

## Patent Exhaustion: the UK perspective

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In most jurisdictions patent rights cannot be used to prevent genuine products which were put on the domestic market from being resold within that jurisdiction. In effect, the rights are exhausted once the products have been sold by or with the consent of the patent owner, and they cannot be used to control the secondary market for those products in that jurisdiction. Since the nineteenth century, this approach has been taken in the United Kingdom<sup>2</sup> and the United States,<sup>3</sup> where it is also known as the ‘first sale’ doctrine. It has also been taken in Denmark, Germany, Ireland, Italy and the Netherlands.<sup>4</sup>

Patent exhaustion is relatively straightforward to apply to resale of unaltered goods within the same jurisdiction. However, more difficult questions arise where the goods were sold outside the jurisdiction (parallel imports) or have been modified or repaired. This paper is concerned with the approach taken in the United Kingdom.

### Background

The term ‘exhaustion’ itself is said to come from Germany, where the Reichsgericht held in 1902:

*The effect of a patent (for a process) is that no-one, except the proprietor (or the persons whom he has authorized) may manufacture a product by the said process and put it on the domestic market. By this act, however, the effect of the protection conferred by the patent is exhausted. The proprietor who has manufactured the product and has put it on the market under this protection which excludes competition from other parties, has enjoyed advantages which the patent confers upon him and has thus exhausted his right.*<sup>5</sup>

Some jurisdictions, such as Belgium and France, have applied a ‘right of destination’ which allows manufacturers a certain degree of flexibility to limit the supply of their goods to specific markets (for instance, to distribute sound recordings which are to be used by

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<sup>2</sup> *Betts v Wilmott* (1870–71) LR 6 Ch App 239.

<sup>3</sup> For instance, in *Adams v Burke* 84 US (17 Wall) 453 (Sup Ct, 1873) and *Appolinaris v Scherer* 27 F 18 (CC SDNY, 1886).

<sup>4</sup> A Dietz, *Copyright Law in the European Community* (Sijthoff & Noordhoff, Alphen aan den Rijn, 1978) 91–2.

<sup>5</sup> *Guajakol-Karbonat* (Reichsgericht, 26 Mar 1902) 51 RGZ 139, referred to in European Council, *Records of the Luxembourg Conference on the Community Patent 1975* (OPOCE, Luxembourg, 1982), 40–1 and D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (Oxford University Press, Oxford, 2003) 75.

consumers but not by broadcasters or discothèques).<sup>6</sup> However, this right of destination is limited and cannot be used to oppose resale within the ‘destination’ market (in the previous example, from one consumer to another).

In terms of territorial limits, there are three main systems of exhaustion which are applied, as follow:

- Some jurisdictions apply a system of ‘international exhaustion’, under which the rights will be exhausted regardless of where the product was put on the market. In such jurisdictions the intellectual property owner has no right to block parallel imports.
- Some jurisdictions apply a system of ‘regional exhaustion’, under which the rights will be exhausted only if the product was put on the market within that region. In such jurisdictions the intellectual property owner only has the right to block parallel imports from outside the region. Such a system is applied in the European Union and European Economic Area.
- Some jurisdictions apply a system of ‘national exhaustion’ only, under which the rights will not be exhausted if the product was put on the market outside the jurisdiction. In such jurisdictions the intellectual property owner has the right to block all parallel imports.

### **Patent exhaustion in the European Union/European Economic Area**

In the European Union, the free movement rules of Articles 28 and 30 of the EC Treaty mean that patent exhaustion cannot be limited to individual jurisdictions in which a patent is granted but must extend to the whole of the European Union (regional exhaustion).<sup>7</sup> Similarly, the free movement rules of Articles 11 and 13 of the EEA Agreement mean that patent exhaustion must extend to the whole of the European Economic Area.

However, these free movement provisions are necessarily limited to questions which impact on free movement. They will prohibit any limitations on patent exhaustion which are regarded as discriminatory or extending beyond the scope (“specific subject matter”) of patent rights, but beyond that Member States retain a margin of discretion in determining the extent to which they wish to apply a doctrine of exhaustion.

