



IN THE HIGH COURT OF AUSTRALIA
SYDNEY REGISTRY

No. 329 of 2019

BETWEEN:

CALIDAD PTY LTD ACN 002 758 312 & ORS

10 Appellants

and

SEIKO EPSON CORPORATION & ANOR

Respondents

RESPONDENTS' SUPPLEMENTARY SUBMISSIONS

20 **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: Inconsistency of exhaustion doctrine with s 13(2) of the *Patents Act 1990* (Cth)

2. In *Impression Products Inc v Lexmark International Inc* (2017) 137 S Ct 1523 (JBA D/20) at [7]-[9], the United States Supreme Court re-affirmed existing US law to the effect that a patentee does not retain *any* patent rights in an article sold by the patentee.¹
3. This is inconsistent with s 13(2) of the *Patents Act 1990* (Cth), which provides that the patentee's exclusive rights "are personal property and are capable of assignment
30 and of devolution by law".
4. The exclusive rights in s 13(2) are those identified in s 13(1), namely "the exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention". Incorporating the Schedule 1 definition of "exploit"

¹ See eg the following statements at [7]: "This Court accordingly has long held that, even when a patentee sells an item under an express restriction, the patentee does not retain patent rights in that product." ([7]); "in *United States v. Unisys Corp.*... We held that the initial sales "relinquish[ed]... the patent monopoly with respect to the article[s] sold." ... 316 U.S., at 249-251, 62 S.Ct. 1088"; "in *Quanta Computer, Inc. v. LG Electronics, Inc.*... we held that that the patentee could not bring an infringement suit because the "authorized sale... took its products outside the scope of the patent monopoly." 553 U.S., at 638, 128 S.Ct. 2109". See also at [8, 9]: "Exhaustion extinguishes that exclusionary power."

into s 13(1), the effect of s 13(2) where the invention is a product is, relevantly, that the rights to make, use and vend the invention and to authorise others to do so are exclusive to the patentee and personal property capable of assignment and of devolution by law.

5. Rights of personal property do not evaporate or cease to exist or “exhaust”, and as such are capable of assignment or devolution by law. The Respondents made a related point in the context of s 14(1) of the Patents Act: see T64 lines 2840-2845, 2867-2870 (11 August 2020). The Appellants’ Supplementary Submissions dated 25 August 2020 (ASS) fail to grapple with this. At no stage have the Appellants
10 attempted to provide any, let alone a coherent, basis on which the Court could conclude that a portion of such rights simply cease to exist.
6. The absence of statutory recognition in s 13(2) of another means of their ceasing to be held by the patentee, namely “exhaustion”, is further confirmation that exhaustion theory is incompatible with the terms of the Patents Act. Exhaustion theory is not a theory based on devolution by law. It cannot be one based on assignment since assignment must be in writing signed by or on behalf of the assignor and the assignees: see s 14(1).
7. The Patents Act does not provide or allow for any qualification to either ss 13(2) or 14(1).
- 20 8. It follows that the only means of accommodating the exclusive statutory personal property rights with a sale by the patentee of a product embodying the integers of a patent claim is to imply a licence or “authorisation” (which is not required to be in writing) by the patentee to the purchaser and its sub-purchasers, to vend the article and use it (and thereby, *inter alia*, to make such modifications to the article as fall within “use” (such as repair), but not make such modifications so as to “make” a new embodiment, as determined in each case by the multifactorial analysis referred to in the authorities).²
9. Moreover, the reasoning in *Impression Products* as to the relinquishing and extinguishment of exclusionary rights is incompatible with the proposition – with

² See Respondents’ Submissions dated 3 February 2020 at [62], [63], [67], [68], [77], [78]; Respondents’ Outline of Oral Argument dated 11 August 2020 at [14]; T126 line 5492 to T127 line 5538 (12 August 2020).

which the Appellants agree³ – that the patentee is able to enforce its patent rights against a purchaser which “makes” an article using the article it has purchased, and indeed which uses or otherwise sells a “made” article. See also T105 lines 4555-4559 (12 August 2020).

10. Section 13(2) of the Patents Act has been referred to on several occasions by this Court.⁴ Contrary to [9] and [10] of ASS, the provision can be traced back to s 18 of the *Patents Act 1909* (Cth). That provision amended the *Patents Act 1903* (Cth) to add s 110A, which provided as follows: “The rights granted to a patentee by a patent are personal property and are capable of assignment and of devolution by operation of law.”⁵ It follows that the discussion of the legislative history at [9]-[13] of ASS proceeds on an incorrect foundation.
11. Section 110A of the Patents Act 1903 was not part of the Patents Act 1903 as it stood at the time that it was considered in *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481 (JBA C/10). In that case, Griffiths CJ said that the patentee’s “right, whatever it may be, is founded upon sec. 62 of the Patents Act 1903”: CLR 507, JBA p 261.35. Section 62 concerned the exclusionary rights of the patentee, but not the nature of the right as a personal property right. See also the reasons of O’Connor J at CLR 282-284, JBA p 529.40-530.15, 531.35-45, where his Honour held that there was no ground in the Patents Act 1903 on which the patentee could rely. Thus, s 13(2) represents a simple and significant basis on which to distinguish this Court’s decision in *Menck* if one were needed.
12. Section 13(2) of the Patents Act may be contrasted with *US Patents Act*, 35 USC, § 261, which provides in part: “Subject to the provisions of this title, patents shall have the attributes of personal property...”
13. Two matters are immediately apparent from the text of § 261. First, it provides that patents have the attributes of personal property, not that the rights granted by patents are personal property. Secondly, the attributes of personal property are said to be

³ See eg Appellants’ written submissions dated 6 January 2020 at [38].

