

19 March 2021

Right to Repair Inquiry
Productivity Commission
4 National Circuit
Barton ACT 2600, Australia

dcc.com

Dear Sir/Madam,

Inquiry of the Productivity Commission: *Right to Repair*

We thank the Productivity Commission for the opportunity to respond to this inquiry.

This response is directed to the following parts of the Issues Paper published by the Productivity Commission in connection with the inquiry:

- INFORMATION REQUEST 1:
What would a 'right to repair' entail in an Australian context? How should it be defined?
- INFORMATION REQUEST 5:
 - a) To what extent do current IP laws already facilitate repairs by consumers or independent third parties (e.g. the spare parts defence under the Designs Act)?
 - b) Are there any aspects of IP laws where consumers' rights with respect to repairs are uncertain?
 - c) Do current IP protections (e.g. intellectual property rights, technological protection measures, end-user licencing agreements) pose a significant barrier to repair in Australia? If yes, please comment on any or all of the following:
 - the specific IP protections that prevent consumers from sourcing competitive repairs and/or inhibit competition in repair markets;
 - the types of products or repair markets these barriers mainly affect;
 - the prevalence of these barriers;
 - the impacts of these barriers on third party repairers and consumers (e.g. financial cost, poorer quality repairs);
 - options for reducing these barriers and their associated benefits, costs and risks (including potential impact on market offerings).

Summary

We believe that a mandated, broad-ranging, general right to repair is not appropriate. It would be difficult to control the meaning of "repair", and such a right may impose unnecessary burdens upon commercial research into repair methods and remove incentives for such research.

Meaning of "Repair"

We believe the proper meaning of "repair" for the purposes of this inquiry is reflected by the following definitions of "repair" provided by the Macquarie Dictionary:

1. to restore to a good or sound condition after decay or damage; mend ...
2. to restore or renew by any process of making good, strengthening, etc. ...

IP Rights Promote Research and Innovation in Repair Markets

Provided in the Issues Paper (under Box 8), as an example of how copyright can “prevent” repair, is a scenario in which an original equipment manufacturer (OEM), namely Toshiba, relied on copyright in repair manuals for Toshiba laptops to restrain a third party from enabling people to download copies of the manuals available online. Copyright protects only the expression in a work in which it subsists; it does not protect an idea or information communicated through such expression. Therefore, although copyright precluded a convenient means of disseminating information for repairing the laptops in question (via downloading of copies of manuals), it could not have been relied upon to prevent dissemination of repair information the expression of which differed sufficiently from that in the copyright work. For example, a third party would be free to use the information to create a *YouTube* video showing how to repair a given laptop.

Third party-created works providing repair information may themselves enjoy enforceable copyright, providing a business case for parties to create such works/provide such information.

Current IP Law Relating to Repairs/Modifications/Uses

Designs

There is, as the Productivity Commission notes, a so-called “spare parts” defence (to registered design infringement) provided under the *Designs Act 2003* (Cth). The defence applies in respect of repair of a complex product, being a product comprising at least two replaceable component parts permitting disassembly and reassembly of the product¹. The defence is such that a person who uses or authorises use of a product falling within the scope of a registered design does not in so doing infringe the registered design if the product is a component part of a complex product and the use/authorisation is for the purpose of the repair of the complex product so as to restore its overall appearance in whole or part². Where a person asserts the defence, the registered owner bears the burden of proving that the person knew, or ought reasonably to have known, that the use or authorisation was not for that purpose³.

The defence was recently considered by the Federal Court of Australia in *GM Global Technology Operations LLC v S.S.S. Auto Parts Pty Ltd* [2019] FCA 97 (**GM v SSS**), in relation to dealings in aftermarket body parts, comprising bumpers, lights and grilles, for Holden Commodores. SSS (a wholesale distributor) sold replica body parts for the Holden Special Vehicle (“HSV”) line of cars, comprising premium versions of the Commodore, which parts fell within the scope of design registrations owned by GM (a Holden entity). The parts were fitted, by other parties, to lower-specification Commodores to afford them the appearance of HSV vehicles (rather than to repair them). In respect of most of the sales, GM was unable to prove that SSS knew or ought to have known that the sales were not for the aforementioned purpose and therefore failed to meet the burden necessary to establish infringement.

GM v SSS illustrates that a person who sells, without authorisation of a registered design owner, products that fall within the scope of the registered design and are not thereafter used for the repair purpose in question can nevertheless avoid infringement by lacking knowledge of the use to which the products are to be put. There is thus considerable scope for the defence to be used in circumstances other than those for which it was intended.

¹ *Designs Act 2003* (Cth) s 5, definition of “complex product”.

² *Designs Act 2003* s 72(1).

³ *Designs Act 2003* s 72(2).

Patents

The High Court of Australia has recently, in *Calidad Pty Ltd & Ors v Seiko Epson Corporation & Anor* [2020] HCA 41 (***Calidad v Seiko***), considered repair in the context of patent law.

