

Patent ownership in Malaysia - a comparative legal analysis of the Patents Act 1983.

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**PATENT OWNERSHIP IN MALAYSIA - A COMPARATIVE LEGAL
ANALYSIS OF THE PATENTS ACT 1983**

by

LIM HENG GEE

A Thesis Submitted for the Degree of Doctor of Philosophy

Queen Mary and Westfield College

University of London

December 1996

ABSTRACT

Prior to 1986, Malaysia had a system whereby patents issued in the United Kingdom could be registered in Malaysia. On registration, the patent owner would have privileges and rights as those conferred by the issue of the patent in the United Kingdom. The Patents Act 1983 introduces a completely new code for patent protection in Malaysia. This thesis analyses and evaluates the current provisions relating to the various incidents of ownership of patent and utility model rights in Malaysia with the aim of assisting in the proper construction of the relevant provisions. The issues of entitlement, the rights of co-owners, the exercise and scope of rights as well as the limitations to and loss of these rights are examined. The main objective of this study is to seek to achieve a proper balance between the rights of a patent owner and the public. Where necessary, proposals for reforms are made to amend various aspects of the Act with the aim of achieving this objective, ensuring at the same time that the relevant provisions are in conformity with Malaysia's obligations under the Paris Convention and the GATT-TRIPS Agreement. Since there is a dearth of legal writing and judicial guidance on the relevant provisions of the Act, the approach adopted in the thesis is based on a comparative study of equivalent provisions of patent statutes in various Commonwealth countries and the United States, with special emphasis on United Kingdom law. Common law doctrines are also examined to determine their applicability in the Malaysian context. Where of assistance, the laws of other jurisdictions are examined. The experience of the working of the patent system in these countries is drawn upon in the search for a proper and viable balance between the rights of the competing groups.

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ACKNOWLEDGEMENT

I am obliged to my sponsor, Institut Teknologi MARA, Malaysia, for granting me the study leave and staff scholarship that made it possible for me to embark on this programme of research.

I wish to record my gratitude to my supervisors, Ms Alison Firth and Professor Gerald Dworkin for their unfailing support and encouragement and for giving me the benefit of their experience. Ms Firth provided inspiration, guidance and fresh insight into the issues which are the focus of my research; Professor Dworkin, despite moving to a new post in King's College London, continued nevertheless to supervise my work and offer critical comments, suggestions and guidance. I thank them both for their patience and kindness.

I also acknowledge and thank the following:

Officers of the Intellectual Property Division of the Ministry of Domestic Trade and Consumer Affairs for providing me with patent statistics and allowing me access to relevant materials.

My brothers and sisters; in particular, Soh Lan, for her help in reading some of my later drafts; Heng Boon, for keeping me abreast of current developments in the intellectual property scene in Malaysia and for sending me other materials and information relevant to my research; and Heng Seng for keeping me informed of legal news and cases.

Dr See Ching Mei for her materials on methodology and for her helpful comments on the draft of my introductory chapter.

Mrs Ellen Gredley for her unfailing courtesy and good humour, patience and assistance in locating and bringing to my notice materials relevant to my research and for her editorial assistance.

My fellow Ph.D. candidates in the Intellectual Property Law Unit: in particular Spyros Maniatis, Uma Suthersanen, YunJoo Lee, Tanit Changthavorn, and Luis Gimeno. They have been not only good friends, but lively, helpful and intelligent "sounding boards". Our coffee breaks have been a constant source of inspiration. Special thanks goes to YunJoo Lee for helping in the final stage of preparation for binding and submission.

This thesis is dedicated to my parents. Without their love, guidance and firm upbringing, it would not have been possible.

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December 1996

Table of Abbreviations

AC	Law Reports, Appeal Cases (UK)
AER	All Malaysian Report
AIPC	Australian Intellectual Property Cases
AJCL	American Journal of Comparative law
AJL	Australian Law Journal
ALJR	Australian Law Journal Reports
ALR	Australian Law Reports
All ER	All England Law Reports
AIPLA QJ	American Intellectual Property Law Association Quarterly Journal
Am. U.L. Rev.	American University Law Review
Antitrust Bull.	Antitrust Bulletin
CDPA	Copyright, Designs and Patents Act 1988 (UK)
CA	Court of Appeal
CAFC	Court of Appeals for the Federal Circuit (US)
Cap.	Chapter
CC	Circuit Court (US)
CCA	Circuit Court of Appeals (US)
CCPA	Court of Customs and Patent Appeals (US)
Ch.D	Law Reports, Chancery Division (UK)
CIPA	Chartered Institute of Patent Agents
Cir.	Circuit Court of Appeals (Federal, US)
CIPR	Canadian Intellectual Property Reports
CLJ	Cambridge Law Journal
CLR	Commonwealth Law Reports (Australia)
CML Rev.	Common Market Law Review
CMLR	Common Market Law Reports
Col. LR	Columbia Law Review
Com. Cas	Commercial Cases
CPC	Carpmael's Patent Cases (1602-1842)
CPC	Community Patent Convention
CPR	Canadian Patent Reporter
Ct Cls	Court of Claims, US
DLR	Dominion Law Reports (Canada)
DC	District Court (US)
EC	European Community
ECJ	European Court of Justice
ECLR	European Competition Law Review
EIPR	European Intellectual Property Law Review
EMLR	Entertainment and Media Law Reports
En.	Enactment
EPC	European Patent Convention
EPO	European Patent Office
EPOR	European Patent Office Reports
Eq.	Law Reports, Equity (UK)
ER	English Reports
F	Federal Reports (USA)
F. Supp	Federal Supplement (USA)
Fed.	Federal
F. Cas	Federal Cases (USA)
FMS	Federated Malay States
FMSLR	Federated Malay States Law Report
FLR	Fordham Law Review
FSR	Fleet Street Reports (UK)
Geo. Wash. L. Rev.	George Washington Law Review
GRUR Int.	Gewerblicher Rechtsschutz und Urheberrecht Internationaler Teil
H. Ct	High Court
Harv. LR	Harvard Law Review
HKLR	Hong Kong Law Reports

HL	House of Lords
HPC	Hayward's Patent Cases (UK)
ICLQ	International and Comparative Law Quarterly
ICR	Industrial Court Reports (UK)
IDEA	The Journal of Law and Technology, Franklin Pierce Law Center
IIC	International Review of Industrial Property and Copyright Law
IPJ	Intellectual Property Journal
IPR	Intellectual Property Reports (Australia)
J	Judge
JBL	Journal of Business Law
JMCL	Journal of Malaysian and Comparative Law
JPOS	Journal of the Patent Office Society
JPTOS	Journal of the Patent and Trade Marks Office Society
KB	Law Reports, King's Bench (UK)
LC	Lord Chancellor
LCJ	Lord Chief Justice
L. Ed.	Lawyers Edition
LJ	Lord Justice
LLR	Lagos Law Reports (Nigeria)
LQR	Law Quarterly Review
LR	Law Reports
LT(NS)	Law Times, New Series (UK)
Mich. L. Rev	Michigan Law Review
MIP	Managing Intellectual Property
MLJ	Malayan Law Journal
MLR	Modern Law Review
MR	Master of the Rolls
NYUL Rev	New York University Law Review
NZ	New Zealand
NZLJ	New Zealand Law Journal
NZLR	New Zealand Law Review
OJEPO	Official Journal of the European Patent Office
Para	Paragraph
PCC	Privy Council Cases
QB	Law Reports, Queen's Bench Division (UK)
RPC	Reports of Patent, Design and Trade Mark Cases (UK)
SCR	Supreme Court Reports (Malaysia)
SR(NSW)	State Reports (New South Wales)
SS	Straits Settlements
Sup. Ct	Supreme Court
TLR	Times Law Reports (UK)
U. Chi. L. Rev.	University of Chicago Law Review
U. Cinc. L. Rev.	University of Cincinnati Law Review
UCLA L. Rev.	University of California at Los Angeles Law Review
UK	United Kingdom
US	United States Reports
US	United States
USPQ	United States Patents Quarterly (USA)
VC	Vice Chancellor
VLR	Victoria Law Reports (Australia)
Vill. L. Rev.	Villanova Law Review
WLR	Weekly Law Reports (UK)
WIPO	World Intellectual Property Organisation
WPC	Webster's Patent Cases (UK)
YLJ	Yale Law Journal

Introduction to Thesis

Review of the Problem

Patent law in Malaysia is presently governed by the Patents Act, 1983.¹ Prior to this Act, there were three different pieces of legislation involved. Each one of Malaysia's component regions had its own legislation to provide for legal protection of a patent.² All the three Acts were based on the re-registration system whereby the grantee of a UK granted patent could apply to have the patent registered in the relevant component state. These three repealed legislation in turn superseded several other state Patents Enactments and Ordinances, the earliest of them being enacted in 1871. These were either originally based on an independent, indigenous system, a pure re-registration system, or a combination of both. However, by 1932, all the independent patent systems were replaced by the re-registration system, being dependent on the re-registration of a United Kingdom granted patent. So the Act introduces a completely new and unified code for patent protection throughout the whole of Malaysia. With this new Act Malaysia has again an independent patent system, based on an indigenous examination and granting system instead of the re-registration of a UK granted patent.

From this it can be seen that Malaysian patent history is not of recent origin, patent protection being available in some of the component states of the Federation from more than a century ago. Despite this, a proper awareness and understanding of the working of the patent system is still lacking in Malaysia. Patent law and patent rights have not been the subject of much interest or concern among the legislators, legal practitioners and users. Hence it is not surprising that there is no developed body of legal principles and writing in this area. There is also a lack of judicial tradition and precedents regarding the substantive law. To date, there has been only a handful of reported patent cases, and these are devoid of any detailed discussion on the applicable legal principles. UK precedents and cases are cited and applied as a matter of routine. This in part was due to the re-registration system. However, even when the court was called upon to construe specific provisions of the Patents Act 1983, reliance was placed on UK precedents. This is not surprising given the historical colonial ties between the two countries and a Malaysian legal system which has its

¹ Patents Act 1983, Act 291, Malaysia, as amended in 1986 and 1993, and hereinafter referred to as the Act. The Act came into force on 1st of October, 1986. The Patents (Amendments) Act, 1993 entered into force on August 1, 1995. On the 1st of January, 1989, Malaysia became a member of the Paris Convention for the Protection of Industrial Property, and also the World Intellectual Property Organisation. She became a member of the Berne Convention for the Protection of Literary and Artistic Works on the 1st of October, 1990.

² Malaysia was formed in 1963, arising from the merger of the Federation of Malaya, Sabah and Sarawak.

roots in the British common law tradition. Accordingly, United Kingdom judicial precedents are heavily relied upon by the local courts as a guide to dispute resolutions. Occasionally, and given the common historical Anglo-Saxon legislative background, courts have relied on other Commonwealth decisions too. Though such decisions are not binding on our courts, they are, and will continue to be of persuasive authority. Further, most of our lawyers and judges were trained in the UK and as such, feel most comfortable to quote directly from the wisdom of English judges.³

It follows, therefore, that in the early development of her intellectual property laws, Malaysia had traditionally looked towards the United Kingdom for much of her intellectual property policies and drafting inspirations. Legislation in the past had closely paralleled that of the United Kingdom. For example, the Copyright Act, 1969 (and even the Copyright Act, 1987) draws its inspiration from the United Kingdom Copyright Act 1956). The Trade Marks Ordinance, 1950, and Trade Marks Act, 1976 which replaced it, have been modelled along the provisions of the Trade Marks Act, 1938 of the United Kingdom. Even the previous patent legislation in existence before the introduction of the re-registration system were almost exact replicas of the patent statute then in force at the relevant prevailing dates in the United Kingdom.

However, in the drafting of the Patents Act, 1983, there was a departure from this traditional approach. Instead of relying exclusively on the United Kingdom model, with minor changes to suit local circumstances, the drafters of the Act had referred to various other models. Besides the patent statute of the United Kingdom, guidance was also sought from the WIPO Model Law for Developing Countries on Inventions (the WIPO Model Law),⁴ and the patent legislation of, *inter alia*, Australia and Sri Lanka. The influence of these models could be seen in various parts of the Act.⁵ The final outcome of this is the 1983 Act which is an amalgamation of elements found in these different statutes. This new Act is not anchored to any one particular model, and is untested. This poses problems for the courts when it comes to applying the law. To ensure a proper and fair working of the patent system, the provisions and principles laid down in the Act require clarification and possible weaknesses in them identified. Further, due to inexperience with the working of the patent system, there may be gaps in existing provisions which need to be addressed.⁶

³ See generally, Lim, H.G., "Malaysian Intellectual Property Law - A Survey" (1990) 2 MLJ xxxiii.

⁴ WIPO Model Law for Developing Countries on Inventions, Volume 1 Patents, World Intellectual Property Organisation, Geneva 1979, WIPO Publication No. 840(E).

⁵ Although the patent statutes of Japan and Thailand were referred to, there do not seem to be any elements of these statutes adopted in the Act.

⁶ One glaring example of this lack of experience is the omission to lay down in section 27 the duration within which an applicant is entitled to claim a right of priority based on an earlier application in another country. Because of this, the court in Interlego A.G. v. The Registrar of Trade Marks and Patents, Malaysia [K.L. O.M. No. R8-32-36-87 - unreported], and The Dow Chemical Co. v. The Registrar of Patents, Malaysia [K.L. O.M. No. R8-32-42-87, unreported] held that it was possible to claim priority from the basic application even though the application in Malaysia had been filed after a lapse of twelve months. Section 27 had to be amended by section

There is, therefore, a dire need for an in-depth study of the patent law provisions in Malaysia.

Objectives and Scope of Study

The justification and benefit of patents have been advocated for extensively in literature. Although the desirability of a patent system is here not disputed, it is equally true that patent rights, untrammelled and uncontrolled, may have adverse effects on the public.⁷ So, a balance needs to be struck to ensure that the deserved and justifiable rights of the patentee are upheld, and at the same time, that excessive rights do not enure to the patentee to the detriment of, and the imposition of undue burden on, the public.⁸ Similarly, there is a need to protect prior vested rights despite the grant of a patent to the first applicant. As Turner commented, acceptance of a patent system does not necessarily mean that "any subtraction from the bundle of patentee's rights is necessarily bad public policy".⁹

The above concerns are reflected in the Act. While the main objective in introducing the Act is the encouragement of the flow of foreign technology into Malaysia by the provision of adequate protection, another stated objective is the need to provide for safeguards to discourage "unfair monopoly practices".¹⁰ The latter objective is accomplished by the inclusion of certain provisions in the Act which provide this balance and reconcile the opposing interests of the patentee and the public. The Malaysian patent system, on the one

14(a)(ii), Patents (Amendment) Act 1993, which now specifies that the right of priority could only be claimed if an application is made within a period of twelve months from the filing date of the first application.

⁷ The arguments for and against the patent system are usefully summarised in Machlup, F., and Penrose, E.T., "The Patent Controversy in the Nineteenth Century", 10 *Journal of Economic History* 1 (1950), Stedman, J.C., "Invention and Public Policy", 12 *Law and Contemporary Problems* 649 (1947) and Cheung, S.N.S., "Property Rights and Inventions", in Palmer, J. (Ed.), *The Economics of Patents and Copyrights, Research in Law and Economic*, Vol. 8, pages 19-24, Connecticut, Jai Press Inc., 1986. See also, Machlup, F., *An Economic Review of the Patent System*, Study No. 15, Before the Subcomm. on Patents, Trademarks, and Copyrights of the Senate Comm. on the Judiciary, 85th Cong., 2d Sess. 79 (1958), pages 20-51, and pages 52-56; Plant, A., "The Economic Theory Concerning Patents for Inventions", 1 *Economica* 30 (1934); Canadian Government: 1976, Working Paper on Patent Law Revision, Ottawa: Department of Consumer and Corporate Affairs; and United Nation Report 65: Report to the Secretary-General, *The Role of Patents in the Transfer of Technology to Developing Countries*, United Nations, New York, 1964, Part 2, Chapters IV to VI. Despite any attraction that the arguments against patents may have, in the real world the necessity of a patent system remains the paramount rule. In view of the GATT-TRIPS Agreement, any overall challenge to the patent system would be an exercise in futility.

⁸ The term "public" is used here to include the consumers, competitors, and other patentees.

⁹ See Turner, D.F., "The Patent System and Competitive Policy", 44 *N.Y.U.L. Rev.* 450 (1969), at page 458.

¹⁰ See *infra*, Chapter 1 - Historical Development of the Malaysian Patent System, footnote 131 - "Country Statement on the Industrial Property Situation in Malaysia and WIPO's Development Cooperation Activities in Asia and the Pacific" by Mr Yuen Hung Chan, Assistant Secretary, Science and Technology Division, Ministry of Science, Technology and the Environment, Malaysia (paper presented at the Regional Evaluation and Planning Meeting on Development Cooperation Activities in Asia and the Pacific - Thailand 25 - 28 June 1984).

hand, functions as an incentive or reward, by establishing that rights of the patent owner are exclusive. On the other hand, there are preventative and limitative counter-balances laid down in the Act which function as safeguards of the public against uncontrolled and excessive monopoly rights.

The discernible goal of the Act is the protection of the legitimate rights of the patent owner without imposing undue obstacles and burden on the freedom of the public to carry on legitimate scientific, research and commercial activities. This underlying philosophy is the yardstick under which the provisions of the Act should be construed and evaluated.

The legal framework is now in place. But whether the Act, in its actual working, achieves the intended functions as expressly and implicitly stated, depends on how the various provisions are construed and applied in practice to achieve the desired harmony. Accordingly, clarifying the extent of the rights of ownership is an essential requirement for performing this balancing exercise and resolving tension between opposing rights.

The lack of a body of local jurisprudence on the Malaysian patent law did not prove crucial in the past. Since the patent system was based on re-registration, reliance could be placed completely on UK precedents. However, the situation has changed now: the current system is an amalgamation of elements derived from various models, and it would be wrong, and impossible, to rely exclusively on the UK judicial approach in the interpretation of the Act. The equivalent UK provisions are now absent or not *in pari materia* with the provisions of the Act, so the traditional reliance on UK precedents has to be selective. Even for provisions which are the equivalent of UK provisions, there may be subtle differentiation, making reliance on UK precedents conceptually unsatisfactory and unsafe as precedents. Hence in determining the correct approach to adopt in the construction of the Act, the judges will be treading on unfamiliar ground. Although it is foreseeable that the courts will still look towards UK cases as the main source of guidance, the opportunity to do so may be much reduced. There is, therefore, a need for a fresh and in-depth study of the Act's new provisions. The need may not be crucial in the area of the substantive patentability criteria, which are substantially similar to the UK and the EPC laws and in respect of which there is a vast corpus of decisions and legal writings on these areas to guide the courts.

The same, however, is not the case for the various provisions establishing and delineating the rights of a patentee. The issues of entitlement, the rights of co-owners, the exercise and scope of rights as well as the limitations to, and loss of, these rights, and their interaction with each other are untested. Therefore, the main objectives of this study are:

1. To ascertain the meaning and scope of the provisions concerning patent ownership, and the extent of ownership rights granted under the Act.

2. To suggest the proper construction of these provisions in order to achieve the desired balance between the rights of a patent owner and the public.
3. If such a balance cannot be achieved by construing the provisions purposively, possible alternative solutions are offered to resolve the problems arising from the ambiguities in the Act.
4. To identify the possible weaknesses and lacunae in the existing provisions, to examine the extent to which gaps in the existing law may be filled by reference to the common law and other jurisprudence, and to propose alternatives to consider in case of a need for revision of the law in the future.
5. In cases of unduly excessive or restrictive rights, proposals for reforms are made to amend various aspects of the Act with the aim of achieving this objective, ensuring at the same time that the relevant provisions are in conformity with Malaysia's obligations under the Paris Convention and the GATT-TRIPS Agreement.¹¹

¹¹ Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, the GATT-TRIPS Agreement - MTN/FA II-AIC. Note that a series of discussions and meetings were held under the auspices of the World Intellectual Property Organisation (WIPO) from May 1984 to November 1990 with the objective of formulating a set of harmonised formal and substantive norms relating to patent laws throughout the world (for a summary of these meetings and the subject matters discussed, see *Industrial Property*, March 1991, page 168). The preparatory work by the "Committee of Experts on the Harmonisation of Certain Provisions in Laws for the Protection of Inventions" for the proposed Treaty Supplementing the Paris Convention for the Protection of Industrial Property as Far as Patents are Concerned (Patent Law Treaty) culminated in a draft of the proposed Patent Law Treaty (see the "Basic Proposal", WIPO Doc. PLT/DC/3, in *Industrial Property*, February 1991, page 118). Final negotiations and the signing of the text of the Treaty were supposed to be held in 1991. However, the prospect for a successful conclusion of such a Patent Law Treaty is now in doubt and the whole project seems to be placed on a "slow burner" due to the reluctance of the United States to relinquish its "first-to-invent" principle. In the May 1995 Consultative Meeting for the Further Preparation of the Diplomatic Conference for the Conclusion of the Patent Law Treaty, the US in essence declared that it could neither support the continuation of the Diplomatic Conference on the Patent Law Treaty nor continue the negotiations on the basis of the "Basic Proposal". Due to the absence of consensus on this "Basic Proposal", current WIPO activities seem to be confined to achieving harmonisation of patent laws in matters concerning the formalities of national and regional patent applications (see *Industrial Property* 239 (1995), see also Beier, F.K., Schricker, G. (Eds), *From GATT to TRIPS - The Agreement on Trade-Related Aspects of Intellectual Property Rights*, IIC Studies Vol. 18, VCH, 1996, at page 178). Further, as Malaysia had not been present at any of the meetings of Committees of Experts relating to the Patent Law Treaty, it is uncertain whether she will be a signatory member to this Treaty if, and when it finally comes to fruition. In any case, the proposed provisions are mostly based on current norms of the developed countries as reflected, for example, in the existing provisions of the Community Patent Convention and the US patent law. Therefore, only passing references will be made to the proposed norms when the relevant issues are analysed in the Malaysian context. For reports and other discussions relating to the proposed Patent Law Treaty, see *Industrial Property* 313 (1984), 267 (1985), 309 (1986), 204 (1987), 179 and 358 (1988), 53 and 269 (1989), 140 and 297 (1990), and 41 (1991). See also Beier, F.K., Schricker, G. (Eds), *GATT or WIPO? New Ways in the International Protection of Intellectual Property*, IIC Studies Vol. 11, VCH, Weinheim, 1989, Fryer, W.T., III, "Patent Law Harmonisation: The Current Situation and Alternatives Available", 72 *JPTOS* 242 and 298 (1990), Fiorito, E.G., "The WIPO 'Basic Proposal' for Harmonisation of Patent Law Viewed from the U.S. Practitioners Point of View", 19 *AIPLA Q.J.* 24 (1991), Fiorito, E.G., "The 'Basic Proposal' for Harmonisation of US and World-wide Patent Laws Submitted by WIPO", 73 *JPTOS* 83 (1991), Pagenberg, J., "The WIPO Treaty", 19 *AIPLA Q.J.* 1 (1991), and further references cited therein.

Methodology, Sources and Limitations

From what has been stated above, it will be evident that the Malaysian patent system has not evolved in a systematic and coherent manner based on its own concepts and philosophical framework and/or national experience. The early patent laws had invariably been designed by means of the wholesale import of UK legislation. Whatever revisions that were carried out on such legislation then were not based on the functioning and expedience of the patent system as experienced in Malaysia, but on amendments made to the "parent" UK statutes due to the particular exigencies of the United Kingdom. Therefore, it may be inappropriate and unacceptable to draw wholly upon the experience of the past to assist in the understanding and the construction of the present Act.

Further, the Bill which eventually led to the enactment of the Act in toto was drafted in circumstances of confidentiality rather than transparency. There was no public discussion of the proposed bill, the direction it should take, or its legal techniques.¹² No record of the discussion of the officers of the Judicial and Legal Department involved in the framing of the Bill is available. So the rationale for the inclusion of the various provisions of the Act has to be derived from legal writing and judicial opinions relating to the equivalent provisions found in the different models relied upon in the enactment of the Act.

In view of the patchwork nature of the Act, for the purpose of analysing and evaluating the relevant provisions and proposing their proper construction, a comparative legal study approach is, therefore, appropriate. Accordingly, the research methodology adopted in this thesis is based on the document and content analysis technique.¹³ This involves reliance on two main sources of reference:

1. Reported judicial decisions from various jurisdictions.

References to judicial decisions from countries having similar legislative provisions are made. This involves case studies, analyses and references, *inter alia*, to the relevant laws of the United Kingdom, various British Commonwealth countries, and the United States. Although the Malaysian Courts have not, traditionally, relied on US judicial opinions,¹⁴

¹² Although advice and guidance were provided by expert missions from WIPO, including consultants from Sweden and the United States of America, these discussions were confined "in-house" and were not made available to the public - see text accompanying footnote 130 in Chapter 1 - Historical Development of the Malaysian Patent System.

¹³ See generally, Krippendorff, K., *Content Analysis: An Introduction to Its Methodology*, Sage Publications, Beverly Hills, CA., 1980; Rosengren, K.E. (Ed.), *Advances in Content Analysis*, Sage Publications, Beverly Hills, CA., 1981; Weber, R.P., *Basic Content Analysis*, Sage Publications, Beverly Hills, CA., 1985.

¹⁴ See Lim, H.G., "American Influence on the Development of Intellectual Property Law in Malaysia", seminar paper presented at the MAAS (Malaysian Association for American Studies) International Conference 1991 - The US Legal System: Its Influence on Malaysia and Asia, Kuala Lumpur (8-10/7/1991). In fact, in the copyright field, US influence could be seen in the Copyright

the present thesis makes extensive use of judicial doctrines from the US. This is justified in view of the fact that certain concepts and doctrines in the Act, like the exhaustion doctrine, the best mode requirement, joint inventorship and doctrine of patent misuse, are more widely litigated upon and thus more developed by the US courts. Common law doctrines are also examined to determine their viability and applicability in the Malaysian context. The laws of civil law jurisdictions are also referred to. Where compatible with the Malaysian provisions, their approaches and rules may be of great relevance in the search for the appropriate solution. The difficulties encountered in these countries, in the construction and application of the corresponding provisions, are noted, and the methods adopted to overcome them have been utilised in assisting in the search for viable alternative conflict resolutions.

2. Legal Literature, Legislative Reports and Consultation Documents

Legal literature, committee reports, legislative reviews and consultation documents from the jurisdictions referred to above are also relied upon as a basis whereby the relevant Malaysian position is evaluated and compared. Recommendations and measures adopted in these jurisdictions are assessed, and where found appropriate, incorporated in the formulation of proposed solutions to fill in any lacunae in the existing law. Such literature, based on the practical experience of the working of the patent systems in these countries, is an invaluable source of ideas to draw upon. After all, the ultimate scope and function of all patent systems should, at least in theory, be the same.

It is realised that such a wide coverage will necessarily and inevitably result in the sacrifice of more detailed analysis and evaluation of particular issues of the law under study. However, it is felt that at this stage of the development of our patent laws, the wider cohesive approach adopted, rather than the narrow specific issues approach, is to be preferred. This allows for a bird's eye view of the overall problem to be appreciated and if necessary, addressed in any future revision of the patent law.

Outline of Chapters

Chapter 1 is intended to lay down a background perspective to the thesis which examines the various incidents of patent ownership in Malaysia. It provides a brief historical outline of the various components states in Malaysia and the formation of a unified Federation of Malaysia. This is followed by an outline of the reception and present applicability of common law in the Malaysian territories. The evolution of the patent system in the various states and the enactment of a unified federal patent system is then described. A brief outline of the various substantive requirements that need to be fulfilled to be entitled to a grant of a patent or a utility innovation is then provided. This is not meant to be an exhaustive study as it is not within the scope of this thesis.

The thesis encompasses four lines of inquiry. The first focuses on the ownership of patent rights. This is dealt with in Chapter 2 which centres on the ownership of patent rights inter se. The concepts of inventions, inventors and joint inventors are analysed. The rights of joint owners are examined. The provisions on employee's inventions are analysed and evaluated. Based on the conclusions reached, proposals for reforms are suggested.

The second line of inquiry examines the extent of protection conferred on a patent owner. This first aspect of this inquiry is dealt with in Chapter 3, and concerns the various types of direct infringements. Special emphasis is placed on the examination of the extent to which indirect exploitation of a patent invention is actionable under the patent and common law. Since there are no statutory provisions on contributory infringement, the desirability for an express contributory infringement provision is examined in the next chapter, Chapter 4.

The third line of inquiry relates to the exercise of the exclusive rights conferred by a patent grant. The first of these inquiries, in Chapter 5, examines the rights and wrongs of the use of threats to enforce the patent rights. The common law remedies available to a person threatened is evaluated. Proposals are then made to introduce a threats section in the Act. The second issue under this line of inquiry is examined in Chapter 6. This chapter focuses on statutory measures introduced to curb the abuse of patent rights, the compulsory licensing provisions and the provisions regarding invalid clauses in licence contracts.

The final line of inquiry, in Chapter 7, deals with the exceptions and limitations to, and loss of the exclusive rights. Among the issues dealt with under limitations to the rights is the common law doctrine of the implied licence to repair. The statutory doctrine of exhaustion of rights is also analysed. On the circumstances leading to loss of rights, the focus of the inquiry will be on the requirement of sufficiency in the specification and the duty to describe the best mode for putting the invention into effect.

The concluding chapter summarises the proposal for changes in the Malaysian patent law made in the earlier chapters and formulates the various revisions and amendments suggested to the Act, along the line of the analysis and conclusions reached in the earlier chapters.

