promoted. Josef Drexl¹⁷³ recently projected a frame reasoning for intellectual property in particular. He aims at a test structure that incrementally combines data protection with IP protection, while taking other policies such as competition policy on board. Both approaches are helpful to integrate external legislation to IP¹⁷⁴ and to evaluate restrictive contract clauses.

Against this background, what could a test look like to control modern (digital) ‘remote control property rights’?¹⁷⁵

From economic literature on exhaustion we can draw the following lessons. (1) A principled approach does not preclude a balancing exercise, but only shifts the burden of proof,¹⁷⁶ and allocates information costs.¹⁷⁷ A strict exhaustion default rule reverts the pressure to substantiate legitimate justifications to those who advance efficiency gains of post-sale restraints. The conceptual base for exhaustion matters where the procedural burden of proof rules require inversion.¹⁷⁸ (2) The evaluative frame must be able to accommodate all policies that might be at stake in a given case.¹⁷⁹ (3) It follows that a judgement on exhaustion exemptions requires legitimation, and cannot be left to the discretion of those who have an interest in restraints. Justification is needed. Exemptions to exhaustion, and the contractual terms, need to meet the proportionality test. Complementary regulatory guidance might be helpful.

¹⁷³ Josef Drexl, ‘Legal Challenges of the Changing Role of Personal and Non-Personal Data in the Data Economy’ (2018) Max Planck Institute for Innovation and Competition Research Paper No 18-23 at 5-19 <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3274519> printed in Alberto De Franceschi and Reiner Schulze (eds), *Digital Revolution – New Challenges for Law* (Beck/Nomos 2019).

¹⁷⁴ Christine Godt, ‘Conflict Configuration in Information Property’ in Christine Godt, Geertrui van Overwalle, Lucie Guibault and Deryck Beyleveld (eds), *Boundaries to Information Property* (Intersentia, 2022 forthcoming).

¹⁷⁵ A term coined by Molly Shaffer Van Houweling (2016, supra n 20).

¹⁷⁶ See Ariel Katz (2014, supra n 39); for plant variety protection: Christine Godt, ‘Art 16 GSortG’ (2016, supra n 84) at 250 para 8.

¹⁷⁷ Shubha Ghosh and Irene Calboli (2018, supra n 15) 178 ff.

¹⁷⁸ The burden to substantiate “first market placement” as an element of exhaustion, as a matter of principle, rests with the defendant. However, if there is a risk of market segregation, the proof is reversed to the plaintiff: BGH 2012, 630 – *Converse II* with reference to prior CJEU jurisprudence.

¹⁷⁹ Those need to be mirrored by whatever test program one devises. Rubi Puig submitted a primer in ‘Copyright Exhaustion Rationales and Used Software: A Law and Economics Approach to Oracle v Usedsoft’ (2013) JIPITEC 159, 170. He establishes six criteria to distinguish digital exhaustion: (1) the personal feature of the acquirer (consumer vs commercial user); (2) the extent of information about post-sale restriction (consent?), (3) the degree of complexity of products and interoperability, (4) the role of other exclusive rights in providing rightholders with exclusive control over the uses of the copies in the aftermarket, (5) the impact of post-sale restraints for preventing opportunism in long-term contracts, and in reducing deadweight losses created by IP pricing, (6) the temporal scope of post-sale restraints.

3.4 A Novel Test for Exhaustion

I submit that a novel systematic test is required, based on strict exhaustion as a rule. The strictness is owed to the defense of freedoms. A two-step test frames the constitutional interests which are to be respected and weighed against each other.

On the first level, in contrast to how Mysoor conceptualizes it,¹⁸⁰ exhaustion applies an *objective* concept by default, commanded by trade, competition, interests in autonomy, freedom to operate and innovation policy (supra 2.4). Exhaustion is the rule. It delineates IP property. As a matter of principle, exhaustion cannot simply be suspended for the reason that the IP holder wishes further control or that property interests are impaired.¹⁸¹ The invalidity automatism ('sticky rule') applies for those contractual terms which are linked to the control of a secondary market (an example is *Usedsoft*: 'no resale'). Any 'functional equivalent' to transfer control triggers exhaustion,¹⁸² without too narrowly defining what a functional equivalent is.¹⁸³ Also, camouflaged terms would be caught ('resale allowed, but transfer my terms', as in *Kanzi*). This approach supports the reasoning of the CJEU in *Usedsoft*, and opposes the approach taken in *Copad*. In *Usedsoft*, the court upheld the principle of exhaustion, also in the digital age. In *Copad*, the court extended the property owner's control to both elements of exhaustion, the definition of market and consent. The reasoning is that in production and distribution networks, proprietary control extends to the very last chain link in the exclusive system. Only with the sale of a product to the first *consumer* is the IP right exhausted. Consequently, the full burden of proof has shifted to (mostly) the defendant.¹⁸⁴ This situation is in need of being reversed.