Seiko is the owner of Australian patents covering Epson printer ink cartridges. The claims of the two patents in suit are directed to a "printing material container" comprising a memory, an electronic device (possibly for detecting ink levels) and an arrangement of terminals (see at [31]).

The cartridges were modified post-use by Ninestar Image (Malaysia) SDN BHD (***Ninestar***), in varying manners, for reuse, including (*inter alia*) by:

- (i) formation of a hole in such cartridges, through which they were refilled with ink, and sealing of both that hole and an outlet hole through which the original ink was dispensed during printing;
- (ii) resetting, reprogramming or replacement of memory chips which rendered such cartridges inoperable once out of ink, thereby repurposing them from single-use; and
- (iii) removal of a physical "interface pattern" restricting such cartridges to use in particular types of printer, thereby rendering them compatible with other types of printer.

Calidad Pty Ltd (***Calidad***) imported the modified cartridges into Australia for sale to the public.

The *Patents Act 1990* (Cth), unlike the *Designs Act 2003*, provides no express repair-based infringement exemption. Whether Calidad's importation of cartridges constituted infringement of either of the two patents in suit in each case turned fundamentally on whether the respective modifications made to them amounted to the "making" (anew) of a "printing material container" as claimed therein. In this regard, the exclusive rights of exploitation of an invention conferred by a patent include, where the invention is a product ("patented product"), the rights to "make" the product, sell the product, import the product and use the product⁴.

The court was split in relation to both:

- what it means to make a patented product or "patented article" (as it is also termed in the decision); and
- what becomes of the exclusive rights after such a product/article is sold.

Regarding the meaning of "make", a majority of Their Honours (Kiefel CJ, Bell, Keane and Gageler JJ) had primary regard to the patent claims. In this regard, Kiefel CJ, Bell and Keane JJ (with Gageler J agreeing) noted (at [55]):

- "a dichotomy of 'permissible repair' and 'impermissible reconstruction'" employed in US court jurisprudence;
- that "[t]he replacement of individual unpatented parts may involve a right to repair where what is done bears on the usefulness of the old combination of the product"; and
- that "[m]odifications of this kind tend to be characterised on the spectrum closer to repair than to reconstruction or making".

The majority found (at [66]) that "the question of infringement...is not addressed to the nature of the article but rather to the invention described by the integers of the claim".

⁴ *Patents Act 1990* (Cth) Schedule 1, definition of "exploit", and s 13.

Kiefel CJ, Bell and Keane JJ (at [63]) also observed (with Gageler J agreeing) that "[t]he expectations of Seiko or the original purchasers as to the limited functionality of the cartridges are not relevant to the question of infringement", citing cases in the United States, United Kingdom and Germany in which courts in those jurisdictions respectively:

- found that "the question whether a new article is 'made' cannot depend on what the patentee's or the purchaser's intentions were at the time of sale";
- found that "how a party views or markets its products is irrelevant to whether those products should be characterised as repaired or made"; and
- rejected "an argument that the boundary between repair and reconstruction turns on the intention of the patentee, that the product be used only once", and held that "unless such a term was embodied in an enforceable contract, it was no more than a hope or wish".

The majority, thus apparently endorsing the proposition that there is a dichotomy between "repairing" and "making" ("repair/make dichotomy"), held (at [69]) that:

- "[w]hen all of Ninestar's modifications...were completed what remained were the original Epson cartridges with some modifications which enabled their re-use";
- "[t]he modifications did not involve the replication of parts and features of the invention claimed"; and
- "[t]here was no true manufacture or construction of a cartridge which embodied the features of the patent claim".

It was thus held that none of Calidad's activities constituted infringement.

The judges dissenting as to the meaning of "make" (Nettle, Gordon and Edelman JJ) (at [266]) held that cartridge modifications which comprised (i), (ii) and (iii) (set out above) in combination involved "the making of new, different cartridges" because "the processes used to modify those cartridges included cutting off the interface pattern to make them fit a different printer from that for which they were designed". They found that:

- "[r]elative to each cartridge in its totality, [the combination of (i), (ii) and (iii)] was such a significant change to the form and function of the cartridges as properly to be viewed as changing each cartridge from the cartridge it had been into a new and different cartridge adapted to a new and different task"; and
- "[w]hen that significant change was combined with the other modifications, there was a making of the patented invention".

The dissenting judges, however, found (at [264] and [265]) that cartridge modifications comprising (i) and (ii) in combination but not also comprising (iii) "did not amount to the making of a new or different embodiment of the cartridge". They noted (at [263]) that "it assists to ask whether what the alleged infringer has done is to repair the article as opposed to making a new article", and that "'repair' may entail considerable disassembly, the removal and replacement of significant constituent parts, and reassembly on a mass-production basis, without amounting to 'making' a new article" - apparently themselves endorsing a repair/make dichotomy. The dissenting judges found (at [264]) that "it was beside the point that Seiko may have designed its cartridges in the hope that they might be used only once or that Seiko sold its cartridges as single-use, throw-away cartridges".

