

# JSIP 2023: Mock Trial-India

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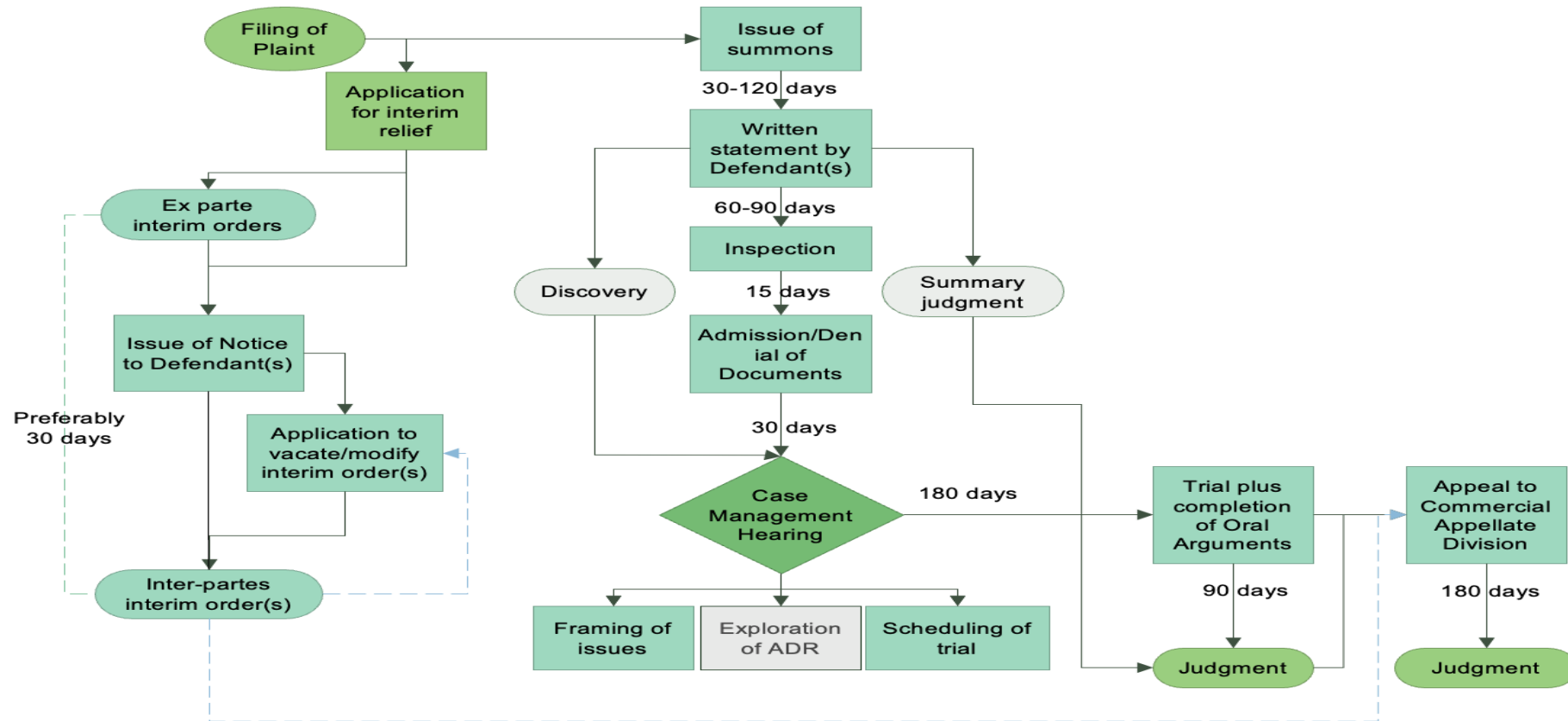
**Before his Lordship, Hon'ble Mr. Justice Yashwant Varma**

**For the Plaintiff: Mr Adarsh Ramanujan, Advocate**

**For the Defendant: Mr. Saikrishna Rajagopal, Advocate**

# Process of IP INFRINGEMENT LITIGATION IN INDIA

Commercial Courts Act, 2015



# INTERIM RELIEFS- IN PATENT SUITS

- Since, trial usually takes substantial time, and since IP rights, especially patent rights, are for a limited period, the stage of seeking interim reliefs is very crucial for a right holder.
- Such interim reliefs can be sought either *ex-parte* on the very first day, or after the Defendant is notified of the suit proceedings and prior to proceeding to trial.
- The following provisions are very relevant for the issue of interim reliefs:
  - (i) **Order XXXIX Rule 1 & 2 of the Code of Civil Procedure, 1908** provide for grant of interim reliefs including that of interim injunction and security in favour of the Plaintiff.
  - (ii) Further, **Rule 5 (v) of High Court of Delhi Rules Governing Patent Suits, 2022** also prescribes that during the course of first hearing of the suit *“Upon infringement being prima facie established, the Court may pass directions for monetary payments instead of an injunction, in exceptional situations, and on such terms and conditions as the Court may deem fit.”*