For instance, in *Generics v Smith Kline & French*, the ECJ considered a UK rule which allowed patent owners to object to imports where the patent owner manufactured the products in the UK but granted compulsory licences under such patents for imports if the patent owner only manufactured the products elsewhere (even elsewhere in the European Union). This amounted to a limited form of international exhaustion. The ECJ held that was not justified under Article 30 because it favoured production in the UK. However, it was up to the UK to decide whether to grant compulsory licences in all such cases or to refuse them where there was manufacture in the UK or elsewhere in the European Union. The Court noted that ‘it is national law which, in the present state of Community law and in the absence of approximation of national legislation, defines the extent of the protection conferred by a patent or in respect of each type of patent’, subject to Articles 28 and 30.

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<sup>6</sup> Dietz, above n4, 92–3; F Gotzen, ‘Distribution and Exhaustion in the EC’ [1990] *EIPR* 299, 300–1.

<sup>7</sup> Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, following for patents Case 78/70 *Deutsche Grammophon v Metro* [1971] ECR 487.

Moreover, these free movement provisions only apply to goods put on the market within the region in question. They do not require Member States to apply (or prohibit) international exhaustion but rather, in the absence of harmonising legislation, leave this question to the individual Member State.<sup>8</sup> The proposals for harmonising patents at a European Union level have always prohibited international exhaustion but have not yet been adopted.<sup>9</sup> Again, therefore, it is up to individual Member States to decide to what extent they wish to apply a rule of international exhaustion.

### **Patent exhaustion in the UK**

In the United Kingdom, patent infringement is principally dealt with in section 60(1) of the Patents Act 1977 which reads as follows:

- (1) *Subject to the provisions of this section, a person infringes a patent for an invention if, but only if, while the patent is in force, he does any of the following things in the United Kingdom in relation to the invention without the consent of the proprietor of the patent, that is to say -*
  - (a) *where the invention is a product, he makes, disposes of, offers to dispose of, uses or imports the product or keeps it whether for disposal or otherwise;*
  - (b) *where the invention is a process, he uses the process or he offers it for use in the United Kingdom when he knows, or it is obvious to the reasonable person in the circumstances, that its use there without the consent of the proprietor would be an infringement of the patent;*
  - (c) *where the invention is a process, he disposes of, offers to dispose of, uses or imports any product obtained directly by means of that process or keeps any such product whether for disposal or otherwise.*

Section 60(4) of the Patents Act 1977 was intended to implement the exhaustion provisions of the Community Patent Convention 1975, stating that the infringement provisions ‘shall not apply to any act which, under any provision of the Community Patent Convention relating to the exhaustion of the rights of the proprietor of a patent, as that provision applies by virtue of that section, cannot be prevented by the proprietor of the patent’. However, in line with the Convention itself, section 60(4) was never brought into force and was deleted as of January 2005 by the Patents Act 2004.<sup>10</sup> In addition, some commentary suggested that it would have done no more than require Community exhaustion and would not have prohibited international exhaustion.<sup>11</sup>

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<sup>8</sup> Case 191/90 *Generics v Smith Kline & French* [1992] ECR I-5335, following for patents Case 51/75 *EMI Records v CBS United Kingdom* [1976] ECR 811. However, see also J Jones, ‘Does an Opportunity Still Exist for the Development of a Doctrine of International Exhaustion at a Community Level under Articles 28 and 30?’ [2000] *EIPR* 171. The position is different in relation to trade marks, designs and copyright, where the exhaustion provisions have been harmonised.

<sup>9</sup> ‘Patents’ Working Group, Proposals of the Benelux Delegations on Article 21 of the Preliminary Draft of the Convention relating to a European Patent Right, Doc IV/6365/61-F, at 2 and 5-6; Community Patent Convention [1975] OJ L17/1, Arts 32 and 81(1); Community Patent Convention [1989] OJ L401/9, Arts 28 and 76(1); proposal for a Community Patent Regulation COM(2000)412, Art 10.

<sup>10</sup> Patents Act 2004, s16 and Sched 2, para 13, brought into force by SI 2004/320, para 2.

<sup>11</sup> Chartered Institute of Patent Attorneys, *CIPA Guide to the Patents Act*, 5th edn (Sweet & Maxwell, London, 2004), para 60.11.

As a consequence there is no provision in the UK Patents Act 1977 which provides for exhaustion (although Community exhaustion will apply by virtue of the EC Treaty and the European Communities Act 1972).

