

SYDNEY REGISTRY

IN THE HIGH COURT OF AUSTRALIA

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

APPELLANTS' SUPPLEMENTARY SUBMISSION

Filed on behalf of the Appellants by:

GILBERT + TOBIN

L35, Tower Two, International Towers Sydney
200 Barangaroo Avenue
BARANGAROO NSW 2000

T +61 2 9263 4013
F +61 2 9263 4111
Ref: Michael Williams

Part I: Suitable for publication

1. This supplementary submission is in a form suitable for publication on the internet. It addresses the two questions raised by the Court by email dated 18 August 2020.

Part II: The relevance of s 13(2) of the *Patents Act 1990*

2. The first question raised by the Court is:

“It might be taken from *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 at [7] – [9] that on sale of a product embodying a patent no patent rights remain in the patentee who is left with whatever contractual rights are bargained for. In that event any conditions placed upon a sale cannot be viewed as patent rights which may be the subject of an action for infringement, as distinct from breach of contract. The question is: Is the exhaustion doctrine as explained by Roberts CJ in that case consistent with s 13(2) of the *Patents Act 1990*, which describes patent rights as exclusive and personal property and permits their assignment and devolution?”

3. The exhaustion doctrine, as explained in *Impression Products* 137 S Ct 1523 (2017), is consistent with s 13(2) of the *Patents Act 1990* (Cth) (the **1990 Act**). Put simply, s 13(2) is concerned with the character of patent rights, whereas the exhaustion doctrine is concerned with the scope of patent rights.

4. There are four key points.

5. **First**, s 13(2) of the *1990 Act* is concerned with the character of the “*exclusive rights*” conferred by grant of a patent. Those rights are “*personal property*” capable of assignment and devolution by law. S 13(2) is not concerned with the scope of those rights. Nor is s 13(2) concerned with the circumstances in which those rights may be extinguished. The common law doctrine of exhaustion is “*a limit on “the scope of the patentee’s rights”*” (*Impression Products* at [8, 9]). The fact that those rights are “*personal property*” is irrelevant to their scope.

6. **Second**, the exhaustion doctrine does not extinguish the exclusive rights granted by the *1990 Act*. The effect of the exhaustion doctrine is that “*when a patentee sells an item...the patentee does not retain patent rights in that product*” (*Impression Products* at [7]). By exercising its exclusive right of sale, the patentee has put “*the product of the invention in the possession of the public*” (*NPCAL* at 512). The sale merely “*exhausts the patentee’s rights in that item*” (*Impression Products* [10-12]); not its exclusive rights under the *1990 Act*. The patentee retains its exclusive rights to “*exploit*” the

invention under s 13(1). However, it cannot exercise those rights in relation to any item embodying the invention in which proprietary title has passed by way of sale.

7. **Third**, the legislative history reveals that the characterisation of patent rights, as “*personal property*”, was never intended to exclude the exhaustion doctrine.

8. This Court, in *NPCAL* (1908) 7 CLR 481, held by reference to the *Patents Act 1903* (Cth) (the **1903 Act**) that where a patentee exploits an invention by sale of a patented product, that product has “*passed out of the limit of the monopoly*” (*NPCAL* at 511, 524) such that “*the advantages of the Act to the patentee are exhausted*” (*NPCAL* at 531).

10 9. The *1903 Act* contained limited provisions regarding the devolution and assignment of patents. S 21 provided: “*A patent may be transferred in the form and in the manner prescribed by indorsement on the back thereof...*”. S 17 alluded to the possibility of “*acquisition by bequest or devolution in law*”. The *1903 Act* did not describe patent rights as “*personal property*”.

20 10. The *Patents Act 1952* (Cth) (the **1952 Act**) first introduced the language of “*personal property*”. S 152(1) provided, under the heading “*Devolution of patents*”, 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*”. S 153(5) further provided, under the heading “*Co-ownership of patents*”, that: “*Subject to this section, the laws applicable to ownership and devolution of personal property apply in relation to patents as they apply in relation to other choses in action*”.

11. The Report of the Committee Appointed by the Attorney-General of the Commonwealth to Consider What Alterations are Desirable in The Patent Law of the Commonwealth, 1952, explained at [2]: (i) the patents system was “*working satisfactorily*”; (ii) the amendments in the *Patents Bill 1952* were only “*concerned with matters of procedure rather than with matters of broad general principle*”; and (iii) no “*radical changes*” were recommended. Neither the Report, nor any parliamentary speeches, referred to ss 152(1) or 153(5).

30 12. Moving forward, the Explanatory Memorandum to the *Patents Bill 1990* stated that s 13 was “*not intended*” to “*modify the operation of the law on infringement so far as it relates to subsequent dealings with a patented product*” and that “*infringement in a particular case will continue to be determined*” by reference to “*any actual or implied licences*” and “*the doctrine of “exhaustion of rights” so far as it applies*”.

13. Thus, the legislative history reveals that:
- (a) the *1903 Act* implicitly treated patents as personal property by providing expressly that they were capable of assignment and devolution by operation of law;
 - (b) the characterisation of patent rights as “*personal property*” in the *1952 Act* and *1990 Act* was not intended to effect any change of “*general principle*”; and
 - (c) s 13 was “*not intended*” to modify the law on infringement, including in respect of the exhaustion doctrine.
14. **Finally**, it is notable that *US Patents Act, title 35, United States Code (USC 35)* contains a provision in similar terms to s 13(2) of the *Patents Act 1990*. S 261 of the *USC 35* provides, in its current form, that “*patents shall have the attributes of personal property*” and “*shall be assignable in law by an instrument in writing*”. Of course, the exhaustion doctrine prevails in the United States. This supports the view that the language of s 13(2) of the *1990 Act* does not impact on the *scope* of the rights given by a patent to a patentee.

