

Calidad Pty Ltd v Seiko Epson Corporation [2020] HCA 41

HIGH COURT OF AUSTRALIA

KIEFEL CJ, BELL, GAGELER, KEANE, NETTLE, GORDON AND
EDELMAN JJ

KIEFEL CJ, BELL AND KEANE JJ:

- 1 The exclusive statutory rights of a patentee to exploit an invention which is a product include the rights to "make, hire, sell or otherwise dispose of the product" and to "use" it¹. The question of principle which arises on this appeal concerns the scope of those rights and whether a patentee's rights with respect to the sale and use of a particular product should be regarded as exhausted when that product is sold or whether they continue. It requires consideration of the approach taken by this Court in *National Phonograph Co of Australia Ltd v Menck*² ("*Menck* (High Court)") and that of the Privy Council on appeal³ ("*Menck* (Privy Council)").
- 2 The other question that arises is no less important. Accepting that a patentee retains the exclusive right to make a product embodying the essential features of the invention, the question is whether modifications made to a product to enable its re-use amount to a making of a new product and infringe on that account.
- 3 The questions arise in this context. The first respondent manufactures and sells computer printers and printer ink cartridges under the brand name "Epson" ("the original Epson cartridges"). The original Epson cartridges embody the inventions claimed in two patents of which the first respondent is the patentee. The original Epson cartridges are manufactured and sold in a form which permits only a single use. When the ink in the cartridge runs out it is usually necessary to replace the cartridge. Empty original Epson cartridges are obtained by a third party, Ninestar Image (Malaysia) SDN BHD ("*Ninestar*"), from various sources. *Ninestar* makes modifications to the cartridges which enable them to be refilled and re-used (potentially

¹ *Patents Act 1990* (Cth), s 13(1), Sch 1 (definition of "exploit").

² (1908) 7 CLR 481.

³ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15; [1911] AC 336.

on multiple occasions). The appellants (together "Calidad") acquire the modified cartridges from Ninestar and import them into Australia for the purpose of sale to the public.

4 In proceedings in the Federal Court of Australia⁴ the respondents (together "Seiko") alleged that by doing so Calidad infringed the first respondent's rights as patentee. In those proceedings Seiko did not contend that any contractual conditions restricting the use to which the original Epson cartridges could be put were imposed at the time of the sale to the original purchaser.

5 It is not disputed that on the sale or resale of a patented product the purchaser becomes the owner of that item of property. It is a principle of the law of personal property that the owner of chattels has an absolute right to use or dispose of them as they think fit. This principle was applied by a majority of this Court in 1908 in *Menck* (High Court), where it held that conditions on resale could only be imposed as a matter of binding agreement. The Court applied a doctrine that a patentee's monopoly rights of use and sale with respect to a product arising from statute are exhausted on sale (the "exhaustion doctrine").

6 In *Menck* (Privy Council) it was held that a patentee may impose conditions on the sale or use of patented goods at the time of their sale to the original purchaser. Any conditions so imposed continue to apply to the goods after sale so long as persons later obtaining title to them have notice of the conditions. If no conditions are imposed, the owner of the goods has the ordinary rights of ownership, but only because in such a case the law implies a full licence⁵ (the "implied licence doctrine").

7 The proceedings in the Federal Court were conducted by the parties by reference to the approach taken in *Menck* (Privy Council). A Full Court⁶ held that the implied licence did not extend to the modifications made by Ninestar. Further, the modifications amounted to a "making" of a new patented product or a remaking of the original and infringed the patentee's rights.

⁴ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1.

⁵ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 28; [1911] AC 336 at 353.

⁶ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572.

8 In the Full Court Calidad reserved its right to argue on any appeal to this Court that the decision in *Menck* (High Court) was correct and that *Menck* (Privy Council) should not be followed. It now asks this Court to hold that the exhaustion doctrine should be applied in cases of this kind. Seiko contends to the contrary and further argues that regardless of which doctrine is applied the modifications amount to a "making" of the patented product.

9 The modifications made to the original Epson cartridges are within the scope of the rights of an owner to prolong the life of a product and make it more useful. They do not amount to an impermissible making of a new product. This Court has not been bound by decisions of the Privy Council for some time⁷. The rule, that a patentee's rights with respect to a particular product are exhausted once that product is sold without conditions as to use, should be accepted. The appeal should be allowed, for the reasons which follow.

MENCK (HIGH COURT) AND THE EXHAUSTION DOCTRINE

10 The plaintiffs in *Menck* (High Court) manufactured and sold products of which they were patentees to purchasers on whom restrictions as to resale were imposed. The plaintiffs claimed an injunction against the defendant, a retail seller who had bought the products from the original purchaser. It was alleged that he had obtained the goods from the purchaser contrary to the terms of the restrictions, of which he had notice, and resold them at a price lower than that permitted by the plaintiffs. This was a use of the plaintiffs' invention without their permission and therefore an invasion of their monopoly rights. The plaintiffs claimed to be entitled to condition the future use or sale of the patented products following their initial sale, not by reference to any contract but by reference to the patent itself and the rights given by s 62 of the *Patents Act 1903* (Cth) to "make, use, exercise, and vend the invention".

11 Griffith CJ, with whom Barton and O'Connor JJ agreed, rejected the plaintiffs' claim of an invasion of their patent rights. Griffith CJ and Barton J referred with approval to decisions of the Supreme Court of the United States in the mid-19th century which held that when a patentee sells a patented machine to a purchaser, the machine is "no longer within the limits of the

⁷ *Viro v The Queen* (1978) 141 CLR 88; *Privy Council (Limitation of Appeals) Act 1968* (Cth); *Privy Council (Appeals from the High Court) Act 1975* (Cth).

monopoly"⁸. The patentee having received on sale the royalty for their invention in that particular product, "it is open to the use of the purchaser without further restriction on account of the monopoly of the patentees"⁹.

12 Griffith CJ¹⁰ described as "an elementary principle of the law of personal property", that:

"the owner of chattels has an absolute right to use and dispose of them as he thinks fit, and that no restrictions can be imposed upon this right, except by positive law or by his own contract".

13 That being the state of the common law, the right asserted by the plaintiffs, his Honour considered, must depend on the meaning of the words "use" and "vend" in s 62 of the *Patents Act 1903*¹¹. In his Honour's view, the words "use the invention" mean putting the idea of the invention into practice for some purpose. They do not continue to apply where the patented article is made and sold by the patentee and comes lawfully into circulation in the market as a chattel¹². As to the word "vend", his Honour reasoned that it could not have been intended by the legislature to effect a change to a fundamental principle of the common law by introducing a new class of chattels which were effectively inalienable, without clear words expressing that intention¹³. The words "vend the invention" should be understood to mean "to put the product of the invention in the possession of the public" and not to refer to a sale of the product once it has been lawfully sold on the market¹⁴.

MENCK (PRIVY COUNCIL) AND THE IMPLIED LICENCE DOCTRINE

14 The Privy Council did not deny the fundamental nature of the principle of the common law respecting an owner's right to use and dispose of chattels. Lord Shaw, who gave the advice of

⁸ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 509-510 per Griffith CJ (referring to *Bloomer v Millinger* (1864) 68 US 340 at 351 and *Adams v Burke* (1873) 84 US 453 at 456), 524 per Barton J (referring to *Bloomer v McQuewan* (1853) 55 US 539 at 549 and *Adams v Burke* (1873) 84 US 453 at 456).

⁹ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 510 per Griffith CJ, quoting *Adams v Burke* (1873) 84 US 453 at 456.

¹⁰ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 510.

¹¹ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 510.

¹² *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 511-512.

¹³ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 512. See also at 526-527 per Barton J.

¹⁴ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 512 per Griffith CJ.

the Board, recognised that it would be contrary to the "public interest and to the security of trade" were it otherwise¹⁵. The difficulty, in his Lordship's view, was the enforcement of that principle "without impinging upon ... the right of property granted by the State and by way of monopoly to a patentee, and his agents and licensees, 'to make, use, exercise, and vend the invention ... in such manner as to him seems meet'"¹⁶. These rights extended to "the imposition of conditions in the transactions of making, using and vending, which are necessarily an exception by Statute to the rules ordinarily prevailing"¹⁷. This in turn led to the need to "adjust the incidence of ownership of ordinary goods with the incidence of ownership of patented goods" so as to "avoid any collision of principle"¹⁸.

15 Lord Shaw accepted that if the conditions imposed by the patentee were said, as a matter of patent law, to "run with the goods", a "radical change in the law of personal property" would have been effected¹⁹. But there would be no such radical change in allowing for a restriction on the alienation and use of a chattel where the restrictions were known to the person who had become owner. That was merely to acknowledge that in the case of patented goods, but not ordinary goods, ownership is subject to a limitation of this kind. These principles were considered to "harmonize" the rights of the patentee with those of the owner²⁰.

16 Lord Shaw said²¹ that it could be gleaned from the decided cases²² that a patentee, by virtue of the statutory monopoly, could impose conditions restrictive of sale or use at the time of sale

¹⁵ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

¹⁶ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

¹⁷ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

¹⁸ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

¹⁹ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 23; [1911] AC 336 at 348.

²⁰ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 23-24; [1911] AC 336 at 348-349.

²¹ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 28; [1911] AC 336 at 353.

²² The references include *Betts v Willmott* (1871) LR 6 Ch App 239. See also *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Co* (1883) 25 Ch D 1; *Incandescent Gas Light Co Ltd v Cantelo* (1895) 12 RPC 262.

which would not apply to ordinary chattels. If no such conditions were imposed (a sale "*sub modo*") it is presumed that it was intended to vest the full rights of ownership in the purchaser. The qualification to this last-mentioned proposition is that an owner's rights in a patented chattel will be limited if it is shown they knew of the conditions sought to be imposed by the patentee at the first sale. That was the position in which Mr Menck found himself.

THE EXHAUSTION DOCTRINE MORE RECENTLY

17 *Impression Products Inc v Lexmark International Inc*²³ is a recent decision of the Supreme Court of the United States. It is a case which bears a striking similarity to the facts of this case and is a clear example of the application of the exhaustion doctrine. Roberts CJ, speaking for the majority²⁴, confirmed that the Court had adhered to that doctrine for over 160 years, applying it to the statutory right²⁵ to "exclude others from making, using, offering for sale, or selling [a patentee's] invention[s]". The landmark case, in 1853²⁶, identified by his Honour was one to which reference had been made in *Menck* (High Court).

18 Lexmark sold toner cartridges the subject of its patents for use with laser printers. The used cartridges were refilled by Impression Products, among others, for resale and re-use. In an endeavour to meet this competition Lexmark offered discounts to customers who agreed to use the cartridge only once and not to transfer the empty cartridge to anyone but Lexmark. It installed a microchip on each such cartridge that prevented re-use. Its competitors, including Impression Products, developed methods to counter the microchip.

19 Lexmark brought proceedings for infringement of its patent constituted by the refurbishment and resale of the cartridges. A majority of the Supreme Court held that Lexmark had exhausted its patent rights in the cartridges "the moment it sold them". Their Honours acknowledged that the single-use/no-resale restrictions in Lexmark's contracts with its customers may be enforceable under contract law but they did "not entitle Lexmark to retain patent rights in an item that it has elected to sell"²⁷.

²³ (2017) 137 S Ct 1523.

²⁴ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1531.

²⁵ 35 USC § 154(a).

²⁶ *Bloomer v McQuewan* (1853) 55 US 539.

²⁷ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1531.

20 Roberts CJ explained²⁸ that the "exhaustion doctrine" is not a presumption that arises on sale, rather it recognises a limit on the scope of the patentee's statutory rights. His Honour said that a patentee is free to set the price and negotiate contracts with purchasers but they may not, "by virtue of his patent, control the use or disposition' of the product after ownership passes"²⁹. Acknowledging that the effect of a patent is to grant to a patentee a right to prevent others from using or selling their product, his Honour explained that the exhaustion doctrine regards that exclusionary power as extinguished when the product is sold. His Honour reiterated what had been said in the earlier cases – that when a patentee chooses to sell a patented product it "is no longer within the limits of the monopoly". Instead it becomes the "private, individual property" of the purchaser with all the rights and benefits of ownership³⁰.

21 Roberts CJ³¹ also referred to a case in 1918 which bears some similarity to the facts in the *Menck* decisions. Retailers were required to resell graphophones at a specified price pursuant to a contract with the patentee. When the agreement was breached the patentee sought to enforce the resale price agreement through patent infringement suits. The decision³² did not turn upon the illegality of the restrictions, his Honour said, but the fact of sale. It was beyond controversy that by selling the graphophone the manufacturer placed it beyond patent law. The manufacturer could not, by imposing restrictions as to its use, keep it under the patent monopoly.

22 The policy underlying the exhaustion doctrine was said to involve both the public interest and the object of patent statutes. Roberts CJ observed³³ that since at least the time of Lord Coke³⁴ restrictions on the resale or use of an item after its sale have been held void as contrary to the public interest. Patent statutes promote the progress of science by granting a limited monopoly

²⁸ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1534.

²⁹ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1531, quoting *United States v Unis Lens Co Inc* (1942) 316 US 241 at 250.

³⁰ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1531.

³¹ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1533.

³² *Boston Store of Chicago v American Graphophone Co* (1918) 246 US 8; see also *United States v Unis Lens Co Inc* (1942) 316 US 241.

³³ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1531-1532.

³⁴ Referring to Coke, *The First Part of the Institutes of the Laws of England* (1628), § 360 at 223a.

to inventors to secure the financial rewards for their inventions. But once a patentee sells an item, they have enjoyed the rights secured by that monopoly and the purpose of the patent law is fulfilled.

23 A similar policy is said³⁵ to have been the original rationale for the exhaustion doctrine applied by the Court of Justice of the European Union³⁶. Once an intellectual property right owner has received their reward by marketing a product in the European Union they cannot prevent the further circulation of that product in the market. The doctrine is used to balance the exclusive rights of intellectual property owners with the protection of the internal market as an area in which the free movement of goods is ensured³⁷.

24 The development of the exhaustion doctrine in the European Union has been traced³⁸ to a publication in Germany in 1900, not long before the *Menck* decisions. The author reasoned from factors which included the purpose of the monopolistic rights to conclude that the reward should be obtained once for each product. Once the patentee themselves had used the patented invention with respect to a certain product, whether by way of sale or otherwise, they could no longer exercise those patent rights for that specific product³⁹.

THE PATENTS ACT 1990 AND THE RIGHT TO EXPLOIT

25 The scope of the right to exploit given by the *Patents Act 1990* (Cth) is to be ascertained by reference to s 13(1) of the Act read with the definition of the term "exploit" in Sch 1 to the Act. Section 13(1) provides:

"Subject to this Act, a patent gives the patentee the exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the

³⁵ *Tritton on Intellectual Property in Europe*, 5th ed (2018) at 785 [7-008]-[7-009].

³⁶ See *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Grossmärkte GmbH & Co KG* [1971] ECR 487; *Centrafarm BV v Sterling Drug Inc* [1974] ECR 1147; *Merck & Co Inc v Primecrown Ltd* [1996] ECR I-6285. See also *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 458 [69].

³⁷ *Tritton on Intellectual Property in Europe*, 5th ed (2018) at 785 [7-009].

³⁸ Heath, "Exhaustion and Patent Rights", in Okediji and Bagley (eds), *Patent Law in Global Perspective* (2014) 419 at 421-423, 426-431, referring to Kohler, *Handbuch des Deutschen Patentrechts in rechtsvergleichender Darstellung* (1900).

³⁹ Heath, "Exhaustion and Patent Rights", in Okediji and Bagley (eds), *Patent Law in Global Perspective* (2014) 419 at 422-423, referring to Kohler, *Handbuch des Deutschen Patentrechts in rechtsvergleichender Darstellung* (1900).

invention."

26 The *Patents Act 1990* provides for infringement proceedings to be brought to enforce the rights⁴⁰ referred to in s 13(1) and for a patentee to obtain relief by way of injunction, damages or an account of profits⁴¹. In *Northern Territory v Collins*⁴², Gummow A-CJ and Kirby J observed that no definition is provided in the Act for what constitutes an "infringement". The statutory scheme instead focuses upon the exclusive rights given by the patent "as illuminated by the definition of 'exploit'"⁴³.

27 The term "exploit" in relation to an invention which is a product is defined to include⁴⁴:

"make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things".

28 The term "invention" means "any manner of new manufacture the subject of letters patent and grant of privilege within section 6 of the Statute of Monopolies, and includes an alleged invention"⁴⁵. An invention is disclosed in the complete specification of the patent⁴⁶. A "patented product" means "a product in respect of which a patent has been granted and is in force"⁴⁷.

29 The object of the Act is stated in s 2A⁴⁸, "to provide a patent system in Australia that promotes economic wellbeing through technological innovation and the transfer and dissemination of technology. In doing so, the patent system balances over time the interests of producers, owners and users of technology and the public".

⁴⁰ *Patents Act 1990*, s 120.

⁴¹ *Patents Act 1990*, s 122.

⁴² (2008) 235 CLR 619.

⁴³ *Northern Territory v Collins* (2008) 235 CLR 619 at 624 [20].

⁴⁴ *Patents Act 1990*, Sch 1 (definition of "exploit").

⁴⁵ *Patents Act 1990*, Sch 1 (definition of "invention").

⁴⁶ *Patents Act 1990*, s 40(2)(a).

⁴⁷ *Patents Act 1990*, Sch 1 (definition of "patented product").

⁴⁸ *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Act 2020* (Cth), Sch 1 item 1.

THE PATENTS, THE PRODUCT AND THE MODIFICATIONS

- 30 The two patents in which the inventions embodied in the original Epson cartridges are claimed are Australian Patents No 2009233643 ("the 643 patent") and No 2013219239 ("the 239 patent"). Claim 1 of the 643 patent is a combination claim divided into 11 integers. In summary they comprise: [1] a printing material container adapted to be attached to a printing apparatus; [2] a memory driven by a memory driving voltage; [3] an electronic device; [4] a plurality of terminals; and [5]-[11] the layout of those terminals. The infringement proceedings below were conducted by the parties on the basis that consideration of claim 1 of the 643 patent would suffice, no doubt because there was no material difference between the 643 patent and the 239 patent.
- 31 Ink cartridges for printers were in existence before the priority dates of the patents. The "background art" information to the 643 patent states that it had become common practice to equip cartridges with a memory for storing information concerning the ink and another device such as a higher voltage circuit to detect the level of ink remaining in the cartridge. It states that the cartridge and printer could be electronically connected through terminals. Where a cartridge has two or more devices, such as a memory and high voltage circuit, there is a risk that shorting could occur between the terminal for each device. The patents propose a solution which involves a particular layout of the electrical terminals to reduce this risk.
- 32 Original Epson cartridges contain a memory chip which is mounted on or connected to an integrated circuit board. Printers with which the original Epson cartridges are compatible are able to read and process the data in the memory chip. The primary function of the memory chip is to keep track of how much ink remains in the cartridge. When the printer determines from the memory chip that the ink has fallen below a threshold amount it prevents printing from taking place. For so long as the data stored in the memory chip indicates an inadequate ink supply in the cartridge, a compatible printer would treat the cartridge as empty and would not print.
- 33 When the ink in a printer cartridge runs out it is usually necessary for the cartridge to be replaced. Seiko supplies replacement Epson cartridges for its printers. Third party suppliers obtain original Epson cartridges which are empty from a number of sources, including the original purchasers and recycling facilities, and supply them to Ninestar, which modifies them for re-use.

34 In order that the cartridges may be used again they must be refilled with ink. A needle is used to create a small hole in the side of the cartridge, replacement ink is injected through that "injection port" and the port and the outlet hole through which the ink was originally disposed are resealed using thin plastic and heat. The information on the memory chip is modified to indicate that the ink is not exhausted, either by rewriting the information on the memory chip or by replacing the chip with a generic memory chip. Some of the categories of cartridges were subject to further modifications such as the removal of the "interface pattern", which comprises a series of protruding "ribs" on the exterior surface of the cartridge, so that the cartridge could be made compatible with other printers. A small cut was also made to the gas membrane of some cartridges in order to improve the gas exchange within the cartridge. And in some cartridges the integrated circuit assembly was removed and placed in another cartridge.

THE DECISIONS BELOW

The primary judge

35 The primary judge (Burley J) correctly described the effect of the decision in *Menck* (Privy Council) to be that the first owner of patented goods obtained without restrictions on their use, and any person into whose hands the products subsequently come, is entitled to assume that a "full licence" has been given so that they may do with them as they think fit⁴⁹. Nevertheless his Honour considered that the licence was subject to an inherent limitation arising from the sale of the product. His Honour reasoned that as the licence related only to the particular product sold⁵⁰ the modifications made by Ninestar to the original Epson cartridges put the continuation of the licence at risk. The question to be addressed, in his Honour's view, was whether the implied licence "survive[d]" the modifications made to them⁵¹ or was extinguished⁵².

36 His Honour eschewed an approach which enquired whether the modifications amounted to a repair of the product, on the one hand, or a making of a new product, on the other. The question, his Honour said, is not whether the product is altered, made or repaired, but rather whether the

⁴⁹ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 30 [115].

⁵⁰ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 39 [166].

⁵¹ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 38 [158].

⁵² *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 38 [163].

implied licence can be said to apply to the modifications made by Ninestar⁵³. The issue is whether the product, "insofar as it is an embodiment of the invention as claimed, was materially altered, such that the implied licence can no longer sensibly be said to apply"⁵⁴.

37 The primary judge assigned the modified cartridges into nine categories, based on the different steps undertaken by Ninestar in order for them to be rendered capable of re-use. His Honour held that in five of the categories the modifications were such as to extinguish any implied licence. The licence was terminated before Calidad imported the products⁵⁵. As to the remaining four categories, his Honour considered that the modifications were not material⁵⁶.

The Full Court

38 Calidad appealed the primary judge's findings regarding the five categories found to infringe and Seiko cross-appealed regarding the other four categories. A Full Court (Greenwood, Jagot and Yates JJ)⁵⁷ allowed Seiko's cross-appeal and dismissed Calidad's appeal, holding that in none of the nine categories were the modifications made to the original Epson cartridges authorised by the implied licence and that the changes effected to them constituted a making of a new embodiment of the invention claimed in the patents⁵⁸.

39 The Full Court agreed with the primary judge that the implied licence was one only to use the patented product in the form in which it was sold. Jagot J, with whom Greenwood J generally agreed, said the "product" referred to in s 13(1) of the *Patents Act 1990*, read together with the definition of "exploit", that is the subject of the exclusive rights of use and sale is the product embodying the claimed invention⁵⁹. Yates J said that the implied licence does not extend

⁵³ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 38-39 [162]-[164].

⁵⁴ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 39 [164].

⁵⁵ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 38 [160]-[161].

⁵⁶ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 52 [238], 54 [256], 55 [264], 56 [267].

⁵⁷ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572.

⁵⁸ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 590 [85]-[87] per Greenwood J, 591 [91], 618 [165] per Jagot J, 642-643 [290], [295] per Yates J.

⁵⁹ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 615 [153].

beyond the use of the patented product in the form in which it comes into the hands of the first owner⁶⁰.

40 The Full Court did not agree with the question identified by the primary judge. The correct question, in their Honours' view⁶¹, was not whether the licence was terminated by the unauthorised modifications, but rather what was the scope of the licence. That question was to be determined, at least in part, by reference to the nature of the article sold⁶². As sold, it was a product which had a certain lifespan⁶³. It could never have been within the contemplation of Seiko and any purchaser that a printer cartridge exhausted of ink would be repurposed in the manner of the Calidad products, Jagot J accepted⁶⁴.

41 Jagot J held that Ninestar's actions recreated or remade the product altogether in new embodiments of the invention⁶⁵. Her Honour rejected Calidad's argument that it had repaired the cartridges because they no longer worked⁶⁶. No part of the cartridge was damaged or worn, her Honour observed⁶⁷. When a cartridge ran out of ink it had merely exhausted its function and this was precisely how it was designed to work⁶⁸.

42 Jagot J also rejected Calidad's contention that not all of its modifications fell within the patent claim. In her Honour's view the changes made by Ninestar involved essential integers of the invention the subject of the patents, which included the unmaking and then remaking of a feature of the invention⁶⁹. The products Seiko sold all embodied the claimed invention including the first integer, consisting of a "printing material container". While the primary

⁶⁰ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 642-643 [288]-[289], [292].

⁶¹ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 588 [68] per Greenwood J, 616 [154]-[155] per Jagot J, 628 [206], 642 [291] per Yates J.

⁶² *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 616 [156] per Jagot J, 642-643 [292] per Yates J.

⁶³ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 622 [177].

⁶⁴ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 613 [142]-[143], 621-622 [175].

⁶⁵ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 622 [177].

⁶⁶ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 620 [169].

⁶⁷ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 622 [177].

⁶⁸ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 620 [168]-[169].

⁶⁹ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 622 [179].

judge described the making of a hole in it to enable it to be filled with ink and its resealing as a minor physical alteration, her Honour considered that at the moment the new hole was created there was no longer an essential integer of the claimed invention. It ceased to be a printing material container as it could no longer contain printing ink. When the original and new holes were sealed it was made into a new container. That is not the use of the patented article as sold, her Honour said; it is the making of a new article within the scope of the patent. When sold to Ninestar the patented container could not be used for two reasons: the container was empty of ink and the memory recorded this state of affairs. As repurposed the product was still an embodiment of the invention but was now capable of re-use. These facts alone indicated to her Honour and Greenwood J that the modifications involved the making of a new embodiment of the invention, outside of any implied licence for use⁷⁰.

43 Jagot J did not accept the primary judge's view that the reference to "a memory driven by a memory driving voltage" in integer [2] involves a reference only to the mere physical existence of the memory chip. Although her Honour accepted that the information and content of the memory as to the level of ink present in the cartridges was not part of the patent claim, she did not think it was irrelevant. The fact that repurposing a cartridge involves reprogramming to change the memory tended to confirm that the modified cartridges were outside the scope of the implied licence⁷¹. In some of the categories of cartridges the memory chip was substituted altogether, not merely reprogrammed, and this required removal of the printed circuit board and the substitution of memory chips, Jagot J noted⁷². Here too, her Honour said, the original Epson product as sold ceased to exist, probably at the moment the printed circuit board was removed. The product was no longer that sold by Seiko.

44 The removal of the interface patterns from some of the cartridges, in order to make them compatible with Australian printers, had been described as "borderline" by the primary judge, although his Honour concluded it served to terminate the licence⁷³. Jagot J characterised the removal as enabling a new kind of adaptation for attachment and therefore a new

⁷⁰ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 586 [56]-[57], 590 [85] per Greenwood J, 619 [166] per Jagot J.

⁷¹ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 620 [172]-[173].

⁷² *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 619 [167].

⁷³ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 58 [281].

embodiment⁷⁴. The removal of the integrated circuit assembly from one cartridge and its placement in another also involved the making of a new embodiment of the invention outside the scope of the implied licence, her Honour found. The assembly was central to the invention as claimed, including in the layout of the terminals described in integers [4] to [11]. It too could not have been within the scope of the implied licence to use the patented product as it was purchased from Seiko⁷⁵.

Making a new embodiment?

45 Regardless of whether the exhaustion doctrine or the implied licence doctrine is to be preferred, neither doctrine has any part to play in determining whether there has been an infringement of a patent by reason that a new product embodying the claimed invention has been made. The sale of a patented product cannot confer an implied licence to make another and it cannot exhaust the right of a patentee to prevent others from being made⁷⁶. The right to make a product is a separate and distinct right from the right to use or to sell. The definition of "exploit" in the *Patents Act 1990* makes this plain.