On the second level, despite the 'sticky rule' rationale, contractual (bilateral) terms might survive, in some cases even with third-party effect. Three groups emerge.

First, since in practice it is impossible to distinguish *pure* leveraging restraints (forbidden) and restraints unrelated to leveraging (justifiable), all terms are submitted to justification.¹⁸⁵ As a matter of principle, pure leveraging attempts cannot be

¹⁸⁰Poorna Mysoor (2018, supra n 3) at 684 proposes "that exhaustion be understood as a policy based statutorily implied license, with the policies being property justification and trade justification; any other loss of right should be understood based on the general doctrine of implied license."

¹⁸¹I assume that Hanns Ullrich has advanced his position on the sale-service divide (2006, supra n 56) since then.

¹⁸²Already submitted by Mihály Fiscor (2002, supra n 138); see also Péter Mezei (2016 and 2018, supra n 138); Caterina Sganga (2019, supra n 15).

¹⁸³The BGH was very strict in this regard. It qualified as equivalent to "transfer of a title" a timely limited rental contract when the software automatically deletes itself, BGH, 19.03.2015 I ZR 4/14 *Green IT*, GRUR 2015, 1108 para 37.

¹⁸⁴Matthias Leistner, 'Segelanweisungen und Beweislastklippen: Eine Problemorientierte Stellungnahme zum BGH-Urteil *Usedsoft II*' (2014) *WPR* 995.

¹⁸⁵If it were possible one could create an extra category (like discrimination in EU law) which is as a default rule non-justifiable.

justified. They run against the idea of exhaustion. Similar to the rule of alienation, those terms interfere too deeply with market freedoms.

Second, other terms may survive if justified and proportional. The basic rule is that their effect be bilateral.

Third, third-party effects might be justified by public interests and *public* legitimacy, similar to emerging case law where *in rem* effects are attributed to pure contractual arrangements.¹⁸⁶ Appropriate ‘good policy reasons’ are the same as those that justify (prohibited) restrictions of fundamental freedoms, so called ‘mandatory reasons’ or ‘*Cassis* reasons’. The same proportionality rationale applies:¹⁸⁷ Terms must be apt to reach the intended goal. They must be suitable and may not go beyond what is necessary. The different outcome in C-174/15—*Vereniging Openbare Bibliotheken* (exhaustion occurs, no justification) and C-263/18—*Tom Cabinet* (exhaustion occurred, restraints justified) are best understood in this conceptualization (not as exhaustion yes or no).

Applied to the two cases, the contractual no-refill clause on *Lexmark’s* return cartridges will pass the test for two reasons, but only under one additional condition. First, the clause is valid because it is not overly restrictive to competition, and it appears to be justified for environmental protection. However, the justification must be scrutinized. The firm has to provide evidence that the cartridges are being re-filled. Otherwise, the restraint on the consumer is not justified. Since respective restraints are burgeoning in business models of the circular economy, more consideration has to be given to the proportionality test and how implementation takes place.

Similar to prohibited contract clauses under competition law, new businesses shall be allowed to have their contract clauses checked by public authorities. That would provide the decision with transparency and legitimacy. If the justification is based on environmental protection (resource efficiency), this rationale would become part of the contract. If the result is not achieved, the contract is underperformed, such as the emission promise in the diesel scandal.

Applied to *Kanzi* (‘no transfer’ clause), the test would, on the first level, result to exhaustion. The business model does not exempt exhaustion. The contractual restraints may, however, survive if leverage was not intended. In this case, the constraint was bound to a production system mimicking trademark-protected

¹⁸⁶The three most renowned ones are: Dutch Hoge Raad (03.01.2012) in *Runecraft* (property quality assigned for the reason of criminal law’s protection against theft, NJ 2012 535), BGH, 12.07.2018 III ZR 183/17 *Facebook account* (heritability assigned for the reason of giving parents access to their deceased daughter’s Facebook account); OLG Düsseldorf (2019, supra n 134) third-party effect assigned to a declaration vis-à-vis a standardization organization for the reason of competition.