# FACTORS TO BE SATISFIED FOR GRANT OF ANY INTERIM RELIEFS ARE AS FOLLOWS:

1. *Prima facie* case,
2. Balance of convenience; and
3. Irreparable harm to Plaintiff

***Kashi Math Samsthan v. Srimad Sudhindra Thirtha Swamy, (2010) 1 SCC 689.***

*“In fact, if the Plaintiff fails to prove a prima facie case, it is not open to the Court to grant injunction in its favour, only because it has made out a case of balance of convenience in its favour or is able to demonstrate that it would suffer irreparable loss and injury if no injunction order is granted.”*

**Natco Pharma Limited. Vs Bristol Myers Squibb Holdings Ireland Unlimited Company and Ors. 263(2019) DLT622**

*“34. Although, there are special features in litigation involving infringement of patents, that still would not obviate the Court dealing with the question of grant of interim injunction to record the three important elements as have been stressed in a large number of decisions of the Supreme Court. It is not necessary that the order granting or refusing interim injunction should expressly state about the above elements but a reading of the order should indicate the forming of an opinion by the Court on the said aspects.”*

At the interim stage the Court also considers issues of invalidity of the asserted patent, if such a defence is raised by the Defendant in the suit. However, at the interim stage the Court only considers if there is any “credible challenge” raised against the validity of the suit patent.

**F. Hoffmann-La Roche Ltd. & Anr. Vs Cipla Ltd. 2009 (110) DRL 452(DB)**

*“55. The question before this Court is when can it be said that the defendant has raised a credible challenge to the validity of a patent held by the plaintiff in an infringement action? During the course of the argument it was suggested by counsel that the challenge had to be both strong and credible. Also, the defendant resisting the grant of injunction by challenging the validity of the patent is at this stage required to show that the patent is “vulnerable” and that the challenge raises a “serious substantial question” and a triable issue. **Without indulging in an exercise in semantics, the Court when faced with a prayer for grant of injunction and a corresponding plea of the defendant challenging the validity of the patent itself, must enquire whether the defendant has raised a credible challenge.** In other words, that would in the context of pharmaceutical products, invite scrutiny of the order granting patent in the light of Section 3(d) and the grounds set out in Section 64 of the Patents Act 1970. **At this stage of course the Court is not expected to examine the challenge in any great detail and arrive at a definite finding on the question of validity.** That will have to await the trial. **At the present stage of considering the grant of an interim injunction, the defendant has to show that the patent that has been granted is vulnerable to challenge.** Consequently, this Court rejects the contentions of the plaintiffs on this issue and affirms the impugned judgment of the learned Single Judge.”*

# MOCK TRIAL

The present mock trial, will involve a hearing of the interim injunction application filed by the Plaintiff.

Arguments have already been advanced on why the asserted patent is not valid.

Court has not expressed its view on whether there is a “credible challenge” to the validity of the patent.

The focus of the present hearing is in relation to the defense of international exhaustion as asserted by the Defendant.

# ISSUES IN THE MATTER (FOR HIS LORDSHIP TO ADDRESS)

## **FACTUAL PREMISE:**

- There is no dispute that the Defendant's Device maps to the granted claim.
- If Section 107A(b) of the Patents Act, 1970 does not apply to the Defendant, the Defendant would be an infringer.
- Laws of Country B are in pari materia to Country A.

## **INTERIM STAGE:**

- The Court is presently hearing the application for interim injunction and thus, is hearing the parties on whether a *prima facie* case is made out.
- **ISSUE 1:**  
Whether Section 107A(b) stipulates the doctrine of international exhaustion?
- **IF ISSUE 1 IS ANSWERED IN THE AFFIRMATIVE, ISSUE 2:**  
Whether the import into Country A of Defendant's Product, which comprises replaced packaging sheets, is protected under Section 107A(b)?

# ISSUE 1 (PLAINTIFF'S ARGUMENTS)

- Section 107A(b) reads as follows:

*“107A Certain acts not to be considered as infringement.—For the purposes of this Act,—*

*...*

*(b) importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product.*

*shall not be considered as a infringement of patent rights.”*

- If the expression “authorised under the law” is limited to laws of Country A, then Plaintiff must succeed because neither Collie Corp. or Donkey Corp. is authorized under the laws of Country A to exploit the Patent.



# ISSUE 1 (contd.)

- Given the territorial extent of patents, the term “law” can only mean Country A’s law, as held by this Court in *Sotefin SA*, (2022) 89 PTC 602, para 67:

***“Pertinently, the reference to law, in the provision, undoubtedly, has to be to the Indian law. The construction given by Defendants 1 and 2 that “duly authorised under law”, is to be widely interpreted to include foreign law, would clearly defeat the rights of an Indian patentee, if importation of the product patented under foreign law is allowed to escape the rigors of the Act, by importing the it from any foreign country where it has been authorised by the law in that country where the product is produced and sold. Therefore, the act of importing goods which are not authorised by the patentee will be an infringement under the Act, if it otherwise meets the criteria required by a law for infringement of patent rights....”***

- This judgment is directly on point. Although this was also an interim order and is not binding on this co-ordinate bench, it is prudent to main consistency even in interim orders as observed by the Supreme Court.
- Neither Collie Corp. nor Donkey Corp. have any such authorization under Indian law and thus, cannot claim the defence under Section 107A(b).

