

**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' REPLY**

**Part I: Suitable for publication**

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

20 **Part II: Reply to respondent's argument**

***Recognition of a doctrine of exhaustion***

2. Contrary to Seiko's submissions (RS), the recognition of a doctrine of exhaustion of patent rights is strongly supported by the text, context and purpose of the Act.
3. **The text of the Act (RS [29]-[36]).** Although, as Seiko observes, the "*infringement provisions*" in ss 13 and 120 and the definition of "*exploit*" do not say anything about exhaustion (RS [30]), neither do they say anything about any implied licence or "*presumption*" of the kind referred to in *Menck*. The Act defines the "*exclusive rights*" of the patentee but leaves it to the Courts to ascertain the circumstances in which a third

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party will infringe those rights.<sup>1</sup> A patentee has the exclusive rights to “*exploit*” the invention and to authorise others to do so: s 13(1). This includes, where the invention is a product, to “*sell or otherwise dispose of*” the product: definition of “*exploit*”. Where a patentee elects to exercise its exclusive rights in that way, it should be held that it exhausts its rights in that embodiment of the invention. This is supported by the natural meaning of the words used, read in the context of the common law concerning personal property rights in chattels, and is consistent with the reasoning in *NPCAL*.

4. Contrary to RS [32]-[36], s 144(4) and (5) are not rendered superfluous by the doctrine of exhaustion. The original form of the section was inserted into the 1903 Act, after *NPCAL*, in 1909, and thus before *Menck* in 1911, as s 87B. The intention was to proscribe “*tying contracts*” of a type then known (See 2<sup>nd</sup> Reading Speech Senator Sir Robert Best, 11 August 1909 at pp 6-8 and 26 August 1909 at pp 1-2). S 144 was thus intended to supplement the decision of this Court in *NPCAL* by changing the law by precluding a patentee from inserting conditions into a contract for the sale of a patented product in an attempt to extend the patentee’s monopoly beyond the patent. It is not directed to restrictions on the use by the purchaser of the patented product itself. Further, the defence in s 144(4) and the limitation on it in s 144(5) have a wide application. Where the patentee inserts such a tying provision into any contract, those provisions may extend a defence of non-infringement to all third parties by precluding the patentee from recovering for infringement.

5. **The extrinsic materials (RS [37]-[41]).** Seiko’s submissions miss the point. It may be accepted that the extrinsic materials preceding the introduction of the current Act refer to the effect of the decision in *Menck*. That was, after all, the prevailing state of the law at that time. Calidad’s submission is that *Menck* should be revisited and no longer applied. The significance of the statement in the Explanatory Memorandum for the Bill that preceded the Act is that it confirms that the Act does not exclude the recognition of a doctrine of exhaustion: it states in terms that s 13 was not intended to modify the operation of that doctrine “*so far as it applies under Australian law*”.

6. **The existing state of the law (RS [42]-[44]).** At the time the equivalent provision to s 144 was introduced into the 1903 Act, the existing state of the law was defined by the

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<sup>1</sup> Pt 1 of Ch 11 of the Act provides for certain extended forms of infringement (s 117) and exemptions from infringement (ss 118-119C), but otherwise leaves open when “*infringement*” occurs.

decision of this Court in *NPCAL*. It predated *Menck* and, of course, it was directed to tying contracts not the existing doctrine of exhaustion it complemented.

7. **Reason to depart from *Menck* (RS [45]-[48]).** A doctrine of exhaustion would strike an appropriate balance between the monopoly rights of a patentee, and principles of personal property and competition. The decision in *Menck*, by allowing a patentee to impose restrictive conditions that qualify the “*full right of ownership*” of a patented product and effectively extend the scope of the monopoly, does not.
8. Contrary to RS [48], the requirement a purchaser have “*actual knowledge*” of a restrictive condition provides no answer. As the primary judge found, neither Ninestar nor Calidad acquired the cartridges subject to notice of any restriction imposed by Seiko as to the use to which they could be put.<sup>2</sup>
9. Contrary to RS [4] and [27], recognition of a doctrine of exhaustion will impact on the resolution of this appeal. It would preclude the characterisation by the Full Court of the implied licence being limited to the form of the product as sold by the patentee without modification: FCJ1 [164]-[166] per Jagot J (CAB 227-8); [292] per Yates J (CAB 260).

#### ***Scope of a doctrine of exhaustion***

10. It is common ground that a doctrine of exhaustion would not permit the purchaser of a patented product to make or supply a new embodiment of the invention. But this says nothing about the *modification* of an existing product. Calidad contends that a patentee is unable to preclude a purchaser from *modifying* a patented product sold by it as its rights are exhausted by the sale: AS [32]. That distinction is to be considered in the context of the invention claimed, considered as a matter of substance, not form. Seiko’s submissions and the Full Court’s analysis fail to approach the question in that way.
11. Contrary to RS [53], the US cases do recognise the right of the purchaser of a patented product sold by or with the authority of a patentee to “*modify*” that product, in addition to (and as distinct from) repairing it.<sup>3</sup> Contrary to the inference in RS [7], the *en banc* decision of the Federal Circuit accepted that there had been “*remanufacture*” and cited the factual finding that third parties had “*hacked*” Lexmark’s microchips and created

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<sup>2</sup> PJ1 [144] (CAB 53).