However, the silence in the legislation does not mean that there is no patent exhaustion in the United Kingdom. Instead, the courts have long recognised a limited form of exhaustion based on an implied licence being granted when the patentee sells the article in question.<sup>12</sup> This covers both sales outside the jurisdiction (parallel imports) and modification or repair of patented products.

### *Sales outside the jurisdiction (parallel imports)*

Where a patentee sells a product anywhere in the world he will be treated as granting an implied licence allowing its resale in the UK. The basis for this approach was laid down in *Betts v Wilmott*.<sup>13</sup> Betts owned a English patent for making metallic capsules of tin and lead compressed together for covering the corks and necks of bottles. He had also owned a French patent for the same invention, which had expired. He brought a case for infringement of the English patent against Wilmott, a retail chemist, which had sold a bottle of Rimmel's Toilet Vinegar which used a similar capsule. Wilmott argued that the capsule had in fact been manufactured by Betts in France and Betts responded that, even if the capsule had been manufactured by his agents in France, this was no defence to infringement of the UK patent. The Court of Appeal in Chancery disagreed with Betts as follows:

*The point is this: Supposing a man to have a patent in France and a patent in England, and he establishes manufactories in each country, it is contended that if he sells the patented article in France it is for the French market, and it does not justify a person buying the article in France, and bringing it over to England, and using it here...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 license 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.*

The court also indicated that, had the French or English patent been assigned to a third party, the situation would be different and that the owner of the English patent would be entitled to enforce that patent against an article which had been sold by the owner of the French patent. That was in line with an earlier decision in *Walton v Lavater*,<sup>14</sup> where the assignee of an English patent successfully asserted that patent against the original inventor, who had imported the patented products from France where he had retained his patent.

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<sup>12</sup> See on this S Thorley, R Miller, G Burkill and C Birss, *Terrell on the Law of Patents*, 16th edn (Sweet & Maxwell, London, 2005), paras 8-66 to 8-67 and 10-44 to 10-49.

<sup>13</sup> *Betts v Wilmott* (1870-71) LR 6 Ch App 239.

<sup>14</sup> *Walton v Lavater* (1860) 8 CB (NS) 164.

However, the judgment in *Betts v Wilmott* was distinguished in *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company*,<sup>15</sup> where the sale abroad had been by a licensee rather than by the patentee. Tilghman owned patents in England and Belgium for a process for cutting and grinding hard substances, which was used for frosting and ornamenting glass lamp globes and similar articles. Tilghman had granted Manufactures de Glaces a licence to manufacture glassware using the patented process at its factory in Belgium. Manufactures de Glaces began to sell the glassware not only in Belgium but also in England and Tilghman responded by issuing two circulars to persons involved in the trade, warning that the importation or sale of such glassware infringed the English patent and threatening legal proceedings. Manufactures de Glace sought an interim injunction to prevent further circulars while it sought to take the matter to arbitration under the licence agreement.

In the High Court, Pearson J indicated that he was bound by *Betts v Wilmott*. However, there was some evidence that the Belgian and English patents were in fact owned by different entities, and on that basis he distinguished the case from *Betts v Wilmott* and refused the injunction. By contrast, although the Court of Appeal upheld his refusal of the injunction, it did so on a different basis, namely that a licence under a Belgian patent was not a licence under the English patent, and so would not prevent the patentee from exercising its right under the English patent to prevent import and sale into England. Cotton LJ explicitly confirmed *Betts v Wilmott*, holding that, where a product is sold abroad without restriction by the patentee, the patentee cannot then use the English patent to prevent resale of that product in England. However, in the case before him the product was sold abroad by a licensee, not the patentee, and the licensee only had a licence to manufacture under the Belgian patent which could put the licensee 'in no better position than if they were grantees of the Belgian patent'.

The importation in *Tilghman* was being carried out by the licensee, who clearly knew the terms of its licence, and so, strictly speaking, the case was concerned with the geographical scope of a patent licence rather than parallel trade of products sold by the licensee. Therefore a question remained whether the purchaser from a licensee would also be bound by any restriction in the patent licence (on the basis that the licensee could not give better title to the goods than he had himself) or whether the purchaser would be bound only if he had notice of the restriction (in line with the insistence on the purchaser's agreement in *Betts v Wilmott*). Notably, in *Thomas v Hunt*<sup>16</sup> the purchaser from a licensee had been held to have the right to resell the products without infringing the patent.