⁴ *JT International SA v Commonwealth of Australia; British American Tobacco Australasia Ltd v The Commonwealth* (2012) 250 CLR 1At [33], [61], [86], [205], [245], [275], [347]; *Commonwealth of Australia v Western Mining Corp Resources Ltd* (1998) 194 CLR 1 at [183]. The Court added at [184]: “The exercise of those intellectual property rights may limit and detract from the proprietary rights of third parties which otherwise would exist unaffected in infringing articles.”

⁵ The same provision appeared in section 152(1) of the *Patents Act 1952* (Cth).

subject to the provisions of 35 USC. In *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, 138 S.Ct. 1365 (2018) at 1375, the United States Supreme Court held that this “qualifies any property rights that a patent owner has in an issued patent, subjecting them to the expression provisions of [35 USC]”.

14. Further, in *Oil States* at [5], [6-8] and [19-21], the Court held that patents “convey only a specific form of property right – a public franchise”. The Court distinguished this from a private right: see [4], [17-18]. As the dissent noted at p 1380, the effect of the majority’s decision is that an issued patent was no longer “a personal right” (nor, it follows, would the grant of a patent involve the grant of personal rights).
- 10 15. None of these three qualifications applies to the rights provided for by s 13(2) of the Patents Act.
16. There is no basis on which to read down the exclusive personal property rights afforded by s 13(2) of the Patents Act and in particular to accommodate a new judicial theory of exhaustion. Section 13(2) already has a specificity which precludes a reading down of that provision: see also T64 line 2825 to T65 line 2869 (11 August 2020).
17. Contrary to ASS [14], [20] and [21], 35 USC § 261 is not in “similar” terms to s 13(2). If a distinction from the language of § 261 is needed (and it is not), it may be noted that, unlike s 13(2), § 261 does not address the specific rights which
20 constitute the exclusive rights granted to a patentee. Further, as stated at [13] above, unlike s 13(2), § 261 characterises only the “patents” as having (arguably elusively) “the attributes of personal property”, and subjects that characterisation to “the provisions of this title”.
18. In *Impression Products*, the United States Supreme Court re-affirmed the exhaustion doctrine without even referring to § 261. This appears to have been because the Court considered at [16] (JBA D/20 at p 530.45-55) that patent exhaustion was an “unwritten limit on the scope of the patentee’s monopoly” and “where a common-law principle is well established... courts may take it as given that Congress has legislated with an expectation that the principle will apply except when a statutory
30 purpose to the contrary is evident”.

Part III: Restoring America's Leadership in Innovation Act of 2020

19. H.R.7366 - *Restoring America's Leadership in Innovation Act of 2020* was referred to the House Committee on the Judiciary on 25 June 2020.⁶

20. In § 2, various findings are sought from Congress, including at § 2(2) that “several decisions of the Supreme Court have harmed the progress of Science and the useful Arts by eroding the strength and value of the patent system” and at § 2(4) that a “United States patent secures a private property right to an inventor”.

21. § 9 provides various amendments to the above effect. In particular, § 9(b)(1) would amend 35 USC § 261 by, in the first sentence, striking “patents shall have the
10 attributes of personal property” and inserting: “patents shall be recognized as private property rights”. This is referable to the holding in *Oil States* described above.

22. It is apparent that the proponents of the Restoring America's Leadership in Innovation Act regard the existing § 261 as not having the necessary specificity of language to recognise as exclusive personal property the individual rights afforded by the grant of a patent – the proposed amendment on its face appears directed to affording that specificity.

23. Further, § 9(b)(2) would amend § 261 by inserting after the second sentence:

20 “As private property rights, applications for patents, patents, and interests therein shall be freely transferrable, in whole or in part, including conveyance by assignment or license. Any successors, heirs, assigns, or licensees of a patent owner, who receive a lesser interest in a patent, shall be subject to any and all restrictions of their interest in the patent, provided that the successors, heirs, assigns, or licensees have actual or constructive notice of such restrictions.”

24. Further, § 9(c) provides:

It is the sense of Congress that—

30 (1) recent jurisprudence of the United States Supreme Court, including *Impression Products Inc. v. Lexmark International, Inc.*, have harmed the progress of science and the useful arts by limiting the ability of patent owners to exclude unlicensed customers from their supply chains; and

(2) meaningful patent rights must permit patent owners to freely assign their rights in whole, or in part, and to ensure that successors, heirs, or assigns of a patent owner, or their assigns, are duly bound by restrictions or exclusions set by patent owners on the use of their property.

⁶ See www.congress.gov/bill/116th-congress/house-bill/7366/text#toc-HD5F74251A1D34D0783C718472B75AAE1

25. The stated intent is to ensure that a patentee can do precisely what *Impression Products* holds it cannot do, namely impose conditions on use enforceable as patent rights, an outcome akin to the law currently applied in Australia under *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15 (JBA C/11).

Dated: 26 August 2020

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