¹⁸⁷Including the same doctrinal problems: It does not matter where “pure leveraging clauses” are positioned. Either one argues that they are “forbidden and not justifiable” (first step) or “forbidden, because there is no justification” (second step).

schemes. Therefore, they might survive exhaustion *bilaterally*. The core question is whether the clause has third-party effects. At this point, the systemic interpretation comes into play. It gives room to reflect on the range of legal positions *between* breeders and third-party growers, namely growers under a contractual scheme, the statutory system in place and public policies involved. The regulatory breeder's system grants breeders professional privileges ('cut-off' points). Exhaustion (free trade policy, next 'cut-off' point) occurs for the sake of third-party and market protection. The normative systematic interplay changes the definition of 'the market'. Contractual arrangements may not undermine the objective limits. This is where both the reasoning of the opinion of the Advocate General and the decision of the Court fall short of a systematic constitutional analysis. In the *Kanzi* case, third-party effects are not justified.

3.5 Summary

A systematic analysis juxtaposes all interests protected by rights and regulation. Exhaustion (after the first authorized sale) is reconstructed as a regular, system-immanent 'cut-off' point for the manufacturer's control—for the sake of trade, consumers, and secondary markets. Exemptions, e.g. for selective distribution schemes, require regulatory oversight (such as the VBER). Post-sale restraints will spread way beyond distribution schemes for luxury products once circular business models become the norm. Therefore, the submitted systematic analysis for exhaustion shall be tested for these business models.

4 Circular Economy

Business models of the circular economy (CE) rest on a retained property title, typically tied to post-sale restraints. In technical terms, sale (one-time transfer of property title in goods) is substituted by service (long-term) contracts. The leading idea is to close the stream of substances for environmental reasons. In this model, the product risk is reverted to the producer.¹⁸⁸ Thereby, an incentive is set to invest in

¹⁸⁸ Sometimes labelled as "cradle to cradle".

non-obsolescent product design. The producer will bear product responsibility and no longer ‘socialize risks’. Products, the idea has it, will last longer and be produced in such a manner that components are easily recyclable—thus avoiding down-cycling. Examples are books,¹⁸⁹ lightning bulbs,¹⁹⁰ cars,¹⁹¹ bicycles,¹⁹² elevators, facades,¹⁹³ whole homes,¹⁹⁴ even drones.¹⁹⁵ The idea is that the customer contracts ‘light’, ‘warmth’, ‘mobility’, ‘living space’ or ‘washing’. Consequently, the use is negatively (prohibitions such as ‘no refill’, ‘no resale’,¹⁹⁶ ‘no resale on internet platforms’)¹⁹⁷ or positively restricted (obligations such as ‘duty to transfer’, ‘duty to

¹⁸⁹ A prime example for Aaron Perzanowski and Jason M Schultz (2016, supra n 20), who examine Amazon’s deletion of books from personal devices without warning or explanation. They demand an ‘ownership type’ right’ for the information conveyed, as a means to secure personal autonomy.

¹⁹⁰ Schipol Airport “leases the lighting” from Philips as part of its environmental strategy (“circular lighting” <<http://www.lighting.philips.com/main/cases/cases/airports/schiphol-airport>> accessed 1 March 2022), Benjamin Verheye, ‘Circular Economy and Property Law’ (lecture at the ALPS conference in Maastricht, 02.06.2018).

¹⁹¹ A business model explored by GM with its EV1 (production 1996-1999); the recall of all vehicles was raised to a “don’t crash” movement (see <<https://web.archive.org/web/20120624090628/http://ev1.org/index.htm>> accessed 1 March 2022), but was backed up by US courts, since the restraint was arguably justified by security reasons) and, more recently, again discussed as general business model for the batteries in electronic cars.

¹⁹² Noteworthy is the business model of the Dutch firm “swapfiets”. It lends bikes on a time base (not necessarily short term) and provides maintenance services. It became truly successful in student cities where temporary need is combined with low mechanical knowledge.

¹⁹³ First time: Eneco Energy Campus of the Technical University of Utrecht: <https://www.cobouw.nl/utiliteitsbouw/nieuws/2018/02/doorbraak-voor-circulaire-gevels-leasen-op-basis-van-erfpacht-101257661?_ga=2.23219386.1273209057.1573809823-583462908.1573809823> Prior attempts to rent a facade failed for legal reasons. The breakthrough in Utrecht became possible due to a proprietary construction by way of a “Pacht”.