A number of cases followed which considered whether third parties would be bound by restrictive terms.<sup>17</sup> Although these cases were not concerned with parallel trade, *Tilghman* and particularly *Betts v Wilmott* were discussed in several of them. In most of the cases, the product had originally been sold by the patentee and the purchaser had notice of the restrictive terms.

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<sup>15</sup> *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company* (1884) LR 25 Ch D 1.

<sup>16</sup> *Thomas v Hunt* (1864) 17 CB (NS) 183.

<sup>17</sup> *Heap v Hartley* (1889) LR 42 Ch D 461; *Incandescent Gas Light v Cantelo* (1895) 12 RPC 262; *Incandescent Gas Light v Brogden* (1899) 16 RPC 179; *British Mutoscope and Biograph Company v Homer* [1901] 1 Ch 671; *Badische Anilin und Soda Fabrik v Isler* [1906] 1 Ch 605 (High Court), [1906] 2 Ch 443 (Court of Appeal); *National Phonograph Company of Australia v Menck* [1911] AC 336; *The Scottish Vacuum Cleaner Company v The Provincial Cinematograph Theatres* 1915 1 SLT 389; *Gillette Industries v Bernstein* [1942] Ch 45; *Dunlop Rubber v Longlife Battery Depot* [1958] 1 WLR 1033.

However, purchase from a licensee without notice of restrictions was considered in *Badische Anilin und Soda Fabrik v Isler*, where the patent licence for manufacture and sale of certain dyes included a condition which allowed only sale to consumers but did not allow sale to dealers for resale. The patentee brought an action for patent infringement against a dealer who was acquiring the dyes and reselling them. Buckley J in the Chancery Division held that ‘nothing...can turn on the question whether the purchaser from the licensee knew of the condition or not’. However, he also found that, notwithstanding the patent licence, there was an implied term that the dealer could resell and that the patentee was estopped by its conduct from arguing otherwise. Buckley J’s comments were therefore technically *obiter dicta*, and as such were not commented upon by the Court of Appeal, but they indicated that purchasers from patent licensees might in general be bound by the terms of the licence.

Buckley J’s approach was followed in a parallel trade case before the High Court of Kenya in 1968, *Beecham Group v International Products*.<sup>18</sup> The patentee, Beecham, had granted a licence to Bristol-Myers extending to the whole world except the British Commonwealth. The licence therefore excluded Kenya. The defendants, International Products, bought penicillin covered by the patents from Bristol-Myers in the United States and imported it into Kenya. Beecham brought an action for infringement of its Kenyan patents. The only English cases considered were *Betts v Wilmott* and *Tilghman*, and International Products sought to distinguish *Tilghman* on the basis that the product was being imported by a third party and not by the licensee. Rudd J rejected that distinction and held that the question whether patent rights can be exercised against someone who buys from a licensee ‘must depend on the extent of the authority conferred on the licensee by the licensor under the licence or other agreements between them’. He clearly distinguished this from cases where there was ‘sale by the patentee or his agent or assignee’. Given that the licence was clear, he therefore granted an interim injunction. He did not mention whether or not International Products was aware of the restrictive scope of the licence, although based on his reasoning the implication would appear to be that this is irrelevant.

The cases therefore suggested that there was a distinction between sales by the patentee (where any restrictions would have to have been brought to the attention of the alleged infringer to prove infringement) and sales by a licensee (where the alleged infringer’s knowledge was irrelevant). A few years later, this distinction was followed in two interim injunction judgments in the English High Court: *Sterling Drug v CH Beck*<sup>19</sup> and *Minnesota Mining & Manufacturing v Geerpres Europe*.<sup>20</sup>

In *Sterling Drug v CH Beck*, the patentee had sold the products in question to a wholesale chemist, with terms prohibiting export, and the defendant had acquired the products from the chemist. Graham J held that whether there was a prima facie case of patent infringement must ‘depend on my being satisfied that adequate notice of such a restriction has been brought to the defendants’ attention’. Given that the patentee had sent a letter to the defendant outlining the terms, and the chemist’s invoice had made it clear that the manufacturer’s terms would apply, he found that the restrictions had indeed been brought to their attention.

In *Minnesota Mining & Manufacturing v Geerpres Europe*, a licensee in the United States had sold the products in question to a third party which had resold them to the defendants, who imported them into the United Kingdom. The patent licence was restricted to the United

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<sup>18</sup> *Beecham Group v International Products* [1968] FSR 162.