46 To establish infringement by making a new embodiment of the invention it is of course necessary for Seiko to show that the new product takes each of its essential features⁷⁷ by reference to the description of the invention⁷⁸. Calidad submits that some of the modifications relate to features which are not the subject of the patent claim and that not all the features claimed can be regarded as essential to the invention because they either are a generic component or were the subject of common usage before the priority date of the patents.

47 In the latter respect the "printing material container" referred to in integer [1] describes an article previously commonly used to hold ink. It was also common practice to equip ink cartridges with a memory such as that referred to in integer [2]. Calidad points out that the

⁷⁴ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 620 [170].

⁷⁵ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 620 [171].

⁷⁶ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 458 [70] per Lord Hoffmann.

⁷⁷ *Rodi & Wienenberger AG v Henry Showell Ltd* [1969] RPC 367 at 383 per Lord Hodson, 391 per Lord Upjohn; *Olin Corporation v Super Cartridge Co Pty Ltd* (1977) 180 CLR 236 at 246; *Populin v HB Nominees Pty Ltd* (1982) 41 ALR 471 at 476, 480.

⁷⁸ *D'Arcy v Myriad Genetics Inc* (2015) 258 CLR 334 at 370-371 [87]-[88] per French CJ, Kiefel, Bell and Keane JJ, 373 [94], 387-388 [144]-[145] per Gageler and Nettle JJ.

claim distinguishes between the memory chip and its contents, which is to say that which is stored on it, as the primary judge found. A device such as a high voltage circuit to detect ink levels was also commonly used. The interface pattern, which was removed from some cartridges, either was a generic feature or was not claimed.

48 Whatever view is taken of other features, there can be little doubt that those the subject of integers [4] to [11] were essential to the invention and that modifications involving replacement of the integrated circuit assembly were directed to an aspect of them. Calidad's submission that the substance of the invention resides in the particular layout of the electrical terminals defined by integers [4] to [11], which is the means by which the problem of shorting is resolved, accepts as much. Its answer is that the integrated circuit assemblies were merely replaced with an equivalent assembly from another Epson cartridge and the layout of the terminals was not changed.

49 That answer directs attention to the real issue in relation to infringement, namely whether the modifications resulted in a new product being made. The conclusion for which it contends, that the refilled and restored cartridges were merely modified versions of the products sold by Seiko, should be accepted.

50 In *D'Arcy v Myriad Genetics Inc*⁷⁹ it was observed that the idea of something which can be "made" by human invention is central and of long standing in patent law. The word "manufacture" in the *Statute of Monopolies 1623* (21 Jac I c 3) connotes the making of something. It may be observed at the outset that ordinarily it would not be said that an article which has been purchased and altered in such a way that it retains much of its essential features but is now able to be re-used is "made". It is much the same article with improved functionality.

51 The modifications which were made in the present case may be contrasted with what was undertaken in *United Wire Ltd v Screen Repair Services (Scotland) Ltd*⁸⁰. The patent there in question concerned improvements to sifting screens used to recycle drilling fluid in the offshore oil-drilling industry. The screen was described in the first claim of the patent as a sifting screen assembly, comprising a frame to which mesh screens were secured, for use in a vibratory sifting

⁷⁹ (2015) 258 CLR 334 at 344 [16] per French CJ, Kiefel, Bell and Keane JJ.

⁸⁰ [2001] RPC 24.

machine. The defendants stripped down the screen to its frame and then secured new mesh screens to it. This was regarded by Aldous LJ, in the Court of Appeal⁸¹, as equivalent to purchasing the frames on the open market and then using them to produce an assembly⁸². The House of Lords⁸³ held that the Court of Appeal was entitled to conclude that the totality of the work amounted to "making" a new article because the removal of the meshes and the stripping down and repairing of the frame resulted in a mere component of the patented article remaining "from which a new screen could be [and was] made".

52 In *United Wire* an argument that the defendants had merely prolonged the life of the machine by its repair was rejected. Lord Hoffmann observed⁸⁴ that while the concepts of repair and making can overlap in ordinary usage, in the context of patent law they are mutually exclusive. It may therefore be preferable to ask whether the product in question was "made". Further, the notion of there being a licence to repair is apt to confuse and to distract attention from the statutory question whether the defendant has made the patented product. That observation is apposite in the present case because the Full Court appears to have reasoned from the premise that there was no licence to modify the cartridges as sold to a conclusion that what was thereby achieved was the making of something new.

53 Lord Hoffmann⁸⁵ viewed an owner's right to repair a patented article not as an independent right conferred by licence, but as a residual right forming part of the right to do whatever does not amount to making the product. There are two matters to which his Lordship referred in part of his speech which might imply acceptance of a wider notion of "repair" in this context. "Repair", he said, "is one of the concepts (like modifying or adapting) which shares a boundary with 'making' but does not trespass upon its territory." His Lordship also approved the statement attributed to Lord Halsbury, in a case decided not long before the *Menck* decisions⁸⁶, that "you

⁸¹ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 450 [28].

⁸² See also *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 458 [67] per Lord Hoffmann.

⁸³ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 459 [73] per Lord Hoffmann.

⁸⁴ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 459 [71].

⁸⁵ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 458-459 [70]-[71].

⁸⁶ *Sirdar Rubber Co Ltd v Wallington, Weston & Co* (1907) 24 RPC 539 at 543.

may prolong the life of a licensed article but you must not make a new one under the cover of repair".

54 In *Schütz (UK) Ltd v Werit (UK) Ltd*⁸⁷, Lord Neuberger appears to have accepted that, whilst the focus should be on the question whether a new article is made, a consideration of whether an alleged infringer is repairing rather than making an article may sometimes be useful. It is reflected in the approach, his Lordship observed, which is taken by German courts to infringement. His Lordship gave as an example the mere replacement of a part of an article, which does not necessarily mean that a "making" is involved.

55 The jurisprudence of courts of the United States has employed the dichotomy of "permissible repair" and "impermissible reconstruction" to resolve questions of infringement by making a new article having the features of the claimed invention. It has consistently been held that for an infringement to be established there must be a true reconstruction so as to in fact make a new article⁸⁸. The replacement of individual unpatented parts may involve a right to repair where what is done bears on the usefulness of the old combination of the product⁸⁹. Modifications of this kind tend to be characterised on the spectrum closer to repair than to reconstruction or making⁹⁰.

56 In *Impression Products*⁹¹, the issue whether the ink cartridges in question had been "made", "remade" or "reconstructed" does not appear to have been raised and was not the subject of discussion by the Supreme Court. But the repurposing of single-use products to enable their re-use had been the subject of earlier decisions in other courts in the United States.

57 The patent in *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc*⁹² was directed to an ink jet pen, which is an ink cartridge, that was designed to be non-refillable.

⁸⁷ [2013] RPC 16 at 410-411 [48]-[51].

⁸⁸ *Aro Manufacturing Co Inc v Convertible Top Replacement Co Inc* (1961) 365 US 336 at 346; *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1451.

⁸⁹ *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1451-1452.

⁹⁰ *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1452.

⁹¹ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523.

⁹² (1997) 123 F 3d 1445.

Repeat-O-Type purchased them as new, rather than spent, and modified and sold them as refillable cartridges. Hewlett-Packard argued that the modifications created new cartridges because as modified they had different properties and different performance characteristics compared with those as sold by it⁹³. This argument has something in common with the approach of the Full Court in this case.

58 The Court of Appeals, Federal Circuit, held that the modifications were not impermissible reconstruction. Whilst accepting that they were not a conventional repair, since the parts replaced or modified were not broken or defective, the Court found that the modifications nevertheless did not amount to a reconstruction; they were closer to "repair"⁹⁴. The Court approved the proposition that the mere replacement of individual unpatented parts is no more than the exercise of the lawful right of an owner to repair their property⁹⁵.

59 In *Jazz Photo Corporation v International Trade Commission*⁹⁶, the Commission had determined that a number of respondents had infringed the patents of Fuji Photo Film Co with respect to single-use cameras. The discarded cameras were purchased and refurbished for re-use. The steps taken included removal of the cardboard cover, cutting open the plastic casing, inserting new film and a container to receive it, replacing the winding wheel, replacing the battery, resetting the counter, resealing the outer case and adding a new cardboard cover. The Court of Appeals, Federal Circuit, held that the purchaser of a patented item had the rights of an owner to preserve the useful life of the original article⁹⁷. So long as a new article was not in fact made it was a right of repair. The decided cases treated as repair the replacement of

⁹³ *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1450.

⁹⁴ *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1452.

⁹⁵ *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1451, 1454.

⁹⁶ (2001) 264 F 3d 1094.

⁹⁷ *Jazz Photo Corporation v International Trade Commission* (2001) 264 F 3d 1094 at 1102.

unpatented parts that were worn or spent, in order to preserve the utility of the article. Reconstruction required a more extensive rebuilding⁹⁸.

60 The wide scope given to alterations to a purchased product which improve the usefulness of it is evident from a decision of the Supreme Court of the United States⁹⁹ which was discussed in *Hewlett-Packard*¹⁰⁰. In that case the purchaser resized or relocated six of the 35 elements of a patented fish-canning machine so that the machine could pack fish into smaller cans. The Supreme Court held that the purchaser had merely adapted the old machine to a related use. Whilst that was more than "repair" in the ordinary sense, it was akin to repair for it "bore on the useful capacity of the old combination" for which the royalty had been paid¹⁰¹.

61 The approach of the courts in these cases recognises the rights of an owner of a chattel to the full use and control of it. The first error made by the Full Court was to restrict the use to which the original Epson cartridges could be put, not by reference to what the patentee had claimed, but by reference to a characteristic of the product. And that led the Full Court into error concerning the question of whether a new article was made, as will shortly be explained.

62 Even according to *Menck* (Privy Council) a person acquiring a patented product is intended to have all the rights of an owner unless those rights are subject to express restrictions notified to the person, and here there were none. The fact that a product presents as capable of a single use is not a notification of this kind. Moreover, single usage is not a feature of the invention claimed.

63 The expectations of Seiko or the original purchasers as to the limited functionality of the cartridges are not relevant to the question of infringement. In *Aro Manufacturing Co Inc v Convertible Top Replacement Co Inc*¹⁰², it was said that the question whether a new article is "made" cannot depend on what the patentee's or the purchaser's intentions were at the time of

⁹⁸ *Jazz Photo Corporation v International Trade Commission* (2001) 264 F 3d 1094 at 1103-1104.

⁹⁹ *Wilbur-Ellis Co v Kuther* (1964) 377 US 422.

¹⁰⁰ *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1452.

¹⁰¹ *Wilbur-Ellis Co v Kuther* (1964) 377 US 422 at 424-425.

¹⁰² (1961) 365 US 336 at 354 per Black J.

sale. In *Schütz*¹⁰³, Lord Neuberger agreed with the view expressed by the German courts¹⁰⁴, that how a party views or markets its products is irrelevant to whether those products should be characterised as repaired or made. And in *Hewlett-Packard*¹⁰⁵, an argument that the boundary between repair and reconstruction turns on the intention of the patentee, that the product be used only once, was rejected. The Court held that unless such a term was embodied in an enforceable contract, it was no more than a hope or wish.

64 The error made by the Full Court, as to the scope of the implied licence, led it to adopt an incorrect approach to the question of whether a new product containing the embodiments of the patented invention had been "made". Treating the licence as restricted by the usefulness of the product in the form in which it was sold led the Full Court to characterise the modifications made by Ninestar as the manufacture of new cartridges. The Full Court reasoned, in effect, that because the original Epson cartridges were sold for a single use and were modified to be re-used, they became new products. This impermissibly elides infringement by use and infringement by making.

65 A failure to observe the distinction drawn by the *Patents Act 1990* between infringement by use and infringement by making renders the task of discerning the difference between modification of a product (an aspect of use) and the making of a new embodiment of the invention an unguided and impressionistic exercise, which is apt to allow the undue expansion of the patentee's monopoly to the detriment of consumers and competitors. Indeed, as the decision of the Full Court in the present case shows, to fail to appreciate the boundary drawn by the *Patents Act 1990* between modification of a product by the purchaser of the product and the making of a new embodiment of the patented invention is to risk the ironic outcome that the patent right becomes a brake on the very kind of innovation that patent rights are meant to encourage.

¹⁰³ *Schütz (UK) Ltd v Werit (UK) Ltd* [2013] RPC 16 at 410 [47].

¹⁰⁴ *Flügelradzähler (Impeller Flow Meter)*, Bundesgerichtshof [German Federal Court of Justice], X ZR 48/03, 4 May 2004; *Palettenbehälter II, Schütz v Mauser (Pallet Container II)*, Bundesgerichtshof [German Federal Court of Justice], X ZR 97/11, 17 July 2012.

¹⁰⁵ *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc* (1997) 123 F 3d 1445 at 1453.

- 66 In *Solar Thomson Engineering Co Ltd v Barton*¹⁰⁶ it was said that the "cardinal question" whether what has been done by the alleged infringer can fairly be termed repair has regard "to the nature of the patented article". Such an approach is not consistent with the *Patents Act 1990*. The question of infringement under the *Patents Act 1990* is not addressed to the nature of the article but rather to the invention described by the integers of the claim¹⁰⁷. Where what has been done does not involve the replication of the combination of integers that describe the invention it cannot be said that what has been done is the making of it.
- 67 When a small hole was made in the printing material container of the original Epson cartridge to enable it to be refilled with ink, the cartridge did not cease to exist, and it was not made anew when the two holes were sealed. The product did not cease to exist when the memory chip was substituted. An argument that an article has been "unmade" and then "remade" might have some weight in a circumstance such as *United Wire*¹⁰⁸. However, it is somewhat artificial in cases where parts are changed so as to permit continuation of use. In *Wilson v Simpson*¹⁰⁹, referred to with approval in *Aro Manufacturing*¹¹⁰, the Court refused to accept that a tangible machine could be said to have ceased to have a material existence because a part that had become inoperative was repaired or replaced.
- 68 The reprogramming of the memory chip in the original Epson cartridges and the removal of the interface patterns did not constitute the making of a new embodiment of the patented product. It may be accepted that the substitution of an "integrated circuit assembly" was a substantive modification which included the layout of the electrical terminals, but it did not constitute a making. The particular layout of the electrical terminals as defined by integers [5] to [11] was not affected by this action. Moreover, as Calidad submits, it was an action

¹⁰⁶ [1977] RPC 537 at 555 per Buckley LJ.

¹⁰⁷ *Kimberly-Clark Australia Pty Ltd v Arico Trading International Pty Ltd* (2001) 207 CLR 1 at 14 [19], [21]; *D'Arcy v Myriad Genetics Inc* (2015) 258 CLR 334 at 339-340 [6], 343-344 [13]-[14]; *Catnic Components Ltd v Hill and Smith Ltd* [1981] FSR 60 at 65; *Schütz (UK) Ltd v Werit (UK) Ltd* [2013] RPC 16 at 407 [28].

¹⁰⁸ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24.

¹⁰⁹ (1850) 50 US 109 at 123.

¹¹⁰ *Aro Manufacturing Co Inc v Convertible Top Replacement Co Inc* (1961) 365 US 336 at 352 per Black J.

undertaken to enable the data in the memory chip to be replaced and the cartridge to be re-used, not to change the layout of the terminals in any way.

69 When all of Ninestar's modifications to each of the categories of cartridges were completed what remained were the original Epson cartridges with some modifications which enabled their re-use. The modifications did not involve the replication of parts and features of the invention claimed. There was no true manufacture or construction of a cartridge which embodied the features of the patent claim.

70 The modifications to the original Epson cartridges were consistent with the exercise of the rights of an owner to alter an article to improve its usefulness and enable its re-use. Both English¹¹¹ and United States authority accept the prolonging of the life of a product to be within an owner's rights of use of a patented product. Regardless of whether it is said to be something done which is closer to "repair" than "making", it clearly does not involve a manufacture or making. And this is so regardless of whether the exhaustion doctrine or the implied licence doctrine is applied.

THE PREFERABLE DOCTRINE?

The fundamental difference

71 The idea of treating a patentee as granting an implied licence, the approach adopted in *Menck* (Privy Council), is largely attributed¹¹² to the decision in *Betts v Willmott*¹¹³. There Lord Hatherley LC observed that when a person purchases an article "he expects to have the control of it"¹¹⁴. The problem was how it might be said that a purchaser could use or dispose of a patented article without the need for the patentee's consent. The answer, he said, was that the purchaser could be said to do so by a licence implied by the law.

¹¹¹ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 458-459 [70] per Lord Hoffmann, quoting *Sirdar Rubber Co Ltd v Wallington, Weston & Co* (1907) 24 RPC 539 at 543.

¹¹² See eg *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 458 [68]; see also *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534 at 540 per Gibbs J.

¹¹³ (1871) LR 6 Ch App 239.

¹¹⁴ *Betts v Willmott* (1871) LR 6 Ch App 239 at 245.

72 The unstated premise, that a patentee's monopoly rights respecting the use of a patented article continue after its sale, was to emerge more clearly in *Incandescent Gas Light Co Ltd v Cantelo*¹¹⁵, where it was held that a patentee could condition or restrict the licence conferred on a purchaser and the conditions or restrictions could be enforced as a matter of "common sense" and not contract law. The decision in *Menck* (Privy Council) appears to have amalgamated these ideas. Lord Shaw spoke of giving effect to the line of authority to which he referred¹¹⁶, which consisted of largely single-judge decisions. It does not appear that any consideration was given to an alternative solution, that applied by the Supreme Court of the United States, by which the scope of patent rights with respect to a product was limited by the fact of sale. And unlike the approach taken by Griffith CJ, no process of statutory construction was undertaken by the Privy Council. Rather it was assumed that the negative nature of the monopoly right carried with it the power to impose conditions on subsequent owners of a patented product¹¹⁷.

73 In *United Wire*¹¹⁸, Lord Hoffmann acknowledged that the exhaustion doctrine is an alternative explanation for why a patentee cannot be heard to complain about a purchaser's use of a patented product and he observed that it is adopted in European patent systems. The difference between the two theories, his Lordship suggested, is that an implied licence "may be excluded by express contrary agreement or made subject to conditions while the exhaustion doctrine leaves no patent rights to be enforced".

74 A qualification is necessary with respect to this last-mentioned observation. It is that the exhaustion doctrine leaves no patent rights to be enforced *with respect to the particular product sold*. Under the exhaustion doctrine a patentee's rights to make and to sell another product embodying the claimed invention remained unaffected. So too does the patentee continue to

¹¹⁵ (1895) 12 RPC 262 at 264.

¹¹⁶ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 28; [1911] AC 336 at 353.

¹¹⁷ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347; see also *Grain Pool of Western Australia v The Commonwealth* (2000) 202 CLR 479 at 513 [83].

¹¹⁸ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 at 458 [69].

have the right to use a product so made and to prevent others from doing so, at least until the product is sold.

- 75 The exhaustion doctrine does not accept the premise that a patentee's rights of use with respect to the particular product survive its sale. That is the fundamental difference between the two doctrines. According to the exhaustion doctrine the purchaser of a patented product buys "'the use of the whole' of the combination"¹¹⁹, as would result from an ordinary sale. The exhaustion doctrine accepts that a patentee has special rights deriving from the patent which are given statutory effect, but holds that they are exhausted when the reward which is the object of those special rights is achieved by the patentee. The sale takes the product outside the scope of the patentee's monopoly rights.

Operation and effect

- 76 The exhaustion doctrine has the virtues of logic, simplicity and coherence with legal principle. It is comprehensible and consistent with the fundamental principle of the common law respecting chattels and an owner's rights respecting their use. At the same time, it does not prevent a patentee from imposing restrictions and conditions as to the use of a patented product after its sale but simply requires that they be obtained by negotiation in the usual way and enforced according to the law of contract or in equity.
- 77 The implied licence doctrine is complicated in its operation and effects. It can achieve only a partial alignment with the fundamental principle of the law and then only when it is clear that no restrictions have been imposed at the point of first sale. It may give rise to difficult questions concerning whether restrictions were imposed and whether an owner many times removed from the first sale had notice of them. The prospect that restrictions might be imposed on the further use or sale of a patented product after its first sale may be more theoretical than real now. Even if such restrictions were acceptable to consumers, they would face the hurdle of modern statutes concerned with anti-competitive conduct in the market. It may well be that the practice of patentees upon which the doctrine is founded has less relevance today.

¹¹⁹ *Aro Manufacturing Co Inc v Convertible Top Replacement Co Inc* (1961) 365 US 336 at 342-343, quoting *Wilson v Simpson* (1850) 50 US 109 at 123.

78 It should not be overlooked that the licence upon which the doctrine depends is a fiction. It is not a licence in fact granted by a patentee to a purchaser or later owner of a patented product¹²⁰. It is not implied to give business efficacy to the sale agreement. It is imposed by the courts in an endeavour to resolve a perceived tension in the law. In *Pyrenees Shire Council v Day*¹²¹, Gummow J remarked that a legal fiction, such as trespassers being treated as having been upon a defendant's land under an imputed licence, may "operate to reconcile a specific legal outcome or result with a premise or postulate involving unexpressed considerations of social and economic policy". His Honour considered that the modern preference for substance over form did not favour the preservation of legal fictions. In that regard it may also be said that greater emphasis would now be given to the maintenance of fundamental legal principle. Any adjustment of rights arising according to fundamental legal principle with statutory rights would not be undertaken without first determining the scope of the statutory rights, by a process of construction.

79 The implied licence doctrine is likely to cause confusion in part because it combines a fictional licence with the possibility of real restrictions. Whilst it seeks to provide the purchaser of patented goods with the full rights of ownership, it leaves open the possibility that there may be other restrictions which have been notified by the patentee. It engenders uncertainty.

80 That confusion is evident in the approach that the Full Court felt compelled to take in this case. It sought in the first instance to determine the scope of the licence by reference to the characteristic of the cartridges being single-use. The confusion was compounded when the Full Court then treated the limited permission to use the product as pivotal to the question whether a new product had been made.

81 The result reached by the Full Court with respect to infringement is likely to have been very different had the Court been in a position to apply the exhaustion doctrine. The starting point would have been that Seiko had no rights with respect to the cartridges after they were first sold. Attention would then have been directed to the rights of an owner with respect to a chattel and whether the modifications made to the cartridges were consistent with those ordinary rights

¹²⁰ cf *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534 at 542 per Gibbs J.

¹²¹ (1998) 192 CLR 330 at 387 [163].

– to adapt a chattel to improve its usefulness and extend its life. A conclusion that the modifications did not thereby amount to a manufacture would more likely have been reached.

82 The implied licence doctrine is not consistent with the certainty demanded by trade and commerce or with consumer expectations. The need for certainty requires the maintenance of the fundamental principle of the law which recognises that an owner has full rights as to the use and disposal of a chattel. It is not met by treating a restriction on the use or sale of a product as running with the product, which, contrary to the view of Lord Shaw¹²², is the effect the implied licence doctrine has where there is notice of that restriction. The example given by Roberts CJ in *Impression Products*¹²³, of the position which would prevail if the exhaustion doctrine were not applied, is apposite. His Honour pointed to the circumstance of businesses restoring and selling second-hand cars and asked what would be the position if each of the companies that make the thousands of parts which go into a motor vehicle could keep their patent rights after the first sale.

83 The United States cases and those of the Court of Justice of the European Union recognise that the maintenance of patent rights with respect to a product after sale is not conducive to the free flow of goods in a market. That understanding informs their acceptance of the exhaustion doctrine, as does their view that that doctrine correctly accepts the statutory object of the right of exploitation by sale as having been met upon first sale. The implied licence doctrine is not founded upon considerations of this kind.

Conclusion – the exhaustion doctrine

84 The matters which inform the adoption of a policy of the law as to the scope of the patent rights to sell and use a product, as they affect a patentee and owner of a chattel, point strongly to an acceptance of the exhaustion doctrine and away from the implied licence doctrine. Indeed there seems little to be said in favour of the latter unless consistency with the statute which grants the patent rights requires a different outcome. This, it will be recalled, was not the conclusion arrived at by Griffith CJ in *Menck* (High Court) by a process of orthodox construction.

¹²² *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 23, 28; [1911] AC 336 at 348, 353.

¹²³ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1532.

THE EXHAUSTION DOCTRINE AND THE *PATENTS ACT 1990*

The nature of the rights

85 It is well understood, and was in both of the *Menck* decisions¹²⁴, that the monopoly rights given by statute do not confer a "positive authority" on a patentee¹²⁵. The rights granted are better understood as negative in nature, a right to exclude others from exploiting the patent¹²⁶. This is what the exclusive or monopoly rights granted by statute are and no more. It was observed in *Steers v Rogers*¹²⁷ that a patent does not confer on a patentee the right to use the invention or the right to manufacture according to it. Those are rights the patentee already has even absent a patent. The patent confers the right to exclude others from manufacturing in a particular way and using a particular invention. According to the exhaustion doctrine the right to exclude an owner from the full use of a product comes to an end when that product is sold.

86 Section 13(1) of the *Patents Act 1990* is expressed to give the patentee "the exclusive rights" to "exploit the invention" (and to authorise another to do so) during the term of the patent. The words "during the term of the patent" refer to the period during which the rights may be exercised and do not bear upon the question of whether each of the monopoly rights continues to exist for the whole term regardless of legal transactions entered into by the patentee.

87 That question is largely resolved by the nature of the right and what it entails. It is generally accepted that a patentee's rights to "make" a product according to the patented invention and to exclude others from doing so are unaffected by the sale of a particular manufactured product. A patentee may proceed to make other products embodying the invention and prevent others from doing so. Likewise a patentee may exclude others from the "use" of a manufactured product where that use would be inconsistent with the patentee's exclusive right to use it. That

¹²⁴ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 508 per Griffith CJ; *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

¹²⁵ *Grain Pool of Western Australia v The Commonwealth* (2000) 202 CLR 479 at 514 [85].

¹²⁶ *Grain Pool of Western Australia v The Commonwealth* (2000) 202 CLR 479 at 513 [83], quoting *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

¹²⁷ [1893] AC 232 at 235.

would be for so long as it was retained by the patentee for use, but it could not be said to be kept for use after it was sold.

88 It is not without significance that the definition of "exploit"¹²⁸ concludes with the words "or keep [the product] for the purpose of doing any of those things". It would be necessary to keep the product in order to "use" it (and perhaps to "hire" it out). It would be necessary to keep a patented product until the point of sale, when it is disposed of. After a sale of the product has occurred a patentee could hardly be said to "keep" the product, let alone to keep it in order to use it.

89 Griffith CJ in *Menck* (High Court) considered that to "vend" an article conveyed a product being sold into the market and that the rights of ownership of it as a chattel pass from the patentee¹²⁹. That is surely correct. The terms of the *Patents Act 1990* convey an even stronger sense of finality than does the ordinary meaning of the verb "sell". The words "or otherwise dispose of" qualify "sell". It would not be sensible to read the words "sell or otherwise dispose of" as conveying that the patentee who does so is intended to have a continuing and exclusive right to "use" or "sell or otherwise dispose of" the article.

