



EXHAUSTION OF INTELLECTUAL PROPERTY
RIGHTS IN THE UK
THE PAST AND THE FUTURE

SEPTEMBER 2021

The emergence of patent law and trade mark law in the UK, and how this resulted in the courts addressing the application of such law in the context of parallel imports

In other words, UK law on exhaustion outside EU law

INTRODUCTION: HOW TO READ THIS DOCUMENT

This paper provides, below the list of Contents, an Executive Summary and then a Detailed Discussion of the emergence of patent and trade mark law in the UK, and how this resulted in the courts addressing the application of such law in the context of parallel imports of genuine goods placed on the market outside the UK by the 'owner' (broadly speaking) of the relevant patent or trade mark. Finally, there is a section outlining in basic terms the approaches now taken to exhaustion in respect of patents and trade marks by some trading partners of the UK beyond the EU with legal systems in a (broadly speaking) common law tradition: Australia, Canada, India, Singapore and the United States.

In the Detailed Discussion section, key expressions of principle are highlighted using shaded boxes.

Entwined in the discussion of the development of the law in the UK in respect of patents, there is some discussion of the approaches taken in Australia, the United States and Germany. For Australia, this is because judgments noted of the High Court of Australia and the Privy Council provide helpful insight into the operation of the common law principles as they stood in the UK. For the United States, it is to illustrate when, how and why their exhaustion doctrine developed separately to the common law approach that continued to develop in the UK (and Australia). For Germany, it is to illustrate the context of the emergence of their doctrine of exhaustion, in particular the structure of the legislation governing patent law in Germany at the time.

Additionally, in the Detailed Discussion section, questions are asked and considered as to how the UK should go about shaping this area of the law in the future, from a legal perspective, against the background of the approach historically taken in this country. For example, should this area be permitted to develop through the operation of the common law (after repealing existing legislative provisions, for example in the Trade Marks Act of 1994) or should the approach decided upon by the Government be enacted by way of amendment to the relevant governing legislation (for example the Patents Act of 1977)? This discussion is found at the end of the patent and trade mark sections, respectively, of the Detailed Discussion.

The approach to the application of intellectual property law in the UK in the context of parallel imports has traditionally not been called 'exhaustion'. It is conceptually different to the doctrines and legislative provisions providing for a defence to infringement called 'exhaustion' in, for example, the EU and the USA. However, the term 'exhaustion' is at times used in the discussion below in respect of UK law in a very general way, because the single word can replace the much longer description otherwise needed to refer to 'the approach taken by the courts in the UK when addressing the application of intellectual property/patent/trade mark law in the context of parallel imports of genuine goods placed on the market outside the UK by the 'owner' (broadly speaking) of the relevant patent or trade mark'.

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1. Executive summary

In order to understand fully the law as it presently stands in the United Kingdom, outside of EU law, regarding the 'exhaustion' of intellectual property rights, it is necessary to understand the very nature of the protection conferred by each right. This is because exhaustion defences were only introduced into legislation in the UK governing intellectual property rights for compliance with EU legislation; and no legislative defence of exhaustion exists in UK law in respect of some intellectual property rights, for example patents. Enquiry as to the position in the UK law outside of EU law therefore leads deep into the archives of English law.

The following broad points of principle define the position:

- Patents, and patent law, and trade marks, and trade mark law, came into existence in the UK for different purposes and by the operation of different legal concepts. They conferred different legal rights on the proprietor, which operated in different ways. Therefore, in the context of parallel imports, the application of patent law and trade mark law has entailed different analysis and different lines of authority for these different types of intellectual property.
- From the earliest case law, it is clear that the law in the UK developed by applying fundamental principles of intellectual property law without discriminating according to where goods were first placed on the market (ie. within the UK or outside the UK). Therefore, outside EU law, the UK's approach to 'exhaustion' has been international, broadly speaking. Exceptions to this exist in the case law but the most developed lines of authority support the approach in the UK as being international.

The term 'exhaustion' has entered the jurisprudence in the UK through EU law; it has different origins and a different meaning to the approach taken under the common law in the UK, but is used in places in this note as a generic term useful (for its succinctness) for describing the approach taken in the application of intellectual property law in respect of parallel imports.

'Parallel imports' in this context means genuine goods first placed on the market outside the UK and subsequently imported into the UK. For present purposes, there is an important distinction between parallel imports and goods which are first manufactured and placed on the market (somewhere) by an unrelated person or entity and without the consent of the 'owner' (in a broad sense) of the relevant intellectual property, but which use or impinge upon that intellectual property – such goods are 'infringing goods' whether they are placed on the market in the UK directly by the manufacturer or following import.

1.1 Patents

- For **patents**, the law in the UK prior to and outside of EU law, and as it currently stands, may be summarised as follows:
 - o Historically, dating back at least to the sixteenth century, patents were granted in the UK by the exercise of the royal prerogative to confer a monopoly; the Statute of Monopolies, which confirms that the royal prerogative may be exercised in this way, remains in force.

- Long-standing authority in the UK states that where a person owning a patent in the UK manufactures patented articles and places them on the market, whether in the UK or abroad, they transfer with the goods the licence to use them wherever the purchaser pleases. The purchaser of the goods has control of them unless there is clear and explicit agreement to the contrary.¹ Therefore the purchase of a patented article carries with it the right to use or deal in the article in any way the purchaser chooses unless the purchaser knows the restrictions communicated by the patentee by the time of purchase. The right is in the form of an implied licence. This applies whether the purchase of the article is from the patentee or from an earlier purchaser. If the purchase is without notice of conditions, the purchaser is free to use and deal with the article as they choose. But for as long as subsequent purchasers have notice of the patentee's conditions by the time of their purchase, the conditions continue to attach to the goods and the patentee may assert their rights under patent law in respect of dealings outside of the conditions.² This is referred to as the '*Betts v Willmott* principle' or the 'doctrine of implied licence'.
- The implied licence includes a licence to repair the article, but not to make a new article³.
- A licensee under a patent stands in a different position from the purchaser of an article made under the patent. Where a licensee for a foreign territory seeks to import goods into the UK outside the terms of its licence, the patentee may exercise its patent rights against the licensee to prevent import into and sale in the UK. This is the *ratio decidendi* of the *Tilghman*⁴ case.
- The law in the UK, outside EU law, has been complicated in recent decades by the 'post-*Tilghman*' line of authorities, in which a number of first instance judgments have accepted that where goods are placed on the market by a licensee rather than the patentee themselves, the *Betts v Willmott* principle does not apply. Instead, the rights at common law of the purchaser, and any subsequent purchaser, of the goods are limited by the terms of the licence granted to the licensee. This line of authority stems from a mis-statement of the facts in the *Tilghman* case by an American court in the 1920s⁵ and therefore a mis-statement of the principle to be drawn from that case, which was accepted by a court in Kenya in the 1960s⁶ and then by the Chancery Division in an interim injunction application in 1973⁷. The approach was subsequently followed by the

¹ *Betts v Willmott* (1870-71) LR 6 Ch App 239, Chancery Appeals Court, Lord Hatherley L.C.

² *Incandescent Gas Light Co Ltd v Cantelo* (1895) 12 RPC 262, High Court Queen's Bench Division; *Incandescent Gas Light Co Ltd v Brogden* (1899) 16 RPC 179, High Court, Queen's Bench Division; *Badische Anilin und Soda Fabrik v Isler* [1906] 1 Ch 605 at 610, High Court Chancery Division; *The Scottish Vacuum Cleaner Co. Ltd v. The Provincial Cinematograph Theatres Ltd* 1915 1 S.L.T. 389, Court of Session; *Dunlop Rubber Co Ltd v Longlife Battery Depot* [1958] 1 W.L.R. 1033, High Court Chancery Division; *Sterling Drug Incorporated v C.H. Beck Limited & Anr* [1973] RPC 915, High Court Chancery Division; *Solar Thomson Engineering Co. Ltd & Anr v. Barton* [1977] R.P.C. 537, High Court Chancery Division; *Roussel Uclaf S.A. v Hockley International Ltd. & Anr* [1996] RPC 441, High Court Patents Court

³ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2000] UKHL 42, House of Lords; *Schütz (UK) Limited v Werit (UK) Limited* [2013] UKSC 16, Supreme Court

⁴ *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company* (1883) 25 Ch D 1, Court of Appeal

⁵ *Curtiss Aeroplane and Motor Corporation v United Aircraft Engineering Corporation* 266 Fed. 71 (1920)

⁶ *Beecham Group Ltd v Shewan Tomes (Traders) Ltd* [1968] RPC 268, High Court of Kenya

⁷ *Minnesota Mining & Manufacturing Company & Anr v Geerpres Europe Limited* [1973] FSR 133, High Court Chancery Division

Patents County Court in 1992⁸ and most recently by the Patents Court in 2013 in *HTC v Nokia*⁹. The approach of the post-*Tilghman* line was expressly rejected by the Privy Council in 1911¹⁰ and is inconsistent with the detailed explanation of the common law approach given by the High Court of Australia in 2020¹¹. The post-*Tilghman* line of judgments therefore represents an area of uncertainty in UK law outside of EU law.

- The uncertainty represented by the post-*Tilghman* line of judgments could potentially be resolved in the course of time by the courts, or more immediately by the introduction of a provision in the Patents Act 1977 to legislate for an exhaustion regime as settled upon by Parliament.
- For patents, the EEA-regional exhaustion doctrine takes its origins from (what are now) articles 34 and 36 of the Treaty on the Functioning of the EU (TFEU) and the Court of Justice's 1974 judgment in *Centrafarm v Sterling*¹², which stated that putting goods into circulation for the first time, either directly or by the grant of licences to third parties, exhausted the patentee's patent rights in respect of those goods. (This was consistent with the *Betts v Willmott* principle). In 1998, the Court of Justice ruled in *Silhouette v Hartlauer*¹³ that because *trade mark* law was harmonised across the EU, Member States could not choose whether or not to operate international exhaustion; the trade marks Directive was a complete code. (So were established the two fundamental features of the EEA-regional exhaustion doctrine in respect of trade marks: exhaustion in respect of goods placed on the market in the EEA by the trade mark owner or with their consent; and no exhaustion for goods placed on the market outside the EEA by the trade mark owner or with their consent). By the time of the UK's exit from the EU, patent law continued not to be harmonised across the EU, despite the efforts of most Member States to bring the planned Unified Patents Court and Unitary patent system into operation. It therefore remained unclear whether, in respect of patents, the EEA-regional exhaustion regime meant there could be no exhaustion under national law for goods placed on the market outside the EEA by the patent owner or with their consent.
- In 2018, in the *Parainen Pearl Shipping* case¹⁴, the Patents Court held that for patented goods first placed on the market within the EEA by the patentee, the EEA-regional exhaustion doctrine had superseded UK law in respect of parallel imports. However, the possibility was expressly not excluded that the UK's *Betts v Willmott* principle / doctrine of implied licence continued to govern the position in respect of patented goods placed on the market outside the EEA and subsequently imported into the UK.
- The UK's Patents Act of 1977, which was introduced to bring UK law into alignment with the European Patent Convention, aligned the governing legislation in the UK more closely with the structure of legislation existing in Germany in previous decades, and introduced for the first time a definition of infringement into patent law in the UK.
- Against this background, patent law in the UK as it applies to parallel imports could now be developed in the tradition of the common law (i.e. the *Betts v Willmott* principle / doctrine of implied licence) or by a doctrine of exhaustion. Either approach could be justified by the

⁸ *Wellcome Foundation Limited v Discopharm Limited & Ors* [1993] FSR 433, Patents County Court

⁹ *HTC Corporation v Nokia Corporation* [2013] EWHC 3247 (Pat), High Court Patents Court

¹⁰ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15; [1911] AC 336, Privy Council

¹¹ *Calidad Pty Ltd & Ors v Seiko Epson Corporation & Anr* [2020] HCA 41, High Court of Australia

¹² *Centrafarm BV & Anr v Sterling Drug Inc* (Case 15/74) and *Centrafarm BV & Anr v Withrop BV* (Case 16/74), 31 October 1974

¹³ *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH* Case C-355/96, 28 September 1998 [1999] 3 C.M.L.R. 267, [1998] 9 WLUK 261

¹⁴ *Parainen Pearl Shipping Limited & Ors v Kristian Gerhard Jebsen Skipsrederi AS & Ors* [2018] EWHC 2628 (Pat)

governing legislation. How this is best achieved technically depends upon the regime settled upon by the Government. A tailored statutory regime would enable clarity to be provided where currently there is uncertainty in the legal position.

- When settling upon the exhaustion regime favoured for the UK in respect of patents, the current legal position in respect of patents and the historical background to it should be fully understood. It is not accurate to say that the present regime in respect of patents mirrors that provided for by Court of Justice case law in respect of trade marks. In view of the long standing authority of *Betts v Willmott* in the UK (most recently including the Patents Court's judgment in *Roussel Uclaf v Hockley*¹⁵, the House of Lord's judgment in *United Wire*¹⁶, the Supreme Court's judgment in *Schütz v Werit*¹⁷ and the Patents Court's judgments in *HTC v Nokia*¹⁸ and *Parainen Pearl Shipping*¹⁹) and the absence of legislative provision or authority overruling it, the better view is probably that for goods first placed on the market outside the EEA, the *Betts v Willmott* principle, which is an international approach, remains good law in the UK.

1.2 Trade marks and passing-off

- For trade marks, both the law in the UK against passing-off and registered trade mark law are relevant when considering the law in the UK prior to and outside of EU law, and as it stands today.
- The cause of action that is today called '**passing-off**' stems from the protection conferred by the courts in equity and/or at common law against other individuals in respect of a person's trading name. It is not based upon a right conferred by the Crown. The law in the UK regarding passing-off may be summarised as follows:
 - o The long-standing principle is that no person is entitled to represent their goods as being the goods of another person (for example, see *Farina v Silverlock*²⁰). This is reflected in the modern-day tort by the requirement for misrepresentation. In order to establish passing-off, three constituent elements must be met: goodwill; misrepresentation; and damage.²¹
 - o The case law since *Farina v Silverlock* has established a general position that it is not passing-off to import goods marketed abroad by the claimant (or an associated business) and to sell them under the name or mark applied by the claimant because in such circumstances there is no misrepresentation as to the origin of the goods²². This was reflected in the Court of Appeal's 1979 judgment in *Revlon v Cripps*²³.
 - o However, since then judgments in some cases have indicated that where the circumstances are such that sale of the imported goods *would* give rise to a

¹⁵ *Roussel Uclaf S.A. v Hockley International Ltd. & Anr* [1996] RPC 441, High Court Patents Court

¹⁶ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2000] UKHL 42

¹⁷ *Schütz (UK) Limited v Werit (UK) Limited* [2013] UKSC 16

¹⁸ *HTC Corporation v Nokia Corporation* [2013] EWHC 3247 (Pat), High Court Patents Court

¹⁹ *Parainen Pearl Shipping Limited & Ors v Kristian Gerhard Jebsen Skipsrederi AS & Ors* [2018] EWHC 2628 (Pat)

²⁰ *Farina v Silverlock* (1856) 43 E.R. 1214, Court of Chancery; *Singer Manufacturing Company v Loog* (1880) 18 Ch. D. 395, Court of Appeal; (1882) 8 App. Cas. 15, House of Lords

²¹ *Reckitt & Colman Products Ltd v Borden Inc* [1990] 1 WLR 491; *Starbucks (UK) Ltd & Anr v British Sky Broadcasting Group Plc & Ors* [2015] UKSC 31, Supreme Court

²² *Imperial Tobacco Company of India, Limited v Bonnan & Ors* [1924] A.C. 755, Privy Council; *Champagne Heidsieck et Cie Monopole SA v Buxton* [1930] 1 Ch 330, High Court Chancery Division

²³ *Revlon Inc & Ors v Cripps & Lee Ltd & Ors* [1980] FSR 85, Court of Appeal

misrepresentation, passing-off may be established. In *Sony v Saray*²⁴, an interim injunction was awarded where imported goods had been modified without the approval of the plaintiffs and sold without giving notice of this to purchasers and with a purported guarantee that the defendants were not in a position to give: the defendants were ordered to attach disclaiming labels to Sony goods sold by them. In *Colgate-Palmolive v Markwell Finance Ltd*²⁵ the Court of Appeal confirmed a finding of passing-off in respect of imported 'Colgate' toothpaste in circumstances where the brand owner had done their best to secure that lower quality toothpaste was confined to a limited number of markets outside the UK and the defendants importing it had succeeded in circumventing the plaintiffs' precautions. In all cases, the question of whether sale in the UK of genuine goods imported by a defendant from outside the UK amounts to passing-off depends upon whether the elements of passing-off are established.

- The international approach to the operation of the law regarding passing-off in the UK has meant that it has been consistent with the EEA-regional exhaustion doctrine. This is because: the approach does not enable the brand owner to enforce rights in passing-off against genuine goods imported into the UK from other EEA countries; for goods imported into the UK from outside the EEA a finding of passing-off would be consistent with the EEA-regional exhaustion doctrine; and for goods imported into the UK from outside the EEA a finding of no passing-off would also not interfere with or conflict with the operation of the EU's registered trade mark system - a cause of action in passing-off not being a right, the common law would seem not to conflict with the principle laid down by the Court of Justice in *Silhouette v Hartflauer*²⁶.
- In the UK, the **registered trade mark law** in respect of parallel imports, outside of EU law, is as follows:
 - o The UK's registered trade mark system was first introduced to codify the protection conferred by passing-off. The registration of a trade mark did not confer upon the proprietor a privilege of the type conferred by the Crown in the exercise of the royal prerogative by the grant of a patent²⁷; the registered system had not inferentially altered the conception of a trade mark²⁸.
 - o Consistently with this, in the early decades of the registered system in the UK, judgments that considered earlier authorities approached questions of registered trade mark infringement in respect of parallel imports consistently with questions of passing-off. The general position was that import and sale in the UK of goods marketed abroad by the plaintiff (or an associated business) under the name or mark applied by the plaintiff did not infringe the plaintiff's registered trade mark in the UK²⁹.
 - o For example, in *Revlon v Cripps*³⁰ the Court of Appeal held that a company which manufactures products in different countries cannot complain of infringement of the UK trade mark in respect of goods manufactured abroad (in that case in the United States) by that company. In that case the exploitation of the mark and the goods to which it related was a world-wide exercise and the court dismissed the claim for trade mark infringement (under the Trade Marks Act of 1938).

²⁴ *Sony v Saray Electronics* [1983] RFSR 302, Court of Appeal

²⁵ *Colgate-Palmolive v Markwell Finance Ltd* [1989] RPC 497, Court of Appeal

²⁶ *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH* Case C-355/96, 28 September 1998 [1999] 3 C.M.L.R. 267, [1998] 9 WLUK 261

²⁷ *Bow v Hart* [1905] 1 K.B. 592, 593, 594, Court of Appeal

²⁸ *Aristoc Limited v Rysta Limited* [1945] A.C. 68, House of Lords

²⁹ *Champagne Heidsieck et Cie Monopole SA v Buxton* [1930] 1 Ch 330, High Court Chancery Division

³⁰ *Revlon Inc & Ors v Cripps & Lee Ltd & Ors* [1980] FSR 85, Court of Appeal

- However, in *Colgate-Palmolive v Markwell Finance Ltd*³¹, after finding the elements of passing-off were satisfied on the facts of that case in view of the lower quality of the imported toothpaste, the Court of Appeal also concluded that there was infringement of the registered trade mark. The court's rationale was that the mark applied by the Brazilian company, although identical to the mark registered in the UK, was not the application of the registered UK trade mark because it was not within the scope of the "permitted use" of the UK mark, for the purposes of s.4(3)(a) of the UK Trade Marks Act of 1938, in view of the intra-group licensing arrangements. The reasoning appears to have been an attempt by the court to reach an outcome on the question of registered trade mark infringement that was consistent with the outcome on the question of passing-off. The relevant legislative provisions have been superseded by the Trade Marks Act of 1994.
- In the meantime, in 1973 the UK joined the EEC. At that time there was no Community legislation of trade mark law. In 1974 the Court of Justice held in the ***Centrafarm*** case³² that the effect of the provisions of the EEC Treaty on the free movement of goods was to prohibit between Member States measures restricting imports and all measures of equivalent effect. Putting goods into circulation for the first time, either directly or by the grant of licences to third parties, exhausted the registered trade mark owner's rights in respect of those goods. (The judgment was not cited in the Court of Appeal's judgments in the *Revlon* or *Colgate* cases: this was consistent with the UK's more international approach to parallel imports and reflected that the disputed imports in those cases had been imported from outside of Europe).
- The first EU legislation on registered trade marks was in the form of Council Directive 89/104/EEC. It was implemented in the UK by the Trade Marks Act of 1994. The 1994 Act therefore represented a break with earlier trade mark law in the UK. In 1998, in *Silhouette v Hartlauer*³³, the Court of Justice ruled that putting goods on the market in the Community meant that the registered trade mark rights were exhausted across the Community. (And pursuant to the EEA Agreement, the "Community" extended to the EEA). Further the Directive could not be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in non-member countries: national laws recognising international exhaustion were not compatible with the internal market. Further, in joined cases *Davidoff* and *Levi*³⁴ the Court of Justice ruled that for goods placed on the market outside the EEA, any consent on the part of the trade mark owner to further marketing of the goods within the EEA (i.e. extinguishing the proprietor's exclusive rights as the owner of a registered trade mark) would normally have to be express, and it could not be inferred from mere silence on the part of the trade mark proprietor. Only in exceptional circumstances could there be implied consent.
- The principle of EEA-regional exhaustion is provided for in EU trade marks legislation, and in the UK by section 12 of the Trade Marks Act of 1994 Act. This is done by way of providing a defence to infringement in respect of goods put on the market in the UK or the EEA under the registered trade mark by the proprietor or with their consent.
- When settling upon the exhaustion regime favoured for the UK in respect of trade marks, the current approach taken by the UK historically in respect of passing-off and registered trade

³¹ *Colgate-Palmolive v Markwell Finance Ltd* [1989] RPC 497, Court of Appeal

³² *Centrafarm BV & Anr v Sterling Drug Inc* (Case 15/74) and *Centrafarm BV & Anr v Winthrop BV* (Case 16/74), 31 October 1974 – [1974] E.C.R. 1183; [174] 2 C. M.L.R. 480

³³ *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH* Case C-355/96, 28 September 1998 [1999] 3 C.M.L.R. 267, [1998] 9 WLUK 261

³⁴ *Zino Davidoff v A&G Imports Ltd*, *Levi Strauss v Tesco*, *Levi Strauss v Costco* (C-414/99 to C-416/99) 20 November 2001

marks (and today in respect of passing-off), should be considered. This has been to apply passing-off/registered trade mark law consistently irrespective of where in the world the genuine goods were first placed on the market; effectively this was a type of international exhaustion. In the context of the modern legislative structure (the 1994 Act), which defines acts of infringement such as 'importing', a doctrine of exhaustion is the most logical approach.

2. Detailed Discussion of the Law regarding Exhaustion in the UK

When searching for understanding of the law as it presently stands in the UK regarding the 'exhaustion' of intellectual property rights, the enquiry leads deep into the archives of English law. The history is fascinating. In the context of patents, questions grappled with in recent judgments reflect disagreements of principle that were before the English courts in the sixteenth century and earlier. They go to the balance of power between the Monarch and the courts, at the heart of the (unwritten) constitution of the country, and the nature of the right conferred. Understanding how patent and trade mark law originated enables better understanding of the law in the UK in this area as it stands today outside of EU law. It also informs as to the options available to the UK when considering how the law should now be developed in respect of parallel imports.

So maybe we should start with the known beginnings.

2.1 Patent Law

2.1.1 The emergence of patent law

In England in medieval times, the regulation of trade lay within the prerogative of the Crown, as exemplified by the charters and patents granted to the medieval trade guilds and corporations. It is thought that the first English patent for *invention* was granted by King Henry IV, in 1449, to John Utynam of Flanders. For introducing a manufacturing method previously unknown in England, he was given a term of monopoly³⁵. Glass produced according to the patented method is said to have been used in the stained glass windows of Eton College's Chapel (of which only one window survives today)³⁶.

In the fifteenth and sixteenth centuries, patents conferring monopolies were being granted by the English monarchs for things other than inventions, as a way of conferring favours on individuals. During the reign of Queen Elizabeth I (1558-1603), particular concern arose. Commodities such as coal, oil, salt and vinegar had been made the subject of monopolies. Complaint was made in Parliament in England about the practice, and bills were introduced (unsuccessfully) to curtail it³⁷. Many complaints appear to have been brought before the courts³⁸.

Eventually, a landmark judgment was handed down. The '**Case of Monopolies**'³⁹ concerned a patent awarded to a Mr Darcy for the monopoly of importing, manufacturing and selling playing cards, and whether the court should void it or not. Apparent from the case reports is the care taken by the Court of King's Bench to consider the relevant principles and authorities.

The court referred to '*Bracton*', a book on Kingship written in the thirteenth century, first printed in the sixteenth century⁴⁰. It was reported that according to *Bracton*:

³⁵ Terrell, 19th edition, 1-08 – 1-09

³⁶ https://www.wilsongunn.com/history/history_patents.html; <https://www.etoncollege.com/college-life/chapel/>

³⁷ Terrell, 19th edition, 1-10

³⁸ This is apparent from the number of references in recorded judgments to earlier disputes about the awarding of monopoly patents by the monarch. See for example the separate reports of the Case of the Monopolies, in Noy 173 (74 ER 1131) and 11 Co.Rep.85.

³⁹ *Darcy v Allin* (1602) 1 W.P.C.1 and 5; Noy 173 (74 ER 1131); Moore K.B. 671; 11 Co.Rep.85.

⁴⁰ Williams, A Medieval Book and Early-Modern Law: Bracton's Authority and Application in the Common Law

"...the law is the most high inheritance of the realm, by which the King and all his subjects are governed; and that if the law were not, there would neither be King nor inheritance: for to outrun the law, is to hast to confusion.