<sup>19</sup> *Sterling Drug v CH Beck* [1972] FSR 529.

<sup>20</sup> *Minnesota Mining & Manufacturing v Geerpres Europe* [1973] FSR 133.

States patent and did not cover the English patent. This time there was no discussion of the defendant's knowledge. Instead Graham J held that the licensee had no right to grant a licence under the English patent and that the licensee 'cannot pass on to [the third party] any rights which they have not got, and [the third party] equally cannot pass on any such rights to the defendants'.

A different approach was taken in Scotland by the Outer House of the Court of Session in *Christian Salvesen (Oil Services) v Odfjell Drilling and Consulting Co (UK)*.<sup>21</sup> The patentee had granted an exclusive licence to a company which he owned. Subsequently, he and his company granted an exclusive sub-licence covering a geographical area which included the United Kingdom and the North Sea to the petitioner (claimant). The respondents (defendants) had purchased products from the company and proposed to use them in the North Sea, saying that they had no notice of the exclusive sub-licence or any restrictions on their use of the products. The petitioner sought an interim interdict (injunction) to prevent such use, referring to *Minnesota Mining & Manufacturing v Geerpres Europe* for the proposition that notice was irrelevant. However, this was rejected by Lord Mayfield, who distinguished the present case on the basis that the patentee was the owner of the exclusive licensee and so 'in effect...the devices were sold to the respondents by the owner of the patents'. He therefore refused the interim interdict, suggesting that the petitioners' remedy might instead be against the patentee's company.

Nevertheless, the English Patents County Court stuck to the distinction in *The Wellcome Foundation v Discpharm*.<sup>22</sup> Prior to the end of the transitional period which applied when Spain joined the Community, the defendants had imported SEPTRIN tablets from Spain, where they had been manufactured and sold by a wholly owned subsidiary of the patentee, into the United Kingdom. The patentee brought an action for patent infringement and the defendants raised a number of possible defences, including arguing that they had an implied licence under *Betts v Wilmott*. Judge Ford held that the initial sales of the tablets would have been made under Spanish law, where there was no implied licence. However, he also held that, even if English law was applicable, the defendants could not rely on *Betts v Wilmott* because the sale in Spain had not been by the patentee but by its wholly-owned subsidiary which had a licence limited to Spain. The judge referred to *Tilghman, National Phonographic Company of Australia v Menck*, *Beecham Group v International Products* and *Minnesota Mining & Manufacturing v Geerpres Europe*, and held that the facts of this case were closer to that line of cases than to *Betts v Wilmott*. He refused to take the view that the corporate group should be treated as an economic entity, as was done in *Revlon v Cripps* in relation to trade marks, noting that a different approach had been taken in *Polydor v Harlequin* in relation to copyright and that it did 'not seem to be appropriate here, in view of the very limited commercial scope permitted to the operations of [the wholly-owned subsidiary]'. In addition, even if *Betts v Wilmott* did apply, the defendants did not claim that they had no notice of the objection to parallel trade, given that 'official warnings had been issued through the Medicines Control Agency of the Department of Health, the [patentee] had caused warning notices to be published in the trade press and the matter had been the subject of much attention by the Association of Pharmaceutical Importers, of which the defendant companies are members'.

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<sup>21</sup> *Christian Salvesen (Oil Services) v Odfjell Drilling and Consulting Co (UK)* 1985 SLT 397.

<sup>22</sup> *The Wellcome Foundation v Discpharm* [1993] FSR 433. See supportive comment in J Jones, 'Exhaustion of Rights: Pharmaceuticals Marketed in Spain—a Wellcome Exception' [1993] *European Intellectual Property Review* 107.

The English High Court returned to consider original sale by the patentee in *Roussel Uclaf v Hockley International*.<sup>23</sup> In this case, Roussel had manufactured an insecticide called deltamethrin in France and had supplied it to the Chinese market through a Chinese joint venture company owned by Roussel and a Chinese company. Roussel claimed that the drums of insecticide supplied in China had borne labels which read ‘for use in PRC only, re-export forbidden’. Hockley had acquired some drums and was selling them in the United Kingdom and Roussel brought an action for patent infringement, seeking summary judgment. Jacob J held that Roussel had to show that they had ‘brought home’ the restriction to the relevant party. Based on evidence from Hockley that it had acquired a drum without a label, Jacob J held that it had not been established that the restrictions had been brought home to the Chinese joint venture company by labels. He then considered whether there was sufficient evidence that the restrictions had been brought home to the Chinese joint venture company in some other way, and held that there had not. Similarly, he held that there was no evidence that the restrictions had been brought home to the defendants, nor to the intermediate companies in the supply chain. Summary judgment was therefore refused.