The ultimate goal of this study is to promote a better understanding and appreciation of this aspect of the law. It would be presumptuous to think that the recommendations or proposals put forward are the most suitable or will provide the right answers. However, by offering possible alternative solutions and construction of the provisions of the Act, and a body of relevant cases, articles, and reference materials relevant to the construction of the Act, it is hoped that they will serve as a guide to, and stimulate further studies and debates on various aspects of ownership in patent rights in Malaysia. Further it is hoped that the study will, in particular, contribute towards assisting officials in the Intellectual Property Division of the Ministry of Domestic Trade and Consumer Affairs in any future revision of the existing law, the Courts and the legal profession in the application of the law and the solution of legal disputes, and users of the system and the public as regards their rights and obligations under the law.

This thesis is based on the law and materials available as on 31st October, 1996.

Chapter 1: Historical Development of the Malaysian Patent System

1. Introduction

The Patents Act 1983 was hailed as the first indigenous patent system in Malaysia. To a certain extent this is true, in that the 1983 Act created for the first time a single centralised system to encompass all the component states. But contrary to popular belief, prior to this statute, indigenous patent systems had existed for a century in all but two of the component states.

To understand the reason for the proliferation of independent patent systems in the component states of Malaysia and better to appreciate the developments of patent legislation in the country, it is necessary to delve briefly into the various previously separate political entities that constitute present day Malaysia.

This chapter, therefore, first deals briefly with the history of the component states and describes how these states united to form the country of Malaysia. As English common law principles are relied upon when discussing the extent and scope of the rights which could be exercised by a patent owner, a section is devoted to discussing the introduction and extent of application of these common law principles in Malaysia. The chapter then goes on to trace the various independent patent systems that were in existence and the replacement of these systems with the re-registration system. This is followed by a discussion of the impetus which gave rise to the 1983 Act, together with a brief outline of the structure of the present Act.¹ A brief account is also given of the relevance and use of the former systems, and of the government's efforts to increase awareness and use of the patent system among the populace in conjunction with the coming into force of the present Act.

¹ In attempting to trace the development of the patent system in the Malaysian territories, reliance was placed on available materials in the National Archives of Malaysia. However, there are many gaps in documentation caused in part by termites and the climate. Great loss was also caused by the destruction of files that took place during the Japanese occupation (see for example, the comments by Paul Kratoska - A Selected List of Files in the Selangor Secretariat 1875-1953, Perpustakaan USM, Pulau Pinang, 1984). A striking example of such destruction was shown by the need for a special ordinance to be passed by the North Borneo Government, the Registration of United Kingdom Patents (Amendment) Ordinance, 1949, No. 16 of 49, which inserted a new section 4B into the then existing patents ordinance. This section provided that all registers kept under that Ordinance prior to 1st day of January, 1942 were deemed to have been permanently lost. Provisions were then made to have these old patents re-registered without any payment of fees. There are a lot of other constraints, the main one being the unavailability of records through improper record keeping or files which were either missing, untraceable or not available for public perusal. Therefore, some of the historical discussion will, at best, be patchy.

1.1. Brief Outline of the Historical Development of Malaysia as a Political Entity.

Malaysia consists of the component states of Malacca and Penang (the former Straits Settlements), Negri Sembilan, Pahang, Perak, and Selangor (the former Federated Malay States), Johore, Kedah, Kelantan, Perlis and Trengganu (the former Unfederated Malay States), Sabah (formerly North Borneo) and Sarawak. The first eleven states form part of Peninsular Malaysia, commonly known as West Malaysia. The last two are situated in the Island of Borneo and comprise East Malaysia. It was only in 1963 that all the component states were centrally administered as one political entity.

European presence in the East, as far as Malaysia was concerned, started in the 16th century, beginning with the Portuguese, and followed by the Dutch. The British came upon the scene only towards the end of the eighteenth century, mainly in search of settlements and bases to further their trade with China.² The Portuguese and the Dutch, though first to come, did not leave any lasting impact with regard to the legal system. It was the British influence which affected the introduction and developments of the legal system in general and the patent law of Malaysia in particular.

1.1.1. The Straits Settlements

The Straits Settlements comprised of Labuan, Malacca, Penang and Singapore. The first British foothold in Malaysia was in Penang, which was ceded to the East India Company in 1786. This arose from the need for a better situated intermediate port for English trading ships between India and China than the one they had at Bencoolen in Sumatra.³

The next territory to come under the British was Malacca. It was captured by the Portuguese in 1511, and by the Dutch in 1641, who had by then also started penetrating the East in search of trade.

Malacca was added to Penang when the British peaceably occupied it in 1795, as a result of the Dutch war against the French. It was returned to the Dutch in 1818. By the Anglo-Dutch Treaty of 1824, it was exchanged for the Island of Bencoolen in Sumatra. This marked the end of the Dutch presence in Malaya.⁴

2 For a fuller account of this, see Milne, R.S., Mauzy, D.K., *Politics and Government in Malaysia*, Times Book International, Revised Edition, Singapore, 1980, pages 10-16.

3 See Sheridan, L.A., *Malaya and Singapore and The Borneo Territories. The Development of their Laws and Constitutions*, Stevens & Sons Limited, London, 1961, pages 9-10.

4 See Sheridan, L.A., *op. cit.*, at pages 9-10, and Milne, R.S., Mauzy, D.K., *op. cit.*, pages 10-16.

The restoration of Malacca to Holland in 1818 led the East India Company to seek another port in the Straits region, and Singapore was decided upon. By an agreement with the eldest son of the deceased Sultan of Riau, Singapore was ceded to the British. The occupation began in 1819.

By the treaty of 1824 mentioned earlier, Great Britain also gave up all rights in Sumatra to the Dutch and the Dutch ceded Malacca to Great Britain and recognised Malaya (including Singapore) as a British sphere of influence. Thus, by 1824, Penang, Malacca and Singapore were governed by the East India Company. It was not, however, until 1826 that their administration was united under the title "Straits Settlements". The union was first administered by the East India Company, then by the British Government in India and finally became a Crown Colony, directly administered by the Colonial Office in London, in 1868, and thus remained until the Japanese occupation.

Labuan became a British colony in 1846 as a result of a treaty with the Sultan of Borneo. In 1867, when the Straits Settlements Act, 1866 came into operation, Labuan was made one of the Settlements, and it so remained until the Japanese occupation. In 1946, it was made part of the Colony of North Borneo.

1.1.2. The Federated Malay States

Originally the British were not much concerned with the rest of the Malayan hinterland, so long as disorder did not impinge on their interests. But in the middle of the nineteenth century the situation changed, as did British policy. An important reason for this was an increase in the scale of tin mining in Perak and Selangor. This new possible source of revenue for the Malay Rulers and chiefs led to disputes and resultant fighting between them. British firms in the Straits Settlements, to safeguard their trade in tin, petitioned the Colonial Office to intervene. The opportunity came as a result of a succession dispute among the claimants to the Perak throne. One of them sought British help to advance his cause, stating his willingness to accept a British adviser. With the guidance of the British, this particular claimant was chosen as Sultan. By the Pangkor Treaty of 1874, provisions were made for a British Resident "whose advice must be asked and acted upon on all questions other than those touching Malay Religion and Custom." ⁵

⁵ For further accounts of the British "intervention" into these states, see, Sheridan, L.A., *op. cit.*, pages 8-9; Bowie, A., *Crossing the Industrial Divide - State, Society, and the Politics of Economic Transformation in Malaysia*, Columbia University Press, New York, 1991, pages 31-34. See also Bastin, J., Winks, R.W., *Malaysia - Selected Historical Readings*, Oxford University Press, Kuala Lumpur, 1966, and *The British "Forward Movement" 1874-1914*, Caldwell, M., at pages 13-37, in Mohamad A., Caldwell, M. (Eds), *The Making of a Neo-Colony*, Spokesman Books, 1977.

The system of Resident was later applied to the states of Selangor, Pahang and Negri Sembilan. The separate sultanate of Selangor accepted the first official British Resident in 1882. This was followed by Pahang, which accepted British protection in 1888. By 1889, Negri Sembilan had also accepted British protection.

These four Malay states of Negri Sembilan, Pahang, Perak and Selangor were later formed into a federation in 1895, the Federated Malay States.⁶ The British Residents of the four states were placed under a Resident-General, responsible to the Governor of the Straits Settlements who was designated High Commissioner of the Federation. A Federal Council was to be set up for the Federated Malay States which could pass laws intended to have force throughout the Federation or in more than one state, and laws passed by a State Council would not be valid if they were repugnant to the provisions of the laws passed by the Federal Council. Such a Council was finally set up in 1909.⁷

1.1.3. The Unfederated Malay States

In 1909 the four northern states of Kelantan, Trengganu, Perlis and Kedah, previously under Siamese suzerainty, were transferred to British sphere of influence, and in time all the Rulers accepted British advisers. Kelantan was the first to accept a British Adviser in 1910. Kedah and Perlis followed suit in 1923 and 1930 respectively. Though Johore had accepted British protection much earlier, it was only in 1914 that the Sultan of Johore formally accepted a British "General Adviser". These five states, Kedah, Perlis, Kelantan, Trengganu and Johore, being "late-comers", were not included in the Federation, and were therefore, referred to as the "Unfederated Malay States".⁸

⁶ Treaty of Federation, July 1895.

⁷ In the intervening period, 1895-1909, there was no Federation organ of government with legislative functions. The technique used was for a federal official to draft a law which was passed by each State Council in practically identical form. See, Milne, R.S., Mauzy, D.K., - *Politics and Government in Malaysia*, Times Book International, Revised Edition, Singapore, 1980, at pages 15-17. A good example was in the law passed by each state for protecting inventions - see series of letters exchanged during this period - Selangor Secretariat, British Resident's File 1895 - Misc. 4684/95, National Archives, Kuala Lumpur.

⁸ Milne, R.S., Mauzy, D.K., *op. cit.*, at pages 16-18, and Sheridan, L.A., *Malaya and Singapore and The Borneo Territories, The Development of their Laws and Constitutions*, Stevens & Sons Limited, London, 1961, pages 6-7.

1.1.4. The Borneo States⁹

1.1.4.a. Sarawak

The European incursion into the Borneo States had roughly the same pattern as in Malaya: the Portuguese were followed by the Dutch, and the Dutch by the British. In 1839 an Englishman, James Brooke, came to Borneo. In return for his help in suppressing an uprising against the rule of the Sultan of Brunei, he was installed as Rajah of Sarawak in 1841. This was the beginning of the rule of the famous "White Rajahs". In 1888 Sarawak formally came under British protection.

In 1946, shortly after the end of the Japanese occupation, Sarawak was ceded to Britain. The main reason given for cession in 1946 was that the burden of rehabilitation, reconstruction, and development would be too heavy for the Brooke regime and could be better undertaken if Sarawak became a British colony.

1.1.4.b. Sabah

Direct British influence in North Borneo was preceded by the commercial activities of several private individuals who were given trading concessions granted by the Sultan of Brunei. A series of negotiations in 1877 and 1878 with the Sultans of Brunei and Sulu resulted in the transfer of a large part of the north-east of the island of Borneo to them. Eventually the interest of these individuals were transferred to a Provisional Association, which in 1882 was replaced by the British North Borneo Company, a company formed by Royal Charter. Besides its trading activities, the Company was charged with the proper administration of the territory. The British Government maintained an indirect control over the administration of North Borneo by the insertion of a clause in the Charter which provided that the Governor had to be appointed with their consent.

In 1888, together with Sarawak and Brunei, the new state became a British protectorate. The Governor of the Straits Settlements was appointed as the High Commissioner for these territories. As with Sarawak, it was decided that the devastation resulting from the Second World War was too great to repair under a continuation of the pre-war regime. Consequently, in 1946, North Borneo, together with Labuan, became a British colony.

⁹ See generally Milne, R.S., Mauzy, D.K., *op. cit.*, at pages 48-54, and Wu, M.A., *An Introduction to the Malaysian Legal System*, 2nd Ed., Heinemann Educational Books (Asia) Ltd, Singapore, 1978, pages 13-16.

1.1.5. The Malayan Union, the Federation of Malaya and the Formation of Malaysia¹⁰

Up to the Second World War the peninsular part of present Malaysia was thus divided into the Straits Settlements, the Federated Malay States, and the Unfederated Malay States. The last-mentioned component was itself made up of five separate and distinct political entities. All these states were under the British Military Administration from the period 1945-46.¹¹

After the war an attempt was made to create a more effective central government. This resulted in the formation of the Malayan Union, comprising all of the above three main components, i.e., all component states of the Malay Peninsula excluding Singapore, under a central administration. This Malayan Union was short-lived,¹² and in 1948 the Federation of Malaya came into existence, consisting again of the same component parts as under the Malayan Union, but with a vastly different political and constitutional structure. On 31st August, 1957 the Federation of Malaya was granted independence from Britain.

On 16th September 1963, Sabah and Sarawak, together with Singapore, merged with the Federation of Malaya to form Malaysia.¹³

1.2. Introduction of the Common Law into Malaysia¹⁴

In theory, the law previously in force in these territories prior to the coming of the British, was Malay customary law and Islamic law, while the non-Malays were governed by their own personal laws. However, even before there was any statutory provision giving authority for the reception of English law in the various Malaysian territories, there was already *de facto* introduction by judges and lawyers involved in the administration of justice. This was due to the fact that members of the Bar and the judiciary at that time were entirely trained and educated in English law so that a great deal of reliance was placed on English law. Another route was through the indirect reception of English law via indigenous legislation patterned on the English model or that of British India. In this situation, however, "what was adopted was not English law, but English principles and

¹⁰ For a fuller account of this topic, see Milne, R.S., Mauzy, D.K., *op. cit.*, at pages 26-43, and Sheridan, L.A., *Malaya and Singapore and The Borneo Territories, The Development of their Laws and Constitutions*, Stevens & Sons Limited, London, 1961.

¹¹ See generally, Daud, L., *The British Military Administration in September 1945 to April 1946*, in Mohamad A., Caldwell, M. (Eds), *The Making of a Neo-Colony*, Spokesman Books, 1977.

¹² See Milne, R.S., Mauzy, D.K., *op. cit.*, at pages 26-29.

¹³ Singapore was to leave two years later on the 9th of August, 1965. Therefore, there will be no attempt to discuss the development of the patent system in Singapore.

¹⁴ For a more detailed discussion of this area, see Braddell, R. St. John, *The Law of the Straits Settlements - A Commentary*, Oxford University Press, Oxford, 1982; Sheridan, L.A., *Malaya and Singapore and The Borneo Territories, The Development of their Laws and Constitutions*, Stevens & Sons Limited, London, 1961, and Wu, M.A., *An Introduction to the Malaysian Legal System*, 2nd Ed. Heinemann Educational Books (Asia) Ltd, Singapore, 1978.

models for local laws..."¹⁵ The greatest impact, however, was made by legislation which allowed the importation of English law into the territory.

1.2.1. The Straits Settlements and the Federated and Unfederated Malay States

English commercial law was introduced into the Straits Settlements by section 6 of the Civil Law Ordinance, 1878.¹⁶ Statutory introduction of English law in the Malay States (the Federated Malay States and the Unfederated Malay States) began only in 1937. The Civil Law Enactment, 1937, gave statutory authority for the introduction of English common law and equity in the Federated Malay States. This enactment was extended to the Unfederated Malay States in 1951 under the Civil Law (Extension) Ordinance after they became part of the Federation of Malaya in 1948. In 1956, these two enactments were replaced by the Civil Law Ordinance, 1956, which was also made applicable to Penang and Malacca, in addition to the nine former Federated and Unfederated Malay States.

1.2.2. Sabah and Sarawak

These two territories were in the same position as the Malay States with regard to the reception of English law. Prior to the enactment of specific legislation, principles of English law were already adopted by direct legislation and indirectly through the judiciary. The Law of Sarawak Ordinance, 1928, provided for statutory reception of English law in Sarawak, and the Civil Law Ordinance, 1938, in Sabah.

1.2.3. The Present Statutory Provisions for the Reception of English Law in Malaysia

When Malaysia was formed in 1963, there were three sets of laws in force providing the authority for the reception of English law in the territories, the Civil Law Ordinance, 1956 for the Federation of Malaya, the Application of Law Ordinance, 1949 for Sarawak and the Application of Laws Ordinance, 1951, for Sabah. All these enactments were incorporated into a comprehensive Civil Law Act, 1956 (Revised 1972) which came into force on 1st April, 1972.

¹⁵ *Per Sproule Ag. C.J.C., in Re the Will of Yap Kim Seng* (1924) 4 F.M.S.L.R. 313.

¹⁶ The whole section of this Ordinance was incorporated into the Civil Law Ordinance of 1909 and later enacted as section 5 of the Civil Law Ordinance (Cap. 42 of the 1936 Revised Edition). This was the position in the Straits Settlements until they were dissolved in 1946 with the formation of the Malayan Union and later became part of the Federation of Malaya.

The relevant section, section 3 of the Act, provides as follows:

- (1) Save so far as other provision has been made or may hereafter be made by any written law in force in Malaysia the Court shall-
 - (a) in West Malaysia or any part thereof, apply the common law of England and the rules of equity as administered in England on the 7th day of April, 1956;
 - (b) in Sabah, apply the common law of England and the rules of equity, together with statutes of general application, as administered or in force in England on the first day of December, 1951;
 - (c) in Sarawak, apply the common law of England and the rules of equity, together with statutes of general application, as administered or in force in England on the 12th day of December, 1949, subject however to subsection (3)(ii);

Provided always that the said common law, rules of equity and statutes of general application shall be applied so far only as the circumstances of the States of Malaysia and their respective inhabitants permit and subject to such qualifications as local circumstances render necessary.

- (2) Subject to the express provisions of this Act or any other written law in force in Malaysia or any part thereof, in the event of conflict or variance between the common law and the rules of equity with reference to the same matter, the rules of equity shall prevail.

The dates 12th day of December, 1949, 1st day of December, 1951 and 7th April, 1956, refer to the date of coming into force of the three repealed Ordinances for Sarawak, Federation of Malaya, and Sabah respectively. They are significant because only English common law and equity (or in the case of Sabah and Sarawak, together with statutes of general application) as administered in England on these dates are applicable.

It has to be noted that there is a significant difference of language in section 3(1)(a) applicable to West Malaysia and section 3(1)(b) and (c) for Sabah and Sarawak. Section 3(1)(a) mentions the application of "the common law of England and the rules of equity" whereas sections 3(1)(b) and (c) permit the application of "common law of England and the rules of equity, together with statutes of general application". The repealed 1956 Civil Law Ordinance for the Federation of Malaya, which contained the same provision, had given rise to great uncertainty and debates as to whether the whole of English law, including statutes, or only common law and equity unmodified by statutes, was applicable to the Federation.¹⁷ It will seem that this uncertainty will continue until there is an authoritative declaration by the court.

¹⁷ A study of the various contentions can be found in Bartholomew, G.W., "The Commercial Law of

Another bone of contention is the question of how far the body of law comprised in the common law and equity could be adopted by the court. The issue was again brought about by the different cut-off dates for the reception of English laws. Are only the common law and equitable principles as declared by the courts up to the cut-off dates capable of being adopted by the Malaysian courts? This would mean that further refinements of these principles could not be adopted. It is arguable that to deny a continuing reception of the common law and equitable principles would result in the adoption of legal principles which may already be outdated, and which in England, may already have been replaced by other principles. On this point it is, however, useful to refer to the opinion of the Privy Council in Lee Kee Choong v. Empat Nombor Ekor (NS) Sdn Bhd & ors.¹⁸ On the application of English law, Lord Russell, delivering the judgement of their Lordships, said:

"Their Lordships do not need to go to comment on possible developments since 1956 in the law in England concerning ability to go behind a valuation on the ground of mistake or error in principle, having regard to the emergence of an ability to sue such a valuer for negligence: see for example Campbell v. Edwards [1976] 1 WLR 403. For present purpose it appears that the Civil Law Ordinance 1956, section 3, adopted English law as administered at its effective date, so that any subsequent march in English authority is not embodied..."¹⁹

As will be discussed in later chapters,²⁰ this issue may be crucial in determining whether in the absence of statutory provisions, a satisfactory remedy could be afforded the patent owner or other persons affected by his rights by reliance on the common law remedies.

Finally, the application of the law of England throughout Malaysia is subject to two limitations. First, it is applied only in the absence of local statutes on the particular subjects. Secondly, only that part of the English law that is suited to local circumstances will be applied.²¹

Malaysia - A Study in the Reception of English Law" (1965) MLJ 1; Sheridan, L.A., *op. cit.*, at pages 18-19, and Joseph Chia in his article, "The Reception of English Law under sections 3 and 5 of the Civil Law Act 1956 (Revised 1972)", J.M.C.L. Vol. No. 1, pages 42-47. Although there appears to be no judicial decision directly on this point, the judgement of Smith J., in Mokhtar v. Arumugam (1959) MLJ 232 is of interest. He said that the Court could not award damages in the nature of interest for delay in the return of specific goods on the basis that such relief had been provided by section 29 of the Civil Procedure Act, 1833 (English). He remarked, "This relief, being a creature of English statute, is not available here: see section 3(1) of the Civil Law Ordinance, 1956."

¹⁸ Lee Kee Choong v. Empat Nombor Ekor (NS) Sdn Bhd & ors (1976) 3 PCC 235.

¹⁹ Lee Kee Choong v. Empat Nombor Ekor (NS) Sdn Bhd & ors (1976) 3 PCC 235, at pages 240-241.

²⁰ See Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights, and Chapter 5 - The Issuance of Threats to Enforce Patent Rights.

²¹ See the proviso to section 3(1) of the Civil Law Act 1956.

1.3. The Development of Patent Law in the Various Component States of Malaysia

1.3.1. The Straits Settlements

As the Straits Settlements were the only Malaysian territories which had been conferred the status of a colony, their patent development was consequently different from the other component states of Malaysia. As mentioned earlier, they were at one time considered a part of India and administered from there, before being conferred the status of a Crown Colony.

1.3.1.a. Protection via the English statute

Prior to the enactment of any specific statute relating to the protection of inventions in the Straits Settlements, it was a matter of conjecture whether the English patent statutes were applicable to the Colony. It would seem that, in theory, an English patent could have been extended to the Malayan States, though there is no record of whether such had been done. It is arguable that patent protection could have been available in some parts of the territories by way of extension of the protection of a patent granted in the United Kingdom.²² This view is supported by section 18 of the Patent Law Amendment Act, United Kingdom,²³ which provided that:

"such letters patent so sealed shall extend to the whole of the United Kingdom of Great Britain and Ireland, the Channel Islands, and the Isle of Man; and in case such warrant so direct, such letters patent shall be made applicable to Her Majesty's Colonies and Plantations abroad, or such of them as may be mentioned in such warrant ..."

²² See President's Inaugural Address, page 35, Transactions of the Institute of Patents Agents, Vol. I, Session 1882-83, at page 39, where it was stated that "prior to the passing of the Patent Law Amendment Act, 1852, the British Patent covered the colonial possessions..." See also Martin, W., The English Patent System, The Temple Primers, 1904, at page 112, "Formerly patents which were granted here were not confined to the United Kingdom, for the area over which they extended varied according to the request of the patentees - a practice also contemplated by the Act of 1852. Consequently, in a large number of instances patents were granted which availed here and in certain named colonies."; and Rushen, P.C., A Critical Study of the Form of Letters Patent for Inventions, Stevens and Sons, London, 1908, at page 71, ".. within our United Kingdom of Great Britain and Ireland and Isle of Man," (in the document of grant of the patent) - This defines the territory reserved to the patentee. No doubt the Crown could if it chose restrict this territory, notwithstanding section 14 of the Act of 1907, which prescribed that a patent shall have effect throughout the United Kingdom and the Isle of Man, because that provision is an infringement of the Royal prerogative saved by section 97. The territory also no doubt could be extended to any under the Crown dominion where the common law is the same as the English and no local statute obtains to the contrary. Most Crown Colonies, if not all, have their own local patent enactments now which have to be complied with in order to obtain local grants, but in the old days an English patent could be extended over the Colonies at the option of the applicant."

²³ 1852 15 & 16 Vict. c. 83.

1.3.1.b. Protection via legislation in India

As mentioned earlier, the Straits Settlements, along with Labuan, were separated from India in 1867. They were then administered directly by the Colonial Office in London. Prior to that date, the Straits Settlements were administered from India. Therefore, prior to the existence of a local patent enactment, the law relating to patents enacted for India also extended to these territories.

The first patent statute enacted in India was Patent Law, Act No. VI of 1856.²⁴ This Act for the first time provided a statutory mechanism for the protection of inventions in India. However, it was repealed by Act IX of 1857 when the Court of Directors of the East India Company, in pursuance of the power vested in them by law, disallowed it, since it was passed by the Legislative Council of India without the sanction of Her Majesty having been previously obtained and signified. As this was not done, the Court of Directors, under advice, were of the opinion that the Legislative Council of India was, therefore, not competent to pass the Act. A new patent law was substituted for it by Act XV of 1859.

Of relevance for present discussion was section 38 of this Act, wherein the word "India" was defined to mean "the territories which are or may become vested in Her Majesty by the Statutes of 21 and 22 Vic., c. 106, entitled 'An Act for the Better Government of India.'" From this it is clear that when the territories of the Straits Settlements were part of India, Act XV of 1859 applied to them.²⁵

As to the period after the separation of the Colony from India, no Ordinance of the Colony was passed in 1867 or at any other time, by which the Indian Act XV of 1859 ceased to have effect in the Colony. Moreover, by Ordinance No. 2 of 1867, "the Enabling Act" of the Straits Settlements, the powers given by the Indian Acts to the Governor General and other officers of the Indian Government were vested in the Governor and other officers of the Colony. Therefore, Act XV of 1859 (India) could still be used by inventors wishing to have their inventions protected in the Straits Settlements.

1.3.1.c. Indigenous legislation

The situation remained thus until 1870 when a special legislation, The Electric Telegraph Exclusive Privileges Ordinance, 1870, was passed conferring special privileges on certain persons for inventions relating to electric telegraphs.²⁶ Although it was a special and not a

²⁴ It received the assent of the Governor-General on 28th February, 1856.

²⁵ See An Act for the Better Government of India, 1858, 21 & 22 Vict. c. 106 and the preamble to An Act to Provide for the Government of the "Straits Settlements" 1866, 29 & 30 Vict. c. 115.

²⁶ See Ordinance No. XIV of 1870, "An Ordinance to confer on certain persons exclusive privileges in respect of certain patented inventions for the improvement of electric telegraph". Although at that time it was still possible to apply for protection under the Indian Act XV, this route was not

general statute, its passage was important because it gave the impetus to enact a general enactment for the protection of inventions in the Straits Settlements.²⁷

The first general patent legislation to be enacted in any of the Malaysian territories was the Inventions Ordinance which was applicable to the Colony of the Straits Settlements.²⁸ Since the Straits Settlements were at that time the only territories in Malaysia which were under the influence of the British, the other parts of Malaysia were left untouched.

The patent law that was enacted was based on the Ceylon Act No. 6 of 1859.²⁹ Under this Ordinance, the inventor of any new manufacture might petition the Governor in Council for leave to file a specification thereof.³⁰ An invention was deemed novel if, before the time of applying for leave to file the specification, it had not been publicly used in the United Kingdom of Great Britain and Northern Ireland, in this Colony or in any British Dominion or possession.³¹ The importer of an invention into the Colony could also apply for a patent grant.³²

To obtain a grant, the applicant had to petition the Governor in Council for leave to file a specification. Upon such petition the Governor in Council might make an order authorising the petitioner to file a specification of the invention. However, before such order was made the Governor might, if he thought fit, refer the petition to any person or persons for inquiry and report.³³ If, within the space of six months from the date of such order the petitioner caused a specification of his invention to be filed in a manner required by the Ordinance, the Governor in Council might authorise the issue of a grant to the petitioner.³⁴ The Governor

open to the applicants because any extensions of the privileges under a United Kingdom grant had to be applied for within one year of such grant, a condition which they were not able to fulfil.

²⁷ After the passing of this special enactment, a complaint was made to the Secretary of State for the Colony, Lord Kimberley, complaining about the excessive expenses that the beneficiaries of the special ordinance had to undertake, and that owing to the absence of an ordinance in the Colony for granting exclusive privileges to inventions it was necessary for each applicant for such privileges to incur an almost prohibitive expense in obtaining the passing of a special ordinance for each inventions - see correspondence relating to complaints regarding the introduction of special Ordinance No. 14 of 1870, by one Mr A.C. Brice to Lord Kimberley, Secretary of State for the Colonies - Microfilm M157/73, National Archives, Kuala Lumpur. Because of this, Lord Kimberley instructed the Governor of the Straits Settlements to enact a local general ordinance to protect inventions.

²⁸ Ordinance No. 15 (Inventions) 1871, Straits Settlements.

²⁹ This Act was very similar to Patents Act No. 15 of 1859, India.

³⁰ See section 6, Ordinance No. 15 (Inventions) 1871, Straits Settlements.

³¹ See section 3(1), Ordinance No. 15 (Inventions) 1871, Straits Settlements.

³² The definition of "Inventor" in section 2 stated that "Inventor", when not used in conjunction with the word "Actual", included the importer of an invention not publicly known or used in the Colony. cf India, under the Indian Act of 1859, it was expressly stated that the importer into India of a new invention shall not be deemed an inventor unless he was the actual inventor. So it would seem that in the Straits Settlements, patents of invention and patents of importation were allowed.

³³ Unlike the legislation of Perak, Selangor, Negri Sembilan and Pahang, and later the Federated Malay States (as to these states, see later), there was no indication as to what the person appointed was supposed to inquire into and report upon, i.e., whether it was merely to examine the application for the formality requirements or as to the substantive merits of the invention.