# ISSUE 1 (contd.)

- Defendant's reliance on the judgment of this Court in *Kapil Wadhwa*, (2013) 53 PTC 112 (DB) is misplaced for four reasons:

1) Both *Sotefin* and *Kapil Wadhwa* are interim orders and between the two, *Sotefin* is more relevant because it is directly on point.

2) *Kapil Wadhwa* was a judgment under section 30(3) of the Trade Marks Act, 1999, which is worded differently:

“30. ... (3) Where the goods bearing a registered trade mark are **lawfully acquired** by a person, the sale of the goods in **the market** or otherwise dealing in those goods by that person or by a person claiming under or through him is not infringement of a trade mark...”

The Court interpreted the phrase “the market” to be the “international market” based on the contextual interpretation under that statute. This phrase is absent and the context is different.

3) *Sotefin* is consistent with common law English patent law, from which our country's patents act is adapted. In *Minnesota Mining* [1974] R.P.C. 35, at 40-41, the English Court of Appeals granted an injunction against an importer in the UK even though the importer had imported product manufactured by a licensee in the exporting country. Given our statute is a “Consolidating Act” as per the preamble, the same logic applies.

4) *Kapil Wadhwa* is under appeal before the Supreme Court where notice has been issued.

# ISSUE 1 (contd.)

- Defendant's reliance on the legislative history of Section 107A(b) also cannot help:
  - 1) The Statement of Object and Reasons of the 2002/2005 amendment is silent on the topic.
  - 2) There is only an obscure reference to "parallel imports" in the "Notes on Clauses" attached to the Bill as introduced in the Parliament.
  - 3) The Supreme Court in *Aswini Kumar Bose*, AIR 1952 SC 369 has held that such statements only indicate the intention of the mover of the Bill and do not necessarily imply Parliamentary intent.
  - 4) In such a situation, the "Notes on Clauses", which is merely an external aid to statutory interpretation, cannot displace the meaning arrived from a contextual reading of the plain language.
- Thus, Section 107A(b) defence cannot apply.

# ISSUE 2 (Plaintiff's Arguments)

**Arguments are raised on Issue 2, assuming without conceding that Section 107A(b) postulates international exhaustion**

1. Section 107A(b) reads as follows:

*“107A Certain acts not to be considered as infringement.—For the purposes of this Act,—*

*...*

*(b) importation of **patented products** by any person from a person who is duly authorised under the law to **produce and sell** or distribute **the product**.*

*shall not be considered as a infringement of patent rights.”*

2. Plaintiff has two arguments under this issue:

- (a) Defendant has not imported the goods from a person duly authorised to “produce and sell/distribute”. Thus, Section 107A(b) does not apply.
- (b) Section 107A(b) only provides a safe harbour for the import of the “patented article” and not an “infringing article”.

## ISSUE 2 (Plaintiff's Arguments)

3. Argument 2(a) flows as follows:

- a) “and” is conjunctive in the ordinary sense and thus, the authorization to the exporting entity must be to “produce **and** sell”.
- b) The term “produce and” was inserted in 2005 expressly and thus, must be given effect to:

| After 2002 Insertion   | After 2005 Amendment   |
|--|--|
| importation of patented products by any person from a person who is duly authorised by the patentee <b>to sell or distribute</b> the product | importation of patented products by any person from a person who is duly authorised under the law to <b>produce and</b> sell or distribute the product |