This law all subjects are bound to obey, and the Queen's Majesty hath given her assent to perform the same in some sort at her coronation by her oath..."

Stretching back to even earlier authority, the court said that the benefit of government was not that the subjects should live only safely, but as 'yourself', peacefully, honestly and joyfully; this was the foundation of freedom and justice; and how could it be in accordance with the Statute of Magna Carta that freemen's customary freedoms to play tennis, hunt and hawk be restrained? The reasoning continued:

"Is not this to make freemen bondmen? And if the Queen cannot to maintain her war, take from her subject 12d but by Parliament, much lesse may she take moderate recreation from all subjects, which hath continued so long, and is so universal in every country, city, town and household, but to punish the abuse is necessary: for common-weals are not made for King's but Kings for common-weals. (Mag. car. C. 29. 25 E. 3. A. 8.)."

The court referred to earlier case law saying that the King's prerogative was no warrant to injure any subject, and just as the King could not grant away a man's lands or goods, so the King could not grant away a man's trade. The court also drew upon higher authority:

"The ordinance of God is, that every man should live by labour, and that he that will not labour, let him not eat. (Thess. Cap. 3.)

This general ordinance of God, by the policy of the realm, and by the laws and customs of the same, is distributed into several arts, manual occupations and trades, whereby we may have the mutual help one of another, and all governed in due order by the wardens and governors of the same society and fellowship.

Now therefore it is as unlawful to prohibit a man not to live by the labour of his own trade, wherein he was brought up as an apprentice, and was lawfully used, as to prohibit him not to live by labour, which if it were by Act of Parliament, it were a void act: for an Act of Parliament against the law of God directly is void, as is expressed in the Book of Doctor and Student, much more letters patents against the law of God are void."

The court noted that statute prohibited traders from conspiring together to influence the prices of their wares or labours: "it is a thing punishable by the common laws, presentable in every Court, and to be censured severely in the Star Chamber". Indeed, monopolies were noted as damaging and prejudicing not just those who exercised the same trade, but all other subjects, because the end of the all monopolies was the private gain of the patentee, who could set the price as they pleased. The patent before the court was plainly a monopoly patent and so it was void at common law, as well as contrary to certain statutes.

The court noted, however, that the judges had allowed certain monopolies, in particular:

"...which is, that where any man by his own charge and industry, or by his own wit or invention doth bring any new trade into the realm, or any engine tending to the furtherance of a trade that

never was used before: and that for the good of the realm: that in such cases the King may grant to him a monopoly patent for some reasonable time, until the subjects may learn the same, in consideration of the good that he doth bring by his invention to the commonwealth: otherwise not."

It was not until 1623 (after the Queen's death and towards the end of the reign of her successor, James VI of Scotland/James I of England), that Parliament finally succeeded in legislating in the area: the Statute of Monopolies 1623 received Royal Assent in 1624⁴¹

The Statute of Monopolies revoked certain existing patents and left others for trial in the courts; it then laid the foundations for modern patent law, in Section VI:

"Provided alsoe That any Declaracion before mencioned shall not extend to any tres Patents and Graunt of Privilege for the tearme of fowerteene yeares or under, hereafter to be **made of the sole working or makinge of any manner of new Manufactures within this Realme**, to the true and first Inventor and Inventors of such Manufactures, which others at the tyme of makinge such tres Patents and Graunts shall not use, soe as alsoe they be not contrary to the Lawe nor mischievous to the State, by raisinge prices of Commodities at home, or hurt of Trade, or generallie inconvenient; the said fourteene yeares to be [accomplished] from the date of the first tres Patents or Grant of such priviledge hereafter to be made, but that the same shall be of such force as they should be if this Act had never byn made, and of none other."

This provision remains in force today, and remains relevant to the operation of modern patent law. For example, in 2019 in *Actavis v ICOS*⁴² the UK Supreme Court referred to it as the origin of the "patent bargain" (being that the inventor obtains a monopoly in return for disclosing the invention and dedicating it to the public for use after the monopoly has expired), a principle which the Supreme Court said had survived the amendment of UK patent law after the UK's accession to the European Patent Convention. The Supreme Court also noted commentary on the point given by Lord Mansfield in the eighteenth century case of *Liardet v Johnson*⁴³.

2.1.2 Interpretation of the Statute of Monopolies and the emergence of jurisprudence addressing the type of right granted by a patent (1623-1851)

An early judgment on the interpretation of the Statute of Monopolies, for the purpose of defining what could legitimately be patented, was of the Court of King's Bench in 1693: *Edgeberry v Stephens*⁴⁴. The report of the judgment states:

"The **Lord Coke** says, that a monopoly, which is an allowance by the King's grant to any person for the sole buying or selling of any thing, restraining all others of that liberty, which they had

⁴¹ Parliament was perhaps fortunate in getting Royal assent when it did. In 1625 James I died and was succeeded by his son, King Charles I, who believed in the divine right of kings and quarrelled with the attempts by Parliament to curb his royal prerogative. Eventually this resulted in the English Civil War and King's execution for high treason in 1649.

⁴² *Actavis Group PTC EHf & Ors v ICOS Corporation & Anr* [2019] UKSC 15

⁴³ *Liardet v Johnson* (1778) – quoted in *Actavis v ICOS* [2019] UKSC 15 and attributed to Hulme, "On the History of Patent Law" (1902) 18 LQR 280, 285

⁴⁴ *Edgeberry v Stephens* (1693) 90 E.R. 1162

before the making of such a grant, is against the ancient and fundamental rights of this kingdom, and void by the common law.

But per Holt C.J. and Pollexfen, A grant of a monopoly may be to the first inventor of a thing, by the Stat. Jac. 1, and if the invention is new in England, a patent may be granted for it, though the thing was practised beyond sea before; for the statute speaks of new manufactures within this realm, so that if they be new here, it is within the Act: and the statute intended to encourage new discoveries useful to the kingdom, whether learned and acquired by study or travel."

In modern terminology, the effect of this was that the law required local novelty: a granted patent could be valid in England even if the invention had been known previously overseas. A patent could be granted to reward both invention within the realm and the bringing of an invention for the first time into the realm. Patent law the UK only changed to requiring international novelty in 1978.

Note also the reference to 'The Lord Coke' (Sir Edward Coke), who was a very eminent member of the judiciary and the first to be called Lord Chief Justice of England. At the forefront of legal tussles in the late sixteenth and early seventeenth centuries on the eminence of the common law, he succeeded in upholding it against the royal prerogative, the Church and the Admiralty, but not against the Court of Chancery. His 'Coke Reports' related and commented on judicial decisions of the times.⁴⁵

Reverting to the interpretation of the Statute of Monopolies, another judgment to note is one of the Court of Common Pleas in 1795, in ***Boulton & Watt v Bull***⁴⁶. The plaintiff Mr Watt pleaded that the King by letters patent granted to him the sole benefit and advantage of **making, exercising and vending** a certain invention of him, being a method of lessening the consumption of steam and fuel in fire engines for the term of 14 years. (The invention concerned the use of a condensing cylinder rather than replacement cold water). Mr Watt assigned a share of his patent to Boulton. Boulton & Watt complained that in breach of the grant, the defendant had constructed, made and sold imitation engines, used and put into practice the invention, and counterfeited the invention.

The Court of Common Pleas consisted of four judges, who were divided equally on the merits of the case, and so it was recorded that no judgment was given, but the four judgments were nevertheless put on the record. Two of the judgments are notable for their observations on the Statute of Monopolies.

Heath J said:

"The statute 21 Jac. 1 prohibits all monopolies, reserving to the king by an express proviso so much of his ancient prerogative, as shall enable him to grant letters patent and grants of privilege, for the term of fourteen years or under, of the sole working or making of any manner of new manufactures within this realm, to the true and first inventor and inventors of such manufactures."

Lord Chief Justice Eyre noted a number authorities, in the form of judgments and books, on monopolies (including by Sir Edward Coke) but that there was little or nothing on patent rights, as opposed to monopolies. So he turned to the language of the Statute of Monopolies itself, and said:

"We shall there find a monopoly defined to be "the privilege of the sole buying, selling, making, working or using any thing within this realm;" and this is generally condemned as contrary to

⁴⁵ [Britannica.com/biography/Edward-Coke/Dismissal-from-office](https://www.britannica.com/biography/Edward-Coke/Dismissal-from-office)

⁴⁶ *Boulton & Watt v Bull* 126 E.R. 651 (Court of Common Pleas, 16 May 1795)

the fundamental law of the land. But the 5th and 6th sections of that statute save letters patent, and grants of privileges of the sole working or making of any manner of new manufacture within this realm, to the first and true inventor or inventors of such manufactures, with this qualification, "so they be not contrary to the law, nor mischievous to the state" in these three respects: first "by raising the prices of commodities at home;" secondly, "by being hurtful to trade;" or, thirdly, by being "generally inconvenient".

Lord Eyre concluded by observing:

"...for let it be remembered, that though monopolies in the eye of the law are odious, the consideration of the privilege created by this patent, is for the commonwealth a new manufacture by his invention, costs and charges".

The Court of Common Pleas returned to the Statute of Monopolies in the 1842 case of *Crane v Price*⁴⁷, which concerned a patent for an improvement in the manufacture of iron. It was noted that the patent had been granted in the "usual manner": to the grantee, his executors, administrators and assigns, the sole privilege to make, use, exercise and vend the said invention for fourteen years. Tindal CJ said:

"The case of Monopolies (Darcy v Allein, 11 Co., Rep 84; Noy, 178), **states the law to be "that where a man, by his own charge or industry, or by his own wit or invention, brings a new trade into the realm, or any engine tending to the furtherance of a trade that never was used before, and that for the good of the realm, the king may grant him a monopoly-patent for a reasonable time"**. And if the combination now under consideration be, as we think it is, a manufacture, within the statute of James the First, there was abundant evidence in the cause, that it had, before the granting of the patent, been a great object or desideratum to smelt iron-stone by the means of anthracite, and that it had not been done before; indeed no evidence was called on the part of the defendants to meet that which the plaintiff brought forward. These considerations, therefore, enable us to direct that the verdict shall be entered for the plaintiff upon the third issue, - that this was a manufacture, and a manufacture new as to the public use and exercise thereof within England."

In 1851, the English Court of Chancery delivered a judgment in *Caldwell v Vanvlissengen*⁴⁸ addressing whether English patent law applied to foreigners bringing patented products into the country. It followed (in modern terminology) an application for an interim injunction to restrain patent infringement.

Caldwell's patent was for a mode of propelling vessels by means of one or more curved blades, set or affixed on a revolving shaft below the waterline of the vessel, and running from stem to stern of the vessel. The defendants' vessel had been built in Holland and was captained by a Dutchman. The defendants argued that they were entitled to sail their steamship into English waters for the purposes of trade without restraint in the form of an injunction, English patent law or the English patent. The Vice-Chancellor, Sir G.J. Turner, dismissed the defendants' argument. He noted earlier authority for the "universal" rule that "all foreigners are in all cases subject to the laws of the country in which they may happen to be". Turning then to consider the effect of patent law, he said:

"It is to be considered then what are the laws of this country with reference to the rights of patentees. According to our laws and constitution the Crown, I apprehend, has at all times

⁴⁷ *Crane v Price* 4 Man & G 580 [134] ER 239 (13 June 1842)

⁴⁸ *Caldwell v Vanvlissengen* (1851) 68 E.R. 571 (20 December 1851)

exercised a control over the trade of the country. Anterior to the statute 21 Jac. 1, c. 3, it assumed to exercise that control to a very prejudicial extent, by the creation of monopolies; and in the great "Case of Monopolies" (11 Rep. 85 a.; S.C. Noy 173 nom. *Darcy v Allein*) such an exercise of its powers was held to be illegal; but it was at the same time held that the Crown had power to grant, as a recompense for any new invention, the exclusive right to trade on it for a reasonable period. What was to be considered as a reasonable period does not appear to have been settled. By **the statute of James (21 Jac. 1, c.3)** it was fixed at fourteen years: and thus, as explained by Lord Coke, in his commentaries on the statute, in the Third Institute (cap. Lxxxv. Against Monopolies, &c., p.181), the statute **did not create, but controlled, the power of the Crown in the granting of patents. Patentees, therefore, have always derived and still derive their rights, not from the statute, but from the grant of the Crown.**

We must consider then what is the effect of this grant? **It purports to give to the grantee, his executors, administrators and assigns, special license, full power, sole privilege and authority**, that he, his executors, administrators and assigns, and every of them, by himself and themselves, or by his and their deputy and deputies, servants or agents, or such others as he, his executors, administrators or assigns shall at any time agree with, and no others, from time to time, and at all times thereafter, during said invention, within that part of the United Kingdom of Great Britain and Ireland called England, the dominion of Wales, and the town of Berwick-upon-Tweed. And undoubtedly this grant gives to the patentee a right of action against persons who infringe upon the sole and exclusive right purported to be granted by it."

Therefore according to the Court of Chancery in *Caldwell v Vanvlissengen*⁴⁹, the Statute of Monopolies did not create but controlled the operation of the royal prerogative in the grant of patents. Patentees had always, and continued, to derive their rights not from statute, but from the grant of the Crown. The effect of the grant was to give to the patentee 'special license, full power, sole privilege and authority'.

The court concluded that the lawful manufacture of a machine in a foreign country, out of reach of the jurisdiction of the English courts, was no justification for the importation and use of the machine, so manufactured, within the dominions to which the patent extends. Therefore in modern terminology, English patent law permitted the patentee to restrain the import and sale of infringing goods i.e. those being goods falling within the scope of the patent that were manufactured by a third party without the patentee's consent.

2.1.3 The nature of the right conferred by a patent in England in 1851?

So, pausing here, what could be said, in 1851, of the nature of a patent? Was the right that it granted purely a negative right to prevent others from exploiting it? Or did it confer some sort of positive right?

The reported reasoning of the Court of King's Bench in the *Case of Monopolies* indicates that the Royal prerogative, in the form of patents for monopolies, operated subject to the common law; the monarch could not unilaterally override the common law. Basic freedoms of subjects of the realm, of leisure and in trade, could not be eroded by royal prerogative, only by statute. Indeed the Magna Carta was a statute expressly protecting some such freedoms. Nor could the Royal prerogative override matters of law enacted by statute.

⁴⁹ *Caldwell v Vanvlissengen* (1851) 68 E.R. 571 (20 December 1851)

There was, however, an exception to this. The exercise of the royal prerogative in the form of the grant of a patent for a monopoly *was* permitted to override the common law rights of subjects in the case of inventions. The *Case of Monopolies* restricted the operation of the royal prerogative in this context to new inventions or trades and to "some reasonable time". The Statute of Monopolies restricted the operation of the royal prerogative to patents 'made of the sole working or making of any new manner of Manufactures within this Realme', made to the first inventor(s) and for the term of fourteen years.

The right that was granted in the form of a patent was that described in the letters patent itself. Wording describing the sole benefit and advantage of '**making, exercising and vending**' came to be used, as exemplified by the judgment in *Boulton & Watt v Bull*⁵⁰. The law as to what constituted infringement of a patent subsequently continued to build up around the language contained in the letters patent itself until the introduction of a statutory definition of infringement by the Patents Act of 1977⁵¹.

Conceptually, it is possible to see the right granted by the patent as a positive right to use, sell, dispose of etc, because provided the patent was granted in respect of a new invention for no more than the term laid down by statute, there was no restriction on the extent of the right granted pursuant to the royal prerogative. The reasoning of the Court of Chancery in *Caldwell v Vanvliessen*⁵² would seem to support this view, in its reference to the patent as the grant by the Crown of "special license, full power, sole privilege and authority".

It is also possible to see the right conferred as being merely a permitted carve out from the common law right of all subjects to work or manufacture things, and merely a negative right, to prevent others from doing things. Although this view would seem less supported by the English case law leading up to 1851, some later case law appears to support this view (as noted below).

As legal systems in the common law tradition have developed, the conceptual understanding of the right conferred by a patent has influenced how extensively the relevant courts have permitted patentees to control commerce in respect of products that they have themselves manufactured in accordance with their invention. It should be noted though that by 1851, the reported judgments do not suggest that such a question had needed to be considered by the courts, or that the courts had had to grapple with the conceptual question of the form of the right granted by the patent.

The leading modern authority on patent law in the UK, *Terrell (19th edⁿ)*, notes that the Statute of Monopolies was intended to be declaratory of the common law; it did not create a new statutory right but saved and merely limited the prerogative of the Crown to grant monopolies⁵³.

Of course, the terms of subsequent legislation could influence the concept of the right granted by a patent. It is in the mid-nineteenth century that notable legislative divergences began to occur between different jurisdictions in the common law tradition.

2.1.4 The law in the United States of America

In this context, the first legislation to note is the United States Patents Act of 1836. (The legislation first creating the United States patent system was passed in 1790, and was replaced by an act in 1793. At

⁵⁰ *Boulton & Watt v Bull* 126 E.R. 651 (Court of Common Pleas, 16 May 1795)

⁵¹ *Terrell*, 19th edition, 1-28

⁵² *Caldwell v Vanvliessen* (1851) 68 E.R. 571 (20 December 1851)

⁵³ *Terrell*, 19th edition, 1-18, referencing later authorities

that point the US system largely copied the English system). The 1836 Act is notable for its identification of the grant as being "the full and exclusive right and liberty of making, using and vending to others to be used, the said invention or discovery"⁵⁴. This was a departure from the legislative approach in the UK at the time, which continued to define the granted right in the letters patent document itself.

With reference to the definition in the 1836 Act to 'making, using and vending', in 1852 in *Bloomer v McQuewan*⁵⁵ the US Supreme Court held that when the patentee sold the patented item, the product was "no longer within the limits of the monopoly" and instead became the "private, individual property" of the purchaser. It passed outside of the monopoly, and was no longer under the protection of the Act. So with *Bloomer v McQuewan* began the (later named) doctrine of patent exhaustion in the United States. In 2017, in *Impression Products v Lexmark*⁵⁶ the US Supreme Court described it in the following terms:

"For over 160 years, the doctrine of patent exhaustion has imposed a limit on that right to exclude. See *Bloomer v McQuewan*, 14 How. 539 (1853). The limit functions automatically: When a patentee chooses to sell an item, that product "is no longer within the limits of the monopoly" and instead becomes the "private, individual property" of the purchaser, with the rights and benefits that come along with ownership. *Id.*, at 549-550. A patentee is free to set the price and negotiate contracts with purchasers, but may not, "by virtue of his patent, control the use or disposition" of the product after ownership passes to the purchaser. *United States v Univis Lens Co.*, 316 U.S. 241, 250 (1942) (emphasis added). The sale "terminates all patent rights to that item," *Quanta Computer, Inc. v. LG Electronics, Inc.*, 553 U.S. 617, 625 (2008)."

2.1.5 19th Century Patent Acts in the UK and the early English case law on parallel imports

In the UK, the first substantive legislative reform of patent law after the Statute of Monopolies was the **Patents Act of 1852**. It reformed the administration of patents, for example by establishing what would become known as the Patents Office (now the UK IPO). The Act also provided (by way of annex) the form of wording for "letters patent": it was the grant of "especial Licence, full Power, sole Privilege and Authority that" the grantee, its executors, administrators and assigns etc "and no others...**shall and lawfully may** make, use, exercise, and vend his said Invention" in the UK.

Consistently with this, in 1865 the Chancery Appeals Court noted, in *Mathers v Green*⁵⁷, that the letters patent in issue in that case granted that each of the grantees, and no others, shall, for the term of the assignment, "use, exercise, and vend" the invention". The dispute concerned the terms of co-ownership and the court concluded that the co-owners of a patent could neither prevent their co-owner from using the patented invention, nor compel their co-owner to account financially for doing so. In this context the court said:

"The right conferred is a right to exclude all the world other than the grantees from using the invention".

⁵⁴ US Patents Act 1836 section 5

⁵⁵ *Bloomer v McQuewan* (1852) 55 US 539

⁵⁶ *Impression Products, Inc v Lexmark International, Inc.*, 137 S.Ct 1523 (2017)

⁵⁷ *Mathers v Green* (1865) LR 1 Ch App 29 at 33

The first judgment thought to consider whether the owner of a UK patent could prohibit in the UK the sale of their own goods which had been manufactured overseas pursuant to the patented invention, is ***Betts v Willmott***⁵⁸. This was another judgment of the Chancery Appeals Court, handed down in 1871.

Betts was the owner of an English patent. He manufactured the patented article in France as well as in England. He sought to restrain sale of articles by Willmott, but while Betts could prove that the articles complained of were not manufactured by him in England, he would not swear on oath that they were not made at his manufactory in France.

Lord Hatherley L.C. said that in order to succeed, Betts had to show that the article complained of was *not* manufactured by him, in order to show that it could not lawfully be sold in England. He explained:

"Where a man carries on the two manufactories himself, and himself disposes of the article abroad, unless it can be shewn, not that there is some clear injunction to his agents, but that there is some clear communication to the party to whom the article is sold, I apprehend that, inasmuch as he has the right of vending the goods in France or Belgium or England, or in any other quarter of the globe, **he transfers with the goods necessarily the licence to use them wherever the purchaser pleases. When a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his license to sell the article, or to use it wherever he pleases as against himself.** He cannot use it against a previous assignee of the patent, but he can use it against the person who himself is proprietor of the patent, and has the power of conferring a complete right on him by sale of the article."

This reasoning is the foundation of 'the *Betts v Willmott* principle', which is also referred to as the 'doctrine of implied licence'. From *Betts v Willmott* alone, this principle may be expressed as being that unless there is clear communication to the contrary, the purchaser of articles manufactured according to a patent has control of those articles, and for that purpose has transferred with the goods the licence necessary to so use them.

Lord Hatherley's reasoning distinguished a situation in which the patentee had assigned one of the patents, indicating (in *obiter* reasoning) that such facts might then "come within the doctrine of *Caldwell v Vanlissengen*":

"No doubt, in the case so put, the importer would be restrained, because the license to sell, which belonged originally to the patentee, would then be vested in his assignee, and therefore no license in *England* given by the original patentee after he had sold the patent could authorise the use of the article, so as to defeat the right of the assignees in England. And, of course, in exactly the same way, if the original patentee assigned his patent in France, no sale by him in England would be allowed to defeat the rights of the assignee in France. In other words, it comes within the doctrine of leave and licence, and there could be no leave and license in such a case."

Interestingly, although in the UK's patent system a patent could be granted merely for *introducing* to the UK an invention already known or patented overseas, **following *Betts v Willmott* for the owner of parallel patents for an invention the basic position was that (subject to clear and explicit**

⁵⁸ *Betts v Willmott* (1870-71) LR 6 Ch App 239, Chancery Appeals Court

agreement to the contrary) a purchaser of patented goods from the owner overseas was free to import and sell those goods in the UK.

Another question arose the *Tilghman*⁵⁹ case in the 1880s: the question was whether the *ratio* reasoning in *Betts v Willmott* (applicable to a single owner of parallel patents) applied to prevent a manufacturer *licensed* under a non-UK patent from importing product into the UK.

The patentee, Tilghman, gave the plaintiff a licence to manufacture the relevant product in Belgium. The plaintiff advertised their products in the UK and Tilghman threatened them. The plaintiff brought an action to restrain threats. The Court of Appeal held that a licence under a Belgian patent was not the same thing as a licence under the English patent and thus did not prevent the patentee from exercising its rights to prevent import and sale in England. Cotton LJ distinguished *Betts v Willmott* as follows:

"In my opinion the license to use a patented invention under a foreign patent stands in a very different position from the sale of an article manufactured under either a foreign or an English patent. When an article is sold without any restriction on the buyer, whether it is manufactured under one or the other patent, that, in my opinion, as against the vendor gives the purchaser an absolute right to deal with that which he so buys in any way he thinks fit, and of course that includes selling in any country where there is a patent in the possession of and owned by the vendor. Here, as is pointed out, it is simply a license to manufacture."

The *Tilghman* case is therefore probably best described as confirming that the terms of the licence agreed between the patent owner and the foreign manufacturer did not (as between those parties) extinguish the rights of the UK patent owner in UK patent law. The reasoning appears to indicate that the principle laid down by *Betts v Willmott*, that the *purchaser* of the goods has control of them unless there is clear communication to the contrary, was not contradicted.

In 1883, a further **Patents Act** was passed in the UK. The First Schedule to the Act set out the form of the patent to be issued in terms that were essentially the same (for present purposes) as under the 1852 Act⁶⁰.

"...give and grant unto the said patentee our especial licence, full power, sole privilege, and authority, that the said patentee by himself, his agents or licensees, and no others, **may** at all times hereafter during the term of years herein mentioned make, use, exercise, and vend the said invention..."

(For good measure it is noted too that the Judicature Acts of 1873 and 1875 abolished the old higher courts, which had existed since the Middle Ages, and consolidated their functions into the High Court, which was divided into specialist divisions based on the old central courts. One of those was the

⁵⁹ *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company* (1883) 25 Ch D 1, Court of Appeal

⁶⁰ "...give and grant unto the said patentee our especial licence, full power, sole privilege, and authority, that the said patentee by himself, his agents or licensees, and no others, may at all times hereafter during the term of years herein mentioned make, use, exercise, and vend the said invention..."

Chancery Division, which continues to be the part of the High Court of England and Wales in which patent disputes are heard today.⁶¹⁾

Towards the close of the nineteenth century, the conceptual nature of the grant conferred by a patent seems to have come under more scrutiny. This was sometimes in the context of disputes about co-ownership or licensing agreements, but such case law is mentioned briefly here because in certain later judgments addressing the *Betts v Willmott* principle and/or exhaustion it has been drawn upon.