³⁴ See sections 6(1), (2), 8(1) to (4) and 12, Ordinance No. 15 (Inventions) 1871, Straits Settlements.

in Council might, however, refuse to make any order under this section in any case in which it appeared to him that the granting of exclusive privileges under this Ordinance would be prejudicial to the public interest or of doubtful public utility.³⁵ Provisions were also made for any person interested in opposing the prayer of the petition to serve on the Colonial Secretary a notice of his intention to oppose, and every person so serving a notice might be heard by the Governor in Council.³⁶

The owner of a United Kingdom of Great Britain and Northern Ireland patent, or a patent in any British possession, could petition, at any time during its existence, to have exclusive rights in the Colony.³⁷ The procedures provided were simpler than the case for a local application. First, the Ordinance did not envisage the possibility of referring the petition to any person or persons for inquiry and report. There was also no provision for opposition in the case of a British patent. Thirdly, the provision giving the Governor in Council the right to refuse to make any order granting exclusive privileges in any case in which it appeared to him that the granting of exclusive privileges under the Ordinance would be prejudicial to the public interests or of doubtful public utility, did not apply to applications based on a British granted patent. However, it would appear that the Governor in Council did have a discretion as to whether to allow the petition, as the section provided that "the Governor in Council may make an order authorising the petitioner to file a specification." Further, since no time limit to petition was imposed, it would appear that such grantee could petition at any time before the original grant expired in the United Kingdom.³⁸ Except for these differences, and the duration of the rights (see later), the results of both types of applications were the same in the sense that the same type of grant would be issued.³⁹

The duration of protection granted was for a term of fourteen years from the time of filing the specification.⁴⁰ Within this period the grantee had the sole and exclusive privilege of

35 Section 8(5), Ordinance No. 15 (Inventions) 1871, Straits Settlements.

36 See section 13(5), Ordinance No. 15 (Inventions) 1871, Straits Settlements.

37 It is significant to note as indicative of the attitude of the colonial power at that time that to a majority of the members of the Legislative Council, this was deemed the most important part of the Ordinance. In his Report on Ordinance No. 15 of 1871, dated 14th November, 1871, the Attorney-General of the Straits Settlements, Mr T. Braddell, said that but for the Secretary of State's express instruction that an ordinance, similar to that in force in Ceylon, No. 5 of 1859, should be passed, the ordinance would have been based on a registration of United Kingdom and Colonial patents only. This was because of the strong expression of opinion of the members of the Legislative Council that since it was unlikely that there would be many patent rights taken out in the Colony, the system should be based on the extension of granted patent rights to the Colony - Microfilm M157/73, National Archives, Kuala Lumpur. In fact, among the first applications for a grant of patent rights under Ordinance No. 15 was a petition for extension to the Colony of a United Kingdom granted patent for "improvements in the treatment of fibre-bearing plants and in the machinery or apparatus employed" made on the 6th of June, 1872 - Microfilm M167/73, National Archives, Kuala Lumpur.

38 See section 14(1), which dealt with patents granted in the United Kingdom or in any British possession, and compare with sections 6 to 8, which dealt with the acquisition of exclusive rights in the Straits Settlements.

39 See section 12 and Form of Grant in Schedule E, Ordinance No. 15 (Inventions) 1871, Straits Settlements.

40 See section 12(1), Ordinance No. 15 (Inventions) 1871, Straits Settlements. There was provision

making, selling and using the said invention in the Colony, and authorising others so to do.⁴¹ In the case of a registration of a United Kingdom patent, the term of protection was only for the remainder of the term for which the said patent might be in force in the United Kingdom.⁴² The grant was not subject to any compulsory licensing.

An important amendment ordinance was enacted in 1924.⁴³ This amended Ordinance No. 15 (Inventions) in various respects. Section 5 repealed the old sections 14 and 15 (the provisions dealing with the granting of exclusive privileges in the Colony to British granted patents) and introduced new sections 14 and 15. Under the new provisions, any person being the grantee of a patent in the United Kingdom might apply within three years from the date of the issue of the patent to have the same registered in the Colony.⁴⁴ If all the procedural conditions were satisfied the Colonial Secretary was obliged to issue the certificate of registration. Thus it would appear that such an "extension" of a United Kingdom patent to the Colony was "as of right". The certificate of registration conferred on the applicant privileges and rights subject to all conditions established by the law in the Colony as though the patent had been issued in the Colony.⁴⁵ Again there was no provision dealing with opposition, but a safeguard was introduced, providing that no action for infringement could be entertained in respect of any exploitation of the invention prior to the date of issue of the certificate of registration in the Colony.⁴⁶ This event marked the advent of a dual system of original grant and re-registration system and was to be the precursor to the single re-registration system.

The imperfections of the Ordinance, even with the various amendments, were vigorously criticised. First, it was pointed out that it was necessary for an invention, in order to be a good subject matter for a local grant, to be a new invention not only within the colony, the area to which the grant extended, but also within the whole Empire. It was manifestly impossible for a local examiner to satisfy himself that such was the case. There were also suggestions that provision for a local grant should be rescinded and that the Colony should contend itself with legislation, similar to that in other Colonies, for the registration of patents granted in the United Kingdom.⁴⁷ This point was also raised by the Straits

for an extension of protection for a further term of 14 years. These periods were later changed to 16 and 10 years respectively - see section 2 Ordinance No. 15 (Inventions) Amendment Ordinance, 1922 (No. 24 of 1922).

41 See Form of Grant in Schedule E, Ordinance No. 15 (Inventions) 1871, Straits Settlements.

42 See section 14(1), Ordinance No. 15 (Inventions) 1871, Straits Settlements.

43 Inventions (Amendment) Ordinance, 1924 (No. 15 of 1924), Straits Settlements.

44 Note that whereas the original provision encompassed all United Kingdom patents and patents granted in any British possession, the amended section only applied to United Kingdom patents. A time period of three years was also imposed, whereas previously there was none.

45 See section 14(3), Ordinance No. 15 (Inventions) 1871, Straits Settlements, as amended.

46 See section 5, Inventions (Amendment) Ordinance, 1924 (No. 15 of 1924), Straits Settlements.

47 In fact this suggestion was not new: such a course was in fact proposed by the Government of the Colony and accepted by the Government of the Federated Malay States in 1929, although no follow-up actions were taken.

Settlements Trade Commission Report 1933-1934.⁴⁸ The response to the Report was swift and by the 15th of February, 1935, the Governor of the Straits Settlements was able to report to the Secretary of State for the Colony that a Bill to amend Ordinance No. 15 was receiving consideration.

However, it was only in 1937 that Ordinance 15 was repealed by the Registration of United Kingdom Patents Ordinance, 1937.⁴⁹ By this Ordinance, the only means of obtaining exclusive privileges for an invention was via section 3 of the 1937 Ordinance which provided that "Any person being a grantee of a patent in the United Kingdom ... may apply to the Registrar of Patents⁵⁰ within three years from the date of issue of the patent to have such patent registered in the Colony". This introduction of a single re-registration system marked the end of the independent patent system in the Straits Settlements.

Again it would appear that the grantee of a United Kingdom patent was entitled, as of right, to have issued to him a certificate of registration. Such certificate of registration conferred on him privileges and rights, subject to any privileges or rights acquired under any previous Ordinance of the Colony relating to inventions, similar in all respects to those conferred by the issue of the patent in the United Kingdom.⁵¹ As in the repealed Ordinance, the privileges and rights so granted dated from the date of the patent in the United Kingdom and continued in force only so long as the patent remained in force in the United Kingdom. Similarly, there was a proviso that no action for infringement could be entertained in respect of any manufacture, use or sale of the invention prior to the date of issue of the certificate of

48 The Commission appointed by Sir Cecil Clementi to inquire into the trade of the Straits Settlements, the directions in which it had gained or lost, the reasons for such gains and losses, and its future potentialities - see Chapter 60, para. 548. In summary, the Commission found that Ordinance 15 (Inventions) which had not been revised since originally enacted in 1871, was out of date and defective in omitting to provide for the filing of a provisional specification or provisional protection, or to make proper provision for opposition. The test for novelty, that an invention should not have been published anywhere within the Empire, was an impossible one, to which no local examiner could certify. The Commission recommended that the revision of the law which was under consideration should be proceeded with as soon as conveniently possible. It was also pointed out, in para. 547, that a grant was only valid within the Colony and that an inventor who wished to protect his invention in the Federated Malay States or Johore must make separate applications and obtain separate grants under the laws of those administrations. The Ordinance was out of date and required to be overhauled and modernised.

The Commission's inquiry into the trading and economic conditions relating to the Straits Settlements covered a wide variety of subjects, including import, export and entrepot trades, communication, shipping conferences, crown agents, motor transport, marine insurance and Japanese competition. The fact that the patent system was included in its inquiries showed clearly that it was viewed as a tool to increase the efficiency and competitiveness of British traders and manufacturers in the global trade and not as a tool to encourage local innovative activities.

49 By section 14 of the Registration of United Kingdom Patents Ordinance, 1937 - S.S. No. 2 of 1937.

50 In exercise of the powers vested in him by section 2 of the Registration of United Kingdom Patent Ordinance, 1937, the Governor appointed the officer for the time being holding the office of Registrar of Companies to be Registrar of Patents for the purpose of the said Ordinance, with effect from the 14th May, 1937 [2376/37] - Straits Settlements Government Gazette, May 28, 1937, page 1526 - No. 1520 - The Registration of United Kingdom Patents Ordinance, 1937.

51 See section 6, Registration of United Kingdom Patents Ordinance, 1937 - S.S. No. 2 of 1937.

registration in the Colony.⁵² However, no specific exceptions to the exclusive rights were provided for, nor were there any provision dealing with the rights of prior users.⁵³

The structural changes in the patent system as practised from the time it was first introduced in the Colony and up to the 1937 Ordinance were substantial. The system started with a locally examined patent grant (although there were provisions enabling an owner of a United Kingdom patent or a patent granted in any of the British possession to petition for a grant in the Colony without an examination and opposition). This single grant system was later replaced with a dual system, the grant system for local applications resulting in the issue of a grant and the re-registration system confined only to a United Kingdom granted patent, which resulted in the issue of a certificate of registration. Up to this stage the legal fiction that the United Kingdom patent was to be regarded as if it was issued in the Colony was still maintained. However, this device was abandoned by the 1937 Ordinance, wherein such a certificate of registration conferred on the applicant privileges and rights similar in all respects to those conferred by the issue of the patent in the United Kingdom.

Therefore, from 1937 onwards, the dual systems of original grant for local application and re-registration of United Kingdom patents had been converted into a simple re-registration system for United Kingdom granted patents only.⁵⁴ It was no more possible for an inventor to make an original application in the Colony. Anyone desiring a patent would have to apply for a patent in the United Kingdom and then apply in the Colony to obtain a certificate of registration for the same to be entitled to exclusive privileges in the Colony. This move was a reflection of the realisation that in the absence of the required administrative set-up and the proper personnel for evaluating the invention, it was not possible to carry out a proper examination to ensure that only deserving inventions were granted patent rights.

1.3.2. The Federated Malay States

1.3.2.a. The States Enactments

Prior to the formation of the Federated Malay States, Perak, Selangor, Negri Sembilan and Pahang existed as separate and independent political entities, each with its own separate Legislative Council. Each of these states was eventually to have its own separate patent

52 See section 7, Registration of United Kingdom Patents Ordinance, 1937 - S.S. No. 2 of 1937, and section 14(4), Ordinance No. 15 (Inventions), Straits Settlements.

53 As to these defences, see Chapter 7 - Exceptions and Limitations to, and Loss of Rights.

54 It was surprising that the system of local grant was not retained despite the Report of the Trade Commission which recommended that in the interests of local inventors who were satisfied with a local grant and who did not wish to go to the expense of obtaining a United Kingdom grant, a dual system should be operated in tandem- see Trade Commission Report, Chapter 60, para. 550.

law, granting provincial patents. Before such laws were enacted, the only way of protecting an invention was by way of a special legislation.⁵⁵

However, pressure was already mounting in these states. For example, in April 18th, 1894, the Straits' Government had asked the four states to adopt their patent laws.⁵⁶ Further impetus to introduce such legislation was due to inquiries from interested parties.⁵⁷ The first amongst these states to enact a patent law was Selangor with its Inventions Regulation, 1896.⁵⁸ This was soon followed by Negri Sembilan with Inventions Order in Council, 1896.⁵⁹ Perak followed suit with Inventions Order in Council, 1896.⁶⁰ The last of the Confederation, Pahang, enacted similar statute on the 29th of January, 1897.⁶¹ Presumably, the delay of about one year was due to the fact that there was still raging a debate as to the propriety of such a law in the State.⁶²

The patent enactments in the four states were identical and in fact modelled on the Selangor Enactment, which practised, in theory, the system of locally examined applications. Basically an invention could be protected in the state if it was new. Like the Straits Settlements, the invention had to be new throughout the whole of the British Empire and also within the state.⁶³ The applicant had to petition His Highness, the Sultan in Council for a grant of exclusive privileges. The petition and specification might be referred to an examiner for enquiry and report. It is pertinent to note that the examiner referred to here did not go into the novelty (subject to what is said later) or merit of the invention. His task was merely to examine the application to ensure that it satisfied all the required formal

55 For example, prior to the general enactment, the only patent granted in Pahang was that respecting the cyanide process of gold smelting. A special ordinance was passed to protect the company's rights - see correspondence dated 22/8/1896 regarding the introduction of patent law to Pahang - Negri Sembilan Secretariat 1896, File No. R.G. 1957/96: Subject: Mr L. Charter's application for patent rights in Pahang re an invention for process of preserving fruits for export (9.6.1896) - National Archives, Kuala Lumpur.

56 See correspondence regarding the introduction of patent law to Pahang - Negri Sembilan Secretariat 1896, File No. R.G. 1957/96: Subject: Mr L. Charter's application for patent rights in Pahang re an invention for process of preserving fruits for export (9.6.1896) - National Archives, Kuala Lumpur.

57 See for example the enquiry from Messrs Drew and Napier, Singapore, sent to the Secretary to Government, Selangor, dated 11th September, 1895, regarding the availability of patent protection in Selangor - Selangor Secretariat, British Resident's File 1895 - Misc. 4684/95, National Archives, Kuala Lumpur.

58 Regulation V of 1896, Selangor.

59 Order in Council IV of 1896, Negri Sembilan.

60 Inventions Order in Council, No. 2 of 1896, Perak.

61 Invention Enactment No. 5 of 1897, Pahang. By an oversight, no date was fixed for the coming into force of this Enactment until the 20th day of October, 1909. However, prior to this date, several grants were issued pursuant to the Enactment. To remove doubts as to the validity of these grants, The Inventions (Validation) Enactment, 1909, Enactment No. 13 of 1909 was passed to rectify this omission. This Validation Act validated all Pahang grants issued prior to 20/10/1909 - see section 2, The Inventions (Validation) Enactment, 1909, Enactment No. 13 of 1909.

62 See correspondence regarding the introduction of patent law to Pahang - Negri Sembilan Secretariat 1896, File No. R.G. 1957/96: Subject: Mr L. Charter's application for patent rights in Pahang re an invention for process of preserving fruits for export (9.6.1896) - National Archives, Kuala Lumpur.

63 See section 3, Regulation V of 1896, Selangor.

requirements and that it did not contain more than one invention. The only novelty search he would carry out was to ensure that the application was not the subject of an earlier application for a grant in the State.⁶⁴ Acceptance of the specification had to be notified in the gazette for a period of two months.⁶⁵ During this period any person interested in opposing the grant might serve notice of opposition. Among the grounds for opposition were that the applicant had obtained the invention from the person opposing it, or that the invention or part of the invention had been granted exclusive rights on an application of prior date or that the invention was not new. If there was no opposition or if opposition was successfully defended, a grant would be issued giving the applicant a duration of fourteen years exclusive privileges to make, sell and use the invention, and to authorise others to do so, in the state.⁶⁶

In the case of a United Kingdom patent, unlike the procedure under Ordinance 15 of the Straits Settlements (as amended), the applicant had to go through the same procedure before

64 See section 6, Regulation V of 1896, Selangor.

65 From the abstract of meetings of the Selangor State Council on 27th May, 1903, paragraph 6, on 14th September 1903, paragraph 6, and on 16th November 1903, paragraph 4, it would seem that local expertise were occasionally used to determine the suitability of granting the patent requested for:

- Abstract of meetings of the Selangor State Council on 27th May 1903, paragraph 6 - A petition by Toh Naam, of Kuala Lumpur, for a grant of exclusive privileges in regard to an invention of a new apparatus for washing tin and other ore and separating it from amang, sand and other foreign bodies was taken into consideration. Mr Cummings states that he had been requested by the Honorary Secretary of the Malay States Miner's Association to point out that it would not be to the advantage of the mining industry generally that the exclusive privileges sought should be granted. There is no novelty, he stated, in the principle of the apparatus, which was that of the ore concentrator well known to scientific miners. He assured the Council that he believed there were valid grounds for this objection, and begged the Council, in spite of the fact that formal notice of objection as required by section 7 of the "Inventions Regulation, 1896," had not been lodged, to postpone the final decision as to the granting of exclusive privileges. After hearing Mr Cummings, the Council was of opinion that the granting of exclusive privileges without further inquiry and discussion would not be in the best interest of the community and resolved to postpone the grant or refusal of exclusive privileges until the next meeting. The Council desired that the petitioner and the objector should appear before the next meeting and that the Director of Public Works should be invited to attend.

- Abstract of meeting of the Selangor State Council on 14th September 1903, paragraph 6. - An application by Mr E.H. Mathieu, of Singapore, for the grant of exclusive privileges in respect of an invention for the preparation of india-rubber from the milk of rubber trees by heat is taken into consideration by the Council. On the recommendations of the Superintendent, Experimental Plantations, and the Director of Public Works, His Highness, the Sultan in Council granted to the inventor the sole and exclusive privilege of making, selling and using the said invention in the State, and authorising others so to do, for a term of fourteen years from the 21st day of February, 1903.

The petition of Toh Naam, of Kuala Lumpur, ... consideration of which had been postponed from the meeting of Council on 27th May, 1903, was again submitted for discussion. The inventor and the representatives of the Malay States Miners' Association, which had given notice of its intention to oppose the grant, were present, and the Director of Public Works was also in attendance. After hearing the arguments on either side, the Council unanimously decided to refuse the grant of exclusive privileges, on the ground that the novelty of the invention has not been made out to their satisfaction.

- Abstract of meeting of the Selangor State Council on 16th November 1903, paragraph 4. - An application by Mr G.H. Huges, Agricultural Chemist ... for grant of exclusive privileges in respect of an invention for 'an improved food for animals' is taken into consideration by the Council. After the nature of the invention had been explained by the Resident, His Highness the Sultan in Council granted to the inventor the sole privileges.

66 See sections 4 to 8, and Form of Grant in Schedule C, Regulation V of 1896, Selangor.

being entitled to a Selangor patent. No time period was however, imposed for making the petition. The term of protection in this case was limited to the remainder of the term for which the patent might be in force in the United Kingdom. There was also a provision preserving the right of the Sultan in Council to refuse to grant exclusive rights in the state to a British patentee if it appears that such a grant would be prejudicial to the public interest.⁶⁷

Another major difference, when compared to the Straits Settlements' Ordinance was the provision for compulsory licensing.⁶⁸ As in the case of the Straits Settlements, there were no specific exceptions to the exclusive rights provided by the legislation.

1.3.2.b. The Federal Enactment

The absurdity of the situation whereby the Confederation had four separate patent enactments was soon realised. As early as 1906, the Resident General had submitted a proposal to simplify the procedure in regard to patents in the Federated Malay States by establishing a Central Patents Office.⁶⁹ There was also a move to introduce a legislation which was of a sufficiently comprehensive nature to cover a grant for the whole area of the Malay Peninsula, so far as that could be done by legislation in these States and in the Straits Settlements.⁷⁰ However, nothing resulted from these proposals. It was only in 1914 that a Bill for a centralised patent system for the Federated Malay States was introduced,⁷¹ resulting in The Inventions Enactment, 1914.⁷²

⁶⁷ See sections 10 to 13, Regulation V of 1896, Selangor.

⁶⁸ See section 16, Regulation V of 1896, Selangor. A compulsory licence could be ordered where it was proved that by reason of the default of a grantee to give licences on reasonable terms:-

- (a) The invention was not being worked in the State; or
- (b) The reasonable requirements of the public with respect to the invention could not be supplied; or
- (c) Any person was prevented from working or using to the best advantage an invention of which he was possessed.

⁶⁹ See Abstract of minutes of a meeting of the State Council, Selangor - 10th December, 1906 - Selangor Government Gazette December 21, page 811, at 812, "The Acting British Resident of Selangor submitted a proposal from the Resident General to simplify the procedure in regard to patents in the Federated Malay States by establishing a Central Patents Office in the Federal Secretariat. He pointed out that the powers, which was given to His Highness the Sultan in Council under the Inventions Regulation, would have to be transferred to the Resident-General to give effect to this proposal. He drew attention to the cumbrous nature of the present procedure in the case of an application for patent rights extending over all four States and he added that the delegation of these powers was a matter of no great consequence in view of the fact that the Council must in most cases of applications for patents be guided almost entirely by outside expert advice. The Selangor Legislative Council agreed that the proposal was a good one and that it should be carried into effect."

⁷⁰ See correspondence dated 16th November, 1908, High Commissioner's Office (British North Borneo, Brunei and Sarawak, 1897-1912), H.C.O Brunei Misc. 59/1908, National Archives, Kuala Lumpur.

⁷¹ In introducing the Bill, the Legal Adviser stressed that "it seemed a ridiculous waste of money, time, and energy that any one desirous of protection in these States for his invention should have to go through the same process of application in every State, instead of being able to get one grant which should cover the whole area of the Federation." See Federated Malay States - Shorthand Report of the proceedings of the Federal Council - speech of Mr F. Bellamy, Legal Adviser, Tuesday 24th November, 1914.

⁷² Law No. 19, 1914. This Enactment followed as closely as practicable the provisions of the English law, i.e., The Patents and Designs Act 1907, in so far as that law related to patents.

The new law repealed the enactments of all the four states.⁷³ Among the new features which this Enactment presented as compared with the existing law was the provision made for depositing, in cases where the inventor so desired, a provisional specification, and afterwards, at some later date, a complete specification. The Enactment provided for the same protection, known as provisional protection, given by the English law in the interval between the acceptance of an application and the date of the making of the actual grant.⁷⁴

Unlike the repealed laws, every application had to be referred to an examiner. However, as in the previous laws, the examination was only as to formality. It was to ensure that the nature of the invention was fairly described, that the application, specification, or drawings had been prepared in the prescribed manner, and that the title sufficiently indicated the subject matter of the invention.⁷⁵ There was no substantive examination. Another major difference was that it was no longer possible to oppose on the general ground that the invention lacked novelty.⁷⁶ Such a ground could only be used in an action to revoke the patent.⁷⁷ Any patent granted under this Enactment was for a term of fourteen years from the date of application.⁷⁸ There was no reference in the Enactment itself as to the nature of the exclusive rights granted, however, the form of patent indicated that the rights granted, i.e., the "exclusive privilege of making, using, and selling" the invention, were similar to those under the repealed state enactments.⁷⁹

Another novel feature, so far as these States were concerned, was contained in section 24, which dealt with the grant of exclusive privileges in the case of inventions protected in the United Kingdom or in any possession or dependency thereof. Power was given in the case of a British or Colonial patent, other than Straits Settlements patents, to deal with the application without referring it to an examiner, which was to be the rule in all other cases, but at the same time reserving to the public the right to lodge objections.⁸⁰

73 See section 1(ii), The Inventions Enactment, 1914, Federated Malay States.

74 See section 6, The Inventions Enactment, 1914, Federated Malay States. The procedure prescribed was practically a copy of the British system.

75 See section 5(ii), The Inventions Enactment, 1914, Federated Malay States.

76 See section 11, The Inventions Enactment, 1914, Federated Malay States.

77 See section 26(ii)(a), The Inventions Enactment, 1914, Federated Malay States.

78 See sections 13 and 17, The Inventions Enactment, 1914, Federated Malay States.

79 See Schedule 2, Form E, The Inventions Enactment, 1914, Federated Malay States.

80 This is the first time when a simple re-registration system was envisaged in the Malaysian territories. In the original Bill, the clause went even further and provided that in the case of a Straits Settlements patent, the application might be dealt with in a manner which would not give the public any opportunity of making objections. The object seemed to be that there should be reciprocal action between these States and the Colony in that matter and that, although it was not practicable that one grant should operate over the whole area, still the two places were so closely connected that it should be a matter of course that a grant made in one should without any opposition, or opportunity of opposition, practically take effect in the other. However, this provision was removed at the Committee stage on the objection of a Federal Council member, Mr Eric Macfadyen, who said that there would be many situation when an application in the Straits Settlements, like those relating to mining machinery or tapping implements, which would not be opposed in the Straits Settlements, would very likely be opposed in the Federated Malay States - see Federated Malay States - Shorthand Report of the proceedings of the Federal Council - Tuesday

The compulsory licensing provision in this new Enactment was substantially different from those under the respective state enactments. It was now provided that any interested person might petition the Chief Secretary alleging that the reasonable requirements of the public with regard to an invention in respect of which a grant was in force had not been satisfied and pray for a grant of a compulsory licence, or in the alternative, for the revocation of a licence.⁸¹

As in the British Act upon which this Enactment was modelled, there was also a provision regarding the use of groundless threats. This was the first, and only such provision, found in any of the local patent statutes, and was to remain in the statute book only until the 1914 Enactment was repealed.⁸²

The Invention Enactment, 1914 was further amended in 1925.⁸³ Three important amendments were made. The term of protection of fourteen years was extended to sixteen years.⁸⁴ Secondly, there was the addition of a new provision providing for extension of the term of grant where the grantee had been inadequately remunerated by his grant. Formerly the Chief Secretary might, by order, extend the term of the grant for a further term not exceeding seven, or, in exceptional cases, fourteen years, or might make a new grant for such terms as might be specified in the order. Under the amendment, the duration was now five and ten years respectively.⁸⁵ Lastly, Section 24 of the principal Enactment (dealing with United Kingdom patents) was repealed and new sections substituted therefor. The new section imposed a time limit of three year from the date of issue of the patent in the United Kingdom within which the grantee could apply to have such patent registered in the Federated Malay States. Upon such application being received together with the necessary documents, the Chief Secretary should issue to the applicant a certificate of registration. Such certificate of registration conferred on the applicant all such exclusive privileges and rights subject to all conditions established by law as though a grant had been made under this Enactment. It is important to note that the amendment allowed the local registration of a United Kingdom patent as of right at any time within three years of the grant thereof. This marked a move away from the previous grant plus a modified grant system to a dual system of grant and simple re-registration system.⁸⁶

24th November, 1914.

81 See section 25, The Inventions Enactment, 1914, Federated Malay States. Section 25(v) then listed the situations when the reasonable requirements of the public should be deemed not to be satisfied. For further discussion of compulsory licensing, see Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, para. 6.2.

82 See section 36, The Inventions Enactment, 1914, Federated Malay States. For further discussion on the use of threats to enforce patent rights, see later Chapter 5 - The Issuance of Threats to Enforce Patent Rights.

83 See The Inventions Enactment, 1914, Amendment Enactment, 1925, Enactment No. 2 of 1925.

84 See section 3, The Inventions Enactment, 1914, Amendment Enactment, 1925, Enactment No. 2 of 1925.

85 See section 4, The Inventions Enactment, 1914, Amendment Enactment, 1925, Enactment No. 2 of 1925.

86 See section 5, The Inventions Enactment, 1914, Amendment Enactment, 1925, Enactment No. 2

1.3.3. The Unfederated Malay States

1.3.3.a. Johore

Of the Unfederated Malay States, Johore was the first to introduce a patent law with the passing of The Inventions Enactment in 1911.⁸⁷ This was a grant system which was identical in all substantive aspects to those enacted in the states of Negri Sembilan, Perak, Pahang and Selangor.

Patents for 14 years were granted to inventors or their assigns for inventions not worked or published in the British Empire or Johore more than 6 months prior to the date of application for patent. The grant conferred upon the owner the exclusive privilege of making, selling and using the said invention in the State.⁸⁸ British or British colonial patents could be extended to Johore to expire with the rights in the country of origin, but the Sultan for good cause could refuse to grant such extension.⁸⁹ Patents about to expire could sometimes be extended when of sufficient merit for another 7 years. Being in the Selangor mould, it contained the same provision on compulsory licensing.⁹⁰

An important amendment was passed in 1915. By this Amendment Act, the term "inventor" was redefined to include "the first importer into the State of an invention not publicly used or known in the United Kingdom of Great Britain and Ireland or in any possession or dependency thereof or in the State".⁹¹ Hence patent of importation could now be protected within the State if the necessary conditions were satisfied.

Three amendments of a substantive nature were passed in 1924. The first extended the period of protection from fourteen to sixteen years.⁹² The second, and most important change was the introduction of a new system for the protection of patents granted in the United Kingdom. Under the amendment, the grantee of a patent in the United Kingdom might apply within three years from the date of issue of the grant to have such patent registered in Johore without the necessity for an examination. Upon notification of receipt of the application in the Gazette, any person might oppose the application on certain prescribed grounds. If the opposition was not successful, then the applicant would be issued with a certificate of registration. Such certificate of registration conferred on the

of 1925.

