

Pony Vs. Turtle

- The Plaintiff, seeks an interim injunction against the Defendant restraining it from importing and selling a product (Roll papers for packaging – ‘Defendant’s product’) similar to that of the Plaintiff’s product in India.
- “Ad interim” injunctive relief is claimed in terms of Order XXXIX Rule 1 of the Civil Procedure Code, 1908
- **THE BASIC POSTULATES:**
 - Identical Statutory Structure in Country A (India) and in Country B (Japan);
 - Placement of the Plaintiff’s patented product (roll paper) in the market in Japan;
 - There is no dispute that the Defendant’s product is manufactured by using the used-up core tubes of the Plaintiff’s product. The said product falls within the technical scope of the patent both in India and Japan.

The Relevant Statutory Scheme

- **PATENTS ACT, 1970**

- “S.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.”

➤ S.107A [which speaks of acts not to be considered as infringement] was introduced vide the Patents Amendment Act, 2002 and encapsulates the principle of exhaustion of patent rights in S.107A(b).

➤ **THE STATUTORY INTENT:**

“Statement of Objects and Reasons Amendment Act 38 of 2002:

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xxxx

xxxx

4. Some of the salient features of the Bill are as under—

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(g) to provide provisions relating to parallel import of patented products;”

- S.107A(b) was further amended in 2005, doing away with the requirement of an express authorization from the patentee

“Section 107A, as originally introduced, prior to the Patents 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 by the patentee to sell or distribute the product, shall not be considered as an infringement of patent rights.

Section 107A, as amended by the Patents 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 an infringement of patent rights.”

Standing Committee Report (227th Report) on the Copyright (Amendment) Bill, 2010

“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 107 A of the Patent Act, 1971 and in section 30 (3) of the Trademarks 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.**”

- **TRADEMARKS ACT:**

➤ S.30(3) [Exhaustion of rights of a registered trademark holder]-

“30. Limits on effect of registered trade mark.—

XXXX

XXXX

XXXX

(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 by reason only of —

- (a) the registered trade mark having been assigned by the registered proprietor to some other person, after the acquisition of those goods; or
- (b) the goods having been put on the market under the registered trade mark by the proprietor or with his consent.”

Analysis of the Court

Issue - 1 [Applicability of international exhaustion of patent rights]

- Section 48(a)& (b) of the Patents Act vests upon the **patentee the right to prevent third parties from importing the patented product into India.**
- On the other hand, **S.107A(b)** allows the import of patented products by any person from one who is duly authorised under the law to produce and sell or distribute the product, and such an act shall not be considered as an infringement of patent rights.
- Thus, S.107A(b) creates an exception to what would otherwise fall within the contours of infringement under S.48.

THE SCOPE OF THE EXHAUSTION DOCTRINE

- **Kapil Wadhwa v. Samsung Electronics Ltd** [2012 SCC Online Del 5172]
 - “lawfully acquired”, as appearing in S.30(3) does not mean goods imported into India with consent of the registered proprietor of the trademark or its assignee, but would rather mean acquisition of goods as per the laws of sale and purchase of that country (exporting country).
- **Philip Morris Products v. Anil Kumar Singh & Ors** 2014 SCC Online Del 1051
 - Once the products were lawfully acquired as per the laws of that country (exporting country), sale of such products in India would not constitute an infringement of a trademark.

THE INTERNATIONAL PERSPECTIVE

- **Impression Products Inc. v. Lexmark International Inc.**, (2017) 137 S Ct. 1523:
 - “..The right to use, sell, or import an item exists independently of the Patent Act. What a patent adds—and grants exclusively to the patentee—is a limited right to prevent others from engaging in those practices. See *Crown Die & Tool Co. v. Nye Tool & Machine Works*, 261 U. S. 24, 35 (1923). **Exhaustion** extinguishes that exclusionary power.....As a result, the sale transfers the right to use, sell, or import because those are the rights that come along with ownership, and the buyer is free and clear of an infringement lawsuit because there is no exclusionary right left to enforce.”
 - “This question about international exhaustion of intellectual property rights has also arisen in the context of copyright law. Under the “first sale doctrine,” which is codified at 17 U. S. C. §109(a), when a copyright

- sells a lawfully made copy of its work, it loses the power to restrict the purchaser's freedom "to sell or otherwise dispose of . . . that copy."
- Applying patent exhaustion to foreign sales is just as straightforward. Patent exhaustion, too, has its roots in the **antipathy toward restraints on alienation**, see *supra*, at 6–8, and nothing in the text or history of the Patent Act shows that Congress intended to confine that borderless common law principle to domestic sales. In fact, Congress has not altered patent exhaustion at all; it remains an unwritten limit on the scope of the patentee's monopoly. **...And differentiating the patent exhaustion and copyright first sale doctrines would 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 (1913)...

