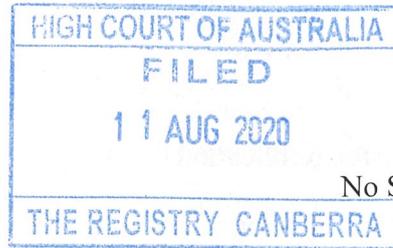


IN THE HIGH COURT OF AUSTRALIA
SYDNEY REGISTRY



No S329 of 2019

BETWEEN:

CALIDAD PTY LTD

ACN 002 758 312

First Appellant

CALIDAD HOLDINGS PTY LTD

ACN 002 105 562

Second Appellant

CALIDAD DISTRIBUTORS PTY LTD

ACN 060 504 234

Third Appellant

BUSHTA TRUST REG

Fourth Appellant

- and -

SEIKO EPSON CORPORATION

First Respondent

EPSON AUSTRALIA PTY LTD

ACN 002 625 783

Second Respondent

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APPELLANTS' OUTLINE OF ORAL SUBMISSIONS

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Part I: Suitable for publication

1. This outline is in a form suitable for publication on the internet.

Part II: Outline of propositions

2. The general issue presented by this appeal is whether, and if so, the extent to which, a patentee can control or limit what may be done with a patented product after it has been sold by or with the licence of the patentee (AS [2]-[3]).
3. This Court should affirm the correctness of its earlier decision in *NPCAL* (1908) 7 CLR 481, which applied the common law doctrine of exhaustion, before the Privy Council in *Menck* (1911) 12 CLR 15 substituted the artificial construct of an implied licence (AS [17]-[19], [26]-[36]).
4. Where a patentee (or its licensee) exploits an invention by selling a patented product, that product has “*passed out of the limit of the monopoly*” (*NPCAL* at 511, 524) and “*the advantages of the Act to the patentee are exhausted*” (*NPCAL* at 531). At that time, “*the object of the law has been attained*” – the patentee has obtained its profit (*NPCAL* at 524; *Impression Products* 137 S Ct 1523 (2017) at 1532, 1538).
5. The exhaustion doctrine preserves the “*elementary principle*” of personal property that the owner of chattels has an “*absolute right to use and dispose of them as he thinks fit*” (*NPCAL* at 510). It does so without resort to an implied licence which is a “*misuse of words*” (*Interstate Parcel* (1977) 138 CLR 534 at 541). The doctrine ensures that “*when an item passes into commerce, it should not be shaded by a legal cloud on title as it moves through the marketplace*” (*Impression* at 1534).
6. The exhaustion doctrine permits a party to “*repair*”, “*improve*”, “*modify*” or “*refurbish*” patented goods (*NPCAL* at 510; *Jazz Photo* 264 F 3d 1094 at 1102-1104), provided there is no making of “*new*” or “*additional*” products (*Bowman* 569 US 278 (2013) at 5). It permits “*the “use of the whole” of the patented combination through replacement of a spent, unpatented element*” (*Aro Mfg* 356 US 336 (1961) at 346).
7. Modification to permit a product to be reused, even if intended by the patentee not to be reused, does not amount to the modified product being regarded as newly made (*Jazz Photo* at 1103, 1106; *Impression* at 1530, 1532-3). A “*patentee’s unilateral intent*” that goods “*not be reused*” is irrelevant (*Jazz Photo* at 1105-1106); competition is preserved.