87 Enactment No. 3, 1911, Johore.

88 See section 8 and Form of Patent in Schedule C, Enactment No. 3, 1911, Johore.

89 See section 10, Enactment No. 3, 1911, Johore. The procedure was the same as that provided under the repealed Inventions Regulation 1896, Selangor. See *supra*, para. 1.3.2.a.

90 See section 16, Enactment No. 3, 1911, Johore. See footnote 68 for the Selangor provision.

91 See section 2, The Inventions Enactment, 1911, Amendment Enactment, 1915, Enactment No. 1 of 1915, Johore.

92 See section 2, The Inventions Enactment, 1911, Amendment Enactment, 1924, Enactment No. 13 of 1924, Johore, 1924.

applicant similar rights and privileges as those conferred by the grant of exclusive privileges.⁹³ Another important amendment was that relating to compulsory licences. Section 16 of the 1911 Act was repealed and replaced by a new section 16 which provided new grounds for the issue of compulsory licences.⁹⁴

Hence from 1924 until the 1937 Act, the system in Johore, following the lead of the Federated Malay States, was a combination of a grant and a re-registration system. In 1937, Enactment No. 3 was repealed by the Registration of United Kingdom Patents Enactment, 1937.⁹⁵ This 1937 Enactment abolished the system of local original grant and instead retained the provision relating to the re-registration of United Kingdom patents. Thus, in line with the prevailing trend in the Straits Settlements, Johore had also moved to the simple re-registration model. There were, however, two key differences between the prior and new system of registration. Before the 1937 Enactment, there was a period for opposing the registration of the United Kingdom patent before the Sultan in Council could issue the certificate of registration.⁹⁶ There was no provision for a period for opposition in the 1937 Act. Secondly, under the old Enactment, power was specifically preserved to enable the Sultan in Council to refuse to issue a certificate of registration if it should appear to him that such issue would be prejudicial to the public interest.⁹⁷ Under the 1937 Enactment, it would appear that on meeting all the necessary procedural requirements, the issue of a certificate of registration was mandatory. Perhaps as a balance to this, the Enactment provided further that no action for infringement should be entertained in respect of any manufacture, use or sale of the invention prior to the date of issue of the certificate of registration in the State.⁹⁸

There was also a provision whereby the Sultan in Council might, by notification in the Gazette order that the provisions of the 1933 Enactment should apply to patents issued in any British Dominion.⁹⁹

⁹³ See section 5, The Inventions Enactment, 1911, Amendment Enactment, 1924, Enactment No. 13 of 1924, Johore, 1924.

⁹⁴ See section 8, The Inventions Enactment, 1911, Amendment Enactment, 1924, Enactment No. 13 of 1924, Johore.

⁹⁵ See section 15 of the Registration of United Kingdom Patents Enactment, 1937 (No. 7 of 1937), Johore. It is interesting to note that reference was made to the difficulties encountered by the old enactment as summarised in Chapter 60 of the Trade Commission Report 1933-1934 in the objects and reasons for the introduction of the Bill.

⁹⁶ See section 11(iii) and (iv), Inventions Enactment, Enactment No. 3 of 1911, as amended by Enactments No. 1 of 1915, 17 of 1922, 13 of 1924, and 8 of 1933.

⁹⁷ See section 14, Inventions Enactment, Enactment No. 3 of 1911, as amended by Enactments No. 1 of 1915, 17 of 1922, 13 of 1924 and 8 of 1933.

⁹⁸ See proviso to section 7(i) of the Registration of United Kingdom Patents Enactment, 1937 (No. 7 of 1937), Johore.

⁹⁹ See section 14 of the Registration of United Kingdom Patents Enactment, 1937 (No. 7 of 1937), Johore. No such notification was, however, made.

1.3.3.b. Kelantan and Kedah

With the Straits Settlements, the Federated Malay States and Johore providing a mechanism for the protection of inventions in the respective states, it was but a matter of time before the other Unfederated Malay States followed suit.¹⁰⁰

Kedah came out with Enactment No. 54 (Inventions) in 1914.¹⁰¹ Unlike the other states whose patent systems evolved from the original grant system, a modified grant system and finally to a simple re-registration system, Kedah opted straight away for the simple re-registration system, perhaps through the lessons learnt by the other states. Section 2 of the Enactment provided that any person who had obtained a grant (or a renewal of grant) of patent rights or exclusive privileges for the use of an invention in the Colony or in the Federated Malay States might petition the President of the State Council for a grant of exclusive privileges for the use of such invention in the State of Kedah. The President of the State Council, if he was satisfied that the granting of exclusive privileges for the use of such invention in Kedah would not be prejudicial to the public interest, might cause the certified copy of the grant in the Colony or in the Federated Malay States, as the case might be, to be registered in his office. Such a registration had the effect of conferring upon the grantee, for the term of his grant, the same privileges in Kedah as had been conferred upon him by the grant in the Colony or the Federated Malay States.¹⁰²

This Enactment was subsequently amended in 1936.¹⁰³ By section 2 of the amending Enactment, the right to apply for a certificate of registration in the state was extended to owners of any patents in the United Kingdom or in any Dominion.

The Inventions Enactment, 1916 brought the patent system into Kelantan.¹⁰⁴ This Enactment was similar to that in Kedah. For example, by section 2, it was provided that any person who had obtained a grant (or a renewal of grant) of patent rights or exclusive privileges for the use of an invention in the Colony of the Straits Settlements or in the Federated Malay States might petition the British Adviser for a grant of exclusive privileges

¹⁰⁰ In fact, prior to the passing of the first Kelantan Inventions Enactment in 1916, there were already several inquiries about obtaining patent protection in Kelantan - see for example letter from Mr H.D. Hensen, Kelantan, dated 29/1/1915 - British Adviser, Kelantan 1915 - File No. 137/1915, National Archives, Kuala Lumpur; letter from Down and Co., Singapore dated 24/4/1915 enquiring about patent protection for process for manufacturing rubber from lattices, British Adviser, Kelantan 1915, File No. 520/1915, National Archives, Kuala Lumpur. The reason given for the introduction of the enactment in Kelantan was that "from time to time applications were received from inventors, who desired to obtain patent rights in Kelantan, usually in connection with rubber machinery. The enactment would enable such applications to be granted"- see Keln: 49/1916, File No. 149/1916, National Archives, Kuala Lumpur.

¹⁰¹ Enactment No. 54 (Inventions) [Enactment 16 of 1332] - 1914, Kedah.

¹⁰² See section 4, Enactment No. 54 (Inventions) [Enactment 16 of 1332] - 1914, Kedah.

¹⁰³ By the Inventions (Amendment) Enactment (Enactment No. 16 of 1355), which came into force on 12/12/1936.

¹⁰⁴ The Inventions Enactment, 1916. Enactment No. 3 of 1916, Kelantan.

for the use of such invention in the State of Kelantan. Similar provisions regarding procedural steps were also provided for.¹⁰⁵

This 1916 Enactment was later repealed by The Inventions Enactment, 1928.¹⁰⁶ By section 2, the holder of a patent granted or renewed in the Colony of the Straits Settlements or in the Federated Malay States or in the United Kingdom might petition the British Adviser for a grant of exclusive privileges for the use of such invention in the State of Kelantan.¹⁰⁷

In both States, there was no provision for opposition. There was also no specific provision for compulsory licensing. It is unclear whether the compulsory licensing provisions of the Federated Malay States were applicable in the case of patents from those states.

1.3.3.c. Perlis and Trengganu

Only Perlis and Trengganu, among the Unfederated Malay States, were to remain untouched by the activities in patent legislation. It was only in 1951, after the formation of the Federation of Malaya, that patent protection was available in these states.¹⁰⁸

1.3.4. The Borneo Territories

1.3.4.a. The Colony of North Borneo (Sabah)

Sabah, unlike other Malaysian states, but in common with the Straits Settlements, introduced the patent system at a relatively early time. In 1887, it adopted the Straits Settlements Inventions Ordinance, 1871 as part of the law of the Colony of North Borneo.¹⁰⁹ Because the Straits Settlements Ordinance was adopted *in toto*, there were references in Proclamation 1 to persons, places and subjects which did not exist in North Borneo and, for this reason, it was totally repealed by section 2 of The Patents Proclamation, 1908,¹¹⁰ which nevertheless, still followed the same model as that of the Straits Settlements. Hence, as in the Straits Settlements, there was a system for local grant and a modified system for grants based on United Kingdom patents.¹¹¹ The extension of

105 See section 4, The Inventions Enactment, 1916. Enactment No. 3 of 1916, Kelantan.

106 The Inventions Enactment, 1928 (Enactment No. 11 of 1928) Kelantan.

107 The 1928 Act is substantially the same as the 1916 Act except for the inclusion of patents granted in the United Kingdom and also the requirement that the British Adviser should obtain the consent of His Highness, the Sultan in Council before deciding to register these patents.

108 See later, para. 1.4, *infra*.

109 Proclamation 1 of 1887, North Borneo.

110 The Patents Proclamation, 1908, Proclamation No. 11, North Borneo.

111 See sections 6 to 16, The Patents Proclamation, 1908, Proclamation No. 11, North Borneo.

rights in a United Kingdom patent was, however, subject to the Government's discretion to refuse such a grant if it would be prejudicial to the public interest or of doubtful utility.¹¹²

Proclamation No. 2 was subsequently repealed by Section 2 of Registration of United Kingdom Patents Ordinance, 1937.¹¹³ This Ordinance, like the case of the Straits Settlements and the Federated Malays States, introduced the simple re-registration system applicable only to United Kingdom patents.

1.3.4.b. Sarawak

In 1899, when an inquiry, on behalf of the International Office at Berne of the Union for the Protection of Industrial Property, was made to Sir Charles Brooke, the Rajah of Sarawak, regarding the existence of a patent law in Sarawak, he was able, loftily, to reply that "I do not know of any special ones being in force, nor have I found any really required except those to protect life and property."¹¹⁴ However, despite the absence of any general enactment on patents, it would appear that an invention could be protected and privileges granted by applying directly to the Rajah for consideration and approval for exclusive privileges in the state.¹¹⁵

There was also an attempt to introduce a patent law into Brunei, a neighbouring state of Sarawak, which was also under a Resident system, in 1908. The then British Resident to Brunei proposed to the High Commissioner the introduction of such a law which would be based on Ordinance No. 15 of the Straits Settlements. The response to this was that it was a little premature, there being no one in Brunei, nor in Labuan, who could examine specifications and claims and that without expert advice any law would be useless.¹¹⁶ This was in line with the prevailing opinion at that time that, if there was a need to introduce a patent law, it had, of necessity, to be based on a re-registration system.

¹¹² Section 9, The Patents Proclamation, 1908, Proclamation No. 11, North Borneo.

¹¹³ Registration of United Kingdom Patents Ordinance, 1937. Ordinance No. 9 of 1937, North Borneo, as subsequently amended by Registration of United Kingdom Patents (Amendment) Ordinance, 1949, No. 16 of 49, Registration of United Kingdom Patents (Amendment) Ordinance, 1950, No. 4 of 1950 and Registration of United Kingdom Patents (Amendment) Ordinance, 1956, No. 1 of 1956. The Registration of United Kingdom Patents (Amendment) Ordinance, 1949 inserted a new section 8A which declared certain acts carried out in vessels, aircraft and land vehicles to be non-infringement of the patent rights.

¹¹⁴ See correspondence dated 29/4/1899, 21/6/1899 and 13/6/1899 - High Commissioner's Office (British North Borneo, Brunei and Sarawak, 1897-1912), Borneo 148/99, National Archives, Kuala Lumpur.

¹¹⁵ See exchange of letters dated 24th August, 1908, 22nd October, 1908 and 16th October 1908, between Mr M.S.H. McArthur, Esq., British Counsel for Sarawak and British North Borneo and Resident at Brunei, the Residents Office, Sarawak, and the Acting Secretary to the High Commissioner for Federated Malay States and Brunei and Cruikshank & Fairweather, Ltd of Glasgow, who were engaged in preparing a book relating to patent practices in all countries - High Commissioner's Office (British North Borneo, Brunei and Sarawak, 1897-1912), H.C.O. Misc. Brunei 53/1908, National Archives, Kuala Lumpur.

¹¹⁶ See file H.C.O Brunei Misc. 59/1908, High Commissioner's Office (British North Borneo, Brunei and Sarawak, 1897-1912), National Archives, Kuala Lumpur.

However, the tide of progress could be resisted only until 1922. As in Kedah and Kelantan, when Sarawak first introduced a patent system, it chose the simple re-registration model. This was implemented by the Patent Order 1922.¹¹⁷ Section 2 allowed the holder of a patent grant in the United Kingdom, the Straits Settlements and the Federated Malay States to petition for exclusive rights in the State. There were no provisions relating to examination or opposition. The above Order was consolidated in 1927 and 1967.¹¹⁸

1.4. The Consolidation of the Various State Laws upon the Formation of the Federation of Malaya

When the Federation of Malaya was formed in 1948, there were in existence five different sets of patent systems in Peninsula Malaya, practising either a simple re-registration system or a dual system. With the aim of having a centralised system, the Registration of United Kingdom Patents Ordinance, 1951 was enacted.¹¹⁹

This Ordinance, by section 18, repealed the following Ordinances and Enactments:

1. The Registration of United Kingdom Patents Ordinance, 1937 (S.S. No. 2 of 1937).
2. The Inventions Enactment (F.M.S. Cap. 72).

¹¹⁷ Patent Order 1922, Order No. 16, Sarawak.

¹¹⁸ See Order No. L-1 Letters Patent, 1927. After further modifications, this was subsequently renamed Patents Ordinance, Chapter 61, 1927.

¹¹⁹ Registration of United Kingdom Patents Ordinance, 1951 (No. 9 of 1951) which came into effect on 1.4.1953, later renamed The Registration of United Kingdom Patents Act, 1951 (Revised 1978) Act 215.

The reason for opting for a simple re-registration system was explained in the objects and reasons section of the Bill:

"At the present moment, the law relating to the protection of inventions is, in the former Federated Malay States, contained in the Invention Enactment (Cap. 72). This is an elaborate piece of legislation, following, to a great extent, the Patents and Designs Acts of the United Kingdom, and containing provisions both for the registration of United Kingdom patents and also for the independent grant of protection to patents applied for in the Federated Malay States. Whilst this system is no doubt theoretically desirable, it had proved difficult to work in practice, since, before a patent can be granted, the application and specifications have to be examined and reported on by experts who, in addition to considerable scientific and mechanical knowledge, require long training and experience in this type of work, if it is to be done satisfactorily. Even before the last war, the difficulty of obtaining the services of suitable staff led the former Straits Settlements to repeal their Inventions Ordinance and to pass instead the Registration of United Kingdom Patents Ordinance, 1937. This Ordinance provided simply that patents registered in the United Kingdom could be registered in the Straits Settlements and have there the same protection that they had in the United Kingdom. After the passing of this Ordinance, no further patents were granted locally in the Settlements. This system is still in force in the Settlements of Penang and Malacca and the Colony of Singapore. The difficulties experienced in obtaining a suitable trained staff, which led to the changed practice in the Straits Settlements, have since the war become so much more acute as to be insurmountable. It is accordingly proposed to adopt throughout the Federation the system of re-registration of United Kingdom patents solely and this Bill is intended to give effect to this proposal."

3. The Registration of United Kingdom Patents Enactment, 1937 (Johore En. No. 7 of 1937).
4. Enactment (No. 54) Inventions (Kedah En. No. 54).
5. The Inventions Enactment, 1928 (Kelantan En. No. 11 of 1928).

Hence from a situation where there was in place an indigenous system of grant, in certain states of the Federation, the Ordinance, as subsequently amended,¹²⁰ replaced all these with a single re-registration system. Subsequently, anyone desiring patent protection in the Federation of Malaya was obliged to apply for patent rights in the United Kingdom and then apply to register it in the Federation before he could have exclusive rights to his invention in the Federation. The application had to be made within three years of the date of the grant in the United Kingdom, although the Registrar had the discretion to extend this time period.¹²¹ However, the issue of the certificate of registration was mandatory, there being no provision providing for the Registrar to refuse registration if all the formalities were complied with. The Patent Registry, therefore, only carried out administrative endorsements of patents registered in the United Kingdom.

The duration of the rights started from the date of the patent in the United Kingdom and continued to be in force so long as the patent remained in force in the United Kingdom.¹²² A prior user of the invention was protected from infringement action if it took place before the date of the issue of the certificate in West Malaysia.¹²³ However, no provision was made allowing for further use of the invention by the prior user. Special provisions were also included, listing acts which were not to be deemed infringements. These exceptions applied only in two situations. The first is the use of the patented invention on board a foreign vessel which was temporarily or accidentally in the territorial waters of the Federation and the second, such use of a patented invention in a foreign aircraft or foreign land vehicle.¹²⁴ However, as in the previous Registration of United Kingdom Ordinances, the 1951 Act did not deal comprehensively with the other aspects of the rights and limitations to the rights of a patent owner. There were no provisions governing compulsory licences, the use of the patented invention by the Crown, or provisions prohibiting the use of threats, all of which were present in the United Kingdom statute of the time. There was only a reference back to the "privileges and rights ... similar in all respects to those conferred by the issue of the patent in the United Kingdom".¹²⁵ Thus the extent of the rights and duties of the patent owner was uncertain.¹²⁶

¹²⁰ By the Registration of United Kingdom Patents (Amendment) Ordinance, 1956, No. 38 of 1956, and the Registration of United Kingdom Patents (Amendment) Ordinance, 1957, No. 67 of 1957.

¹²¹ See section 3, The Registration of United Kingdom Patents Act, 1951 (Revised 1978) Act 215.

¹²² See sections 6 and 7, The Registration of United Kingdom Patents Act, 1951 (Revised 1978) Act 215.

¹²³ See proviso to section 7(1), The Registration of United Kingdom Patents Act, 1951 (Revised 1978) Act 215.

¹²⁴ See section 8, The Registration of United Kingdom Patents Act, 1951 (Revised 1978) Act 215.

¹²⁵ Section 6 of the Registration of United Kingdom Patents Act 1951 stated that "Such certificate of

The only other legislative activity prior to the 1983 Act was the enactment of the Patents (Rights of Government) Act 1967, which provided that any manufacture, use or exercise of the patented invention by the Government of the federation or of any state would not amount to an infringement. Further, there was no need to pay any compensation for such use.¹²⁷

1.5. The Emergence of a Malaysian Patent System

1.5.1. The Situation Prior to the 1983 Act

Malaysia was formed in 1963 with the merger of the Federation of Malaya, Sabah and Sarawak. On its formation, there were four pieces of patent legislation in existence, the Registration of United Kingdom Patents Act, 1951 for the Federation of Malaya, the Patents Ordinance, Chapter 61, for the State of Sarawak, the Registration of United Kingdom Patents Ordinance, 1937, for the State of Sabah, and the Patents (Rights of Government) Act 1967. Obviously this situation was undesirable, leading to unnecessary expense and duplication of efforts. Further, being a sovereign and independent nation, a system whereby a national of Malaysia had first to apply to the United Kingdom Patent Office for a grant of patent rights before he could proceed to register it in Malaysia to enable him to enforce his rights is anomalous. It was to take another twenty years, though, before any changes were attempted.

registration shall confer on the applicant privileges and rights similar in all respects to those conferred by the issue of the patent in the United Kingdom, but subject, nevertheless, to any privileges or rights acquired under any of the written laws specified in the Schedule or under any Ordinance or Enactment repealed by any of the said written laws."

¹²⁶ The provision of section 6 was to be the subject of several cases in various jurisdictions having similar systems of registration of United Kingdom granted patents. The issue in all these cases was whether the rights and privileges granted were subject to such limitations, conditions and qualifications as were imposed on the owner in the United Kingdom. See, for example, Poulenc and anor v. Lodeka Pharmacy (1965) LLR 9 (Nigeria); Jack Blackburn & ors v. Boon Engineering & Construction Sdn Bhd & ors [1988] 2 MLJ 572; [1991] FSR 391 (H. Ct Brunei); Smith Kline French Laboratories Ltd v. The Attorney-General [1966] H.K.L.R. 498; [1966] FSR 254 (Ct of Appeal, Hong Kong); and Biogen, Inc. v Scitech Medical Products Pte Ltd & anor (H. Ct Singapore, Suit No. 692/93, 22/7/1994 (unreported), the first case involving the applicability of the United Kingdom compulsory licensing provision, the second and third on whether section 46 of the Patents Act 1949 (the Government use provision) applied in Brunei and Hong Kong respectively, and the last, the applicability of the groundless threats provision. In all these cases, the court held that the United Kingdom Patents Act 1949 (and the Patents Act 1977 in the last case) did not apply in its entirety since there was no specific provision extending the relevant sections to these countries. For a comment on the possible approaches to construe the equivalent provision of section 6 in relation to industrial designs, see Jayaram, H., "Protection of Industrial Designs in Malaysia - Issues in Ascertaining the Law", (1988) *The Supreme Court Journal* 289. See also Pendleton, M.D., *The Law of Intellectual and Industrial Property in Hong Kong*, Butterworths, 1984, at pages 236-240.

¹²⁷ See section 3, Patents (Rights of Government) Act 1967, Act No. 53 of 1967.

1.5.2. The Move towards a Unified System

The move back to a unified indigenous patent system was mooted by the then Minister for Trade and Industry as a move to promote innovative and inventive efforts in the country.¹²⁸ It was felt that the patent system then was a hindrance to innovation and inventive activities in the country, as new innovations or inventions by Malaysian nationals had to be granted a patent first in the United Kingdom before they could be re-registered for protection in Malaysia. Such a lengthy and costly process would not encourage small-time inventors who did not have readily available financial resources. Further, the introduction of an indigenous patent system would not only introduce a machinery to protect local patent holders, but more importantly would stimulate the development of technological capabilities within the country. Indeed, the indigenous patent system with its administrative machinery and technical support infrastructure will act as a further stimulus for innovative and inventive activities within the country.¹²⁹ A committee, comprising members from the government and private sectors was set up to look into this problem and to decide on the appropriate system to adopt. The drafters of the Bill sought guidance from the patent legislation of, inter alia, India, Sri Lanka, United Kingdom and the European Patent Convention. Several expert missions from WIPO, including consultants from Sweden and the United States of America, visited Malaysia in November, 1982, to advise the government on the establishment of a new patent system.¹³⁰

The decision to introduce a new patent legislation for the country was based on four main objectives, i.e.,

1. the need to give adequate protection to owners of foreign technology so as to encourage a greater inflow of up-to-date technology into the industrial sector. This would ensure a wider technological choice to the industrial sector;
2. the need to set up technological information based on patent information to ensure that the industrial sector would be in a better technology bargaining position with knowledge on the current state-of-the-art of the technology to be acquired, on the owner of the technology, on alternatives to the technology to be acquired and other technological information necessary for a wise choice on the technology to be acquired;

¹²⁸ Datuk Dr Mahathir Mohamad, the present Prime Minister of Malaysia.

¹²⁹ See speech of Mr Oo Gin Sun, Deputy Minister of Trade and Industry, in introducing the Patents Bill 1983 in Parliament - *Penyata Rasmi Parlimen, Dewan Rakyat, Parlimen Ke enam, Penggal pertama, Jilid 1 Bil 54 dan 55*, dated 25th and 26th July, 1983 respectively - Report of Second and Third reading in the House of Representative.

¹³⁰ See *Industrial Property in Asia and the Pacific*, March 1983, page 3.

3. the need to encourage local inventions and innovations by providing an efficient and economical means of patenting for local inventors; this would encourage the move towards the creation of indigenous technology and appropriate technology suited to local production techniques and the local environment;
4. the need to provide for safeguards in the patent legislation of the country to discourage unfair monopoly practices by foreign suppliers of technology through the introduction of utility models, compulsory licensing, etc.¹³¹

Thus, on 28th November, 1983, the Patents Act 1983 was enacted. By section 89 of this Act, all the previous patent legislation mentioned above were repealed. However, it was not implemented until the 1st of October, 1986, after it was further amended by the Patents (Amendment) Act 1986. Further amendments were brought about in 1993.¹³²

1.5.3. Brief Outline of the Structure of the New System

Although it could be improved upon, the 1983 Act for the first time provides a comprehensive set of provisions¹³³ dealing with matters ranging from the administrative structure of the bodies set up to implement the provisions of the Act, appointment of examiners, to compulsory licensing. The acquisition, extent of and limitations to the rights acquired, invalid clauses in licensing contracts and ownership in employee inventions are for the first time specifically provided for. A petty patent system (called utility innovation in the Act) is also introduced. A new body, the Patents Board is set up. This Board,¹³⁴ constituted under section 4 has the following functions:

¹³¹ See "Country Statement on the Industrial Property Situation in Malaysia and WIPO's Development Cooperation Activities in Asia and the Pacific", by Mr Yuen Hung Chan, Assistant Secretary, Science and Technology Division, Ministry of Science, Technology and the Environment, Malaysia (paper presented at the Regional Evaluation and Planning Meeting on Development Cooperation Activities in Asia and the Pacific, Thailand 25-28 June, 1984). Reported in *Industrial Property in Asia and the Pacific*, September, 1984, No. 7, page 19.

¹³² Patents (Amendment) Act 1993, Act A 863/93.

¹³³ It is divided into 15 Parts. Part I deals with the preliminary matters, including the extent of the application of the Act. Parts II and III deal with the establishment of a Patents Board and the administration of the Patent Registration Office. The substantive aspects of patentability for an invention are described in Part IV and that for a utility innovation in Part IVA, whereas Part VI lays down the procedural steps for obtaining a grant. Part V lays down the rules for determining ownership of an invention while Part VII provides for rights and limitation to the rights of a patent owner. Acts deemed to be infringement of a patent right are set out in Part XII. The assignment and transmission of patents, matters relating to licence contracts and compulsory licensing are detailed in Parts VIII, IX and X respectively. Part XI provides for surrender and invalidation of grants, while the provisions relating to offences are laid down in Part XIII. Powers relating to enforcement and miscellaneous matters are found in Parts XIV and XV respectively.

¹³⁴ The Board consists of a maximum of eleven members, made up of representatives from various bodies like the Ministry of Domestic Trade and Consumer Affairs, Ministry of International Trade, Ministry of Science and Technology, National Scientific Council for Research and Development, research institutes, institution of higher learning and persons who could contribute to the development of industrial property in Malaysia (section 4(2)).

- a) to issue certificates for utility innovations;
- b) to consider applications for compulsory licences;
- c) to appoint examiners; and
- d) to advise the Minister generally on matters pertaining to the Act.

1.5.4. Conditions for Grant of Patent Rights

The substantive patentability criteria to be satisfied for a grant of a patent are modelled along the line of the WIPO Model Law.¹³⁵ These provisions are substantially similar in effect to those found in the United Kingdom Act and the European Patent Convention.¹³⁶ Three major requirements need to be satisfied under the Act before a patent for an invention could be granted. They are that the invention needs to be new, must involve an inventive step and finally that it must have industrial applicability.¹³⁷ The first two requirements are generally measured against the state of the art existing at the time of the application for a patent. Under the Act an invention is deemed to be new if it is not anticipated by the prior art. The prior art base consists of everything disclosed to the public anywhere in the world, whether by written publication, oral disclosure, use, or in any other way, prior to the priority date of the patent application claiming the invention.¹³⁸ Hence the system of novelty that is applicable in Malaysia is the universal or absolute novelty system.¹³⁹ In the case of a co-pending application, the contents of a domestic patent application having an earlier priority date than the later patent application is deemed to part of the state of the art in the assessment of novelty of the second application.¹⁴⁰ The system adopted by Malaysia in the case of co-pending applications is the whole contents approach instead of the prior claim approach. In three situations a disclosure to the public will not be prejudicial to the novelty of an invention provided that an application for a patent is made within one year of such a disclosure. They include disclosure by reason or in consequence of acts committed by the applicant or his predecessor in title, and disclosure by reason or in consequence of any abuse of the rights of the applicant or his predecessor in title.¹⁴¹ There is also a similar

¹³⁵ See sections 11 to 16 of the Act, and cf with sections 112 to 118 of the WIPO Model Law. The substantive requirements to be met before a utility innovation could be protected are substantially the same. The major difference is that the utility innovation does not have to possess any inventive step, see section 17A of the Act.

¹³⁶ See sections 1 to 6, Patents Act 1977, United Kingdom, and Articles 52 to 57, European Patent Convention.

¹³⁷ See section 11 of the Act.

¹³⁸ See section 14(1) and 14(2)(a), Patents Act 1983 as amended by section 6(a)(i) Patents (Amendment) Act 1993.

¹³⁹ Before the 1993 Amendment Act, the system that was in place was the mixed novelty system. This meant that previously the novelty of an invention was destroyed, in the case of a disclosure other than a written disclosure, only if it took place in Malaysia.

¹⁴⁰ See section 14(2)(b) of the Act.

