

Czech Republic

**Additional Inputs for the Preparation of a Draft Reference Document on the Exception Regarding the Exhaustion of Patent Rights**

According to Section 13b of Act No. 527/1990 Coll. on Inventions and Rationalisation Proposals, as amended, the owner of the patent shall not be entitled to prohibit third persons to dispose with the product, which is the subject-matter of the protected invention, if the product has been put on the market in the Czech Republic by the owner of the patent or with his consent, unless there exist the reasons for the extension of patent rights to the mentioned activities.

Exhaustion of rights was introduced into the Patent Act by its amendment in 2000. The aim of this regulation was primarily to protect the legitimate interests of third parties against the interference of the patent owner, who had already consumed his patent rights by exercising them. The exhaustion clause fully corresponds to the provisions concerning the direct and indirect prohibition of the use of the invention.

The essence of exhaustion of rights is to prevent the patent owner from prohibiting third parties from disposing the product, which is the subject-matter of the protected invention, but not to dispose of the invention, resp. patent as such. The notion of 'disposal' is central to the assessment of possible product dispositions that third parties may make. These are activities related to a purely manufactured product that has been placed on the market. It is also clear that the disposal concerns only the product itself, not the patented invention. Thus, the patent owner cannot prevent third parties from importing, offering, selling, or otherwise disposing of these specific products, which have already been physically placed on the market, either directly by him or with his consent, provided that he/she meets the legal requirements. However, by exhausting the rights of the patent owner, these third parties do not acquire general disposition rights to the invention as such and typically cannot manufacture the product which is the subject-matter of the invention or dispose of the patent in any way. The disposition rights of the patent owner remain unaffected, ie the patent owner can continue with the patent, resp. invention, fully dispose of.

The product may only be placed on the market by the patent owner or a third party with his/her consent. Mere tolerance of actions infringing patent owner's rights will not lead to the exhaustion of rights. Consent does not have to be given explicitly, a negotiation from which the patent owner agrees with the placing on the market will suffice. In practice, this consent will in most cases be given in writing as part of the license agreement. If the product is placed on the market by the licensee, the rights are exhausted, regardless of whether the license is exclusive or non-exclusive. However, if the product is placed on the market in a manner that is contrary to the terms of the license agreement, the rights will most likely not be exhausted.

The concept of 'placing on the market' therefore presupposes that this is the first supply of products on the market and not any subsequent supply of identical products within the same market. In order for marketing to lead to the exhaustion of rights, it is sufficient for the patent owner to hand over the product which is the subject-matter of the invention to a third party. However, it must be a more permanent use. The issue of acquisition of ownership is not relevant for the exhaustion of patent rights.

Before the entry of the Czech Republic to the European Union, patent rights will be exhausted if the product has been placed on the market in the Czech Republic. This is a national concept according to which the said patented product marketed in another EU Member State does not constitute an exhaustion of rights. This concept traditionally gives the patent owner the widest protection, as his

rights are exhausted only in relation to the products placed on the market in the given country, which regulates the national concept. However, the EU Member States have introduced a uniform concept of Community exhaustion of rights, which applies to the EU Member States. According to this Community concept, the rights of the patent owner are exhausted in relation to those products that have been placed on the market for the first time in any EU country and are exhausted for the whole single market. Thus, the patent owner must not prevent the importation of a product into one of the Member States if the product has already been lawfully placed on the market in one of the other Member States. After the Czech Republic's accession to the EU in 2004, the Community exhaustion of patent rights established by CJEU case law (see C-15/74 *Centrafarm BV v. Sterling Drug Inc.*<sup>1</sup>) became applicable also for the Czech Republic.

Another key CJEU ruling in this area (C-187/80 *Merck v. Stephar*<sup>2</sup>) concerns the placing on the market of a product in a Member State which does not provide sufficient patent protection for the products. In its Judgement C-19/84 *Pharmon BV v. Hoechst AG*<sup>3</sup>, the CJEU dealt with the relationship between compulsory licenses and the exhaustion of patent rights.

Exhaustion of patent rights, especially in the context of global trade, is closely linked to parallel imports. In the case of parallel imports, this is a situation where the patent owner (or other authorized person) first places the patented products on the market and then third parties buy these products in one country and sell them at a higher price in another country (which is, however, usually still lower than the prices required in the given territory by the patent owner). These imports are then called parallel because they usually take place in addition to the import or sale of the products of the original manufacturer (patent owner) or another authorized person. In addition to the loss of profit of the patent owner, parallel imports can cause damage to the reputation of the manufacturer (patent owner), e.g., due to lack of control over the quality of sales and related services, or due to imminent infringements if, for example, products marketed in one market do not meet regulatory requirements in the second market.

Exhaustion of rights then essentially determines the extent to which the patent owner can oppose parallel imports of his/her own products subject to the protected invention from low-priced countries to higher-priced countries without his consent (usually outside his network of authorized distributors, dealers or sales representatives). At the same time, the exhaustion of rights determines the geographical limits and thus the scope of protection of the rights in question against parallel imports.

Finally, we do not currently have any national court decisions/judgements concerning the exhaustion of patent rights to provide.

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<sup>1</sup> See <https://curia.europa.eu/juris/showPdf.jsf?text=&docid=88859&pageIndex=0&doclang=en&mode=lst&dir=&occ=first&part=1&cid=1212545>

<sup>2</sup> See <https://curia.europa.eu/juris/showPdf.jsf?text=&docid=91009&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=1213579>

<sup>3</sup> See <https://curia.europa.eu/juris/showPdf.jsf?text=&docid=92992&pageIndex=0&doclang=EN&mode=lst&dir=&occ=first&part=1&cid=1214511>