<sup>3</sup> Eg, *Jazz Photo Corp v International Trade Commission* 264 F 3d 1094 at 1102 (Fed Cir 2001), referring to “*the right to use it, repair it, modify it, discard it, or resell it*”; *Hewlett-Packard Co v Repeat-O-Type*

and installed their own microchips. *“It is undisputed that various companies gather spent cartridges, replace microchips, refill and remanufacture the cartridges”* *Lexmark International Inc v Impression Products* 816 F 3d 721 at 727-728. Thus, the decision of the Supreme Court applying a doctrine of exhaustion, did so in the factual context of “remanufacture” which did not constitute the making of a new embodiment such as to give rise to infringement. It was clearly a case of modification, not repair.

12. Similarly, the UK cases recognise a right to make modifications and repairs, both of which are distinguished from the making of an essentially new product.<sup>4</sup> The reference by Griffith CJ in *NPCAL* to the right of the purchaser of a patented product to “repair it or improve upon it as he pleases” is consistent with the principles in these cases.<sup>5</sup>

### *Seiko’s defence of the Full Court’s reasoning*

13. Calidad does not challenge any findings of fact. There is no dispute of fact regarding the modifications made by Ninestar to the original Epson cartridges: FCJ1 [92] per Jagot J (CAB 197). It is the proper *characterisation* of those modifications in the context of Seiko’s patent claim, the construction of which is a matter of law, that is in issue. The Full Court erred in principle by failing to have regard to the invention as claimed or the distinction between “modification” and “making of a new embodiment”.
14. The Full Court’s reasoning focuses on integers [1] (the printing material container) and [2] (the memory chip – not the data on it). Like the Full Court, Seiko emphasises form over substance. At RS [58], Seiko states: “*While it might have been possible for Seiko only to claim the terminal layout and not the printing material container or the memory, this is not the claimed combination*”. By this approach, the analysis depends on the *form* in which the patentee has framed its claim, rather than on the *substance* of the invention as discerned from the claim. This is contrary to principle: see *D’Arcy v Myriad Genetics Inc* (2015) 258 CLR 334 eg at [6], [9], [88] and [94].
15. Seiko does not dispute that the substance of the invention resides in the particular layout of the electrical terminals on the container defined by integers [5] to [11] of claim 1

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*Stencil Mfg Corp Inc* 123 F 3d 1445 at 1453 (Fed Cir 1997), referring to “the right of a purchaser to use, sell, or modify a patented product as long as a reconstruction of the patented combination is avoided”.

<sup>4</sup> See *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24 per Lord Hoffman at [71], referring to repair as “one of the concepts (like modifying or adapting) which shares a boundary with ‘making’ but does not trespass upon its territory”; *Dellareed Ltd v Delkim Developments* [1988] FSR 329 at 346-347.

<sup>5</sup> *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 at 509-510.

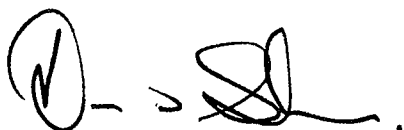
which provides a solution to the problem of shorting addressed by the Patents.<sup>6</sup> In that context, none of the modifications made by Ninestar to the original Epson cartridges involved the making of a new embodiment of the invention, or any “reconstruction”. Wrongly, the Full Court focussed on the “single use” embodiment as presented to the market: FCJ1 [166] (CAB 228) and [292] (CAB 260). As the primary judge found in relation to Categories 1, 2, 3 and A, the modifications were minor, and the modified product was *materially the same embodiment* of the claimed invention.<sup>7</sup>

- 10 16. Indeed, even if one looks at the *form* of the claim, the modifications made to the Category 1, 2, 3 and A cartridges involved no material change to any of the integers of the invention *as claimed*. Contrary to the Full Court’s reasoning, the drilling and resealing of a hole to refill the cartridge with ink did not mean that the cartridge ceased to be, and then became again, a “*printing material container*” as claimed. Further, the rewriting of the information in the memory chip involved no change at all to the “*memory*” as claimed, given that its contents were not part of the claim.<sup>8</sup>

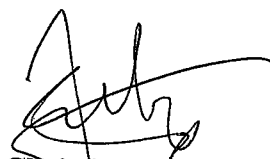
***The scope of the injunction granted below***

- 20 17. Calidad was granted special leave to appeal generally and leave to amend its application for special leave to encompass the form of injunction granted by the Full Court.<sup>9</sup> The appropriateness of the wide form of that injunction, unconfined to Calidad’s conduct, necessarily arises as part of the consideration of the above issues.

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<sup>6</sup> PJ1 [199], [208] (CAB 66, 69); FCJ1 [215] per Yates J (CAB 243).

<sup>7</sup> PJ1 [238]-[246], [256]-[259], [264]-[265], [267]-[268] (CAB 75-6, 79, 80, 81).

<sup>8</sup> PJ1 [208], [221] (CAB 69, 71); FCJ1 [172]-[173] per Jagot J (CAB 2310-1), [218] per Yates J (CAB 244).

<sup>9</sup> *Calidad Pty Ltd v Seiko Epson Corporation* [2019] HCATrans 225 at lines 785-791.