In *Zino Davidoff v A&G Imports*,<sup>24</sup> the High Court had another chance to consider the scope of *Betts v Wilmott* and sale by the right holder. Zino Davidoff was applying for summary judgment for trade mark infringement in relation to perfumes which had been parallel imported from Singapore. Davidoff had prohibited its distributor in Singapore from selling outside its territory, and required its distributor to prohibit its sub-distributors, sub-agents and retailers from doing the same. However, it was argued that there was no contractual requirement to ensure that such sub-distributors, sub-agents or retailers impose the same prohibition on their own buyers or further down the supply chain. It was also argued that there was no evidence that any such restriction was imposed on the defendants, either by marking or notice on the goods or by contract. On this basis, Laddie J held that it was arguable that Davidoff should be taken to have consented to the import on the basis of the earlier patent cases (even though the case in question related to trade mark infringement). Although the ECJ effectively found that Laddie J’s approach conflicted with the Trade Mark Directive, the decision remains relevant in terms of patents, where there is no such harmonising Community provision.

### ***Patented products which have been modified or repaired***

The purchaser of a patented product also has an implied licence to modify or repair it. However, when such a change amounts to remaking the product this will infringe the patent and the purchaser cannot rely on implied licence as a defence.

In addition, implied licences will not apply where there are express contractual provisions prohibiting repair or modification. However, this is only the case where the express terms are themselves valid. In the past, provisions in the Patents Acts provided some limitations on such contractual terms,<sup>25</sup> although the matter is now a question for competition law (under Articles 81 and 82 of the EC Treaty and the Competition Act 1998) and domestic policy rules such as restraint of trade. Where express terms would not be valid, the implied licence will amount to exhaustion.

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<sup>23</sup> *Roussel Uclaf v Hockley International* [1996] RPC 441. See criticism in D Wilkinson, ‘Breaking the Chain: Parallel Imports and the Missing Link’ [1997] *European Intellectual Property Review* 319.

<sup>24</sup> *Zino Davidoff v A&G Imports* [2000] Ch 127.

<sup>25</sup> Patents Act 1949, s57; Patents Act 1977, s44.



In *Dunlop Pneumatic Tyre v Neal*<sup>26</sup> Dunlop had a patent for pneumatic tyres for bicycles which claimed “a rubber or elastic tyre having the form of a saddle or arch in section lined in canvas in combination with two wires or sufficiently inelastic cores for securing the same to the rims or tyres substantially as herein described”. Neal had repaired a worn-down tyre which had been originally made by Dunlop by repairing a broken wire and constructing a new canvas cover and rubber cover. Neal argued that the patent covered a combination and thus, because part of the combination (the wires) had been licensed by Dunlop, there could be no infringement. This was rejected by North J, who held:

*I do not think the defendant is justified in saying that the mere fact that the wires had been used in an article made by the plaintiffs is a licence to him to use them for any article of the same kind with which they could be used. In my opinion the only licence or authority given by the sale by the plaintiffs was that the tyre, including the wires, might be used till it should be worn out. Any simple repairs might be done by any person without licence from the manufacturer. But when a person takes the whole thing and makes and sells that which is really a new tyre, having merely the old wires in it, there is no licence from the plaintiffs to use the old wires for the purpose of putting them into a new article making up precisely the combination which is the subject of the letters patent.*

This approach was followed by the Court of Appeal in *Solar Thomson Engineering v Barton*.<sup>27</sup> The patent in this case claimed “A pulley having side cheeks, at least one of which is removable, holding a plurality of annular members of rubber or other elastomeric material in compression against one another, said annular elastomeric members co-operating to form a ring with a peripheral recess or groove for receiving a rope or cable” and the specification noted “It is an object of the present invention to provide a pulley having an elastomeric ring in its peripheral recess or groove, which pulley is readily constructed and which is such that the elastomeric ring can be readily replaced”. There was no claim for the rubber rings per se. The defendant was replacing the rubber rings on pulleys originally supplied by the patentee by stripping any remaining rubber from the steel rims and moulding new rubber rings onto them. The patentee brought an action for infringement of its patent. Buckley LJ, with whom the other members of the Court of Appeal agreed, rejected that action holding that the patentee:

