

LICENCE TO REFILL: WHEN WILL PATENT RIGHTS IN A PRODUCT BE EXHAUSTED?

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Legal Briefings - By **Philippa Bergin-Fisher and Steve Wong**

The recent decision in *Seiko v Calidad* is very important for businesses that sell or acquire patented products. It clarifies that under the Australian equivalent of 'patent exhaustion':

- it is presumed that patented goods are sold without limitations on use;
- it is presumed that subsequent owners of those goods have no limitations on use;
- businesses that wish to impose restrictions on the use of patented goods, must do so explicitly.

SUMMARY

In *Seiko Epson Corporation v Calidad Pty Ltd* [2017] FCA 1403¹ (***Seiko v Calidad***), the facts were that Seiko Epson Corporation (**Seiko**) sold printer cartridges overseas. These cartridges were the subject of patents and were sold without express limitations. Ninestar Image (Malaysia) SDN (**Ninestar**) acquired the printer cartridges after use and refurbished them for resale. The Calidad parties (**Calidad**) then imported the refurbished printer cartridges into Australia.

Seiko contended that the importation and sale of the Calidad refurbished printer cartridges infringed Seiko's patents in Australia. But could Seiko sue for patent infringement when it had made the first sale of the cartridges overseas without any limitations?

The Court accepted that the first sale of the Seiko printer cartridges carried with it an implied licence which included at least the right to import, use and dispose of the goods.

Seiko argued that its cartridges were sold with *implied* limitations on that licence. It said the inbuilt restrictions programmed into the memory chips included with the original cartridges had the effect of imposing conditions on the implied licence, restricting subsequent owners from modifying the cartridges. The Court rejected this argument. The purchaser and all subsequent owners acquired the cartridges free from any such limitations.

Seiko also argued that the modifications made to the cartridges by Ninestar had the effect of extinguishing the implied licence. In other words, the implied licence applied to the cartridges as sold but not to the refurbished cartridges, which were effectively different products. The Court held that the modifications only extinguished the implied licence if they materially altered the original goods insofar as they represent an embodiment of the invention as claimed in the patents. There were several categories of Calidad refurbished printer cartridges. The Court found the implied licence was extinguished in respect of some and not others.

WHAT ARE THE CONSEQUENCES FOR BUSINESSES THAT SELL PATENTED GOODS?

1. **Be warned - you may be giving an implied licence.** It is presumed that the sale of patented goods confers an unrestricted right of use which includes an implied licence to import, use and dispose of the goods.
2. **The licence applies outside Australia.** The implied licence applies even when the goods are first sold outside Australia.
3. **The licence applies to anyone who subsequently acquires the product.** Anyone who subsequently acquires the goods is also presumed to do so without limitations on use. If the goods are originally sold without limitation, it may be possible for a patentee to impose limitations on people who subsequently acquire the goods but this is difficult (see point 4 below).
4. **Can the patentee impose limitations on the use of the goods?** Yes but outside of contractual restrictions, it is not easy. To be effective, notice of such limitations must be brought to the attention of the person acquiring the goods at the time of acquisition and:

- a. The limitations must be visible. They cannot be on the inside of the product, if they are not seen by the person acquiring the goods, at the time the goods are acquired.
 - b. The limitation must be clear and express. A technical difficulty in modifying goods does not amount to a legal limitation on use.
 - c. A limitation such as 'for Japanese market only' is likely to be understood as applicable only to the first sale of the goods – not subsequent sales or acquisitions.
 - d. The onus is on the patentee to establish that the person who acquired the goods had actual notice of the limitations, at the time of acquisition.
2. **Are subsequent owners bound by any limitations on the first sale of the goods?** Not unless those limitations are also notified to the person subsequently acquiring the goods, at the time of acquisition (see point 4 above).
 3. **Can patented goods be modified and resold by subsequent owners?** Potentially yes. Where patented goods are modified and resold as refurbished goods, the implied licence continues to apply to the extent that the refurbished goods remain an embodiment of the invention as claimed.

ENDNOTES

1. The full decision is available here: [Seiko Epson Corporation v Calidad Pty Ltd \[2017\] FCA 1403](#).

KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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