As to what becomes of the exclusive rights after a patented product or article is sold, the majority endorsed the "Doctrine of Exhaustion", according to which the patentee's exclusive rights with respect to the product/article are exhausted on first sale (see at [71] to [110] and [112] to [141]). In particular, Kiefel CJ, Bell and Keane JJ (with Gageler J agreeing) found (at [84]) that:

- “[t]he matters which inform the adoption of a policy of the law as to the scope of the patent rights to sell and use a product, as they affect a patentee and owner of a chattel, point strongly to an acceptance of the exhaustion doctrine and away from the implied licence doctrine”; and
- “[i]ndeed there seems little to be said in favour of the latter unless consistency with the statute which grants the patent rights requires a different outcome”.

Kiefel CJ, Bell and Keane JJ (with Gageler J agreeing) observed (at [85]) that “[a]ccording to the exhaustion doctrine the right to exclude an owner from the full use of a product comes to an end when that product is sold”.

The judges dissenting as to what becomes of the exclusive rights (Nettle, Gordon and Edelman JJ) were of the view that arising on sale of the original cartridges was an “implied licence” which, although permitting particular acts in respect of those cartridges thereafter, did not permit the modifications comprising (i), (ii) and (iii) in combination, so that Calidad’s importation and sale of the cartridges which underwent these modifications “infring[ed] Seiko’s patents” ([266]).

However, it appears clear, given the majority decision, that it is the Doctrine of Exhaustion, and not an implied licence doctrine, which applies in Australia in respect of patented products.

Accordingly, owners of patents for such products, to have an ability to impose restrictions around particular downstream activity in respect of the products which would otherwise be conferred by the *Patents Act 1990* (on the basis that such activity is outside the scope of an implied licence and thus falls within residual exclusive rights of the patentee), would need to implement contractual arrangements. Patentees’ abilities to obtain remedies for downstream dealings which are unrelated to repair would thus be significantly curtailed.

We believe that the Doctrine of Exhaustion adequately allows for purchasers of patented products to repair those products without infringing.

This is not to suggest that the Doctrine of Exhaustion strikes the optimal balance between the rights of product purchasers and patentees, particularly given the majority findings in *Calidad v Seiko* that it is full use of the product that the patentee ceases to have the right to exclude when the product is sold, and that the patentee cannot restrict a purchaser from making modifications directed to non-patented features of the product – which may have nothing at all to do with repair in the ordinary sense but would nevertheless be deemed “repair” (given the repair/make dichotomy).

The metes and bounds of the Doctrine of Exhaustion as concerning repair (and in general) are at present unknown, and can take shape only once there has been judicial application of the doctrine over a range of circumstances. One area of uncertainty is patented processes. Processes for making, using, modifying, repurposing, repairing or restoring a given product are not, as such, excluded from patentability under the *Patents Act 1990*. Products and associated processes can often be co-patentable on the basis of common constructional characteristics; indeed, it is not unusual for a patent to include claims respectively directed to a product and a method of making or using the product. It is not inconceivable that such a patent might include claims to a method of modifying, repurposing, repairing or restoring the (patented) product, which method might fall outside the scope of the “full use” of the product which the patentee ceases to be able to exclude when that product is sold.

There is also the possibility of isolating counterpart product and method claims from one another, including in particular by limiting a given patent application to the product claims and prosecuting a divisional application (deriving from it) in respect of the method claims, or *vice versa*, thereby securing standalone product and method patents underpinned by a

common inventive concept. The claims could be further isolated from one another by assignment such that the product and method patents are not commonly owned. The extent (if any) to which the Doctrine of Exhaustion, applying in respect of the product patent, might apply to the method patent, is unclear.

In each of *GM v SSS* and *Calidad v Seiko*, there was activity of which the registered rights holder complained that was not directed at repair but in respect of which the rights holder was afforded no remedy under the respective statute.

Leaving aside the strain which the repair/make dichotomy would seem to place on the meaning of "repair" in a patent context, it is notable that Their Honours differed as to the kind of activity which amounts to "making" (and can thus be ruled out as "repair").

There are significant questions, as to the application and ramifications of the Doctrine of Exhaustion vis-à-vis a right of repair, which have yet to be settled. We believe that, in the absence of answers to such questions, any significant reform to Australian patent law in relation to a right of repair would be untimely.

Furthermore, an inability to establish enforceable patents in respect of repair and recycling methods would be a disincentive to research and development in repair and recycling technologies.

Please let us know should you require further input from us.

Yours faithfully,

DAVIES COLLISON CAVE PTY LTD

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Principal