¹⁴¹ See section 14(3)(a) to (c) of the Act. The third situation refers to a disclosure by way of a pending application to register the patent in the UK Patent Office as at the date of coming into force of the Act. Since the Act came into force on 1st of October, 1986, this provision is no longer relevant.

exception to the novelty rule, as found in the United Kingdom and EPC provisions, in the case of product patents relating to a first medical use.¹⁴²

The requirement of an inventive step is satisfied if it can be shown that, having regard to the state of the art, such inventive step would not have been obvious to a person having ordinary skill in the art.¹⁴³ The Act states that "an invention shall be considered industrially applicable if it can be made or used in any kind of industry".¹⁴⁴ Unlike the patent statutes of the United Kingdom and the EPC, but following the WIPO Model Law, there is no provision deeming that method of medical treatment is not capable of industrial application. Such methods are, however, not regarded as patentable subject matter.¹⁴⁵

Section 13 provides a specific list of subject matter which is not patentable, and substantially follows the WIPO Model law.¹⁴⁶ Again, in substance they are similar to those found in the United Kingdom and the EPC systems.¹⁴⁷

The granting procedure is based on a full examination system.¹⁴⁸ An applicant may claim a right of priority of one or more national, regional or international applications filed during a period of twelve months immediately preceding the filing date of the earlier application.¹⁴⁹ After filing, the application is subject to a preliminary examination. This is to ensure that all the formal requirements of the Act and regulations are complied with. The procedure is automatic and there is no need to file a request for a preliminary examination. Following this, a request for a substantive examination of the application has to be made within 2 years of the filing date.¹⁵⁰ During the substantive examination, the application will be examined to determine whether it satisfies the substantive requirements of the Act as to novelty, inventive step, etc. Where a patent has been granted to the applicant for an invention which is the same or substantially the same as the invention claimed in the application, the applicant may request for a modified substantive examination, which is a

142 See section 14(4) Patents Act 1983 as amended. This provision was added by section 6(b) of the Patents (Amendment) Act 1993, Act A 863/93. See section 2(6) of the UK Act and Article 54(5) EPC.

143 See section 15 of the Act.

144 See section 16 of the Act. cf WIPO Model Law for Developing Countries on Inventions, Volume 1, Patents, World Intellectual Property Organisation, Geneva 1979, section 116.

145 See section 13(1)(d) of the Act and section 112(3)(iv) of the WIPO Model Law, and contrast with section 4(2) of the United Kingdom Act, and Article 52(4) of the EPC.

146 See section 112(3)(i) to (iv) of the WIPO Model Law.

147 See sections 1(2) and 4(2) of the UK Act, and Articles 52(2) and (4) of the EPC. These exceptions are discoveries, scientific theories and mathematical methods; plant or animal varieties or essentially biological processes for the production of plants or animals, other than man-made living micro-organisms, micro-biological processes and the products of such micro-organism processes; schemes, rules or methods for doing business, performing purely mental acts or playing games; methods for the treatment of human or animal body by surgery or therapy, and diagnostic methods practised on the human or animal body.

148 See generally, Part VI of the Act as amended by the Patents (Amendment) Act, 1993.

149 See section 27 of the Act, as amended by section 14(a), Patents (Amendment) Act, 1993.

150 Regulation 27, Patents Regulations, 1986, as amended.

much faster procedure since it does not have to involve a thorough substantive examination of the patentability criteria again.¹⁵¹ Once a patent has been granted, the owner is able to prevent anyone from exploiting the same invention for a duration of 15 years after the date of its grant.¹⁵²

1.6. The Utility Innovation System

The normal patent protects inventions which satisfy the normal requirement criteria of novelty, inventive step and industrial application. The second system of protection available under the Act aims to protect "minor inventions", called "utility innovations" in the statute, whereby a lower level of patentability criteria needs to be satisfied. The provisions governing the grant of protection for utility innovations are laid down in Part IVA of the Act.

A utility innovation is defined in the Act as "any innovation which creates a new product or process, or any new improvement of a known product or process, which can be made or used in any kind of industry, and includes an invention".¹⁵³ The Act provides that with the exception of certain specific exclusions, the provisions of the Act applying to patents for inventions, subject to the modifications in the Second Schedule of the Act, are applicable to utility innovations.¹⁵⁴

Following the requirement of section 17, a certificate for a utility innovation can be granted if it is new to Malaysia. For the purposes of satisfying this novelty requirement, the novelty provision of section 14 applies.¹⁵⁵ There is no requirement for an inventive step, this being specifically excluded by the Act.¹⁵⁶ The requirement of industrial application is also specifically excluded by the Act. However, as far as the requirement for industrial applicability is concerned, while section 17A seemingly exempts utility innovation from the

151 See sections 29, 29A and 30 of the Act, as amended by sections 16, 17, and 18, Patents (Amendment) Act, 1993. This applies only to patents granted in Australia, the United Kingdom, the United States and by the European Patent Office - Regulation 27 as amended.

152 See section 35. Under section 35(1) of the Act, the patent will expire fifteen years after the date of its grant, provided that action is taken to pay the required renewal fees - see section 35(2) and (3). By virtue of section 31(2) and (4), the patent is deemed to be granted on the date that the Registrar issues to the applicant a certificate of grant of the patent, and the patent is recorded in the Register.

153 Section 17 of the Act (as amended in 1986 and 1993). The subject matter that cannot be protected by a certificate for a utility innovation is the same as that for a patent - See section 13(1), as modified by the Second Schedule, of the Act.

154 Section 17A(1) of the Act (as amended in 1986 and 1993). Section 17A(2) of the Act provides that s.11 (definition of a patentable invention), s.15 (definition of inventive step), s.16 (definition of industrial application), s.26 (requirement for unity of invention), Part X (provisions for compulsory licences), and s.89 (repeal and saving provisions) and s.90 (transitional provisions) shall not apply to utility innovations.

155 The novelty standard is now based on an absolute novelty instead of local novelty. This change was brought about by section 47(a)(i), Patents (Amendment) Act 1993.

156 See section 17A(2) of the Act.

requirement of industrial application in so far as it is contained in section 16, the definition of utility innovation in section 17 reintroduces this requirement by the phrase "which can be made or used in any kind of industry".

Other than for some minor modifications specified in the Second Schedule, the procedure involved in an application for a certificate for a utility innovation is the same as that for a patent for an invention. Unlike a normal patent, where more than one claims can be applied for, in the case of a utility innovation, only one claim is allowed.¹⁵⁷ For this reason, the provision with regard to the requirement for unity of invention provided for in section 26 does not apply to utility innovations.

A certificate for a utility innovation expires five years after the date of its grant.¹⁵⁸ However, before the expiration of this five year period, an application for extension for an additional five years period of protection can be made. Before the expiration of this first extension, an extension of a further five years period can be applied for. This means that the total possible length of protection is 15 years from the date of grant of the certificate, which is the same period available for a normal patent. However, before such extensions can be granted the owner has to show that the utility innovation is in commercial or industrial use in Malaysia. Failing this, he has to give satisfactory explanations for its non-use.

It is not possible for an applicant to be granted both a patent and a certificate for utility innovation for the same invention.¹⁵⁹ However, it is possible to convert an application for a patent into an application for a utility innovation and vice versa. This has to be done within six months of the issuance of the Examination Report under section 30.¹⁶⁰

1.7. The Users of the Various Systems, Past and Present

The first patent legislation to be enacted in a component state of Malaysia was at the behest of a group of British patentees, resulting in a special legislation to protect their interests in the Straits Settlements. The concern for the protection of foreign, especially colonial investment interests in Malaysia was also behind the impetus to put in place a patent system in the Straits Settlements and in the other component states of Malaysia. In fact, the then Administrator of the Straits Settlements, Lieutenant-Colonel Anson, admitted as such when he stated that "[t]he Patent Inventions Ordinance has been passed by desire of the Secretary of State, more immediately for the benefit of certain persons who desire to introduce their

¹⁵⁷ Section 28(1)(d), as modified by the Second Schedule, of the Act.

¹⁵⁸ Section 35, as modified by the Second Schedule, of the Act.

¹⁵⁹ See section 17C, which was added to the Act by section 9 of the Patents (Amendment) Act 1993.

¹⁶⁰ See section 17B, which was added to the Act by section 9 of the Patents (Amendment) Act 1993.

inventions into this Colony". That he was in some doubt as to the propriety of the introduction of a patent system could be detected in the later part of his speech when he said that to what extent the Ordinance might thereafter benefit the Colony it was impossible to foresee, but he noted that there was at that time great difference of opinion existing in England in "regard to the general question of the advantage to the public of the monopolies granted under the provisions of the Patent Laws".¹⁶¹ From the earlier discussion, it is also evident that the patent system was introduced into the other component states for the same reasons. It is significant to note that Perlis and Trengganu, the two states not touched by the patent system until 1951, were not economically important to British commercial interests at that time. The same concern was present when amendments were made to the system at various times. It is also significant to note that the interest groups clamouring for changes to the patent system at the relevant period, and whose demands were acceded to, were the Federated Malay States Chamber of Mines, the Planters' Association of Malaya, and the Rubber Growers' Association. For example, the suggestions made by these groups played a big part which led to suggestions for reforms of the patent system made in the Trade Commission Report, 1933-1934.¹⁶² In fact, the Registrar of Designs, Singapore, in drafting out the amendments to the Registration of Designs Ordinance, 1931 of the Straits Settlements, got in touch with various trade bodies, including the Singapore and Penang Chambers of Commerce, and more significantly, the Manchester Chamber of Commerce and the Federation of British Industries for their consideration and comments.¹⁶³

Therefore, the patent system was introduced into these states, not with the aim of encouraging local inventive activities, but to exclude others from the use of patented inventions that were brought into the region to be utilised in the mainstay of the colonial-type economic activities at that time. Under colonial rule the country was cast in the role of producers of raw materials, in particular, rubber, oil palm, coconut-oil, canned pineapple, and the two main extractive industries, tin and iron, and in Sarawak, petroleum and pepper.¹⁶⁴ In fact, in 1951, roughly 4/5 of the total value of Malaya's export were made up of the two items of rubber and tin.¹⁶⁵ Manufacturing activities played a minor role, and these were mainly ancillary to the agricultural and mining activities, concerned with the processing of these raw materials to a form suitable for export. Examples of these were plants and installations set up to smelt tin, mill rubber, cure copra, can pineapple and extract

161 See Address of His Excellency Lieutenant-Colonel A.E.H. Anson, R.A., Administrator of the Government of the Straits Settlements, on closing the session of the Legislative Council on Friday, 17th November, 1871 - Microfilm - M 160/73, National Archives, Kuala Lumpur.

162 See Chapter 60 of the Trade Commission Report 1933-1934.

163 See H.C.O. File No. 478/33, National Archives, Kuala Lumpur.

164 See Colonial Annual Report, Malaya, 1948, His Majesty's Stationery Office, London, 1949, at pages 39-69; Settlement of Penang - Annual Report for 1949, Government Press, Government Printers, Kuala Lumpur, 1950; Silcock, T.H., *The Economy of Malaya - An Essay in Colonial Political Economy*, Donald Moore, Singapore, 1954, at pages 12-26; Grist, D.H., *Malaya - Agriculture*, The Malayan Information Agency, Malaya House, London, 1929.

165 See Annual Report - Federation of Malaya 1950, His Majesty's Stationery Office, London, 1951.

oil from the fruits of oil palm. In order to ensure the efficient functioning of these plants and installations, another form of secondary industry was developed, involving light engineering works, repairing, servicing and making related equipment and machinery. Other light industries involving the manufacturing of consumer goods like foodstuff, beverage and tobacco were also in existence.¹⁶⁶ However, in the main, consumer goods were mainly manufactured and imported from overseas, especially Britain.¹⁶⁷ Hence the patent system was targeted to cater for users who were already familiar with it, the expatriate planters and miners, overseas manufacturers and suppliers of consumer goods and the basic infra-structures like railway, telegraph and road building. There had been no attempts to encourage its use, or spur inventive activities among the local inhabitants. From this it could be concluded that the patent system was introduced in the Malaysian territories, not as an incentive to encourage indigenous innovative and inventive activities, but as a protective measure to exclude others from using certain patented inventions brought in from overseas, or developed by the colonial investors. Hence it is hardly surprising that the local inhabitants were largely unaware of, and unaffected by, the patent system.

The contrast with the attitude when the Act was implemented in 1986 could hardly be more different. In line with the Government's objective of encouraging local inventions and innovations, several steps were taken to create an awareness of, and familiarity with, the patent system. Several "road-shows" were conducted throughout the country to explain the patent system to members of the public. A Patent Information Unit (PIU) within the Standards and Industrial Research Institute of Malaysia (SIRIM), was set up to promote inventive and innovative activities, and to function as an information centre where patent documentation could be made available to members of the public. Patent advisory and reference service, as well as specific search service are also provided.¹⁶⁸ SIRIM is also involved in various projects to encourage industrial technology development through R & D, and development programmes to enhance the establishment of more effective small and medium scale industry.¹⁶⁹ Several other strategies were adopted by the Government to set

¹⁶⁶ See Ooi, Jin-Bee, *Land, People and Economy in Malaysia*, Longmans, London, 1963, Chapter 12, pages 318-329.

¹⁶⁷ See Lim, Chong-Yah, *Economic Development of Modern Malaya*, Oxford University Press, Kuala Lumpur, 1969. For further accounts of the Malaysian economy before and after independence, see *Information Malaysia 1992-1993 Yearbook*, Berita Publishing Sdn Bhd, 1992, at pages 203-247; See Silcock, T.H., *The Economy of Malaya*, in Hooper, C., (Ed.), *Economic Systems of the Commonwealth*, Duke University Press, 1961; Bowie, A., *Crossing the Industrial Divide - State, Society, and the Politics of Economic Transformation in Malaysia*, Columbia University Press, New York, 1991; Jomo, K.S., *Growth and Structural Change in the Malaysian Economy*, Macmillan, London, 1990; Cho, George, *The Malaysian Economy - Spatial Perspectives*, Routledge, London, 1990.

¹⁶⁸ The PIU is a division of The Standards and Industrial Research Institute of Malaysia (SIRIM) within the Ministry of Science, Technology and the Environment. The name was changed from the Patent Information and Documentation Centre (PIDC) to the Patent Information Unit (PIU) with effect from January, 1, 1991, after the patent examining function was transferred, in October 1990, to the Patent Registration Office of the new Intellectual Property Division within the Ministry of Domestic Trade and Consumer Affairs.

¹⁶⁹ See SIRIM Corporate Plan 1991-1995 - Mid-term Review.

up the infrastructure to stimulate and encourage creativity, research and development, and innovation.¹⁷⁰ One of these, a Technology Park, was set up in January 1988 under the auspices of the Ministry of Science, Technology and the Environment. Among its objectives are to provide a national focus for action for new business formation and commercialisation of R & D, to be an active vehicle for technology transfer, and to act as a source of venture capital for tenants of the Technology Park.¹⁷¹

An important episode is the formation of a society called the Malaysian Invention and Design Society (MINDS). It was formed on the 29th November, 1986, one month after the Malaysian Patents Act came into force, with the support of both the Ministry of Science, Technology and the Environment (MOSTE) and the World Intellectual Property Organisation (WIPO). Among the objectives of MINDS are to encourage creative thinking and the spirit of invention among the people of Malaysia, to promote and enhance the development and utilisation of inventions and designs in Malaysia, to hold seminars, meetings, and workshops, publish and circulate newsletters, periodicals and other works in an effort to disseminate information about inventors and designers, their works and achievements, and to promote the utilisation of inventions and designs and the profitability of inventors' and designers' activities. As part of its activities, inventors clubs are set up in schools to organise various activities to promote and educate the students in particular and the public in general, on inventions, innovations, designs and patenting.¹⁷² Together with SIRIM, MINDS co-organises the yearly MINDEX exhibition,¹⁷³ one of the main events of the annual National Science and Technology Week started in 1987.

The result of the Government's effort since the introduction of the Act is quite revealing when a comparison is made between the past and present users of the patent system. Although the records of applications and grants of patent rights in the various component states under the former systems are patchy and incomplete, a perusal of some of the available records is indicative of the type of users and the subject matter of protection

¹⁷⁰ For a more detailed discussion, see Review of the Industrial Master Plan 1986-1995, Ministry of International Trade and Industry, Malaysia, Chapter 6 - Research and Development and Technology Policies, and Industrial technology Development - A National Plan of Action, Ministry of Science, Technology and the Environment, Malaysia, 1992.

¹⁷¹ See generally, Mohd Salleh, I., "Technology Park: The Growth Centre for Invention and New Technologies", paper presented at the Seminar on Promotion of Innovative Activity and Indigenous Technology, Kuala Lumpur, 15-17, August 1989. For a fuller discussion of the other steps taken by the government, see Mohd. Shazali, O., "Promotion of Technological Innovation, A View of the Experience in Malaysia", WIPO/INN/S/4, August 1992.

¹⁷² For further information of the objectives and activities of MINDS, see Mindscope, Issue No. 14, April-June 1991, page 23.

¹⁷³ MINDEX (the Malaysian Inventions and Designs Exhibition) is an exhibition sponsored by the Ministry of Science, Technology and the Environment, the Ministry of Education, the Ministry of International Trade and Industry, and the Ministry of Domestic Trade and Consumer Affairs. The main objectives of MINDEX are to encourage creative thinking and innovative spirit among the people of Malaysia and to promote and enhance the further development and utilisation of inventions and designs in Malaysia.

sought.¹⁷⁴ For example, in Kedah, for the period 1928 to 1931, of the 10 patents re-registered, 7 were related to the rubber industry, the invention ranging from compositions for treatment of diseases in rubber and other trees, improvements in the production of preserved rubber sheets, tapping implements, to improvements relating to the manufacture of rubber articles. In Negri Sembilan, between 1897 to 1904, out of a total of 12 grants, 7 were for inventions related to the tin mining industry, involving processes and mining machinery. For the same period in Selangor, out of a total of 17 grants, 9 were tin-mining related inventions, 3 rubber industry related and 2 for inventions relating to processing of coffee beans. For Johore, in the period from 1911 to 1913, there were 8 grants, of which 6 were related to the rubber industry. Finally, out of the 29 patents registered in Sarawak in the period from 1928 to 1933, 21 were for inventions relating to the petroleum industry.

All the patents granted above were to foreigners. A slightly improved figure is shown when reference is made to the statistics for patents re-registered in Malaya during the period from 1953 to 30th September, 1986.¹⁷⁵ Out of a total of 8473 United Kingdom patents re-registered, only 103 were by local patentees. This works out to a ratio of 1.2% of the total patents re-registered in Malaysia. In contrast to this, the figures for the period 1988 to May 1996 show a slight improvement in terms of local use of the patent system.¹⁷⁶ Out of a total of 7724 patents granted during this period, 167 were granted to local patentees. This shows an improved ratio of 2.16 %. However, even more encouraging is the statistics in relation to utility innovations for the same period. Out of a total of 77 certificates for utility innovation issued, 49.4 % or 38 certificates were issued to Malaysians.

It is uncertain whether these colonial industries would have thrived as they did in the absence of patent protection. There has as yet been no study of the economic impact of the patent system in Malaysia, especially in relation to the impact it had on the development of the primary industries relating to rubber and tin mining.¹⁷⁷ A study on the use of industrial property in the oil palm industry in Malaysia in 1993 reported that while there were many applications for, and grants of, patents relating to palm oil processing in Australia, France, Japan, Malaysia, the United Kingdom and United States of America, it was not known how many were actually translated into commercial applications. Anyway, as the study indicated, while commercial exploitation of oil palm in Malaysia begun in 1917, there was

174 These figures are obtained from the respective State Gazettes which could be traced.

175 See Gan, P.H., Ler, L.T., "Profile of the Malaysian Inventor and Associated Problems of Invention", paper presented at the Seminar on Promotion of Innovative Activity and Indigenous Technology, Kuala Lumpur, 15-17, August 1989.

176 From statistics obtained from the Intellectual Property Division, Ministry of Domestic Trade and Consumer Affairs.

177 For the technologies involved in tin-mining, see Thoburn, J.T., *Primary Commodity Exports and Economic Development - Theory, Evidence and a Study of Malaysia*, John Wiley & Sons, London, 1977, Chapter 5, at pages 83-85, and Fermor, Lewis Leigh, *Report Upon the Mining Industry of Malaya*, Government Press, Kuala Lumpur, 1939, Part A, at pages 111-117. For the technologies involved in the rubber industry, see Thoburn, J.T., *op. cit.*, at pages 140-144.

only a slow and transitory growth during the period from 1917 to 1960. It was only due to the Government's agricultural diversification policy that the period 1960-1985 showed a rapid growth in oil palm cultivation.¹⁷⁸ With regard to the rubber industries, it is interesting to note that "the most important single technological development, increasing both output per man and per acre, had been the development of high-yielding varieties of rubber".¹⁷⁹ This finding is significant since plant varieties were not protectable by the patent system then. Despite this, the above statistics may be used to support the contention that without the colonial patent systems in place, the agricultural and mining industries in pre-independent Malaysia would not have been so successful. However, it is submitted that even without patent protection, the same level of investments would have been made by the colonial investors. It has to be remembered that "the objective of British Colonial policy in Malaya during this period was to manage the economy in such a way as to enhance the prosperity of Britain" and that "the principal goal of colonial administrators in Malaya was to extract resources and profits to be channelled back to Britain".¹⁸⁰ Bearing in mind that the agricultural and extractive products of Malaysia were the main sources of revenue in British Malaya,¹⁸¹ and that "[f]or a long time, Malaya has been considered the 'dollar arsenal' of Great Britain",¹⁸² it is very unlikely that the absence of patent protection would be a disincentive to investment in these economic activities.

1.8. Conclusion

The history of the Malaysian patent system has now completed one full cycle. From the system of original local grant to a re-registration system of United Kingdom patents, it has now reverted to the system of local grant. The various states enactments were passed because of pressure from those in the manufacturing and commercial sectors. However,

178 See Ong, S.H., Study on Industrial Property Use in the Oil Palm Industry in Malaysia, World Intellectual Property Organisation, Geneva, 1993, at pages 38-43.

179 Thoburn, J.T., Primary Commodity Exports and Economic Development - Theory, Evidence and a Study of Malaysia, John Wiley & Sons, London, 1977, at pages 140-144.

180 Bowie, A., Crossing the Industrial Divide - State, Society, and the Politics of Economic Transformation in Malaysia, Columbia University Press, New York, 1991, at pages 42-62.

181 The Ormsby-Gore Report, Cmnd. 3235, 1928, at page 21, stated that "The Government revenues of British Malaya ... were roughly 20,000,000 (sterling) last year. The overseas imports of British Malaya as a whole for the year 1926 were valued at 117,000,000 and the overseas exports at 147,000,000 ... These remarkable totals exceed those of the total external trade of the whole of the rest of the colonial dependencies put together. The value of export per head of the population of British Malaya for the last 2 years has exceeded that of any other country in the world, and is higher even than the figures for New Zealand, which leads the self-governing Dominions in this respect." See also Clementi, C, Malaya: Its Interests and Problems, Empire Parliamentary Association (United Kingdom Branch), Westminster Hall, Houses of Parliament, London, 1931 - Address by His Excellency, Sir Cecil Clementi, Governor of Malaya, at a meeting of the Committee of the Empire Parliamentary Association, on 7th May, 1931, at page 2, "I should like at the outset to give you some idea of the wealth of Malaya. I do not think it is usually understood what a very important part of Imperial trade is involved in that peninsula."

182 Li, Dun J., British Malaya, An Economic Analysis (1895-1938), Insan, Kuala Lumpur, 1982, at page 41.

these pressures were brought about mainly to protect the interest of foreign entrepreneurs, mainly British, who were involved principally in the then primary industry of tin and gold mining, oil extraction and refining, rubber, oil palm, pineapple and coffee planting and also the basic infra-structures like railway, telegraph and road building. There was a lack of educational process and no attempt was made to set up an administrative structure with trained personnel to manage the system. Whatever system and changes that were implemented were merely to cater for the expediency of the moment. There were no long term objectives of encouraging and developing the innovative potentials of the indigenous population.

The initial systems were established to cater for and protect the interests of foreign entrepreneurs. Though the system was used by local inventors, this was only to a very limited extent and was merely incidental to the whole scheme of the systems. Changes were brought about, not to cater for local interests, but for the convenience of the British concerns. This was evident by the series of amendments carried out in 1937 whereby the independent indigenous grant systems were all changed to the re-registration system under which only United Kingdom patents could be protected in the Malaysian territories. Since most of the entrepreneurs were British, it would cause no great hardship and expenses in applying for a patent in the United Kingdom and then getting it registered in the Malaysian territories. On the other hand, it was advantageous to them, because a single United Kingdom application which led to a grant would enable them to re-register the same patent in most of the other colonies and dependencies of Great Britain. No attempt was made to cater for the interest of the local inventors who might only be interested in getting a local grant.¹⁸³ In the words of Yankey, the introduction of the patent system during the colonial era was:

"never meant to encourage either indigenous inventive activity, local research and development, innovation or to accomplish an effective transfer of technology. It was geared rather towards the protection of property rights in machinery technology relevant for the exploitation of gold and other minerals resources of the Colony. This is not surprising since the main aim of imperialism and subsequent colonialism was the investment of excess capital in and exploitation of mineral and human resources of the colonies."¹⁸⁴

Though Yankey's remarks were made in the context of the introduction and development of the patent system in Ghana and Nigeria, his comment was equally apt in the Malaysian context if the words, tin and rubber, were added.

¹⁸³ See *supra*, footnotes 47 and 54 and comments therein.

¹⁸⁴ Yankey, G. S-A., *International Patents and Technology Transfer to Less Developed Countries*, Avebury, Aldershot, 1987, at 106.

The 1983 Act is, therefore, timely and a move in the right direction. Its primary aim is to cater to the interest for indigenous inventors. It enables any modifications to be made in the interest and needs of the indigenous people and the nation as a whole. Further, the developments of the Malaysian patent system is now entirely in the hands of the local legislators instead of being dependent on the accident of legislative activities taking place in the United Kingdom. More importantly, the extent of the rights and privileges will be determined according to local needs. Checks and balances, especially with regard to limitations on the exercise of these rights, can be introduced when required to prevent any abuses of these monopoly rights.

CHAPTER 2: Ownership of Patent Rights *Inter Se*

2. Introduction

This chapter deals with the issues and law relating to the right to apply for a patent and the rules as to ownership of the patent applied for or granted. In discussing the right to apply for a patent, the question of what an invention is will be important as this will permit the determination of who the inventor of an invention is. It is true that in the context of patentability it may not be necessary or crucial to determine whether a particular subject matter is an invention, especially in view of the provision of a list of non-patentable inventions in the Act.¹ However, a proper appreciation of the meaning of invention is important, because through this understanding, the inventor could be identified. Inventorship could also be crucial in disputes between an inventor and someone who has allegedly stolen the inventive concept from him to gain a patent .

Where more than one person is involved in creating the invention, the issue of whether all the participants can be regarded as inventors, and hence joint inventors, can be crucial, as each of the joint inventors has valuable rights provided for under the Act.² The criteria that can be relied upon in deciding whether there is joint inventorship involved, and the rights of joint inventors to make, use, sell and otherwise deal with the patent are analysed. The rights of joint owners under the common law are examined to provide a background to the later statutorily enacted rights.³ This is followed by an analysis of the statutory provisions relating to the rights of joint owners. Further, it may be a ground for invalidation of the patent that the right to the patent does not belong to the person to whom the patent was granted.⁴ The fact that one of several joint inventors has not been joined in the application for a patent may be a basis for invalidation of the patent on the ground that as a co-inventor, he is entitled to co-ownership of the patent. Hence these possibilities are also considered.

¹ See section 13 of the Act.

² Although inventions are still being made by individual inventors, the modern trend seems to be that more researches are being conducted by the research organisations of an industrial corporation, the industrial research association of a whole industry, specialised institutions and government research laboratories. This would mean that issues of joint inventorship would become increasingly more important. See Jewkes, J., Sawers, D., and Stillerman, R., *The Sources of Invention*, 2nd Ed., Macmillan, 1969, chapters 5 and 6. In fact, even when ownership of the patent is not in issue, the question of inventorship could be, both for professional pride and recognition - see, for example, *Kakkar & anor v. Szelke & ors* [1989] 1 FSR 225.

³ Joint ownership of a patent application or patent may exist from the outset if several persons were involved in, and applied jointly for, and were granted, a patent for an invention. It may, however, come into existence later, for instance where the patent application or patent is transferred to several heirs or is assigned to several assignees.

⁴ Section 56(2)(d) of the Act, see later, Chapter 7 - Exceptions, Limitations and Loss of Rights.

The last area affecting the question of ownership of patent is with regard to inventions made by an employee. What his rights are in relation to the patent will be examined. If the invention is deemed to belong to the employer, the employee's rights in terms of compensation over and above his normal salary for his contribution to the increased wealth of his employer will be looked into. Alternative provisions to further the interest of the employee, if it is seen that his rights under the Act are insufficient, are suggested.

A common problem, also met in the other chapters, is the lack of reported local cases pertaining to the areas under consideration. Therefore, analysis and evaluation of the statutory provisions are made on a comparative basis by reference to cases from other jurisdictions.

2.1. Right to Apply for and Ownership of Patent

The Act provides that any person may make an application for a patent, either alone or jointly with another.⁵ This follows exactly the provision of section 7(1) of the Patents Act, 1977 of the United Kingdom. By virtue of section 22, where the right to obtain a patent is owned jointly, the patent may only be applied for jointly by all the joint owners. However, unlike the United Kingdom Act which then goes on to state the person or persons to whom a patent for an invention may be granted,⁶ the next two following subsections of section 18 then follow the WIPO Model Law by providing that the right to a patent shall belong to the inventor, and that in the case of a patent having been made jointly, the right to the patent shall belong to them jointly.⁷ Section 20, relating to employee inventions also follows the scheme for employee inventions found in the WIPO Model Law.⁸ However, unlike the WIPO model which provides in section 119(3) that the rights to the patent may be assigned

⁵ Section 18(1) of the Act. Unlike the situation in the United States, the applicant could be a natural or legal person. The applicant will normally be the owner of the right to the patent, either the inventor or an assignee of the rights of the inventor. However, the inventor must be named in the application. Where the applicant is not the inventor, a statement justifying the applicant's right to the patent must be submitted together with the application for a grant of a patent - see Schedule II, Patents Form 1. The same system is found in the United Kingdom, see section 7(1) of the 1977 Act. In contrast to this, under the statutory scheme in the United States, the general rule is that only the first and true inventor has the right to apply for a patent - see USC 35, section 111, and the exceptions in sections 116, 117 and 118. This means that the inventor or inventors have a personal obligation to participate in the patent application process, regardless of whether the patent right has been assigned. Failure to ensure that all the inventors involved in creating the invention apply for the patent could render the patent void. There have been many attempts to amend the procedure under the United States system to make it more in conformity with the practice of most countries. For an interesting discussion as to why this move away from the present US system is undesirable and unconstitutional, see Sears, M.H., "The Corporate Patent - Reform or Regression?", (1979) 61 JPOS 380.