¹⁹⁴ Leon Verstappen and others, “Duurzaam wonen” (engl ‘Sustainable Housing’) (Report for the Koninklijke Notariele Beroepsorganisatie 2019).

¹⁹⁵ German Parliament approves “the lease” of five drones for about one billion euros from Israel (which will be stationed in Israel), 13.06.2018 <<https://www.tagesschau.de/inland/drohnen-139.html>> accessed 1 March 2022.

¹⁹⁶ Prominent case: CJEU Case C-128/11 *Usedsoft* [2012] ECLI:EU:C:2012:407, Opinion of AG Bot, precedents: BGH, 26.03.2009 - No I ZR 153/06 - *Reifen Progressiv*; BGH, 19.07.2012 – No I ZR 24/11 - *Take Five*; see Christine Godt and Jonas Simon (supra n 15) at 207-222; especially on *Usedsoft*: Stephan Carduck, *Die Rechtsstellung des Unterlizenznehmers nach dem Fortfall der Hauptlizenz: Auswirkungen der Rechtsprechung des BGH* (Kovač 2016); Louis Pahlow, ‘Von Müttern, Töchtern und Enkeln: Zu Rechtscharakter und Wirkung des urhebervertraglichen Rückrufs’ (2010) GRUR at 112-119; Jennifer Pflingsten, *Das Schicksal von Enkelrechten bei Fehlen bzw. nach Wegfall des Tochterrechts* (Peter Lang 2014); Gerald Spindler, ‘Lizenzierung nach M2Trade, Take five und Reifen Progressiv: Eine Analyse mit besonderem Blick auf das Konzern- und auf das Kollisionsrecht’ (2014) CR at 557-567; Dominik S Stier, *Die Unterbrechung urheberrechtlicher Lizenzketten* (V&R unipress 2014).

¹⁹⁷ BGH, 12.12.2017 KVZ 41/17 *Asics v Amazon*, BGH found a prohibition to market via Amazon contrary to competition rules.

transfer information’, ‘duty to post true information and allow its use’,¹⁹⁸ territorial restrictions,¹⁹⁹ share alike,²⁰⁰ ‘no commercial use – unless...’,²⁰¹ ‘no transfer – unless...’).²⁰²

The business model of *Lexmark*, on faith value, could have qualified as such an environment-friendly model, even if *Lexmark*’s motivation was a different one. CE contracts are indistinguishable from modern service business models (such as turbines for jets and large vessels, which also remain the property of the manufacturer). CE business models can rest on IP or on tangible (mobile or immobile²⁰³) property. The questions are the same as discussed under IP: Which model sets the right incentive for innovation and efficient resource use? How to fragment property titles? How are business risks properly allocated (third-party protection, security rights in insolvency)?²⁰⁴

The economic interests are diverse. Large public investors may not be interested in acquiring title (*Schipol*). The product value may equal the service function (turbines²⁰⁵). For sequencing machine producers the aggregated informational

¹⁹⁸ Regional Court (Landgericht, hereinafter LG) Berlin, 16.01.2018, 16 O 341/15 (not yet binding) *Bundesverband der Verbraucherzentralen v Facebook*.

¹⁹⁹ Joined CJEU cases C-403/08 and C-429/08 *Karen Murphy* [2011] (supra n 46).

²⁰⁰ Open source and creative commons license terms became the model for various fields: For breeding material see Geertrui van Overwalle, ‘Creating Universal and Sustainable Access to Plants and Seeds: The Role of Clearinghouses, Open Source Licenses and Inclusive Patents’ in Fabien Girard and Christiane Frison (eds), *The Commons, Plant Breeding and Agricultural Research. Challenges for Food Security and Agrobiodiversity* (Routledge 2018) at 88-106; on digital sequence data see Charles Lawson and Michelle Rourke, ‘Open Access DNA, RNA and Amino Acid Sequences: The Consequences and Solutions for the International Regulation of Access and Benefit Sharing’ (2016) Griffith Law School Research Paper No 16-12.