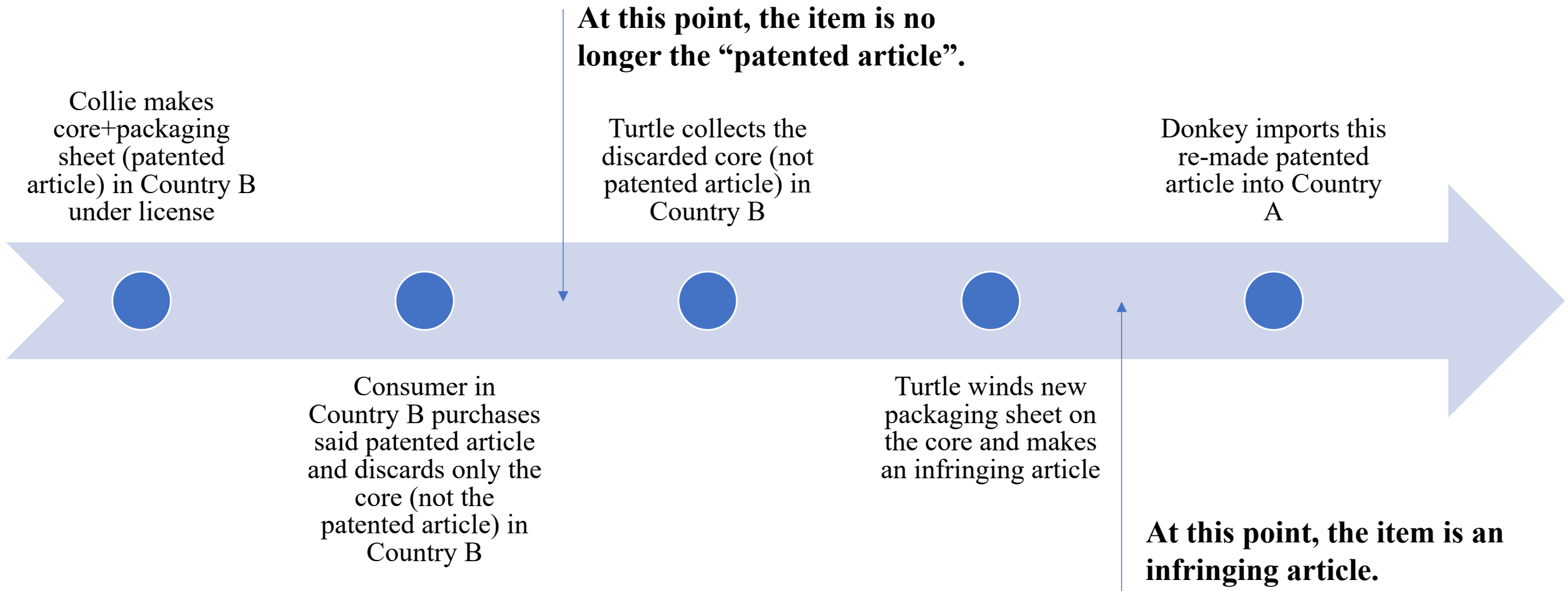
- c) Here, the exporting entity (Turtle Corp.) is not authorised to “*produce*” the patented article. Even the customer from whom Turtle Corp collected the cores, was not authorised to “*produce*”. Thus, no implied authorization flows from the customer in Country B

## ISSUE 2 (contd.)

4. Argument 2(b) flows as follows:

- a) The plain words itself clarify that only the “patented product” is allowed to be imported. As *Sotefin* clarifies, this is meant to be same as “patented article” defined in Section 2(1)(o): it means “*an article...in respect of which a patent is in force*”.
- b) Patented article in the ordinary sense is the opposite of an infringing article.
- c) In this case, the “patented article” is the “roll paper”, which comprises (i) core, and (ii) packaging sheet, both working synergistically with each other.
- d) Turtle does not receive the “patented article” but only the core. It then ‘makes’ an infringing product by re-winding the packaging sheet on that core (Please see the chain below)

# ISSUE 2 (contd.)



## ISSUE 2 (contd.)

- e) The patent is for the combination of the core and the packaging sheet. Under well-established principles of claim construction, this cannot be dissected as a claim for its individual components.
- f) Holding otherwise would go beyond the concept of exhaustion, which was only intended to preserve a purchaser's title/property right in the article purchased. Here, Turtle Corp and Donkey Corp have stepped beyond this intent and are profit-making commercial entities who are denying the patentee the full benefits of the invention.
- g) Donkey Corp. cannot rely on any alleged right of repair when none exists in the statute, especially in the context of Section 107A(b). The patent statute is a complete code, and importing a doctrine not envisaged from the statute's plain words would be an overreach.



# Issue 1- Defendant's arguments.

- India is a signatory to the TRIPS Agreement and has been committed to ratifying TRIPS in its form and spirit by implementing and amending its IP statutes. In order to continue fulfilling the obligations under the TRIPS Agreement, the Patents Act, 1970 was amended by way of the Amendment Act 38 of 2002. The Statement of Objects and Reasons of Amendment Act 38 of 2002 included “4 (g) **to provide provisions relating to parallel import of patented products;**”
- In light of Clause 4 (g) of the Statement of Objects and Reasons, the provision regarding exhaustion of patent rights, Section 107A was introduced in the Patents Act, 1970 by way of the Amendment Act 38 of 2002. The relevant Section was introduced as follows:

“107A. For the purpose of this Act, -

- (a) any act of making, constructing, using or selling a patented invention solely for uses reasonably relating to the development and submission of information required under any law for the time being in force, in India, or in a country other than India, that regulates the manufacture, construction, use or sale of any product;
- (b) **importation of patented products by any person from a person who is duly authorised by the patentee to sell or distribute the product,**