- **Calidad Pty Ltd. & Ors v. Seiko Epson Corporation & Anr, [2020]**
HCA 41:

- “5. It is not disputed that on the sale or resale of a patented product the purchaser becomes the owner of that item of property. **It is a principle of the law of personal property that the owner of chattels has an absolute right to use or dispose of them as they think fit.**
- This principle was applied by a majority of this Court in 1908 in Menck (High Court), where it held that conditions on resale could only be imposed as a matter of binding agreement. **The Court applied a doctrine that a patentee's monopoly rights of use and sale with respect to a product arising from statute are exhausted on sale (the "exhaustion doctrine").**

- **“20. Roberts CJ explained that the "exhaustion doctrine" is not a presumption that arises on sale, rather it recognises a limit on the scope of the patentee's statutory rights.** His Honour said that a patentee is free to set the price and negotiate contracts with purchasers but they may not, "by virtue of his patent, control the use or disposition' of the product after ownership passes". **Acknowledging that the effect of a patent is to grant to a patentee a right to prevent others from using or selling their product, his Honour explained that the exhaustion doctrine regards that exclusionary power as extinguished when the product is sold. His Honour reiterated what had been said in the earlier cases – that when a patentee chooses to sell a patented product it "is no longer within the limits of the monopoly". Instead it becomes the "private, individual property" of the purchaser with all the rights and benefits of ownership.**

EXHAUSTION NOTWITHSTANDING

- **United Wire [Lord Hoffman]:**

- “Where however it is alleged that the defendant has infringed by making the patented product, the concepts of an implied licence or exhaustion of rights can have no part to play. The sale of a patented article cannot confer an implied licence to make another or exhaust the right of the patentee to prevent others from being made.....”

- **Australian High Court in Calidad**

- “45. Regardless of whether the exhaustion doctrine or the implied licence doctrine is to be preferred, neither doctrine has any part to play in determining whether there has been an infringement of a patent by reason that a new product embodying the claimed invention has been made. The sale of a patented product cannot confer an implied licence to make another and it cannot exhaust the right of a patentee to prevent others from being made. The right to make a product is a separate and distinct right from the right to use or to sell. The definition of "exploit" in the Patents Act 1990 makes this plain.

- 76. 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.”

SOTEFIN- THE DISCORDANT NOTE

- A. Holds that consent of the patentee is still required notwithstanding the amendments to Section 107A(b)
- B. Laws mean the Indian statutory regime
- **NOTE OF SCEPTICISM:**
 - FAILS TO NOTICE PREVIOUS BINDING PRECEDENTS [*Kapil Wadhwa* (Bench of larger coram) and *Philip Morris* (Coordinate Bench)].
 - RENDERED AT THE INTERIM STAGE- MERE PRIMA FACIE VIEW

ADDITIONAL POINTS OF RESERVATION :

- Contrary to plain textual reading of S.107A(b)
- Sotefin's finding that the 'patented product' should refer to a product patented in India under the Patents Act is erroneous;
- Reading a requirement of specific authorization of the patentee amounts to resurrecting Section 107A(b) as it stood pre 2005
- Observations in paras 67 and 68 that the term 'law' appearing in S.107A(b) must refer to the Indian law encroaches upon the field of legislative policy and is contrary to the letter and intent of S.107A(b).
- In light of the same, the Court would defer to the exposition of the exhaustion doctrine as set out in *Kapil Wadhwa* and *Philip Morris*, as opposed to *Sotefin*.

The Debate between ‘Repair’ and ‘Making’

- **House of Lords in United Wire Ltd v. Screen Repair Services:**

Lord Bingham:

- Repair may include no more than remedial action to solve issues relating to normal wear and tear or even substantial reconstruction entailing extensive replacement of parts

Lord Hoffman

- While repair may “share a boundary” with making, it cannot encroach upon its territory
- While notions of repair and making may overlap, they are for the purposes of the statute mutually exclusive
- Repair is a residual right of the owner to do all but which would not amount to making.

- **The UK Supreme Court in *Schutz v. Werit*:**
 - “26. The word “makes” must, of course, be interpreted contextually.... First, the word “makes” must be given a meaning which, as a matter of ordinary language, it can reasonably bear. Secondly, it is not a term of art: like many English words, it does not have a precise meaning. **Thirdly, it will inevitably be a matter of fact and degree in many cases whether an activity involves “making” an article, or whether it falls short of that.**”
 - “58. However, as mentioned above, it is a matter of degree, to be assessed in each case, whether **replacing a worn or damaged part of a patented article** amounts to “making” the patented article....”

A NOTE OF CAUTION

- A. Courts should avoid considering whether an article had been repaired and emphasis should be laid on whether the activity amounted to a 'making' of the patented product;
- B. The decisions rendered on the question of making must be appreciated remembering that the issue is always one of fact and degree. They must be understood in the factual backdrop of each case.