²⁰¹ BGH for Creative Commons in *its decision of 28.11.2013 - No I ZR 76 Meilensteine der Psychologie*; also § 10 Sec 4 Standard Contract of the German Collection of Microorganisms and Cell Cultures (DSMZ); this restrictive clause is also common in so-called ABS contracts (synonymous to MAT: Mutual Agreed Terms) in contracts between bio-prospectors/biodiversity researchers and so-called “provider states” allowing bio-prospecting and research on genetic material; cf Tomme R Young and Morten W Tvedt, *Drafting Successful Access and Benefit-sharing Contracts* (Brill 2018).

²⁰² Note, however, that many modern forms of fragmented titles split off the economic value or (rather) the economic power from the shell to which the value would be attached if general rules (such as §§ 94, 947 II, 950 BGB) applied; for the securisation of windmills see Christine Godt, ‘Environmental Duties in the German Land Register’ in Siel Demeyere and Vincent Sagaert (eds), *Contract and Property with an Environmental Perspective* (Intersentia 2020) 235.

²⁰³ Bram Akkermans, ‘Duurzaam Goederenrecht: Naar een Herijking van ons Goederenrechtelijkstelsel?’ (‘Sustainable Property Law: Need for Reform of our Real Estate System?’) (2018) 1 Tijdschrift voor Privaatrecht, 1437.

²⁰⁴ Analysed by Benjamin Verheye, ‘Toekomst van de circulaire vastgoedeconomie’ (‘Future of Circular Real Estate Economy’) (2019) 1 Tijdschrift voor Privaatrecht 107.

²⁰⁵ And the valuable (raw) information about the service recipient which comes with controlling the service might – in the long run – outweigh the costs of the service provider.

value generated by the service might be far higher than the selling value of the machines.²⁰⁶ We observe the same phenomenon in public regulation (‘mutual agreed terms’ instead of or supplementing ‘permits’;²⁰⁷ ‘funding agreements’ instead of ‘financial grants’²⁰⁸). The blueprint of these terms are industrial supply and distribution licenses. Terms spill over to consumer contracts, to (formerly) simple material transfers and to any sort of subsequent division of labor/service contracts. The terms are chameleon-like: Sometimes they appear progressive and futuristic—with positive connotations; sometimes they appear as the epitome of digital feudalism and manipulative might.²⁰⁹

In the case of CE contracts, the justification of post-sale restraints is that recycling takes place. Promises enshrined in CE contracts require supervision. The incentive for recycling can easily be undermined if prices for dumping are lower than the resource value, as experienced with returns sent by Amazon²¹⁰ or unsold food.²¹¹ Those evident disincentives would need to be reflected in the allowance scheme.

An in-depth analysis to identify the best contract control and its governance model lies beyond the limits of this article. Possible solutions may be positioned on the continuum between pre-market and post-market control measure. A brief survey shows that modern mass contracts are almost all submitted to a *regulated* control scheme which goes beyond simple standard form control under general civil codes. Prior approval sits on one end of the spectrum. Since the CJEU submitted prior approval to the scrutiny of fundamental freedoms,²¹² this form of contractual

²⁰⁶One consequence is that researchers do not buy sequencing machines anymore, but send their probes to sequencing companies – which might or might not be incorporated in Europe, but which execute the service in eg China, where the information is also stored.

²⁰⁷As provided for under Art 6(3) Lit (e) Nagoya Protocol (2010); for the contractual transposition see Tomme R Young and Morten W Tvedt (2018, supra n 200).

²⁰⁸Most evident in EU programming of research funding; see Christine Godt, ‘Arts 179-190 AEUV/TFEU (Research, Technological Development, Space)’ in Manfred A Dausen and Markus Ludwigs (eds), *Dausen’s Handbuch für Europäisches Wirtschaftsrecht* (2nd edn, 44th supplement, Beck 2018), Part N; also Tanja Bubela, Kathrine Bonter, Silvy Lachance, Jean-Sébastien Delisle and E Richard Gold, *More Haste, Less Speed: Could Public-Private Partnerships Advance Cellular Immunotherapies?* *Frontiers in Medicine* <<https://www.frontiersin.org/articles/10.3389/fmed.2017.00134/full>> accessed 1 March 2022.

²⁰⁹Under the term “information feudalism”, Peter Drahos and John Braithwaite (2002, supra n 19) describe the modern expansion of proprietary power as one which is not introverted (securing exclusive enjoyment, generation of profits), but extraverted (allowing one to govern the behavior of others).