**shall not be considered as an infringement of patent rights.”**

- Thereafter, by way of Amendment Act 15 of 2005, the Patents Act was further amended, and the amendments carried out in Section 107A are as follows:
- *58. In section 107A of the principal Act,- (b) in clause (b), for the words “who is duly authorised by the patentee to sell or distribute the product’, the words “who is duly authorised under the law to produce and sell or distribute the product” shall be substituted.*
- Further, in the Parliamentary Debate dated 22.03.2005 on *inter alia* the Patents (Amendment) Bill, 2005, the following was stated on the amendment proposed to Section 107A(b)
- *“The second point, Madam, which has now been incorporated in the present Bill and as also in the Ordinance, is an amendment to Section 107A(b), providing for parallel import. Here, this amendment says: “On import of patented commodity from anywhere in the world, the Government reserves the right.” Despite the fact that a particular medicine may be patented here by any other company, we have the right to import that patented commodity from anywhere in the world, where it is cheaper, even though it is patented here. **Earlier however, this required that the foreign exporter was duly authorised by the patentee.** That was the condition earlier. I may remind my hon. friends on the other side that it has been taken off. Now, the law would be, as it has been included here in the Bill before us now, that ‘no longer do we only need to stick to that condition that the foreign exporter was duly authorised by the patentee to sell and distribute the products.’ **The position now would be that ‘the foreign exporter be authorised under the law, thus making the parallel imports easier.’ ...”***

# Comparison between Section 107A before and after- amendment in the year 2005

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## Section 107A as introduced by Amendment Act, 2002

107 A. Certain acts not to be considered as infringement. -For the purposes of this Act,-

...

**(b)** importation of patented products by any person from a person who is duly authorised by the patentee to sell or distribute the product

shall not be considered as a infringement of patent rights.

## Section 107A as amended by Amendment Act, 2005

107 A. Certain acts not to be considered as infringement. -For the purposes of this Act,-

...

**(b)** importation of patented products by any person from a person who is duly authorised under the law to produce and sell or distribute the product

shall not be considered as a infringement of patent rights.

- Thus, from a reading of the Section 107 A (b) it is apparent that importation of a patented product is allowed, so long as it is lawfully acquired.
- That the word “importation” in the provision necessarily implies international exhaustion.
- Further, the authorization of the patentee for such importation is no longer required.
- Plaintiff’s argument of essentially seeking to equate “authorised under the law” to mean “authorization by the patentee” would render the amendment and the purpose behind it completely otiose and therefore ought not to be allowed.

# Issue 2-

**The following facts are not disputed:**

(1) That Collie Corp is allowed to manufacture and sell the Plaintiff's Roll Paper for Plaintiff's packaging devices in Country B. Thus, Plaintiff cannot claim that he has not given consent to Collie Corp under Section 48 of the Patents Act, 1970 has been fulfilled. Section 48 is reproduced as under:

**48. Rights of patentees.**--Subject to the other provisions contained in this Act and the conditions specified in section 47, a patent granted under this Act shall confer upon the patentee-

(a) where the subject matter of the patent is a product, the exclusive right to prevent third parties, who **do not have his consent**, from the act of making, using, offering for sale, selling or importing for those purposes that product in India;

(b) where the subject matter of the patent is a process, the exclusive right to prevent third parties, who do not have his consent, from the act of using that process, and from the act of using, offering for sale, selling or importing for those purposes the product obtained directly by that process in India.

(2) That Donkey Corp. (the Defendant), has been importing and selling genuine Core Tubes in Country A i.e. India- which have been procured from users who had purchased the same from Pony Corp's (the Plaintiff) authorized seller i.e. Collie Corp in Country B.

(3) That the patent claim i.e. C1-C3 is restricted to the aspect of a Core Tube, having magnets, which are detectable by the rotational angle sensors on the Plaintiff's packaging device. These elements i.e. the Core Tube and the magnets have not been modified in any manner by the Defendant. Therefore, Plaintiff's claim that Defendants product is not the patented article anymore is without basis.

(4) That the Defendant is not in any manner misrepresenting to the general public that the impugned products are the original Core Tubes sold by the Plaintiff. In fact its products bear the clear endorsement that these are refurbished Core Tubes.

# Case Law relied upon by the Defendants

## 1. *Kapil Wadhwa and Ors. vs. Samsung Electronics Co. Ltd. and Ors.*, 2012:DHC:6136-DB.

- **Facts:** Samsung had various registered trademarks in India. It filed a suit for trademark infringement against the Defendants/ Appellants on account of *inter alia* the fact that they were purchasing, from the foreign market, printers manufactured and sold by Samsung under its trademark “SAMSUNG” and after importing the same into India, they were selling the product in the Indian market.
- Since the Trademarks Act, 1999 did not specifically provide for a provision of international exhaustion of trademark rights, the Division Bench examined Section 30 (3) of the Act to determine if “market” referenced in the provision would include only domestic market or international, as well. The Court, accordingly, held that:

*“70. We accordingly conclude that ‘the market’ contemplated by Section 30(3) of the Trade Marks Act 1999 is the international market i.e. that the legislation in India adopts the Principle of International Exhaustion of Rights.”*

- The following observations made in the context of patents, copyrights and trademarks, is also very instructive:

60. Undisputedly, preceding the TRIPS Agreement, when the international community debated, and what we colloquially speak of as the Uruguay Discussions, the **Indian position was to permit parallel imports**. Communications from India at the Uruguay Round of the General Agreement on Tariffs and Trade dated July 10, 1989 on ‘Standards and Principles Concerning the Availability, Scope & Use of Trade Related Intellectual Property Rights’ clearly brings out that **India favoured the Doctrine of Exhaustion of Rights linked to parallel imports**. It is not in dispute that Article 6 of the TRIPS Agreement has left it to the discretion of the member States to either adopt or not to adopt any Principle of Exhaustion of Rights linked to parallel imports.