⁶ In section 7(2) of the Patents Act 1977, United Kingdom.

⁷ In section 18(2) and 18(3) of the Act respectively. See section 119(1) and (2) of the WIPO Model Law in Appendix. See also similar provisions in the Code of Intellectual Property Act [No. 52 of 1979, as amended by the Code of Intellectual Property (Amendment) Act, No. 30 of 1980, and the Code of Intellectual Property (Amendment) Act, No. 2 of 1983], the Sri Lankan Act, section 64.

⁸ See section 120, WIPO Model Law. See later, para. 2.7 for discussions on employee inventions.

and may be transferred by succession, section 19 is silent on this point. There seems to be a missing link here. Nowhere in the Act is there a provision allowing for the assignee of a person, who is entitled to a patent under section 19(2) or (3), to have the right to own the patent. So while such an assignee has the right to apply for a patent by virtue of section 18(1), he does not seem to have a right to own the patent, as neither section 18(2) or (3), nor section 20 apply in his case. Although section 39 of the Act allows for a patent application or patent to be assigned or transmitted, this section only applies to a situation where an application has already been made or a patent granted. However, it would seem from the tenor of the Act that a patent can be issued to a non-inventor, as long as he can trace his claim to a person entitled, either under section 18 or section 20.⁹

Somewhat confusingly, section 18(2) begins with the proviso that subject to section 19, the right to a patent shall belong to the inventor. Section 19 lays down an avenue for judicial assignment of a patent application or patent.¹⁰ By virtue of this section, where the essential elements of an invention claimed in a patent application or patent have been unlawfully derived from an invention for which the right to the patent belongs to another person, that other person has the right to apply to the court for an order that the said patent application or patent be assigned to him. The limitation period for such judicial assignment is after five years from the date of the grant of the patent.¹¹ It would have been more accurate to state "Subject to section 20, the right to a patent shall belong to the inventor", because section 20, the provision regulating ownership of employees' inventions, is the exception to the general rule that the rights to a patent shall belong to the inventor.

The lack of clarity in the particular section results from the "cut and paste" approach of the framers of the Act, with provisions of various parts of the Act and even sections being derived from "bits and pieces" from various legislative models. For the sake of clarity and to prevent unnecessary speculation, an additional provision should be inserted in section 19, clearly stating that where the rights to a patent have been assigned or transferred by succession, the rights to the patent shall belong to the assignee or the successor in title, and that section 18(2) is to be read subject to section 20.¹²

2.2. Invention and Inventor

There is no definition in the Act as to who the inventor is. However, section 12(1) defines an invention as "an idea of an inventor which permits in practice the solution to a specific

⁹ See Schedule II, Patent Form No. 1, where, if the applicant is not the inventor, he has to justify his right to the patent.

¹⁰ The same arrangement is adopted in sections 64 and 65 of the Sri Lankan Act.

¹¹ See proviso to section 19. This section follows section 121 of the WIPO Model Law.

¹² For the United Kingdom approach, see section 7(2) in Appendix.

problem in the field of technology".¹³ It follows from this definition that an inventor must be the person who devises such an idea.¹⁴ From the definition, three elements must be present before an invention can be said to have been made under the Act. The first is the mental act, the conception of the idea by the inventor, the second is that the conception must be sufficiently worked out to provide the solution to a particular problem, and lastly, the problem must be related to the field of technology.

There has not been much analysis in the United Kingdom regarding the required elements constituting an invention. However, the case of Allen v. Rawson¹⁵ provides some guidance. That case involved the issue of whether two workmen who had suggested various improvements to a patented machine should be considered as joint inventors together with the employer. Chief Justice Tindal, in denying joint inventorship status to them, stressed the fact that the employer had already worked out the complete idea and principle of the object of the invention. In Hickton's Patent Syndicate v. Patents & Machine Improvements Co. Ltd.,¹⁶ the Court of Appeal, in considering whether the plaintiffs' machine was a patentable invention, emphasised the fact that the invention was in the idea or conception, as distinguished from the thing manufactured. Lord Diplock, in the course of determining whether the invention claimed was patentable, referred to the "idea, when put into practice" In deciding on the issue of ownership in an invention in Greater Glasgow

¹³ This definition follows exactly the definition in section 112(1) of the WIPO Model Law - see Appendix. In contrast, in the Patents Act 1977 of the United Kingdom, there is no definition of "invention" as such, although a list is provided in section 1(2) of things which are not considered invention. Further, for the purposes of the 1977 Act, section 125(1) defines an invention as "that specified in a claim of the specification ... as interpreted by the description and any drawings contained in that specification ... ". "Inventor" is defined in section 7(3) of the 1977 Act as "the actual deviser of the invention and "joint inventor" shall be construed accordingly". For interesting and illuminating discussions of the various meanings of the term "invention", see Williamson, E., "The Linguistic Basis of Patent Law", (1943) 25 JPOS 852, and Gardiner, R., "Language and the Law of Patents", 47 Current Legal Problems 255 (1994). See also Godula, E.A., "Judge Learned Hand and the Concept of Invention", 9 IDEA 159 (1965-66). In the United States, "invention" is statutorily defined in a circular fashion to mean "invention or discovery" - USC 35, section 100(a).

¹⁴ Before a person can claim to be an inventor, the idea, or conception, must originate from him, unlike under previous indigenous patent statutes, where the first importer could also be deemed an inventor. See, for example, section 2, Ordinance No. 15 (Inventions), Straits Settlements, and section 2, Enactment No. 19, Federated Malay States. See generally, Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.3.

¹⁵ Allen v. Rawson (1845)135 ER 656, at pages 665-667, *per* Tindal C.J. Two workmen, Shaw and Milner, had variously made suggestions concerning improvements to certain structural parts of the patented invention invented by one William. Both of these features were described in the specification and mentioned in the claims. As a defence the defendant alleged that the patentee had no right to claim as part of his invention the structures which was alleged to be the invention of Shaw and Milner. The patent was, therefore, alleged to be void.

¹⁶ Hickton's Patent Syndicate v. Patents & Machine Improvements Co. Ltd (1909) 26 RPC 339, *per* Cozens-Hardy M.R., at page 346, and Fletcher Moulton J., at page 347. Buckley L.J., at page 348, said, "No doubt you cannot patent an idea, which you simply conceived, and have suggested no way of carrying out, but the invention consists in thinking of or conceiving something and suggesting a way of doing it". Diplock L.J. referred to the "idea, when put into practice ...", when considering whether the invention in issue was patentable, in Johns-Manville Corporation's Patent [1967] RPC 479 (CA), at page 493. See also Genentech Inc.'s Patent [1989] RPC 147, *per* Purchas L.J., at pages 205-210.

Health Board's Application, Justice Jacob referred to "the patent of an idea".¹⁷ From these cases, it can be seen that the approach is not any different from what is contained in the definition, i.e., that an invention relates to the conception of an idea.¹⁸

In contrast to this dearth of judicial analysis of what constitutes an invention in the United Kingdom, the United States cases reveal a rich source of guidance. The courts there have consistently held that an invention consists of two operations, one, the conception of the idea, the mental operation, and the other, the reduction to practice, the physical operation.¹⁹ However, it must be remembered that the United States patent system practices a "first to invent" system. In the determination of who, among competing applicant, is the first to invent, and hence entitled to priority of invention, the Patent Office, and the Court, are bound to apply the statutory criteria in section 102(g) of USC 35. Under this section, in determining priority of invention, "there shall be considered not only the respective date of conception and reduction to practice of the invention, but also the reasonable diligence of

¹⁷ Greater Glasgow Health Board's Application [1996] RPC 207, *per* Jacob J., at page 219. Similarly, in Amateur Athletic Association's Applications [1989] RPC 717, the hearing officer, Mr Panchen, at page 720, concluded that the referrer was the actual inventor after holding that he was the one who had contributed the ideas for the various features of the invention. The hearing officer, Mr Vivian, in Viziball Ltd's Application [1988] RPC 213, at page 217, regarded the word "invention" used in section 8 of the 1977 Act as that "which was conceived" by the applicant to be the invention at the time he filed his application whether that be a patentable invention or not." In Merrell Dow Pharmaceuticals Inc. & anor v. H.N. Norton & Co. Ltd [1996] RPC 76, at page 86, Lord Hoffmann, in analysing the meaning of novelty under the 1977 Act, briefly alluded to the fact that "an invention is a piece of information".

¹⁸ There is a provision in the 1977 Patents Act relating to compensation for employee inventions which states, in section 43(3), that "references to the making of an invention by an employee are references to his making it alone or jointly with any other person, but do not include references to his merely contributing advice or other assistance in the making of an invention by another employee". This provision has so far not been subject to any judicial analysis. If the phrase "advice or other assistance" refers to gratuitous advice given by a person who is not part of a team assigned to a particular project from which an invention is devised, this may be a correct statement of the law. Similarly if it refers to assistance of a non-conceptual nature. However, as will be discussed later, it will drastically cut down on the right to be recognised as a joint inventor if the word "advice" is construed strictly.

¹⁹ See, for example, Bourne v. Jones 98 USPQ 206 (DC SD Florida, 1951), *per* Whitehurts, District Judge, at page 209, "Ordinarily, invention is construed to mean a mental operation involving the conception of an idea, and a physical operation involving reduction to practice of the mental concept ... Invention cannot be predicated on mere speculation or conjecture; it must be based on something ascertained, something definite and certain."; United States v. Dubilier Condenser Corp. 289 US 178; 17 USPQ 154 (US Sup. Ct 1933), *per* Justice Roberts for the Court, at page 158, "... the peculiar nature of the act of invention, ... consists neither in finding out the laws of nature, nor in fruitful research as to the operation of natural laws, but in discovering how those laws may be utilised or applied for some beneficial purpose, by a process, a device or a machine. It is the result of an inventive act, the birth of an idea and its reduction to practice; the product of original thought; a conception demonstrated to be true by practical application or embodiment in tangible form."; Land v. Dreyer 69 USPQ 602 (CCPA 1946), *per* O'Connell, Judge, at page 605, "The party claiming conception of an invention must show that it was complete and operative and such as would enable a person skilled in the art to reduce the conception into practice without any further research or exercise of the inventive skill. It is not sufficient, therefore, to show that a party claiming an invention has conceived a result to be obtained; the patentable thing is the means provided and disclosed by him to accomplish that result." See also Consolidated Vultee Aircraft Corp. et al. v. Maurice A. Garbell, Inc., et al. 98 USPQ 4 (CA 9th Cir. 1953) *per* Mathews, Circuit Judge, at page 6, citing Corona Cord Tire Co. v. Dovan Chemical Corp. 276 US 358; United States v. Dubilier Condenser Corp. 289 US 178; 17 USPQ 154 (US Sup. Ct 1933); Clark Thread Co. v. Willimantic Linen Co. 140 US 481; 35 L. Ed. 521 (US Sup. Ct 1891).

one who was first to conceive and last to reduce to practice, from a time prior to conception by the other."²⁰

It is submitted that this extended meaning of invention under the United States system, involving both a conception and a reduction to practice is not applicable in the Malaysian context. Unlike the United States system, the Malaysian system practises a first-to-file system. Hence there is no need for resolving conflicting claims for priority. Situations in which the question of inventorship arise are only in the context of ownership of the patent, claims to joint inventorship, and rights to compensation for employment inventions. The concept of reduction to practice is, therefore, not relevant in solving these issues, which are related only to inventorship and not to any issue of priority of an invention. This is borne out by the United States cases where priority of invention was not an issue.²¹ All these cases emphatically stress that the threshold question in determining inventorship is who conceives the invention. A person cannot be regarded as an inventor unless he contributes towards its conception. As far as defining an inventor is concerned, reduction to practice *per se* is irrelevant.²²

²⁰ Hence, under this system, a person who is second to file may still establish priority by showing the earliest date of invention. The general rule as to priority of invention is that priority goes to the inventor who first reduces an embodiment of the invention to practice. This rule is subject to two exceptions. The inventor who is the first to conceive the subject matter but the last to reduce to practice will prevail if he exercises reasonable diligence in reducing to practice from a time just prior to when the first person to reduce to practice conceives the subject matter. Further, the second to reduce to practice will prevail if the first abandons, suppresses, or conceals the invention. For further discussion of this point, see generally, Chisum, D.S., Patents, Matthew Bender, Vol. 3, chapter 10.

²¹ See Mergenthaler v. Scudder 11 App. D.C. 264 (D.C.C. 1897), at 276, where the Court of Appeals of the District of Columbia said that, "The conception of the invention consists in the complete performance of the mental part of the inventive act. All that remains to be accomplished in order to perfect the act or instrument belongs to the department of construction, not invention."; and In re Hardee 223 USPQ 1122 (Comm. of Pat. and Trademarks, 1984) *per* Denny, Deputy Assistant Commissioner for Patents, at page 1123, "The threshold question in determining inventorship is who conceived the invention. Unless a person contributes to the conception of the invention, he is not an inventor. ... Insofar as defining an inventor is concerned, reduction to practice *per se* is irrelevant. One must contribute to the conception to be an inventor." See also Amax Fly Ash Corp. v. United States 182 USPQ 211 (US Ct Cls Trial Div. 1974), *per* Judge Cooper, at page 215, "Once conception has occurred, the inventor may use the services and assistance of others to perfect his invention without losing his right to a patent."

²² Note that even though there is no requirement for reduction to practice, it will normally be the case that there would be prior experimentation to test the theory upon which the conception is based. This test could, however, be carried out by other persons under the direction and control of the inventor without detracting from his sole claim to inventorship. Further, as will be discussed later, the idea should be sufficiently worked out to enable a person skilled in the art to be able to practice it. However, it is not required that the best mode should have been conceptualised, nor a commercially viable model made available, since this will lie in the field of design. Although the Act provides that the specification must provide a means to carry out the invention into effect and that the best mode known to the applicant must be disclosed, it is submitted that this goes only to the question whether the specification is sufficient to satisfy the requirement of the Act regarding the description in the application, and not as to whether there is in existence a complete conception of the invention. See Chapter 7 - Exceptions, Limitations and Loss of Rights, para. 7.4.5. for the duty to disclose the best mode.

However, an analysis of the decisional law of the United States with regards to the meaning of "conception" is useful to determine with more precision the meaning of "invention" and thus "inventor" This will be useful later in helping to determine whether a person claiming to be such is entitled to be granted status as a joint inventor. Hence, only the first component under the US approach is relevant in the consideration of the meaning of an invention, i.e., the mental element or the conception. To what degree must the conception be completed before it can be accorded the status of an invention under the Act?

2.2.1. The Conception

Inventions involves discovery, but discovery as such does not amount to an invention. A mere discovery will not fall within the definition of invention under the Act.²³ So, for example, the discovery of the explanation of a process is not patentable since it will not amount to an invention in itself.²⁴ However, the idea of how natural laws may be utilised or applied for some beneficial purpose, by a process, a device or a machine will be patentable,²⁵ provided there is a practical embodiment. A mere general conception or idea is not enough to qualify as an invention.²⁶ The idea must be sufficiently worked out to enable the solution of a particular problem. The idea cannot be "a mere speculation or conjecture", it has to be based on "something ascertained, something definite and certain".²⁷ As was stated in Agawam Woolen Co. v. Jordan,²⁸ the leading case on this area in the United

23 The Act has adopted the pragmatic approach by stating in section 13(1) that "notwithstanding the fact that they may be inventions, discoveries, scientific theories ... etc. shall not be patentable." See Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.5.4. In contrast, the Patents Act, 1977, United Kingdom, in section 1(2) laid down a non-exclusive list of things which are not inventions for the purposes of the 1977 Act. These range from discovery, scientific theory or mathematical method to the presentation of information.

24 Solvex Corp. v. Freeman et al. 199 USPQ 797 (W.D. Virginia, 1976), *per* Turk, Chief District Judge, at pages 804-805, "The discovery [is] of the fact that polycarbonate thread in the presence of perchlorethylene and with agitation is fractured into fragment and can be removed by either a washing or tumbling action. The explanation of a process is not patentable. E.g., DeForest Radio Co. v. General Electric Co. 283 US 664, 684, 685; 9 USPQ 297, 303-304 (US Sup. Ct 1931); Templeton Patents, Ltd v. Simplot Co. 142 USPQ 428, 429-430 (8th Cir. 1964)."

25 *Per* Justice Roberts for the Court, at page 158, in United States v. Dubilier Condenser Corp. 17 USPQ 154 (US Sup. Ct 1933). See also Genentech Inc.'s Patent. [1989] RPC 147, *per* Purchas L.J., at page 208, "In my judgement there may be a critical distinction to be drawn between a claim to new knowledge or to a discovery 'as such' which is not patentable ... and a claim to a method embracing a discovery which may well be an invention which is patentable."

26 Amax Fly Ash Corp. v. United States 182 USPQ 211 (US Ct Cls Trial Div. 1974), *per* Judge Cooper, at page 215, "The conception must be more than the realisation of a desirable result, Garrett Corp. v. United States 422 F. 2d 874 (1970), cert. denied, 400 U.S. 951, and more than a mere hope or expectation, Alpert v. Slatin 305 F. 2d 891, 894 (CCPA 1962)". See also Hickton's Patent Syndicate v. Patents & Machine Improvements Co. Ltd (1909) 26 RPC 339, *per* Buckley L.J., at page 348, "... the invention consists in thinking of or conceiving something and suggesting a way of doing it".

27 See Bourne v. Jones 98 USPQ 206 (DC SD Florida, 1951), *per* Whitehurts, District Judge, at page 209.

28 Agawam Woolen Co. v. Jordan (1868) 74 US (7 Wall.) 583, at page 602.

States, "He is the inventor and is entitled to the patent who first brought the machine to perfection and made it capable of useful operation."

In the oft-quoted case of Mergenthaler v. Scudder,²⁹ it was said that "The conception of the invention consists in the complete performance of the mental part of the inventive act. All that remains to be accomplished in order to perfect the act or instrument belongs to the department of construction, not invention. It is, therefore, the formation, in the mind of the inventor, of a definite and permanent idea of the complete and operative invention, as it is thereafter to be applied in practice, that constitutes an available conception, within the meaning of the patent law." In Townsend v. Smith,³⁰ the court, applying Mergenthaler v. Scudder, stressed that conception within the meaning of patent law is the formation of "a definite and permanent idea of the complete and operative invention as it is thereafter to be applied in practice". The conception must be "sufficiently plain to enable those skilled in the art to understand it."³¹ This has to be right, since if the conception has not reached such a stage, and inventive input still has to be made, it would mean that the conception has not reached the stage of an invention within the meaning of the Act. This emphasis on the possibility of the conception being put to practice by one skilled in the art was also emphasised in Amax Fly Ash Corp. v. United States,³² where it was said that "conception has been achieved when the inventive idea is crystallised in all of its essential attributes and becomes so clearly defined in the mind of the inventor as to be capable of being converted to reality and reduced to practice by the inventor or by one skilled in the art." However, it must be appreciated that a conception can reach a stage where it can be described as a "definite and permanent idea of the complete and operative invention" even though some

29 Mergenthaler v. Scudder 11 App. D.C. 264 (Court of Appeals, District of Columbia) at 276.

30 Townsend v. Smith 4 USPQ 269 (CCPA 1929), *per* Graham, Presiding Judge, at page 271, "It is therefore the formation in the mind of the inventor of a definite and permanent idea of the complete and operative invention as it is thereafter to be applied in practice that constitutes an available conception within the meaning of the patent law. A priority of conception is established when the invention is made sufficiently plain to enable those skilled in the art to understand it." See also Polye v. Uhl 140 USPQ 584 (CCPA 1964) an interference case, *per* Judge Smith, at page 588, "There is no showing here that Uhl invented or suggested the entire invention as embodied in the combination of elements claimed in the counts in issue. His suggestion to use Allyl alcohol in the electrolyte is not a conception of the entire invention of the counts. It is what the courts referred to in Standard Cartridge Co. v. Peters Cartridge Co. 77 F. 630, 645 (6th Cir. 1896), as the 'mere existence of an intellectual notion that a certain thing could be done, and if done, might be of practical utility'. As the court there stated, this 'does not furnish a basis for a patent', citing Agawam Woolen Co. v. Jordan (1868) 74 US (7 Wall.) 583."

31 See Land v. Dreyer 69 USPQ 602 (CCPA 1946), *per* O'Connell, Judge, at page 605, "The party claiming conception of an invention must show that it was complete and operative and such as would enable a person skilled in the art to reduce the conception into practice without any further research or exercise of the inventive skill. It is not sufficient, therefore, to show that a party claiming an invention has conceived a result to be obtained; the patentable thing is the means provided and disclosed by him to accomplish that result. See Townsend v. Smith 4 USPQ 269; Rowe v. Holtz 12 USPQ 234, and authorities cited therein."

32 Amax Fly Ash Corp. v. United States 182 USPQ 211 (US Ct Cls Trial Div. 1974), *per* Judge Cooper, at page 215; decision affirmed and opinion of Judge Cooper adopted, 185 USPQ 437 (US Ct Cls 1975).

mechanical details still need to be worked out, as long as it could be worked out without the exercise of inventive skill.³³

The phrase "which permits in practice" in the definition of "invention" in the Act leads to the conclusion that this level of conception has to be reached en route to the solution for it to be considered an "invention". The inventor may acquire the assistance of someone with mechanical skills to help him construct the machine and put it in concrete form. This assistance, however, will not make the engineer a co-inventor.³⁴ Therefore, the fact that he requires the assistance of some one else to help him refine it mechanically will not mean that his conception is incomplete.³⁵ The inventor does not have to be a mechanical genius - the conception is in the mental ability and not mechanical or commercial ability. A commercial decision does not constitute invention.³⁶

2.2.2. Solution of a Specific Problem

The solution must relate to a specific problem in the field of technology. The WIPO Commentary to section 112(1) explains that the word "solution" is to be understood in a broad sense. Therefore, the solution need not be a solution to the specific problem which is under investigation.³⁷ This approach should rightly be adopted. The invention need not be related to a pre-solution problem in the sense that there has to be a predetermined problem to be solved. A post solution problem, an "answer to an unasked question", in the sense

³³ In re Tansel 117 USPQ 188 (CCPA 1958), *per* Worley, Judge, at page 189, "The Mergenthaler v. Scudder 11 App. D.C. 264 (D.C.C. 1897) decision has been repeatedly cited and approved by this court, ... but we do not construe it as holding that the final size and shape of every part and the location of every nut, screw, and bolt must be exactly foreseen before the conception of an apparatus can be said to be complete. It is sufficient if the inventor is able to make a disclosure which would enable a person of ordinary skill in the art to construct the apparatus without extensive research or experimentation."

³⁴ See later, joint inventorship, para 2.3., *infra*.

³⁵ See Alto Company v. Fish Manufacturing Co. 116 USPQ 331 (D.N.J. 1957), *aff'd per curiam* 116 USPQ 306 (CA.\ 3rd Cir. 1958), Forman, Chief Judge said at page 334, "It is not disputed that Harrison contributed important refinements to the slicing machine mechanism ... But it is exactly the type of refinement that a qualified engineer and designer, such as Harrison claimed to be, can reasonably be expected to make in contrast to the efforts of Schmidt, who was not an engineer by profession. The fact that Harrison's contribution made the machine commercially practicable, however, by no means establishes him as the inventor. ... It is clear that Harrison was called in when Schmidt's progress in developing a cluster-roll slicing machine had reached that plateau requiring a good mechanical engineer. It is also clear that he was not called in and asked, without prior experimentation by Schmidt, to produce a machine which would slice buns in clusters." See also Magnus Harmonica Corp. v. Lapin Products, Inc. 98 USPQ 94 (S.D. N.Y. 1953), *per* Conger, District Judge, at pages 99, "I do not think anyone will deny that an inventor may employ a mechanic to assist him in applying his conceptions without making him even a co-inventor."

³⁶ See Biogen Inc. v. Medeva plc. [1995] RPC 25, at page 91; [1995] FSR 4, at page 34 (CA), *per* Hobhouse L.J.

³⁷ The Commentary gives the example of a solution to solve the problem of providing cooking utensil which can be taken from a refrigerator and placed in an oven, and vice versa, without damaging the utensil, as a spin-off from researches into the development of a material capable of withstanding the extreme temperature differences encountered by space vehicles - see WIPO Model Law - Commentary, page 57.

that there is no predetermined problem at hand when the inventor recognises that the solution is an answer to a particular problem which is not the subject of his research or investigation, will equally qualify as an invention. Likewise, in the case where identifying a problem is the inventive contribution, the solution, even though obvious once the problem has been identified, would fall within the definition of an invention.³⁸

So an accidental invention in the sense of a solution presenting itself through the recognition that it is the answer to a problem which was never in contemplation of the inventor at the time when the solution was found will still amount to an invention. A good illustration is to be found in Townsend v. Smith,³⁹ where in the course of investigating some problem with his screw-cutting machine, the appellant discovered that the fault was the result of a wrong set of gears being used, resulting in the threading tool, on the moment of initiating each cut on the screw blank, not starting in the same spot that it formerly did, and making a new mark each time the tool passed over the screw. He immediately conceived the idea that this was the solution required for making double-threaded screws.⁴⁰

2.2.3. In the Field of Technology⁴¹

This last requirement merely emphasises the fact that the patent system is designed to protect inventions related to the technical field and not those relating to the aesthetics or which are of an abstract or intellectual character, as reflected in the list of excluded inventions in section 13.⁴² This requirement has often been stressed in the jurisprudence of the European Patent Convention when the import of Article 52 is considered. The Technical Board of Appeal of the European Patent Office has stressed that the word "invention" requires that the subject matter or activity must have a technical character or gives rise to a technical effect or provides a technical contribution to the art.⁴³ The same is also true in

³⁸ See *infra*, text accompanying footnotes 84 and 85.

³⁹ Townsend v. Smith 4 USPQ 269 (CCPA 1929). It was held that there was a complete conception and reduction to practice of the invention at that time, and hence he was entitled to claim the invention. See Graham, Presiding Judge, at page 271.

⁴⁰ Another example of an accidental invention is seen in PLG Research Ltd & anor v. Ardon International Ltd & ors [1993] FSR 197. See Aldous J., at pages 207-208, "According to Dr Mercer, Mr Hureau made his invention while cleaning a die used for the Netlon process [which produced diamond-shaped nets]. He stopped rotation of the outer die and lowered the inner die to clean it. The extruder continued to pump resin and therefore a horizontal ring was extruded through the opening between the dies. Upon raising the lower die a tube of vertical strands was extruded. He realised that the Netlon die head could be adapted to create an extruded tubular square net by reciprocating the inner die in the direction of the extrusion. The result is a square net with horizontal strands interrupted by horizontal strands."

⁴¹ "Technology" - "the scientific study of the practical or industrial arts" - The Shorter Oxford English Dictionary on Historical Principles, Clarendon Press, Oxford, 3rd Ed., 1987.

⁴² See *supra*, footnote 23.

⁴³ See, for example, Vicom/computer related invention T204/84 [1987] OJ EPO 14; IBM/ Document abstracting and retrieving T 22/85 [1990] OJ EPO 12; [1990] EPOR 98, Technical Board of Appeal, Reasons for the decision 2, "According to Article 52(2) certain subject matter or activities in particular shall not be regarded as inventions within the meaning of paragraph (1) of the Article."

respect of the construction of section 1(2), the equivalent section of Article 52 EPC, of the United Kingdom Patents Act 1977.⁴⁴

2.3. Joint Inventors and Concept of Joint Inventorship

From the above analysis the important element in the determination of an invention is the complete conception. The requirement of the need for a complete conception is very relevant in the context of the determination of who, among the people involved in joint researches, are joint inventors. In theory, persons who have made the various small contribution towards the complete conception of the final solution, and not merely contributing mechanical skills, are eligible to be considered as joint inventors. The Act provides that "where two or more persons have jointly made an invention, the rights to a patent shall belong to them jointly".⁴⁵ No further guidance is provided in the Act as to which persons amongst collaborator should be regarded as having made the invention. However, based on the earlier discussion of the meaning of invention and hence identification of the inventor, and with guidance from decided cases in the United States, it may be possible to construct a definition of joint invention and also some basic rules regarding the existence or non-existence of joint inventorship.

2.3.1. Determination of Joint Inventorship

Although there are several United Kingdom cases in which joint inventorship was an issue, in none of these cases was there an attempt to define in positive terms the meaning of joint

... Whatever their differences, these exclusions have in common that they refer to activities which do not aim at any direct technical result but are rather of an abstract and intellectual character. 3. The requirement that an invention must have a technical character or in other words, must provide a technical contribution to the art is at the basis of a long-standing legal practice in at least the majority of the Contracting States of the EPO."; Esswein/ Automatic programmer T579/88 [1991] EPOR 120, Technical Board of Appeal, Reasons for the decision 3.1.1 ; IBM/ Card reader T854/90 [1993] OJ EPO 669, at page 675; and Sternheimer/ Harmonic vibrations T366/87 [1989] 3 EPOR 131, Technical Board of Appeal, Reasons for the decision para. 2.1.