The House of Lords' judgment in *Steers v Rogers*⁶² concerned a dispute about **co-ownership**. Lord Herschell LC considered that *Mathers v Green* remained good law and common sense when the nature of patent rights was regarded, and that it applied also as between the assignees of co-owners. In this context, he said:

"What is the right which a patentee has or patentees have? It has been spoken of as though a patent right were a chattel, or analogous to a chattel. The truth is that letters patent do not give the patentee any right to use the invention – they do not confer upon him a right to manufacture according to his invention. That is a right which he would have equally effectually if there were no letters patent at all; only in that case all the world would equally have the right. What the letters patent confer is the right to exclude others from manufacturing in a particular way, and using a particular invention. When that is borne in mind, it appears to me very clear that it would be impossible to hold, under these circumstances, that where there are several patentees, either of them, if he uses the patent, can be called upon by the others to pay to them a portion of the profits which he makes by that manufacture, because they are all of them entitled, or perhaps any of them is entitled, to prevent the rest of the world from using it."

In 1897, the House of Lords' judgment in *Bassett v Graydon*⁶³ addressed **a dispute between a patentee (Graydon) and their licensee (Bassett)**. Bassett proposed to build a 'gigantic wheel' but asserted that it would not be constructed in accordance with the patent. The House of Lords concluded that Bassett had an absolute **licence** under the agreement **to construct, but not to use**, gigantic wheels, and varied the terms of (and then granted) an injunction restraining Bassett from constructing a wheel in accordance with the patents, except under the agreement. In this context, Lord Herschell LC expressly observed that neither an exclusive licensee solely authorised to manufacture a patented article, nor purchasers of an article from the exclusive licensee, "could use the [article] when completed, without a license from the Patentee".

Reverting to cases addressing questions about the basis on which patented products were *sold* in the UK, **two judgments in litigation brought by The Incandescent Gas Light Company in the 1890s continue to operate as early authorities on the doctrine of implied licence**. (Interestingly, "Terrell Q.C." represented The Incandescent Gas Light Company).

In *Cantelo*⁶⁴, the patentee asserted that the patented articles sold by their agent carried with them restrictions as to their further use. **Willis J explained that the sale of a patented article carried with it the right to use it in any way that the purchaser chose to use it, unless he knew of restrictions**

⁶¹ <https://www.parliament.uk/about/living-heritage/transformingsociety/laworder/court/overview/judicatureacts/>

⁶² *Steers v Rogers* [1893] AC 232

⁶³ *Bassett v Graydon* (1897) 14 RPC 701

⁶⁴ *Incandescent Gas Light Co Ltd v Cantelo* (1895) 12 RPC 262, High Court, Queen's Bench Division

and they were brought to his mind at the time of purchase. It did not matter how unreasonable or absurd the conditions might be: if the purchaser nevertheless took the article they would be bound by the condition. He drew analogy with the position in law of customers purchasing tickets for passage on a steamship – in *Henderson v Stevenson*⁶⁵ a passenger by steamship who took a ticket which had no conditions on the face of it, but which was covered with small print at the back, "imposing all sorts of liabilities and all sorts of restrictions upon the passenger" was not bound by the conditions if he did not know of them. Willis J said that was "obvious common sense". In the present case, there was no evidence that the defendant had bought with any knowledge of the patentee's asserted condition. The defendant, by his agent, had gone to the patentee's agent's shop, paid the money and completed the sale there. It made no difference that the goods were delivered elsewhere. The contract was complete when it was made at the shop and there was no defect in the sale at that time. The defendant was not bound by the patentee's asserted condition.

In contrast, in *Brogden*⁶⁶, the defendant did have the requisite knowledge of the patentee's restriction when he bought the article, and so was bound by the restriction. Kennedy J explained:

"Mr Terrell has satisfied me that a Patentee has a right not merely by sale without reserve to give an unlimited right to the purchaser to use, and thereby to make in effect a grant from which he cannot derogate, but may attach to it conditions, and if those conditions are broken then there is no license, because the license is bound up with the observance of the conditions. I think that the Defendant buying an article subject to those conditions the conditions formed a part of his right to deal with it at all, and that he did deal with it in a way inconsistent with the conditions..."

*Badische Anilin und Soda Fabrik v Isler*⁶⁷, a judgment of the High Court's Chancery Division dating to 1906, concerned a dispute about parallel imports, but the *ratio* was fairly confined to the facts. This was because, on the evidence, Buckley J concluded that the patentee had not established that the licence it asserted - pursuant to which the product in question was said to have been manufactured by a third party (in Switzerland) - was limited by the conditions asserted by the patentee. Therefore, the patentee's claim for patent infringement brought against a subsequent dealer in the product in the UK was dismissed.

On the legal principles more generally, Buckley J said:

"Under the statute the plaintiffs are entitled to the sole privilege and authority by themselves, their agents, or licensees, and no others to make, use, exercise, and vend the invention. If a patentee sells the patented article to a purchaser and the purchaser uses it, he, of course, does not infringe. But why? By reason of the fact that the law implies from the sale a licence given by the patentee to the purchaser to use that which he has bought. In the absence of condition this implied licence is a licence to use or sell or deal with the goods as the purchaser pleases: ... *Betts v Willmott*. ... If the patentee sells, imposing no restriction or condition upon his purchaser at the time of sale, he cannot impose a condition subsequently by delivery of the goods with a condition indorsed upon them or upon the package in which they are contained. Unless the purchaser knows of the condition at the time of purchase and buys subject to the condition, he has the benefit of an implied licence to use free from condition."

⁶⁵ *Henderson v Stevenson* (1870-1875) L.R. 2 H.L. Sc. 470

⁶⁶ *Incandescent Gas Light Co Ltd v Brogden* (1899) 16 RPC 179, High Court, Queen's Bench Division

⁶⁷ *Badische Anilin und Soda Fabrik v Isler* [1906] 1 Ch 605 at 610, High Court Chancery Division

This much would seem part of the *ratio* of the judgment. However, Buckley J continued then to discuss the consequence of an implied licence for questions of infringement arising from subsequent dealings in the patented articles. This part of the judgment illustrates how quickly the rationale in relation to implied licences can become complex:

"But suppose the purchaser buys, not from the patentee, but from a licensee, the patentee may have attached to his licence any conditions he pleased, and if he did attach a condition, then upon principle it seems to me that nothing (so far as licence as distinguished from estoppel is concerned) can turn on the question whether the purchaser from the licensee knew of the condition or not. If a person innocently uses a patented invention, not knowing that there is a patent, he is none the less an infringer, and if a person innocently buys a patented invention from a licensee and uses it not knowing that there are limits on the licence, I conceive that he is equally an infringer. Suppose the patentee sells to A., with the condition that A. shall not resell or grant the right of use to another, then, if B. becomes sub-purchaser from A., it cannot be said that he is licensed by the patentee to use, for ex hypothesi he is not. It may be that the patentee may be estopped, as between himself and B., from saying that B is not so licensed..."

This part of Buckley J's reasoning would seem to be *obiter*, given the lack of restrictions in the manufacturing licence on the facts of the case. It appears to conflict with the generality of the expression of principle in *Betts v Willmott* and the reasoning in *Tilghman* that the purchaser has control of the article *unless* there is agreement on their part to the contrary at the time of their purchase. Nevertheless, this part of Buckley J's reasoning was relied upon in later judgments as authority for conditions in a licence agreement attaching to the goods and binding purchasers down the line.

2.1.6 The law in Australia

The Australian legal system remained aligned with the English system much later than that of the USA, and appeals to the Privy Council, as the highest court of appeal, remained possible in some cases until 1986. (The Judicial Committee of the Privy Council today remains the court of final appeal for all the UK overseas territories and Crown dependencies. It also serves those Commonwealth countries that have retained the appeal to Her Majesty in Council or, in the case of republics, to the Judicial Committee).

In 1911, in ***National Phonograph Co of Australia v Menck***⁶⁸, the Privy Council gave what was probably the clearest exposition of the time as to the role of patent law after patented goods had been sold by the patentee.

The appellant patentee sued Menck for breach of contract and patent infringement. The breach of contract claim failed – in the circumstances of the case, it was "not unnatural that the respondent should consider himself as free as any ordinary member of the public with regard to the dealing in and selling of the appellants' goods".

Turning to the question of patent infringement, Lord Shaw noted that the Australian Patents Act of 1903 stated, in section 62:

⁶⁸ *National Phonograph Co of Australia Ltd v Menck* (1911) 12 CLR 15; [1911] AC 336, Privy Council

"The effect of a patent shall be to grant to the patentee full power, sole privilege and authority, by himself, his agents and licensees during the term of the patent to make, use exercise and vend the invention..."

Lord Shaw said that like English patent law, this was based on the Statute of Monopolies. It was also identical to the UK statute (i.e. of 1883) so far as was material.

The patented products were sold to an intermediary who had power to sell on to 'dealers', but the dealers' contracts were made direct with the patentee. Mr Menck was one of those dealers, until the patentee removed him from their dealers' list. The main object of the agreements between the patentee and the dealers (including Mr Menck) was to secure that there should be no selling of the patentee's products at less than their standard prices to the public; a second object was to secure that the articles of rival manufacturers should not, with the assistance of the dealers, be put into circulation. The agreements included a term that in the event of the dealer's name being removed from the list, they would in no way handle, sell, deal in or use the patented goods.

The patentee asserted that the limited licence upon which they sold the patented goods ran with the goods in the hands of all persons into whose possession they came, whether or not such persons acquired the goods with notice of the terms of the limited licence. Menck asserted that a patentee imposing conditions upon the use or sale of his patented articles was not entitled to enforce them upon a subsequent purchaser outside of any contract.

Lord Shaw noted that it was not in issue that the general principle applicable to ordinary goods was that the owner may use and dispose of them as they thought fit. Although the owner of such goods might have made and be subject to a contract, simply in their capacity as owner they would not be bound by any restriction on the use or sale of the goods. It would be contrary to the public interest and the security of trade, as well as to the familiar rights attaching to ordinary ownership, if any other principle applied.

However, a point of difficulty arose in the case of a right of property granted by the state and by way of monopoly to a patentee, and his agents and licensees, "to make, use, exercise and vend the invention...in such a manner as to him seems meet". Lord Shaw continued:

"This is, of course, with reference to the grant of the right as a sole right, that is to say, put negatively, with a power to exclude all others from the right of production, & c., of the patented article, and also with reference to the imposition of conditions in the transactions of making, using, and vending, which are necessarily an exception by statute to the rules ordinarily prevailing.

In the opinion of their Lordships it is perfectly possible to adjust the incidence of ownership of ordinary goods with the incidence of ownership of patented goods in such a manner as to avoid any collision of principle. In their Lordships' view this has been done for a long period of years in England by decisions which are consistent and sound."

Lord Shaw said that the patentee's position, that after "vending" the patentee still had rights of restriction etc that bound the owner of the goods, would mean that the inclusion of the word 'vend' in the English Patents Act of 1883 had effected a radical change to the law of personal property. There would be a new class of chattels to which attached conditions imposed by the patentee that ran with the goods irrespective of who owned the goods. This was "an extreme view". However, Lord Shaw continued:

"...if the restriction upon alienation, use, or otherwise of the chattel purchased be a restriction arising from the fact that the person who has become owner has done so with the knowledge brought home to him of the limitation of his rights of alienation or otherwise, then there seems to be no radical change whatever. All that is affirmed is that the general doctrine of absolute freedom of disposal of chattels of an ordinary kind is, in the case of patented chattels, subject to the restriction that the person purchasing them, and in the knowledge of the conditions attached by the patentee, which knowledge is clearly brought home to himself at the time of sale, shall be bound by that knowledge and accept the situation of ownership subject to the limitations. These limitations are merely the respect paid and the effect given to those conditions of transfer of the patented article which the law, laid down by statute, gave the original patentee a power to impose."

Lord Shaw said that these principles harmonised the rights of the patentee with the rights of the owner. They emerged from a quarter of a century of English case law, beginning with *Betts v Willmott*, and which Lord Shaw then discussed. He then re-stated the law as follows:

"...first, that it is open to a licensee, by virtue of his statutory monopoly, to make a sale sub modo, or accompanied by restrictive conditions which would not apply in the case of ordinary chattels; secondly, that the imposition of these conditions in the case of a sale is not presumed, but, on the contrary, a sale having occurred, the presumption is that the full right of ownership was meant to be vested in the purchaser; while thirdly, the owner's rights in a patented chattel will be limited if there is brought home to him the knowledge of conditions imposed, by the patentee or those representing the patentee, upon him at the time of sale.

...a restriction rests upon a purchaser of goods which are covered by a grant of patent, and which have come into the possession of a purchaser in the full knowledge of the restrictions imposed by the patentee upon their disposal."

For Mr Menck, in the circumstances of the case, this meant he was bound by an implied licence:

"...he made this mistake: he assumed that, being guiltless of violation of contract, he was as free as an ordinary member of the public who had acquired possession of articles embodying the appellants' patent. His misfortune, however, consists in this, that by the very fact that he entered into contractual relations with the appellants he has become seized with the knowledge of the conditions on which they dispose of their goods, and he is not free to propound the plea that such conditions have not been brought home to him...."

The Privy Council's judgment in *Menck* remained the leading authority in Australia until 2020, and the judgment of the High Court of Australia in ***Calidad v Seiko Epson***⁶⁹.

By this time, the Australian legislation governing patents had moved on. The Patents Act of 1990 stated, in section 13(1):

"Subject to this Act, a patent gives the patentee the exclusive rights, during the term of the patent, to exploit the invention and to authorise another person to exploit the invention."

⁶⁹ *Calidad Pty Ltd & Ors v Seiko Epson Corporation & Anr* [2020] HCA 41, High Court of Australia

Schedule 1 of the same Act defined "exploit" as including:

"make, hire, sell or otherwise dispose of the product, offer to make, sell, hire or otherwise dispose of it, use or import it, or keep it for the purpose of doing any of these things".

The dispute concerned Calidad's activities around recycling and replenishing used Seiko Epson printer cartridges. When placed on the market by the patentee (Epson), the cartridges embodying the patented invention were in a form permitting only single use. A third party ('Ninestar') obtained the used Epson cartridges and made modifications to them (in a variety of ways) that enabled them to be re-used. Calidad then acquired the modified cartridges and imported them into Australia for the purpose of sale to the public.

The full seven justices of the High Court of Australia concluded that the modifications made to the original Epson cartridges were within the scope of the rights of an owner to prolong the life of a product and make it more useful. They did not amount to an impermissible making of a new product. Therefore their import into and sale in Australia was not to be restrained whether the court continued to apply the doctrine of implied licence or moved to a doctrine of exhaustion. The largest part of the judges' extensive reasoning addressed whether the court should continue with the existing doctrine or move to exhaustion. The majority (four of the justices) favoured a move to exhaustion. Their reasoning highlights the conceptual difficulty for modern patent systems in understanding and applying an implied licence doctrine.

The analysis of the law by three of the majority (referred to as the judgment of the 'majority'), in historical terms, began with the reasoning of High Court in the *Menck* case⁷⁰ (i.e. the judgment that was the subject of the appeal to the Privy Council). This reasoning was that, at common law, the owner of chattels having an absolute right to use and dispose of them as he thinks fit, no restrictions can be placed on this right except by positive law or by his own contract. Therefore, the right asserted by the patentee in that case depended upon the meaning of "use" and "vend" in the 1903 Act. The High Court's view was that those words meant the idea of putting the invention into practice for some purpose. They did not continue to apply once the made patented article had come lawfully into circulation in the market as a chattel.

The majority noted too, from the US Supreme Court's reasoning in *Impression Products v Lexmark*⁷¹ on the doctrine of equivalents in US law, 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". The policy underlying the exhaustion doctrine was said to involve both the public interest and the patent statutes (Note too that the *Impression Products* case had very similar facts to those before the court in *Calidad*). Also of the US court's reasoning:

"Roberts CJ observed that since at least the time of Lord Coke, restrictions on the resale or use of an item after its sale have been held void as contrary to the public interest. Patent statutes promote the progress of science by granting a limited monopoly to inventors to secure the financial rewards for their inventions. But once a patentee sells an item, they have enjoyed the full rights secured by that monopoly and the purpose of patent law is fulfilled."

⁷⁰ *National Phonograph Co of Australia Ltd v Menck* (1908) 7 CLR 481

⁷¹ *Impression Products, Inc. v. Lexmark International, Inc.*, 581 U. S. (2017)

The majority noted the relevant provisions of the Patents Act of 1990 (noted above) and the decision under appeal about whether Calidad had made a new embodiment of the invention, before saying:

"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.⁷² The right to make a product is a separate and distinct right from the right to use or sell. The definition of "exploit" in the *Patents Act 1990* makes this plain."

After considering (among other things) the distinction between "making" and "repair" in modern UK case law, and the dichotomy of "permissible repair" and "impermissible reconstruction" in modern US case law, the majority concluded that 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. Therefore there was no true manufacture or construction of a cartridge which embodied the features of the patent. The modifications were consistent with the rights of an owner to alter an article to improve its usefulness and enable its re-use. There was no manufacture or making "regardless of whether the exhaustion doctrine or the implied licence doctrine is applied".

The majority then considered which was the preferable doctrine. They noted that the idea of treating a patentee as granting an implied licence was largely attributed to the decision in *Betts v Willmott*, in which it was observed that when a person purchases an article "he expects to have control of it". They expressed the difference between the two doctrines as being that an implied licence may be excluded by express contrary agreement or made subject to conditions, while the exhaustion doctrine leaves no patent rights to be enforced with respect to the particular product sold. In addition, they preferred the exhaustion doctrine:

"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."

In contrast, the view of the majority was that the implied licence doctrine was complicated in its operation and effects and depended upon the legal fiction of the licence upon which the doctrine depends. The approach was not consistent with the certainty demanded by trade and commerce or with consumer expectations, and the need for certainty required the maintenance of the "fundamental principle of the law which recognises that an owner has full rights as to the use and disposal of a chattel". The US cases, "and those of the Court of Justice of the European Union" recognised that the maintenance of patent rights with respect to a product after its sale is not conducive to the free flow of goods in a market and this understanding informed their acceptance of the doctrine of exhaustion. The doctrine of implied licence was not founded upon considerations of this kind.

⁷² Here the High Court referred to the House of Lords' judgment in *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2001] RPC 24, which is discussed below in the context of the UK case law since *Menck*

Further, with reference to both *Menck* and more recent Australian authorities, the majority said that it was well understood that the monopoly rights given by statute did not confer a "positive authority" on the patentee and were better understood as negative in nature. In the context of the current (1990) Act's giving to the patentee of "exclusive rights" to "exploit the invention", there was nothing to suggest that the patentee was to be rewarded after the sale of a patented product on terms for which the patentee had negotiated. Nor was there anything to suggest that the 1990 Act had been premised upon the continuation of the doctrine of implied licence. Nor had any Australian court decision been identified in which the *ratio decidendi* required the application of the implied licence doctrine to the exclusion of the doctrine of exhaustion.

Therefore, the view of the majority was that the doctrine of implied licence should be abandoned in Australia and replaced with a doctrine of exhaustion.

Pausing here, it is worth noting a couple of points.

First, the reasoning of the majority began from the starting point that, at common law, the owner of chattels has an absolute right to use and dispose of them as they think fit, and so no restrictions can be placed on this right except by positive law or by his own contract. In fact, as noted above, analysis of the early English history of the development of the law in this area, prior to *Betts v Willmott*, reveals that while that was indeed the general position at common law, the grant of monopolies by way of patents occurred by the operation of the royal prerogative, which was permitted to override the common law in respect of new inventions. The Statute of Monopolies did not provide for rights to be granted, but permitted them to continue to be granted by operation of the royal prerogative in such circumstances. This background underpins the English courts' development of the doctrine of implied licence beginning with *Betts v Willmott*. The doctrine makes much less sense when one begins from the text of modern statutes.

Second, there was no suggestion by the majority that the operation of the doctrines of implied licence or exhaustion in Australia was in any way constrained geographically. The original Epson cartridges had first been placed on the market outside Australia. The doctrine of exhaustion recommended by the majority was therefore one of international scope; and the discarded doctrine of implied licence had similarly been international in its approach.

Returning to the High Court's judgment in *Calidad*, the fourth justice (Gageler J) also favoured a move to a doctrine of exhaustion. However, he noted the fundamental role of the understanding of the right granted by a patent in the operation of the doctrine of implied licence. He observed that in the High Court in the *Menck* case, a dissenting judgment (of Isaacs J) explained that the common law rights that a purchaser of patented goods acquired as owner of those goods coexisted with, and were subject to, the continuing exclusionary right of the patentee. The exclusionary right of the patentee was unqualified, and so the ambit of the licence conferred by the patentee was within the absolute discretion of the patent.

Gageler J said that if Isaacs J was right, and the starting premise was that the right of a patentee to prevent others from using and selling patented goods extended to preventing use and resale of patented goods that had been sold by the patentee, then the *Menck* (Privy Council) harmonisation of that ongoing right with the rights of a subsequent owner of the goods worked well enough for so long as the subsequent owner remained the purchaser of the patented goods. However, the Privy Council had not explored the difficulties inherent in applying the implied licence doctrine to downstream owners and there remained no settled understanding of how it should apply. The exhaustion of rights doctrine, on

the other hand, had been shown by repeated application in the US to be workable and coherent. Therefore, although the present case could be decided without choosing between the implied licence theory and the exhaustion theory, he supported the judgment of the majority that the law in Australia should move to a doctrine of exhaustion.

The three remaining justices of the High Court in *Calidad*, while agreeing with the others that there was no making and so no infringement on the facts of the case, nevertheless dissented on the question of whether the law in Australia should depart from the doctrine of implied licence.

The view of the dissenting minority was that to describe the right granted by a patent as merely a right to exclude others from exploiting the invention was incomplete. The Statute of Monopolies focused on monopolies against a background where, as a general rule, apart from any lawful grant of monopoly, the common law permitted any person to manufacture and sell any article of commerce. The grant of a patent therefore qualified the position at common law. With reference to legal commentaries and cases of the time⁷³, the minority explained that by the end of the eighteenth century it was evident that patents conferred valuable rights on the patentee in addition to the right to exclude others from exploiting the invention the subject of the patent. The minority considered Eyre CJ's criticism, in *Boulton v Bull*⁷⁴, of Coke's definition of "monopolies", for lacking specificity and for failing to distinguish between "patent rights" and "monopolies", to be significant and revealing. The (UK) 1852 and 1883 Acts expressly recognised not just a monopoly over the exploitation of the invention but also a positive grant of rights including the right to vend the invention. Therefore, to see patent rights in the nineteenth century only through the lens of monopoly (and as a statutory power to prevent others exploiting the invention) was, and remained, too narrow a view of the effect of a grant of a patent. The Statute of Monopolies and the royal prerogative remained the fundamental sources of legal principle to *grant* the patent

Further, the dissenting minority noted that the wording of the Australian Patents Act of 1903, which stated (in s.62) that the "effect of a patent shall be to grant to the patentee *full power, sole privilege and authority*, by himself, his agents, and licensees during the term of the patent to make, use, exercise and vend the invention" was taken from the words in the form of patent granted under the (UK) 1883 Act. The explanatory memorandum to the current statute, the 1990 Act, stated (of section 13) that it was not intended to modify the operation of the law on infringement in so far as it related to subsequent dealings with a patented product after its first sale. It was intended that the question of whether a resale or importation constituted an infringement would be determined "as it is now, having regard to any actual or implied licences in the first sale and their effect in Australia, and to what is often known as the doctrine of 'exhaustion of rights' so far as it applies under Australian law". Therefore, it was not sufficient to see twentieth century or current patent rights merely as monopolies either.

The minority then stated the law, as it had been for over a century, as follows:

"Absent a contract of sale, only the patentee may exercise any of the statutory monopoly rights in s.13(1) of the Patents Act 1990 in respect of a patented article. As the sub-section makes clear, to exercise those rights, a person must be the patentee or a person authorised by the patentee. The form of that authorisation is not prescribed.

An unconditional contract of sale of a patented article transfers title in the patented article to the purchaser, and, consistent with s 13(1) and (2) of the Patents Act 1990, that contract of sale ordinarily carries with it a licence of, or release from, the patentee's exclusive right to use and

⁷³ Blackstone, *Commentaries on the Laws of England* (1766), bk 2, ch 21 at 344-348

⁷⁴ *Boulton v Bull* (1975) 2 H Bl 463

sell that patented article. That licence or release to the purchaser of the patentee's rights to use and sell that patented article arises as a matter of necessary implication from the need to give business efficacy to the contract of sale...that implication is necessary to bring the patentee's *exclusive* rights of sale and use of that article under the statutory monopoly to an end and to permit the purchaser to do that for which the purchaser contracted to be able to do – to use and sell that patented article."

Continuing, the dissenting minority explained, with reference to the *Brogden*, *Cantelo* and the *Menck* judgments, that as a matter of law and practice, for more than a century, a purchaser of an article had expected to have, and had had, control of the article *unless* there was some sort of agreement to the contrary to justify the vendor saying that they had not given the purchaser their licence to sell the article or to use the article wherever the purchaser pleased as against the vendor. However, where there were conditions of sale then, to the extent of the conditions, the patent rights were not licensed or released and the patentee retained them. Steps then taken by the purchaser beyond or inconsistent with those conditions would then infringe the patentee's exclusive rights and might also be a breach of contract.

In relation to downstream purchasers, the dissenting minority explained, with reference to *Badische*, that the notion that a downstream purchaser who acquired a patented article with notice of conditions was bound by those conditions, was a rule of equitable origin. Most likely it emerged by analogy with the rule in *De Mattos v Gibson*⁷⁵, which was in substance the counterpart in equity of the tort of knowing interference with contractual rights.

Over time it became a rule of law sanctioned by the Privy Council in *Menck* that, although the sale of a patented article may be made subject to conditions which restrict the right of use or sale of the patented article and breach of which will constitute an infringement of patent, a downstream purchaser will not be liable for infringement of patent rights committed in breach of the conditions *unless* the downstream purchaser took with notice of the conditions by the time of their purchase.The view of the dissenting minority was that that approach, having been laid down and accepted for a long period of time, ought not to be altered, given that it could not be said positively that it was wrong and productive of interference. Indeed, to the contrary, in other areas the legal system operated efficiently and conveniently with bona fide purchasers for value without notice taking their rights free from prior equitable interests.