61. In this context it needs to be highlighted that when the Copyright Amendment Bill 2010 was introduced, to amend the Copyright Act 1957, in the report presented by the Rajya Sabha Standing Committee, in paragraph 7.12 it was indicated as under:-

7.12 Committee was also given to understand by the representatives of the publishing industry that Scheme of the Copyright Law was entirely different from the Trade Marks Act, 1999 and the Patent Act, 1970. The application of the standards and principles of these two laws through the proposed amendment of Section 2(m) would completely dismantle the business model currently employed, rendering several industries unviable. On a specific query in this regard the Department informed that the concept of International Exhaustion provided in Section 107A of the Patent Act, 1971 and in Section 30(3) of the Trade Marks Act, 1999 and in Section 2(m) of the copyright law were similar. This provision was in tune with the national policy on exhaustion of rights.

70. We accordingly conclude that 'the market' contemplated by Section 30(3) of the Trade Marks Act 1999 is the international market i.e. that the legislation in India adopts the Principle of International Exhaustion of Rights.

72. It is not the case of the respondents that the appellants are changing the condition of the goods or impairing the goods which are put in the foreign market by respondent No. 1 or its subsidiary companies abroad. What is pleaded is that the physical features of the printers sold abroad are different from the features of the printers sold in India. But this is irrelevant as long as the goods placed in the International market are not impaired or condition changed. It is pleaded that the respondents have no control pertaining to the sale, distribution and after sales services of its goods which are imported by the appellants and sold in India. **Now, the Principle of International Exhaustion of Rights itself takes away the right of the respondents to control the further sale and further distribution of the goods.** With respect to after sales services, since the respondents do not warranty anything regarding their goods sold abroad, but imported into India and further sold, they not being responsible for the warranty of those goods, nothing turns thereon, as regards said plea. There may be some merit that the ordinary consumer, who is provided with warranties and after sales by the appellants, on not receiving satisfactory after sales service, may form a bad impression of the product of the respondents and thus to said extent one may recognize a possible damage to the reputation of the respondents pertaining to Samsung/SAMSUNG printers and Samsung/SAMSUNG products sold in India after importation. But, this can be taken care of by passing suitable directions requiring the appellants to prominently display in their shop that the Samsung/SAMSUNG printers sold by them are imported by the appellants and that after sales services and warranties are not guaranteed nor are they provided under the authority and control of the respondents and that the appellants do so at their own end and with their own efforts. This would obviate any consumer dissatisfaction adversely affecting the reputation of the respondents, and thus if this is done, the respondents can claim no legitimate reasons to oppose further dealing in Samsung/SAMSUNG products in India."



## 2. *Impression Products, Inc. V. Lexmark International, Inc.*,: 531 USSC 2019 (US Supreme Court)

•**Facts:** Lexmark designs, manufactures and sells toner cartridges to consumers in the United States and around the globe and it owns a number of patents that cover such products. When toner cartridges run out of toner they can be refilled and used again. Remanufacturers, like Impression, began to acquire empty Lexmark cartridges from purchasers in the United States and abroad, refill them with toner, and then resell them at a lower price than the new ones Lexmark sells. In order to avoid this, Lexmark gave its purchasers two options: One is to buy a toner cartridge at full price, with no additional conditions. The other is to buy a cartridge at roughly 20 % off through Lexmark’s “Return Program.” A customer who buys through the Return Program still owns the cartridge but, in exchange for the lower price, signs a contract agreeing to use it only once and to refrain from transferring the empty cartridge to anyone but Lexmark. To enforce this single-use/no-resale restriction, Lexmark installs a microchip on each Return Program cartridge that prevents reuse once the toner in the cartridge runs out. When remanufacturer developed a method to counteract the effect of the microchip to continue their activities, Lexmark sued remanufacturers for infringement of patent.