90 Nothing in the definition of "exploit" suggests that the sale of the product there referred to is different from a sale as ordinarily understood or that it is intended to have different consequences so far as concerns a purchaser. It may be accepted that a patentee's rights respecting sale and use are properly to be understood as excluding others from doing the same with respect to an embodiment of the invention so as to protect the patentee's rights of exploitation. But an exploitation by selling and using is completed on that first sale.

91 An approach to the construction of s 13(1) which accepts that an exploitation by selling concludes with the first sale is consistent with its objects. It is therefore to be preferred¹³⁰. The objective discernment of statutory purpose is integral to contextual construction¹³¹.

¹²⁸ *Patents Act 1990*, Sch 1 (definition of "exploit").

¹²⁹ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 512.

¹³⁰ *Acts Interpretation Act 1901* (Cth), s 15AA.

¹³¹ *Thiess v Collector of Customs* (2014) 250 CLR 664 at 672 [23].

92 It may be taken from the object stated in s 2A that one component of that object is to ensure the efficiency of the market economy. This topic has been dealt with earlier in these reasons¹³². Another is to encourage innovation. This latter objective is achieved by ensuring that a patentee is rewarded for the often considerable efforts and expense which have contributed to a useful invention. That reward is obtained on the sale of a product on terms for which the patentee has negotiated. There is nothing in the *Patents Act 1990* to suggest that a patentee is to be rewarded more than once.

93 When the provisions of the *Patents Act 1990* are read, it is not at all apparent that Parliament has adopted, or otherwise acted in any way on, the assumption that the implied licence doctrine is the explanation for why a purchaser of a patented product may use or sell the product as the purchaser wishes without any further consent from the patentee.

Sections 135 and 144

94 Seiko argued that s 135, which initially appeared as an amendment to s 87 of the *Patents Act 1903* but has since been repealed¹³³, may be taken to have assumed the operation of the implied licence doctrine. Section 135(1)(b) provided that one condition for the grant of a compulsory licence might be satisfied if "a trade or industry in Australia is unfairly prejudiced by the conditions attached by the patentee ... to the purchase, hire or use of the patented product".

95 The fact that this provision was introduced in 1909, before the decision in *Menck* (Privy Council), may be put to one side. To take proper account of that circumstance would require consideration of the extent to which the implied licence doctrine was settled law prior to that decision or whether, as Lord Shaw implied¹³⁴, the authorities did not go quite that far. The submission is met more simply. Section 135(1)(b), in its reference to conditions which might be attached by a patentee, could only be said to reflect the implied licence doctrine if it was construed to apply to cases other than express conditions agreed to by a purchaser, hirer or user of the product. Seiko's argument therefore begs the question.

¹³² See [82] above.

¹³³ *Patents Act 1909* (Cth), s 14; *Intellectual Property Laws Amendment (Productivity Commission Response Part 2 and Other Measures) Act*, Sch 4 item 13.

¹³⁴ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 346-347.

- 96 Seiko also argued that the implied licence doctrine may be said to be recognised in s 144 of the *Patents Act 1990*. Section 144(1) provides, in general terms, that a condition in a contract relating to the sale of a patented invention is void if its effect includes the restriction of the buyer from using a product supplied or owned by a person other than the seller. Section 144(4) provides that it is a defence to proceedings for infringement that the patented invention was the subject of a contract containing such a provision. Sub-section (5) provides that where a new contract is offered by the patentee, without such conditions, sub-s (4) ceases to apply but the patentee is not entitled to damages or an account of profits for an infringement committed before the offer of a new contract.
- 97 Seiko argued that the defence contained in s 144(4) is consistent only with the implied licence doctrine since it would be superfluous if the *Patents Act 1990* assumed that a patentee's rights were exhausted upon first sale. Likewise s 144(5) was said to assume the entitlement of a patentee to damages or an account of profits for infringement of a patent where there has been a breach of a restrictive condition in a contract of sale.
- 98 Section 144 neither gives effect to nor recognises the implied licence doctrine. The original provision¹³⁵, like s 135, was introduced into the *Patents Act 1903* in 1909¹³⁶. In any event, the evident purpose of s 144 is to prohibit oppressive tying contracts¹³⁷, then prevalent in certain manufacturing industries in the United States. To that end, s 144 does not restrict a purchaser's use of a patented product; rather it prohibits conditions in a contract of sale that have the effect of extending a patentee's monopoly beyond the patent.

Extrinsic materials

- 99 Seiko also referred to materials extrinsic to the Act which, it submitted, support the implied licence doctrine. In the report of the Industrial Property Advisory Committee on "Patents, Innovation and Competition in Australia" ("the IPAC report") it was said¹³⁸:

"This principle [of exhaustion of rights] is already part of the existing Australian law,

¹³⁵ *Patents Act 1903* (Cth), s 87B.

¹³⁶ *Patents Act 1909*, s 15.

¹³⁷ Australia, Senate, *Parliamentary Debates* (Hansard), 11 August 1909 at 2261-2263; Australia, Senate, *Parliamentary Debates* (Hansard), 26 August 1909 at 2610-2611.

¹³⁸ Industrial Property Advisory Committee, *Patents, Innovation and Competition in Australia* (1984) at 34.

subject to a qualification that importation of the patented article put into circulation outside Australia by the Australian patentee will be an infringement if, at the time of first putting the article into circulation, that patentee attached an express stipulation against bringing it into Australia." (emphasis added)

100 It may be observed that the report was concerned largely with economic considerations. More to the point is the statement in the Explanatory Memorandum to the *Patents Bill 1990*, which relevantly provided¹³⁹:

"It is intended that the question whether such a resale or importation constitutes an infringement in a particular case will continue to be determined as it is now, having regard to any actual or implied licences in the first sale and their effect in Australia, and to what is often known as the doctrine of 'exhaustion of rights' so far as it applies under Australian law." (emphasis added)

101 Seiko contends that the words emphasised are a reference to the IPAC report and that the reference in the Explanatory Memorandum to infringement being determined having regard to any actual or implied licences in the first sale is a clear indication of an expectation that the position established by *Menck* (Privy Council) was intended to continue to apply under the *Patents Act 1990*.

102 The extrinsic materials do not suggest that that Act was premised on either doctrine. Rather they, and more clearly the Explanatory Memorandum, leave the adoption of either doctrine open, presumably to the courts.

Section 13(2)

103 Seiko also submitted that the exhaustion doctrine, affirmed in *Impression Products*¹⁴⁰ to be that "the patentee does not retain patent rights in [an item sold by the patentee]", is inconsistent with s 13(2) of the *Patents Act 1990*. Section 13(2) provides that "[t]he exclusive rights", that is, those referred to in s 13(1), are "personal property and are capable of assignment and of devolution by law". The relevant provision in the United States¹⁴¹ is not materially different. It is that "patents shall have the attributes of personal property" and "shall be assignable in law by an instrument in writing".

¹³⁹ Australia, Senate, *Patents Bill 1990*, Explanatory Memorandum at 5 [24].

¹⁴⁰ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1532-1533.

¹⁴¹ 35 USC § 261.

104 No authority was cited by Seiko for its submission. The answer to it, stated shortly, is that s 13(2) and the exhaustion doctrine are concerned with different matters. Section 13(2) is addressed to the character of the exclusive rights. It attributes to them the status of a personal right of property and confirms that as such they are capable of being assigned to another person or may devolve by operation of law. The exhaustion doctrine is concerned with the scope of and limits to the exclusive patent rights in s 13(1). The fact that those rights are personal property is irrelevant to that question.

105 Seiko's submission that a right of personal property cannot cease to exist and that s 13(2) does not contemplate such a possibility misapprehends the transaction to which the exhaustion doctrine applies and its effect on patent rights. The doctrine is not directed to a transaction such as that to which s 13(2) refers, involving the transmission to another of the patent rights themselves, as the personal property of the patentee; it is directed to the sale of a particular product. The doctrine does not regard the exclusive rights referred to in s 13(1) as extinguished; it merely holds that when they are exploited by the making and sale of a particular product the patentee's rights of use and sale with respect to that product are at an end. The patentee retains the exclusive rights of exploitation with respect to the patent by making, using or selling any new embodiment of the invention there specified.

106 Seiko also pointed to the legislative history of s 13(2) as a basis for distinguishing *Menck* (High Court). The first provision, in terms similar to s 13(2), was added to the *Patents Act 1903* in December 1909¹⁴², which is to say after *Menck* (High Court) and before *Menck* (Privy Council). It is to be inferred that the point Seiko seeks to make is that had it been appreciated that the rights were not only of the nature of exclusive rights under s 62 of the *Patents Act 1903* but were also personal rights of property, a different approach may have been taken by this Court. It has already been explained that a provision of this kind is irrelevant to the question whether the exhaustion doctrine operates consistently with statute. On the other hand it is noteworthy that no mention was made in *Menck* (Privy Council) of the provision as relevant to the nature and extent of the exclusive patent rights.

¹⁴² *Patents Act 1903*, s 110A(1), inserted by *Patents Act 1909*, s 18.

COURT APPROVAL OF THE IMPLIED LICENCE DOCTRINE?

- 107 The inconvenience which might result from displacement of a long-standing decision is an important factor to be considered when contemplating the adoption of a different approach. Seiko referred to decisions of this Court which appear to accept the implied licence doctrine and to its application in patent cases in lower courts.
- 108 In *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV*¹⁴³ Gibbs J¹⁴⁴ and Stephen J¹⁴⁵ discussed *Menck* (Privy Council) at some length without apparent disapproval. This is hardly surprising. The question whether that doctrine was correct, and the alternative exhaustion doctrine, were not raised for consideration in that case. At issue there was whether a bookseller held an implied licence from the copyright owner to import and sell books in Australia. Their Honours were largely concerned with whether the implied licence doctrine expounded in *Menck* (Privy Council) translated to the sphere of copyright law. In *Grain Pool of Western Australia v The Commonwealth*¹⁴⁶ reference was made to *Menck* (Privy Council) in connection with the negative nature of monopoly patent rights, a matter which is not in dispute. It is notable though that in *Time-Life* Gibbs J, referring to *Menck* (Privy Council), said that it seemed "a misuse of words to say that a person who sells an article consents to its being used in any way that the buyer wishes"¹⁴⁷. His Honour's observation highlights the artificiality of the implied licence doctrine.
- 109 It may also be accepted that the implied licence doctrine has been applied in decisions of the Federal Court. Seiko was able to point only to a few such cases where this has occurred¹⁴⁸. It could hardly be suggested that great inconvenience is likely to follow an abandonment of that doctrine. In any event neither principle nor authority supports the proposition that this Court

¹⁴³ (1977) 138 CLR 534.

¹⁴⁴ *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534 at 541-542.

¹⁴⁵ *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534 at 550-552.

¹⁴⁶ (2000) 202 CLR 479 at 513-514 [83]-[85].

¹⁴⁷ *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534 at 541.

¹⁴⁸ See *Austshade Pty Ltd v Boss Shade Pty Ltd* (2016) 118 IPR 93; *Australian Competition and Consumer Commission v Pfizer Australia Pty Ltd* (2018) 356 ALR 582.

should persist with an unworkable doctrine as to patent rights which cannot be said to be required by the statute which grants them.

110 Seiko has not identified any decision of an Australian court in which the ratio decidendi required the application of the implied licence doctrine to the exclusion of the exhaustion doctrine¹⁴⁹. Continued adherence to the implied licence doctrine is an unjustifiable gloss on the statutory language that confers monopoly rights on a patentee. The decisions of the courts below show the danger of distraction from the language of the statute that is encouraged by that doctrine. In this case the implied licence doctrine was utilised as a juridical peg on which to hang not the patentee's permission to use the patented product, but rather unexpressed restrictions on the purchaser's rights in that regard to which the purchaser had not consented.

ORDERS

111 The following orders should be made:

1. Appeal allowed with costs.
2. Set aside the orders made by the Full Court of the Federal Court of Australia on 5 July 2019 and the declaration and orders made by the Full Court of the Federal Court of Australia on 29 October 2019 and, in lieu thereof, order that:
 - (a) the appeal to that Court be allowed with costs and the cross-appeal to that Court be dismissed with costs;
 - (b) declaration 1 and orders 2 to 8, 10 and 11 of the orders made by the primary judge on 16 February 2018 be set aside and, in lieu thereof, it be ordered that:
 - (i) the applicants' originating application, including the applicants' claims of patent infringement, breach of cl 2(a)(ii) of the settlement deed, breach of statutory duties under ss 145 and 148 of the *Trade Marks Act 1995* (Cth) and contravention of ss 18 and 29 of Sch 2 to the *Competition and Consumer Act 2010* (Cth), otherwise be dismissed; and
 - (ii) subject to order 9 of the orders made by the primary judge on 16 February 2018, the applicants pay the respondents' costs of the proceeding; and
 - (c) the matter be remitted to the primary judge for determination of the respondents' claim for pecuniary relief for breach of cl 2(a)(i) of the settlement deed.

¹⁴⁹ cf *Austshade Pty Ltd v Boss Shade Pty Ltd* (2016) 118 IPR 93 at 130 [121].

GAGELER J:

- 112 I agree entirely with the judgment and reasons for judgment of Kiefel CJ, Bell and Keane JJ. I considered whether I should simply concur. Had I simply concurred, conventional courtesies would have resulted in an invitation to join, which I would have gratefully accepted. A joint judgment signifies adherence to the substance of what is written. A joint judgment does not necessarily imply joint authorship.
- 113 I have chosen to write additionally, as distinct from separately. In deference to the closely reasoned dissent of Nettle, Gordon and Edelman JJ, I feel the need to explain in my own words why I cannot accept the reasons their Honours advance for considering that the implied licence doctrine should not be abandoned in favour of the exhaustion of rights doctrine. I hope to express myself without undue repetition of points made in the joint majority judgment of Kiefel CJ, Bell and Keane JJ. I adopt the structure of the joint dissenting judgment and adopt the abbreviations of the joint majority judgment.
- 114 I start with the history. Uncertainty and controversy about the nature of the right granted by a patent for an invention became less pronounced in the second half of the nineteenth century¹⁵⁰. There remained a residue of imprecision attributable to the ongoing use for the making of the grant of "Letters Patent" – an open letter "addressed by the king to all his subjects at large"¹⁵¹ – couched in pre-modern terminology¹⁵² which would have carried more freight in the Tudor era in which it originated¹⁵³. By the turn of the twentieth century, that terminology was an historical relic. The nature of the right granted by a patent had been determined judicially.
- 115 In the United Kingdom, where Letters Patent for an invention were expressed to grant the "full power, sole privilege, and authority" to "make, use, exercise, and vend the ... invention"¹⁵⁴, the House of Lords held in 1893 that a patent did not confer a positive right to use the invention

¹⁵⁰ See Sherman and Bently, *The Making of Modern Intellectual Property Law* (1999) at 101-110, 129-134.

¹⁵¹ Blackstone, *Commentaries on the Laws of England* (1766), bk 2, ch 21 at 346.

¹⁵² See quoted in *Terrell on The Law of Patents*, 19th ed (2020) at [1-03]-[1-04].

¹⁵³ See Gordon, *Monopolies by Patents* (1897) at 121-122; Hulme, "The History of the Patent System under the Prerogative and at Common Law: A Sequel" (1900) 16 *Law Quarterly Review* 44; Fletcher Moulton, *The Present Law and Practice Relating to Letters Patent for Inventions* (1913) at 4.

¹⁵⁴ *Patents, Designs, and Trade Marks Act 1883* (UK), The First Schedule, Form D.

but rather a negative right "to prevent the rest of the world from using it"¹⁵⁵. Thus, one of several holders of a patent was not required to account to the other holders of the patent for profits made from using the invention.

116 In the United States, where the effect of a patent was expressed by statute as being to grant "the exclusive right to make, use, and vend the invention"¹⁵⁶, the Supreme Court held to like effect in 1897 that a patent conveyed to a patentee "nothing that he did not have theretofore" other than the right "to restrain others from manufacturing and using that which he invented"¹⁵⁷. Thus, the Government of the United States parted with nothing in granting a patent and had no proprietary interest in setting aside the patent as wrongfully issued. In so holding, the Supreme Court gave effect to the understanding it had articulated in 1853, from which it had never departed, that "[t]he franchise which the patent grants, consists altogether in the right to exclude every one from making, using, or vending the thing patented, without the permission of the patentee. This is all that he obtains by the patent."¹⁵⁸

117 The significance of the timing of those authoritative judicial pronouncements in the United Kingdom and in the United States is that they occurred before the *Constitution* came to confer power on the Commonwealth Parliament to make laws with respect to "patents of inventions" in 1901¹⁵⁹. Two years later, the Commonwealth Parliament enacted that "[t]he effect of a patent shall be to grant to the patentee full power, sole privilege and authority, by himself, his agents, and licensees during the term of the patent to make, use, exercise, and vend the invention"¹⁶⁰.

118 The *Patents Act 1903* provided for the grant of a patent to be by Letters Patent issued by the Crown in right of the Commonwealth¹⁶¹. But the issue of those Letters Patent was to occur only under the authority of that Act¹⁶², and the nature and extent of the right granted by the Letters Patent was to be as defined by that Act. Consistently with the position that had been reached in the United Kingdom and in the United States, the only right granted to the patentee,

¹⁵⁵ *Steers v Rogers* [1893] AC 232 at 235.

¹⁵⁶ *Revised Statutes of the United States*, 2nd ed (1878), § 4884.

¹⁵⁷ *United States v American Bell Telephone Company* (1897) 167 US 224 at 238-239.

¹⁵⁸ *Bloomer v McQuewan* (1853) 55 US 539 at 549.

¹⁵⁹ Section 51(xviii) of the *Constitution*.

¹⁶⁰ Section 62 of the *Patents Act 1903* (Cth).

¹⁶¹ The First Schedule to the *Patents Act 1903* (Cth).

¹⁶² See *In re Usines de Melle's Patent* (1954) 91 CLR 42 at 45.

and the only right that could have been granted pursuant to a law of the Commonwealth Parliament with respect to patents of inventions¹⁶³, was the right to prevent others from using, exercising and selling the patented invention.

119 Uncontroversial in *Menck* (High Court)¹⁶⁴ and in *Menck* (Privy Council)¹⁶⁵ was the characterisation of the right of a patentee as "a sole right", meaning, "put negatively", a "power to exclude all others from the right of production [etc] of the patented article". In *British Mutoscope and Biograph Co Ltd v Homer*¹⁶⁶, to which favourable reference was made both in *Menck* (High Court)¹⁶⁷ and in *Menck* (Privy Council)¹⁶⁸, the right of a patentee had been appropriately described as a "chose in action" as distinct from a "chose in possession". The right was "a right to bring an action to restrain infringement" and to obtain other court-ordered remedies. No less, no more.

120 The controversy in *Menck* (High Court) and in *Menck* (Privy Council) was not about the nature of the right of a patentee as a right limited to preventing others from using and selling patented goods. The controversy was about the extent of the right: did the right of the patentee to prevent others from using and selling patented goods extend to preventing others from using and selling patented goods that the patentee had sold?

121 The majority in *Menck* (High Court) answered that question, no. The majority gave that answer adopting the approach which had been taken in the United States since at least 1853¹⁶⁹ and

¹⁶³ *Grain Pool of Western Australia v The Commonwealth* (2000) 202 CLR 479 at 513-514 [81]-[85].

¹⁶⁴ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 508, 535. See earlier *Potter v Broken Hill Proprietary Co Ltd* (1906) 3 CLR 479 at 493-494, 502-503, 507-508.

¹⁶⁵ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

¹⁶⁶ [1901] 1 Ch 671 at 675-676.

¹⁶⁷ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 515.

¹⁶⁸ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 26-27; [1911] AC 336 at 351-352.

¹⁶⁹ *Bloomer v McQuewan* (1853) 55 US 539 at 549-550. See also *Chaffee v Boston Belting Co* (1859) 63 US 217 at 223; *Bloomer v Millinger* (1864) 68 US 340 at 351.

which continues to be taken now¹⁷⁰. Patented goods, once sold, "passed out of the limit of the monopoly"¹⁷¹.

122 In dissent in *Menck* (High Court), Isaacs J answered the same question, yes. The common law rights that a purchaser of patented goods acquired as owner of those goods coexisted with, and were subject to, the continuing exclusionary right of the patentee. The consequence was that a purchaser of patented goods had no ability to use the patented goods at all, and no ability to resell the patented goods to anyone, other than if and to the extent that the purchaser was permitted to do so as a licensee of the patentee. This exclusionary right of the patentee being unqualified, the "ambit of the licence ... is within the absolute discretion of the patentee"¹⁷². "The right of the licensee is coextensive with the permission granted – no greater and no less."¹⁷³

123 If Isaacs J was correct in considering that patented goods, once sold, remained within the scope of the exclusionary right granted to the patentee, then his exposition of the consequences for use and resale of the patented goods could not be faulted. The consequences followed as a matter of logic.

124 In *Menck* (Privy Council), Lord Shaw recognised the potential for the consequences spelt out by Isaacs J to create "a radical change in the law of personal property"¹⁷⁴. In the absence of some added mechanism of constraint, the right of the patentee to prevent others from using and selling patented goods would run roughshod over the ancient common law principle against imposition of restraints on the alienation of goods. That principle was assumed as the foundation for free trade in goods. Unthinkable to him was that the exclusionary right granted by a patent would allow the patentee to impose conditions on use and resale which would "run with the goods"¹⁷⁵.

¹⁷⁰ *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523.

¹⁷¹ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 511.

¹⁷² *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 538.

¹⁷³ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 539.

¹⁷⁴ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 23; [1911] AC 336 at 348.

¹⁷⁵ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 28; [1911] AC 336 at 353.

125 Yet Lord Shaw thought it possible to "harmonize" the right of a patentee to prevent use and resale of patented goods with the common law rights of a subsequent owner of patented goods. The mechanism of harmonisation which he then devised involved the notion of an unlimited licence to use and resell being implied by law upon the sale of patented goods in combination with an acknowledgement of capacity on the part of the patentee to impose an express limitation on the terms of that licence by notice given to the purchaser at the time of sale but not afterwards. Entry into the contract of sale would imply consent of the patentee to the unrestricted use and resale of patented goods subject only to such "restrictive conditions" as might be "clearly brought home" to the purchaser at the time of purchase¹⁷⁶. There we have the first, and only, full articulation of the implied licence doctrine, which his Lordship sourced in English case law dating back to 1871¹⁷⁷.

126 If the starting premise is that the right of a patentee to prevent others from using and selling patented goods extends to preventing use and resale of patented goods that have been sold by the patentee, then the *Menck* (Privy Council) harmonisation of that ongoing right with the rights of a subsequent owner of the goods works well enough for so long as the subsequent owner remains the purchaser of the patented goods from the patentee. The implied grant of an unrestricted licence to use and resell absent restrictive conditions notified at the time of sale is a convenient legal fiction. Restrictive conditions notified at the time of sale bind not by force of the contract of sale but as a condition of the grant of the licence with the consequence that "if the conditions are not complied with, there is no grant at all"¹⁷⁸. The capacity of the patentee to introduce restrictions on use and resale by notice at the time of sale nevertheless meshes comfortably with principles of contract law.

127 Discordance sets in where the subsequent owner of patented goods is a sub-purchaser. The discordance is amplified where patented goods have been abandoned and the owner is a scavenger or, as here, a recycler. For such a downstream owner, the notion of a licence to use

¹⁷⁶ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 24, 28; [1911] AC 336 at 349, 353.

¹⁷⁷ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 at 24-28; [1911] AC 336 at 349-353.

¹⁷⁸ *Dunlop Rubber Co Ltd v Longlife Battery Depot* [1958] RPC 473 at 476.

and resell being implied at the time of the contract of sale does not work at all. Either there is no contract of sale or, if there is a contract of sale, the patentee is not privy to it.

128 Equity must come to the rescue. But whom does equity rescue? How? And why?

129 Whether there is any recognisable basis on which equity could assist a patentee to enjoin a downstream owner who acquired patented goods with notice of a restrictive condition granted by the patentee to a predecessor in title from acting inconsistently with that condition is by no means apparent¹⁷⁹. Whether equity would assist a patentee to enjoin such a downstream owner even if it could is at the very least doubtful given that the effect of the assistance would run counter to the common law principle against the imposition of a restraint on the alienation of goods. For reasons I am about to explain, however, those questions do not really arise.

130 If the right of the patentee to prevent others from using and selling patented goods truly extends to preventing use and resale of patented goods sold by the patentee, then the patentee does not need the assistance of equity to exercise that right against any downstream owner. Rather, it is the downstream owner who must come cap in hand to equity to try to find some recognisable basis for restraining as unconscientious the exercise of the right by the patentee. The question then becomes: by reference to what equitable doctrine does absence on the part of the downstream owner of knowledge or notice of some restriction on use or resale imposed by the patentee result in exercise of the right by the patentee becoming unconscientious? Presumably, it is some form of estoppel. Perhaps it is an estoppel against the assertion of the right. Perhaps it is an estoppel against denial of an implied licence. How, consistently with equitable principles¹⁸⁰, are the elements of some such estoppel established? And how in such a context

¹⁷⁹ See *Howie v New South Wales Lawn Tennis Ground Ltd* (1956) 95 CLR 132 at 156-157, discussing *Lord Strathcona Steamship Co Ltd v Dominion Coal Co Ltd* [1926] AC 108 (referring to *De Mattos v Gibson* (1859) 4 De G & J 276 [45 ER 108]). See generally Heydon, Leeming and Turner, *Meagher, Gummow and Lehane's Equity: Doctrines and Remedies*, 5th ed (2015) at [21-235].

¹⁸⁰ See *Grundt v Great Boulder Pty Gold Mines Ltd* (1937) 59 CLR 641 at 675-676; *Waltons Stores (Interstate) Ltd v Maher* (1988) 164 CLR 387 at 449-450.

does equity accommodate the notion of caveat emptor, said to be "inherent ... in common law conceptions of economic freedom"¹⁸¹?

131 *Menck* (Privy Council) did not explore any of those difficulties inherent in applying the implied licence doctrine to downstream owners. The difficulties had barely begun to be grappled with in one or two first instance English decisions which had concerned downstream owners before¹⁸² *Menck* (Privy Council). They have not since been grappled with at the level of principle in the few reported English cases that have considered downstream owners after¹⁸³ *Menck* (Privy Council). The dearth of further analysis in the English case law can be explained in part on the basis that the articulation of the doctrine in *Menck* (Privy Council) was seen to remove the need¹⁸⁴. Another part of the explanation may be that, for most of this century, the scope for application of the implied licence doctrine in England has been diminished by the overlay of principles of European law restricting patentees to pursuing infringement proceedings consistently with the exhaustion of rights doctrine¹⁸⁵.

132 The point to be made here and now is that there is simply no settled understanding of the implied licence doctrine in its application to downstream owners. Their position is a riddle, if not a muddle. It is certainly a mess.

133 The exhaustion of rights doctrine cuts through that mess. It does so as a matter of statutory construction, on the clear-eyed understanding that "the purpose of the patent law is fulfilled with respect to any particular article when the patentee has received his reward for the use of his invention by the sale of the article, and that once that purpose is realized the patent law affords no basis for restraining the use and enjoyment of the thing sold"¹⁸⁶. Applied to the *Patents Act 1990*, it involves nothing more than construing the references to "hire", "sell", "otherwise dispose of", "use" and "import" in the definition of "exploit" in relation to an

¹⁸¹ *Royal Botanic Gardens and Domain Trust v South Sydney City Council* (2002) 240 CLR 45 at 75 [88].