*can only succeed on the ground of infringement by showing that each and all of the essential requirements of a claim of the patent in suit have been taken by the defendant in his operation...The answer to the question must depend upon whether the defendant's operation ought to be regarded as the repair of old Polyrim pulley cheeks or as the manufacture of new Polyrim pulley cheeks making use of parts, i.e. steel rings, recovered from old cheeks. The retention of the steel rims cannot be regarded as a colourable device. In my judgment the right conclusion upon the evidence is that what the defendant has done has been to repair worn parts, i.e. the rubber rings, of existing Polyrim pulley cheeks.*

*The operations which the defendant has carried out are, in my judgment, operations which he is entitled to carry out under contract for a purchaser of Polyrim pulleys from Cable Belt Ltd. as sub-licensee under an implied licence by Cable Belt Ltd. to*

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<sup>26</sup> *Dunlop Pneumatic Tyre v Neal* [1899] 1 Ch 807, (1899) 16 RPC 247.

<sup>27</sup> *Solar Thomson Engineering v Barton* [1977] EPC 537.

*such purchaser. Graham, J. refused to grant an interlocutor injunction because in his opinion what had been done by the defendant was quite clearly a repair and not the creation of a new infringing article, and because it was clear that the users were licensed by the plaintiffs impliedly, if not expressly, to retread their rims. For reasons which I have indicated I do not think the defendant can establish an express licence, but I think he can and does succeed on the basis of an implied licence.*

The same approach was taken to modifications of patented articles in *Dellareed v Delkim Developments*.<sup>28</sup> This case concerned a patent for a bite indicator for use when fishing with a fishing rod which included the following claim:

*A bite indicator comprising a support means including a fishing rod support means arranged for locating a fishing rod relative to the support means, in use, a pulley wheel freely rotatably mounted to the support means adjacent the fishing rod support means such that the fishing line of a rod located in the fishing rod support means will pass at least partially around said pulley wheel, and a member mounted so as to be moved by movement of the pulley wheel and forming part of a photoelectric, magnetic or electro magnetic sensor for providing a signal indicative of any such movement and the rate thereof.*

The patentee's products gave visual and audible signals when there was movement (i.e. when those fishing got a bite). The defendant was modifying the patentee's products to add a volume and tone control for the audible signal, which involved among other things replacing the circuit board inside the device (using two of the original components) and changing the method of movement detection. The patentee brought an action for patent infringement and the defendant argued that the patent rights had been exhausted by the sale of the patentee's product. Falconer J held that the same fundamental principle should apply to modification of a patented article as to repair, namely that the purchaser must not make what is essentially a new product falling within the claim or claims of the patent. He held that the modification in this case amounted to making a new product and therefore patent infringement.

Finally, in *United Wire v Screen Repair Services (Scotland)*<sup>29</sup> the House of Lords confirmed that the question should focus on whether there is "making" rather than whether there is "repair". It held that the reconditioning of a sifting screen, used to recycle drilling fluid in the offshore oil-drilling industry, constituted making the patented product and so this was an patent infringement.

## **Conclusions**

The United Kingdom recognises exhaustion of patent rights in products sold by or with the patentee's consent in the European Economic Area. The patentee will also have granted an implied licence to resell products sold outside the EEA, unless resale in the EEA is prohibited and the alleged infringer is made aware of that prohibition. If the extra-EEA sale is by a licensee, there is no requirement that the alleged infringer be aware of the prohibition on resale in the EEA, although in Scotland such knowledge may be necessary where the licensee is part of the patentee's group of companies. Modification or repair, or sale of a modified or repaired product, will be an infringement where the change amounts to "making" a new product or, if not, where the implied licence to do so is excluded by a valid prohibition on such conduct. However, there is relatively little case law so far on modification or repair.

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<sup>28</sup> *Dellareed v Delkim Developments* [1988] FSR 329.

<sup>29</sup> *United Wire v Screen Repair Services (Scotland)* [2000] UKHL 42.