•Impression’s primary argument was that Lexmark exhausted its patent rights upon first sale of the product. The US Supreme Court upheld the same by ruling the following:

*“Lexmark cannot bring a patent infringement suit against Impression Products to enforce the single-use/no-resale provision accompanying its Return Program cartridges. Once sold, the Return Program cartridges passed outside of the patent monopoly, and whatever rights Lexmark retained are a matter of the contracts with its purchasers, not the patent law.”*

*“In sum, patent exhaustion is uniform and automatic. Once a patentee decides to sell—whether on its own or through a licensee—that sale exhausts its patent rights, regardless of any post-sale restrictions the patentee purports to impose, either directly or through a license.”*

- “The question about international exhaustion of intellectual property rights has arisen in the context of copyright law. Under the first sale doctrine, when a copyright owner sells a lawfully made copy of its work, it loses the power to restrict the purchaser’s right “to sell or otherwise dispose of . . . that copy.” 17 U. S. C. §109(a). In *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U. S. 519, this Court held that the first sale doctrine applies to copies of works made and sold abroad. Central to that decision was the fact that the **first sale doctrine has its roots in the common law principle against restraints on alienation. Because that principle makes no geographical distinctions and the text of the Copyright Act did not provide such a distinction, a straightforward application of the first sale doctrine required concluding that it applies overseas.**
- Applying patent exhaustion to foreign sales is just as straightforward. **Patent exhaustion, too, has its roots in the antipathy toward restraints on alienation**, and nothing in the Patent Act shows that Congress intended to confine that principle to domestic sales. Differentiating between the patent exhaustion and copyright first sale doctrines would also make little theoretical or practical sense: The two share a “strong similarity . . . and identity of purpose,” *Bauer & Cie v. O’Donnell*, 229 U. S. 1, 13, and many everyday products are subject to both patent and copyright protections.”
- “Exhaustion is a distinct limit on the patent grant, which is triggered by the patentee’s decision to give a patented item up for whatever fee it decides is appropriate. The patentee may not be able to command the same amount for its products abroad as it does in the United States. But the **Patent Act does not guarantee a particular price**. Instead, the Patent Act just ensures that the patentee receives one reward—of whatever it deems to be satisfactory compensation—for every item that passes outside the scope of its patent monopoly.”
- “Instead, **exhaustion occurs because allowing patent rights to stick to an already-sold item as it travels through the market would violate the principle against restraints on alienation**. As a result, restrictions and location are irrelevant for patent exhaustion; what matters is the patentee’s decision to make a sale.”

# Difference between “Repair” and “Make”

- The following 2 decisions provide good guidance on what can be considered as “repair” of the patented article (*thereby not infringing*) and what would amount to “making” of the patented article (*thereby infringing*):
  - i. Calidad Pty Ltd v Seiko Epson Corporation [2020] HCA 41
  - ii. Schutz (UK) Ltd v. Werit (UK) Ltd (Rev 1) [2013]UKSC 16

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

A bench of 7 judges in the High Court of Australia considered the following two pertinent questions in the case before it:

- (a) *“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.”*
- (b) *“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.”*

**Brief facts:**

- Seiko, 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. 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 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.
- In proceedings in the Federal Court of Australia 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.
- **The modifications done by Ninestar were as follows:** *“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 following observations made by the Australian High Court are very relevant:
  - *“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 States which was discussed in Hewlett-Packard. 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 paid.”*
  - *“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 expectations of Seiko or the original purchasers as to the limited functionality of the cartridges are not relevant to the question of infringement.”*
  - *“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. **However, it is somewhat artificial in cases where parts are changed so as to permit continuation of use.** In Wilson v Simpson, referred to with approval in Aro Manufacturing, 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.”*
  - *“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 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.”*
  - *“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.”*

- ***“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 English 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.”***
- ***“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 have the right to use a product so made and to prevent others from doing so, at least until the product is sold.”***
- ***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”, 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.*****
- ***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.***
- ***“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 – 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.”***
- ***“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.”***

- **Schutz (UK) Ltd v. Werit (UK) Ltd (Rev 1) [2013]UKSC 16**

**Brief Facts:**

- The proprietor of the Patent is Protechna S.A. ("Protechna"). The respondent, Schutz (U.K.) Limited ("Schutz") is its exclusive licensee in this country, and is the leading manufacturer of rigid composite **IBCs** in the United Kingdom. IBCs consist of a metal cage into which a large plastic container (or "bottle") is fitted. The bottle has to fit the cage snugly, as otherwise the cage will not provide full protection, and the walls of the bottle will not be properly supported. IBCs are used to transport a wide range of types of liquid. Often, the bottle cannot be reused, because it contains residues of a toxic liquid or because it has been physically damaged. While the cage also has a limited life-span, which depends on a number of factors (such as the means and conditions of transport and climatic conditions), it has a significantly longer life expectancy than a bottle. Most of Schutz's sales are of new IBCs, but about 25% are rebottled IBCs, whose cages have, after any necessary repairs, been re-bottled with new Schutz bottles.
- The appellant, Werit UK Limited ("Werit"), sells bottles ("Werit bottles") for IBCs to a **reconditioner**, Delta Containers Limited ("Delta"). "Reconditioners" engage in "re-bottling" or "cross-bottling" of used IBCs. In either case the old bottle is removed, any damage to the cage repaired, and a new bottle is fitted within the cage. Re-bottling involves replacing the bottle with a fresh bottle from the original manufacturer; cross-bottling involves replacing the bottle with a bottle from a different source. Reconditioners (whether or not they are the original manufacturers) normally collect used IBCs from end-users, who have no further use for the used IBCs. The end-users are sometimes, but by no means always, paid for these used IBCs by the reconditioners. After re-bottling or cross-bottling an IBC, the reconditioner offers the reconditioned product to fillers on the market in competition with the products of original manufacturers, and of other reconditioners. Reconditioned IBCs are, predictably, generally cheaper than new IBCs.
- Delta acquires discarded IBCs originally put on the market by Schutz ("Schutz IBCs"), and replaces the original bottles ("Schutz bottles") with Werit bottles, and then offers these cross-bottled IBCs on the market. These cross-bottled IBCs are therefore in competition with the original Schutz IBCs, marketed by, or with the express authority of, Schutz. Accordingly, Schutz objects to its cages being used by cross-bottlers. Apart from the competitive consequences, Schutz claims to be concerned that publicity about any accident with a cross-bottled product made with one of its cages might harm its reputation. Accordingly, it objects to Delta's re-bottling activities and contends that they infringe the Patent.