¹⁸² See *Badische Anilin und Soda Fabrik v Isler* [1906] 1 Ch 605 at 611.

¹⁸³ See *HTC Corporation v Nokia Corporation* [2014] RPC 19 at 585 [165].

¹⁸⁴ See *Gillette Industries Ltd v Bernstein* [1942] 1 Ch 45 at 47.

¹⁸⁵ *Terrell on The Law of Patents*, 19th ed (2020) at [14-294]-[14-301]; Johnson, Roughton and Cook, *The Modern Law of Patents*, 4th ed (2018) at [7.186]-[7.191].

¹⁸⁶ *United States v Univis Lens Co Inc* (1942) 316 US 241 at 251. See Nard, *The Law of Patents*, 5th ed (2020) at 701-703.

invention as having no application to a product in relation to which the patentee has already exploited the invention by exercising the patentee's common law right to sell the product.

134 The exhaustion of rights doctrine has a lineage that is decades longer than the lineage of the implied licence doctrine. It has been shown by repeated application in the United States to be workable and coherent. It sets clear statutory boundaries. It respects longstanding common law principle. It does not need to enlist equity in some way to prop it up. It strikes an appropriate balance between the interests of patentees and the owners of patented products. In so doing, it fits comfortably with the statutory object of the *Patents Act 1990* as well as with the statutory language.

135 From the perspective of the patentee, abandonment of the implied licence doctrine in favour of the exhaustion of rights doctrine as a result of the majority decision now made can fairly be said to result in a "loss" both of rights and of remedies. Exhaustion of the right of the patentee to prevent others from using and selling patented goods upon exercise of the patentee's right to sell will have the consequence that a patentee who seeks to restrict downstream use or resale or other disposal of patented goods will be confined to seeking to impose those restrictions by contract or other enforceable arrangement. Patentees will accordingly not be able to avail themselves of remedies under the *Patents Act 1990* to enforce such restrictions as they might otherwise permissibly impose. Accepting as I do that the construction arrived at through the application of the exhaustion of rights doctrine strikes a balance between the interests of patentees and the interests of the owners of patented products that conforms to the statutory object of the *Patents Act 1990*, I am unable to regard the diminution in remedies available to patentees as counting against that construction.

136 That brings me finally to the question of constructional choice. Now to abandon the implied licence doctrine in favour of construing the *Patents Act 1990* in conformity with the exhaustion of rights doctrine is no small step. The magnitude of the step does not lie in its departure from a decision of the Privy Council. What weighs against taking the step is that *Menck* (Privy Council) has been understood to state the law in Australia for more than a century.

137 The most that can be said for the implied licence doctrine propounded in *Menck* (Privy Council), however, is that it has survived. Although the saga of the *Menck* litigation was thought to warrant inclusion as a chapter in a book entitled *Landmarks in Australian Intellectual Property Law* published in 2009, the authors of that chapter commented in

conclusion that the "relative obscurity" of *Menck* (Privy Council) was "remarkable"¹⁸⁷. Earlier in the chapter, the authors explained¹⁸⁸:

"Eight years after the Privy Council's decision, National Phonograph, which by then had changed its name to Thomas A Edison Ltd, obtained an injunction against a retailer in New Zealand who sold Edison products below list price despite a warning from the company: *Thomas A Edison Ltd v Stockdale*¹⁸⁹. In this case the defendant was a second-hand dealer who had no contractual or other business connection with the company.

But after *Stockdale* there is no report of an Australian or New Zealand case citing *Menck* involving patented products. It is not until the 1970s that *Menck* appears to be mentioned at all, and then only for the purpose of distinguishing it in copyright litigation."

138 Between the enactment of the *Patents Act 1952* (Cth) and the enactment of the *Patents Act 1990*, *Menck* (Privy Council) was referred to without criticism in *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV*¹⁹⁰. Almost contemporaneously with the enactment of the *Patents Act 1990*, and with reference to *Time-Life International*, a statement was made in *Avel Pty Ltd v Multicoïn Amusements Pty Ltd*, that in its application to patents the implied licence doctrine "would seem to be settled law"¹⁹¹. Both were copyright cases.

139 Were there reason to consider that the Commonwealth Parliament assumed the continued application of the implied licence doctrine in enacting the *Patents Act 1990*, I would have unhesitatingly taken the view that the implied licence doctrine is now incapable of judicial abandonment. In enacting the *Patents Act 1990*, however, the Parliament did not even re-enact the statutory language in the context of which the implied licence doctrine was articulated in *Menck* (Privy Council). Neither the Explanatory Memorandum to the *Patents Bill 1990* nor the IPAC report which preceded it provides a firm foundation for considering that anything in the text or structure of the *Patents Act 1990* reflected an implicit legislative choice to perpetuate

¹⁸⁷ Heerey and Malone, "RPM for RPM: *National Phonograph Company of Australia v Menck*", in Kenyon, Richardson and Ricketson (eds), *Landmarks in Australian Intellectual Property Law* (2009) 37 at 52.

¹⁸⁸ Heerey and Malone, "RPM for RPM: *National Phonograph Company of Australia v Menck*", in Kenyon, Richardson and Ricketson (eds), *Landmarks in Australian Intellectual Property Law* (2009) 37 at 44. The authors appear to have overlooked just one first instance decision in Australia: *Columbia Gramophone Co Ltd v Fossey* (1927) 27 SR (NSW) 246.

¹⁸⁹ [1919] NZLR 276.

¹⁹⁰ (1977) 138 CLR 534.

¹⁹¹ (1990) 171 CLR 88 at 98.

the implied licence doctrine in preference to the exhaustion of rights doctrine. The acknowledgement of both doctrines in the passage in the Explanatory Memorandum quoted in the joint majority judgment rather suggests the legislative adoption of an attitude of studied agnosticism.

140 I would have also been loath to abandon the implied licence doctrine were there grounds for thinking that abandonment of the doctrine would interfere with realisation of legitimate commercial expectations formed in reliance on the doctrine. Opportunities for patentees to exploit the implied licence doctrine by expressly imposing downstream restrictions on the use or resale of patented goods have been reduced by amendments to the *Competition and Consumer Act 2010* (Cth) in 2019¹⁹² removing an exemption from statutory provisions prohibiting restrictive trade practices for conditions imposed by patentees relating to articles made by use of an invention which had existed since 1974¹⁹³. The Explanatory Memorandum to the 2019 amending Act included the observation that the number of arrangements affected by the removal of the exemption was "likely to be small"¹⁹⁴. Tellingly, the well-resourced, well-represented and heavily invested parties to the present appeal did not point to any commercial expectations that ought to be taken into account in resolving the ground of appeal concerning the implied licence doctrine, and no application for leave to intervene was made by any patent holder claiming to have a legal interest which might be affected by abandonment of the doctrine¹⁹⁵.

141 The constructional choice is therefore open. In my view, it is properly made in this case in the manner and for the reasons set out in the joint majority judgment.

NETTLE, GORDON AND EDELMAN JJ:

¹⁹² *Treasury Laws Amendment (2018 Measures No 5) Act 2019* (Cth).

¹⁹³ See s 51(3)(a) of the *Competition and Consumer Act 2010* (Cth), formerly s 51(3)(a) of the *Trade Practices Act 1974* (Cth). See Gummow, "Abuse of Monopoly: Industrial Property and Trade Practices Control" (1976) 7 *Sydney Law Review* 339 at 348-349.

¹⁹⁴ Australia, House of Representatives, *Treasury Laws Amendment (2018 Measures No 5) Bill 2018*, Explanatory Memorandum at [4.3].

¹⁹⁵ cf *Levy v Victoria* (1997) 189 CLR 579 at 601-603.

- 142 Seiko Epson Corporation ("Seiko") manufactures and sells patented printer cartridges. Ninestar Image (Malaysia) SDN BHD ("Ninestar"), a third party to the proceedings, obtained used Seiko cartridges and modified those cartridges so that they could be re-used. The modified cartridges embodied all integers of Seiko's patent claim. Calidad Distributors Pty Ltd, in connection with three related companies (collectively, "Calidad"), then imported and sold those modified cartridges in Australia. Did the actions of Ninestar and Calidad infringe Seiko's patents? That issue can, and should, be resolved by asking what Lord Hoffmann once described as a "very short" point¹⁹⁶ – did Ninestar *make* the patented invention contrary to s 13(1) of the *Patents Act 1990* (Cth)?
- 143 For the reasons which follow, the work performed on Category 1, 2, 3 and 4 and Category A cartridges – as later described – did not amount to making the patented invention but the work performed on Category 5, 6 and 7 and Category B cartridges did. Thus, the appeal should be allowed in part.
- 144 That answer could not, and, it was common ground, did not, change according to which of two competing juridical bases for understanding the nature and extent of the monopoly rights which the Australian *Patents Act 1990* grants – the "implied licence theory" or the "exhaustion theory" – is adopted. As Lord Hoffmann correctly stated in *United Wire Ltd v Screen Repair Services (Scotland) Ltd*¹⁹⁷, "[w]here ... it is alleged that the defendant has infringed by *making* the patented product, the concepts of an implied licence or exhaustion of rights can have no part to play". Neither theory allows the "making" of a new invention without authorisation from the patentee¹⁹⁸.

¹⁹⁶ *Schütz (UK) Ltd v Werit (UK) Ltd* [2013] RPC 395 at 408 [35], citing *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 439 at 458-459 [68]-[73].

¹⁹⁷ [2001] RPC 439 at 458 [70] (emphasis in original).

¹⁹⁸ In relation to the implied licence theory, see *Solar Thomson Engineering Co Ltd v Barton* [1977] RPC 537 at 554, quoting *Sirdar Rubber Co Ltd v Wallington, Weston & Co* (1907) 24 RPC 539 at 543; *United Wire* [2001] RPC 439 at 458 [70]. In relation to the exhaustion theory, see *Aro Manufacturing Co Inc v Convertible Top Replacement Co Inc* (1961) 365 US 336 at 343, 346, citing *United States v Aluminum Co of America* (1945) 148 F 2d 416 at 425; *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at 1534.

145 Although this matter could be decided without choosing between the implied licence theory and the exhaustion theory, Calidad submitted that Australia now should adopt the exhaustion theory instead of the implied licence theory. That is not a step we are prepared to take. It is necessary therefore to address the competing theories before turning to address the second issue – whether the modifications of the used Epson printer cartridges amounted to making the patented invention and thereby infringed Seiko's patents.

146 As these reasons will explain, for more than a century, understanding the nature and extent of the monopoly rights granted by Australian (and English) patents Acts has been resolved by the implied licence theory. The exhaustion theory was developed and applied in the United States (and elsewhere) by reference to different legislative provisions. Such textual differences are not surprising. Unlike the law of copyright, the law of patents is not harmonised across countries¹⁹⁹. To now adopt the exhaustion theory diminishes the rights granted under the Australian *Patents Act 1990*. Under the exhaustion theory, a patentee cannot seek to control or limit, as a matter of patent law, what can be done by a purchaser of a patented product on notice of a condition of restraint; the patentee is left with only whatever rights and remedies are available in contract, and no rights and remedies under patent law. For our part, there is no principled reason for such a change.

147 Stripping patentees of rights which they have held for more than a century²⁰⁰ is a question for the legislature, not the courts. This Court should not make such a significant change in the rights of patentees, let alone in an appeal where decision of the point is not necessary to resolve the appeal. Resolution of the question does not affect the disposition of the litigation between these parties and, unsurprisingly, the adverse effects of such a change upon commercial arrangements negotiated by reference to those longstanding rights and remedies²⁰¹ were not addressed.

¹⁹⁹ See, eg, *Lexmark* (2017) 137 S Ct 1523 at 1539.

²⁰⁰ See *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15; [1911] AC 336 ("*Menck (PC)*").

²⁰¹ See fnn 302-304 below.

PATENTS ACT 1990

148 The patents in issue in this appeal were granted under the *Patents Act 1990*. It is necessary to start with the text of that Act. A patent granted under the *Patents Act 1990* protects the inventive step²⁰². Section 13, headed "Exclusive rights given by patent", states:

"(1) Subject to this Act, a patent gives the patentee the *exclusive rights*, during the term of the patent, to *exploit the invention* and to *authorise* another person to exploit the invention.

(2) The *exclusive rights* are personal property and are capable of assignment and of devolution by law.

(3) A patent has effect throughout the patent area." (emphasis added)

149 The term "exploit" in relation to an invention is now relevantly defined in Sch 1 to the *Patents Act 1990* as including, where the invention is a product, to "*make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things*" (emphasis added).

150 Thus, under s 13 of the *Patents Act 1990*, a patent gives the patentee the exclusive rights, during the term of the patent, to *exploit the invention* and to *authorise* another person to exploit the invention and, where the invention is a product, to "*make, hire, sell or otherwise dispose of the product, ... use or import it, or keep it for the purpose of doing any of those things*". Each of those exclusive rights is separately "*capable of assignment and of devolution by law*"²⁰³.

151 It is necessary to address the concept of monopoly rights in order to properly characterise the rights arising from the grant of a patent under the *Patents Act 1990*.

MONOPOLY RIGHTS

152 The patent grants the patentee a monopoly over the exploitation of the invention. The practical reality of the monopoly is and always has been the right to forbid the exploitation – the making, hiring or sale – of the invention by others²⁰⁴. The right is valuable. The price for that right is

²⁰² *Patents Act 1990*, ss 7(2)-(3) and 18(1)(b)(ii).

²⁰³ *Patents Act 1990*, s 13(2).

²⁰⁴ See, eg, Daniel, *A Complete Treatise upon the New Law of Patents, Designs and Trade Marks* (1884) at 1-2; Martin, *The English Patent System* (1904) at 43-44; Terrell, *The Law and Practice relating to Letters Patent for Inventions*, 4th ed (1906) at 274-276; Bannon, *Australian Patent Law* (1984) at 1-2; Birss et al, *Terrell on the Law of Patents*, 19th ed (2020) at 1 [1-01].

that the invention must be disclosed in the patent²⁰⁵ and the patentee must exploit the invention²⁰⁶. Where the invention is a product, the invention is exploited by making it or licensing someone else to make it²⁰⁷. But to describe the right granted as merely a right to exclude others from exploiting the invention is incomplete.

153 The *Statute of Monopolies*²⁰⁸ was the first comprehensive enactment in England that regulated what monopolies could be granted. Its focus was, as its name suggested, on the royal grants of monopolies²⁰⁹. The *Statute of Monopolies* was declaratory of the common law²¹⁰. Thus, that Act focused on monopolies against a background where, as a general rule, apart from any lawful grant of a monopoly, the common law permitted any person to manufacture and sell any article of commerce²¹¹ and where the common law disfavoured restraints on alienation²¹². The grant of any monopoly in respect of the manufacture or sale of any item of commerce thus qualified the position that obtained under the common law. How those two ideas intersected depended then, and depends now, upon the precise operation of the law permitting the grant of monopoly rights.

154 It may be accepted that the *Statute of Monopolies* fixed upon the granting of monopolies and contained a prohibitory clause²¹³. But the Anglo-Australian law of patents is not sufficiently or

²⁰⁵ See *Patents Act 1990*, ss 40 and 55.

²⁰⁶ See *Patents Act 1990*, Ch 12, Pt 2.

²⁰⁷ See *Patents Act 1990*, s 133(3).

²⁰⁸ 21 Jac I c 3 (1623).

²⁰⁹ See Frost, *Treatise on the Law and Practice relating to Letters Patent for Inventions*, 4th ed (1912), vol 1 at 1; Federico, "Origin and Early History of Patents" (1929) 11 *Journal of the Patent Office Society* 292 at 299-302; Birss et al, *Terrell on the Law of Patents*, 19th ed (2020) at 5 [1-16]-[1-17].

²¹⁰ *Statute of Monopolies*, s 1. See *Australian Gold Recovery Co Ltd v Lake View Consols Ltd* [1901] AC 142 at 149.

²¹¹ See *Darcy v Allin* (1602) Noy 173 [74 ER 1131]; *Clothworkers of Ipswich Case* (1614) Godb 252 [78 ER 147]. See also Letwin, "The English Common Law Concerning Monopolies" (1954) 21 *University of Chicago Law Review* 355; Birss et al, *Terrell on the Law of Patents*, 19th ed (2020) at 2-4 [1-07]-[1-15].

²¹² See *Coke upon Littleton* (1628), s 360 at 223a. See also *Hall v Busst* (1960) 104 CLR 206 at 217-218; *Bondi Beach Astra Retirement Village Pty Ltd v Gora* (2011) 82 NSWLR 665 at 694-698 [142]-[156].

²¹³ *Statute of Monopolies*, ss 1, 5 and 6.

completely described or understood by focusing only on that prohibition²¹⁴. The Anglo-Australian law of patents also grants valuable rights to patentees, earlier found in the terms of letters patent, and later finding expression in s 13 of the *Patents Act 1990* and its progenitor²¹⁵. By the end of the 18th century, it was evident that patents conferred valuable rights upon the patentee in addition to a right to exclude others from exploiting the invention the subject of the patent. In his *Commentaries*²¹⁶, Blackstone spoke of the King's grant of letters patent in terms of the transfer of property, created as a matter of public record, and, ordinarily, "*ex speciali gratia, certa scientia, et mero motu regis*"²¹⁷. That formulation finds replication in the form of letters patent granted into the 20th century²¹⁸.

155 By 1775, letters patent were cast in terms of a positive grant. An enactment²¹⁹ in 1775 extending the duration of a patent in respect of James Watt's steam engine inventions described the nature of the grant in the following terms²²⁰:

"King George the Third, by his Letters Patent, under the Great Seal of Great Britain ... *did give and grant* unto James Watt ... his Executors, Administrators, and Assigns, *the sole Benefit and Advantage of making and vending certain Engines ...*

[F]rom and after the passing of this Act, *the sole Privilege and Advantage of making, constructing, and selling the said Engines ... shall be, and are hereby declared to be, vested in the said James Watt, his Executors, Administrators, and Assigns ...* and for no others, from Time to Time, and at all Times, during the Term of Years herein before mentioned, *shall and lawfully may make, use, exercise, and vend* the said Engines ... and that *no other Person or Persons* within the Kingdom of Great Britain, or any of his Majesty's Colonies or Plantations abroad, shall, at any Time during the said Term of twenty-five Years, either directly or indirectly, *do, make, use, or put in Practice, the said Inventions ... without the Licence, Consent, or Agreement of the said James Watt, his Executors, Administrators, or Assigns.*" (emphasis added)

156 That Act and patent were considered in *Boulton v Bull*²²¹. Despite the enactment of the 1775 Act, the *Statute of Monopolies* and the royal prerogative remained the fundamental sources of

²¹⁴ cf *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 510-511 ("*Menck (HCA)*").

²¹⁵ See [155]-[163] below.

²¹⁶ Blackstone, *Commentaries on the Laws of England* (1766), bk 2, ch 21 at 344-348.

²¹⁷ "By the special favour, certain knowledge and mere motion of the king."

²¹⁸ See [158]-[159] below.

²¹⁹ 15 Geo III c 61.

²²⁰ 15 Geo III c 61, Preamble, s 1.

²²¹ (1795) 2 H Bl 463 [126 ER 651].

legal principle to *grant* the patent. It is reported that the defendant argued in the Court of Common Pleas that the relevant patent was "not good in law because it [did] not fall within the construction of the [*Statute of Monopolies*], upon which alone it must, if at all, be supported"²²² (emphasis added). Each of Rooke J, Heath J, Buller J, and Eyre CJ – who formed the coram – treated the *Statute of Monopolies* as determinative of the question of whether the patent in issue was valid by reason of being a novel invention²²³.

157 But, at the same time, the concept of patent rights – beyond the mere right to exclude – was recognised. As Eyre CJ said²²⁴:

"Though we have had many cases upon patents yet I think we are here upon ground which is yet untrodden, at least was untrodden till this cause was instituted, and till the discussions were entered into which we have heard at the bar, and now from the court. Patent rights are no where that I can find accurately discussed in our books. *Sir Edward Coke discourses largely, and sometimes not quite intelligibly, upon monopolies*, in his chapter of monopolies, 3 Inst 181^[225]. But *he deals very much in generals, and says little or nothing of patent rights, as opposed to monopolies*. ... The case of *Edgeberry v Stephens*, 2 Salk 447^[226], is almost the only case upon the patent right, under the saving of the [*Statute of Monopolies*], that is to be found." (emphasis added)

Eyre CJ's criticism of Coke's definition of "monopolies" for lacking specificity and for failing to distinguish between "patent rights" and "monopolies" is significant and revealing²²⁷.

158 Three Acts were then passed in relatively quick succession in England – the Statute 5 & 6 Will IV c 83 in 1835²²⁸, the *Patent Law Amendment Act 1852*²²⁹ and the *Patents, Designs, and*

²²² *Boulton* (1795) 2 H Bl 463 at 471 [126 ER 651 at 655].

²²³ *Boulton* (1795) 2 H Bl 463 at 477-478, 481, 486, 491-492 [126 ER 651 at 658-659, 660, 663, 665-666].

²²⁴ *Boulton* (1795) 2 H Bl 463 at 490-491 [126 ER 651 at 665].

²²⁵ Coke, *The Third Part of the Institutes of the Laws of England* (1644), c 85.

²²⁶ (1691) 2 Salk 447 [91 ER 387]. See a more comprehensive report at Holt KB 475 [90 ER 1162].

²²⁷ See Dutton, *The Patent System and Inventive Activity During the Industrial Revolution 1750-1852* (1984) at 69-71.

²²⁸ Section 2 of the 1835 Act included the prohibitory clause in relation to letters patent granted by the monarch to a patentee who was found not to be the first inventor, but whose letters patent were confirmed – or re-issued – by satisfying criteria not presently relevant. Section 2 provided that the confirmed or re-issued letters patent conferred "the sole Right of using, making, and vending such Invention *as against all Persons* whatsoever, any Law, Usage, or Custom to the contrary thereof notwithstanding" (emphasis added).

²²⁹ 15 & 16 Vict c 83.

*Trade Marks Act 1883*²³⁰. The 1852 Act was the first substantive legislative reform of patent law after the *Statute of Monopolies*²³¹. In addition to the substantial administrative reforms reflected in the 1852 Act²³², the form of letters patent, already then in use but not prescribed in legislation, was set out in a schedule to the 1852 Act and relevantly provided²³³:

"We, of Our especial Grace, certain Knowledge, and mere Motion, have given and granted, and by these Presents, for Us, Our Heirs and Successors, do *give and grant unto the said [named patentee] his Executors, Administrators, and Assigns, Our especial Licence, [1] full Power, sole Privilege, and Authority that [the patentee] ... and no others, from Time to Time and at all Times hereafter during the Term of Years herein expressed, shall and lawfully may make, use, exercise, and vend his said Invention ... and ... [2] We do by these Presents, for Us, Our Heirs and Successors, require and strictly command all and every Person and Persons ... and all other Our Subjects whatsoever ... that neither they nor any of them ... either directly or indirectly do make, use, or put in practice the said Invention ... without the Consent, Licence, or Agreement of the [patentee]*". (emphasis added)

The form of letters patent provided in the 1852 Act reflected the form of grant that appears to have existed from at least the 18th century²³⁴. And while the 1852 Act was chiefly concerned with reforming the administration of patents, there is no indication that it was intended to substantially amend the nature and content of the rights conferred upon the patentee. Most pertinently, the terms of the form of letters patent in the 1852 Act stipulated – and were understood to articulate – that the privilege was not only or in "substance"²³⁵ the right to forbid the use of an invention by others.

159 The 1883 Act consolidated the law applicable to patents²³⁶. The effect of the 1883 Act, consistent with the position prior to its enactment, was to confer upon the patentee the sole

²³⁰ 46 & 47 Vict c 57.

²³¹ The 1852 Act: established what would come to be known as the Patent Office (*Patent Law Amendment Act*, ss 2 and 4); authorised certain persons (such as the Lord Chancellor and the Master of the Rolls) to exercise powers as Commissioners of Patents for Inventions, including the power to seal letters patent (ss 1 and 2); required a register of patents to be kept (s 34); and conferred jurisdiction upon common law courts to grant injunctions and order an inspection and account when determining infringement claims (s 42).

²³² See MacLeod, "Patents for Invention: Setting the Stage for the British Industrial Revolution?" (2009) 18 *Empiria* 37 at 41-42. See also Dickens, *Little Dorrit* (1868) at 112-114.

²³³ *Patent Law Amendment Act*, Schedule.

²³⁴ See [155] above.

²³⁵ cf *Menck (HCA)* (1908) 7 CLR 481 at 510.

²³⁶ Frost, *Treatise on the Law and Practice relating to Letters Patent for Inventions*, 4th ed (1912), vol 1 at 4.

benefit of the right to exploit the invention. By s 46, the "patentee" was "the person for the time being entitled to the benefit of a patent". And the form of patent issued under the 1883 Act, set out in the First Schedule to the Act, was expressed as follows²³⁷:

"Know ye, therefore, that We, of our especial grace, certain knowledge, and mere motion do by these presents, for us, our heirs and successors, give and grant unto the said patentee our especial license, *full power, sole privilege, and authority, that the said patentee by himself, his agents, or licensees, and no others, may at all times hereafter during the term of years herein mentioned, make, use, exercise, and vend the said invention ... in such manner as to him or them may seem meet, and that the said patentee shall have and enjoy the whole profit and advantage from time to time accruing by reason of the said invention, during the term of fourteen years from the date hereunder written of these presents*". (emphasis added)

160 Thus the 1852 and 1883 Acts expressly recognised the rights arising from a grant of letters patent: not only a monopoly over the exploitation of the invention, but also a positive grant of rights including the right to vend the invention. To see patent rights in the 19th century *only* through the lens of monopoly (and as a statutory power to prevent *others* exploiting the invention) was, and remains, too narrow a view of the effect of a grant of a patent. It was not then, and is not now, sufficient to see the 19th and 20th century patents Acts as doing no more than giving a patentee a statutory right to exclude others from exploiting the invention, nor is it sufficient to see the statutes as giving a patentee a piece of property sufficiently described as a "patent".

161 Over time, patentee rights have come to be recorded expressly in the provisions of patents Acts, rather than simply in the form of the patent provided for by the relevant Act. Thus, the terms of s 62 of the *Patents Act 1903* (Cth) – that the "effect of a patent shall be to grant to the patentee *full power, sole privilege and authority, by himself, his agents, and licensees during the term of the patent to make, use, exercise, and vend the invention*" (emphasis added) – were taken from the italicised words in the form of patent under the 1883 Act²³⁸.

162 The recording of the rights granted culminated in the enactment of the *Patents Act 1990*, an Act which did not alter the law in Australia in any relevant respect²³⁹. And it is of the first importance to notice what was said in the Explanatory Memorandum. First, it was said that the

²³⁷ *Patents, Designs, and Trade Marks Act 1883*, First Schedule, Form D.

²³⁸ See *Menck (HCA)* (1908) 7 CLR 481 at 510.