Turning to theories underpinning doctrines of exhaustion in European legal frameworks and in the United States, the dissenting minority noted that much depended upon the terms of the relevant regulation or property rights.

In the US, the relevant legislation entitled a patent holder to "exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States" and whoever engaged in such acts without authority from the patentee faced liability for patent infringement. Therefore in the US, statute provided that the *patent* had the attributes of personal property and it granted the patentee a limited exclusionary power as a statutory right. In the US, the theory of exhaustion acknowledged that the sale may be a sale on condition but said that the limited *statutory* exclusive right (for example, to sell) was exhausted by any and every sale (whether conditional or unconditional) because the relevant rights were transferred by the sale so there was no exclusionary right left to enforce. This reflected the different understanding of a differently framed patents statute. Unlike in Australia, the law in the US did not grant to the patentee a right of property by way of monopoly

⁷⁵ *De Mattos v Gibson* (1859) 4 De G & J 276 at 282

to "make, use, exercise...the invention". In Australia, the effect of the grant of the patent was that the exclusive *rights* conferred should be recognised as personal property rights.

In relation to the EU, the dissenting minority noted the terms of Regulation 1257/2012 as providing that the rights conferred by a European patent with unitary effect do not extend to acts concerning a patented product after that product has been placed on the market in the EU "unless there are legitimate grounds for the patent proprietor to oppose further commercialisation of the product". (For present purposes, however, note that Regulation 1257/2012 is one of the instruments of EU law intended to bring into existence the proposed unitary patent system. The UK has withdrawn its ratification of the underlying Agreement on a Unified Patents Court and left the EU).

The dissenting minority in *Calidad* noted that adopting an exhaustion theory in Australia would confine a patentee complaining of breach of a condition on which the patentee sells the patented article to whatever rights the patentee might have in contract. Failure to comply with the condition would not be an infringement of the patent and would not attract statutory remedies. Therefore adopting an exhaustion theory would diminish the rights granted to the patentee under the Patents Act 1990. Stripping patentees of rights which they had held for more than a century would be a fundamental change to patent rights. The view of the minority was therefore that the question of whether to adopt such a course should be for the legislature, not the courts.

2.1.7 Development of the law in the UK from 1911 to 1972

The Privy Council's judgment in the *Menck* case was applied in Scotland in ***The Scottish Vacuum Cleaner O. Ltd v. The Provincial Cinematograph Theatres Ltd***⁷⁶. The complainers' parent company, 'The British Vacuum Cleaner Co Ltd', owned the relevant patents. They exclusively licensed the complainers to use and exercise the relevant patents in Scotland. Subsequently, the parent company, pursuant to a hire-purchase agreement, installed its vacuum cleaners in a number of theatres in the UK, including in Glasgow and Edinburgh. In reliance upon their rights, as exclusive licensees under the patents, the complainers sought to restrain, by interdict (i.e. injunction) the respondent's use of the machines in Scotland.

In the Court of Session, Lord Ormidale said that to be entitled to the remedy of interdict, the complainers needed to establish that when the respondents acquired the machines in question, they were aware that the complainers were the exclusive licensees for the sale of such machines in Scotland. With reference to *Betts v Willmott*, *Cantelo* and *Menck*, Lord Ormidale said:

"I cannot hold that the registration of the licence in the Patent Office is equivalent to notice of the complainers' rights to all the world, and therefore to the respondents.

If that be so, then the fact that the respondents have since they acquired the machines become aware of the complainers' licence, makes no difference as regards their right to use the machines. Having acquired them direct from those in right of the patent, in ignorance of the complainers' licence, they are entitled to use them as they please..."

It made no difference that the respondents' agreement was one of hire-purchase rather than outright purchase. The complainers were not entitled to the interdict sought.

⁷⁶ *The Scottish Vacuum Cleaner O. Ltd v. The Provincial Cinematograph Theatres Ltd* 1915 1 S.L.T. 389, Court of Session

The Patents Act of 1949 updated the statutory regime governing patents in the UK, but as with earlier acts, no definition of infringement (in modern terms at least) was included. The proprietor continued to be conferred the sole right to make, use, exercise and vend the said invention. The law governing what the purchaser of goods made pursuant to the exploitation of the invention protected by the patent could do with those goods, after purchasing them, continued to be governed by the *Betts v Willmott* line of authority.

Dunlop v Longlife⁷⁷ was a judgment of the Chancery Division of the High Court in a dispute about tyres. The patentee (Dunlop) manufactured tyres "under letters patent" and sold them under express conditions, including that resale otherwise than in accordance with those conditions would be unauthorised and would amount to patent infringement. One of those conditions forbade the advertising, offer, sale or supply of the tyres to a retail customer at below Dunlop's current list price. The defendant (Longlife) sold such a tyre below the list price and Dunlop sued them for patent infringement.

Lloyd-Jacob J noted that a tyre complained of fell "within the monopoly rights possessed by" the patentee by virtue of the grant to them of the patent, so that "unless the defendant firm can establish a title, direct or derivative, from the plaintiff company to use the patent monopoly as they have, they necessarily infringe". (This wording provides an illuminative illustration of the conceptual nature of the right considered to be granted by the patent: a monopoly right overriding ordinary rights of ownership in goods as chattels at common law). Lloyd-Jacob J continued:

"Ever since the decision in ... *Brogden*, there has been no question that a purchaser who bought with knowledge of the conditions under which his vendor was authorised to deal in a patented article is bound by such conditions, not because such conditions are contractual, but because they are incident to and a limitation upon the grant of the licence to deal in the patented article, so that if the conditions are not complied with, there is no grant at all."

The court held that Longlife had notice of the conditions at the time of their purchase of the tyres and therefore their subsequent sale outside the terms of those conditions amounted to patent infringement. It did not matter that Longlife had not been made aware of the existence of patent protection when they purchased the tyres, because under the 1949 Act, infringement could be committed despite ignorance of the existence of patent rights.

An interesting judgment to note from 1972 is that of Mr Justice Graham in the Chancery Division of the High Court in ***Sterling v Beck***⁷⁸. Sterling were awarded an interlocutory injunction restraining Beck from placing on the market outside the UK, or placing on the market within the UK without restriction as to export, articles manufactured by Sterling pursuant to its patent. Drawing on *Dunlop v Longlife*, Graham J was satisfied that Beck had the requisite notice before its purchase.

The *Sterling v Beck* judgment confirmed that pursuant to the law in the UK in 1972, by giving adequate notice to a purchaser by the time of sale, the patentee could place enforceable conditions on the purchaser's subsequent use and sale of the patented product. The Court of Justice of the European Communities soon had something to say about this.

⁷⁷ *Dunlop Rubber Co Ltd v Longlife Battery Depot* [1958] 1 W.L.R. 1033, High Court Chancery Division

⁷⁸ *Sterling Drug Incorporated v C.H. Beck Limited & Anr* [1973] RPC 915, High Court Chancery Division

2.1.8 Summary of the law in the UK regarding exhaustion of patents at the time the UK joined the EEC

Therefore at the end of 1972, on the eve of the UK joining the European Economic Community (later renamed the 'European Community' and then the 'European Union'), the position under UK law regarding parallel imports of patented goods was as follows:

When patented goods were sold by the patentee (anywhere in the world) there was transferred with the goods an implied licence to use them wherever and however the purchaser pleased, unless clear and explicit conditions were brought home to the purchaser and there was agreement to the contrary by the time of the sale. If no such limitation was imposed by the time of the sale, the implied licence transferred was unlimited. If a limitation was imposed by the time of the sale it would continue to bind subsequent purchasers of the goods *provided, and only for so long as*, those terms were brought home to each subsequent purchaser.

2.1.9 Development of the law in the UK regarding exhaustion of patents since joining the EEC (later called the EU)

On 1 January 1973, the UK joined the European Economic Community (EEC). Two weeks later, on 16 January 1973, Graham J delivered a judgment awarding another interlocutory injunction, this time to restrain infringement by way of parallel imports: **3M v Geerpres**⁷⁹. The products complained of had been manufactured in the United States by 'Union Carbide' pursuant to an exclusive licence of 3M's US patent. Union Carbide sold the products to 'Rhodes'. The agreement between Union Carbide and Rhodes (which was governed by US law) made clear that no agreement was given to Union Carbide to license anyone under 3M's UK patent. Geerpres bought the articles from Rhodes in New York and sort to import them for sale in the UK.

Graham J distinguished the facts of the case before him from those in *Betts v Willmott*. Geerpres were not purchasers from the patentees without notice of any restrictions on their rights. He said that Geerpress was "basically in the same position as the licensees in the *Tilghman* case". Union Carbide "cannot pass on to Rhodes any rights which they themselves have not got, and Rhodes equally cannot pass on any such rights to the defendants". Therefore Geerpres could not import the products purchased in the US without infringing 3M's UK patent.

It is not clear from Graham J's judgment whether Geerpres had notice of any restrictions by the time of its purchase from Rhodes. Pursuant to the line of authorities following *Betts v Willmott*, if Geerpres did have notice, then following *Brogden* they would have been bound by the restriction; whereas if Geerpres did not have notice, then following *Cantelo* they would not have been bound, as confirmed by the Privy Council in *Menck*. But Graham J did not refer to those authorities. His reasoning appears instead to have extrapolated from *Tilghman*, creating a new class of chattels to which restrictions contained in the licence under which they were first sold (to Rhodes) attached indefinitely, irrespective of whether notice was given to the owner of the goods. This approach had been expressly rejected by the Privy Council in *Menck*. Graham J did note though that he had referred to a judgment of the High Court of Kenya in

⁷⁹ *Minnesota Mining & Manufacturing Company & Anr v Geerpres Europe Limited* [1973] FSR 133, High Court Chancery Division

*Beecham v International Products*⁸⁰, and a United States case of *Curtiss v United*⁸¹ – these cases come up again in the 'post-*Tilghman* line' and are discussed below; Graham J did not discuss their reasoning.

Graham J dismissed an argument made by Geerpres in reliance upon articles 30-34 of the EEC Treaty. The argument was that pursuant to those provisions, the injunction sought was a disguised restriction on trade, and so should not be granted. Graham J noted that article 36 specifically made clear that articles 30-34 did not preclude prohibitions or restrictions justified on the grounds of protection of industrial and commercial property, provided that they did not constitute a means of arbitrary discrimination, and he did not see how the injunction sought would fall within the proviso.

Graham J also dismissed another argument made by Geerpres in the context of the UK's recent accession. This was that European Community law was tending to adopt a "doctrine of exhaustion", such that once the patentee had sold or licensed someone else to sell a product for royalty in one country, he had exhausted his rights and could not thereafter prevent anyone else from buying up that article and selling it in another country, and that such principles were followed in the *Deutsche Grammophon* case.⁸² On this point, the extent of Graham J's reasoning appears to have been that in support of the argument Geerpres' counsel relied on a book titled "Precedents on Intellectual Property and International Licensing", by L.W. Melville, but that as Mr Melville was still alive he could not be considered an "authority".

Geerpres were, of course, ahead of their times.

On 31 October 1974, the Court of Justice handed down its judgment in the ***Centrafarm*** case⁸³. Sterling's success in 1972 in obtaining from the High Court an injunction restraining export on the basis of its UK patent is noted above. By mid-1971, the Dutch company Centrafarm had already imported relevant product from the UK and Sterling had sought injunctive relief from the court in Holland, relying on both its trade mark rights and its patent rights in Holland. The Supreme Court (Hoge Raad) of the Netherlands referred questions to the Court of Justice.

The Court of Justice explained that the effect of the provisions of the EEC Treaty on the free movement of goods, particularly article 30, was to prohibit between Member States measures restricting imports and all measures of equivalent effect. By article 36, this did not prevent restrictions on imports justified on the grounds of protection of industrial and commercial property, but there would only be justification for the protection of rights which constituted the 'specific object' of such property. For patents, this was to ensure to the holder, "so as to recompense the creative effort of the inventor, the exclusive right to utilise an invention with a view to the manufacture and first putting into circulation of industrial products, either directly or by the grant of licences to third parties, as well as the right to oppose any infringement". The existence, in national laws of Member States, of provisions [to the effect] that the rights of a patentee were not exhausted by the marketing in another Member State of the patented product, so that the patentee could oppose the import into their own State of the product marketed in another State, constituted an obstacle to free movement of goods.

The Court of Justice observed that if a patentee could forbid the import of protected products which had been marketed in another Member State by him or with his consent, he would be enabled to partition

⁸⁰ *Beecham Group v International Products* [1968] R.P.C. 129

⁸¹ *Curtiss Aeroplane and Motor Corporation v United Aircraft Engineering Corporation* 266 Fed. 71 (1920)

⁸² *Deutsche Grammophon* case [1971] CMLR 631

⁸³ *Centrafarm BV & Anr v Sterling Drug Inc* (Case 15/74) and *Centrafarm BV & Anr v Withrop BV* (Case 16/74), 31 October 1974

the national markets and thus to maintain a restriction on the trade between Member States, without such a restriction being necessary for him to enjoy the substance of the exclusive rights deriving from the parallel patents.

The Court of Justice noted the variation in national rules on industrial property, which were a consequence of "lack of unification". Despite this, the essential element for the judge to decide in the notion of parallel patents was the identity of the protected invention. The exercise by a patentee "of the right given him by the laws of a Member State" to prohibit marketing in that State of a product protected by the patent and put on the market in another Member State by the patentee or with his consent would be incompatible with the rules of the EEC Treaty relating to the free movement of goods in the Common Market.

The difficulty of meshing the Court of Justice's reasoning with the long-standing principles governing English law in this area is readily apparent. There were no 'provisions' in UK law to the effect that the rights of a patentee were not exhausted by the patentee's own marketing in another Member State; in fact the default position (*Betts v Willmott*) was that absent clear and explicit conditions to the contrary, upon sale of the patented article the implied licence provided by the patentee as to subsequent use and sale of a patented article was not limited in any way. Additionally, as discussed above, there was nothing in UK statute, and nor did the English case law suggest, that the 'specific object' of the award of a patent was, or was confined to, the exclusive right to use the invention with a view to the manufacture and first putting into circulation of industrial products.

The Court of Justice's reasoning prohibiting a patentee from the import of protected products would seem to go to the heart of the 'implied licence' doctrine developed from *Betts v Willmott*, *Cantelo* and *Brogden*: in order to comply with *Centrafarm*, any express condition limiting the implied licence conveyed upon the patentee's sale of the goods could not restrict movement of the patented articles between Member States.

The final case noted in this context before the coming into force of the Patents Act of 1977 is that of ***Solar Thomson v Barton***⁸⁴, because it captured how the doctrine of implied licence impacted acts to repair or modify patented articles after their sale to a purchaser. The patented invention concerned pulleys with a peripheral groove for receiving a rope or cable, used in systems for supporting and frictionally driving conveyor belts. The defendant's 'repairs' involved removing what was left of the original polyurethane coating from the steel ring and moulding a polyurethane coating onto the rim using standard casting methods. The plaintiff, Solar Thomson, complained that these activities infringed their patent.

At first instance, Graham J noted that, from *Betts v Willmott*, the effect of sale of the patented article by a patentee, or their agent, 'without limitation', was that the article was sold with the right of free disposition, and if the article was sold abroad, the purchaser could import it and sell it in England. Graham J continued:

"I would add to that that he also gives him the right to repair it and keep it going as long as he can so that he can get full life out of it

Further, with no restrictions, the purchaser could use the article in any way they liked and repair it as much as they liked and in any way they liked, provided they did not as a matter of substance make a

⁸⁴ *Solar Thomson Engineering Co. Ltd & Anr v. Barton* [1977] R.P.C. 537, High Court Chancery Division

new infringement. Whether they made a repair or a new infringement would be "a matter of fact and degree: it is a question of fact...it is a jury question".

The Court of Appeal agreed that, on the facts, what the defendant had done amounted to repair, not a new making of the patented article. Therefore the defendant succeeded on the basis of an implied licence. On the principles more generally, Buckley LJ said:

"It has long been recognised that a purchaser of a patented article may carry out repairs to it without being held liable for infringement. On the other hand he cannot manufacture a new article which infringes the patent and claim that he has not infringed merely because in the manufacture he has used parts derived from a patented article sold by the patentee: *Dunlop Pneumatic Tyre Co. Ltd. v Neal* (1899) 16 R.P.C. 247; *Dunlop Pneumatic Tyre Co., Ltd. v. Holborn Tyre Co. Ltd* (1901) 18 R.P.C. 222. Lord Halsbury stated this principle succinctly in *Sirdar Rubber Co., Ltd, v Wallington Weston & Co.* (1907) 24 R.P.C. 539 ...where he said: "The principle is quite clear enough although its application is sometimes difficult; you may prolong the life of a licensed article but you must not make a new one under the cover of repair". The difficulty in such cases is to determine whether what has been done is truly a repair or whether the product is a new article."

Further, purchasers of the plaintiffs' pulleys were also impliedly licensed to infringe the plaintiffs' copyright in their drawings to the extent necessary to enable repairs to be carried out. Buckley LJ continued:

"To hold otherwise would be to allow the copyright to stultify the implied licence under the patent. It seems to me that considerations of business efficacy strongly support the view that this should not be the case. If it were, any purchaser of a patented article might find himself deprived of his ostensible right to repair that article by the existence of a copyright of which he would probably be ignorant when he made the purchase⁸⁵."

The Patents Act of 1977 entered into force in June 1978. It introduced for the first time a definition of infringement into statutory patent law in the UK. Whereas the question of infringement had been directed to whether the defendant had made, used, exercised or vended the 'invention' as claimed in the patent, under the 1977 Act the question became whether there was an act of making, disposing, offering to dispose of, using, importing or keeping in respect of 'a product' as claimed in the patent. (The 1977 Act also defined acts of infringement in relation to 'a process' as claimed, and in relation to the direct product of 'a process' as claimed). The 1977 Act provided that any patent (or application for a patent) was personal property (without being a thing in action)⁸⁶. In both of these respects, the 1977 Act therefore introduced notable new statutory provisions governing patent law in the UK. Before the 1977 Act came into force the position was aligned with that in Australia; after the 1977 Act came into

⁸⁵ Therefore the Court of Appeal extended the concept of implied licence into the field of copyright by holding that a purchaser of an article was impliedly licenced to infringe the owner's copyright in drawings of parts of that article so far as is necessary to enable repairs to be carried out. This was a genuine implied licence since, without it, the reproduction of the parts would infringe the plaintiff's copyright in the design drawings underlying their production drawings. *Cannon Kabushiki Kaisha v Green Cartridge Co.* (Hong Kong) Ltd [1997] A.C. 728.

⁸⁶ Patents Act 1977 section 30(1).

force the position (at least under the 1977 Act) was rather more aligned with that in the US and in Germany.

In 1981, in *Merck v Stephar*⁸⁷, the Court of Justice ruled further on the doctrine of exhaustion following another reference from the Hoge Raad. Merck's drug was patented in the Netherlands but had not been patentable in Italy at the relevant time because the law in Italy had prohibited the grant of patents for drugs and their manufacturing processes. The question for the court was whether its ruling in *Centrafarm v Sterling*⁸⁸ (i.e. that placing product on the market in the UK exhausted the patentee's rights in respect of its parallel patent in the Netherlands) applied also when the country in which the patentee placed the product was one in which it did not have patent protection (because patent protection had not been available). The answer was yes, there was still exhaustion. The CJEU explained:

"It is for the proprietor of the patent to decide, in the light of all the circumstances, under what conditions he will market his product, including the possibility of marketing it in a Member State where the law does not provide patent protection for the product in question. If he decides to do so he must then accept the consequences of his choice as regards the free movement of the product within the common market, which is a fundamental principle forming part of the legal and economic circumstances which must be taken into account by the proprietor of the patent in determining the manner in which his exclusive right will be exercised."

Compared to the volume of patent litigation before the courts in the UK, cases about parallel imports of patented goods (as opposed to branded goods) since the 1977 Act came into force have been fairly few and far between.

In 1992, in *Wellcome v Discpharm*⁸⁹, a judgment of the Patents County Court, the dispute concerned the parallel importation of goods made and placed on the market in Spain by a company in the same group as the patentee; and subsequently imported into the UK by a purchaser of the Spanish goods. HHJ Ford's judgment was on two preliminary issues, going to whether the defendant had a defence: under article 47 of Spain's Treaty of Accession to the EC or by way of licence.

HHJ Ford noted that the invention the subject of Wellcome's patent lay in the formulation of tablets, containing an admixture of two particular pharmacologically active ingredients, in such a way that the particle size of the active ingredients was decreased. This meant the tablets could be more compact, resulting in less discomfort when swallowed by the patient. Wellcome manufactured tablets in accordance with the invention in England. Wellcome's group company; Gayoso Wellcome SA manufactured such tablets in Spain. In Spain, Gayoso Wellcome SA was obliged by government regulation to sell 100 tablet packs of the more compact tablets at a price set in 1970 for the original non-compact tablets. In the UK, where the judge said the Government "tries to ensure that pharmaceutical manufacturers receive a fair return on capital employed and that prices are adjusted in line with cost of living increases", the more compact tablets (sold under the name 'SEPTRIN') were authorised for sale at four times the price. Discpharm admitted parallel importing the Spanish-made tablets into the UK, and in the above circumstances the judge noted that this posed a serious commercial problem for Wellcome.

⁸⁷ *Merck & Co. Inc. v Stephar BV & Anr*, Case 187/80, 14 July 1981

⁸⁸ *Centrafarm BV & Anr v Sterling Drug Inc* (Case 15/74) and *Centrafarm BV & Anr v Withrop BV* (Case 16/74), 31 October 1974

⁸⁹ *Wellcome Foundation Limited v Discpharm Limited & Ors* [1993] FSR 433, Patents County Court

Spain and Portugal had joined the European Community (formerly the EEC) on 1 January 1986. Their treaty of accession created a special exception (in article 47) to the application of the "exhaustion of rights" principle for holders of patents for chemical, pharmaceutical and plant health products. Judge Ford held that the exception of article 47 applied in respect of Wellcome's patent because: at the time it was sought (in 1974) it had not been possible to obtain patent protection in Spain for the SEPTIN product (only a limited form of process protection was possible); and Wellcome's patent was a patent for a pharmaceutical product. Therefore, the defendants' defence of exhaustion failed. He declined to refer questions to the CJEU on the interpretation of article 47.

Judge Ford then turned to consider the implied licence position. First, he held that Spanish law was the proper law of all the relevant contracts of sale and that thereunder none of the defendants acquired any licence to commit the acts complained of or any right to allege derogation from grant.

Secondly, the judge considered the position under English law. Following *Betts v Willmott* and the Privy Council's judgment in *Menck*, he said that it had become accepted that a patentee could impose conditions at the time of sale but there was a presumption that this had not been done. On the other hand, twelve years after *Betts v Willmott*, the Court of Appeal had distinguished it in *Tilghman* saying (as quoted above) that the holder of a licence to use a patented invention under a foreign patent "stands in a very different position" from the owner of an article sold without any restrictions on the buyer. (Note the point made above that this reasoning seems not to have been part of the *ratio decidendi* in *Tilghman*).

Judge Ford noted that the High Court of Kenya had held, in *Beecham Group v International Products*⁹⁰, that a sale by a patentee or his agent freed the article sold from the patentee's patents anywhere in the world but that in light of *Tilghman*, a sale by a licensee could only release the article from the patentee's rights to the extent that the licensee had authority to do so. Judge Ford noted that in *3M v Geerpres*, Graham J had considered that the defendants in the case before him, who had bought from suppliers who had bought from the patentee's licensee in the US, were in the same position as the licensees in the *Tilghman* case; and the licensees could not pass on to the suppliers any rights which they did not themselves have. He noted too that in *Smith Kline & French v Global*⁹¹ the Court of Appeal "did not shrink from giving the plaintiffs in that case assistance" in the circumstances where a local Spanish company had no formal written licence and it was the policy of the plaintiff organisation that its licensees operated only in their own territories. (*Smith Kline & French v Global* was a judgment concerning an interlocutory request for an injunction ordering the defendant to disclose information about their supplier).

Judge Ford held that the situation in the present case was closer to "the *Tilghman* line of cases than it is to the *Betts v Willmott* line of cases" because it was clear that Gayoso Wellcome SA had only a bare licence to manufacture under the Spanish patent. The judge declined to consider Gayoso Wellcome SA as for all practical purposes the same as the plaintiff, preferring to align in this respect with case law addressing parallel imports of copyright protected goods⁹² rather than the approach in modern trade marks case law of viewing the corporate enterprise group as an economic entity⁹³.

One might ask why, having discounted the European doctrine of exhaustion as applicable in the circumstances of the case, the judge did not just conclude that the parallel importer's act of importation

⁹⁰ *Beecham Group v International Products* [1968] R.P.C. 129

⁹¹ *Smith Kline & French v Global Pharmaceuticals* [1986] RPC 394

⁹² *Polydor Limited v Harlequin Record Shops* [1980] 2 CMLR 413; [1980] FSR 362

⁹³ *Revlon v Cripps & Lee* [1980] FSR 85

amounted to infringement. The answer is that a finding of infringement of a patent in the UK had always been subject to a defence of implied licence that the purchaser of the goods was free to use and sell them on (subject to explicit condition to the contrary); patent law in the UK had never operated as a form of national fencing to assist the patent owner with keeping its own goods out of the country.

Judge Ford's sympathy for Wellcome is apparent from his reasoning. In the circumstances of the case, Wellcome was unable to place its patented tablets on the market in Spain at the same price as in the UK because of the regulatory environment in Spain, and the judge found a way to reach what he considered to be a just result. However, the consequence was that Judge Ford continued the fiction developed in *3M v Geerpres* that *Tilghman* essentially created a new class of chattels to which restrictions contained in the licence under which they were first sold (to Rhodes) attached indefinitely, irrespective of whether notice was given to the owner of the goods.

At this point, one might wonder when *Betts v Willmott* would ever apply on facts involving multi-jurisdictional manufacture within group structures and intra-group licensing arrangements. In 1995 though, Mr Justice Jacob in the Patents Court delivered a judgment in a parallel imports dispute arising on simpler facts, in ***Roussel Uclaf v Hockley***⁹⁴.