²¹⁰The phenomenon should be contained by “duty to care” of platform traders and retailers, a reform draft of the German Recycling Law (“Kreislaufwirtschaftsgesetz”) decided by the Government Cabinet on 12.02.2020 <<https://www.bmu.de/pressemitteilung/nouvelle-des-kreislaufwirtschaftsgesetzes-legt-grundlagen-fuer-weniger-abfall-und-mehr-recycling/>> accessed 1 March 2022.

²¹¹<<https://www.bundesregierung.de/breg-de/aktuelles/weniger-lebensmittel-wegwerfen-1705152>> accessed 1 March 2022.

²¹²Note, however, that the CJEU limited premarket control in CJEU, 05.03.2002, Case C-386/00 *Axa Royale Belge* [2002] ECLI:EU:C:2002:136.

control is limited to universal services, such as price controls for the postal service (in Germany ‘Post-Entgeltregulierungsverordnung’, PEntgV). On the other end of the spectrum lies standard contract control, put in the hand of the individual consumer.

In between are numerous options, with a rather cross-cutting horizontal or rather sectorial approach.²¹³ Close to prior approval, there is the prior notice to an agency (such as for contracts with home savings and loan associations²¹⁴), or indirect price control by transparency for energy supply contracts (such as the German ‘Anreizregulierungsverordnung’—ARegV). Toward the other end of the spectrum we have standard term controls, which are either legislated (such as insurance contracts under an Insurance Contract Code, e.g. German ‘Versicherungsvertragsgesetz’, VVG), or the block exemptions regime under competition law. Competition law has already witnessed a discussion on tensions between industrial collaboration for sustainability and competition law.²¹⁵ The solutions developed under Art. 101(3) TFEU could be transposed to the constellation at hand. Future analysis must ascertain to which agency the competence to control is best assigned. Is a general surveillance agency or a more specialized environmental agency better suited?²¹⁶ Private enforcement schemes should supplement the regime, allowing for collective standing²¹⁷ (both for controlling contractual terms in court and for a right to trigger administrative investigations).

Applying the concept developed under 3. to these business models, I conclude the following. The qualification of the contract (sale, lease) is irrelevant. Proprietary remedies are exhausted; contractual terms survive and may be attributed *in rem* effect if the terms are publicly scrutinized and meet the proportionality test: (1) Will the constraint be apt to achieve the goal (checking for likely loss of value, which undermines the re-use by the producer)? (2) Is it necessary (discriminating against illegitimate business espionage)? (3) Will it be proportional (weighed against the loss of autonomy of consumers, or against the freedom to maneuver of enterprises)?

²¹³Whereas EU competition law contains horizontal and sectorial block exemptions; EU consumer protection is geared towards sectorial (thus selective) intervention.

²¹⁴§§ 3 and 9 German ‘Bausparkassengesetz’.

²¹⁵Spanning from the 1990s, eg Kathrin Becker-Schwarze, *Steuerungsmöglichkeiten des Kartellrechts bei umweltschützenden Unternehmenskooperationen: das Beispiel der Verpackungsverordnung* (Nomos 1997); to more recent contributions, eg Anna Gerbrandy, ‘Solving a Sustainability-Deficit in European Competition Law’ (2017) 40 *World Competition* at 539–562.

²¹⁶The known problems have to be balanced: Lack of engagement and understaffed agencies, but a rather decentralised, local structure on the one hand; more motivation and expertise, which come with a more centralised structure on the other hand, where on-site controls are difficult to manage.

²¹⁷For a thoughtful analysis of the current European landscape of collective standing for consumer claims (with a focus on shortfalls and inefficiencies of the German law) Axel Halfmeier and Peter Rott, ‘Verbandsklage mit Zähnen? Zum Vorschlag der Richtlinie über Verbandsklagen zum Schutz der Kollektivinteressen der Verbraucher’ (2018) *VuR* 243–250.

5 Conclusion

The analysis of the cases *Kanzi* and *Lexmark* supports the stance that a systematic analysis of exhaustion structured as that under Elsabe van der Sijde's approach is superior to either of the existing exhaustion tests. A systematic analysis places the case between meta-norms and the facts of the case. Thereby, the argumentation has access to a principled reasoning *and* to the intricacies of life. The ambitious 'Sijde approach' clarifies that *Kanzi* was wrongly, and *Lexmark* rightly decided. In future research, the tool shall be tested for analysing the validity of contractual restraints in general across sectors (beyond circular economy, open source,²¹⁸ creative commons,²¹⁹ inclusive patents,²²⁰ ABS contracts²²¹).