²³⁹ Australia, Senate, *Patents Bill 1990*, Explanatory Memorandum at 5 [23]-[24].

definition of "exploit", when read with s 13, avoided some "obscure language"²⁴⁰ in the *Patents Act 1903* setting out a patentee's rights and, second, that:

"Clause 13 is not intended, in particular, to modify the operation of the law on infringement so far as it relates to subsequent dealings with a patented product after its first sale. This applies particularly where a patented product is resold or where it is imported after being purchased abroad. *It is intended that the question whether such a resale or importation constitutes an infringement in a particular case will continue to be determined as it is now, having regard to any actual or implied licences in the first sale and their effect in Australia, and to what is often known as the doctrine of 'exhaustion of rights' so far as it applies under Australian law.*" (emphasis added)

163 Thus, seeing the *Patents Act 1990* as conferring only a power to limit the otherwise free conduct of others in relation to the manufacture and sale of articles of commerce is to focus on one aspect – the negative aspect – of the grant of the monopoly. To see the grant of the monopoly (as s 13(2) of the *Patents Act 1990* expressly does²⁴¹) as the grant of rights of personal property is to recognise the obverse and positive aspect of the grant. And implicit in that grant is the freedom of the person granted these property rights to deal with them in whole or in part, and absolutely or conditionally, as they see fit (subject always of course to any express statutory limitation on that freedom). It is the terms of the legislative grant of patent rights and the proper construction of the grant that are determinative of the scope and content of a patentee's rights.

164 Seeing the grant of the monopoly in s 13(2) in those terms as having both negative and positive aspects recognises that a patent grants to the patentee a negative right, namely a right to exclude others from exploiting the invention and, no less importantly, recognises that the negative right carries with it the consequence that others do *not* have the ordinary liberty to make, use, exercise and sell the patented article. That approach gives full measure to both elements of the expression "negative right", which are rights of monopoly²⁴².

²⁴⁰ Australia, Senate, *Patents Bill 1990*, Explanatory Memorandum at 5 [23].

²⁴¹ And as Australian patents legislation has since s 18 of the *Patents Act 1909* (Cth) inserted s 110A into the *Patents Act 1903* to provide that the rights granted to a patentee by a patent are personal property and are capable of assignment and of devolution by operation of law.

²⁴² See Hohfeld, "Some Fundamental Legal Conceptions as Applied in Judicial Reasoning" (1913) 23 *Yale Law Journal* 16 at 30-31, 37-38; Douglas and McFarlane, "Defining Property Rights", in Penner and Smith (eds), *Philosophical Foundations of Property Law* (2013) 219 at 226-228. cf *Fejo v Northern Territory* (1998) 195 CLR 96 at 126 [43], 128 [47]; *Western Australia v Brown* (2014) 253 CLR 507 at 522 [36].

165 The particular area where the conflicting theories have been engaged is the sale of a patented article by a patentee. Could a patentee complain when someone to whom they had "sold the patented product then, without any further consent, uses it or disposes of it to someone else"²⁴³? On its face, this would be conduct prohibited by the grant of an exclusive right to sell²⁴⁴.

166 Over time, two possible answers emerged. The first is that the patentee sells the product to a buyer with an "implied licence" that the buyer may dispose of it as the buyer sees fit. That position has been adopted in Australia and in the United Kingdom for more than a century²⁴⁵. The other is that "[t]he patentee's rights in respect of the product are exhausted by the first sale"²⁴⁶. As has been noted earlier, the latter theory has been adopted in the United States²⁴⁷ and some European patent systems²⁴⁸. The difference between the two theories was described by Lord Hoffmann in *United Wire* as being that "an implied licence may be excluded by express contrary agreement or made subject to conditions while the exhaustion doctrine leaves no patent rights to be enforced"²⁴⁹. So which theory applies, what is that theory and why does it matter?

THE PATENTS ACTS AND THE IMPLIED LICENCE THEORY

167 The decision of the Privy Council in *National Phonograph Co of Australia Ltd v Menck* ("*Menck (PC)*")²⁵⁰ settled the answer to those questions, and the law in Australia, more than a century ago. In that case, the Privy Council recognised the difficulty posed by the *Patents Act 1903*²⁵¹: enforcement of the general principle applicable to ordinary goods that an owner is not bound by any restrictions in regard to use or sale of the goods so that any restrictive conditions do not run with the goods²⁵² (which was never open to doubt) *without* impinging upon the right

²⁴³ *United Wire* [2001] RPC 439 at 458 [68].

²⁴⁴ cf *Patents Act 1990*, s 13.

²⁴⁵ See *Menck (PC)* (1911) 12 CLR 15; [1911] AC 336.

²⁴⁶ *United Wire* [2001] RPC 439 at 458 [69]. See also *Lexmark* (2017) 137 S Ct 1523 at 1532-1534.

²⁴⁷ *Lexmark* (2017) 137 S Ct 1523 at 1531-1532.

²⁴⁸ See *United Wire* [2001] RPC 439 at 458 [69].

²⁴⁹ [2001] RPC 439 at 458 [69].

²⁵⁰ (1911) 12 CLR 15; [1911] AC 336.

²⁵¹ *Menck (PC)* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

²⁵² See *Taddy & Co v Sterious & Co* [1904] 1 Ch 354 at 358; *McGruther v Pitcher* [1904] 2 Ch 306 at 309-310; *Dunlop Pneumatic Tyre Co Ltd v Selfridge and Co Ltd* [1915] AC 847 at

granted by the *Patents Act 1903* to "exclude all others from the right of production ... of the patented article" and the power to impose "conditions in the transactions of making, using and vending, which are necessarily an exception by [the *Patents Act 1903*] to the rules ordinarily prevailing"²⁵³. The Privy Council based its decision on the undisputed acceptance that there was no relevant difference between the patents Acts of Australia and the United Kingdom²⁵⁴.

168 The Privy Council held that it was possible to adjust the incidents of ownership of ordinary goods with the incidents of ownership of patented goods so as to harmonise the rights of the patentee with the rights of the owner²⁵⁵. And it is important to restate the principles set out by the Privy Council²⁵⁶:

"All that is affirmed is that the general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself at the time of sale, shall be bound by that knowledge and accept the situation of ownership subject to the limitations. These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, laid down by Statute, gave the original patentee a power to impose. *Whether the law on this head should be changed and the power of sale sub modo should be withdrawn or limited is not a question for a Court.* It may be added that where a patented article has been acquired by sale, much, if not all, may be implied as to the consent of the licensee to an undisturbed and unrestricted use thereof. In short, such a sale negatives in the *ordinary case* the imposition of conditions and the bringing home to the knowledge of the owner of the patented goods that restrictions are laid upon him.

These principles harmonize the rights of the patentee with the rights of the owner." (emphasis added)

And, as the Privy Council stated, that reconciliation of rights had, at the time of judgment, "been done for a long period of years in England by decisions which are consistent and sound"²⁵⁷.

860, 865; *Barker v Stickney* [1918] 2 KB 356 at 359. See also *Menck (HCA)* (1908) 7 CLR 481 at 510, 527-528, 538.

²⁵³ *Menck (PC)* (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

²⁵⁴ *Menck (PC)* (1911) 12 CLR 15 at 17; [1911] AC 336 at 342.

²⁵⁵ *Menck (PC)* (1911) 12 CLR 15 at 23-24; [1911] AC 336 at 348-349.

²⁵⁶ *Menck (PC)* (1911) 12 CLR 15 at 24; [1911] AC 336 at 349.

²⁵⁷ *Menck (PC)* (1911) 12 CLR 15 at 22-23; [1911] AC 336 at 347-348. See also *Menck (HCA)* (1908) 7 CLR 481 at 534, citing *Incandescent Gas Light Co Ltd v Cantelo* (1895) 12 RPC 262; *Incandescent Gas Light Co Ltd v Brogden* (1899) 16 RPC 179; *British Mutoscope and Biograph Co Ltd v Homer* [1901] 1 Ch 671; *McGruther* [1904] 2 Ch 306 at 312; *Badische*

- 169 The Privy Council rejected the reasoning adopted by the majority of the High Court in *National Phonograph Co of Australia Ltd v Menck* ("*Menck (HCA)*")²⁵⁸. It is important to understand why that was so and why those considerations continue to apply in Australia in 2020. The majority's reasoning in *Menck* in the High Court proceeded from a mistaken premise. It is sufficient to address the reasons for judgment of Griffith CJ to illustrate the point. After correctly identifying that "[t]he plaintiffs' right, whatever it may be" was founded on the terms of s 62 of the *Patents Act 1903*, his Honour stated that "the patentee's right to put his invention in practice [was] not conferred upon him by the patent, but [arose] at common law"²⁵⁹ and, second, that the common law did not admit restraint on alienation²⁶⁰.
- 170 It was right to say then, as it is now, that there can be no restraint on alienation at common law²⁶¹. But it is not right to say only that there can be no restraint on alienation at common law and therefore the grant of letters patent, and especially the enactment of the patents Acts of 1903 and 1990, made no difference. The question is whether the Australian patents Acts made a difference and, if they did, how far that difference reaches. Those Acts did then, and do now, make a difference and their reach is settled.
- 171 As the Privy Council pointed out in *Menck*, the error in the High Court arose because the issue in the High Court was obscured by the breadth of the patentee's proposition in that case – that its restraint extended to all subsequent sales *with or without* notice of the patentee's conditions²⁶². Those arguments invited a binary choice – the *Patents Act 1903* does not speak to the position of *any* purchaser (which the majority in the High Court held) or the *Patents Act 1903* speaks to *all* subsequent purchasers (regardless of the terms on which they dealt).

Anilin und Soda Fabrik v Isler [1906] 1 Ch 605; Frost, *Treatise on the Law and Practice relating to Letters Patent for Inventions*, 3rd ed (1906), vol 1 at 377-379; Wallace and Williamson, *The Law and Practice relating to Letters Patent for Inventions* (1900) at 339.

²⁵⁸ (1908) 7 CLR 481.

²⁵⁹ *Menck (HCA)* (1908) 7 CLR 481 at 508.

²⁶⁰ *Menck (HCA)* (1908) 7 CLR 481 at 508-515.

²⁶¹ See *Hall* (1960) 104 CLR 206 at 218, citing *In re Ridley*; *Buckton v Hay* (1879) 11 Ch D 645 at 648-649; *Nullagine Investments Pty Ltd v Western Australian Club Inc* (1993) 177 CLR 635 at 649.

²⁶² *Menck (PC)* (1911) 12 CLR 15 at 21; [1911] AC 336 at 346.

All judges in the High Court and in the Privy Council rejected the second choice²⁶³. As the Privy Council explained, the true area of debate was the position of a purchaser who *had notice* of any limitation²⁶⁴. Absent notice, no such limitations applied to the articles in the purchaser's hands. But, as the Privy Council and Isaacs J in the High Court recognised, the *Patents Act 1903* did speak to a purchaser who buys a patented chattel subject to conditions imposed by the patentee²⁶⁵.

172 The approach of the High Court in *Menck*, which was rejected by the Privy Council, may be explained as follows. Griffith CJ's judgment proceeded from an incorrect premise: that the *Patents Act 1903* merely restricted otherwise exercisable common law liberties to make, own and alienate property. Griffith CJ stated that the effect of the *Patents Act 1903* was "not [to] confer on [a patentee] a right to enjoy his own domain, but to prevent other persons from trespassing upon it"²⁶⁶. His Honour saw the foundation of patent law as the *Statute of Monopolies*, and stated that since its enactment "it appears to have been the accepted law" that²⁶⁷:

"once the patentee ... had by putting the invention in practice produced an article and disposed of it to some member of the public the making use of the article so disposed of by anyone whomsoever was not an infringement of the monopoly of 'working or making' the new manufacture".

His Honour referred to *Crane v Price*²⁶⁸, the reasoning of which was affirmed in the Supreme Court of the United States decision in *Bloomer v Millinger*²⁶⁹, as authority for the proposition that upon sale, the patentee's "exclusive privileges" in respect of an article the subject of letters

²⁶³ *Menck (HCA)* (1908) 7 CLR 481 at 508-509, 519, 525-527, 531, 537-539, 543; *Menck (PC)* (1911) 12 CLR 15 at 28; [1911] AC 336 at 353.

²⁶⁴ *Menck (PC)* (1911) 12 CLR 15 at 24; [1911] AC 336 at 349.

²⁶⁵ *Menck (HCA)* (1908) 7 CLR 481 at 538-539; *Menck (PC)* (1911) 12 CLR 15 at 24; [1911] AC 336 at 349.

²⁶⁶ *Menck (HCA)* (1908) 7 CLR 481 at 508.

²⁶⁷ *Menck (HCA)* (1908) 7 CLR 481 at 509.

²⁶⁸ (1842) 4 Man & G 580 [134 ER 239].

²⁶⁹ (1864) 68 US 340 at 351.

patent are at an end "in respect of that particular portion of the article so sold"²⁷⁰. Unsurprisingly, the Chief Justice then observed that²⁷¹:

"[i]t is an elementary principle of the law of personal property that the owner of chattels has an absolute right to use and dispose of them as he thinks fit, and that *no restrictions can be imposed upon this right, except by positive law or by his own contract.*" (emphasis added)

And, thus, his Honour construed the words "vend the invention" in s 62 of the *Patents Act 1903* to mean "to put the product of the invention in the possession of the public, and ... not [to] refer to any sale of the article after it has once, without violation of the monopoly, become part of the common stock"²⁷². Griffith CJ rejected the alternative construction (adopted by Isaacs J and then the Privy Council) because his Honour said he could not conceive that the legislature would have "made a change in the fundamental principles of the common law without express and clear words"²⁷³.

173 But Griffith CJ's analysis does not account for the reality that, from at least the 18th century, the English monarchs exercised a prerogative power to grant patentees the sole right to make, use and vend their invention²⁷⁴, that the English patents Acts of 1775, 1835 and 1852 proceeded on the assumption that the grant of letters patent entailed the conferral of such rights²⁷⁵ and, further, that the 1883 Act (on which the *Patents Act 1903* was based) reflected the change foreshadowed by Eyre CJ in the 18th century²⁷⁶. As Lord Cranworth LC stated in *Mathers v Green*²⁷⁷, which concerned the obligations of grantees of the same patents to account between themselves for profit made from exploitation of the invention the subject of the patents, the letters patent granted that each of the grantees, and no others, shall, for the term of the assignment, "use, exercise, and vend the ... invention. The right conferred is a right to exclude

²⁷⁰ *Menck (HCA)* (1908) 7 CLR 481 at 509, citing *Crane* (1842) 4 Man & G 580 [134 ER 239] as reported in Webster, *Reports and Notes of Cases on Letters Patent for Inventions* (1844) at 413 fn (p).

²⁷¹ *Menck (HCA)* (1908) 7 CLR 481 at 510.

²⁷² *Menck (HCA)* (1908) 7 CLR 481 at 512.

²⁷³ *Menck (HCA)* (1908) 7 CLR 481 at 512.

²⁷⁴ Terrell, *The Law and Practice relating to Letters Patent for Inventions*, 4th ed (1906) at 106.

²⁷⁵ See [155]-[160] above.

²⁷⁶ See [157] above.

²⁷⁷ (1865) LR 1 Ch App 29 at 33. See also *Steers v Rogers* [1893] AC 232 at 235.

all the world other than the grantees from using the invention." True it is, one may find occasional, aberrant dicta expressed from time to time during that period, even at the highest level. Thus, for example, in *Steers v Rogers*²⁷⁸, Lord Herschell LC observed that "letters patent do not give the patentee any right to use the invention ... What the letters patent confer is the right to exclude others from ... using a particular invention." But so to observe was, in effect, contrary to the holding in *Mathers v Green*²⁷⁹, which his Lordship cited²⁸⁰ as authoritative, and directly contrary to his Lordship's own, settled reasoning four years later in *Basset v Graydon*²⁸¹. In *Basset*, Lord Herschell LC expressly observed that neither an exclusive licensee solely authorised to manufacture a patented article, nor purchasers of the article from the exclusive licensee, "could use the [article], when completed, without a license from the Patentee"²⁸². Lord Morris agreed with Lord Herschell LC, as did Lord Watson, who delivered a speech to the same effect that "no individual or Company ... can proceed to use [the article] ... until they have settled with and obtained a license from the [patentee]"²⁸³.

174 Griffith CJ failed to recognise that the *Patents Act 1903* granted, and patentees held, sui generis rights in respect of patents and patented articles. By contrast, Isaacs J took as the starting point of his Honour's analysis the existence of the statutory monopoly rights, what he described as a fundamental consideration²⁸⁴, and *not* the general common law rule about restraints on alienation. Isaacs J's reasons demonstrate that, if one starts with the *Patents Act 1903* and recognises that it conferred monopoly rights that were both a right to exclude others *and* an exclusive right or privilege to exploit the invention, then generalised references to freedom of trade or to the common law's rejection of restraints on alienation are shown to be inapposite. As Isaacs J said²⁸⁵:

"[W]hile it is perfectly true that no person can of his own will create a new species of property, or impress upon property a character which the law does not recognize, or create a negative obligation to follow or attend ordinary rights of ownership, *yet the*

²⁷⁸ [1893] AC 232 at 235.

²⁷⁹ (1865) LR 1 Ch App 29.

²⁸⁰ *Steers* [1893] AC 232 at 234-235.

²⁸¹ (1897) 14 RPC 701 at 710.

²⁸² (1897) 14 RPC 701 at 710.

²⁸³ *Basset* (1897) 14 RPC 701 at 713.

²⁸⁴ *Menck (HCA)* (1908) 7 CLR 481 at 534.

²⁸⁵ *Menck (HCA)* (1908) 7 CLR 481 at 536.

law itself can. And when an Act of Parliament followed by a grant from the Crown reverses the public policy which gave rise to the general unfettered alienability of property, and ... creates an exclusive privilege in favour of the grantee, the common law principle no longer controls the matter, but becomes inapplicable to the case." (emphasis added)

175 And what was created by the law was described by Isaacs J, citing *Saccharin Corporation v Reitmeyer & Co*²⁸⁶, as follows²⁸⁷:

"The patentee obtains from the Crown, under legislative authority in Australia, the exclusive right to *make*, or *use*, or *exercise*, or *vend* the invention, that is, in such a patent as this, to make, use, or sell articles made according to the invention or in any way 'put in practice' the invention."

176 Thus, the law – the *Patents Act 1903*, followed by the grant of exclusive patent rights under that Act – created the exclusive rights identified, to exclude others and to exploit the invention.

177 The area of debate in *Menck* was the interaction between those exclusive rights granted by the statute and a contract of sale that "'put in practice' the invention"²⁸⁸. Central to the resolution of that question was whether the rights of the patentee were properly to be conceived of as limited to preventing others using and selling patented goods or were such as to confer on the patentee an exclusive right to make, use and vend them. If the former, as Griffith CJ reasoned, a patentee was not by operation of the patent, and apart from contract, entitled to impose conditions upon the use or sale of the patented articles²⁸⁹. But if the latter, as Isaacs J and the Privy Council concluded, the exclusive right or privilege of the patentee to make, use and vend the patented invention entitled the patentee in selling patented articles to impose any conditions as to future sales that the patentee pleased²⁹⁰. As Isaacs J said²⁹¹:

"The right of ownership in the article itself must be kept distinct from the right to the privilege under the patent. ...

This idea of leave and licence – that is the permission – permeates all the cases in the English Courts and all the American cases I refer to. The right of the licensee is coextensive with the permission granted – no greater and no less."

²⁸⁶ [1900] 2 Ch 659 at 663.

²⁸⁷ *Menck (HCA)* (1908) 7 CLR 481 at 535 (emphasis in original).

²⁸⁸ (1908) 7 CLR 481 at 535.

²⁸⁹ See *Menck (HCA)* (1908) 7 CLR 481 at 512-519.

²⁹⁰ See *Menck (HCA)* (1908) 7 CLR 481 at 533-539; *Menck (PC)* (1911) 12 CLR 15 at 26-28; [1911] AC 336 at 351-353.

²⁹¹ *Menck (HCA)* (1908) 7 CLR 481 at 538-539.

178 Thus, the correct starting point for the analysis was the text of the *Patents Act 1903*, which granted to the patentee monopoly rights "to make, use, exercise ... the invention"²⁹². And those rights were construed by the Privy Council in *Menck*, consistent with the text, so that the imposition of conditions in a transaction involving the making, using and selling of a patented article was necessarily an exception by statute to the general principle applicable to ordinary goods bought and sold²⁹³. That construction is entirely orthodox. For if, as Griffith CJ understood the position²⁹⁴, putting an invention into practice was merely an exercise of an existing common law "freedom[] or liberty"²⁹⁵, then the express provisions conferring exclusive rights and privileges to make, use, exercise and vend an invention were, and are, redundant²⁹⁶.

179 Thus, resolution of the interaction between patent monopoly rights on the one hand, and, on the other, a contract of sale that puts the invention in practice, was readily explained under the 1903 Act and is now readily explained under the 1990 Act. As Buckley J said in *Badische Anilin und Soda Fabrik v Isler*²⁹⁷:

"If a patentee sells the patented article to a purchaser and the purchaser uses it, he, of course, does not infringe. But why? By reason of the fact that the law implies from the sale a licence given by the patentee to the purchaser to use that which he has bought. In the absence of condition this implied licence is a licence to use or sell or deal with the goods as the purchaser pleases".

This was not obiter²⁹⁸. Buckley J's statement was the consequence of recognising the existence of the monopoly rights and their interaction with the common law rule against alienation that then subsisted in Anglo-Australian law.

180 In 1977, in *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV*²⁹⁹, after stating that those words of Buckley J had to be regarded as a "correct statement of the

²⁹² See [154]-[164] above.

²⁹³ (1911) 12 CLR 15 at 22; [1911] AC 336 at 347.

²⁹⁴ *Menck (HCA)* (1908) 7 CLR 481 at 508.

²⁹⁵ Coke, *The Third Part of the Institutes of the Laws of England* (1644), c 85 at 181.

²⁹⁶ cf *Baume v The Commonwealth* (1906) 4 CLR 97 at 112; *Leon Fink Holdings Pty Ltd v Australian Film Commission* (1979) 141 CLR 672 at 679.

²⁹⁷ [1906] 1 Ch 605 at 610, quoted in *Interstate Parcel Express Co Pty Ltd v Time-Life International (Nederlands) BV* (1977) 138 CLR 534 at 541-542.

²⁹⁸ cf *Menck (HCA)* (1908) 7 CLR 481 at 517-518.

²⁹⁹ (1977) 138 CLR 534.

patent law"³⁰⁰, Gibbs J went on to explain the importance of the law of patents and why it necessarily created a different result compared to an owner of copyright, who, under the applicable statute, did not have the exclusive right to use or sell the work. His Honour said³⁰¹:

"By the grant of a patent in traditional form [issued under the 1883 Act and reflected in the *Patents Act 1903*], a patentee is granted exclusive power to 'make, use, exercise and vend' the invention. The sale of a patented article, by the patentee, would be quite futile, from the point of view of the buyer, if the buyer was not entitled either to use or to resell the article which he had bought. It therefore seems necessary, in order to give business efficacy to such a sale, to imply a term that the patentee consents to the use of the patented article by the buyer *and those claiming under him*. The law accordingly does ordinarily imply the consent of the patentee 'to an undisturbed and unrestricted use' of the patented article. To make such an implication, for the purpose only of avoiding the restrictions upon the use of the article *that would otherwise be imposed by the patent*, seems to be perfectly consistent with the ordinary rules governing the implication of terms in contracts." (emphasis added, citation omitted)

APPLICABLE PRINCIPLES

181 Thus, what has been the law for over a century, repeatedly relied upon in England³⁰² and Australia³⁰³ in circumstances extending beyond the first sale, and reiterated by text writers³⁰⁴, may be simply stated.

³⁰⁰ (1977) 138 CLR 534 at 542.

³⁰¹ *Time-Life International* (1977) 138 CLR 534 at 542.

³⁰² See, eg, *Columbia Graphophone Co v Vanner* (1916) 33 RPC 104 at 106; *Columbia Graphophone Co Ltd v Murray* (1922) 39 RPC 239 at 241; *Columbia Graphophone Co Ltd v Thoms* (1924) 41 RPC 294 at 296; *The Chloride Electrical Storage Co Ltd v Silvia Wireless Stores* (1931) 48 RPC 468 at 470; *Gillette Industries Ltd v Bernstein* (1941) 58 RPC 271 at 278-279; *Dunlop Rubber Co Ltd v Longlife Battery Depot* [1958] RPC 473 at 476; *Sterling Drug Inc v C H Beck Ltd* [1973] RPC 915 at 917-918; *Solar Thomson* [1977] RPC 537 at 554-555; *Dellareed Ltd v Delkim Developments* [1988] FSR 329 at 345-347; *Roussel UCLAF SA v Hockley International Ltd* [1996] RPC 441 at 443-445; *United Wire* [2001] RPC 439 at 458-459 [68]-[72]; *Schütz* [2013] RPC 395 at 413 [66]; *HTC Corporation v Nokia Corporation* [2014] RPC 577 at 582-583 [154]-[156], 585 [165].

³⁰³ See, eg, *Columbia Gramophone Co Ltd v Fossey* (1927) 27 SR (NSW) 246 at 249-251; *Time-Life International* (1977) 138 CLR 534 at 541-542, 549-550; *Computermate Products (Aust) Pty Ltd v Ozi-Soft Pty Ltd* (1988) 20 FCR 46 at 50-51; *Levi Strauss & Co v Wingate Marketing Pty Ltd* (1993) 43 FCR 344 at 370; *Grain Pool of Western Australia v The Commonwealth* (2000) 202 CLR 479 at 513-514 [83]-[84]; *Austshade Pty Ltd v Boss Shade Pty Ltd* (2016) 118 IPR 93 at 116-119 [78]-[82]; *Australian Competition and Consumer Commission v Pfizer Australia Pty Ltd* (2018) 356 ALR 582 at 729-730 [592]-[594].

³⁰⁴ See, eg, Moulton, *The Present Law and Practice relating to Letters Patent for Inventions* (1913) at 161-163; *Terrell on the Law of Patents*, 6th ed (1921) at 150-151, 232-

182 Absent a contract of sale, only the patentee may exercise any of the statutory monopoly rights in s 13(1) of the *Patents Act 1990* in respect of a patented article. As the sub-section makes clear, to exercise those rights, a person must be the patentee or a person authorised by the patentee³⁰⁵. The form of that authorisation is not prescribed.

183 An unconditional contract of sale of a patented article transfers title in the patented article to the purchaser, and, consistent with s 13(1) and (2) of the *Patents Act 1990*, that contract of sale ordinarily carries with it a licence of, or release from, the patentee's exclusive right to use and sell that patented article³⁰⁶. That licence or release to the purchaser of the patentee's rights to use and sell that patented article arises as a matter of necessary implication from the need to give business efficacy to the contract of sale³⁰⁷. As Gibbs J observed³⁰⁸ in *Time-Life International*, that implication is necessary to bring the patentee's *exclusive* rights of sale and

233; 7th ed (1927) at 173, 249; 8th ed (1934) at 183-184, 273; 9th ed (1951) at 165-166, 264; 10th ed (1961) at 148-149, 240-241; 11th ed (1965) at 152-153 [380]-[382]; 12th ed (1971) at 158-159 [381]-[383]; 13th ed (1982) at 277-279 [9.63]-[9.67]; 14th ed (1994) at 201-202 [6.60]-[6.61]; 15th ed (2000) at 224-226 [8.45]-[8.47]; 16th ed (2006) at 332-334 [8-65]-[8-67]; 17th ed (2011) at 468-469 [14-110]-[14-113]; 18th ed (2016) at 467-469 [14-221]-[14-228]; 19th ed (2020) at 492-494 [14-272]-[14-282]; Blanco White, *Patents for Inventions and the Registration of Industrial Designs*, 1st ed (1950) at 63-64, 207-209; 2nd ed (1955) at 78-79, 263-265; 3rd ed (1962) at 91-93, 295-297; 4th ed (1974) at 104-105 [3-219], 360-362 [10-104]-[10-105]; Bannon, *Australian Patent Law* (1984) at 98 [251]; Ricketson, *Intellectual Property: Cases, Materials and Commentary*, 1st ed (1994) at 734 [15.1.2]; 2nd ed (1998) at 707 [15.1.2]; 3rd ed (2005) at 821 [15.2]; 4th ed (2009) at 816 [14.2]; 5th ed (2013) at 924 [14.2]; 6th ed (2020) at 870 [13.2]; Heerey and Malone, "RPM for RPM: *National Phonograph Company of Australia v Menck*", in Kenyon, Richardson and Ricketson (eds), *Landmarks in Australian Intellectual Property Law* (2009) 37 at 43; Johnson, Roughton and Cook, *The Modern Law of Patents*, 3rd ed (2014) at 422-423 [7.190], 568-569 [10.81].