The relevant facts in *Roussel Uclaf* were that technical grade deltamethrin (an insecticide) had been manufactured by Roussel Uclaf in France and exported to a limited number of facilities worldwide, for formulation into an appropriate strength for use in practice (2.5%). In China, Roussel Uclaf's supply was to a joint venture company. Some of the technical grade deltamethrin supplied to the company in China had been sold on (without being formulated) and had eventually been imported into the UK. Roussel Uclaf asserted that this infringed its patent rights in the UK.

Jacob J took the opportunity to state the law governing the patentee's ability to control subsequent use of patented goods after their sale, drawing on and in terms very consistent with the reasoning of the Privy Council in the *Menck* case. He said:

"It is the law that where the patentee supplies his product and at the time of the supply informs the person supplied (normally via the contract) that there are limitations as to what may be done with the product supplied then, provided those terms are brought home first to the person originally supplied and, second, to subsequent dealers in the product, no licence to carry out or do any act outside the terms of the licence runs with the goods. If no limited licence is imposed on them at the time of the first supply no amount of notice thereafter either to the original supplyee (if that is the appropriate word) or persons who derive title from him can turn the general licence into a limited licence."

As explained by Lord Shaw in the Privy Council in *Menck*, it was therefore critical to Roussel's position that they established that in the course of their original supply, they "brought home" to the relevant party the alleged limited licence. However Roussel Uclaf's evidence said nothing about the terms of supply to the Chinese company including that the technical grade deltamethrin supplied should not be resold.

Further, the imposition of limitations in a licence conveyed with goods upon their sale required that "notice be brought to the attention of every person down the chain". This was not established either. For good measure Jacob J confirmed that:

⁹⁴ *Roussel Uclaf S.A. v Hockley International Ltd. & Anr* [1996] RPC 441, High Court Patents Court

"Once the goods are sold without a limited licence then the purchaser buys them free of any patent restriction."

Jacob J's judgment in *Roussel Uclaf v Hockley*⁹⁵ is a clear description of the principle in *Betts v Willmott* / the doctrine of implied licence as it stood in the UK in 1995, how it operated in respect of goods after their first purchase, and authority confirming that *Betts v Willmott* and the doctrine of implied licence remained good law in the UK in 1995. (It is notable here that in the context of *trade marks*, it was not until 1998, in the case of *Silhouette v Hartlauer*⁹⁶ (in the context of trade marks), that the Court of Justice ruled that because *trade mark* law was harmonised across the EU, Member States could not choose whether or not to operate international exhaustion; the trade marks Directive was a complete code. By the time of the UK's exit from the EU, patent law continued not to be harmonised across the EU, despite the efforts of most Member States to bring the planned Unified Patents Court and Unitary patent system into operation).

The plaintiff's arguments that the imported technical grade deltamethrin were "grey market" goods was dismissed. This would have been a reference to the goods being imported from outside the single market, and therefore the patentee's rights not being exhausted, but Jacob J said that he did not really understand the relevance of the observation. The question was "not whether the market is grey or any other colour or shade, but whether or not conditions of a limited licence were imposed when the product was first supplied by Roussel".

In 1996, the Court of Justice revisited its doctrine of exhaustion, in respect of patents, in *Merck v Primecrown*⁹⁷. The joined cases had both been referred by the High Court of England and Wales' Patents Court and concerned the importation of medicines from Spain and/or Portugal. The question was the duration of the exception to the doctrine of exhaustion created by article 47 of the treaty by which Spain and Portugal acceded to the EC. The Court of Justice ruled that, following Spain and Portugal's accessions to the EPC, pharmaceutical products were made patentable in those countries, respectively, on 7 October 1992 and 1 January 1992. Therefore, the exception created by article 47 expired three years later, on 6 October 1995 in the case of Spain and 31 December 1994 in the case of Portugal. The Court of Justice also declined to depart from its ruling in *Merck v Stephar*⁹⁸.

In 1997, the Privy Council handed down a judgment in a dispute concerning cartridges for photocopiers and laser printers, on appeal from the Court of Appeal of Hong Kong: *Canon v Green*⁹⁹. Before the Privy Council, the dispute was confined to whether the acts of repair complained of amounted to infringement of copyright, but Lord Hoffmann said:

"Their Lordships would observe that the concept of a licence, namely something which "makes an action lawful, which without it had been unlawful" (*Thomas v Sorrell* (1674) Vaugh. 330, 351) is not really applicable to the repair of a patented article. Because repair is by definition something which does not amount to the manufacture of the patented article, it is not an infringement of the monopoly conferred by the patent. It cannot therefore be an unlawful act and needs no special licence to make it lawful, unless as part of a general implied licence to

⁹⁵ *Roussel Uclaf S.A. v Hockley International Ltd. & Anr* [1996] RPC 441, High Court Patents Court

⁹⁶ *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, Case C-355/96, 16 July 1998

⁹⁷ *Merck & Co. Inc. & Ors v Primecrown Limited & Ors*, Cases C-267/95 and C-268/95

⁹⁸ *Merck & Co. Inc. v Stephar BV & Anr*, Case 187/80, 14 July 1981

⁹⁹ *Cannon Kabushiki Kaisha v Green Cartridge Co. (Hong Kong) Ltd* [1997] A.C. 728

use the patented product at all, which is sometimes used to explain why mere user does not infringe the patentee's monopoly. But this is perhaps better regarded as a consequence of the exhaustion of the patentee's rights in respect of the particular article when sold."

Shortly afterwards, but almost ninety years after the Privy Council's judgment in the *Menck* case, in 1999 the UK the House of Lords finally had an opportunity to rule on the law in the UK governing use of a patented product after its sale, in ***United Wire v Screen Repair Services (Scotland)***¹⁰⁰. This was not a case about parallel imports, but about subsequent repair or modification. The dispute concerned mesh screens used in vibratory sifting machines in the oil exploration industry. When the mesh screens made by United Wire failed, they could be sent to the defendants, who would strip the old mesh off the frame and replace the mesh. United Wire asserted that the defendants' activities infringed their patents to the sifting screen assembly. This was the first case of note about repair versus making since the coming into force of the 1977 Act.

Lord Bingham noted the statutory position:

"The grant of a patent for a product rewards the inventiveness of the patentee by giving him, for the term of the patent, a monopoly right to exploit the patented product which he has invented. The product entitled to protection is that specified in the claim of the patent as interpreted by the description and any drawings contained in the specification: Patents Act 1977, section 125. The protection is against infringement which, in the case of a product, means making, disposing or offering to dispose of, using or importing the protected product, or keeping it for disposal or otherwise, without the consent of the patentee: section 60 of the Act. In any action brought by a patentee alleging infringement the crucial underlying question must always be whether what the defendant is shown to have done has deprived the patentee of the full rights to which his patent entitled him."

Lord Bingham agreed with Aldous LJ's reasoning in the Court of Appeal that acts as prohibited by s.60 were infringing acts whether or not they could be categorised as repairs, so it was better to consider whether the acts amounted to manufacture of the product rather than whether they could be called repair. Aldous LJ had drawn upon Lord Hoffmann's reasoning in *Canon v Green*, and then said:

"The concept of implied licence in patent cases does not seem apt now infringement ha[s] been defined in the Patents Act 1977 which was an Act giving effect to European obligations. In any case it suffers from the deficiency that such a licence could be excluded by agreement or the circumstances surrounding the sale by the patentee."

Lord Hoffmann (and the rest of the House of Lords bench) also agreed with the approach taken by the Court of Appeal: if a repair was not an infringement, it was because it did not infringe the patentee's right to prevent others from making the product. On the facts, the Court of Appeal concluded that there had been making. This was because the defendants had stripped back and then repaired or reconditioned the *frame* and then used that frame to make a *screen* in exactly the same way as if they had bought the frames as components from a third party.

Lord Hoffmann also noted that in (the pre-1977 Act case) *Solar Thomson v Barton*¹⁰¹, the debate had been whether or not the defendants had made the patented product; the juridical nature of the right to

¹⁰⁰ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2000] UKHL 42

¹⁰¹ *Solar Thomson Engineering Co. Ltd & Anr v. Barton* [1977] R.P.C. 537, High Court Chancery Division

repair was not in issue. Nevertheless, Lord Hoffmann made the following observation on the law more generally:

The concept of an implied licence to do various acts in relation to a patented product is well established in the authorities. Its proper function is to explain why, notwithstanding the apparent breadth of the patentee's rights, a person who has acquired the product with the consent of the patentee may use or dispose of it in any way he pleases. The traditional Royal Command in the grant of a patent forebode others not only to "make" but also to "use, exercise or vend" the invention. Similarly, section 60(1)(a) provides that a person infringes a patent for a product not only if he "makes" it but also if, without the consent of the proprietor, he "disposes of, offers to dispose of, uses or imports the product or keeps it whether for disposal or otherwise." Put shortly, the problem is to explain why, for example, a patentee cannot not complain when someone to whom he had sold the patented product then, without any further consent, uses it or disposes of it to someone else. The answer given by Lord Hatherley L.C. in the leading case of *Betts v. Willmott* (1871) L.R. 6 Ch. App. 239, 245 (which concerned the resale of a patented product) was that he did so by virtue of an implied licence...

This, therefore, was a statement by the House of Lords of how the principle in *Betts v Willmott* operated at the most simple level (i.e. in respect of a purchaser of goods having purchased those goods from the patentee in the UK), and that the doctrine remained good law in the UK in 2000.

Lord Hoffmann continued:

...An alternative explanation, adopted in European patent systems, is that of exhaustion of rights. The patentee's rights in respect of the product are exhausted by the first sale: see *Merck & Co. Inc. v. Primecrown Ltd.* [1997] 1 C.M.L.R. 83, 119. The difference in the two theories is that an implied licence may be excluded by express contrary agreement or made subject to conditions while the exhaustion doctrine leaves no patent rights to be enforced.

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. A repair of the patented product is by definition an act which does not amount to making it: as Lord Halsbury L.C. said of the old law in *Sirdar Rubber Co. Ltd. v. Wallington, Weston & Co.* (1907) 24 R.P.C. 539, 543:

"you may prolong the life of a licensed article but you must not make a new one under the cover of repair".

The Supreme Court's judgement in *Schütz v Werit*¹⁰², in 2013, similarly disposed of the dispute before the court by deciding whether an act of making had occurred. Schütz was the exclusive licensee of the patent asserted against Werit. The claimed invention was to a complete 'intermediate bulk container' (IBC) comprising a pallet (base), a container bottle and a cage surrounding the container. Werit sold bottles for IBCs to another company (Delta), which acquired discarded IBCs originally put on the market by Schütz, replaced the original bottles with Werit bottles, and then offered the 'cross-bottled' IBCs on

¹⁰² *Schütz (UK) Limited v Werit (UK) Limited* [2013] UKSC 16

the market in competition with the original Schütz IBCs. Schütz contended that Delta's activities infringed its patent. It was common ground that if Delta infringed then Werit did too.

In the Supreme Court, Lord Neuberger began his analysis with the relevant provisions of the 1977 Act. He noted the reasoning on the meaning of 'making' in *United Wire* and that in Germany in the context of similar statutory provisions, the Bundesgerichtshof (BGH) had delivered a number of judgments on the meaning of 'making' including one in relation to the German equivalent of the patent in issue in the English courts. The BGH also drew a distinction between 'repair' and the infringing act of making. Lord Hoffmann said that he did not read the BGH's reasoning as suggesting that the question of whether a new article is made depends on who carries out the work involved – that would be "illogical and unprincipled". Also, the BGH had made the point that the issue to be determined was not how a party viewed or marketed its products, but how those products should be characterised.

With reference to the House of Lords' reasoning in *United Wire*, Lord Neuberger emphasised that whether replacing a worn or damaged part of a patented article amounted to "making" the patented article was a matter of degree, to be assessed in each case. For example, replacing a worn detachable lid on the bottle of an otherwise original Schütz IBC could not plausibly constitute 'making', but this could not mean that there would be no infringement if one took a lid from an original Schütz ICB and replaced the bottle, cage and pallet.

Assessment of whether 'making' had occurred required the court to focus on the question of whether, when it replaced a component of the article the subject of the claim, Delta "makes" that article. In answering the question, it was legitimate and helpful to consider whether the bottle was such a subsidiary part of the patented article that its replacement, when required, did not involve "making" a new article. While the bottle was a physically large part of the patented article, it was a relatively subsidiary part of the article viewed as a whole. In particular, the bottle had a significantly lower life expectancy than the cage, and the bottle did not include any aspect of the inventive concept of the patent. The inventive concept was in the cage, which was repaired if necessary. In contrast to the facts in *United Wire*, in the present case the acts complained of did not amount to 'making'.

The nearest the Supreme Court's reasoning got to the doctrine of implied licence (or the doctrine of exhaustion) was in the following comment:

"Looking at the point another way, if the cage has a much greater life expectancy than the bottle, a purchaser of an IBC might well expect to be able to replace the bottle. As Lord Hatherley LC said in *Betts v Willmott* (1871) LR 6 Ch App 239, 245, in a passage cited by Lord Hoffmann in *United Wire* at para 68:

"When a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his licence to sell the article, or to use it wherever he pleases as against himself."

A judgment of Mr Justice Arnold, in the Patents Court in 2013 in *HTC v Nokia*¹⁰³, is for present purposes an important one because it considered the 'post-*Tilghman*' line of authorities.

Nokia contended that HTC infringed its patents. HTC denied infringement on a number of grounds, including that they were licensed. HTC had purchased the relevant chips from Qualcomm (the

¹⁰³ *HTC Corporation v Nokia Corporation* [2013] EWHC 3247 (Pat), High Court Patents Court

manufacturer) in Taiwan, where there was no patent. There existed an agreement between Qualcomm and Nokia. On the facts, the judge held that it was a licence which did not extend to the UK.

HTC did not contend that Nokia's rights were exhausted under the European doctrine of exhaustion - Qualcomm had placed the chips on the market outside the EEA. Nor did HTC contend that English law contained any doctrine of international exhaustion. The dispute was about the application of long-standing English authorities.

Arnold J noted that pursuant to *Betts v Willmott*, where a patentee sells a patented product, absent agreement to the contrary the purchaser has the right to dispose of the product. If the sale is abroad, the purchaser's rights extend to importing the product into the UK and selling it here. In *United Wire*, Lord Hoffmann said that the reasoning amounted to saying that the patentee had impliedly licensed the acts complained of. The patentee could exclude such an implied licence by expressly limiting the rights granted to the purchaser (*Roussel Uclaf*).

Arnold J said, however, that the Court of Appeal's judgment in *Tilghman* indicated that where a patented product had been sold abroad by a licensee of the patentee, rather than the patentee himself, the position was different; and the 'post-*Tilghman*' line of cases were, on their face, authority for the proposition that a purchaser from a licensee could only acquire such rights as the licensee had.

Council for HTC pointed out that *Tilghman* was not a case about a purchase from a licensee but one where the licensee was itself trying to sell the patented articles in England in circumstances where it had notice of the territorial restriction. To this, Arnold J said:

"I acknowledge that the decision could be justified on that basis, but as I read the judgments, that was not the Court of Appeal's reasoning. Rather, the court considered that there was a fundamental distinction between a sale of a product and a licence under a patent."

HTC argued that there was no good reason why the position should be different when goods are sold by an express licensee rather than [by the patentee with] an implied licence, and no particular reason why sales by an implied licensee should receive more favourable treatment. To this, Arnold J said:

"Put like that, I can see the force of the argument. In my judgment, however, the argument involves a sleight of hand. In the *Betts v Willmott* scenario, the licence is implied as a result of the outright sale of the goods by the patentee without restrictions. In the absence of restrictions, as I have said, the purchaser acquires all rights. Thus he acquires a licence which is territorially unlimited. By contrast, in the *Tilghman* line of cases, the licence is territorially limited."

Arnold J said that he thought it was "a little odd" that in contrast, in the *Betts v Willmott* scenario, the patentee could lose his right to enforce his patent as a result of a failure by a subsequent vendor to give notice of applicable restrictions to a subsequent purchaser. He continued:

"How then does an implied licence arise? But this does not necessarily support the conclusion that a sale by an express licensee should stand in the same position. An alternative analysis is that a sale exhausts the patentee's rights and that this cannot be trumped by contractual restrictions. In this regard, I would point out that section 60(1) was intended to implement Article 25 of the Community Patent Convention and must be construed in that light: see generally *Grimme Landmaschinenfabrik GmbH v Scott* [2010] EWCA Civ 1110, [2011] FSR 7 at [77]-[85] and [95]-[98]. Article 28 CPC dealt with exhaustion of Community patents and Article 76 CPC

dealt with exhaustion of national patents. Neither provided on their face for exhaustion to be excluded by contract. As matters stand, however, I am bound by *Betts v Willmott*."

Arnold J did not go back into the old authorities, noted above, to explore the conceptual nature of the right conferred by the grant of a patent in English law, and how and why a licence was implied by the common law as passing with the patented article, subject to explicit conditions and agreement to the contrary. Finally, he noted that in a recent copyright case, *Football Association Premier League Ltd v QC Leisure*¹⁰⁴, Mr Justice Kitchin had applied *3M v Geerpres* and distinguished *Betts v Willmott*.

As a result, HTC's defence of licence failed; it had infringed the UK patent.

Pausing here, it is worth noting that the 'post-*Tilghman*' cases referred to by Arnold J were three first instance judgments and two foreign judgments. The first instance judgments were *3M v Geerpres* (Graham J in the Chancery Division on an interim injunction application), *Wellcome v Discpharm* (HHJ Ford in the Patents County Court) and the copyright case. The foreign judgments both preceded the first instance judgments, and were *Beecham v International Products* (High Court of Kenya) and *Beecham v Shewan Thomas*¹⁰⁵ (Supreme Court of Hong Kong).

The judge of the High Court of Kenya in *Beecham v International Products* had been cited only two English cases: *Betts v Willmott* and *Tilghman*. He made no mention of *Cantelo* or *Brogden*, which informed the Privy Council's reasoning in *Menck*, or of the judgments of the High Court of Australia or the Privy Council in the *Menck* case. He was also cited, and considered, four American cases. In one, *Curtiss v United*¹⁰⁶, the court had considered and misstated the facts in *Tilghman*. The *Curtiss* judgment said that in *Tilghman* a third party had purchased the patented article in Belgium and imported it into England (which infringed the English patent), but (as the judgment in *Beecham v International Products* observed) that was not the case – in *Tilghman* the article had been made under licence in Belgium and then imported by the licensee into England. Apparently based upon the misunderstood facts, the American court in *Curtiss* appeared to accept the position that the importation into England of articles made by a mere ordinary licensee under his licence in Belgium was an infringement of the English patent even when (as mis-understood) imported into England by a *purchaser* in Belgium from the licensee. Upon the American court's apparent acceptance of that position as a matter of principle, the Kenyan court in *Beecham v International Products* accepted it too.

It is therefore clear, upon reading these authorities, that the ruling reached in the High Court in Kenya was not a re-iteration of the *ratio* ruling in *Tilghman*. It could be said to be based on the *obiter* comments made in *Tilghman*. However the *obiter* comments in *Tilghman* sit uncomfortably with the reasoning in *Cantelo*, *Brogden*, and (most importantly) the Privy Council's reasoning in *Menck*, none of which was considered by the Kenyan court.

In *3M v Geerpres*, Graham J drew upon the judgment of the High Court of Kenya in *Beecham v International Products*; he did not consider *Cantelo*, *Brogden* or *Menck*. In *Wellcome v Discpharm*, Judge Ford drew upon the reasoning in *3M v Geerpres*. He cited the Privy Council's judgment in *Menck* but only as authority for the position that a patentee can impose conditions at the time of sale but that

¹⁰⁴ *Football Association Premier League Ltd v QC Leisure* (No 2) [2008] EWHC 1411 (Ch), High Court Chancery Division

¹⁰⁵ *Beecham Group Ltd v Shewan Tomes (Traders) Ltd* [1968] RPC 268, High Court of Kenya

¹⁰⁶ *Curtiss Aeroplane and Motor Corporation v United Aircraft Engineering Corporation* 266 Fed. 71 (1920)

there is a presumption that this has not been done. *Cantelo* and *Brogden* were again not referred to, and nor was the explanation in *Menck* of the principles derived from them.

Remarkably, what seems to have happened with the 'post-*Tilghman*' line of authorities is that, following a paragraph of *obiter* reasoning by the Court of Appeal in that case, a mis-understanding of the facts in *Tilghman* by an American court in the 1920s and a mis-statement by that court of the principle therefore to be drawn from the *Tilghman* case, which was then accepted by a court in Kenya in the 1960s, a number of first instance judges in the UK have accepted that where goods are placed on the market by a licensee rather than the patentee himself, the *Betts v Willmott* principle does not apply. Instead, the rights at common law of the purchaser, and any subsequent purchaser, of the goods are limited by the terms of the licence granted to the licensee.

In fact, this is the reverse of the *Betts v Willmott* principle. Under *Betts v Willmott* the default is that a full licence to use and sell the goods is conveyed to the purchaser of patented articles and attaches to the goods upon the sale (unless there is brought home to the purchaser before their purchase clear and explicit conditions and agreement to the contrary). Upon any subsequent sale without prior notice of conditions (and agreement) to the contrary the implied licence reverts to the default full licence. But, under the post-*Tilghman* line it is impossible for a purchaser of goods from the licensee, or a subsequent purchaser, ever to have greater licence to use and sell the goods than is conveyed by the terms of the licence to the first licensee.

The consequence of the post-*Tilghman* line is that a new class of chattels has been created to which conditions imposed by the patentee run with the goods irrespective of who owns the goods. This approach to the law was expressly rejected by the Privy Council (Lord Shaw) in the *Menck* case. It would also seem to be inconsistent with several other sources of authority.

The Statute of Monopolies provides for the continued grant of monopoly patents for the sole working or making of a new manner of manufacture to the first 'inventor'. By 1852, the grant of a patent was to 'the patentee by himself, his agents or licensees, and no others'. This enabled the patentee to authorise or licence others to exercise his rights for him; it did not create a sub-category of patentee who could be placed in a preferable position as against purchasers than the patentee himself.

In *Betts v Willmott*, Lord Hatherley L.C. said that "unless it can be shewn, **not that there is some clear injunction to his agents, but that there is some clear communication to the party to whom the article is sold**, I apprehend that, inasmuch as he has the right of vending the goods in France or Belgium or England, has the right of vending the goods in France or Belgium or England, or in any other quarter of the globe, he transfers with the goods necessarily the licence to use them wherever the purchaser pleases...". The use of 'agents' in this context would seem to refer to the patentee and their agents and licensees, being the persons identified in the statute. There is nothing to suggest that a licensee (or goods placed on the market by a licensee), should be in a different position to the patentee or their 'agent' (or goods sold by them). In keeping with this, in *Cantelo* the patented articles had been sold by the patentee's agent, rather than the patentee, and the patentee asserted that they carried with them restrictions as to their further use. *Betts v Willmott* was held to apply – the contract completed without the purchaser being given notice of any conditions and so they were not bound by them. Why should the position of a licensee be different?

In *Badische*, Buckley J again noted that by the statute the plaintiffs were entitled to the sole privilege and authority "by themselves, their agents, licensees, and no others" to make, use etc. the invention. Again, if the patentee chooses to use the flexibility afforded by the statute to exercise their rights through

their agent or licensee, why should this choice put the purchaser of the patented product in a less advantageous position than if they dealt with the patentee themselves?

Arnold J's approach in *HTC v Nokia* also ignored the approach developing in the European doctrine of exhaustion in respect of trade marks. More on this below.

The final judgment to note from the courts in the UK is the ***Parainen Pearl Shipping***¹⁰⁷, case also given by Arnold J.

The defendant, *Jebsen*, owned a patent to a system for unloading of a powdery cargo from a ship. The claimants sought declarations to the effect that the use of a ship (the 'Vessel') in the UK would not infringe Jebsen's patent. The Vessel incorporated a pneumatic cement discharge system, which the claimants accepted fell within the scope of the claims of the patent. However, the claimants relied upon the fact that the Vessel had previously been owned by one of the claimants.

On the facts, the judge held that despite extensive repairs to the Vessel and the pneumatic cement discharge system incorporated within it, there had been no "making" of the patented product. Therefore, the defendants' rights in respect of the patent had been exhausted by its sale of the ship.

On the law regarding exhaustion, Arnold J said:

"Exhaustion is a doctrine of EU law which was devised by what is now the Court of Justice of the European Union to resolve the conflict between what are now Articles 34 and 36 of the Treaty of the Functioning of the EU ("TFEU"). It states that, where an intellectual property right holder has exercised its exclusive right by putting a product on the market that is subject to that right, it cannot exercise that right further to prevent free movement of the product within the EU. It is necessary for this purpose to identify the specific subject matter of the intellectual property right in question in order to determine whether the right holder's exclusive right has in fact been exercised. In the case of patents, the specific subject matter of the right was identified by the CJEU in Case C-15/74 *Centrafarm BV v Sterling Drug Inc* [1974] ECR 1147 at [9] as follows:

"In relation to patents, the specific subject matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements."

The CJEU's judgment in Case 187/80 *Merck & Co Inv v Stephar BV* [\[1981\] ECR 2063](#) at [9] is to the same effect.

By virtue of the Agreement of the European Economic Area, the patentee's rights are exhausted if the product is put into circulation anywhere within the EEA, which includes Norway."

¹⁰⁷ *Parainen Pearl Shipping Limited & Ors v Kristian Gerhard Jebsen Skipsrederi AS & Ors* [2018] EWHC 2628 (Pat)

Further, it was common ground that guidance as to when a product had been put into circulation for this purpose was given by the Court of Justice in the *trade mark* context in *Peak Holding v Axolin-Elinor*¹⁰⁸. From the reasoning in the same judgment, it was not possible to contract out of the exhaustion rule.