The task is to find transparent concepts to reasonably delineate property (in different terms: to identify which rights are enclosed by a property title) with regard to inevitably expanding property rights in immaterial objects. The cases analysed give evidence that the inherent risk of an ever-expanding power is twofold: intellectual property propels the 'reach-through' through contract chains, and restrictive contractual terms generate third-party effect. This is the 'feudal' threat of modern licensing to which liberal societies must respond to in order to safeguard its freedoms (Drahos and Braithwaite, *supra*). The preceding exercise has proven that the systematic constitutional approach can serve as a tool to systematically identify all interests at stake and to better fine-tune the conflict between legitimate and constitutionally protected liberties.

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²¹⁸Lucie Guibault and Olivia Salamanca, 'Fitting the Bill: FOSS and Alternative Copyright Licensing in the Netherlands' (2016) 12 *Ius Comparatum - Global Studies in Comparative Law* at 311-338.

²¹⁹Axel Metzger and Tobias Heinemann, 'The Right of the Author to Grant Licenses for Non-Commercial Use: Creative Commons Licenses and the Directive on Collective Management' (2015) 6 *JIPITEC* at 11-22.

²²⁰Geertrui van Overwalle (2018, *supra* n 9).

²²¹Mariko Kageyama, 'Bio-Property Contracts in a New Ecosystem: Genetic Resources Access and Benefit Sharing' (2018) 13 *WashJL Tech&Arts* at 109-139.

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Preface

This book aims to outline the academic footprint of Hanns Ullrich. It is not a classic ‘Festschrift’—he was presented with one of those in 2009. The purpose of this sequel is to shine a spotlight on Hanns Ullrich’s outstanding thoughts on law and policy, and illustrate how they have inspired other scholars.

He may not think of himself this way, but in many areas Hanns Ullrich has become known as a trailblazer. He loves to challenge the prevailing opinion, picking holes in arguments and ideas which are thought of as incontestable. The emphatic way in which he intervenes in discussions triggers reflexive contemplation and provides food for thought. It is for this reason that others devour his publications, in search of alternative ways to think and argue about the integration of markets, the relationship of competition and intellectual property, innovation, technology development, and policy balancing in economic law. This book tries to trace how the ‘five major aspects of his leitmotif’, as impeccably described by Peter Behrens in his personal preface to Hanns Ullrich’s Festschrift of 2009, have played out in more recent scholarship. We therefore asked disciples, colleagues, friends, and professional companions to honour this outstanding academic personality by participating in a symposium at Hanns Ullrich’s preferred conference location Schloss Ringberg in February 2020, and by sharing their take on his academic legacy in this book.

Hanns Ullrich’s major research interests serve as a basis for the structure of this book:

First, he is and has always been a believer in a strong European legal order which confines both markets and states, for the sake of individual freedom—yet being well aware of the necessities of the power of state, and the risks of collusion of state and economic power.

For purely formal reasons, we devote two separate chapters to competition and intellectual property, although Hanns Ullrich has always seen them as two sides of the same coin. The exploration of the interface between these two areas became the heart of his particularly outspoken position on regulatory policy. To him, these institutions are upheld for a purpose. Neither one of them, competition or intellectual

property, is a given fact. They need to be justified in a deliberate process in which opposing policy goals are to be balanced.

Fourth, Hanns Ullrich has always been interested in new technologies and how they can be integrated into the legal and regulatory framework. Whether it is software, information technologies, biotechnology, or artificial intelligence, he has never shied away from getting to the bottom of it.

Last but not least, he has a passion for international economic integration as a means to secure peace and ensure economic development.

Hanns Ullrich has become an inexhaustible source of inspiration for other academics. While we are well aware that some important contributions of his have not been addressed in this book—such as his analysis of the European patent and court system, intergovernmentalism as a source of national manoeuvring, and the tension between research and industrial politics, among others—those that have been taken up by the authors present conclusive evidence of how his ideas have provided inspiration for new or alternative academic thought.

What we hope this book shows is that Hanns Ullrich belongs to a rare species of academics. He wears his heart on his sleeve and is always up for a controversial debate. It is this tenacity paired with his great passion that has allowed him to contribute so much to the progress of thought in so many areas of law.

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Matthias Lamping

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