³⁰⁵ See *Steers* [1893] AC 232 at 235; *British Mutoscope* [1901] 1 Ch 671 at 675-676; *Badische* [1906] 1 Ch 605 at 610.

³⁰⁶ *Betts v Willmott* (1871) LR 6 Ch App 239 at 245; *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Co* (1883) 25 Ch D 1 at 9; *Heap v Hartley* (1888) 5 RPC 603 at 610; *Cantelo* (1895) 12 RPC 262 at 264-265; *Brogden* (1899) 16 RPC 179 at 183; *Badische* [1906] 1 Ch 605 at 610; *Menck (HCA)* (1908) 7 CLR 481 at 537-538; *Menck (PC)* (1911) 12 CLR 15 at 24, 28; [1911] AC 336 at 349, 353; *Time-Life International* (1977) 138 CLR 534 at 542.

³⁰⁷ *Time-Life International* (1977) 138 CLR 534 at 542.

³⁰⁸ (1977) 138 CLR 534 at 542.

use of that article under the statutory monopoly to an end and to permit the purchaser to do that for which the purchaser contracted to be able to do – to use and sell that patented article.

184 The purchaser's entitlement to use and sell the patented article can also be conceived in terms of release or devolution under s 13(2) of the *Patents Act 1990*. As a matter of necessary implication, an unconditional contract of sale releases (or gives rise to an enforceable promise on the part of the patentee not to enforce) the patentee's right to exclude others from using and selling that patented article. That is, consistent with s 13(2), unless the contract of sale provides otherwise (by conditions or restrictions), the transfer of title under a contract of sale carries with it a licence (or release) to use and sell the article³⁰⁹. As a matter of law and practice, for more than a century, a purchaser of an article has expected to have, and has had, control of the article *unless* there is some agreement to the contrary to justify the vendor saying that they have not given the purchaser their licence to sell the article or to use the article wherever the purchaser pleases as against the vendor³¹⁰.

185 Thus, where there is a conditional sale of a patented product, then, to the extent of the conditions, the patent rights are *not* licensed or released and the patentee retains them³¹¹. Consistent with longstanding authority and practice, if conditions in relation to the resale or use of the patented article by the purchaser are imposed by the patentee, any steps taken by the purchaser beyond or inconsistent with those conditions are an infringement of the patentee's exclusive patent rights. Those steps may also be a breach of contract³¹². And, significantly, a choice of remedies remains. If there is both infringement of patent rights and breach of contract, the patentee has a choice of remedies. But that is common in many areas of Australian law³¹³.

³⁰⁹ *Cantelo* (1895) 12 RPC 262 at 264; *Brogden* (1899) 16 RPC 179 at 183; *British Mutoscope* [1901] 1 Ch 671 at 673-674; *McGruther* [1904] 2 Ch 306 at 312; *Menck (HCA)* (1908) 7 CLR 481 at 538; *Menck (PC)* (1911) 12 CLR 15 at 24, 28; [1911] AC 336 at 349, 353; *Time-Life International* (1977) 138 CLR 534 at 549.

³¹⁰ See fn 305 above.

³¹¹ See fn 309 above.

³¹² See *Menck (PC)* (1911) 12 CLR 15 at 28-29; [1911] AC 336 at 353-354.

³¹³ See, eg, *Mann v Paterson Constructions Pty Ltd* (2019) 93 ALJR 1164 at 1188 [91], 1201-1202 [165]-[166]; 373 ALR 1 at 26, 43-44. See also *Nocton v Lord Ashburton* [1914] AC 932 at 956.

186 In relation to downstream purchasers, the position, as so analysed, remains consistent with longstanding principle. In an unconditional sale, a downstream purchaser is unaffected. The sale is unconditioned and thus both the initial purchaser and any downstream purchaser are unconstrained as to use or on-selling³¹⁴.

187 By the turn of the 20th century, the constraint on downstream purchasers from acting inconsistently with those conditions was regarded as absolute at law, albeit subject to equities. As Buckley J observed in *Badische*³¹⁵:

"If a person innocently uses a patented invention, not knowing that there is a patent, he is none the less an infringer, and if a person innocently buys a patented invention from a licensee and uses it not knowing that there are limits on the licence, I conceive that he is equally an infringer."

But in equity³¹⁶:

"[T]he patentee may be estopped, as between himself and [the downstream purchaser], from saying that [the downstream purchaser] is not so licensed, and as regards *Incandescent Gas Light Co v Cantelo*, this must, I think, have been the ratio decidendi, for it would seem that the agent there was not authorized to sell except subject to conditions. If the purchaser knows the restrictions of course he is bound by them: *Incandescent Gas Light Co v Brogden*. In such a state of facts the patentee cannot be estopped, and to a patented article conditions may be attached because the goods have this special quality or characteristic, that, except with the licence of the patentee, they cannot be used or sold, thus differing from goods in general to which a condition cannot be attached so as, so to speak, to follow the goods: *McGruther v Pitcher*." (footnotes omitted)

188 Although thus conceived of as a rule of law, however, it is apparent that the notion that a downstream purchaser who acquired the patented article with notice of conditions was bound by them was ultimately a rule of equitable origin. In *Werderman v Société Générale d'Électricité*³¹⁷, Jessel MR stated that it was "quite plain" in equity that "no one taking with notice of that bargain can avoid the liability". Hence, as it was held in that case, a downstream assignee of a licence to use patent rights who took with notice that royalties were payable to the patentee in respect of each use of the patent rights could not avoid liability to account to

³¹⁴ *Menck (PC)* (1911) 12 CLR 15 at 28; [1911] AC 336 at 353; *Time-Life International* (1977) 138 CLR 534 at 540.

³¹⁵ [1906] 1 Ch 605 at 611.

³¹⁶ *Badische* [1906] 1 Ch 605 at 611.

³¹⁷ (1881) 19 Ch D 246 at 252.

the patentee even though the downstream assignee was not party to the licence. And although the precise basis of the rule was not specified, it appears very likely that it was, or was the result of reasoning by analogy with, the rule in *De Mattos v Gibson*³¹⁸ (which was in substance the counterpart in equity of the tort of knowing interference with contractual rights³¹⁹), that:

"Reason and justice seem to prescribe that, at least as a general rule, where a man, by gift or purchase, acquires property from another, with knowledge of a previous contract, lawfully and for valuable consideration made by him with a third person, to use and employ the property for a particular purpose in a specified manner, the acquirer shall not, to the material damage of the third person, in opposition to the contract and inconsistently with it, use and employ the property in a manner not allowable to the giver or seller."

In *Carlton & United Breweries Ltd v Tooth & Co Ltd*³²⁰ Young J recognised the operation of the rule in *De Mattos v Gibson* as the wellspring of Jessel MR's pronouncement in *Werderman*.

189 Following *Werderman*, in *Incandescent Gas Light Co Ltd v Brogden*³²¹ Kennedy J treated the equitable rule propounded by Jessel MR in *Werderman* as equally applicable at law, holding that, where a patented article is sold under a limited licence, and the purchaser, whether taking directly from the patentee or from a third party, takes with notice of the limitation, the purchaser's infringement of the limits of the licence constitutes an infringement of the patent rights. In turn, the approach in *Brogden* was followed in *British Mutoscope and Biograph Co Ltd v Homer*³²², in which the patentee had licensed the licensee to use patented machines on condition that the licensee not sell or part with possession of the machines. The licensee having defaulted in the payment of rent due in respect of premises in which the machines were housed, the landlord distrained on the machines. Farwell J held that the distress was an infringement of the patentee's patent rights, because³²³:

"Having regard to the decision in *Incandescent Gas Light Co v Brogden*, the [purchaser from the landlord] is in no better position than if [the licensee] had been a mere infringer. It is not a question of contract inter partes affecting a chattel seized and sold

³¹⁸ (1859) 4 De G & J 276 at 282; see also 298-299 [45 ER 108 at 110, 116].

³¹⁹ See *Swiss Bank Corporation v Lloyds Bank Ltd* [1979] Ch 548 at 569-575. See also *Swiss Bank Corporation v Lloyds Bank Ltd* [1982] AC 584 at 593, 598.

³²⁰ (1986) 7 IPR 581 at 635-636. See also *Beneficial Finance Corporation Ltd v Multiplex Constructions Pty Ltd* (1995) 36 NSWLR 510 at 539.

³²¹ (1899) 16 RPC 179 at 183.

³²² [1901] 1 Ch 671.

³²³ *British Mutoscope* [1901] 1 Ch 671 at 676.

by a landlord, but of the absence of any licence, in the event that has happened, to use the patented invention." (footnote omitted)

190 Three years later again, in *McGruther v Pitcher*³²⁴, Cozens-Hardy LJ observed, consistently with *British Mutoscope*, that:

"Now this action is neither in form nor in fact an action by a patentee claiming an injunction to restrain an infringement of his patent. In such an action it is open to the defendant to plead a licence by the plaintiff. That licence may be express, or it may be implied from the sale by the patentee of the patented article, but, if the defendant pleads a licence, then it is competent for the plaintiff to reply, 'The licence which I granted is a limited licence, and you, the person who has now got the patented article, were aware it was only a limited licence, and you cannot therefore defend yourself against my claim for an infringement of my patent, because you are going outside the licence which to your knowledge I gave with reference to this article.' Such a case would not depend upon any condition running with or attaching to the article. It would depend only upon the limits of the licence which the patentee had granted when he first parted with the goods."

191 Then finally, in *Menck (PC)*³²⁵, after referring to each of the cases just mentioned, the Privy Council synthesised the position at law as follows:

"In their Lordships' opinion, it is thus demonstrated by a clear course of authority, first, that it is open to the licensee, by virtue of his statutory monopoly, to make a sale *sub modo*, or accompanied by restrictive conditions which would not apply in the case of ordinary chattels; secondly, that the imposition of these conditions in the case of a sale is not presumed, but, on the contrary, a sale having occurred, the presumption is that the full right of ownership was meant to be vested in the purchaser; while thirdly, the owner's rights in a patented chattel will be limited *if there is brought home to him* the knowledge of conditions imposed, by the patentee or those representing the patentee, upon him at the time of sale. It will be observed that these propositions do not support the principles relied upon in their absolute sense by any of the Judges of the Court below. On the one hand, the patented goods are not, simply because of their nature as chattels, sold free from restriction. Whether that restriction affects the purchaser is in most cases assumed in the negative from the fact of sale, but depends upon whether it entered the conditions upon which the owner acquired the goods. On the other hand, restrictive conditions do not, in the extreme sense put, run with the goods, because the goods are patented." (emphasis added)

192 In the result, what started as an application of equity's equivalent to the tort of knowing interference with contract, or perhaps as an instance of estoppel, over time became a rule of law sanctioned by the Privy Council in *Menck* that, although the sale of a patented article may be made subject to conditions which restrict the right of use or sale of the patented article and

³²⁴ [1904] 2 Ch 306 at 312.

³²⁵ (1911) 12 CLR 15 at 28; [1911] AC 336 at 353.

breach of which will constitute an infringement of patent, a downstream purchaser will not be liable for patent infringement of patent rights committed in breach of the conditions unless the downstream purchaser took with notice of the conditions. And that approach, having now been "laid down and accepted for a long period of time, ought not to be altered" given that it cannot be said "positively that it was wrong and productive of inconvenience"³²⁶. Indeed, to the contrary, there is nothing at all unusual, and the legal system operates efficiently and conveniently in many areas, with bona fide purchasers for value without notice taking their rights free from prior equitable interests³²⁷. In this, as in so many other cases, equity moulds its answers to questions about who is entitled to what relief, and when, according to the circumstances of the case.

193 More specifically, a downstream purchaser *without notice* will not be liable for patent infringement of any of the patent rights retained by the patentee which are the subject of the conditions³²⁸. But, in a sale subject to conditions, a downstream purchaser *with notice* of the conditions will be liable for patent infringement of any of the patent rights committed in breach of the conditions³²⁹. A downstream purchaser of a patented article, like an initial purchaser of that article, will be on notice of conditions if they are "clearly brought home" to the purchaser at the time of sale³³⁰. For example, a purchaser may be on notice where at the time of sale the vendor says "Mind, I only give you this licence on this condition"³³¹ or the contract states the conditions on which the article is sold³³². However, a purchaser will not be on notice if conditions are made known to them only after the time of sale³³³. Thus, if a purchaser becomes

³²⁶ *Bourne v Keane* [1919] AC 815 at 874. See *Lord Strathcona Steamship Co Ltd v Dominion Coal Co Ltd* [1926] AC 108 at 117-120.

³²⁷ See, eg, *Pilcher v Rawlins* (1872) LR 7 Ch App 259 at 267-269.

³²⁸ *Menck (PC)* (1911) 12 CLR 15 at 28; [1911] AC 336 at 353. cf *Badische* [1906] 1 Ch 605 at 611.

³²⁹ *Brogden* (1899) 16 RPC 179 at 183; *Badische* [1906] 1 Ch 605 at 611; *Menck (PC)* (1911) 12 CLR 15 at 28-29; [1911] AC 336 at 353-354.

³³⁰ *Menck (PC)* (1911) 12 CLR 15 at 24, 28; [1911] AC 336 at 349, 353. See also *Betts v Willmott* (1871) LR 6 Ch App 239 at 245; *Cantelo* (1895) 12 RPC 262 at 264-265.

³³¹ See *Cantelo* (1895) 12 RPC 262 at 264.

³³² See *Menck (PC)* (1911) 12 CLR 15 at 28-29; [1911] AC 336 at 353-354.

³³³ *Cantelo* (1895) 12 RPC 262 at 264-265; *Menck (PC)* (1911) 12 CLR 15 at 26; [1911] AC 336 at 351.

aware of the conditions after the time of sale by reason of a label affixed to a box containing the patented article, that will not constitute notice³³⁴.

194 The power of a court to compel a downstream purchaser to refrain from dealing with the article contrary to the conditions imposed³³⁵, or to order an account of profits³³⁶, is an exercise of equitable jurisdiction in aid of legal rights. A patentee's power to impose conditions, and to demand compliance with those conditions, are rights derived from the *Patents Act 1990*³³⁷, the breach of which may attract an injunction in accordance with the "doctrines of equity as they have developed over time"³³⁸. But, for the reasons given, there is no breach by a person who directly purchases a patented article without notice of the patentee's conditions³³⁹, or a downstream purchaser without notice, and thus injunction will not go against them³⁴⁰.

195 So, what is said to replace this settled understanding?

EXHAUSTION THEORY

196 The exhaustion theory does not exist independently of the legal framework in which it has been developed. It is a theory adopted in the United States³⁴¹ and some European patent systems³⁴². It is a theory which finds its juridical basis in the specific laws being administered in those countries. As Ginsburg J said in dissent in *Impression Products Inc v Lexmark International Inc*, patent protections are not harmonised across countries; "patent laws vary by country; each

³³⁴ See *Cantelo* (1895) 12 RPC 262 at 264-265.

³³⁵ See *Cardile v LED Builders Pty Ltd* (1999) 198 CLR 380 at 394-395 [28]-[30].

³³⁶ See *Nocton* [1914] AC 932 at 956-957; *Warman International Ltd v Dwyer* (1995) 182 CLR 544 at 556-562.

³³⁷ See *Menck (HCA)* (1908) 7 CLR 481 at 535-536, 538-541; *Menck (PC)* (1911) 12 CLR 15 at 23-24, 28; [1911] AC 336 at 348-349, 353; *United Wire* [2001] RPC 439 at 458 [68]. cf *British Mutoscope* [1901] 1 Ch 671 at 673-674, 676-677.

³³⁸ *Smethurst v Commissioner of the Australian Federal Police* (2020) 94 ALJR 502 at 538 [146]; 376 ALR 575 at 612.

³³⁹ See *Lamshed v Lamshed* (1963) 109 CLR 440 at 453; *The Commonwealth v Verwayen* (1990) 170 CLR 394 at 409, 434-435. See also *Menck (HCA)* (1908) 7 CLR 481 at 540-541.

³⁴⁰ See *Australian Broadcasting Corporation v Lenah Game Meats Pty Ltd* (2001) 208 CLR 199 at 217-218 [11]-[16], 231-232 [60]-[61], 241 [91].

³⁴¹ See 35 USC §§ 154(a)(1) and 261.

³⁴² See *Italian Code of Industrial Property 2010* (Italy), Art 5; *Act XXXIII of 1995 on the Protection of Inventions by Patents* (Hungary), Art 20; *Law on Patents and Utility Model Registration 1993* (Bulgaria), Art 20a.

country's laws 'may embody different policy judgments about the relative rights of inventors, competitors, and the public in patented inventions'³⁴³. There is no one exhaustion theory or regime and exhaustion is not a general principle applied to all intellectual property rights³⁴⁴. Much depends on the terms of the relevant legislation or regulation. For example, Art 6 of the *Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection* provides that the rights conferred by a European patent with unitary effect do not extend to acts concerning a patented product after that product has been placed on the market in the European Union "unless there are legitimate grounds for the patent proprietor to oppose further commercialisation of the product"³⁴⁵.

197 The position in the United States is likewise a product of the terms of patents legislation in that country. The specific laws which provide the juridical basis for the theory in the United States are to be found in Title 35 of the United States Code. Section 261 currently provides, in part:

"Subject to the provisions of this title, patents shall have the attributes of personal property. ...

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States."

A patent entitles a patent holder to "exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States"³⁴⁶. And whoever engages in one of those acts "without authority" from the patentee may face liability for patent infringement³⁴⁷.

³⁴³ (2017) 137 S Ct 1523 at 1539, citing *Microsoft Corp v AT&T Corp* (2007) 550 US 437 at 455.

³⁴⁴ Depending on the jurisdiction, a distinction is often drawn between national, regional and international (or extra-communitary) exhaustion. For example, domestic and international exhaustion applies in the United States: *Lexmark* (2017) 137 S Ct 1523 at 1535. See also Heath, "Exhaustion and Patent Rights", in Okediji and Bagley (eds), *Patent Law in Global Perspective* (2014) 419.

³⁴⁵ [2012] OJ L 361/1. See also *Notices from European Union Institutions, Bodies, Offices and Agencies – Council – Agreement on a Unified Patent Court* [2013] OJ C 175/1, Art 29.

³⁴⁶ 35 USC § 154(a)(1).

³⁴⁷ 35 USC § 271(a).

198 Immediately, it is apparent that the specific patent law in the United States is different from the Australian patents Acts. It provides that the *patent* is to have the attributes of personal property. It does not provide that the exclusive *rights* which a patentee has shall be recognised as personal property rights. It does not permit, or contemplate, a patentee to have exclusive rights with which a patentee can freely deal in a manner which would impose restrictions or exclusions on, for example, the use of patented property. This difference in the text of the provisions is not unimportant. Presently, there are amendments to Title 35 of the United States Code proposed in the United States Congress to seek to address this issue³⁴⁸. Whether those amendments are passed is not to the point. The fact is that the United States legislation is different and, unsurprisingly, therefore construed differently.

199 Next, the theory. It was most recently described by Roberts CJ in *Lexmark*, which is said to have prompted some of the proposed legislative amendments currently before Congress³⁴⁹. In that case, Lexmark International ("Lexmark"), a patentee, alleged that a competitor infringed its patent relating to toner cartridges by refurbishing and reselling cartridges that Lexmark had sold subject to an express prohibition on re-use and resale contained in Lexmark's contracts with its customers³⁵⁰. The United States Supreme Court held that the contractual restrictions may have been clear and enforceable under contract law, but that they did not entitle Lexmark to retain patent rights in an item that it had elected to sell³⁵¹.

200 The juridical bases for understanding the particular monopoly which the applicable United States patents legislation granted are readily distinguishable from those which underpin the implied licence theory. First, as Roberts CJ explained³⁵²:

"The Patent Act grants patentees the 'right to exclude others from making, using, offering for sale, or selling [their] invention[s].' 35 USC § 154(a). For over 160 years, the doctrine of patent exhaustion has imposed a limit on that right to exclude. See *Bloomer v McQuewan*, 14 How 539 ... (1853). The limit functions automatically: When a patentee chooses to sell an item, that product 'is no longer within the limits of the monopoly' and instead becomes the 'private, individual property' of the purchaser,

³⁴⁸ *Restoring America's Leadership in Innovation Act of 2020*, HR 7366, 116th Congress (2020).

³⁴⁹ *Restoring America's Leadership in Innovation Act of 2020*, HR 7366, 116th Congress (2020), § 9.

³⁵⁰ *Lexmark* (2017) 137 S Ct 1523 at 1530.

³⁵¹ *Lexmark* (2017) 137 S Ct 1523 at 1529, 1531.

³⁵² *Lexmark* (2017) 137 S Ct 1523 at 1531-1532; see also 1533, 1534.

with the rights and benefits that come along with ownership. *Id.*, at 549-550. A patentee is free to set the price and negotiate contracts with purchasers, but may not, 'by virtue of his patent, control the use or disposition' of the product after ownership passes to the purchaser. *United States v Unis Lens Co*, 316 US 241, 250 ... (1942) (emphasis added). The sale 'terminates all patent rights to that item.' *Quanta Computer, Inc v LG Electronics, Inc*, 553 US 617, 625 ... (2008).

This well-established exhaustion rule marks the point where patent rights yield to the common law principle against restraints on alienation. The Patent Act 'promote[s] the progress of science and the useful arts by granting to [inventors] a limited monopoly' that allows them to 'secure the financial rewards' for their inventions. *Univis*, 316 US, at 250 ... *But once a patentee sells an item, it has 'enjoyed all the rights secured' by that limited monopoly.* *Keeler v Standard Folding Bed Co*, 157 US 659, 661 ... (1895). *Because 'the purpose of the patent law is fulfilled ... when the patentee has received his reward for the use of his invention,' that law furnishes 'no basis for restraining the use and enjoyment of the thing sold.'* *Univis*, 316 US, at 251 ..." (emphasis added)

201 The theory starts from the premise, as it must given the terms of the statute, that the patent is the property and that "[w]hat a patent adds – and grants exclusively to the patentee – is a limited right to prevent others from engaging in those practices"³⁵³, of using, selling, importing and making. The United States provisions strike a different balance³⁵⁴ in law from the balance struck in Australia, and in the United Kingdom. The United States law does not grant to the patentee a right of property by way of monopoly "to make, use, exercise ... the invention"³⁵⁵. It grants the patentee a limited exclusionary power as a statutory right. And the "doctrine of patent exhaustion [that] has imposed a limit on that right to exclude"³⁵⁶ is said to derive from *Bloomer v McQuewan*³⁵⁷, a decision in 1853 that is regarded as the first appearance of substantive due process³⁵⁸, a concept that has never taken root in Australia.

³⁵³ *Lexmark* (2017) 137 S Ct 1523 at 1534.

³⁵⁴ See *Lexmark* (2017) 137 S Ct 1523 at 1539.

³⁵⁵ cf *Patents Act 1990*, s 13(1). See [155]-[163] above.

³⁵⁶ *Lexmark* (2017) 137 S Ct 1523 at 1531.

³⁵⁷ (1853) 55 US 539.

³⁵⁸ Dufresne, "The Exhaustion Doctrine Revived? Assessing the Scope and Possible Effects of the Supreme Court's *Quanta* Decision" (2009) 24 *Berkeley Technology Law Journal* 11 at 12-13; Hovenkamp, "The Emergence of Classical American Patent Law" (2016) 58 *Arizona Law Review* 263 at 289, 291-292; Ernst, "Why Patent Exhaustion Should Liberate Products (And Not Just People)" (2016) 93 *Denver Law Review* 899 at 909-910; Tur-Sinai, "Exhaustion in the Service of Progress" (2019) 37 *Cardozo Arts & Entertainment Law Journal* 87 at 92.

202 It is in that context that the exhaustion theory is said to "mark[] the point" where those limited statutory rights yield to the common law principle against restraints on alienation³⁵⁹. The theory is not that a patentee cannot sell a patented item subject to alienation under an express, otherwise lawful, restriction³⁶⁰. On the contrary. The theory acknowledges that the sale may be a sale on condition but says that the limited statutory exclusive right (for example, to sell) is exhausted by any and every sale (whether conditional or unconditional). The patentee does not retain *any* patent rights in relation to the article sold by the patentee³⁶¹. That theory proceeds from the stated premise that in any sale the patentee cannot assign or devolve, as a matter of patent law, the right to use or sell because "the sale transfers the right to use, sell, or import because those are the rights that come along with ownership" and thus "the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce"³⁶². This reflects the different understanding of a differently framed patents statute. By contrast, the Australian patents Acts, and the courts, have made plain that the patentee has rights to exploit the invention and that those rights may continue beyond a sale.

THE DIFFERENCE?

203 The starting point for the implied licence theory is not the common law governing chattels but the statutory grant, which has vested certain, and specific, rights in the patentee which they can trade away, or not, as they see fit³⁶³. As the Privy Council said in *Menck*³⁶⁴:

"[T]he general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself at the time of sale, shall be bound by that knowledge and accept the situation of ownership subject to the limitations. These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, laid down by Statute, gave the original patentee a power to impose."

³⁵⁹ *Lexmark* (2017) 137 S Ct 1523 at 1531.

³⁶⁰ cf *Société Anonyme* (1883) 25 Ch D 1 at 9; *Cantelo* (1895) 12 RPC 262 at 264; *Menck (HCA)* (1908) 7 CLR 481 at 539; *Menck (PC)* (1911) 12 CLR 15 at 27-28; [1911] AC 336 at 352-353.

³⁶¹ *Lexmark* (2017) 137 S Ct 1523 at 1532-1534.

³⁶² *Lexmark* (2017) 137 S Ct 1523 at 1534, citing *Bloomer v McQuewan* (1853) 55 US 539 at 549.

³⁶³ *Menck (HCA)* (1908) 7 CLR 481 at 538.

³⁶⁴ (1911) 12 CLR 15 at 24; [1911] AC 336 at 349.

And it was for that reason that, in *Time-Life International*, Stephen J said patent cases "should ... be seen as confined to the quite special case of the sale by a patentee of patented goods and as turning upon the unique ability which the law confers upon patentees of imposing restrictions upon what use may after sale be made of those goods"³⁶⁵.