Arnold J held that in circumstances covered by the doctrine of exhaustion, EU law must pre-empt domestic law. Therefore, on the facts of the *Parainen Pearl Shipping* case only the EEA doctrine of exhaustion applied.

However, in respect of goods first placed on the market outside the EEA, Arnold J made clear that the *Betts v Willmott* principle might still apply. He said:

"I would not exclude the possibility that the doctrine of implied licence may apply in circumstances not covered by the doctrine of exhaustion."

As to the details of the doctrine of implied licence, Arnold J reiterated his description of the *Betts v Willmott* principle in *HTC v Nokia*, and quoted passages already noted above from *Roussel Uclaf v Hockley* and *United Wire v Screen Repair*.

2.1.10 Early law in Germany on patent exhaustion

UK patent law has developed in the context of parallel imports without reference to the development of German patent law. However, the doctrine of exhaustion developed by the Court of Justice has had its origins attributed to patent law in Germany.

In Germany, the Patents Act of 1877, section 34 provided:

"Any person who knowingly uses an invention in contravention of the provisions of Sec. 4 and 5 shall be liable to a fine of up to five thousand marks or to imprisonment for a term of up to one year and shall be obliged to compensate the infringer.

Prosecution shall only take place upon application."

Section 4 provided:

"The effect of the patent shall be that no person shall be entitled to manufacture, market or sell the subject-matter of the invention commercially without the permission of the patentee.

If the subject-matter of the invention is a process, machine or other apparatus, tool or other implement, the patent shall also have the effect that no person shall be entitled to apply the process or use the subject-matter of the invention without the permission of the patentee."

Section 5 provided:

"The patent shall not take effect against any person who, at the time of the application of the patentee, had already made use of the invention in Germany or had taken the steps necessary for its use.

¹⁰⁸ *Peak Holding AB v Axolin-Elinor AB*, Case C-16/03 [2004] ECR I-11313

Furthermore, the patent shall not take effect insofar as the invention is to be used for the army or for the fleet or otherwise in the interest of public welfare, as determined by the Imperial Chancellor. In this case, however, the patentee shall be entitled to appropriate compensation from the Reich or the State which has applied for the limitation of the patent in its particular interest, which compensation shall be determined by legal action in the absence of an agreement.

The effect of the patent shall not extend to equipment on vehicles which enter the country only temporarily."

The 1877 Act therefore defined acts of infringement in language closer to the modern terminology (derived from the Community Patent Convention of 1975) than any of the UK patent acts did prior to the 1977 Act (a purpose of which was to align UK law with the infringement provisions of the CPC).

The 1877 Act also provided, in the first sentence of section 5, for a national form of exhaustion.

In 1902, this was considered in a judgment of the Reichsgericht (Federal Court of Justice)¹⁰⁹. The case concerned a patent for the production of guaiacol carbonate. The patentee sought to restrain the defendant, who had purchased guaiacol from the patent holder at a low price and re-sold it at a higher price, from buying and re-selling guaiacol carbonate. Refusing the action, the Reichsgericht held that the patent was "consumed" once the patent holder made use of it and placed the product on the market. The patentee could not regulate how the product he placed on the market had to be used on the market, and especially could not prohibit a buyer from re-selling the product.

In 1971, in *Deutsche Grammophon v Metro-SB-Grossmärkte*¹¹⁰ the Court of Justice considered the compatibility of the German Copyright Law (article 17(2)) – which the plaintiff contended provided for national exhaustion - with articles 85(1) and 86 of the EEC Treaty (now articles 101(1) and 102 TFEU). The dispute was about gramophone records, which the plaintiff had manufactured in Germany and disposed of, by its subsidiary, in France. The Court of Justice held that for the plaintiff to exercise its exclusive rights in such a way was to prohibit the sale in Germany of products placed on the market by him or with his consent in another Member State would conflict with the free movement provisions in the Treaty. Three years later the Court of Justice drew on this reasoning in its *Centrafarm v Sterling*¹¹¹ judgment.

2.1.11 The effect of the UK's exit from the EU and the expiry of the transition period on 31 December 2020

Until 31 December 2020, the UK remained within the 'single market', which covered the EU and EEA states and Switzerland. As noted above, in accordance with the principle of free movement of goods and services enshrined in the governing treaties, the case law of the Court of Justice developed a doctrine of regional exhaustion in respect of patents. This was that while patent rights remained national in scope, the placing of goods on the market in any EEA country by the owner of the relevant patent, or

¹⁰⁹ RG, 26.03.1902 – I 403/01 - <https://opiniojuris.de/entscheidung/1278>

¹¹⁰ *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Grossmärkte GmbH & Co KG* (78/70): [1971] C.M.L.R. 631

¹¹¹ *Centrafarm BV & Anr v Sterling Drug Inc* (Case 15/74) and *Centrafarm BV & Anr v Winthrop BV* (Case 16/74), 31 October 1974 – [1974] E.C.R. 1183; [174] 2 C. M.L.R. 480

with their consent, generally exhausted the owner's ability to enforce their patent rights in those goods to prevent re-sale anywhere in the EEA.

The prohibition of the enforcement of IP rights against goods already placed on the market in the EEA had and continues to have basis in the treaty provisions governing free movement of goods in the EU/EEA. In respect of trade marks, the governing legislation subsequently incorporated the principle. Then in *Silhouette v Hartlauer*¹¹², the Court of Justice expanded its operation so as to prohibit Member States from treating goods first placed on the market *outside* the EEA in the same way. Member States were not permitted to recognise international exhaustion (at least in the context of trade marks). This meant that the UK's historically international approach to the application of fundamental principles of trade mark law was ended. For trade marks, the EU's trade mark legislation, and the EEA-regional doctrine of exhaustion, were a complete code. (For more detail, please see the discussion below in the context of trade marks).

However, in respect of patents, there remains no equivalent EU legislative provision. The European patent system is a system based on international treaty. It includes countries outside the EU and EEA; it is not a creature of EU legislation. Nor has the EU legislated to harmonise patent law more generally, except in a limited number of contexts (for example, the patentability of biological material).

For a long time, the EU has worked to create a harmonised patent system in the EU and a unitary patent right. Towards this end the vast majority of EU Member States signed the Agreement on a Unified Patent Court and pursuant to an enhanced cooperation procedure have worked towards the creation of a new court with jurisdiction to hear disputes in respect of European patents. Article 29 of the UPC Agreement states:

"Exhaustion of the rights conferred by a European patent

The rights conferred by a European patent shall not extend to acts concerning a product covered by that patent after that product has been placed on the market in the European Union by, or with the consent of, the patent proprietor, unless there are legitimate grounds for the patent proprietor to oppose further commercialisation of the product."

Pursuant to the UPC Agreement and associated EU Regulation, for participating Member States a European patent with unitary effect would also be created. In this context, Regulation 1257/2012 (implementing enhanced cooperation in the area of the creation of Unitary patent protection) included a provision (article 6) which states:

"The rights conferred by a European patent shall not extend to acts concerning a product covered by that patent after that product has been placed on the market in the European Union by, or with the consent of, the patent proprietor, unless there are legitimate grounds for the patent proprietor to oppose further commercialisation of the product."

This wording is equivalent to the provision made in trade marks legislation, the first version of which was introduced by the trade marks Directive of 1988, and was subsequently imported into the 1994 Act and the subject of the Court of Justice's ruling in *Silhouette v Hartfleur* prohibiting Member States from recognising international exhaustion in respect of genuine goods placed on the market outside the EEA.

¹¹² *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH* Case C-355/96, 28 September 1998 [1999] 3 C.M.L.R. 267, [1998] 9 WLUK 261

The UK enacted amendments to the Patents Act of 1977 to bring national law into compliance with its obligations under the UPC Agreement for the purpose of ratifying that agreement. (The UK completed its ratification of the UPC Agreement in April 2018). No amendment was made to expressly incorporate article 29 of the UPC Agreement (or article 6 of Regulation 1257/2012 – which would in any case have had direct effect in the UK).

However, the UPC Agreement has yet to be fully ratified by the requisite Member States in order to become fully operational, and so by the time of the expiry of the UK's exit transition period on 31 December 2020, the UPC Agreement had still not come fully into force. In the meantime, the UK had withdrawn its ratification of the agreement (with effect from 20 July 2020¹¹³) and left the EU.

So, there remains no legislative basis in the UK for the doctrine of exhaustion developed by the Court of Justice in respect of patents, other than the free movement of goods provisions in the EU's founding treaties, which in the UK have since been repealed by the European Union (Withdrawal) Act 2018.

The most recent judgment in the UK considering (*obiter*) whether the *Betts v Willmott* principle / doctrine of implied licence continues to apply in respect of goods first placed on the market outside the EEA – the *Parainen Pearl Shipping* case – was handed down after the UK's ratification of the UPC Agreement and before its withdrawal of the ratification. Legislatively speaking, that was the strongest point for arguing that EEA-regional exhaustion represented the complete position in the UK and excluded the continued international operation of the *Betts v Willmott* principle; but Arnold J expressly left open the possibility that the *Betts v Willmott* principle continued to operate in the UK in respect of goods first placed on the market outside the EEA.

Since 31 December 2020 (the expiry of the 'transition period'), the UK has been outside the single market.

From the perspective of the EU and the other countries remaining in the EEA, the UK is therefore now outside the EEA-regional exhaustion regime. The owner of a patent (or other intellectual property rights) covering EU or EEA countries is able to enforce such rights to prevent import into (and sale within) the EU/EEA of their own goods placed on the market in the UK (or any other country outside the single market).

From the perspective of the UK, however, The Intellectual Property (Exhaustion of Rights) (EU Exit) Regulations 2019 presently maintain the EEA exhaustion regime. They state (in effect) that anything which was, immediately before the expiry of the transition period, "an enforceable EU" right relating to the exhaustion of the rights of the owner of an intellectual property right under articles 34 to 36 of the Treaty on the Functioning of the European Union (or the equivalent provisions of the EEA Agreement) is retained EU law.

Therefore, the placing of patented goods on the market in the EU/EEA by the owner of the relevant patent continues to exhaust the patent owner's rights in the UK.

However, this does not clarify whether, before the expiry of the transition period, it was compatible for the UK to continue to apply *Betts v Willmott* (or the post-*Tilghman* line of authorities) in respect of

¹¹³ <https://www.consilium.europa.eu/en/documents-publications/treaties-agreements/agreement/?id=2013001>

patented goods placed on the market by the owner of the patent or with their consent *outside* the single market; or whether the position in this respect is different now that the transition period has expired.

2.1.12 Summary of the law in the UK as it now stands regarding the subsequent use of patented goods, with reference to selected relevant law in other countries

As will be apparent to any reader who has managed to digest the above description of the development of patent law in this area, stating the law in the UK as it currently stands is not entirely straightforward. However, the following can be said:

- For patents, the UK currently continues to recognise the EU doctrine of exhaustion in respect of patented goods placed on the market in the UK or the remaining 'single market' (being the EU, the EEA states and Switzerland) by the patentee or with their consent *to the extent that this means that* once such goods have been placed on the market in the UK or in the single market, the rights of the owner of the patent(s) in respect of those goods are exhausted.
- It is unclear whether, prior to the UK's exit from the EU, it was compatible with the UK's membership of the single market for the UK to continue to recognise in respect of patented goods first placed on the market *outside* the single market, the (more international) *Betts v Willmott*¹¹⁴ principle / doctrine of implied licence (with or without modification by the 'post-*Tilghman*' line of cases).
- In the context of trade marks, for which the law was harmonised across the EU, Member States could not choose whether or not to operate international exhaustion; the EU's trade marks legislation was a complete code. However, there was and remained at the expiry of the transition period no such legislation in force governing the position for patents and no ruling from the Court of Justice prohibiting continued recognition of any form of international exhaustion by Member States in respect of patents. In view of the long standing authority of *Betts v Willmott* in the UK (most recently including the Patents Court's judgment in *Roussel Uclaf v Hockley*¹¹⁵, the House of Lord's judgment in *United Wire*¹¹⁶, the Supreme Court's judgment in *Schütz v Werit*¹¹⁷ and the Patents Court's judgments in *HTC v Nokia*¹¹⁸ and *Parainen Pearl Shipping*¹¹⁹) and the absence of legislative provision or authority overruling it, the better view is probably that for goods first placed on the market outside the EEA, the *Betts v Willmott* principle remains good law in the UK.
- The line of authority that runs from *Betts v Willmott* to *Roussel Uclaf v Hockley* and the more recent judgments noted above, and was explained by the Privy Council in *Menck*, is well settled. It is the '*Betts v Willmott*' principle / the 'doctrine of implied licence' and it may be summarised as follows:

From the perspective of the law in the UK, when patented goods are sold by the patentee (anywhere in the world) there is transferred with the goods an implied licence to use them wherever and however the purchaser pleases, unless there is clear and explicit agreement to the contrary by the time of the sale. If no limitation is imposed in this way by the time of the sale, the implied licence transferred is unlimited. If a limitation is imposed by the time of the sale it will continue to bind subsequent purchasers of the

¹¹⁴ *Betts v Willmott* (1870-71) LR 6 Ch App 239, Chancery Appeals Court, Lord Hatherley L.C.

¹¹⁵ *Roussel Uclaf S.A. v Hockley International Ltd. & Anr* [1996] RPC 441, High Court Patents Court

¹¹⁶ *United Wire Ltd v Screen Repair Services (Scotland) Ltd* [2000] UKHL 42

¹¹⁷ *Schütz (UK) Limited v Werit (UK) Limited* [2013] UKSC 16

¹¹⁸ *HTC Corporation v Nokia Corporation* [2013] EWHC 3247 (Pat), High Court Patents Court

¹¹⁹ *Parainen Pearl Shipping Limited & Ors v Kristian Gerhard Jebsen Skipsrederi AS & Ors* [2018] EWHC 2628 (Pat)

goods *provided*, and only for so long as, those terms are brought home to each subsequent purchaser.

- The *Betts v Willmott* doctrine of implied licence represents a form of international exhaustion, although its conceptual origins and rationale differ from those from which the doctrines of international exhaustion developed in the United States and (much more recently) in Australia developed. Key points of comparison are:
 - o The *Betts v Willmott* concept of an implied licence being transferred upon first sale of the patented goods arose in recognition that the right conferred by a patent was by the operation of the royal prerogative and could be more than a purely negative right to exclude others. By the Statute of Monopolies of 1623 (section VI), the English Parliament permitted the Royal prerogative to continue to be used to grant patents for monopolies in respect of new inventions; a statutory provision that remains in force to this day. In contrast, the doctrines of exhaustion developed in the US and Australia developed from the concept of the right granted by a patent being merely exclusionary and not conferring a positive right.
 - o Pursuant to *Betts v Willmott* and the US and Australian doctrines of exhaustion, it is possible for conditions regarding use and sale of patented goods to run with the goods where notice or privity of contract requirements are satisfied. Pursuant to *Betts v Willmott*, the patentee may impose (clearly and expressly) conditions/limitations as to the purchaser's subsequent use and sale of the patented articles, but the conditions/limitations must be "brought home" and therefore agreed before the purchase and will only remain with the goods upon subsequent sale for so long as they are brought home to each subsequent owner before their purchase, without a break in the chain of notice. For as long as the relevant condition runs, the patentee retains their rights in *patent law* as against the owner of the goods in the event the conditions are breached, as well as their rights pursuant to contract. (Contractual conditions may also run for as long as privity of contract continues). In contrast, under the US and Australian doctrines of international exhaustion, any conditions agreed upon the first sale of the patented article (and any conditions which by notice continue to run upon subsequent sale) are enforceable *only* in contract.
 - o Pursuant to *Betts v Willmott* and the US and Australian doctrines of exhaustion, it makes no difference to the operation of the doctrine where in the world the patented goods were originally sold.
- The European doctrine of exhaustion (broadly speaking, as it has been developed in the context of trade marks) differs from the *Betts v Willmott* approach in a number of respects. In particular, the European doctrine of exhaustion:
 - o Applies only when the patented goods are placed on the market within the single market (this is unlike the US and Australian doctrines also)
 - o Exhausts the rights under patent law of the owner of a patent to restrict the use and sale of the patented goods as against the first purchaser of the patented goods and all subsequent owners of the goods
 - o Permits contractual conditions to bind the use and sale of the patented goods as between the owner of the patent and the first purchaser of the patented goods
 - o Prohibits any contractual conditions on the right to use and sell patented goods from binding any owner of the goods after the first purchaser.

- The post-*Tilghman* line of authorities in the UK (*3M v Geerpres*¹²⁰, *Wellcome v Discpharm*¹²¹, *HTC v Nokia*¹²²) derogate from the *Betts v Willmott* doctrine by permitting the rights of a patentee in patent law to attach to and run indefinitely with patented goods after their first sale, where those goods were first sold by a licensee of the patentee rather than the patentee themselves. The post-*Tilghman* line has not been considered by any appellate court in the UK and the principle upon which it was founded was expressly rejected by the Privy Council in *Menck*. Nevertheless, the approach was accepted and applied by Arnold J in the Patents Court in 2013 and so appears to form a part of the law in the UK. The post-*Tilghman* line of authorities enables a patentee, through licensing, to retain assertable patent rights in patented goods subsequently sold, irrespective of whether any notice of limit on permitted use and of the patented goods is brought home to a purchaser by the time of the purchase. The approach therefore stands in contrast to the *Betts v Willmott* principle / doctrine of implied licence and the European, US and Australian doctrines of exhaustion.

2.1.13 How should patent law in the UK now be developed in respect of parallel imports?

How the law in the UK should be taken forward entails two questions:

- 1) What sort of regime would best balance in the UK the competing rights of patent owners with the rights of the subsequent owners of patented goods?
- 2) How should the regime settled upon be brought into force in the UK?

The question of what sort of regime would best balance in the UK the competing rights of patent owners with the rights of the subsequent owners of patented goods entails consideration of a number of factors:

- Should the regime be territorially limited in some way (as with the European doctrine of exhaustion) or applicable without territorial restriction (as with the approach taken in the UK following the *Betts v Willmott* principle / doctrine of implied licence, and the US and Australian doctrines of exhaustion)?

In view of the law as it stands today (summarised above), if a legislative approach were to be taken to expressly provide for an EEA-regional exhaustion regime, to the exclusion of the *Betts v Willmott* approach for goods imported from outside the EEA, this would seem to restrict territorially the exhaustion regime as it presently stands (or at least arguably continues to stand) in the UK.

- Should the regime be based on an implied licence or a doctrine of exhaustion?
The *Betts v Willmott* doctrine of implied licence is a workable doctrine that has survived for 150 years because it is workable. Its conceptual origins reflect the origins of patent law in the UK and other aspects of the legal system in the UK, and its continued existence in the law in the UK remains justified by the continued operation of section VI of the Statute of Monopolies. Its continued place and usefulness in a common law legal system such as that of the United

¹²⁰ *Minnesota Mining & Manufacturing Company & Anr v Geerpres Europe Limited* [1973] FSR 133, High Court Chancery Division

¹²¹ *Wellcome Foundation Limited v Discpharm Limited & Ors* [1993] FSR 433, Patents County Court

¹²² *HTC Corporation v Nokia Corporation* [2013] EWHC 3247 (Pat), High Court Patents Court

Kingdom was explained well by the dissenting minority of the full High Court of Australia in *Calidad v Seiko Epson*¹²³.

(If an implied licence regime is preferred, consideration should be given as to what to do regarding the post-*Tilghman* line of cases, in particular whether those authorities should continue to operate alongside the *Betts v Willmott* line of authorities).

On the other hand, under the Patents Act of 1977, a patent is a right of personal property¹²⁴ (rather than a right of monopoly) that entitles the owner of the patent to restrain the acts of infringement as defined by the statute. The legislative position in the UK has therefore developed from the position under which the *Betts v Willmott* doctrine emerged, and is closer to the legislative position in the US and Germany under which doctrines of exhaustion emerged.

Is the right granted by a patent under the 1977 Act now merely a negative right to exclude others? If so, a doctrine of exhaustion would be just as suitable an approach as a doctrine of implied licence.

If the right granted by a patent under the 1977 Act continues to represent more than merely a negative right (as historically was the position pursuant to the operation of the royal prerogative), the modern structure of the legislation, and in particular the defined acts of infringement, provide a logical foundation for a move to a doctrine of exhaustion. However as this arguably would restrict the rights of patentees (at least theoretically), this would best be done by enactment, i.e. amendment to the Patents Act, to provide a clearly expressed exhaustion system.

- Should the regime permit conditions to bind purchasers subsequent to the first purchaser where adequate notice is satisfied?

The question of how the regime settled upon should be brought into force depends upon the nature of the regime that is settled upon:

- If the decision is that the *Betts v Willmott* doctrine of implied licence should again apply generally in the UK, this could be achieved by repealing The Intellectual Property (Exhaustion of Rights) (EU Exit) Regulations 2019. However, the Supreme Court would then be free to consider the area afresh and could, potentially, adopt a doctrine of exhaustion in its place if they considered that, in view of the 1977 Act, this was the better approach. Legislating to state the law in terms consistent with the *Betts v Willmott* line of authority would provide more certainty and in a shorter timeframe. It would also enable a position to be taken harmonising the approach in respect of different IP rights.
- If the decision is that the UK should adopt a modern doctrine of exhaustion, this should be achieved by repealing The Intellectual Property (Exhaustion of Rights) (EU Exit) Regulations 2019 and legislating to enact a doctrine of exhaustion. In *Calidad*, the dissenting minority of the full High Court of Australia observed that adopting an exhaustion theory in Australia in place of the *Betts v Willmott* doctrine of implied would diminish the rights granted to the patentee and would be a fundamental change to patent rights, and therefore the question of whether to adopt such a course should be for the legislature and not the courts. The same point can be made in respect of the law in the UK, not least because of the continued presence in English law of the

¹²³ *Calidad Pty Ltd & Ors v Seiko Epson Corporation & Anr* [2020] HCA 41, 12 November 2020

¹²⁴ Patents Act 1977, section 30(1)

Statute of Monopolies section VI. Legislation would also enable a consistent approach to be taken in respect of different IP rights. The Singapore Patents Act¹²⁵ provides an example of a statutory exhaustion regime in modern patents legislation.

2.2 Trade mark law (including passing-off)

The purpose of this note is not to set out the law as it presently stands governing exhaustion of registered trade marks – current textbooks such as *Kerly's* provide commentary – so only a very brief summary of the present law will be provided below. Rather, the purpose of this note is to provide commentary on English law in this area outside of EU law.

For registered trade marks, the current law (in particular the Trade Marks Act of 1994) has its origins from the treaties establishing, and the legislation of, the European Union (and the predecessor European Communities and European Economic Community). Prior to the 1994 Act coming into force, the UK's registered trade mark system was governed by the Trade Marks Act of 1938, which superseded earlier legislation dating back into the 19th century, which had been enacted following the emergence of protection for trade names in the common law, and in particular 'passing-off'.

In respect of protection under the English common law against 'passing-off' (which offers some protection for unregistered trade marks), the position remains governed by the jurisprudence of courts in the United Kingdom.

When seeking to understand how the law in the UK has approached 'exhaustion' outside of EU law (i.e. been applied in respect of parallel imports of genuine goods), it is necessary to delve back into the history of the law well before the UK's accession to the European Communities in 1973.

2.2.1 The emergence of passing-off and trade mark law

Above, commentary is provided on the emergence of patent law and concepts relevant to exhaustion in respect of patent rights in England and Wales, and later the UK. This forms the background to the emergence of jurisprudence, and subsequently legislation, enabling the protection of trade marks, but it can only be taken so far.

It is clear that since the early seventeenth century, the rationale governing the approach taken by the courts in respect of trade marks has differed from that for patents. As a result, by the time of the UK's accession to the European Communities, for the treatment of parallel imports there were distinct lines of authority, underpinned by different rationale, for patents and trade marks. Both, however, had in common a key feature: an international approach to the analysis – there was no fortress UK – as will become clear below.

Let us start, though, with the known beginnings.

In England in medieval times, the regulation of trade lay within the prerogative of the Crown, as exemplified by the charters and patents granted to the medieval trade guilds and corporations. 'Patents' conferring monopolies were granted for many things, not just inventions, as a way of conferring favours on individuals. During the reign of Queen Elizabeth I (1558-1603), particular concern arose about the

¹²⁵ Singapore Patents Act of 1994, as revised in 2005, section 66(2)(g) & (i), (3) & (5A)

practice. Commodities such as coal, oil, salt and vinegar had been made the subject of monopolies. Complaint was made in Parliament in England, and bills were introduced (unsuccessfully) to curtail it.¹²⁶ Many complaints appear to have been brought before the courts.¹²⁷

Eventually, a landmark judgment was handed down. The '**Case of Monopolies**'¹²⁸ concerned a patent awarded to a Mr Darcy for the monopoly of importing, manufacturing and selling playing cards, and whether the court should void it or not. The Court of King's Bench noted the damaging effects of monopolies and that statute prohibited traders from conspiring together to influence the prices of their wares or labours. Drawing upon earlier authorities - on 'Kingship', the Magna Carta and principles from the Bible - the court held that the patent in issue was plainly a monopoly patent and so it was void at common law, as well as contrary to statute. However the court expressly excepted from its ruling a particular category of patents: it permitted the Crown to continue to exercise its royal prerogative to grant valid patents for monopolies in respect of new inventions.

The Case of Monopolies can be identified as the point at which the principles underpinning patent law began to diverge from those underpinning (what we now describe as) trade mark law.

In 1624, the Statute of Monopolies codified the position. Any monopoly patent granted by the Crown was void unless it was for a new invention and complied with certain restrictions.