⁴⁴ See, for example, Fox L.J., in Merrill Lynch's Application [1989] RPC 561, at page 569, "Something further is necessary. The nature of that addition is, I think, to be found in the Vicom case where it is stated: 'Decisive is what technical contribution the invention makes to the known art'. There must I think be some technical advance on the prior art in the form of a new result [e.g., a substantial increase in processing speed as in Vicom]." See also Lux Traffic Controls Ltd v. Pike Signals Ltd [1993] RPC 107, *per* Aldous J., at page 139, "At the heart of many inventions is a discovery which is an excluded matter. What can be patented is the incorporation of that discovery into technology. As Fox L.J., stated (in Merrill Lynch's Application [1989] RPC 561 at 569), something more than the excluded matter is required to enable an invention to be patented. That something extra is a technical contribution to the art", and at page 144, "The invention provides a technical contribution to the known art in that it provides a controller with a one knob setting per set of lights so that it can be quickly and easily operated by unskilled persons. It is not an invention for a system of regulating traffic as such."

⁴⁵ Section 18(3) of the Act.

inventorship.⁴⁶ The exception is the case of Russell's Patent,⁴⁷ where the opinion was expressed that if the parties involved had contributed towards the invention, and had from time to time contributed suggestions, then the invention should be considered as having been made by both parties. Similarly, Whitford J. in Viziball Ltd's Application approved the approach taken by the hearing officer that since the invention involved two essential elements, and since each of the two inventors had contributed one of the elements, the invention should be jointly owned by them.⁴⁸ In Norris's Patent,⁴⁹ the issue was whether the patent was rightly issued to the named sole inventor or whether the referrer was the sole inventor. The court held that the referrer should be considered as a joint inventor together with the patentee. In coming to this conclusion, the court held that the invention involved two distinct and interrelated aspects. It was not shown that the referrer was involved in conceiving the first aspect, the optical aspect. The second aspects, the electronic control aspect, involved two matters, the concept and the electronic arrangements for giving practical effect to that concept. On the evidence, the court held that the referrer had contributed to the design of the electronic system which formed a significant aspect of the invention disclosed in the patent. However, it is not clear from the opinion whether the designing of this electronic means involved more than the use of general mechanical skills, or whether the arrangement in itself was inventive. The applicant, Neely, in Staeng Limited's Patents sought an order naming him as sole inventor of two patents in which one Robertson was named as the inventor. Although the hearing officer held that Neely was the actual deviser, in the sense that he was the one who contributed the idea which led to the invention, he declined to accept that Neely was the sole inventor. This was because the evidence showed that Neely did not come up with the idea "unprompted", and that "Mr Robertson posed the question, and Mr Neely came up with a suggested solution".

⁴⁶ Allen v. Rawson 135 ER 656 (1845) was concerned with whether a person who had contributed in some way to the final form of the invention could be regarded as a joint inventor (see footnote 15 for the facts). There was no discussion in the opinions as to what would constitute joint inventorship. Only negative indications were given, i.e., what would not amount to joint inventorship. However, from the opinion, it is possible to say that where a person made suggestions subordinate to the main conception, and these suggestions do not in any way affect the main principle of the invention, since there was already in existence a complete conception, then the person making the suggestion could not be regarded as a joint inventor.

⁴⁷ Russell's Patent 44 ER 937 (1857). Two persons, Russell and Muntz, applied for patents for the same invention. Russell applied to have the great seal affixed to his letters patent. Muntz, Russell's servant, opposed on the ground that the invention was his, not his master's. The court ruled that the great seal should not be affixed to the letters patent of Russell except on the terms that they should be assigned to a trustee for Russell and Muntz, and Muntz agreeing to abandon his application for his own letters patent. See Lord Cranworth L.C., at pages 938-939, " ... the result of them appeared to be that the petitioner and the respondent ... had both contributed towards the invention, or had independently arrived at the same result... Both of them were engaged in the manufacture to which the patent applied. Both felt the want of such an invention, both were aware of the general principles on which such an invention must proceed, and I have no doubt that from time to time one contributed one suggestion and the other another, so that in the end when, on the 27th of March last, the specification was finally drawn out, it was not in the power of either to state positively, and without doubt, to whom the merit of the invention was to be attributed. It was, in truth, to be ascribed, in some degree, to one, and in some degree, to the other."

⁴⁸ Viziball Ltd's Application [1988] RPC 213, *per* Whitford J., at page 220.

⁴⁹ Norris's Patent [1988] RPC 159, an entitlement proceeding under section 8 (which was later treated as an application under section 37 when the patent was granted, see Falconer J., at pages 174-176.

Therefore, both should be considered as joint inventors.⁵⁰ It has to be noted that a factor of significance in the determination of the issue was that the onus of proof lay with Neely to establish his claim to sole inventorship.⁵¹

Useful as the above cases may be, they do not provide detailed analyses of the concept of joint inventorship. Therefore, to get further guidance as to exact parameters of "one of the muddiest concepts in the muddy metaphysics of the patent law",⁵² guidance will have to be sought from the United States, where there is more relevant litigation.

In Altoona Publix Theaters, Inc. v. American Tri-Ergon Corp.,⁵³ Judge Buffington held that "there is a joint invention when two or more persons jointly work or collaborate in devising and putting into practical form the subject matter of the patent in question." Building on this definition Judge Yankwich⁵⁴ was of the opinion that in order for an invention to be truly called a joint invention, two or more inventors must have "collaborated in evolving the patented device". They must have "worked together for a common end, which was, through mutual consultations and suggestions, finally accomplished by the contributions and united efforts of the collaborators." Another pertinent description of joint inventorship can be found in the case of Monsanto Co. et al. v. Kamp et al.,⁵⁵ where Holtzoff, District Judge, said that a joint invention "is the product of collaboration of the inventive endeavours of two or more persons working towards the same end and producing an invention by their aggregate efforts". He further held that to constitute a joint invention, it is necessary that "each of the inventors work on the same subject matter and make some contribution to the inventive thought and to the final result."

The crux of all these descriptions, therefore, is that before there is the entire conception of the invention, there must have been a voluntary pooling of ideas and suggestions, and through these contributions and efforts, the final concept is formulated.⁵⁶ A case in point to

50 Staeng Limited's Patents [1996] RPC 183, in the Patent Office, decision of Dr Ferdinando, at pages 188-190.

51 Staeng Limited's Patents [1996] RPC 183, in the Patent Office, decision of Dr Ferdinando, at pages 189 and 190. This point is important because normally the person who poses a problem to the inventor is not considered a joint inventor - see *infra*, para. 2.3.3.b.

52 Mueller Brass Co. v. Reading Industries 176 USPQ 361 (E.D. Pa. 1972), *per* Newcomer, District Judge, at page 372.

53 Altoona Publix Theaters, Inc. v. American Tri-Ergon Corp. 22 USPQ 8 (CCA 3rd Cir. 1934), *per* Buffington, Circuit Judge, at page 11.

54 Pointer v. Six Wheel Corporation 83 USPQ 43 (CA 9th Cir. 1949), *per* Yankwich, District Judge, at page 47.

55 Monsanto Co. et al. v. Kamp et al. 154 USPQ 259 (D.D.C. 1967), *per* Holtzoff, District Judge, at page 262.

56 Pointer v. Six Wheel Corporation 83 USPQ 43 (CA 9th Cir. 1949), *per* Yankwich, District Judge, at page 47, "And the product of the joint endeavour is a joint invention when ... 'before the entire conception of the invention by one inventor, another meets him and by his consent unites with him in exercising inventive skill upon the development and perfecting of the conception.'... Here, there is no voluntary pooling of ideas."

illustrate the importance of the requirement for collaborative efforts between the parties before there could be a joint inventorship is S.W. Farber, Inc. v. Texas Instruments, Inc.,⁵⁷ where the court held that the inventor of an existing element which went into making the patented combination was not a joint inventor. Similarly, a mere teacher of the prior art will also not qualify as a joint inventor.⁵⁸ The same applies where the invention involves an improvement of a prior device. The prior inventor will not be regarded as a joint inventor together with the inventor of the improvement invention.⁵⁹

From the above definition, it will be seen that the parties involved may not have started on the project at the same time. One may have started at an earlier time, and the other may have started before, at the same time, or after the first. They may initially not have been aware of the efforts of each other. However, if they got together before the final concept is formulated, and, pooling their ideas and resources, a solution is found to the problem they were researching into, there will be joint inventorship.⁶⁰

⁵⁷ S.W. Farber, Inc. v. Texas Instruments, Inc. 135 USPQ 394 (DC Delaware 1962), *per Steel*, District Judge, at page 398.

⁵⁸ See O'Reilly v. Morse 56 US 62, at 109; 14 Law Ed. 601, at 622 (US Sup. Ct 1853), "Neither can the inquiries he made, or the information or advice he received, from men of science in the course of his researches, impair his right to the character of an inventor. No invention can possibly be made consisting of a combination of different elements of power, without a thorough knowledge of the properties of each of them, and the mode in which they operate on each other. And it can make no difference in this respect, whether he derives his information from books, or from conversation with men skilled in the science." See also Monsanto Co. et al. v. Kamp et al. 154 USPQ 259 (D.D.C. 1967), *per Holtzoff*, District Judge, at page 263.

⁵⁹ See, for example, Pointer v. Six Wheel Corporation 177 F.2d 153; 83 USPQ 43 (CA 9th Cir. 1949), *per Yankwich*, District Judge, at page 47, "Here, the only basis for the claim of joint invention lies in the fact that the Knox device was an addition to, and an improvement upon, the Stebbins structure. If that were enough to make the invention joint, every 'improvement' which is claimed solely by the improver could be invalidated upon showing that it was grafted upon a prior structure. And the great body of improvement patents, which represents, perhaps, the most important contribution to patents in the field of mechanics could be entirely destroyed. In truth, the improver could be compelled to take in the inventor of the prior structure, whether his invention was merely disclosed in a patent or actually reduced to practice, lest some one, in the future, seek to invalidate the improvement patent upon the ground that it was not his sole invention. This is not the law."

⁶⁰ McKinnon Chain Co. v. American Chain Co. 268 F. 353 (CCA 3rd Cir. 1920), Wooley, Circuit Judge, at pages 354-360, "[T]he controlling issue ... is whether the invention was the sole invention of Coulter, the sole patentee, or was the joint invention of Coulter and Hoff, the latter being superintendent of one of the defendant's mills. ... From this evidence we make certain findings of fact. One is, that Hoff was the first to conceive the principle of simultaneous and successive arm movement mechanism. Another is, that later Coulter became possessed of the same idea, either from Hoff or from himself. ... The machine then contained in combination Hoff's conception and what we have assumed was Coulter's conception, so combined and interrelated that the presence of each was indispensable to the functioning of the other, for without either the machine would not work. As both Hoff and Coulter had at one time, the crucial time, worked together for a common end, which was finally accomplished by the contributions and united efforts of both, we are of opinion, after applying familiar law to the facts, that the invention was the invention of both, and was, therefore, joint invention." See also General Motors Corp. v. Toyota Motor Co. 667 F.2d 504; 212 USPQ 659 (CA 6th Cir. 1981) - a prior conception that is modified as a result of collaborative effort may become conception of a joint invention.

The contribution made by a person claiming to be a joint inventor needs to be a conceptual contribution as opposed to mere mechanical contribution. This was stressed in Pointer v. Six Wheel Corporation.⁶¹

However, there may be a situation when two or more persons may not consciously have embarked on a scheme to invent something. For example, in the course of a casual conversation, some one may have brought out a particular problem, or the need to bring about a particular desired result. Assume that from this point there were mutual suggestions and contribution from each member of the group to find out a solution for the problem posed, and through such "brain storming" a solution is found. Could members of this group be considered as joint inventors? Admittedly there do not seem to be any reported decisions with respect to the scenario described above. However, the case of Polye v. Uhl,⁶² concerning an appeal by the junior party Polye from a decision of the Board of Patent Interferences awarding priority of invention of the five counts in issue to the senior party Uhl, neatly illustrates the problem envisaged above.⁶³ Both the parties involved were working for non-related employers. Prior to the time when the invention in issue was made, Polye had been engaged in finding a solution to the problem of how to prevent the accumulation of hydrogen gas in the sealed electrolytic switch envelope. The gas built up a pressure sufficient to cause the sealed envelope to burst. Polye had been considering the use of several different types of hydrogen absorbers. In the course of a conversation with his neighbour, Uhl, in Uhl's house, the problem confronting Polye was casually brought up. Uhl suggested the use of an unsaturated organic compound, in particular, allyl alcohol. Following this, Polye conducted tests on switches using Allyl alcohol in the electrolyte which tests resulted in a complete and successful reduction to practice of the invention in issue in September, 1958. On the issue of whose invention was reduced to practice, the Court of Customs and Patent Appeals reversed the finding of the lower court and awarded priority to Polye. Of interest for present purpose, however, is the comment of the court regarding the contribution of Uhl. The court held that the invention involved more than the mere general suggestion made by Uhl to Polye to use Allyl alcohol as a hydrogen getter, as the additional limitations in the counts related to features which were not disclosed by Uhl to Polye. These limitations resulted from the work done by Polye and under his supervision

61 Pointer v. Six Wheel Corporation 83 USPQ 43 (CA 9th Cir. 1949), *per* Yankwich, District Judge, at page 47, "And the produce of the joint endeavour is a joint invention when, ... before the entire conception of the invention by one inventor, another meets him and by his consent unites with him in exercising inventive skill upon the development and perfecting of the conception." See also Kirby, P., "The Claim-by-Claim Approach", Transactions of the Chartered Institute of Patent Agents, Vol. LXXXIII, Session 1964-65, page C69, at page C81.

62 Polye v. Uhl 140 USPQ 584 (CCPA 1964), *per* Judge Smith, at pages 586-588.

63 Polye v. Uhl 140 USPQ 584 (CCPA 1964). At the time the invention in issue was made, Polye was in the employ of Bendix Aviation Corporation. The Polye application, filed January 28, 1960, was entitled "Electrolyte for a sealed liquid level current control device". Uhl, at the time of the filing of his application, on February 12, 1959, was a chemist employed by American Cyanamid Company. Uhl's application had since matured into US patent granted March 8, 1960, entitled "Level Switches".

in building and testing the switches in issue. The most that could be said of Uhl's contribution was that "he had the intellectual notion that Allyl alcohol could be added to the switch electrolyte, and that it would probably act as a hydrogen getter." Then citing Agawam Woolen Co. v. Jordan and Land v. Dreyer, the court held that there was no showing that Uhl invented or suggested the entire invention as embodied in the combination of elements claimed in the counts in issue. His suggestion to use Allyl alcohol in the electrolyte was not a conception of the entire invention of the counts but was the "mere existence of an intellectual notion that a certain thing could be done, and if done, might be of practical utility." At most, what Uhl did was to render partial aid to Polye. His idea was not "complete and operative and such as would enable a person skilled in the art to reduce the conception into practice without any further research or exercise of the inventive skill."

It is clear from the above discussion that the whole issue was centred on who should be regarded as the inventor of the patented device. The issue was on sole inventorship, whether it be Polye or Uhl. It is submitted that the decision would have been different if the case was argued on the basis of joint inventorship. Since it was accepted that Uhl had rendered partial aid towards the conception of the entire invention, he would have answered to the description of a joint inventor had the issue been argued on this basis. It is submitted that in principle, there is no reason why those who have contributed towards the realisation of the invention should not be deemed to be joint inventors. The collaboration need not have to result from a formal arrangement, but could result from an informal setting. However in this kind of situation there will be problems associated with ownership of the patent granted on the invention. It would be hard on the employer of someone in the same situation as Polye that he would have to share the ownership of the invention with Uhl, with whom he had no knowledge of, and of whom he may not even have known. There would also be the question of whether an employee has the authority to bind the employer to a legal relationship with a third party without the knowledge and consent of the employer. Hence the need to stress the element of mutual agreement to collaborate in the definition of joint inventorship. In the above situation, since there was no mutual agreement to collaborate, joint inventorship would not exist, despite the contribution of Uhl, his contribution being deemed to be gratuitously given. However, in principle, the mutual agreement need not be formally based.

The above definitions still do not help in the determination of joint inventorship in specific situations where the parties involved may have participated in a project which gives rise to an invention, but where their involvement may not be clear-cut. The case law, however, sheds considerable light on the difficult issues relating to the nature and extent of involvement in questions of joint inventorship.

2.3.2. Amount of Conceptual Contribution Required

Joint inventorship is present when two or more persons collaborated together to conceive a solution to a problem. Each person in this inventive entity has contributed in some way to the final formulation of the conception of the invention. However, further analysis of the respective "contributions" needs to be carried out before one can conclude that the several contributors are joint inventors of a particular invention. The first question is the amount of contribution that should be put in by each one of them to qualify for joint inventor status. Should there be a certain threshold of contribution to qualify? Fortunately the courts have adopted a pragmatic approach for the resolution of this problem. In a refinement to the above description of joint inventorship, Judge Holtzoff in Monsanto Co. et al. v. Kamp et al.⁶⁴ clarified the role, amount and extent of contribution required from each of the co-inventors. He said that "each needs to perform but a part of the task if an invention emerges from all of the steps taken together. It is not necessary that the entire inventive concept should occur to each of the joint inventors, or that the two should physically work on the project together. One may take a step at one time, the other an approach at different times. One may do more of the experimental work while the other makes suggestions from time to time. The fact that each of the inventors plays a different role and that the contribution of one may not be as great as that of another, does not detract from the fact that the invention is joint, if each makes some original contribution, though partial, to the final solution of the problem." This, then is the answer to the popular misconception that for a joint invention to arise, the parties must work side by side, thinking out the same idea, and that there was no part of the invention which was not made by all of them.⁶⁵ The above case further clarifies that for joint inventorship to arise there is no requirement for unity of time or place or contribution.⁶⁶ The judge in Consolidated Bunting Apparatus Co. v. Woerle⁶⁷ admirably expressed it thus:

⁶⁴ Monsanto Co. et al. v. Kamp et al. 154 USPQ 259 (D.D.C. 1967), *per* Holtzoff, District Judge, at page 262.

⁶⁵ See Bowtell, P.L., "The True and First Inventor", Transactions of the Chartered Institute of Patent Agents, Vol. LXXVI, Session 1957-58, page C75, where at page B103, Mr A.E. O'dell, a participant during the discussion, mentioned that United States examiners seemed to approach joint inventorship on this basis. He, Mr O'dell, described this as nonsense.

⁶⁶ See also DeLaski & Thropp C.W.T. Co. v. Wm. R. Thropp & Sons Co. 218 F. 458, at 464, (D.N.J. 1914), *aff'd*, 226 Fed. 941 (CCA 3rd Cir. 1915), "In order to constitute two persons joint inventors, it is not necessary that exactly the same idea should have occurred to each at the same time, and that they should work out together the embodiment of that idea in a perfected machine. The conception of the entire device may be due to one, but if the other makes suggestions of practical value, which assisted in working out the main idea and making it operative, or contributes an independent part of the entire invention, which is united with the parts produced by the other and creates the whole, he is a joint inventor, even though his contribution be of comparatively minor importance and merely an application of an old idea." The decision of the District Court in that case was affirmed by the Court of Appeals for the Third Circuit, in an opinion by Judge Woolley. He stated in Wm. R. Thropp & Sons Co. v. De Laski & Thropp C.W.T. Co. 226 F. 941 (CCA 3rd Cir. 1915), at 949, that, "In a machine containing as many elements as this one, it is not to be thought nor by the law required, that the inventive conceptions of two inventors shall develop simultaneously. One may conceive a general or imperfect outline of an entirely novel thing, which, without the conception of another developing it and giving it body, might never amount to

"When two persons are jointly engaged in the work of invention, it must always be extremely difficult to determine how much of the successful result is due to each. The mere fact that two or more persons unite in an application for a patent as the product of their joint inventive effort, certainly creates a very strong presumption that the device is the result of their united ingenuity. It may be that the conception of the entire device is due to but one of them; but the other makes a suggestion of practical value in working out the idea, and making it operative. But that suggestion may be the very thing that the first failed to think of, and which was need to make the conception a success."

It must not be thought that the contribution of each person claiming joint inventorship must be something that is novel *per se*. This is not so, since the suggested incorporation of an old feature or element into the nascent invention may be the turning point which leads to achievement of the final conception. In a similar vein, it is not necessary that each of the contributions should of itself be inventive. It may be that a particular idea, even though not inventive, is the spark which leads to the solution sought after. It can then be said that, but for that uninventive contribution, the final solution may not have been arrived at by the process of lateral thinking. What is important is that these ideas are essential progression to the completion of the final inventive concept.⁶⁸ This is particularly so where the contributions of individual members of a team, taken separately, have no inventiveness, but when combined together is clearly new and inventive and, therefore, patentable, a good example being in the case of a combination patent.

It would seem to follow from the above that when the invention is a "single idea" type invention, there can not be joint inventors involved in conceiving it.⁶⁹ Kirby argues that a

invention; but if the conceptions of one supplement and complement the conception of the other, the result might be invention, and therefore joint invention."

⁶⁷ Consolidated Bunting Apparatus Co. v. Woerle 29 Fed. 449 (C.C.N.D. Ill. 1887), quoted in Tresansky, J.O., "Inventorship Determination", (1974) 56 JPOS 551, at 567.

⁶⁸ In the words of counsel in Staeng Limited's Patents [1996] RPC 183, at page 189, one may have contributed "the spark that ignited the fire", however, both "were blowing on the fire". In such a situation, both should be considered as joint inventors.

⁶⁹ See the statement of the principle in Welsbach Light Co. v. Cosmopolitan Incandescent Light Co. 104 F. 83 (CCA 7th Cir. 1900), *per* Woods, Circuit Judge, at page 86, "In his testimony one of them had said that the first thought of overcoming the difficulty about transporting mantles by dipping the mantle into a liquid was his; that he thought of it one night in bed; that the next day he tried it with paraffin; ... The patent contains two claims. The first, which is in suit, is for a single thought, the described improvement in strengthening incandescent mantles, consisting in coating the completed mantle with paraffin or other suitable material. That thought might well have come to one when in bed, and have been put to the practical test the next day, as testified. It is difficult to apprehend how two could have shared in the conception. The second claim, however, is distinctly different. It is for a method of forming incandescent mantles, consisting of a number of steps, the combining of which, to produce the desired result, may well have been the joint achievement of two or more minds."; and Quincey Mining Co. v. Krause 151 F. 1012 (CCA 6th Cir. 1907), *per* Lurton, Circuit Judge, at page 1017, "In describing their invention, the specifications include as one element of their device 'a descending conduit or passage, E, leading out through one side of the mortar.' .. It is next said that the evidence tends to show that this idea of placing the outlet inside of the mortar was the thought of but one of the patentees, and therefore could not be the subject of a joint patent. If a claim covered but a single idea, it would be difficult

claim which defines an invention of the "single idea type" must be a sole invention and that, therefore, there cannot be joint inventorship, citing Quincey Mining Co. v. Krause et al. and the Welsbach case.⁷⁰ However, as has been correctly pointed out, depending on the circumstances, even a "single idea" type of invention could be the result of joint inventorship.⁷¹

2.3.3. Contributions Not Constituting Joint Inventorship

2.3.3.a. Doctrine of employee improvement

It is not all suggestions made by one person to another which will entitle the person making the suggestions to be considered as a joint inventor. A distinction has to be made between whether the suggestions are subordinate suggestions which merely provides an alternative method of carrying out the invention in practice, albeit more efficiently, and one which is critical to the actual working of the invention.⁷²

The UK case of Allen v. Rawson,⁷³ was concerned with whether a person who had contributed in some way to the final form of the invention could be regarded as a joint inventor. At first instance Erle J. observed to the jury that "if a person has discovered an

to conceive how it could be patented by two; but, when a claim covers a series of steps or a number of elements in a combination, the invention may well be joint, though some of the steps or some of the elements may have come as the thought of but one. Such is the invention here patented, and it would not be fatal to this patent if the fact is that Krause, Sr., gave birth to the best thought connected with a combination claim, which covers more than the place of the location of the discharge outlet. This distinction is drawn in Welsbach Light Co. v. Cosmopolitan Incandescent Light Co., 104 Fed. 83, 86."

⁷⁰ See footnote 69 for citations.

⁷¹ Kirby, P., "The Claim-by-Claim Approach", Transactions of the Chartered Institute of Patent Agents, Vol. LXXXIII, Session 1964-65, page C69, at page C79. As was rightly pointed out by a participant, Mr C. W. Morle, at page B144-145, "Mr Kirby gives as an example of the "single idea" the Welsbach case of dipping the mantle in paraffin. On the face of it that seems to be a single idea, but one man may have said, "If we dip it in something it may be all right," and another may have said, "Yes, and I think paraffin will do." We can state that it is a single idea only if we know the circumstances in which the invention took place. In reply, Kirby conceded, at page B153, that this was often more dependent on the circumstances that gave rise to the invention, rather than being something inherent in the inventive idea itself. Contra the illogic of allowing the mental act of one brain to be credited to more than one body mentioned in Phillips, J. and Firth, A., Introduction to Intellectual Property Law, 2nd Ed., Butterworths, London 1990, at page 57.

⁷² See, for example, Allen v. Rawson 135 ER 656 (1845). See also, Smith's Patent (1905) 22 RPC 57, *per* Buckley J., at page 61, adopting the approach in Allen v. Rawson. "Now beyond that, supposing that Smith did make ... in the course of the elaboration of this thing some trifling suggestions from time to time, as to what should be done by way of altering the model and working out the conception which Youtlen had in mind, is he entitled to that? ... Even if Smith did take some small part in making some suggestions as to the way of carrying this out, those are not matters which entitle him to take out a patent in respect of them. It is quite clear from all the materials in the case that Youtlen was the moving spirit, the dominant person. Youtlen prepared the draft specification. ... He was the person who was conceiving the idea, and presenting the idea which was only worked out through the instrumentality of Smith."; Goddin and Rennie's Application [1996] RPC 141 (Court of Session), *per* Lord Cullen, at pages 178-180.

⁷³ Allen v. Rawson 135 ER 656 (1845), at pages 659-663. For the facts, see footnote 15.

improved principle, and employs engineers, or agents, or other persons, to assist him in carrying out that principle, and they, in the course of the experiments arising from that employment, make valuable discoveries accessory to the main principle, and tending to carry that out in a better manner, such improvements are the property of the inventor of the original improved principle, and may be embodied in his patent; and, if so embodied, the patent is not avoided by evidence that the agent or servant made the suggestion of that subordinate improvement of the primary and improved principle."⁷⁴ On appeal, the Court decided unanimously in favour of the patentee. The substance of the judgement is that when the conception of the invention is complete without the improvements suggested, which merely enables the conception of the inventor to be more easily carried into effect, the inventor has the right to adopt them without having to join the persons suggesting the improvements as joint inventors.⁷⁵

This doctrine was reiterated in the US case of Agawam Woolen Co. v. Jordan,⁷⁶ where the Supreme Court, relying on Allen v. Rawson held that an employee engaged in experiments to perfect another's concept does not become a co-inventor even if he suggests an improvement, unless the improvement is so significant as to amount to "a complete invention" in and of itself. The above two cases thus stand for the proposition that a person can not be regarded as a joint inventor merely because he makes a suggestion included in

⁷⁴ Allen v. Rawson 26 LondJ 269 (1845), at page 283.

⁷⁵ Allen v. Rawson 135 ER 656 (1845), *per* Tindal C.J., at pages 665-7, "The real question is, whether or not the improvements suggested by Shaw and Milner were of such a serious and important character as to preclude their adoption by Williams as parts of his invention. ... The patentee, in his specification, after describing the double or compound revolving apron, thus refers to that which is called Shaw's suggestion... This is, obviously, a mere matter of convenience suggested to and adopted by the inventor. It would be difficult to define how far the suggestions of a workman employed in the construction of a machine are to be considered as distinct inventions by him, so as to avoid a patent incorporating them taken out by his employer. Each case must depend upon its own merits. But, when we see that the principle and object of the invention are complete without it, I think it is too much that a suggestion of a workman, employed in the course of the experiments, of something calculated more easily to carry into effect the conceptions of the inventor, should render the whole patent void." The other judges agreed that the improvements of Shaw and Milner were subordinate to the main principle of William's invention and that Williams had the right to adopt and embody them in his own specification. See Maule J. and Cresswell J., at page 666.

⁷⁶ The facts at issue in Agawam Woolen Co. v. Jordan (1868) 74 US (7 Wall.) 583, were not dissimilar from those in Allen v. Rawson. Goulding, the original patentee, had devised apparatus which enabled a spinning jenny to receive filament in the form of continuous roving from a succession of carding machines. Previously the filament had been formed into short rolls which had been spliced using a machine called a billy. Goulding eliminated the billy and used rotating tubes to condense and draw off filaments from the carding machines. Winslow, an employee, was alleged to have introduced certain spools or bobbins for winding the roving instead of the cans from which the roving was formerly spun. Goulding accepted the arrangement as a useful auxiliary part of the invention once a traverser (not suggested by Winslow) had been added to enable the spool to be evenly wound with the roving. The Supreme Court agreed with a submission that although the arrangement purportedly suggested by Winslow was valuable and aided in the accomplishment of the desired result, it could not be regarded as such a material part of the invention described in the subsequent patent as to confer any right upon the party who made the suggestion to claim to be the inventor, or a joint inventor, of the improvement. See Mr Justice Clifford in 74 US 583, at pages 602-603, and 606.

the subject of some sub-claims, but only if he is in part responsible for the main principle of the invention.