204 Put in modern terms, the starting point is the statute, not the common law³⁶⁶. What the law confers upon patentees is a unique set of rights of property and the ability to impose restrictions upon what use may be made of patented goods after sale.

LOSS OF RIGHTS AND REMEDIES

205 The debate about juridical bases is not arid. Since at least 1852³⁶⁷ in Anglo-Australian law, in a case of infringement of a patent, a patentee has had a choice of remedies: damages³⁶⁸ and, in equity, an injunction and an account of profits incidental to an injunction. The difference between the remedies was explained by Windeyer J in *Colbeam Palmer Ltd v Stock Affiliates Pty Ltd*³⁶⁹:

"The distinction between an account of profits and damages is that by the former the infringer is required to give up his ill-gotten gains to the party whose rights he has infringed: by the latter he is required to compensate the party wronged for the loss he has suffered. The two computations can obviously yield different results, for a plaintiff's loss is not to be measured by the defendant's gain, nor a defendant's gain by the plaintiff's loss. Either may be greater, or less, than the other. If a plaintiff elects to take an inquiry as to damages the loss to him of profits which he might have made may be a substantial element of his claim: see *Mayne on Damages*, 11th ed (1946), p 71 note. But what a plaintiff might have made had the defendant not invaded his rights is by no means the same thing as what the defendant did make by doing so."

³⁶⁵ (1977) 138 CLR 534 at 549.

³⁶⁶ *Menck (HCA)* (1908) 7 CLR 481 at 538; *Time-Life International* (1977) 138 CLR 534 at 549; *Alcan (NT) Alumina Pty Ltd v Commissioner of Territory Revenue* (2009) 239 CLR 27 at 31 [4]; *Baini v The Queen* (2012) 246 CLR 469 at 476 [14]; *Federal Commissioner of Taxation v Consolidated Media Holdings Ltd* (2012) 250 CLR 503 at 519 [39]; *SZTAL v Minister for Immigration and Border Protection* (2017) 262 CLR 362 at 368 [14].

³⁶⁷ See [158] fn 231 above.

³⁶⁸ Including additional damages: see *Patents Act 1990*, s 122(1A).

³⁶⁹ (1968) 122 CLR 25 at 32. See also *Lever v Goodwin* (1887) 36 Ch D 1 at 7; *Dart Industries Inc v Decor Corporation Pty Ltd* (1993) 179 CLR 101 at 110-111; *Warman* (1995) 182 CLR 544 at 558-559.

206 A patentee must elect between the remedies of damages and an account of profits³⁷⁰: the two remedies "are hardly reconcilable"³⁷¹. As a majority of this Court said in 1993 in *Dart Industries Inc v Decor Corporation Pty Ltd*³⁷², citing *Neilson v Betts*³⁷³ and *Lever v Goodwin*³⁷⁴, "[d]amages and an account of profits are alternative remedies. An account of profits was a form of relief granted by equity whereas damages were originally a purely common law remedy." The existence of, and resort to, these alternative remedies for infringement of patent rights is necessary to overcome real and, at times, unjust impediments to a patentee's recovery.

207 Indeed, there may be circumstances where the only right, or only valuable right, arises from a claim based on infringement of patent rights. If, for example, a patentee gives patented goods to a charity to exploit, by sale and use, in the education sector and the charity proceeds to sell and use the patented goods in the medical sector, how are those conditions enforceable, legally and practically, except under the *Patents Act 1990* for infringement of patent rights?

208 Other justifications for the existence of the two rights, and thus the two remedies, are practical: issues of onus and the relative cost of proving loss. A patentee that seeks an account of profits is not required to prove any loss³⁷⁵. Although there is a defence of innocent infringement³⁷⁶, there is no defence to an account of profits claim that the patentee might have been "unwilling, unlikely or unable to make the profits for which an account is taken"³⁷⁷. For damages, the patentee has the burden of proving loss or proving injury for which a licence fee might be

³⁷⁰ *Patents Act 1990*, s 122(1).

³⁷¹ *Neilson v Betts* (1871) LR 5 HL 1 at 22. See also *De Vitre v Betts* (1873) LR 6 HL 319 at 321; *Lever* (1887) 36 Ch D 1 at 7; *Siddell v Vickers* (1892) 9 RPC 152 at 162; *Sutherland Publishing Co Ltd v Caxton Publishing Co Ltd* [1936] Ch 323 at 325; *Dart* (1993) 179 CLR 101 at 110-111; *Unilin Beeher BV v Huili Building Materials Pty Ltd [No 2]* (2007) 74 IPR 345 at 365-366 [70]. See further Seton, *Forms of Judgments and Orders in the High Court of Justice and Court of Appeal*, 7th ed (1912), vol 1 at 651.

³⁷² (1993) 179 CLR 101 at 110-111 (footnotes omitted).

³⁷³ (1871) LR 5 HL 1 at 22.

³⁷⁴ (1887) 36 Ch D 1 at 7.

³⁷⁵ *Consul Development Pty Ltd v DPC Estates Pty Ltd* (1975) 132 CLR 373 at 394, citing *Birtchnell v Equity Trustees, Executors and Agency Co Ltd* (1929) 42 CLR 384 at 408-409.

³⁷⁶ *Patents Act 1990*, s 123.

³⁷⁷ *Warman* (1995) 182 CLR 544 at 558; *Mann* (2019) 93 ALJR 1164 at 1190 [98]; 373 ALR 1 at 27-28.

awarded³⁷⁸. And an award of licence fee damages, which might be substantially less than the profits made by a conscious infringer, requires evidence to be adduced of "the practice, as regards royalty, in the relevant trade or in analogous trades; perhaps of expert opinion"³⁷⁹. The evidentiary difficulties in, and cost of, proving loss have been laid bare in the authorities³⁸⁰. Thus, an account of profits is often the preferred remedy where the quantum of the patentee's loss is relatively small as, for example, may be the case where a new or boutique inventor has a lower capacity to profit from a patent and where the injury or wrongful act which might attract damages is significantly exceeded by the profits made by the infringer or the cost of proof of damages.

209 By contrast, adopting an exhaustion theory would confine a patentee complaining of breach of a condition on which the patentee sells the patented article to whatever rights the patentee may have in contract. The failure to comply with the condition would not be an infringement of the patent and would not attract the statutory remedies³⁸¹.

210 Furthermore, by contrast with the solution implemented by regulation in the European Union, which confines the exhaustion theory to sales within the European Union³⁸², the removal of a patentee's ability to impose conditions enforceable as patent rights after an international sale could have consequential effects on the viability of the sale of patented goods in international markets at reduced rates. The ability to bring an action for infringement of patent following parallel importing might, practically speaking, be necessary protection before a patentee can

³⁷⁸ *General Tire & Rubber Co v Firestone Tyre & Rubber Co Ltd* [1975] 1 WLR 819 at 824; [1975] 2 All ER 173 at 177. See also *Watson, Laidlaw & Co Ltd v Pott, Cassels, and Williamson* (1914) 31 RPC 104 at 117-120; *One Step (Support) Ltd v Morris-Garner* [2019] AC 649 at 669-671 [25]-[30].

³⁷⁹ *General Tire* [1975] 1 WLR 819 at 826; [1975] 2 All ER 173 at 179.

³⁸⁰ See, eg, *Ungar v Sugg* (1892) 9 RPC 113 at 117; *Meters Ltd v Metropolitan Gas Meters Ltd* (1911) 28 RPC 157 at 164-165; *General Tire* [1975] 1 WLR 819 at 827-835; [1975] 2 All ER 173 at 179-187; *Pearce v Paul Kingston Pty Ltd* (1992) 25 IPR 591 at 595; *Gerber Garment Technology Inc v Lectra Systems Ltd* [1997] RPC 443 at 453-456.

³⁸¹ cf *Patents Act 1990*, Ch 11, Pt 1.

³⁸² *Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 Implementing Enhanced Cooperation in the Area of the Creation of Unitary Patent Protection* [2012] OJ L 361/1, Art 6. See also *Coty Prestige Lancaster Group GmbH v Simex Trading AG* [2010] ETMR 703 at 710 [31].

sell internationally at lower prices. Thus, as Professor Nard observes³⁸³, the theory of exhaustion of patent rights may reduce the positive effects of price discrimination – the ability to charge a different price for the same good in different geographical areas – which is of concern in developing and less-developed countries.

MATTER FOR PARLIAMENT, NOT THE COURTS

211 As Calidad stated, it is well established that the *Patents Act 1990* is to be construed in the context of the law that existed when it was enacted³⁸⁴. Calidad then stated that:

"[the] state of the law included, relevantly, the common law concerning personal property rights in chattels, which cannot be sold subject to conditions that will '*run with the product*'. Thus, where a patentee elects to exercise its exclusive rights in s 13(1) by '*selling or otherwise disposing of*' a patented product, or authorising others to do so, it should be taken to have exhausted its exclusive rights in that embodiment of the invention."

212 The difficulty for Calidad is, as has been seen, that that was a misstatement of the state of the law that existed when the Act was enacted. When the *Patents Act 1990* was enacted, the law had resolved the tension between the terms of the English and Australian patents Acts and personal property rights by the implied licence theory. At the time that the *Patents Act 1990* was enacted, that had been the law for about 80 years³⁸⁵.

213 There have been successive iterations of patents Acts in Australia³⁸⁶, including the *Patents Act 1990*, with which this appeal is concerned and which was enacted after *Time-Life International*³⁸⁷, and no attempt has been made to overturn that settled understanding.

³⁸³ Nard, *The Law of Patents*, 5th ed (2020) at 728-729.

³⁸⁴ *Time-Life International* (1977) 138 CLR 534 at 541-542, 548-553.

³⁸⁵ *Betts v Willmott* (1871) LR 6 Ch App 239; *Société Anonyme* (1883) 25 Ch D 1; *Heap* (1888) 5 RPC 603; *Cantelo* (1895) 12 RPC 262; *Brogden* (1899) 16 RPC 179; *Saccharin Corporation* [1900] 2 Ch 659; *British Mutoscope* [1901] 1 Ch 671; *McGruther* [1904] 2 Ch 306; *Badische* [1906] 1 Ch 605; *Menck (HCA)* (1908) 7 CLR 481; *Menck (PC)* (1911) 12 CLR 15; [1911] AC 336; *Time-Life International* (1977) 138 CLR 534.

³⁸⁶ *Patents Act 1903*; *Patents Act 1952* (Cth); *Patents Act 1990*. See also *Menck (HCA)* (1908) 7 CLR 481 at 508-509, 529, 542-543; *Menck (PC)* (1911) 12 CLR 15 at 16-17; [1911] AC 336 at 341-342; *Time-Life International* (1977) 138 CLR 534 at 540-542.

³⁸⁷ (1977) 138 CLR 534.

The pages of the Commonwealth Law Reports³⁸⁸, and the Federal Court Reports³⁸⁹, as well as those of law reports in the United Kingdom³⁹⁰, are not blank and should not be read as though the authority of a decision (in this case one that has stood unchallenged for more than a century) "did not survive beyond the rising of the Court"³⁹¹. It is for Parliament, not the courts, to make such a fundamental change to patent rights³⁹². Parliament, though of course well able and willing to do so when appropriate and prospectively³⁹³, has chosen not to do so³⁹⁴.

THE PATENTS IN SUIT

214 It is now necessary to address whether the modification of the used Epson printer cartridges amounted to making the patented product and thereby infringed Seiko's patents. There are two patents in suit: patent number 2009233643 ("the 643 patent") and patent number 2013219239. However, the proceedings below and before this Court have been conducted on the basis that there is no material distinction between the content of the two asserted claims constituting those patents, and it is therefore sufficient to refer to claim 1 of the 643 patent alone.

³⁸⁸ See, eg, *Menck (HCA)* (1908) 7 CLR 481; *Menck (PC)* (1911) 12 CLR 15; [1911] AC 336; *Time-Life International* (1977) 138 CLR 534; *Grain Pool* (2000) 202 CLR 479 at 513-514 [83]-[84].

³⁸⁹ See, eg, *Computermate* (1988) 20 FCR 46 at 50-51; *Levi Strauss* (1993) 43 FCR 344 at 370. See also *Austshade* (2016) 118 IPR 93 at 116-119 [78]-[82].

³⁹⁰ See, eg, *Betts v Willmott* (1871) LR 6 Ch App 239; *Soci t  Anonyme* (1883) 25 Ch D 1; *Heap* (1888) 5 RPC 603; *Cantelo* (1895) 12 RPC 262; *Brogden* (1899) 16 RPC 179; *Saccharin Corporation* [1900] 2 Ch 659; *British Mutoscope* [1901] 1 Ch 671; *McGruther* [1904] 2 Ch 306; *Badische* [1906] 1 Ch 605; *Menck (PC)* (1911) 12 CLR 15; [1911] AC 336. See also fn 302 above.

³⁹¹ *Queensland v The Commonwealth* (1977) 139 CLR 585 at 599.

³⁹² As the Commonwealth Parliament did in Australia in 1909 with the introduction of s 87B into the *Patents Act 1903* limiting the kinds of conditions that a patentee might impose on subsequent purchasers: *Patents Act 1909*, s 15.

³⁹³ See, eg, *Competition and Consumer Act 2010* (Cth), s 51(3)(a) (as in force on 11 September 2019); *Treasury Laws Amendment (2018 Measures No 5) Act 2019* (Cth), Sch 4.

³⁹⁴ Indeed, when the Commonwealth Acts were consolidated in 1935 and 1950, including the *Patents Act 1903*, s 62 was accompanied by a footnote which stated "[a]s to the right of a patentee to attach restrictive conditions to the sale of a patented article see *National Phonograph Co of Australia Ltd v Menck*, [1911] AC 336; 12 CLR 15; 17 ALR 94": *Patents Act 1903*, as published in Australia, *Commonwealth Acts 1901-1935* (1936), vol 2 at 1264 fn (a); *Patents Act 1903*, as published in Australia, *Commonwealth Acts 1901-1950* (1953), vol 4 at 3201 fn (d).

215 The patent proposes "a structure for preventing the information storage medium [or memory] from shorting and becoming damaged due to a drop of liquid being deposited on the terminals connecting the printing apparatus with the storage medium". The patent specification describes an ink cartridge that has two or more devices (such as a memory and a high voltage piezoelectric device for detecting ink levels) fitted with electrical terminals that give rise to a risk of short-circuiting between the terminals, and describes two broad forms of solving the short-circuiting problem. The first is to position the terminals (or pads) relative to each other in a manner that reduces or prevents the likelihood of short-circuiting between them, and the second is to use one or more "short detection circuits" to detect short-circuiting and take appropriate action to prevent consequent damage. In some embodiments of the invention, the two solutions are combined.

216 The integers of claim 1 of the 643 patent are identified in the patent as follows:

[1] A printing material container adapted to be attached to a printing apparatus by being inserted in an insertion direction, the printing apparatus having a print head and a plurality of apparatus-side terminals, the printing material container including:

[2] a memory driven by a memory driving voltage;

[3] an electronic device driven by a higher voltage than the memory driving voltage;

[4] a plurality of terminals including a plurality of memory terminals electrically connected to the memory, and a first electronic device terminal and a second electronic device terminal electrically connected to the electronic device, wherein:

[5] the plurality of terminals each include a contact portion for contacting a corresponding terminal of the plurality of apparatus-side terminals,

[6] the contact portions are arranged in a first row of contact portions and in a second row of contact portions, the first row of contact portions and the second row of contact portions extending in a row direction which is generally orthogonal to the insertion direction,

[7] the first row of contact portions is disposed at a location that is further in the insertion direction than the second row of contact portions,

[8] the first row of contact portions is longer than the second row of contact portions, and,

[9] the first row of contact portions has a first end position and a second end position at opposite ends thereof,

[10] a contact portion of the first electronic device terminal is disposed at the first end position in the first row of contact portions and

[11] a contact portion of the second electronic device terminal is disposed at the second end position in the first row of contact portions."

THE FACTS

- 217 The facts as found by the primary judge are in substance as follows. Seiko sells printer products, including printer cartridges ("original Epson printer cartridges"), under or by reference to the trade mark "EPSON". All original Epson printer cartridges embody the invention claimed in Seiko's patents.
- 218 There are several different types of original Epson printer cartridges, and each type is designed to fit a different range of Epson printers. All original Epson printer cartridges have an integrated circuit chip mounted on or connected to a printed circuit board (or integrated circuit board). But the type of circuit chip fitted to each type of printer cartridge is peculiar to that type of cartridge and has differing compatibility with Epson printers.
- 219 A memory chip on an original Epson printer cartridge stores information about the printer cartridge. The memory chip's primary function is to store information about the amount of ink remaining in the cartridge. When the memory chip signals to the printer that the ink remaining in the cartridge is below a pre-determined level, the printer ceases to operate. Other functions of the memory chip include storing information about the original size of the ink supply (for example, whether it is a regular or high-capacity cartridge), the expiration date of the cartridge, and the length of time since the cartridge was first inserted into the printer. The memory chip has two different operating modes: "normal" mode and "test" mode. A cartridge is in normal mode when in use in a printer, and test mode is selected when the chip is being tested after manufacture or when certain types of data stored on the chip are rewritten.
- 220 Seiko designs and manufactures original Epson printer cartridges with the intention that, once the ink in the cartridge has been consumed, the purchaser will discard the used cartridge and purchase another new original Epson printer cartridge to replace it. There is, however, a substantial international trade in recovering discarded used printer cartridges and reconditioning them for resale at cheaper prices than new original replacement cartridges.
- 221 Ninestar is one of the world's largest manufacturers of generic printer consumables and is part of that trade. It purchases discarded used original Epson printer cartridges from third party suppliers who acquire them from recycling facilities and other sources, and then Ninestar reconditions the used cartridges to a standard suitable for resale as generic, recycled replacement cartridges. The work involved in reconditioning the used original Epson printer cartridges varies between the different types of cartridge.

222 When Ninestar acquires a used original Epson printer cartridge, the information on the cartridge's memory chip records that the cartridge is "used", such that the cartridge will not produce ink when connected to a printer because the chip conveys information to the printer that the cartridge is empty. In order to make the used cartridge ready for resale, it is necessary for Ninestar both to refill the cartridge with ink, and to reconfigure or rewrite the information on the memory chip, or replace the memory chip with another, so as to indicate to any printer in which the cartridge is installed that it is not used or empty.

223 Apex Microelectronics Co Ltd ("AMC") is a related company of Ninestar and a manufacturer and supplier of equipment that rewrites the memory of memory chips installed in original equipment manufacturer ("OEM") printer cartridges, including the memory chips installed in original Epson printer cartridges. AMC also manufactures and supplies replacement integrated circuit chips ("compatible chips") that may be substituted for the OEM chips. Ninestar engages AMC to rewrite the memory chips installed on some of its used original Epson printer cartridges and fits AMC compatible chips to others.

PROCEEDINGS AT FIRST INSTANCE

224 Calidad purchased from Ninestar and imported into Australia and resold to purchasers in Australia 11 different categories of original Epson printer cartridges reconditioned by Ninestar. Seiko alleged that, by so doing, Calidad infringed the claims of its patents. Calidad accepted that each of the reconditioned printer cartridges fell within the claims of Seiko's patents but contended that it had a complete answer to the allegation of patent infringement, on the basis either that Seiko's patent rights in relation to the cartridges were exhausted upon Seiko's initial sale of the cartridges or, alternatively, that by selling the cartridges to the initial purchasers, Seiko impliedly licensed the initial purchaser, and all subsequent purchasers, to use the cartridges despite Seiko's patent rights in respect of the cartridges.

225 The primary judge held³⁹⁵ that a defence relying on the exhaustion theory was not available under the law in Australia and that while the implied licence defence succeeded in respect of four of the categories of cartridges (Categories 1, 2, 3 and A, described below), on the basis

³⁹⁵ *Seiko Epson Corporation v Calidad Pty Ltd* (2017) 133 IPR 1 at 6 [4], 53 [246], 55 [259], [265], 56 [268], 57 [277], 58 [283], [286], 59 [291], [293].

that the modifications that Ninestar made to those original cartridges in the process of reconditioning them did not materially alter them, the defence failed in respect of the remaining categories of cartridges because the modifications which Ninestar made in reconditioning those categories of cartridges did materially alter them.

226 The primary judge usefully summarised the 11 different categories of original Epson printer cartridges, and the extent of modifications involved in each, as follows³⁹⁶:

| No | Type of modification | Calidad model / type |
|---|---|--|
| Current (all cartridges sold after April 2016, excluding the Calidad 260H referred to in Category 1) | | |
| Category 1 | (1) Preparation (2) refilling processes + (3) Reset in normal mode; (4) Normal mode R&D processes+ | Calidad 260 Std (originally Epson T200) Formerly, Calidad 260H (originally Epson T200XL) |
| Category 2 | (1) Preparation (2) Refilling processes + (3) Reset/reprogram in test mode for ink level, cartridge status (4) Test mode R&D processes + | Some Calidad 253 (originally Epson 133) Some Calidad 258 (originally Epson 138) |
| Category 3 | (1) Preparation (2) Refilling processes + (3) Reset/reprogram in test mode for model number, ink colour, ink level, cartridge status and date of manufacture (4) Test mode R&D processes + | Some Calidad 253 (originally cartridges other than Epson 133) Some Calidad 258 (originally cartridges other than Epson 138) |
| Category A | Cartridge categories 2 or 3 above, without the gas membrane cut (95% of cases) | 5% of Calidad 253 and Calidad 258 cartridges |
| Former (all cartridges sold before April 2016) | | |
| Category 4 | (1) Preparation (2) refilling processes + (3) Chip replacement process | Calidad 260H (originally cartridges other than Epson T200XL) |

³⁹⁶ *Seiko* (2017) 133 IPR 1 at 20-21 [73].

| | | |
|------------|---|--|
| | (4) Compatible chip R&D processes + | |
| Category 5 | Same as category 4 cartridges which have also had interface pattern cutting process | Some Calidad 250 |
| Category 6 | Same as categories 2 or 3 plus interface pattern cutting process | Some Calidad 253 Some Calidad 258 |
| Category 7 | Categories 5 or 6 cartridges plus replace integrated circuit assembly | Some Calidad 250 imported in 2014-2015 Some Calidad 253 imported in 2014-2015 Some Calidad 258 imported in 2014-2015 |
| Category B | Cartridge categories 5, 6, or 7 above, without the gas membrane cut (95% of cases) | Some Calidad 250 Some Calidad 253 Some Calidad 258 |

227 The primary judge set out each step in the process of modifying the original Epson printer cartridges, corresponding to the middle column of the preceding summary.

228 Step 1, "preparation", consisted of inspecting an original Epson printer cartridge to confirm that it was the correct type and in a suitable condition to be restored, emptying and cleaning the cartridge in preparation for refilling, removing any residual ink inside the cartridge by inserting a vacuum device, washing the cartridge with water in cases where the original ink contained pigment (rather than dye), and preparation of the outlet hole by removing the original seal that was broken when the cartridge was first used.

229 Step 2, "refilling", consisted of creating a second hole – or injection port – by inserting a needle into the middle of the main side of the cartridge, infusing ink through that hole, using the vacuum device to extract air from the outlet hole, and then resealing the injection port and outlet hole by placing pieces of thin clear plastic over them and applying force and heat to effect a seal.

230 Step 3, "reset in normal mode", was a process by which the data stored on the memory chip in the addresses relating to the ink level and cartridge status was rewritten from one series of binary bits to another, to record that the ink volume was "full" and that the cartridge status was either "unused" or "has been used previously but is not yet empty". That process takes only

seconds and involves holding the terminals of the cartridges up to a connector to equipment that causes the rewriting to take place.

231 Step 4 took different forms: "normal mode research and development processes", "test mode research and development processes", and "compatible chip research and development processes". Step 4 in respect of "normal mode research and development processes" consisted of steps that had to be undertaken to identify the mechanisms of the original Epson printer cartridges and their interaction with Epson printers, to enable the modifications identified above to take place. It included obtaining used and unused samples of the original Epson printer cartridges; inspecting them in order to ascertain the path that the ink follows inside the cartridge and understand where the sensor is located; determining how the memory chips operate by removing a seal on top of the memory chip, removing protective layers to reveal circuitry around each transistor, photographing each block of circuitry including each transistor (of which there could be hundreds) and conducting electrical testing; determining the interface protocol by which the printer and chip communicate by use of an oscilloscope to identify the data stored and determine what it means and the memory addresses at which information needs to be read or written; and, finally, programming electronic equipment to "reset" the data relating to ink level and cartridge status. These processes required a reasonable degree of expertise and entailed an invasive examination of sample original Epson printer cartridges. In respect of "test mode research and development processes", in addition to the processes undertaken in respect of normal mode, this step required determination of how to activate test mode and the applicable interface protocol for test mode with the use of specialist third party technology which, the primary judge found, was a costly, time-consuming process requiring considerable expertise and skill. Finally, in respect of "compatible chip research and development processes", in addition to understanding the mechanical and physical attributes of original Epson printer cartridges and the interface protocol by which the printer and chip communicate, this step involved understanding the electrical circuitry by removing a seal on top of the cartridge and protective layers to reveal the circuitry around each transistor, photographing each block of circuitry and transistor, and then testing, constructing and simulating the circuitry using automation software and, with that information, designing and developing a compatible memory chip to substitute for the chip in the original Epson printer cartridge.

232 On the basis of those facts, the primary judge concluded that the modifications made to the Category 1 cartridges did not exceed the licence to use that was implicit in the original unconditional sale of the original Epson printer cartridges, because the modifications did not

have a material bearing on the manner in which the original Epson printer cartridges embodied the invention as claimed. As the primary judge found:

- (1) Step 1 – the preparatory work – involved no change to the printing material container identified in integer [1] of the claim, it required only that the printing material container be adapted to be attached to a printing apparatus by being inserted in an insertion direction, and that aspect of the container was not materially altered.
- (2) Step 2 – refilling – involved minor physical alterations to the cartridge container in the result of creating an injection port or a slit in the gas membrane, but those changes bore no relationship to the subject of the integers of the claim.
- (3) Step 3 – reset in normal mode – did not entail material alterations since, properly construed, the claim distinguished between the memory chip and the matter stored on it (whether it be data, software or otherwise) and the combination of integers claimed was thus the existence of the chip as part of the combination and not for a monopoly referable to the content of the chip.
- (4) Step 4 – normal mode research and development processes – was irrelevant in that that work was anterior to the making of changes to the embodiment of the claimed invention (the claim being for a product, not a process) and, in any event, the research and development concerned alterations made to the information contained in the memory chip, which was not a feature of the invention as claimed.

233 The primary judge also found that the modifications made to the Category 2 cartridges did not have a material bearing on the manner in which the original Epson printer cartridges embodied the invention as claimed, in substance because:

- (1) the work comprising steps 1 to 3 was not materially different from the work comprised in steps 1 to 3 for Category 1 cartridges; and
- (2) the primary difference between Categories 1 and 2 was that the resetting or reprogramming of the memory chip was undertaken in test mode and required a greater degree of research and development to be able to rewrite its contents, but the fact that there was an additional degree of difficulty in preparing to make the alterations to the memory was legally irrelevant.