Part III: US law reform

15. The second question raised by the Court is:

“*It has also come to the attention of members of the Court that on 25 June 2020 amendments to the US Patents Act 35 USC, and in particular the text of s 261, were considered by the House of Representatives. Are the parties in a position to assist the Court with the background to this course of action and why it is being undertaken?*”

16. The amendments to which the Court refers are contained in H.R. 7566, *Restoring America’s Leadership in Innovation of 2020* (the **Bill**) which was introduced into the House of Representatives on 25 June 2020, sponsored by three members of the minority party in that chamber.¹ The Bill was referred on the same day to the House Committee on the Judiciary where it lies. An earlier version of the Bill, H.R. 6264, was introduced into the House of Representatives on 28 June 2018. It was also then referred to the House Committee on the Judiciary, which then referred it to the Subcommittee on Courts, Intellectual Property, and the Internet, where it languished.²

¹ See: <https://www.congress.gov/bill/116th-congress/house-bill/7366/all-actions?r=7&overview=closed&s=1#tabs>

² See: <https://www.congress.gov/bill/115th-congress/house-bill/6264/all-actions?r=80&overview=closed&s=1#tabs>

17. The Bill seeks to substantially change US patent law, including by repealing amendments to *USC 35* introduced by Congress in the 2011 *Leahy-Smith America Invents Act* (Public Law 112-29) (the **2011 Act**) and abrogating the effect of several decisions of the US Supreme Court. Amongst other things, the Bill seeks to:

(a) sec. 3 - replace the existing “first to file” system introduced by the *2011 Act*, with a “first to invent” system;

(b) sec. 4 - abolish inter-partes and post-grant review, so that patent rights are “*protected from unfair adjudication at the Patent and Trademark Office*”;

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(c) sec. 5 – repeal the provisions of the *2011 Act* by abolishing the Patent Trial and Appeal Board and re-establish a board of Patent Appeals and Interferences which will not be used to invalidate a granted patent; protect the rights of patent owners by the abolition of inter partes re-examination and require judicial proceedings to invalidate a granted patent;

(d) sec. 7- change the law in relation to the patentability of scientific discoveries and software inventions, including by “*effectively abrogat[ing] Alice Corp v CLS Bank Intl 134 S.Ct 2347 (2014)*”, because “*the Supreme Court’s recent jurisprudence concerning subject matter patentability has harmed the progress of science and the useful arts*”;

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(e) sec. 8 - introduce limitations on the prior art which can be deployed to challenge patent validity as not being novel;

(f) sec. 9 - restore “*patents as a property right*” in response to “*recent jurisprudence of the United States Supreme Court, including Impression Products Inc. v. Lexmark, Inc*” which “*harmed the progress of science and useful arts by limiting the ability of patent owners to exclude unlicensed customers from their supply chains*”;

(g) sec. 10 – repeal provisions requiring the publication of patent applications and prevent disclosure of information concerning patent applications to the public until a patent issues;

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(h) sec. 11 - introduce a presumption that each claim of a granted patent is valid, unless invalidity is established by “*clear and convincing evidence*” and to provide

for tolling of the patent term during the time a patent is challenged with the term resuming only once the validity challenge is resolved;

- (i) sec.12 – introduce a presumption that upon a finding of infringement, in respect of the grant of a permanent injunction, any further infringement would cause irreparable harm; and
- (j) sec.13 – repeal provisions of the *2011 Act* relating to the best mode requirement.

10 18. The appellants’ primary submission is that the Bill is irrelevant. It was first introduced into the House of Representatives two years ago; it went nowhere. The current version, not including amongst its sponsors any member of the majority party in the House, does not represent the law of the United States of America; it may never do so. Indeed, it is apparent that, contrary to the intention of the Australian Parliament in 2013 of “Raising the Bar” for patentees, the Bill would dramatically lower the bar for patentees.

19. The appellants’ secondary submission is that, to the extent that the Bill has any relevance, it reveals a proposal, by its sponsors, to amend *USC 35* in response to *Impression Products*. Tellingly, those amendments, by inserting a new s 106 and amending the existing s 261, have the effect of changing the language of the relevant provisions of *USC 35* away from s 13(2) of the *1990 Act*, in an apparent attempt to avoid the implications of *Impression Products* in respect of “*unlicensed customers*”.

20 20. To the extent, if at all, that the amendments proposed in sec. 9 of the Bill might abrogate the effect of the decision in *Impression Products*, that result may flow from the proposed insertion after the second sentence of s 261 of *USC 35*, not the amendment of the language formerly similar to that found in s 13(2) of the *1990 Act*.

21. Thus, the Bill provides no support for the proposition that s 13(2) of the *1990 Act* is inconsistent with the application of the doctrine of exhaustion in Australia. Indeed, if anything is to be inferred from the minority Bill, it is that the language of s 13(2) of the *1990 Act* is consistent with the current terms of s 261 of *USC 35*, under which the US Supreme Court has affirmed the exhaustion doctrine in *Impression Products*.

Date: 25 August 2020

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