With this background, an interesting read may be found in a judgment of the Court of Chancery from 1742, **Blanchard v Hill**¹²⁹. The plaintiff had sought an injunction to restrain the defendant from using the '*Mogul*' stamp on his cards, relying upon a charter granted to the card-makers' company by King Charles I¹³⁰. Declining to grant the injunction sought, the Lord Chancellor held that the intention of the charter was illegal, at least to the extent it sought to restrain the defendants from making cards with the same mark, sought to prohibit the importation of cards from "foreign parts", and sought to confine the making of cards to London and ten miles about it. The court explained that the authority apparently conferred, by the charter, upon card-makers to seal their own cards, was so that it might be plain to the receiver of duty who was the maker of the cards to enable the making up of the yearly account relating to the duty. (The design of the grant of the charter was to raise a sum of money for the crown). But this was illegal and the payment of duty had been discontinued "long since". The Lord Chancellor therefore took the charter to be "one of those monopolies which were so frequent" in the reign of King James I – which was when the application for the charter had been made - and subject to ruling of the court in the Case of Monopolies.

Interestingly for present purposes, the Lord Chancellor said:

"There is another clause in the charter, that in order every card maker may know his cards, from another card-maker, each trader shall lodge his mark or stamp with the receiver, *to prevent any fraud upon our loving subjects*.

¹²⁶ *Terrell*, 19th edition, 1-10

¹²⁷ This is apparent from the number of references in recorded judgments to earlier disputes about the awarding of monopoly patents by the monarch. See for example the separate reports of the Case of the Monopolies, in Noy 173 (74 ER 1131) and 11 Co.Rep.85.

¹²⁸ *Darcy v Allin* (1602) 1 W.P.C.1 and 5; Noy 173 (74 ER 1131); Moore K.B. 671; 11 Co.Rep.85.

¹²⁹ *Blanchard v Hill* 26 E.R. 692 (18 December 1742) The Lord Chancellor

¹³⁰ King Charles I reigned 1625-1649. He believed in the divine right of kings and quarrelled with the attempts by Parliament to curb his royal prerogative. Eventually this resulted in the English Civil War and King's execution for high treason in 1649.

This is a colourable end, but if any weight was to be laid upon these colourable recitals, it would be establishing every other monopoly...

...An objection has been made, that the defendant, in using this mark, prejudices the plaintiff by taking away his customers.

But there is no more weight in this, than there would be in an objection to one innkeeper, setting up the same sign with another."

The Lord Chancellor also said:

"Every particular trader has some particular mark or stamp; but I do not know any instance of granting an injunction here, to restrain one trader from using the same mark with another; and I think it would be of mischievous consequence to do it."

So it would seem that in the mid-eighteenth century, no cause of action in passing-off was recognised. As discussed in *Wadlow*¹³¹, cases dating back to the seventeenth century are known that today can be described as early considerations in the area, but largely they were ad hoc decisions motivated primarily by a desire not to let an unmeritorious defendant escape liability, and so the law advanced on the strength of common sense and juridical instinct, with rationalisation and consolidation coming later. Therefore the emergence of passing-off in the jurisprudence as a distinct body of law remains somewhat obscure. Nevertheless, the earliest cases appear to have involved allegations of fraud in a generic sense, involving some sort of deception. This is reflected in the modern cause of action in passing-off by the requirement for misrepresentation.¹³²

As with patent law, some principles that today may be considered as relevant to, or underpinning, concepts of exhaustion, emerged in the general body of law about (what is now) called passing-off. However, from the Case of Monopolies, The Statute of Monopolies, and *Blanchard v Hill*, it is clear that (in contrast to the right granted by a patent by the exercise of the royal prerogative in respect of a new invention), the early protection that emerged in the case law against passing-off/in respect of a trade name was by way of cause of action against another person drawing upon equity and/or the common law, not based upon a right (positive or negative) conferred upon one person against others by the Crown.

For example, in *Singleton v Bolton*¹³³, the plaintiff's father had prepared and sold a medicine called "Dr Johnson's Yellow Ointment", for which no patent had been obtained. After his father's death, the plaintiff continued to sell the same medicine, marked in the same way. The defendant also sold the medicine, with the same mark. In the Court of King's Bench, Lord Mansfield said that if the defendant had sold a medicine of his own under the plaintiff's name or mark, that would be a fraud for which an action would lie. But here, both the plaintiff and the defendant used the name of the original inventor, and there was no evidence that the defendant had sold it as if prepared by the plaintiff.

Forty years later, another judgment of the Court of King's Bench was handed down, which appears to show movement in the operation of the law towards a cause of action in passing-off. In *Sykes v*

¹³¹ *Wadlow on the Law of Passing-Off*, Sixth Edition Chapter 1D - History

¹³² *Reckitt & Colman Products Ltd v Borden Inc* [1990] 1 WLR 491 *Starbucks (UK) Ltd & Anr v British Sky Broadcasting Group Plc & Ors* [2015] UKSC 31, Supreme Court

¹³³ *Singleton v Bolton* (1783) E.R. 661, Court of King's Bench

Sykes¹³⁴, the plaintiff made and sold a large quantity of shot-belts, powder flasks etc, which he marked with the words "Sykes Patent", in order to denote that they were manufactured by him, the plaintiff, and so as to distinguish them from articles of the same description manufactured by other persons. (The plaintiff's father had been granted a patent but it had subsequently been found invalid). The defendant later made "a great quantity" of shot-belts and powder-flasks, and marked them with a stamp resembling as nearly as possible the mark used by the plaintiff, after which the plaintiff's sales of its products decreased. The person who bought the defendant's goods, for the purpose of re-selling them, knew that they had been manufactured by the defendant and not the plaintiff. The Court of King's Bench declined to overturn the verdict reached by the jury, which was that the defendants had adopted the mark in question for the purpose of inducing the public to suppose that the articles were not manufactured by them but by the plaintiff.

In 1856, the law as it then stood was captured by the Lord Chancellor in the Court of Chancery, in **Farina v Silverlock**¹³⁵. The plaintiff manufactured Eau de Cologne, at Cologne. He sought to restrain the defendant, who was a printer of chemical and pharmaceutical labels, from printing and selling labels resembling those used by the plaintiff. The Vice-Chancellor granted the injunction sought, but on appeal the Lord Chancellor varied it, directing that the bill should be retained for twelve months with liberty for the plaintiff to bring any action at law. (The practice at the time was for litigants to seek an interim injunction from the Court of Chancery, then bring an action at law for damages before a jury in a common law court, then go back to the Court of Chancery to have the interim injunction made final)¹³⁶.

The Lord Chancellor said that the law was perfectly clear that anyone who had adopted a particular mode of designating his particular manufacture had a right to say, not that other persons shall not sell exactly the same article, better or worse, or an article looking exactly like it, but that they shall not sell it in such a way as to steal (so to call it) his trade-mark, and make purchasers believe that it was the manufacture to which that trade-mark was originally applied. The Lord Chancellor said that this principle was the foundation of the present bill, the plaintiff alleging that the article manufactured by him since 1832 was well known throughout Europe and in this country and his label, including the words "Johann Maria Farina gegenüber dem Jülichs Platz" written in a particular and distinctive way, was the mode by which he designated his Eau-de-Cologne. The plaintiffs had completed a trap purchase of one hundred labels from the defendant that were the same, or nearly the same, as those of the plaintiff. But this was not necessarily to be enough to justify the award of the injunction sought. The Lord Chancellor said:

"There is one view of this case which I doubt very much whether it was quite present to the mind of the Vice-Chancellor, who seems to have taken great pains in his judgment, and I never differ from His Honour without hesitation. It, however, seems to be clear, that any man who had got the Eau-de-Colone of Johan Maria Farina but had not got a label, might employ any printer he thought fit to print or engrave for him a label which should be an exact counterpart of that which was used by Johan Maria Farina; for there is no copyright in it. All that the law restrains a person from doing is, selling the article which is not the manufacture of Johann Maria Farina with the label of Johann Maria Farina upon it; but if it be the article which has been manufactured by Johann Maria Farina, it can be no ground of complaint by Johann Maria Farina that the person sells it with something upon it to represent his trade-mark, though it is not a genuine trade mark....any man would be at liberty, if it was writing instead of printing, to write, or if he was capable of printing and engraving, to print and engrave for himself, a label being a

¹³⁴ *Sykes v Sykes* (1824) 107 E.R. 834, Court of King's Bench

¹³⁵ *Farina v Silverlock* (1856) 43 E.R. 1214, Court of Chancery

¹³⁶ *Wadlow*, 1-83

colourable imitation of or a copy of the Plaintiff's label, and to put it on Eau-de-Cologne being the Eau-de-Cologne of the Plaintiff".

In more modern terminology, there would be no misrepresentation by replenishing the labelling of genuine goods.

In 1880 in *Singer v Loog*¹³⁷, in a dispute about the defendant's use of the name *Singer* in respect of sewing machines manufactured by the *Sewing Machine Manufacturing Company* (of Berlin), the Court of Appeal addressed what it was that the common law protected. James LJ said:

"...no man is entitled to represent his goods as being the goods of another man ; and no man is permitted to use any mark, sign or symbol, device or other means, whereby, without making a direct false representation himself to a purchaser who purchases from him, he enables such purchaser to tell a lie or to make a false representation to somebody else who is the ultimate customer. ... there is no such thing as a monopoly or a property in the nature of a copyright, or in the nature of a patent, in the use of any name."

Lush LJ said that what *Singer* had a right to require was that which was common to every manufacturer of goods, namely, "that no competitor shall be at liberty to attempt to put off goods of his own manufacture as being goods of the manufacture of another".

The Court of Appeal's judgment in *Singer v Loog* was subsequently affirmed by the House of Lords¹³⁸. A registered trade mark system was first introduced in the UK by the Trade Marks Registration Act of 1875. The Act conferred on the proprietor the right to the "exclusive use" of the trade mark. (The exclusive nature of the rights conferred by the registration of a trade mark continued under subsequent acts, including under the current Trade Marks Act of 1994¹³⁹).

In *Bow v Hart*¹⁴⁰, the issue for the (third instance) Court of Appeal was whether the County Court had jurisdiction to determine questions of infringement and validity of a registered trade mark and (if infringement was found) to award an injunction. Concluding that the County Court did not have such jurisdiction, the Court of Appeal outlined the difference between the Common Law Courts and the Equity Courts with respect to actions to enforce the right to (unregistered) trade marks before the changes introduced by the Judicature Act of 1873, the effect of that Act, the effect of the County Courts Acts of 1846, 1865 and 1888, and certain provisions of the Patents, Designs and Trade Marks Act of 1883. Most interestingly for present purposes though, Vaughan Williams LJ said:

"I think that the registration of a trade-mark does not give to the owner of the trade-mark a privilege granted by the Crown in right of its prerogative. Registration of a trade-mark under the Patents, Designs and Trade Marks Act, 1883, only affects the rights of proprietors of trade-marks in legal proceedings for infringement, and the conditions under which actions for infringement can be brought, and the effect of proof of registration in support of the plaintiff's case. There is nothing...in the part of the Act dealing with the effect of registration to suggest a grant of a privilege in derogation of the common law rights of other subjects of the Crown. The Act assumes that in a sense there may be property in a trade-mark, and provides for the protection of that property by a statutory system of registration, and regulates the proceedings

¹³⁷ *Singer Manufacturing Company v Loog* (1880) 18 Ch. D. 395, Court of Appeal

¹³⁸ *Singer Manufacturing Co. v Loog* (1882) 8 App. Cas. 15, House of Lords

¹³⁹ See the Trade Marks Act 1994 section 9

¹⁴⁰ *Bow v Hart* [1905] 1 K.B. 592, 593, 594, Court of Appeal

to obtain registration or to object thereto, and the correction of the register. But that is all that this Act or the amending Act in 1888 seems to me to do in respect of trade-marks."

The difference in the conceptual nature of the right conferred by the grant of a patent, and the right granted by registration of a trade mark, was clear. Under the early trade marks legislation, registration of a trade mark merely conferred protection equivalent to that available under the common law against passing-off. Registration did not confer any sort of privilege by the operation of the royal prerogative.

An early parallel imports case involving trade marks and passing-off was heard by the Chancery Division of the High Court in ***Champagne Heidsieck v Buxton***¹⁴¹; in addressing the nature of the right granted by the registration of a trade mark, Mr Justice Clauson drew upon *Bow v Hart* and *Singer v Loog*. He also noted that section 39 of the Trade Marks Act of 1905 vested in the registered proprietor the exclusive right to the use of the mark "or, in other words, a monopoly". As to what exactly that meant, the defendant (Buxton) contended that the effect of the 1875 Act was not merely to give the proprietor statutory title in respect of his mark to the same rights as those which, before the Act, he could have obtained under the common law by proving that the mark had become his trade mark. Buxton contended that registration had the further effect of vesting in the owner of a trade mark the right to object to any person selling or dealing with goods produced by the owner of the trade mark with the trade mark affixed, except on such terms and subject to such conditions as to resale, price, area of market, and so forth, as the owner of the trade mark chose to impose. Clauson J said:

"It was, in effect, suggested that, whereas before 1875 a trade mark, if established as a trade mark, was a badge of the origin of the goods, the effect of s.3 of the Act of 1875 was to make a registered trade mark a badge of control, carrying with it the right in the owner of a registered trade mark to full control over his goods, into whosoever hands they might come, except in so far as he might expressly or by implication have released this right of control. I do not so read the section. Nor am I aware that, until the present case, any such construction of the section or of corresponding sections in subsequent Acts has been adopted by any tribunal; or indeed that, until very recent times, any such construction has been propounded to any tribunal. It would be astonishing, if in an Act to establish a register of trade marks, such a remarkable extension of the rights of owners of trade marks were intended to be enacted by the use of such terms as appear in the section. The section appears to me to mean that the proprietor of a registered trade mark is to have the right exclusively to use such trade mark in the sense of preventing others from selling wares which are not his marked with the trade mark. I do not believe that the legislature intended to say, or can fairly be held to have said, that the registration of a trade mark had the wide consequences suggested by the plaintiffs."

Further, Clauson J said that to the extent there was any doubt about this upon the wording of the 1875 Act, it vanished upon analysis of the 1905 Act. From section 39 of the 1905 Act it was quite clear that the exclusive right to use the mark conferred on the registered proprietor was the right to use the mark as a trade mark, "i.e., as indicating that the goods upon which it is placed are his goods and to exclude others from selling under the mark wares which are not his". Clauson J concluded:

"I prefer to adopt with approval, subject to a slight verbal amendment, a statement of the law in a well known textbook, Kerly on Trade Marks (2), and to hold that the use of a mark by the defendant which is relied on as an infringement must be a use upon goods which are not the genuine goods, i.e., those upon which the plaintiffs' mark is properly used, for any one may use

¹⁴¹ *Champagne Heidsieck et Cie Monopole SA v Buxton* [1930] 1 Ch 330, High Court Chancery Division

the plaintiffs' mark on the plaintiffs' goods, since that cannot cause the deception which is the test of infringement."

It was the sixth edition of the *Kerly on Trade Marks* text that was cited. (The (current) sixteenth edition lists the third to sixth editions as "by F.G. Underhay", and the first to third editions (1894-1908) as "by D.M. Kerly". In the *Champagne Heidsiek v Buxton* case, Sir Duncan Kerly K.C. represented the plaintiffs).

Therefore in 1930, passing-off remained a cause of action, satisfied where the requisite elements of the tort were met; whereas the registered trade marks system provided for the creation of an exclusive right to use the registered trade mark upon or in connection with the goods for which it was registered. However, unlike the right conferred pursuant to the royal prerogative by the grant of patent, the registration of a trade mark conferred upon the proprietor a right equivalent to that protected at common law by the emerging body of jurisprudence defining the cause of action described today as 'passing-off'.

How the registered trade mark system has addressed parallel imports, from *Champagne Heidsiek v Buxton*, is addressed below after considering how passing-off has been applied to parallel imports.

2.2.2 How passing-off applies to parallel imports

Case law subsequent to *Farina v Silverlock*¹⁴² has established a general position that it is not passing-off to import goods marketed abroad by the plaintiff (or an associated business) and to sell them under the name or mark applied by the plaintiff because in such circumstances there is no misrepresentation as to the origin of the goods.

An early case about parallel imports was in 1924, in *Imperial Tobacco Company of India v Bonnan*¹⁴³. Imperial Tobacco sought to restrain Bonnan from selling in India a well-known brand of cigarettes which for some years they alone had been importing into and selling in India; Imperial Tobacco were the assignees of the trade mark and goodwill for India. On appeal from the High Court at Calcutta, the Privy Council held that apart from contract or misrepresentation, there was nothing to prevent a person from acquiring goods from a manufacturer and selling them in competition with them, even in a country into which the manufacturer, or their agent, had been the sole importer. There was no misrepresentation by Bonnan or attempt to pass off the cigarettes sold by him as the plaintiffs' goods.

Similarly, in *Champagne Heidsiek v Buxton*¹⁴⁴, in the Chancery Division of the High Court, Mr Justice Clauson concluded that there was nothing to lead him to conclude that the defendant's sale in England of the plaintiff's type of Champagne (which included the word 'BRUT' in the label) had deceived/induced, or was likely to deceive/induce, any reasonable purchaser to believe that the wine which it contained was other than that which it in fact contained – namely the plaintiffs' Brut Dry Monopole wine. The plaintiffs in that case manufactured a different wine for the English market and had made efforts to prevent the Brut wine that it made for sale in France from leaking into the English market. (Note, however, that in *Champagne Heidsiek v Scotto and Bishop*¹⁴⁵, an injunction had been ordered where

¹⁴² *Farina v Silverlock* (1856) 43 E.R. 1214

¹⁴³ *Imperial Tobacco Company of India, Limited v Bonnan & Ors* [1924] A.C. 755, Privy Council

¹⁴⁴ *Champagne Heidsiek et Cie Monopole SA v Buxton* [1930] 1 Ch 330, High Court Chancery Division

¹⁴⁵ *Champagne Heidsiek et Cie v Scotto & Bishop* (1926) 43 RPC 101

the defendants had sold in England the continental quality under labels that were forgeries of the plaintiffs labels and described the product concerned as the English quality).

In the hundred years since the High Court's judgment in *Champagne Heidsiek v Buxton*, the legal position in respect of parallel imports in the context of passing-off has remained broadly consistent. For example, in *Revlon v Cripps*¹⁴⁶, the plaintiffs alleged passing-off by the defendants' import and sale in the UK of REVLON FLEX anti-dandruff shampoo manufactured by a Revlon group company in America. There was no evidence that the American products were inferior in quality to the British manufactured REVLON FLEX shampoo and there was no misrepresentation as to their commercial origin. Therefore, the defendants' activities could not constitute passing-off, and so the interim injunction sought by the plaintiffs was dismissed.

However, since *Revlon v Cripps*, judgments in some cases have indicated that where the circumstances are such that sale of the imported goods *would* give rise to a misrepresentation, passing-off may be established. In *Sony v Saray*¹⁴⁷, an interim injunction was awarded where imported goods had been modified without the approval of the plaintiffs and sold without giving notice of this to purchasers and with a purported guarantee that the defendants were not in a position to give: the defendants were ordered to attach disclaiming labels to Sony goods sold by them. In *Colgate-Palmolive v Markwell Finance Ltd*¹⁴⁸ the Court of Appeal confirmed a finding of passing-off in respect of imported 'Colgate' toothpaste in circumstances where the brand owner had done their best to secure that lower quality toothpaste was confined to a limited number of markets outside the UK and the defendants importing it had succeeded in circumventing the plaintiffs' precautions.

In all cases, the question of whether sale in the UK of genuine goods imported by a defendant from outside the UK amounts to passing-off depends upon whether the elements of passing-off are established. These are: goodwill (in the UK), misrepresentation (in the UK), and damage.

In applying and assessing the elements of passing-off on the facts of any particular case, imported goods are treated no differently to goods made within the UK. The 'exhaustion' regime applicable to passing-off does not discriminate according to the geographical origins of the goods concerned; it is therefore most fairly described as international.

2.2.3 How the registered trade mark system has addressed parallel imports

In 1926, approximately three years before the judgment in *Champagne Heidsiek v Buxton* noted above, a judgment apparently addressing parallel imports was handed down by the Chancery Division of the High Court in *Dunlop v Booth*¹⁴⁹. The plaintiff's business was in the manufacture and sale of tyres, which were marked with the word "Dunlop" and certain other markings such as "Made in England". The defendant imported and sold tyres, amongst which the plaintiff had identified examples of tyres marked "Dunlop" that had been manufactured by the French Dunlop company. The plaintiff's position was that the French Dunlop Company was an independent company carrying on business in France, and that importation and sale in the UK of French "Dunlop" tyres infringed both the plaintiff's registered trade mark and the plaintiff's registered trade mark.

¹⁴⁶ *Revlon Inc & Ors v Cripps & Lee Ltd & Ors* [1980] FSR 85, Court of Appeal

¹⁴⁷ *Sony v Saray Electronics* [1983] RFSR 302, Court of Appeal

¹⁴⁸ *Colgate-Palmolive v Markwell Finance Ltd* [1989] RPC 497, Court of Appeal

¹⁴⁹ *Dunlop Rubber Co. Ltd. v A. A. Booth & Co* (1926) 43 RPC 139, High Court, Chancery Division

Relevant background to the case was that a couple of years earlier, the plaintiffs had commenced litigation against another business selling French "Dunlop" tyres and that business had submitted to an injunction. However, some of the stock complained of had ended up being purchased by Booth and the plaintiff again asserted that it infringed.

Mr Justice Tomlin said:

"The "Dunlop" tyre business is conducted under a system whereby in different countries there are different Companies, so that the English Company owns in this country a number of Trade Marks and the French "Dunlop" Company in France holds Trade Marks in France which are identical with the English Trade Marks, and I gather that similar condition of affairs obtains in Italy, and possibly in other countries. It follows from that that a French "Dunlop" tyre having upon it the Trade marks which are identical with the English Trade Marks cannot be imported for sale into this country without infringing the English Trade Marks."

No authority was cited by the judge for the legal position, nor was the overall control of the 'Dunlop' business at an international level considered. The judge accepted Booth's evidence that some tyres complained of had been destroyed but he was not satisfied that all the tyres in the consignment were in fact discovered and so he awarded an injunction.

The judgment of Clauson J in **Champagne Heidsiek v Buxton**¹⁵⁰ took a far more rigorous approach to the assessment of the legal principles relevant to parallel imports. Noted above is the judge's reasoning on the nature of the right conferred by registration of a trade mark. Clauson's J's reasoning considered and dismissed the plaintiff's claim for passing-off, and then considered (and dismissed) their claim for infringement of their registered trade mark. The finding that there had been no infringement of the plaintiff's registered trade mark followed the judge's conclusions on the nature of the right conferred by registration of a trade mark, which drew upon *Farina v Silverlock* (Court of Chancery), *Singer v Loog* (Court of Appeal), *Bow v Hart* (Court of Appeal) and commentary of the time in *Kerly on Trade Marks*. Importantly for present purposes, it made no difference to the court's analysis where in the world the goods concerned originated: they were genuine goods of the proprietor of the registered trade mark and so dealings in them in the UK did not infringe.

The Trade Marks Act of 1938 introduced some notable changes to the text of relevant legislative provisions, compared with the earlier acts. Nevertheless, in **Aristoc v Rysta**¹⁵¹, Lord McMillan held that the 1938 Act had not inferentially altered the conception of a trade mark in law. He adopted with approval the following words of Bowen LJ in **Re Powell's Trade Mark**¹⁵²:

"The function of a trade mark is to give an indication to the purchaser or possible purchaser as to the manufacture or quality of the goods – to give an indication to his eye of the trade source from which the goods come, or the trade hands through which they pass on the way to the market."

Section 4 of the 1938 Act set out the right given by the registration of a trade mark, and what amounted to infringement. This was subject (inter alia) to subsection (3), which stated:

¹⁵⁰ *Champagne Heidsiek et Cie Monopole SA v Buxton* [1930] 1 Ch 330, High Court Chancery Division

¹⁵¹ *Aristoc Limited v Rysta Limited* [1945] A.C. 68, House of Lords

¹⁵² *Re Powell's Trade Mark* [1893] 2 Ch. 388

"The right to the use of a trade mark given by registration as aforesaid shall not be deemed to be infringed by the use of any such mark as aforesaid by any person -

(a) in relation to goods **connected in** the course of trade with the proprietor or a registered user of the trade mark if, as to those goods, or a bulk of which they form part, the proprietor or the registered user conforming to the permitted use had **applied** the trade-mark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trade mark; ...".

2.2.4 Summary of the law in the UK regarding exhaustion of trade marks at the time the UK joined the EEC (1 January 1973)

Therefore, at the end of 1972, on the eve of the UK joining the European Economic Community, the position under UK law regarding parallel imports of branded goods was as follows:

The 'exhaustion' regime applicable to parallel imports, pursuant to passing-off and registered trade mark law, did not discriminate according to the geographical origins of the goods concerned. Although inconsistencies did exist in the case law, the more authoritative judgments established the approach as international. For passing-off, irrespective of where in the world the goods concerned had been placed on the market, whether the law in the UK would operate to prohibit their sale as passing-off depended on whether the elements of passing-off were established. For registered trade mark law, similarly, a question of infringement was addressed by employing fundamental principles and the right protected by registration was seen as consistent with the right protected under the common law against passing-off.

2.2.5 Development of the law in the UK regarding exhaustion of patents since joining the EEC (later called the EU)

On 1 January 1973, the UK joined the European Economic Community (EEC). At that time there was no Community legislation of trade mark law. The first Directive to approximate the laws of the Member States relating to trade marks was passed on 21 December 1988; it required implementation into the laws of the Member States by the end of 1992.

On 31 October 1974, the Court of Justice handed down its judgment in the **Centrafarm** case¹⁵³. The Dutch company Centrafarm had parallel imported relevant goods from the UK to the Netherlands and Sterling had sought injunctive relief from the court in Holland, relying on both its trade mark rights and its patent rights in Holland. The Supreme Court (Hoge Raad) of the Netherlands referred questions to the Court of Justice.