234 The primary judge found that steps 1 and 2 for the Category 3 cartridges were the same as for Category 1, and, although step 3 was more complicated, and involved additional modifications

to the contents of the memory chip, that fact was irrelevant for the reasons given in relation to Category 2 cartridges. Consequently, the primary judge concluded that the Category 3 cartridges were within the scope of the implied licence. Category A cartridges – being cartridges otherwise within Category 2 or 3 that do not have the gas membrane cut in the modification process – were likewise held to be within the scope of the implied licence.

235 Category 4 cartridges had not been sold since April 2016 and were modified from original Epson printer cartridges acquired from outside Australia. Steps 1 and 2 for Category 4 cartridges were the same as for Category 2 cartridges. Step 3, however, was different in that, instead of reprogramming or resetting the integrated circuit chip in the cartridge, the integrated circuit boards were removed from the cartridges using a cutting tool, the memory chips on the integrated circuit boards were replaced with generic memory chips, and then each integrated circuit board so fitted with a generic memory chip was refitted to a cartridge although not necessarily, or, in all probability, at all, to the same cartridge from which the circuit board had been removed. As set out in the table above, the Category 4 cartridges also involved a different step 4 to that in the preceding categories of cartridges, being the research and development of a compatible memory chip.

236 The primary judge held that, because Category 4 cartridges had their original memory chips removed from the original Epson printer cartridges and replaced "with an entirely different item of hardware", step 3 in relation to Category 4 cartridges fell "on the wrong side of the line for the implied licence to be maintained"³⁹⁷. In his Honour's view, that process of removal and replacement materially affected, and changed, "the embodiment [of the patented device] that Seiko sold"³⁹⁸.

237 Category 5 cartridges were modified in the same way as Category 4 cartridges but with the addition of cutting off the "interface pattern". The interface pattern was part of the exterior shape of one of the short sides of the original Epson printer cartridge and was the means by which Seiko physically limited the range of Epson printers to which the cartridges could be fitted.

³⁹⁷ *Seiko* (2017) 133 IPR 1 at 57 [276].

³⁹⁸ *Seiko* (2017) 133 IPR 1 at 57 [276].

238 The primary judge held that because integer [1] of the patent requires that the printing material container be adapted to be attached to a printing apparatus by being inserted into it, the interface pattern formed part of the mechanism by which Seiko's embodiment achieved that function, and although the modifications made might be regarded as "borderline", in the context of "the present analysis" they fell on the wrong side of the line of the implied licence.

239 Like Category 4 cartridges, Category 6 cartridges had not been sold since April 2016. The processes used to modify these cartridges were the same as for Category 2 and 3 cartridges but with the addition of cutting off the interface pattern in the manner described in the case of Category 5 cartridges. The primary judge held that, as with Category 5 cartridges, cutting off the interface pattern led to the conclusion that Category 6 cartridges were beyond the scope of the implied licence.

240 Category 7 cartridges consisted of cartridges that fell within Category 5 (ie, Category 4 cartridges with the interface pattern cut off) or Category 6 (ie, Category 2 or 3 cartridges with the interface pattern cut off) that had also had the integrated circuit assembly replaced. The primary judge held that they were beyond the scope of the implied licence.

241 Category B cartridges consisted of cartridges that fell within Category 5, 6 or 7 which had not had their gas membranes cut. The primary judge did not consider that cutting the gas membrane was a material modification to the embodiment as claimed, but, for the reasons given in relation to Categories 5, 6 and 7, his Honour held that Category B cartridges were beyond the scope of the implied licence.

PROCEEDINGS BEFORE THE FULL COURT OF THE FEDERAL COURT

242 Each member of the Full Court of the Federal Court of Australia held that the primary judge erred, but for different reasons. Greenwood J considered³⁹⁹ that the primary judge failed to examine the "true *scope and content*" of the implied licence. His Honour posited⁴⁰⁰ that the implied licence included "all the normal rights of an owner" or the "'absolute right' to deal with the product as the buyer thinks fit", and so included the right to "hire, sell, otherwise dispose

³⁹⁹ *Calidad Pty Ltd v Seiko Epson Corporation* (2019) 270 FCR 572 at 588 [68] (emphasis in original).

⁴⁰⁰ *Calidad* (2019) 270 FCR 572 at 590 [83].

of the product, offer to sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of those things". But, his Honour said, the implied licence did not include the right to make the product, and, in his Honour's view, the modifications made to each category of cartridge constituted making an article embodying the integers of a claim defining Seiko's invention⁴⁰¹.

243 Jagot J reasoned similarly but in more detail. Her Honour noted that step 2 of the process for all categories of cartridges involved drilling a new hole in the ink container to enable it to be filled with fresh ink, and then sealing both the new hole and the original hole by the application of plastic with heat and pressure. Her Honour stated that, although the primary judge regarded that as but a "minor physical alteration" with no relationship to the claimed invention, in her Honour's view it was more, because, at the moment that the new hole was created, there was no longer an essential integer of the claimed invention, namely, a "printing material container", and that remained so until the new seals were applied⁴⁰². And in her Honour's view, the modifications carried out by Ninestar in refilling and resealing the ink container could not be regarded as a repair because the original Epson printer cartridges as sold and ultimately acquired by Calidad could not be re-used (since the ink container was empty and the memory chip recorded that the container was empty of ink), but the product as "repurposed" was capable of re-use. Her Honour regarded that as the making of a new embodiment of the invention and thus beyond the scope of the implied licence⁴⁰³.

244 Jagot J considered that, in the case of Category 4 cartridges, because the memory chip was substituted (which required removal of the printed circuit board from each cartridge and the attachment of a new substitute chip to each of the printed circuit boards), and because the printed circuit boards with substitute chips installed were supplied in bulk separately from the cartridges from which they had been removed and were then refitted to different cartridges to those from which they had been removed, the original Epson product as sold necessarily ceased to exist either at the moment its printed circuit board was removed or by the time the new chip was attached to a printed circuit board and that printed circuit board was inserted into a different

⁴⁰¹ *Calidad* (2019) 270 FCR 572 at 590 [84]-[85].

⁴⁰² *Calidad* (2019) 270 FCR 572 at 619 [166].

⁴⁰³ *Calidad* (2019) 270 FCR 572 at 619 [166].

cartridge. In her Honour's view, the functional equivalence of the substituted memory chips was beside the point. The product was no longer the product that Seiko had sold⁴⁰⁴.

245 Jagot J also considered that the same was true of Category 5 cartridges, and, contrary to the primary judge's conclusion, that the cutting off of the interface pattern on Category 5 cartridges was not just "borderline" but rather enabled "a new kind of adaption for attachment to the printer"⁴⁰⁵. For that reason, her Honour said, it was clearly a new embodiment of the claimed invention containing all of the integers of the claim.

246 Jagot J was further of the opinion that the same conclusion applied to Category 7 cartridges because the reconditioning process involved the removal of the integrated circuit assembly from one cartridge, which, in her Honour's view, was "central to the invention as claimed and which includes within it the layout of the terminals which are described in integers [4]-[11]", and the replacement of the integrated circuit assembly in another cartridge as necessary resulted in the creation of a "new embodiment of the invention" beyond the scope of the implied licence⁴⁰⁶.

247 Finally, with respect to changes made to cartridge memory, Jagot J stated that she was unable to agree with the primary judge that the memory claim of the patent involved the mere physical existence of the memory chip. In her Honour's view, integer [2] claimed a memory "driven by" a memory driving voltage, and the only thing that was driven by the memory driving voltage was the memory "in the sense of the information stored on the chip"⁴⁰⁷. It followed, in her Honour's view, that the fact that the chip had information on it that was able to be changed (driven) by the memory driving voltage was an essential part of the claimed invention⁴⁰⁸. Her Honour concluded⁴⁰⁹:

"It may be accepted that the actual status of the memory (that is, whether it shows the cartridge as full, empty or anywhere in between) is not part of the claim, but the fact that the claim involves a memory driven by a memory driving voltage is not irrelevant. Considered in the context of the product as sold, which is essential to the scope of the

⁴⁰⁴ *Calidad* (2019) 270 FCR 572 at 619 [167].

⁴⁰⁵ *Calidad* (2019) 270 FCR 572 at 620 [170].

⁴⁰⁶ *Calidad* (2019) 270 FCR 572 at 620 [171].

⁴⁰⁷ *Calidad* (2019) 270 FCR 572 at 620 [172].

⁴⁰⁸ *Calidad* (2019) 270 FCR 572 at 620-621 [172].

⁴⁰⁹ *Calidad* (2019) 270 FCR 572 at 621 [172].

implied licence to use the product without infringement of the patents, the fact that the re-purposing of the cartridges, as a minimum, involves re-programming the chip to change the memory supports the conclusion that the imported Calidad cartridges are outside the scope of any possible implied licence or any concept of repair."

248 Yates J reasoned⁴¹⁰ that, whereas the primary judge's analysis of Calidad's cartridges was confined to the materiality of the modifications made to the claimed features of the invention, the correct approach was to ask whether, in each particular category, the modifications that Ninestar made to the original Epson printer cartridges altered them in such a way that they were, in substance, different articles from those Seiko had put into the market. And in his Honour's view, the modifications made in each category of cartridge materially altered the original Epson printer cartridges that Seiko had put into the market and amounted to remanufacture of the discarded original Epson printer cartridges to produce reborn printer cartridges that could not be said to have been of Seiko's making.

REPAIR AND MODIFICATION

249 In cases of this kind, where the question is whether steps taken to recondition or restore a used patented article constitute an infringement of the patent, the principle is clear. Consistently with the release that an implied licence in the contract of sale effects from the exclusive rights in s 13 of the *Patents Act 1990*, the purchaser has the liberty to "use" or "sell" the article but not to "make" a new article. The implied licence therefore permits a purchaser to repair and restore the article which embodies the patented invention, or otherwise to use the article, but not to make a new one. As Lord Halsbury famously observed in *Sirdar Rubber Co Ltd v Wallington, Weston & Co*⁴¹¹:

"The principle is quite clear although its application is sometimes difficult; you may prolong the life of a licensed article but you must not make a new one under the cover of repair."

⁴¹⁰ *Calidad* (2019) 270 FCR 572 at 643 [293]-[294].

⁴¹¹ (1907) 24 RPC 539 at 543.

250 Likewise, in *Solar Thomson Engineering Co Ltd v Barton*⁴¹², Buckley LJ (with whom Orr and Goff LJJ agreed) endorsed the observations of Swinfen Eady J at first instance in *Sirdar Rubber*⁴¹³, where his Honour stated that:

"The purchaser of a patent article has a right to prolong its life by fair repair, but he has not a right to obtain ... a substantially new article made in accordance with the invention, retaining only some subordinate part of the old article so that it may be said that the combination is not an entirely new one."

251 And, in Buckley LJ's view⁴¹⁴:

"The cardinal question must be whether what has been done can fairly be termed a repair, having regard to the nature of the patented article."

252 Subsequently, in *United Wire*, Lord Hoffmann observed⁴¹⁵:

"Repair is one of the concepts (like modifying or adapting) which shares a boundary with 'making' but does not trespass upon its territory. I therefore agree with the Court of Appeal that in an action for infringement by making, the notion of an implied licence to repair is superfluous and possibly even confusing. It distracts attention from the question raised by section 60(1)(a) [of the *Patents Act 1977* (UK)], which is whether the defendant has made the patented product. As a matter of ordinary language, the notions of making and repair may well overlap. But for the purposes of the statute, they are mutually exclusive. ...

In *Solar Thomson* ... Buckley LJ quoted the remark of Lord Halsbury LC ... [and] said that the question was one of fact and degree and ... that the 'cardinal question' was whether 'what has been done can fairly be termed a repair, having regard to the nature of the patented article'. The context shows that Buckley LJ saw no difference between this question and the question of whether, having regard to the nature of the patented article, the defendant could be said to have made it. Speaking for myself, I prefer the latter formulation."

253 But more recently, in *Schütz (UK) Ltd v Werit (UK) Ltd*, Lord Neuberger (with whom Lord Walker, Lady Hale, Lord Mance and Lord Kerr agreed) confirmed the utility of the distinction between repair of a patented item and the making of a new one⁴¹⁶:

"The approach of Buckley LJ [in *Solar Thomson*] supports the notion that, subject to the overriding point that it should not obscure the central issue of whether the alleged infringer 'makes' the patented article, it may sometimes be useful to consider whether

⁴¹² [1977] RPC 537 at 554-555.

⁴¹³ *Solar Thomson* [1977] RPC 537 at 554-555, quoting *Sirdar Rubber* (1905) 22 RPC 257 at 266.

⁴¹⁴ *Solar Thomson* [1977] RPC 537 at 555.

⁴¹⁵ [2001] RPC 439 at 459 [71]-[72], quoting *Solar Thomson* [1977] RPC 537 at 555.

⁴¹⁶ [2013] RPC 395 at 410-411 [49]-[50].

the alleged infringer is repairing rather than 'making' the article. ...

The mere fact that an activity involves replacing a constituent part of an article does not mean that the activity involves 'making' of a new article rather than constituting a repair of the original article. Repair of an item frequently involves replacement of one or some of its constituents."

254 His Lordship then referred to the example of repairing a roof by the replacement of tiles or repairing a house by replacement of the roof and continued⁴¹⁷:

"In the more directly relevant context of chattels rather than buildings, the normal use of 'making' and 'repairing' demonstrates the same point. Works to a ship or a motor car, which involve removal and replacement of defective significant constituent parts, could be substantial in terms of physical extent, structural significance, and financial cost, without amounting to 'making' a ship or motor car, as a matter of ordinary language: in such a case, they would be 'repair' of the existing ship or motor car."

255 Although, as has been seen, the law of patent infringement in the United States is affected by its recognition of the exhaustion theory⁴¹⁸, the United States approach to the question of how much a patented item may be changed without making a new item is essentially similar to the Anglo-Australian approach under the implied licence theory, albeit that, in the United States, the distinction between repair and making is described in terms of the difference between modifications, improvements and repairs on the one hand and reconstruction in the sense of making a "substantially new article"⁴¹⁹ on the other. Thus, in *Aro Manufacturing Co Inc v Convertible Top Replacement Co Inc*⁴²⁰, the United States Supreme Court stated:

"This Court's decisions specifically dealing with whether the replacement of an unpatented part, in a patented combination, that has worn out, been broken or otherwise spent, is permissible 'repair' or infringing 'reconstruction', have steadfastly refused to extend the patent monopoly beyond the terms of the grant. ... [A]lthough there is no right to 'rebuild' a patented combination, the entity 'exists' notwithstanding the fact that destruction or impairment of one of its elements renders it inoperable; and ... accordingly, replacement of that worn-out essential part is permissible restoration of the machine to the original use for which it was bought."

⁴¹⁷ *Schütz* [2013] RPC 395 at 411 [50]-[51].

⁴¹⁸ See [196]-[202] above.

⁴¹⁹ See *Varex Imaging Corporation v Richardson Electronics Ltd* (unreported, United States District Court, ND Illinois, 27 August 2019) at 4.

⁴²⁰ (1961) 365 US 336 at 342.

256 To the same effect, in *Hewlett-Packard Co v Repeat-O-Type Stencil Manufacturing Corporation Inc*⁴²¹, the United States Court of Appeals, Federal Circuit said this:

"Generally, when a seller sells a product without restriction, it in effect promises the purchaser that in exchange for the price paid, it will not interfere with the purchaser's full enjoyment of the product purchased. The buyer has an implied license under any patents of the seller that dominate the product or any uses of the product to which the parties might reasonably contemplate the product will be put. ...

The authority to use and sell a purchased device, however, does not include the right to make a new device or to reconstruct one which has been spent. Reconstruction, *ie*, the re-creation of a patented combination, is an infringement because such activity is beyond the implied authorization to use and sell a patented device. As the Supreme Court has stated:

'The decisions of this Court require the conclusion that reconstruction of a patented entity, comprised of unpatented elements, is limited to such a true reconstruction of the entity as to "in fact make a new article," after the entity, viewed as a whole, has become spent. In order to call the monopoly, conferred by the patent grant, into play for a second time, it must, indeed, be a second creation of the patented entity ... Mere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property.'

Aro Mfg Co v Convertible Top Replacement Co, 365 US 336, 346 ... (1961) ... (citations omitted)."

257 The reasoning in *Hewlett-Packard* is notable inasmuch as it proceeded from an implied licence conception of patentees' rights later repudiated by the Supreme Court of the United States in *Lexmark*. But, for present purposes, the significance of the decision in the former case (which relevantly is not affected by the choice between implied licence and exhaustion theories) is twofold. First, it represents a clear recognition that the purchase of used second-hand patented single-use printer cartridges, their modification to render them refillable, and their resale, did not infringe the patent, because the modifications made did not cause the cartridges to cease to exist⁴²²:

"HP correctly states that ROT's modification is not conventional repair. The caps on the purchased cartridges are not broken or defective. On the other hand, neither is ROT's modification a 'reconstruction' of the patented combination. A reconstruction occurs after the patented combination, as a whole, has been spent, when 'the material

⁴²¹ (1997) 123 F 3d 1445 at 1451; see also *Zenith Electronics Corporation v PDI Communication Systems Inc* (2008) 522 F 3d 1348 at 1362.

⁴²² *Hewlett-Packard* (1997) 123 F 3d 1445 at 1452.

of the combination ceases to exist.' *Wilson v Simpson*, 50 US ... 109, 123 ... (1850)."

258 Secondly, the Court of Appeals specifically rejected the notion that, because the cartridges were designed and marketed as single-use cartridges, the modification of them to render them refillable necessarily crossed the boundary of permissible repair and impermissible reconstruction⁴²³:

"HP also argues that the boundary between 'permissible repair' and 'impermissible reconstruction' turns on the intention of the patentee. HP contends that it has clearly manifested its intent that the ink jet cartridges be ... discarded once they are empty; HP does not sell refillable cartridges, and HP does not sell ink refills. Because it has always manifested an intent that its cartridges be discarded, it argues, the creation of refillable or refilled cartridges are unauthorized acts which constitute an infringement of its patents. HP in effect argues that any change to a patented product that is not intended by the patentee constitutes reconstruction. ... We do not agree ... [A]bsent a restriction having contractual significance, a purchase carries with it the right to modify as long as reconstruction of a spent product does not occur. ... *The question is not whether the patentee at the time of sale intended to limit a purchaser's right to modify the product. Rather the purchaser's freedom to repair or modify its own property is overridden under the patent laws only by the patentee's right to exclude the purchaser from making a new patented entity.*" (emphasis added)

259 Importantly, the same idea was emphasised by the Privy Council in *Canon Kabushiki Kaisha v Green Cartridge Co (Hong Kong) Ltd*⁴²⁴, in which it appears to have been regarded as going without saying that commercial refilling of single-use cartridges and selling them at less than the price of new cartridges was *not* an infringement of patent.

260 In *Jazz Photo Corporation v International Trade Commission*⁴²⁵, the United States Court of Appeals, Federal Circuit applied similar reasoning in concluding that the purchase of used second-hand single-use cameras and their refurbishment by removal of the cardboard outer cover of each camera, opening the sealed body of the camera (usually by cutting at least one weld), replacing the winding wheel or modifying the film cartridge to be inserted, resetting the film counter, replacing the battery in flash cameras, winding new film out of a canister onto a spool or into a roll, and resealing the body using tape or glue and applying a new cardboard outer cover, was not an infringement of patent⁴²⁶. As in *Hewlett-Packard*, the Court held that it was not to the point that the patentee intended that the cameras be single-use cameras or that

⁴²³ *Hewlett-Packard* (1997) 123 F 3d 1445 at 1453.

⁴²⁴ [1997] AC 728 at 735.

⁴²⁵ (2001) 264 F 3d 1094.

⁴²⁶ (2001) 264 F 3d 1094 at 1101, 1110-1111.

it was manifest that the cameras were intended to be single-use cameras⁴²⁷. The Court also rejected a contention that because the cameras were refurbished using assembly-line procedures in which parts were mixed and matched between cameras, the process was reconstruction⁴²⁸. Consistently with earlier decisions of the United States Court of Appeals, Federal Circuit in *Dana Corporation v American Precision Co Inc*⁴²⁹ (which concerned the mass-production refurbishment of used heavy-duty truck clutches), and of the United States Court of Claims in *General Electric Co v United States*⁴³⁰ (which concerned the mass-production refurbishment of patented gun mounts), the Court in *Jazz Photo* reasoned that the adoption of assembly-line refurbishment and reassembly without regard to where each component had originated was simply a matter of efficiency and economy with the same effect as if each camera had been individually refurbished by disassembly and reassembly of its original components with replacement parts used to replace worn elements⁴³¹.

261 The reasoning in *Jazz Photo* was also later referred to with approval in *Varex Imaging Corporation v Richardson Electronics Ltd*⁴³². It was noted⁴³³ there that courts considering whether a defendant had made a new article by refurbishing it after the device has become spent must analyse the nature of the defendant's actions; the nature of the device and how it is designed (namely, whether one of the components has a shorter useful life than the whole); and whether a market has developed to manufacture or service the part at issue.

262 Given that the *Patents Act 1990* is in relevant respects similar to the English legislation, the utility of the distinction between, on the one hand, repair or "use" and, on the other hand, "making" – being a distinction that Lord Neuberger emphasised in *Schütz* – is just as significant here as it is in England, and given that English, United States and Australian approaches to patent infringement are grounded in comparable techno-economic considerations, there is no reason why the concept of repair and modification falling short of making (or "reconstruction"

⁴²⁷ *Jazz Photo* (2001) 264 F 3d 1094 at 1106.

⁴²⁸ *Jazz Photo* (2001) 264 F 3d 1094 at 1103-1104.

⁴²⁹ (1987) 827 F 2d 755.

⁴³⁰ (1978) 572 F 2d 745.

⁴³¹ *Jazz Photo* (2001) 264 F 3d 1094 at 1103-1104.

⁴³² Unreported, United States District Court, ND Illinois, 27 August 2019 at 5.

⁴³³ *Varex Imaging* (unreported, United States District Court, ND Illinois, 27 August 2019) at 4.

as it is termed in the United States) should be conceived of in any narrower sense than it is in the United Kingdom or the United States.

263 The central issue is whether an alleged infringer has "made" a patented article as defined by the integers of the claim⁴³⁴. In each case, that is a question of fact and degree to be decided according to the nature of the article as so defined⁴³⁵. In making that decision, it assists to ask whether what the alleged infringer has done is to repair the article as opposed to making a new article⁴³⁶. It needs also to be borne in mind that "repair" may entail considerable disassembly, the removal and replacement of significant constituent parts, and reassembly on a mass-production basis, without amounting to "making" a new article. Further, as Windeyer J observed in *MP Metals Pty Ltd v Federal Commissioner of Taxation*⁴³⁷, "whether a thing is so different a thing from the thing or things out of which it was made as to be properly described as a new commodity may depend not only upon physical characteristics but also on differences in its utility for some purpose" although, subject to the nature of the article, it is to be borne in mind that the fact that a product may have been intended as a single-use item is largely irrelevant.

264 That being so, the disposition of this appeal is relatively straightforward. The primary judge was correct that the reconditioning processes carried out on Category 1, 2, 3 and A cartridges did not amount to the making of a new or different embodiment of the cartridge⁴³⁸. Contrary to the Full Court's reasoning, it was beside the point that Seiko may have designed its cartridges

⁴³⁴ See [215]-[216] above; *Schütz* [2013] RPC 395 at 406 [25].

⁴³⁵ See *Radiation Ltd v Galliers & Klaerr Pty Ltd* (1938) 60 CLR 36 at 46, 51-52; *Olin Corporation v Super Cartridge Co Pty Ltd* (1977) 180 CLR 236 at 246; *Minnesota Mining and Manufacturing Co v Beiersdorf (Australia) Ltd* (1980) 144 CLR 253 at 286; *Catnic Components Ltd v Hill and Smith Ltd* [1981] FSR 60 at 65-66; *Kirin-Amgen Inc v Hoechst Marion Roussel Ltd* [2005] RPC 169 at 190-191 [50]-[52]; *GlaxoSmithKline Australia Pty Ltd v Reckitt Benckiser Healthcare (UK) Ltd* (2016) 120 IPR 406 at 420 [54]; *Actavis UK Ltd v Eli Lilly and Co* [2017] RPC 957 at 989 [66]. See also *Schütz* [2013] RPC 395 at 406 [25], 413 [63]-[67].

⁴³⁶ *Sirdar Rubber* (1905) 22 RPC 257 at 266; *Sirdar Rubber* (1907) 24 RPC 539 at 543; *Solar Thomson* [1977] RPC 537 at 554-555; *United Wire* [2001] RPC 439 at 458-459 [68]-[72]; *Schütz* [2013] RPC 395 at 406 [27], 412 [57]-[59].

⁴³⁷ (1967) 117 CLR 631 at 638. An appeal to the Full Court was dismissed: *MP Metals* (1968) 117 CLR 631 at 650.

⁴³⁸ See [232]-[234] above.

in the hope that they might be used only once or that Seiko sold its cartridges as single-use, throw-away cartridges. Nor is it to the point that the printer cartridges could not be refilled without drilling a hole. Contrary to the Full Court's reasoning, drilling holes in the ink containers did not make them cease to be ink containers any more than removing the tops from the ink reservoirs in *Hewlett-Packard* made them cease to be ink reservoirs, or any more than cutting the welds on the single-use cameras in *Jazz Photo* to obtain access to install new film made them cease to be cameras. And reprogramming the memory chips did not make the memory chips cease to be memory chips, or transmogrify them into new and different memory chips, any more than changing the operating system on a computer makes it cease to be a computer or to become a new and different computer as opposed to the same computer running a different program. As the primary judge rightly held, the combination of integers claimed was the existence of the chip as part of the combination and not a monopoly referable to the content of the chip⁴³⁹.

265 Moreover, contrary to the primary judge's findings, Category 4 cartridges were relevantly no different from Category 1, 2 and 3 cartridges. The replacement of the memory chips involved in the refurbishment of Category 4 cartridges is as a matter of substance properly to be viewed as the replacement of but one unpatented part with another – just as in *Schütz, Dana Corp, General Electric* and *Jazz Photo* – and the fact that the replacement was effected with mass-production techniques resulting in the mixing and matching of chips with printed circuit boards should no more be regarded as resulting in the manufacture of new articles – as opposed to achieving efficiency and economy with the same effect as if each cartridge had been individually disassembled and reassembled using original components and replacement parts – than the adoption of similar mass-production techniques was regarded in *Dana Corp, General Electric* or *Hewlett-Packard* as resulting in reconstruction. For the same reason, Category A cartridges involved no infringement of Seiko's patents.

266 The primary judge was, however, correct in holding that Category 5, 6 and 7 cartridges involved the making of new, different cartridges: because the processes used to modify those cartridges⁴⁴⁰ included cutting off the interface pattern to make them fit a different printer from

⁴³⁹ See [232(3)] above.

⁴⁴⁰ See [226], [237], [239]-[240] above.

that for which they were designed. Relative to each cartridge in its totality, that was such a significant change to the form and function of the cartridges as properly to be viewed as changing each cartridge from the cartridge it had been into a new and different cartridge adapted to a new and different task. When that significant change was combined with the other modifications, there was a making of the patented invention thereby infringing Seiko's patents. For the same reason, Category B cartridges infringed Seiko's patents⁴⁴¹.

CONCLUSION

267 In the result, the appeal should be allowed in part and the orders of the Full Court varied accordingly. The respondents should pay the costs of the appeal to this Court.

⁴⁴¹ See [241] above.