Following observations made by the UK Supreme Court is helpful in making the assessment of whether a modification made to the patented article amounts to “making” or “repairing”

- *49. The approach of Buckley LJ 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 the alleged infringer is repairing rather than "making" the article.** I am fortified in that view by the fact that the BGH also plainly considers this distinction to be a useful one in this field.*

*50. 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. If there are broken tiles on a roof, the replacement of those tiles is properly described as repairing the roof, and such replacements could not be said to involve rebuilding, or "making", the roof. Indeed, replacing the whole of a deteriorated roof of a building could be regarded as repairing the building, taken as a whole, rather than reconstructing the building. There are many cases concerned with repairing obligations in leases which illustrate this point - see e.g. the discussion in Woodfall on Landlord and Tenant (October 2008), Vol 1, paras 13.32 to 13.037.12.*

*51. 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. Thus, in Coleborn & Sons v Blond[1951] 1 KB 43, 49-50, Denning LJ said, in a case concerned with purchase tax, that "[s]peaking generally, ... if you replace an old engine by a new one, or an old body by a new body, you are not making a different vehicle: you are altering and improving an old one ...". On the facts of that case he held "a new thing was made out of two parts - ... the old chassis and ... the new body - [which] when assembled together make a different thing from either of them separately."*

- *"78. Deciding whether a particular activity involves "making" the patented article involves, as Lord Bingham said, an exercise in judgment, or, in Lord Hoffmann's words, it is a matter of fact and degree. In some such cases, one can say that the answer is clear; in other cases, one can identify a single clinching factor. However, in this case, it appears to me that it is a classic example of identifying the various factors which apply on the particular facts, and, after weighing them all up, **concluding, as a matter of judgment, whether the alleged infringer does or does not "make" the patented article.** In the present case, given that (a) the bottle (i) is a freestanding, replaceable component of the patented article, (ii) has no connection with the claimed inventive concept, (iii) has a much shorter life expectancy than the other, inventive, component, (iv) cannot be described as the main component of the article, and (b) apart from replacing it, Delta does no additional work to the article beyond routine repairs, I am of the view that, in carrying out this work, Delta does not "make" the patented article."*



In conclusion the following submissions are being made-

(a) The Defendant has succeeded in raising a credible challenge to the validity of the suit patents.

(b) There is no infringement of the suit patent, on account of international exhaustion of Plaintiff's rights upon sale of the patented article by Collie Corp, as authorized by Plaintiff.

(c) In case the Plaintiff's objections are accepted, then it would render Section 107 A(b) completely otiose, as every Plaintiff would then claim infringement on account of the slightest of improvement or correction made to a lawfully acquired patented article.

(d) This in effect would allow the Plaintiff to retain rights over the patented article even after the first point of authorized sale, or be able to impose post sale restrictions, which is exactly what is sought to be avoided by Section 107 A(b).

(e) India has adopted the policy of international exhaustion to provide a balance between the rights of the patentee and that of the general public. The clear intent is to ensure that the Patentee is only able to dictate the manner in which his patent rights would be exercised till the first point of sale. However, after this stage a downstream user has the freedom to operate as and how he deems fit.

(f) Even if the Court was not inclined to accept the above said submissions, it is prayed that balance of convenience lies in favour of the Defendant, since an injunction would bring its entire business to a standstill, which will affect the lives of the many employees engaged by it and the many customers that value the services offered by it.

(g) There has also been substantial delay in instituting the suit, since the Defendant has been importing the impugned products since 11.10.2022 and the suit has only been filed in 1.04.2023 and thus there is no urgency in the matter.

(h) An order of maintaining accounts in the given facts would suffice, since should the Plaintiff succeed in establishing its claims, then it can be duly compensated for the same as the Defendant's products do not in any manner come in the way of the sale of the Plaintiff's article packaging device and thus the only people that the Defendant's products are relevant for are people who have already purchased Plaintiff's article packaging device.

# Decision of the Court