The Court of Justice explained that the effect of the provisions of the EEC Treaty on the free movement of goods, particularly article 30, was to prohibit between Member States measures restricting imports and all measures of equivalent effect. By article 36, this did not prevent restrictions on imports justified on the grounds of protection of industrial and commercial property, but there would only be justification for the protection of rights which constituted the 'specific object' of such property. The trade mark fixed a link between the first seller of the goods and the customers, a link which had pre-eminent commercial

¹⁵³ *Centrafarm BV & Anr v Sterling Drug Inc* (Case 15/74) and *Centrafarm BV & Anr v Winthrop BV* (Case 16/74), 31 October 1974 – [1974] E.C.R. 1183; [174] 2 C. M.L.R. 480

value. The protection of the mark had as its "sole object" the safeguarding of that element. The protection of public safety had nothing to do with the protection of a trade mark. Further, the court stated:

"An act carried out on the commercial plane by an undertaking which belongs wholly to a parent company cannot be considered foreign to the latter...."

The judgment in *Revlon v Cripps*¹⁵⁴ is noted above. The plaintiffs alleged that as well as passing-off, the defendants' import and sale in the UK of REVLON FLEX anti-dandruff shampoo manufactured by a Revlon group company in the United States amounted to trade mark infringement. As Clauson J had done in *Champagne Heidsieck v Buxton*, in the *Revlon* case Dillon J in the High Court, and the judges in the Court of Appeal, considered in depth and dismissed the plaintiff's request for an interim injunction founded upon the claim for passing-off, and then considered and dismissed the request based upon the claim for infringement of the plaintiff's registered trade marks.

The legislation governing trade mark law in the UK remained the Trade Marks Act of 1938. Dillon J stated that section 4(3) should be interpreted on principles of English law only; a point not departed from in the Court of Appeal – the Court of Justice's judgment in *Centrafarm* was not cited. Both instances were satisfied that in view of the Revlon group structure, the US goods were *connected with* the proprietor of the UK registered trade mark. Further, product was sold to wholesalers in the US on terms that left purchasers free to export the goods to the UK or any other country. Therefore every company in the Revlon group must be taken to have consented to the use of REVLON FLEX mark within s.4(3)(a). So the interlocutory injunction sought was refused.

Buckley LJ noted that the exploitation of the mark and of the goods to which it related was a world-wide exercise in which all the component companies of the group who dealt in those particular products were engaged. Templeman LJ, drawing on *Champagne Heidsieck v Buxton*, said:

"A company which manufactures products in different countries cannot complain of infringement of the British trade mark in respect of goods manufactured abroad by that company."

In contrast, as noted above, the Court of Appeal's judgment in *Colgate-Palmolive v Markwell Finance Ltd*¹⁵⁵ confirmed a finding of passing-off in respect of imported 'Colgate' toothpaste in circumstances where the brand owner had done their best to secure that lower quality toothpaste was confined to a limited number of markets outside the UK and the defendants importing it had succeeded in circumventing the plaintiffs' precautions. The elements of passing-off, including misrepresentation, were satisfied. The plaintiff also claimed for infringement of its registered trade mark; on which it succeeded at both instances. So, like in the *Revlon* case, the court's conclusion on the claim for trade mark infringement was consistent with its conclusion on the claim for passing-off. However, in *Revlon* the lack of misrepresentation for passing-off was reflected in Templeman's LJ's broad statement of long-standing law noted above and the operation of s.4(3)(a) as a defence; in *Colgate*, after finding the elements of passing-off were satisfied on the facts of the case, the Court of Appeal's rationale for finding that s.4(3)(a) did not operate to benefit the defendants was quite different to the rationale employed by the court in *Revlon*.

In *Colgate* the judge (Falconer J) and the Court of Appeal were satisfied that the defendant's use of the Colgate marks in relation to the imported goods was "in relation to goods connected in the course of

¹⁵⁴ *Revlon Inc & Ors v Cripps & Lee Ltd & Ors* [1980] FSR 85

¹⁵⁵ *Colgate-Palmolive v Markwell Finance Ltd* [1989] RPC 497, Court of Appeal

trade" with Colgate U.S., the parent company of the Colgate group. This was because the (imported) Brazilian toothpaste was produced and prepared by its Brazilian subsidiary ("Limitada") exercising rights conferred on it by a licence agreement.

Focusing on later wording in s.4(3)(a) – "...the proprietor or the registered user conforming to the permitted use had **applied** the trade-mark..." - Slade LJ held that it would not be satisfied if the application of the mark was otherwise than in accordance with the "permitted use". He drew upon reasoning in earlier judgments to the effect that in the assessment of distinctiveness of a UK mark, it is the market in the UK that has to be regarded¹⁵⁶, and in Kerly's Law of Trade Marks (12th edition), saying that a trade mark in the UK had effect only within the UK, registration abroad gave no rights in the UK and a trade mark would be used in the UK "if goods bearing the mark are sold here, although the proprietor has applied the trade mark and sold the goods abroad only". He noted reasoning of Sargant J in *re Neuchatel*¹⁵⁷, a case about the 1905 Act, section 3 of which defined a "trade mark" as meaning a mark "used or proposed to be used upon or in connexion with goods for the purpose of indicating that they are the goods of the proprietor..."; Sargant J said that meant "used in this country"; and Slade LJ said he could see no relevant distinction for the purposes of the 1938 Act.

This meant that when the Colgate marks were applied to the Brazilian toothpastes by Limitada, they were not "proposed to be used" in the UK within s.68(1) of the 1938 Act, which defined a trade mark as meaning "a mark used or proposed to be used in relation to goods for the purpose of indicating, or so as to indicate, a connection in the course of trade...". Slade LJ continued:

"In my judgment, section 4(3)(a) is concerned only with U.K. registered trade marks and no U.K. registered trade marks have been *applied* to the Brazilian toothpastes either by Limitada or Colgate U.S. or anyone else."

However, Slade LJ said that if he was wrong on this, and "trade marks" had been "applied" by Limitada, this would still not be an application for the purpose of s.4(3)(a) because it would not constitute an application by the "proprietor".

Slade LJ also rejected the defendant's argument that Colgate U.S. had consented, for the purposes of s.4(3)(a), to the exports of the Brazilian product. The defendant argued both that consent was given both by the Limitada licence agreement and that implied consent arose on the facts of the case.

As to the terms of the licence agreement, Slade LJ said

"...All the proviso does is to preclude Colgate U.S. from objecting to export *in reliance on the Limitada* licence agreement. In these circumstances, that agreement cannot, in my opinion, be said to include any implied consent for the purpose of section 4(3)(a)..."

Before considering whether implied consent arose on the facts, Slade LJ turned to the general principles. Drawing on the reasoning in *Champagne Heidsieck v Buxton* and *Revlon*, he said:

"...it seems clear that the proprietorship of a registered trade mark as such gives no right to the proprietor under English law to control the destination of goods. Clauson J in *Heidsieck* considered and roundly rejected a submission that section 3 of the Trade Marks Registration Act of 1875 (which provided that the registration of a person as the first proprietor of a trade

¹⁵⁶ *Impex Electrical Ltd v Weinbaum* (1927) 44 R.P.C. 405

¹⁵⁷ *Re Neuchatel Asphalte Company's Trade Mark* [1913] 2 Ch. 291

mark should be "prima facie evidence of his right to the exclusive use of such trade mark") had the effect of vesting in the owner of a trade mark the right to object to any person selling or dealing with goods produced by the owner, with the trade mark affixed, except on such terms and subject to such conditions as to resale price and area of market as the owner might choose to impose. I see no reason to suppose that the position under section 4 of the 1938 Act is any different, and the parts of the judgments in the *Revlon* case dealing with the trade mark issue support that view."

Slade LJ said that in the "ordinary case", where the use of a trade mark by a person offering goods for resale "involves a representation simply as to the origin of the goods and nothing more", such use will involve no misrepresentation. However, he said that the facts of the present case were readily distinguishable from those of *Revlon*, in which the judgment had not addressed the position where in particular circumstances the resale of goods under the particular marks and in the particular get up imported a representation that the goods were other than what they were. A trader by applying a UK registered trade mark to goods and thereby indicating their origin gave an assurance to consumers in the UK that the goods were of the quality which they had come to expect from products bearing that trade mark. Therefore there was nothing incongruous in concluding that a UK trade mark was infringed in relation to goods which did not conform to an identifiable quality which purchasing members of the public in this country ordinarily received by reference to that trade mark.

Therefore, there was no sufficient reason in principle or the authorities as to why the court should be obliged to treat Colgate U.S. as having impliedly consented to the use in the UK of the UK trade marks in circumstances where this would involve a misrepresentation.

Agreeing with Slade LJ, Lloyd LJ said:

"What does section 4(3)(a) mean when it refers to the proprietor applying the trademark? It must mean the United Kingdom trademark in respect of which he has been granted his exclusive right under section 4(1). It cannot mean or, which is more important for present purposes, even include the Brazilian trademark. The fact that the marks are identical is, with all respect to Mr Aikens' argument wholly irrelevant. Just as the United Kingdom Parliament cannot create trademark protection in Brazil, so any application of the Brazilian trademark cannot affect the proprietor's exclusive right in respect of the United Kingdom trademark. If the marks had been different, this would have been so obvious as to amount to a truism."

Again, the Court of Justice's judgment in *Centrafarm* was not cited.

On the law regarding registered trade marks, the reasoning in the *Colgate* case is difficult to reconcile with the reasoning in *Revlon*, *Champagne Heidsieck* and the earlier authorities underpinning those judgments. Essentially, Slade LJ said that the 1938 Act *did* confer *control* as to onward dealings in goods to which the mark has been applied where in a global business the proprietor of the mark applied it to goods of differing quality in different jurisdictions. In reaching this conclusion, he drew upon the concept of 'misrepresentation' - an element of the tort of passing-off from which registered trade mark law originated, but which was not employed in the language of the 1938 Act. There was nothing in the wording of the legislation to suggest that a distinction should be drawn in the application of section 4(3)(a) depending upon whether the quality of the genuine goods differed in different jurisdictions. Slade LJ expressly supported the general position as stated in *Revlon* for cases where there was no difference in the quality of the genuine goods put on the market in the different jurisdictions.

The Court of Appeal in *Colgate* could have chosen not to depart from *Revlon* on the trade mark aspects of the case, without impacting the outcome: the finding of passing-off would have been enough for the plaintiff in that case.

2.2.6 EU legislation on registered trade marks and EEA exhaustion

As noted above, the first EU legislation on registered trade marks was passed in 1988. Council Directive 89/104/EEC "to approximate the laws of the Member States relating to trade marks" was implemented in the UK by the Trade Marks Act of 1994. The 1994 Act therefore represented a break with earlier trade mark law in the UK.

Directive 89/104 provided, in article 7, that:

'Exhaustion of the rights conferred by a trade mark

(1) The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

(2) Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.'

The Community trade marks system was established by Council Regulation 40/94, which was passed in December 1993. From April 1996, registration of a trade mark could be sought in the form of a unitary right for the whole of the (then named) European Community from the (then named) Office for Harmonization in the Internal Market.

In July 1998, in *Silhouette v Hartlauer*¹⁵⁸, the Court of Justice ruled on the interpretation of article 7 of Directive 89/104. The background to the case was that Silhouette had sold thousands of out-of-fashion spectacle frames to a Bulgarian company, with instructions that the frames could only be sold in the states of the former USSR. Eventually, the frames were bought by Hartlauer in Austria, which then advertised them for sale. Silhouette sought an interim injunction from the court in Austria, to restrain sale of the frames, arguing that because it had not put the frames on the market in the EEA, its trade mark rights had not been exhausted. Previously, Austria had operated a system of international exhaustion and the Austrian legislation implementing Directive 89/104 had left for judicial decision the question of the exhaustion regime applicable in light of the Directive. A reference was made to the CJEU.

The Court of Justice noted that article 5 of the Directive set out a non-exhaustive list of the kinds of practice which the proprietor of a registered (national) trade mark was entitled to prohibit, including importing or exporting goods under the mark concerned. Article 7 then set out circumstances in which the exclusive rights conferred by the trade mark were exhausted. Exhaustion was subject to the condition that the goods had been put on the market in the Community by the proprietor or with his consent. Pursuant to the EEA Agreement, the "Community" extended to the EEA.

¹⁵⁸ *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH* Case C-355/96, 28 September 1998 [1999] 3 C.M.L.R. 267, [1998] 9 WLUK 261

It was not argued that the Directive provided for international exhaustion, and the CJEU held that the Directive could not be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in non-Member Countries. In other words, national laws recognising international exhaustion were not compatible with the internal market.

Further, in joined cases **Zino Davidoff v A&G Imports, Levi Strauss v Tesco and Levi Strauss v Costco** (C-414/99 to C-416/99)¹⁵⁹ the Court of Justice ruled that for goods placed on the market outside the EEA, any consent on the part of the trade mark owner to further marketing of the goods within the EEA (i.e. extinguishing the proprietor's exclusive rights as the owner of a registered trade mark) would normally have to be express, and it could not be inferred from mere silence on the part of the trade mark proprietor. Only in exceptional circumstances could there be implied consent, which might conceivably arise in view of the facts and circumstances prior to, simultaneous with or subsequent to the placing of goods on the market, unequivocally demonstrating that the proprietor had renounced its rights.

The body of case law from the Court of Justice has additionally addressed legitimate reasons for the proprietor of a registered trade mark to oppose further commercialisation of goods, in particular in the context of repackaged pharmaceuticals¹⁶⁰ and where further commercialisation would seriously damage the reputation of the registered mark¹⁶¹. The purpose of this note is not to capture the details of this case law, which is summarised comprehensively in relevant textbooks, for example *Kerly's*.

2.2.7 Criminal offences under the Trade Marks Act 1994

In the UK, trade mark infringement can entail criminal liability as well as civil liability. The offences are set out in section 92 of the 1994 Act. The wording of the offences confines their application to goods bearing a sign identical to, or likely to be mistaken for, a registered trade mark i.e. counterfeiting activity and dealings in counterfeit goods. However since 2015¹⁶², they have been considered to encompass dealings in "grey" market goods, i.e. genuine goods first placed on the market by the brand owner outside the EEA and subsequently imported into the UK for placing on the market without the consent of the owner of the registered trade mark in the UK. In 2016, the Court of Appeal considered a second case on the point, and confirmed the earlier ruling, in *R v C*¹⁶³.

The Court of Appeal noted that one purpose of the 1994 Act was to implement Directive 89/104, and the provisions of sections 9 to 12 were self-evidently designed to do this. Section 10 defined civil infringement and section 12 addressed exhaustion of rights, stating that a registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market in the EEA under that trade mark by the proprietor or with his consent.

So far as the criminal law was concerned, article 61 of the TRIPS Agreement required member states to provide criminal penalties for "wilful" trade mark counterfeiting, but the Court said this was stipulated solely as a minimum. Criminal law was not harmonised as between Member States of the EU and section 92 was not to be taken as implementing any part of the Directive. Nevertheless, it was "a general

¹⁵⁹ *Zino Davidoff v A&G Imports Ltd, Levi Strauss v Tesco, Levi Strauss v Costco* (C-414/99 to C-416/99) 20 November 2001

¹⁶⁰ For example, *Bristol-Myers Squibb v Paranova A/S*, Case C-427/93, 11 July 1996

¹⁶¹ For example, *Parfums Christian Dior SA v Evora BV*, Case C-337/95, 4 November 1997

¹⁶² *Genis* [2015] EWCA Crim 2043

¹⁶³ *R. v C.* [2016] EWCA Crim 1617

rule of statutory interpretation that a statute is to be read as a whole". Additionally, in *Johnstone* [2003] UKHL 28 (a case about counterfeit / "bootleg" compact discs), the House of Lords held that the 1994 Act as a whole must be interpreted so far as possible to give effect to the Directive and the criminal provisions of s.92 were part of the overall statutory scheme.

The Court of Appeal therefore held that the criminal provisions of section 92 extended to genuine but "grey market" goods.

Note that before the 1994 Act entered into force (on 31 October 1994), the general position under UK law was that trade mark law did not prohibit import and sale in the UK of genuine goods first placed on the market anywhere in the world, as confirmed by the Court of Appeal in *Revlon v Cripps*¹⁶⁴ and *Colgate-Palmolive v Markwell*¹⁶⁵. Section 12 of the Act implemented article 7 of the Directive, which stated that the registered trade mark "shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark". It was only in 1998 that the Court of Justice's judgment in *Silhouette v Hartlauer*¹⁶⁶ prohibited Member States from recognising international exhaustion. The Court of Appeal's 2015 and 2016 judgments appear to have imported that prohibition into the criminal provisions in the UK.

It should perhaps be considered whether, from a policy perspective, the UK should now maintain a distinction in the criminal law in the UK between dealings in genuine goods parallel imported into the UK from outside the EEA, for example from Australia, and those imported from within the EEA. As the law currently stands, the former can entail criminal liability whereas the latter does not.

2.2.8 Summary of the law in the UK as it now stands outside of EU law regarding the subsequent use of trade marked goods

Outside of EU law, the UK has long recognised a form of international exhaustion in the contexts of passing-off and registered trade mark law. This is not through a decisive statement providing for exhaustion in any legislation, but by the application of fundamental concepts in equity/the common law in the jurisprudence giving rise to the cause of action known as passing-off, and subsequently in the legislation establishing the UK's registered trade marks regime. In the application of these principles, the courts generally have not discriminated between genuine goods first placed on the market within the UK and genuine goods placed on the market outside the UK and subsequently imported into the UK.

Key authorities establishing this general position are:

- for passing-off, *Farina v Silverlock*¹⁶⁷, *Singer v Loog*¹⁶⁸, *Champagne Heidsiek v Buxton*¹⁶⁹ and *Revlon v Cripps*¹⁷⁰; and

¹⁶⁴ *Revlon Inc & Ors v Cripps & Lee Ltd & Ors* [1980] FSR 85, Court of Appeal

¹⁶⁵ *Colgate-Palmolive v Markwell Finance Ltd* [1989] RPC 497, Court of Appeal

¹⁶⁶ *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, Case C-355/96, 16 July 1998

¹⁶⁷ *Farina v Silverlock* (1856) 43 E.R. 1214, Court of Chancery

¹⁶⁸ *Singer Manufacturing Company v Loog* (1880) 18 Ch. D. 395, Court of Appeal

¹⁶⁹ *Champagne Heidsiek et Cie Monopole SA v Buxton* [1930] 1 Ch 330, High Court Chancery Division

¹⁷⁰ *Revlon Inc & Ors v Cripps & Lee Ltd & Ors* [1980] FSR 85

- for registered trade marks, *Bow v Hart*¹⁷¹, *Champagne Heidsiek v Buxton*¹⁷² and *Revlon v Cripps*¹⁷³.

However, while this may fairly be described as the general position, it is not without exceptions. In particular, in the case of passing-off, exceptions have been made for imported goods which have been modified (*Sony v Saray*¹⁷⁴), and imported goods of lower quality to those placed on the market in the UK by the brand owner (*Colgate v Markwell*¹⁷⁵). In the case of registered trademarks, an exception was made (*Colgate Markwell*) for imported goods of lower quality.

There is some uncertainty as to whether the present unilateral recognition by the UK of EEA-regional exhaustion is in compliance with GATT or sustainable in the medium term. The question is how the UK should develop its law concerning exhaustion from here.

2.2.9 How should trade mark law in the UK now be developed in respect of parallel imports?

How the law in the UK should be taken forward entails two questions:

- 1) What sort of regime would best balance in the UK the competing rights of brand owners with the rights of the subsequent owners of patented goods?, and
- 2) How should the regime settled upon be brought into force in the UK?

The question of what sort of regime would best balance in the UK the competing rights of brand owners with the rights of the subsequent owners of genuine goods entails consideration of a number of factors:

- Should the regime be territorially limited in some way (as with the European doctrine of exhaustion) or applicable without territorial restriction (as with the general position for passing-off, and as was the general position for trade marks before the introduction of EU legislation on trade marks)?
- Should the regime be based on an implied licence or a doctrine of exhaustion?

Passing-off is not a 'right' but a cause of action. The rights at common law of subsequent owners of genuine goods have been restricted by passing-off only to the extent the elements of the tort (goodwill, misrepresentation, damage) are established. This has not entailed concepts of implied licence or exhaustion and there is no need for it to do so in the future.

It is clear that under English law, the rights conferred upon the proprietor of a registered trade mark are different in nature to those conferred upon the proprietor of a patent. At least prior to the 1994 Act, the right conferred by the registration was a badge of origin; registration did not confer upon the proprietor a right to control dealings in the goods thereafter. Concepts of 'implied licence' have therefore had little role in the English case trade mark law in respect of parallel imports; and the word 'exhaustion' was not used in this context before the introduction of European legislation. As with passing-off, when

¹⁷¹ *Bow v Hart* [1905] 1 K.B. 592, 593, 594, Court of Appeal

¹⁷² *Champagne Heidsiek et Cie Monopole SA v Buxton* [1930] 1 Ch 330, High Court Chancery Division

¹⁷³ *Revlon Inc & Ors v Cripps & Lee Ltd & Ors* [1980] FSR 85

¹⁷⁴ *Sony v Saray Electronics* [1983] RFSR 302, Court of Appeal

¹⁷⁵ *Colgate-Palmolive v Markwell Finance Ltd* [1989] RPC 497, Court of Appeal

assessing a claim of trade mark infringement made in respect of genuine goods, the court have applied the relevant principles irrespective of the jurisdiction in which the goods were first placed on the market by the brand owner. Therefore the approach in respect of passing-off and registered trade mark infringement, in respect parallel imports, outside of EU law, has been international in its nature; effectively a type of international exhaustion.

Following the introduction of the 1994 Act, the concept of 'exhaustion' as explained by the Court of Justice has become a well-understood part of trade mark law in the UK.

- Should the regime permit conditions to bind purchasers subsequent to the first purchaser where adequate notice is satisfied?

Generally speaking, the registration of a trade mark (or the law regarding passing-off) in the UK has not conferred upon the proprietor a right to control subsequent dealings in goods after their first sale, except where the elements of passing-off are established (in particular misrepresentation) or under the EU's exhaustion regime in respect of goods first placed on the market outside the EEA. The way the protection against passing-off and the registered trade mark system developed did not confer a right of control upon the owner of a trade mark. Conceptually, this is a point of distinction with patent law.

Upon sale of goods a brand owner may enter into contractual arrangements concerning onward sale. This has always been the case and can be expected to continue to be the case. However the operation of contract law, should a dispute arise, is outside the remit of trade mark law.

The question of how the regime settled upon should be brought into force depends upon the nature of the regime that is settled upon:

- For passing-off, there would seem to be no need to change the existing regime unless a positive policy change is sought.
- For registered trade marks, deletion of section 12 of the 1994 Act would leave the future in the hands of the courts. The courts would then have to consider the matter against the background of the other terms of the 1994 Act and the body of case law in the UK considering parallel imported goods against the background of earlier legislation. The courts could do this and develop the way forward in the common law tradition, as demonstrated by the long lines of authorities noted above. It is likely that the courts would revert to an internationalist approach, but this would not be guaranteed in view of the structure of the 1994 Act, and anomalies in the case law could arise leading to uncertainty (as for example happened in the *Colgate* case). The clearer path would be for a policy decision to be made setting the geographical remit of the exhaustion regime to be adopted, and amending section 12 of the 1994 Act accordingly.

3. The Approach Taken to Exhaustion by Some Trading Partners Outside the EU

When considering options for the UK's future exhaustion regime, the approach taken by trading partners outside the EU is worth considering. As well as informing on the suitability of different options for the UK, in the context of the UK seeking to develop trading arrangements with other countries it is worth considering their regimes and whether the UK's regime should facilitate reciprocity.

The purpose of this paper is not to discuss the detail of the exhaustion regimes currently operating in other countries. Therefore we provide below a summary table simply outlining in basic terms the regime governing parallel imports for patents and trade marks in some jurisdictions with (broadly speaking) common law legal systems:

Country	Patents	Trade Marks
Australia	International exhaustion ¹⁷⁶	International exhaustion ¹⁷⁷
Canada	International in nature – common law doctrine of implied licence, potentially subject to restrictions on the facts ¹⁷⁸	International in nature – application of trade mark law without distinction for imported goods ¹⁷⁹
India	Unclear – statutory provision awaits clear authority ¹⁸⁰	International exhaustion ¹⁸¹
Singapore	International exhaustion except that: (i) for patented pharmaceutical products in certain circumstances there is national exhaustion only and (ii) the exhaustion defence does not apply for health products (including pharmaceuticals) produced for eligible importing members of the WTO (i.e. least developed countries) ¹⁸²	International exhaustion ¹⁸³

¹⁷⁶ *Calidad Pty Ltd & Ors v Seiko Epson Corporation & Anr* [2020] HCA 41, 12 November 2020

¹⁷⁷ Trade Marks Act of 1995, section 122A

¹⁷⁸ *Signalisation de Montréal Inc. v Services de Béton Universels Ltée* [1992] FCJ No 1151 (FCA); *Eli Lilly & Co v Novopharm Ltd* [1998] 2 SCR 129; *Distrimedic Inc v Dispill Inc*, 2013 FC 1043

¹⁷⁹ *Consumers Distributing Co v Seiko Time Canada Ltd* [1985] 1 CPR (3d) 1; *Smith & Nephew Inc v Glen Oak Inc* [1997] 68 CPR (3d) 153;

¹⁸⁰ Patents Act 1970, section 107A, states: "107A. Certain acts not to be considered as infringement. ... (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."

¹⁸¹ India Trade Marks Act section 30(3)&(4); *Kapil Wadhwa v Samsung Electronics* 2013 (53) PTC 112 (Del.)

¹⁸² Singapore Patents Act of 1994, as revised in 2005, section 66(2)(g) & (i), (3) & (5A)

¹⁸³ Singapore Trade Marks Act, section 29; *Samsonite IP Holdings Sarl v An Sheng Trading PTE Ltd* [2017] SGHC

United States	International exhaustion ¹⁸⁴	International exhaustion for products having "common origin", with exceptions for goods of differing quality
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Gowling WLG thanks colleagues in Canada and Singapore, and friends in other firms in India, and the United States, for their assistance in compiling this table.

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Gowling WLG
September 2021

¹⁸⁴ *Impression Products, Inc. v. Lexmark International, Inc.*, 581 U. S. (2017)

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