8. The exhaustion doctrine has been endorsed by the US Supreme Court (*Impression* at 1532). It has received support in the House of Lords, which has questioned, in the context of “*repair*”, the utility of the implied licence doctrine (*United Wire* [2001] RPC 24 at [56], [67]-[69]; PJ1 [149]). It was held, in *NPCAL*, to form part of the common law of Australia. This Court is no longer bound by the Privy Council and should now affirm the correctness of *NPCAL*.
9. The exhaustion doctrine accords with the terms of the *Patents Act* (*NPCAL* at 510-2), which makes no reference to implied licences (cf. RS [30]-[44]). S 144 is irrelevant; its predecessor (s 87B) was enacted when *NPCAL* was the “*existing law*” to provide “*for the contingency of a contract*” (JBA 873; *Transfield* (1979) 144 CLR 83 at 93-6, 98-9).
10 The IPAC Report and Explanatory Memorandum preceding the Act reveal that it was left to the Courts to determine the ambit of the common law “*doctrine of “exhaustion of rights” so far as it applies*” in any “*particular case*” (JBA 702).
10. The application of the doctrine of exhaustion dictates the conclusion that the sale by Calidad of the *modified* Epson cartridges did not infringe Seiko’s patents. Seiko’s patent rights were exhausted upon its sale of the original cartridges (AS [37]-[40]).
11. In artificially characterising the modifications made to the original Epson cartridges as involving the “*making*” of “*new*” cartridges, the Full Court made five critical errors.
12. First, the Full Court erred by focussing on Seiko’s intention that the original Epson cartridges were for “*single use*” (AS [59]-[61]). That was an unclaimed characteristic; a mere “*obstacle*” to “*reuse*” (*Impression* at 1530) of the claimed invention. It was irrelevant, to exhaustion, that the cartridges had worked “*precisely as...designed*” (*Jazz Photo* op cit; cf. FCJ1 [169], [175], [280]).
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13. Second, the Full Court erred by failing to recognise “*modification*” or “*improvement*” of cartridges as permissible acts falling short of impermissibly “*making*” the claimed invention (AS [62]-[63]; AR [11]-[12]).
14. Third, Jagot J (Greenwood J agreeing) erred by holding that “*the moment the new hole was created*” the cartridge “*ceased to be a printing material container*” and on re-filling and sealing was “*made into a new printing material container*” (FCJ1 [166]). That is the precise mode of reasoning which has been rejected by both the US Supreme Court (*Aro Mfg* at 342, 343, 344, 346) and the UK Supreme Court (*Schutz* [2013] RPC 16 at
30 [57]-[58]); cf. RS [12].

15. Fourth, Yates J erred in holding that an assessment of the materiality of modifications “*is not confined to only those features of the articles that are claimed features of the invention*” (FCJ1 [292]). The Act confers no rights in relation to any feature of a patented product that does not form part of the claims (AS [64]; PJ1 [164]). Upon sale, the Epson cartridges “*passed outside of the patent monopoly*” (*Impression* at 1533); modifications to unpatented features were irrelevant (PJ1 [178]).
16. Jagot J (Greenwood J agreeing) made the same error in relation to memory (integer 2); her Honour accepted that “*the actual status of the memory...is not part of the claim*” (FCJ1 [172]), yet held a change in “*status*” to be “*fundamental*” (FCJ1 [173]).
- 10 17. Finally, the Full Court (and, to a lesser extent, the primary judge), when considering whether the modifications resulted in the “*making*” of a new product, erred by failing to assess the materiality of the modifications by reference to the substance of the invention (AS [50]-[55], [65]; *Schutz* [2013] RPC 16 at [67]). The substance of the invention resided in integers 4-11 (PJ1 [199], [208]; FCJ1 [215]); not integers 1 and 2 (‘643 patent, para [0002]; cf. RS [16]). Modifications to generic features, even if claimed, and certainly where they are not, did not involve the *making* of a “*new*” embodiment.
18. Calidad does not ask this Court to undertake an evaluative assessment, but to correct error of characterisation below (cf. RS [9]-[10]). The cartridges, imported and sold by Calidad, were modified versions of the cartridges sold by Seiko, which had passed into
20 the public domain (AS [40], [44]-[49], [52]-[57]), not “*new*” embodiments of the claimed invention. Seiko should not, because of its intention that its cartridges be “*single use*”, be granted a *de facto* monopoly over unclaimed and/or generic parts.
19. Alternatively, if an implied licence analysis is adopted, this Court ought conclude that the modifications made to the original Epson cartridges did not amount to making a new embodiment (*United Wire* at [71]). The conduct of Calidad fell within the scope of any implied licence to deal with the cartridges “*as an embodiment of the invention as claimed*” (PJ1 [164]; AS [42]-[57]).
20. However, if injunctive relief is to be granted, it should reflect specific findings of infringement and not be “*uncertain*” (*Christian* (2015) 327 ALR 630 at [182]; AS [66]).

30 Date: 11 August 2020

David Shavin QC and Peter Creighton-Selvay, Counsel for the Appellants