Tests to distinguish between the ‘Repair’ and ‘Making’ of a product

- The discussion in Schutz on **“(permissible) repair”** and **“(prohibited) remaking”** :

➤ **“42. In Impeller Flow Meter, the BGH referred to “the distinction between a (permissible) repair and a (prohibited) remaking” and observed that this could “only be determined in the light of the particular nature of the subject matter of the invention and a balancing of the conflicting interests.”**

“... . But what is also relevant is the extent to which the technical effects of the invention are reflected by the replaced parts. Therefore, the replacement of a part subject to wear and tear that is usually replaced during the expected service life of the machine - sometimes repeatedly - does not usually constitute a new manufacture. The situation can be different, however, if this part in fact embodies essential elements of the inventive concept.”

- “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...**”
- “66. In principle, a purchaser of a patented article, as I see it, should be taken as entitled to make such an assumption, subject to section 60(1)(a). **Accordingly, for that reason also, where the article includes a component which is physically easily replaceable and in practice relatively perishable, those features must constitute a factor (which may, of course, be outweighed by other factors) in favour of concluding that the replacement of that component does not fall foul of section 60(1)(a).**

- **The Australian view in Calidad:**

- **“55. It has consistently been held that for an infringement to be established there must be a true reconstruction so as to in fact make a new article. The replacement of individual unpatented parts may involve a right to repair where what is done bears on the usefulness of the old combination of the product. Modifications of this kind tend to be characterized on the spectrum closer to repair than to reconstruction or making.”**
- **“60. 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.”**

Principles to distinguish between 'Repair' and 'Making'

- The issue of repair and making would be best considered by **applying the principles of 'permissible repair' and 'impermissible reconstruction'**.
- The said test has been formulated by the Courts in United States and BGH, and which has been followed by the Court in *Schutz* and *Calidad*.
- Only a **true reconstruction or reproduction would amount to a 'making' of the product**.
- Wide meaning is sought to be ascribed to the term 'repair', in so far as **alterations, which improve the usefulness of a product**.
- Mere replacement of a **constituent part of a product would not constitute 'making'**.
- The above activities could validly constitute the "safe harbour" for repair

View of the Court

Issue 1: Application of the principles of international exhaustion

- The principle of exhaustion of patent rights draws sustenance mainly from the law of personal property and that the owner of a chattel has the absolute right of disposal and use.
- Once a product has been lawfully acquired, the purchaser has the absolute rights of disposal and use.
- Any fetters imposed by the patentee, such as obtaining its consent or authorization, would amount to an extension of the monopoly rights, which the patentee himself wilfully chose to give up by placing the product on the market.
- The doctrine of exhaustion seeks to postulate that the monopoly right that may be claimed by a patentee extinguishes once the product has been placed in the open market. The exhaustion doctrine thus seeks to balance between the monopoly right exercised by the patentee and the individual property rights, exercisable by a purchaser.

- The Legislature in India has consciously adopted the principles of international exhaustion by inserting S.107A in the Patents Act. The Parliamentary Debates, Committee Reports and the detailed exposition of the doctrine in *Kapil Wadhwa* clearly indicate that India has adopted international exhaustion of patent rights.
- Any interpretation that S.107A(b) would apply only if the patented product is acquired in the domestic market would go against the plain text and intent of encouraging parallel imports in India. According such a meaning would go against the express usage of the term 'importation', as set out in S.107A(b).
- The express limitations to the doctrine of exhaustion are:
 - The purchaser cannot 'make' the patented product or replicate the invention, under the guise of exhaustion.
 - Express negative covenant or stipulation imposed by the patentee with respect to the product.

- In the present case, once the Plaintiff's patented product was available in the open market in Japan, the Plaintiff extinguished its monopoly right on the product, by virtue of the doctrine of exhaustion.
- Thus, any subsequent purchaser or acquirer has the absolute right of use and disposal of the product. However, the said right does not extend to 'making' the patented product. It is in the aforesaid light that the issue of 'repair' and 'making' becomes critical.

Issue 2: Did Turtle Corp./the Defendant 'make' the patented product

- The core tube not worked upon by the Defendant
- The core tube remained untouched and was procured from genuine customers after the packaging sheet had been used up.
- The core tube has very little utility once the packaging sheet is used up or finished.
- The Defendant has merely taken steps to extend the useful life of the core tube.

- Winding of the packaging sheet around the core tube does not entail replication of any core or essential element of the invention.
- The Defendant thus appears to have merely refurbished the core tube and made it capable of being used again.
- No inventive element claimed on the packaging sheet of the roll paper.
- The Defendant in the present case has merely wound the packaging sheet around the core tube, thereby enabling its re-use.
- No negative covenant or restriction to bring the core tube into re-use stipulated

- The Packaging Device and the packaging sheets were known in the prior art.
- Inventive element of magnets on the core tube, in order to solve the earlier problems of sagging and excessive braking force has not been trenched upon by the Defendant in its product.
- Activity undertaken by the Defendant upon the Plaintiff's patented product *prima facie* falls within the scope of refurbishment, thereby falling within the safe harbour of repair.
- In view of the aforesaid, the Court holds that there is no case for infringement, and the prayer for grant of interim injunction is liable to be refused.