In Duplex Envelope Co. Inc. v. Denominational Envelope Co. et al.,⁷⁷ the court declared a patent invalid because one of the inventors named in the granted patent was not considered a joint inventor, he having only contributed a very general suggestion that some sort of device should be used to prevent overrunning when the machine was running at high speed. There was no further suggestion as to how this could be carried out in practice. This seems to conflict with the principle discussed earlier that conceptual contribution is an indication of a joint inventorship, as long as the other elements are present. However, an analysis of the case shows that the court was making an overly broad general statement of the principle involved. The finding of facts adopted by the judge shows that the complete general inventive concept had already been achieved by the sole inventor before the suggestion was made. The finding of a sole invention would, therefore, conform with the principle in Allen v. Rawson and Agawam.⁷⁸

2.3.3.b. Presenting problem to inventor

It may happen that one person tells another that he would like to have an invention to achieve some result, or that a certain line of inquiry should be undertaken. If the second person, based on that prompting, then finds the solution to obtain that result, the invention will be deemed to be made by a sole inventor, the second person, and not the result of joint inventorship between the first and second person. This was neatly illustrated in the case of Marshall and Naylor's Patent,⁷⁹ where a petition was issued to revoke a patent granted to the person who had asked another person to invent a device which could perform a certain result. The invention was conceived without any conceptual contribution from the person making the request. The patent was ordered to be revoked on the ground that the workman was the inventor. A similar situation was present in Jackson's Patent.⁸⁰ The petition to

⁷⁷ Duplex Envelope Co. Inc. v. Denominational Envelope Co. et al. 27 USPQ 325 (CCA 4th Cir. 1935), *per Soper*, Circuit Judge, at page 332.

⁷⁸ Duplex Envelope Co. Inc. v. Denominational Envelope Co. et al. 27 USPQ 325 (CCA 4th Cir. 1935), *per Soper*, Circuit Judge, at page 329.

⁷⁹ Marshall and Naylor's Patent (1900) 17 RPC 553. Walsh presented a petition for revocation of a patent granted to Marshall and Naylor on the ground that he was the first and true inventor, and they had obtained the grant in fraud of his rights. Walsh was a workman in the employment of a company of which Marshall and Naylor were directors. Marshall had asked Walsh to invent a tap which would ... give hot, warm or cold water as required. Walsh worked up the invention, made the drawings and models, and perfected the tap in all details. Marshall paid him 10 pounds for overtime work on the models. See Farwell J., at page 555, "I am clear in this case that all that happened as far as regards Mr Marshall was that he came ... with the idea that he would like to have some invention, not even specifying if it was to be a valve - some contrivance or invention - by which water should be heated by steam. The whole of the merit of the invention was due to that very intelligent individual I have seen in the box. I have not the least doubt it is his invention from the first to the last. The result is I must make the Order... to revoke."

⁸⁰ Jackson's Patent (1905) 22 RPC 384, *per Farwell J.*, at page 387, "Mr Brock ... said this: 'I asked only to have the crinkled paper made ... The method of producing the paper was his business, not

revoke was refused on the evidence showing that the applicant, Brock, had merely communicated to Jackson, the named inventor, the possibility of producing something having certain desired features. How that effect was to be achieved was left entirely up to Jackson without any further ideas from Brock. The same approach is shown in the United States cases. In The Garrett Corporation v. United States,⁸¹ the court held that one who merely suggests an idea of a result to be accomplished, rather than the means of accomplishing it, is not a joint inventor.⁸²

The above rule is subject to one exception, however. This is where to identify the problem requires an inventive step, or to put it in another way, the perception of a problem contributes to the required inventive step for the purposes of patentability. In this special situation, the means of answering the problem once posed are obvious to a man skilled in the art.⁸³ This was, in fact, the line adopted by defence counsel in Elias v. Grovesend Tinplate Co.⁸⁴ The defence failed merely because the court held that if that was the case,

mine. I made no suggestion as to that. I said if he succeeded in making the paper and uniting it with cloth it would be a very valuable combination.' This is the alleged communication of the invention. Then as to the interview of the 16th February, in cross-examination all that he suggested was that the adhesive should be put on the cloth and not on the paper. The result seems to me to be this - that the buyer of a large firm (Brock) goes with his father-in law, who is engaged in the paper-making trade, to see a paper maker, and they tell him what they want; and it is said that, because they tell him what they want, they have therefore communicated to him a valuable invention. The fact that there was nothing there that Mr Brock at the time thought he had invented is perfectly apparent from his own letter of the 18th May." See also Ralston's Patent (1909) 26 RPC 313, where the person who had presented a problem to another to solve was held not to be the inventor in the absence of any evidence that indicated that he had contributed in any other way to the conception of the solution.

81 The Garrett Corporation v. United States 162 USPQ 569 (US Ct Cls 1969), *per* Davis, Commissioner, at page 573.

82 See also Solvex Corp. v. Freeman et al. 199 USPQ 797 (W.D. Virginia, 1976), *per* Turk, Chief District Judge, at page 799.

83 Boeing/Spoiler device T225/84, 1986] 5 EPOR 263, Technical Board of Appeal - Reasons for the decisions 8.2., "As a consequence, none of the cited documents gives any indication of a way in which the problem would be solved and, more importantly, the perception of the problem has to be considered as being the main contribution of the inventive merits of the solution claimed." 8.4., "As soon as the solution has been exposed, it falls within the normal considerations of the man skilled in the art to arrange and set the logic control means in order to obtain that a predetermined roll command signal produces a predetermined roll response and the detail of the means for obtaining this result do not need to be introduced in the main claim". See also Timely Products Corp. et al. v. Arron. et al. 187 USPQ 257 (CA 2nd Cir. 1975), *per* Conner, District Judge, at page 261, "This is one of the not infrequent cases where the inventor's real contribution lies in visualising a desirable result, which once perceived, is easily realised. There may be cases where the perception of a desirable and easily achievable goal raises the overall level of ingenuity required above the statutory minimum, but this is clearly not one of them."; and Plantronics, Inc. v. Roanwell Corp. 187 USPQ 489 (S.D. NY 1975) *per* Conner, District Judge, at page 502, "Of course, it does not negate patentable invention merely to establish that a desirable goal, once perceived, could have been reached by the exercise of routine skill. Patentable ingenuity may be involved in the perception of the goal. ..."

84 Elias v. Grovesend Tinplate Co. (1890) 7 RPC 455, Master of the Roll, Court of Appeal, at page 465, "Mr Terrell said ingeniously, ... 'Yes, but then directly Elias has told him his idea, after it has come into his head, it follows, as a matter of course, the machine must be what it is.' But that is fatal to his first point. He is out of one pot into another, so to speak. That is fatal to him, because that shows then that there was not invention - that his idea was a mere adapting of the machine to the new idea. The argument against the second point is fatal to the first. Therefore he is in that unfortunate dilemma."

then the invention would not be patentable for obviousness. However, the perception of a problem can only contribute to inventive step for the purposes of patentability if the problem is of a technical nature.⁸⁵

2.3.3.c. Merely following the instruction of someone else

Similarly, a person who merely follows the instruction of another in performing experiments and collating the results, without more, cannot be regarded as a joint inventor. Since invention lies in the conception of an idea, persons involved in such mechanical tasks obviously cannot be said to be involved in the act of inventing. In Standard Motor Co.'s Patent,⁸⁶ the claim by the petitioner for revocation, Hirst, that he was in fact the first and true inventor was rejected on a finding that Hirst had merely been following the instructions given to him in designing the mechanism. Other cases where the inventor was held to be the man contributing the idea, rather than the man who put it into practice, are Smith's Patent and Sirdar Rubber Co. v. Wallington, Weston & Co.⁸⁷ A similar approach on this issue can be seen in the United States.⁸⁸ The same applies in the case of a person who is involved in overseeing the research directed to be conducted by another.⁸⁹

⁸⁵ See Esswein/ Automatic programmer T 579/88, [1991] EPOR 120, Technical Board of Appeal - Reasons for the decision 3.1.1, "Solving a problem of an abstract, commercial or recreational nature has no immediate influence on the progress of technology and it is significant that the invention mentioned in Article 52(2) EPC constitute the solution to such problems, whose formulation may nonetheless require the exercise of an inventive step. It is therefore clear from these provisions that the European legislator intended that the problem to be solved be of a technical nature".

⁸⁶ Standard Motor Co.'s Patent (1957) RPC 326, *per* Wynn-Parry J., at page 330, "I find as a fact that between them [Grinham and Turner] they were the inventors, and that the petitioner had in his own mind exaggerated the work which he did in the matter, so that he has become quite immovably persuaded that he was the author of the invention. I am satisfied that there is no evidence on which I could act to find that he was the author of any subsidiary part of the combination such as the use of a gear box with a top cover. In my view, he acted from first to last in carrying out instructions given to him." See also Norwood's Patent (1895) 12 RPC 214, *per* Stirling J., at pages 226-227, on a similar point.

⁸⁷ Smith's Patent (1905) 22 RPC 57, and Sirdar Rubber Co. v. Wallington, Weston & Co. (1905) 22 RPC 257. Kurtz v. Spence (1888) 5 RPC 161, however, seems to be an anomaly. After holding that one Esilmann, a chemist, in the employ of Messrs. Spence, had contributed ideas leading to the discovery, the court relied on agency principle to hold that the two inventors named, Peter and Francis Spence, were correctly designated as inventors - see Kekewich J., at page 181, "I have no doubt that many stages in the discovery were due to Mr Esilmann alone. To adopt the language of another science, he may be styled the *inventor inveniens* and likewise the *inventor sine qua non*. For all purposes, except that of being the first and true inventor, he was the agent of his employers. His labours were theirs, he worked in their laboratory and with their materials, as well as with their assistance, and the benefits of his discovery morally and legally, belonged to them. Am I bound to hold that the agency stopped short of making his employers really the first and true inventors of this process which he in conjunction with them and for their benefit discovered? I know of no authority compelling me to do this, and, in the absence of authority, principle is in favour of a different conclusion. Messrs. Peter Spence and Francis Spence declared in the usual way that they were the first and true inventors. I have no doubt that they did so honestly, and in my judgement they were right."

This is an odd decision and cannot be correct in principle. No other authorities could be found whereby the agency principle can be used to credit the employer with the mental conception of his employee.

⁸⁸ See, on this point, Mueller Brass Co. v. Reading Industries 176 USPQ 361 (E.D. Pa. 1972), *per* Newcomer, District Judge, at page 372, "On the one hand, it is reasonably clear that a person who

2.3.3.d. Persons involved in the mechanical implementation of the final conception

Similarly, being asked to further refine and construct a mechanical device to implement the conception will not qualify that person to be a joint inventor. The patent system is designed to protect invention and encourage inventors, not to give exclusive rights to a person with mere mechanical or design skills. In Alto Company v. Fish Manufacturing Co.,⁹⁰ the defendants alleged in defence that the patent was invalid because Schmidt, the patentee named in the patent, did not invent its subject matter, the real inventor being one Harrison. In finding for the plaintiff, Judge Forman determined that the issue was whether Harrison was paid to invent a machine to solve a particular problem, or to further refine and adjust a cluster-roll slicing machine already at a certain stage of development. Though it was not disputed that Harrison contributed important refinements to the slicing machine mechanism, such refinements were of the type that a qualified engineer and designer, such as Harrison claimed to be, could reasonably be expected to carry out. The fact that Harrison's contribution made the machine commercially practicable, however, by no means established him as the inventor. Quoting the principle enunciated in Agawam Company v. Jordan,⁹¹ he held that it was clear that Harrison was called in when Schmidt's progress in developing a cluster-roll slicing machine had reached that plateau requiring a good mechanical engineer. It was also clear that he was not called in and asked, without prior experimentation by Schmidt, to produce a machine which would slice buns in clusters. Therefore, Schmidt was rightly named as the sole inventor. In Magnus Harmonica Corp. v. Lapin Products, Inc., the court expressly held that an inventor may employ a mechanic to assist him in applying his conceptions without making him a co-inventor.⁹²

has merely followed instructions of another in performing experiments is not a co-inventor of the object to which those experiments are directed..."

89 Solvex Corp. v. Freeman et al. 199 USPQ 797 (W.D. Virginia, 1976), *per* Turk, Chief District Judge, at page 799, "King engaged Spindletop to work on the project, and Peter Werth, a research scientist, was assigned the project ... His work [Werth's] consisted of producing threads of different flexibility and tensile strength and having these tested. ... King testified that he instructed personnel at Spindletop to test the threads produced by Werth and he then reported to Werth on the results. ... Unquestionably the present record is readily susceptible of the conclusion that King's contribution to the Werth/King patent was the conception of a general idea and oversight of Werth's progress. It is clear that such a contribution may be insufficient to constitute inventorship. (citations omitted)."

90 Alto Company v. Fish Manufacturing Co., 116 USPQ 331 (D.N.J. 1957), *aff'd per curiam* 116 USPQ 306 (CA 3rd Cir. 1958), *per* Forman, Chief Judge, at page 334.

91 Agawam Company v. Jordan 74 US 583 (US Sup. Ct 1868), at page 602 .

92 Magnus Harmonica Corp. v. Lapin Products, Inc. 98 USPQ 94 (SD N.Y. 1953), *per* Conger, District Judge, at page 99, "Much of the defendant's argument under this phase has little merit. For example, that Magnus is not the inventor of the mould but rather Hugg, the mechanic he employed, is. ... I do not think anyone will deny that an inventor may employ a mechanic to assist him in applying his conceptions without making him even a co-inventor."

2.3.4. A Proposed Definition

From a synthesis of the above three definitions and the discussion thereto, it may be possible to formulate a tighter definition of joint inventorship as :

"An invention shall be deemed to be jointly invented when two or more persons collaborated, either expressly or impliedly, to devise the patented invention, and through their mutual consultation and suggestions, contribute towards the complete inventive concept. An invention shall still be deemed to be a joint invention even though (1) the persons involved do not physically work together or at the same time, (2) each does not make the same type or amount of contribution, or (3) each does not make an equal contribution to the subject matter of every claim of the patent."⁹³

2.3.5. Effect of Misjoinder and Non-joinder

Because the statutory scheme in the United States patent system requires that a patent should only be applied for by the inventor, the fact that a non-inventor has been joined in the application (a misjoinder) will result in any patent granted being declared void. Similarly, where one or more of several inventors have not been joined in the application (a non-joinder) the same avoidance of the issued patent will result. To alleviate the harshness of this rule, there are statutory provisions for corrections of errors leading to either a misjoinder or non-joinder.⁹⁴

⁹³ The above definition would have the advantage of consistency with the Malaysian and UK statutory definition of work of joint authorship of copyright works. See, for example, Section 10(1), CDPA 1988, UK, where a "work of joint authorship" is defined as "as a work produced by the collaboration of two or more authors in which the contribution of each author is not distinct from the contribution of the other author or authors." Under section 3, Copyright Act 1987, Act 332, Malaysia, "work of joint authorship" means "a work produced by the collaboration of two or more authors in which the contribution of each author is not separable from the contribution of the other author or authors." Note: The definition of joint authorship given in the Copyright Act 1956, UK, section 11(2), is the same except that "separate" is used instead of "distinct". Copinger and Skone James on Copyright, 13th Ed., Sweet & Maxwell, London, 1991, page 153, note 1, observe that the word "distinct" was in fact used in the equivalent provision of the 1911 Act - s.16(3), and that the dictionary definition of "distinct" is "separate". The concept of joint authorship in copyright law is best enunciated in Najma Heptulla v. Orient Longman Ltd & ors [1989] FSR 598 (H. Ct Delhi), *per* Mr Justice Kirpal, at pages 605-610. At page 608, the Judge said, "It would follow from the aforesaid that if two persons collaborate with each other and, with a common design, produce a literary work then they should be regarded as joint authors", and at 609, "To me it appears that if there is intellectual contribution by two or more persons, pursuant to a pre-concerted joint design, to the composition of a literary work then those persons have to be regarded as joint authors." See also, Stuart v. Barrett & ors [1994] EMLR 448, *per* Thomas Morison, QC, sitting as Deputy H. Ct Judge, at pages 462-463. See generally, Copinger and Skone James on Copyright, 13th Ed., Sweet & Maxwell, London, 1991, at para. 7.2; Laddie, H., Prescott, P., Vitoria, M., *The Modern Law of Copyright and Designs*, 2nd Ed. Butterworths, London, 1995, at para. 11.22; Khaw, L.T., *Copyright Law of Malaysia*, Butterworths, Malaysia, 1994, at para. 5.1.1.

⁹⁴ See 35 USC section 116 (correction of error in naming inventor in patent application) and section 256 (correction of error in naming inventor in granted patent). For the problems associated with the correction of errors for misjoinder or non-joinder, see Roth, D.A., and Luecke, J.E., "The

In Malaysia, misjoinder will not be a ground for invalidation of the patent. This is because by virtue of section 18(1) any person may make an application for a patent, either alone or jointly with another. There is no requirement that an inventor or all inventors must join in the application. Therefore, as long as the patent, or the right to apply for a patent, is owned by the rightful owner, the fact of misjoinder will be irrelevant.

In the case of non-joinder, the Act merely provides in section 22 that where the right to obtain a patent is owned jointly, the patent may only be applied for jointly. Section 18(3) provides that where two or more persons have jointly made an invention, the right to a patent shall belong to them jointly. Breach of section 22 is not expressly made a ground for invalidation. If all the joint inventors have assigned the right to apply for a patent or a granted patent to a third party, or in an employment situation when the invention of the employees is deemed to belong to the employer, the fact of non-joinder in the initial application would not seem to be a ground for invalidation.⁹⁵ This means that under the Malaysian scheme, a defendant is not able to rely on a purely technical defence of non-joinder *per se*.⁹⁶

However, it is submitted that non-joinder will be fatal to validity of the patent where it results in an inventor being deprived of the ownership (in this case, co-ownership) of the patent. Section 56(2)(d), which provides that the patent may be invalidated on the ground that the right to the patent does not belong to the person to whom the patent was granted, may be applicable in this situation. If the patent has not been granted to all the rightful owners, then it does not belong wholly to those who were granted it. It would appear from

Misjoinder and Non-joinder Pitfalls," (1967) 49 JPOS 219. See also generally, Chisum, D.S., Patents, Matthew Bender, Vol. 1, Chapter 2, para. 2.04.

95 See section 56(2)(d) and the proviso to section 56(2A) of the Act, and Chapter 7 - Exceptions, Limitations and Loss of Rights, para. 7.4.1. Note that unlike in the US, where the fact that the patent has been granted to a person who is not the inventor is a ground for a patent being declared void, it is different in the Malaysian context, where the ground is that the right to the patent does not belong to the person to whom the patent was granted.

96 For the problems arising should this technical defence be allowed, see Bowtell, P.L., "The True and First Inventor", Transactions of the Chartered Institute of Patent Agents, Vol. LXXVI, Session 1957-58, page C75, where he discusses the problems of identifying the proper inventors in the light of present day collaborative research. He is of the opinion that in some cases the invention could not be attributed to named individuals. In view of this it would be unrealistic and unfair to place upon the employer, who was beneficially entitled to the patent rights, the burden of nominating individual employee inventors, especially as there may be a risk of invalidity in the event of an inaccuracy or mistake. He suggests that it would be fairer to adopt the concept of a "corporate inventor" with reference to inventions arising out of the general developmental activities of a company rather than the personal initiative and work of one or more individuals. However, it has to be noted that his suggestion was made with reference to the situation under the 1949 Patents Act of the United Kingdom where it was a ground for revocation that a patent was obtained on a false suggestion or representation (section 32(j)). Such a ground is no more available under the Patents Act, 1977. In Carter's Application (1932) 49 RPC 403, it was held that an application to which the true and first inventor was not a party was void, and that the irregularity could not be cured by amendment, since an application in which the true and first inventor was not made a party was not an application within the statute - see the decision of the Assistant-Comptroller at page 404. However, this was a decision under the Patents and Designs Act, 1907. Under section 1(1) of this statute, an application could only be made by a person claiming to be the true and first inventor, either alone or jointly with another person.

the provision that any aggrieved person is entitled to have a patent invalidated on this ground, not merely the person deprived of the initial ownership.⁹⁷ If the patent, although not initially granted to the rightful persons, is then subsequently reassigned to all the rightful owners, this ground for invalidation would then be removed.⁹⁸ This ground of invalidation, may, however, cause injustice because of the difficulty of determining the proper inventors where joint inventorship is involved. It is submitted that a fairer solution would be to allow such a ground, where joint inventorship is involved, to be used only by a non-joined inventor, and only in an entitlement proceedings under section 19.

If there is a non-joinder leading to an inventor being deprived of his right as a joint owner, the deprived inventor should have the possibility of applying to the Registrar or Court for an order to assign the patent to all the persons previously granted the patent, together with the name of the inventor omitted. There is no specific provision in the Act to cover this eventuality. Section 19, mentioned earlier, does not seem to apply directly, being concerned with unlawful derivation of the essential element of the invention from the rightful owner. It is difficult to see how a non-joined inventor who has a claim for joint ownership of a patent can fit his claim under this section, since he may have collaborated in the conception of the invention but may not be able to identify a particular specific element which was contributed by him. A way out of this difficulty would be to add to the power of the court under section 19 to enable it to deal with the question of entitlement to a patent application or patent in the case of joint inventorship and to give it the necessary power to give effect to the determination.⁹⁹

A further addition to the Act may also be desirable to enable an inventor who has not been named as such in the application to apply to the court for a declaration that he is the inventor or one of the inventors. This will be particularly relevant in an employee invention which belongs to the employer. In this situation, the omitted employee will not be disputing ownership of the patent, he is interested in the statutory compensation available to him as an inventor. Under the Act as presently constituted, such an avenue is not available. It is proposed that a section similar to section 13 of the 1977 Patents Act be incorporated.

⁹⁷ Contrast the position under section 72(1)(b) of the 1977 UK Patents Act, which provides that the court or the comptroller may revoke a patent on the application of any person on the grounds, *inter alia*, that the patent was granted to a person who was not entitled to be granted that patent. However, by virtue of subsection (2) of that section, the application may only be made by a person found by the court or the comptroller, on a reference under section 37, to be entitled to be granted that patent. See Dolphin Showers Ltd and Brueton v. Farmiloe and ors [1989] FSR 1, *per* Aldous J., at pages 5-6.

⁹⁸ See section 56(2A) of the Act.

⁹⁹ To do justice between the parties and to ensure that a reasonable opportunity is given for the patent to be exploited should there be a demand for it, the power could be used to order that certain claims be deleted and that the non-joined inventor be allowed to file a new application for the deleted matters. Alternatively, the application is allowed to proceed, or the patent remains in the names of the original applicants, but subject to the non-joined inventor being given certain rights under the patent. For an idea of how the power may be exercised under the UK provisions, see Goddin and Rennie's Application [1996] RPC 141.

2.3.6. Must All the Claims Have the Same Inventive Entity?

This issue has not been the subject of any judicial opinion in the United Kingdom.¹⁰⁰ However, in Goddin and Rennie's Application, despite a finding by the court that two of the claims in the patent application were devised by only one of the two named inventors, there was no mention in the decision of the possibility that this might result in the invalidity of the patent. Instead, an order was made that the patent should be granted in the name of one of the inventors, subject to the condition that the inventor who was responsible for these two claims be given an irrevocable exclusive licence with power to sub-licence under these two claims.¹⁰¹ In the United States two divergent approaches can be discerned. One view is that in an application or patent containing more than one claims, each claim must be the product of the same inventive entity.¹⁰² Failure to ensure that this is so may result in invalidity of the patent. On the other hand there are courts which refuse to follow this approach on the ground that there is no rule of law or practice that joint invention means that all claims in inventions must have the same inventive entity. Therefore, the fact that not all the joint inventors have combined their efforts as to each claim in the patent will not invalidate the patent if "no person was misled to his detriment; no undeserved priority date was obtained; the integrity of the processes of the Patent Office has not been compromised; and the ultimate resolution by the Patent Office as to the issuance of the patent in question is no more advantageous to the applicant than if the applicant had filed separate patents. In short, the 'error,' if any, is too technical and immaterial, as well as innocent, to warrant invalidating an otherwise valid patent."¹⁰³ In SmithKline Diagnostics, Inc. v. Helena Labs. Corp., Judge Nies held that the "all claims" rule was not uniformly accepted as "the substantive law" before the 1984 Act and refused to hold that the patent in issue was invalid merely on that ground alone.¹⁰⁴

In 1984, section 116 of USC 35 was amended. The amendments essentially repudiate the "all claims" rule. The section now provides that inventors may apply for a patent jointly

¹⁰⁰ Kirby, P., "The Claim-by-Claim Approach", Transactions of the Chartered Institute of Patent Agents, Vol. LXXXIII, Session 1964-65, page C69, at page C79, argues that every claim in a patent should have the same inventorship as every other claim and if the claims are found not all to have identical inventorship, they should not appear together in a single patent. However, the authority he cites are all American cases and, as is discussed later, this is particularly important in the American context.

¹⁰¹ Goddin and Rennie's Application [1996] RPC 141 (Court of Session), *per* Lord Cullen, at pages 172, 180-181.

¹⁰² See, for example, Rival Mfg. Co. v. Dazey Products Co. 177 USPQ 432 (W.D. Mo. 1973), *per* Becker, Chief Judge, at page 439, applying DeLaski & Thropp Circular Woven Tire Co. v. William R. Thropp & Sons Co. 218 F. 458, 464 (D.N.J. 1914), affirmed 226 F. 941, 947 (CA 3rd. 1915).; In re Sarett 140 USPQ 474 (CCPA 1964), *per* Judge Rich, at page 479, footnote 7. See generally, Chisum, D.S., Patents, Matthew Bender, Vol. 1, chapter 2.

¹⁰³ See SAB Industri AB v. Bendix Corp. 199 USPQ 95 (E.D. Va. 1978), *per* Bryan, District Judge, at pages 104-105.

¹⁰⁴ SmithKline Diagnostics, Inc. v. Helena Labs. Corp. 8 USPQ2d 1468 (CAFC 1988), *per* Nies, Circuit Judge, at pages 1476-1477.

even though each did not make a contribution to the subject matter of every claim of the patent.¹⁰⁵

The Malaysian Act is silent on this point, as is the 1977 Act of the United Kingdom. However, from the earlier analysis of the issues of misjoinder and non-joinder, it would seem that in most cases, no injustice is done when the same inventive entity is not involved in every claim of a patent. This is particularly so in the case of a joint invention made by employees, which under the Act, belongs to the employer.

It is submitted that the same applies even in a non-employment situation where a particular claim or claims may be the result of an inventive entity which is different from the entity involved in the rest of the claims. If the various inventors have agreed to apply for the patent in their joint names, whether or not with the knowledge that some of the claims may be made by different inventive entities when compared with the rest of the claims, it has to be assumed that the various parties have agreed among themselves as to the right which this separate inventive entity should have in relation to the whole patent, taking into consideration the relative value of the contribution by this entity to the whole value of the patent. No harm is occasioned and it will not lead to a need to file separate application for the particular claim or claims in question.¹⁰⁶

It is only when one of the person in this separate inventive entity has not been joined in the patent application that it becomes problematic. This is because by virtue of his status as an inventor, he has the right to a patent, either solely if he is the sole inventor, or otherwise jointly with the other inventors. In the absence of any agreement, the only remedy would seem to be to seek invalidation of the patent under section 56(2)(b). By virtue of section 56(3), the court in such a proceeding need not declare the whole patent invalid. It has the power to declare that only certain claims or parts of a claim are invalid. Hence, in the above example, the court may declare the part of the claim or claims alleged to be made by a separate inventive entity invalid. However, this may not be the desire, or to the advantage of that inventive entity. The proposed addition to section 19, discussed in para. 2.3.5.,

¹⁰⁵ See Appendix for the amendment. See also Pearne, J.F., "Must Each Inventor Named in a Joint Patent Application Have Made an Inventive Contribution to Each of the Claims Thereof?", (1976) JPOS 205. For analyses of the effectiveness of the amendments, see, Carsten, D.W., "Joint Inventorship Under 35 USC 116", (1991) JPTOS 617; and Fasse, W.F., "The Muddy Metaphysics of Joint Inventorship: Cleaning up after the 1984 Amendments to 35 USC s. 116", 26 Intellectual Property L. Rev. 1994, 83.

¹⁰⁶ In this connection it is relevant to note the comments of Judge Rich in *In re Sarett* 140 USPQ 474 (CCPA 1964), at page 479, footnote 7, "It should be clear that the patent could not legally contain a claim to Sarett's sole invention under existing law because it would not have been the invention of the joint patentees. This rule of law forces the filing of distinct applications in many situations resembling that before us and creates complexities and delays which could be avoided under a less rigid statute."

supra, would enable the court in this situation to order a division of the claim or claims and a grant of a new patent to the separate inventive entity.¹⁰⁷

2.4. Nature of Patents and Patent Rights

There is no attempt at definition in the Act as to the nature of a patent.¹⁰⁸ Similarly, while there are provisions pertaining to jointly owned patent, there is no indication as to how it is to be held by the co-owners or the amount of their respective shares.¹⁰⁹ The only previous Malaysian patent statute which had any mention of the nature of a patent was The Inventions Enactment, 1914, of the former Federated Malay States. Even then, reference to it was made indirectly.¹¹⁰ There was no mention in that Enactment of the type of holding held by the co-owners. However, it would seem from the words of the last part of section 37 of this Enactment, "if any such person dies, his interest in the grant shall devolve on his legal representative", that the grant is held by them as tenants in common. This part of the provision seemed to have followed and was identical to that of section 37(1) of the 1907 UK Act. The Registration of United Kingdom Patents Act, 1951 of Malaya, the Patents Ordinance, 1927 of Sarawak, and the Registration of United Kingdom Patents Ordinance, 1937 of Sabah, the three patent legislation for the component territories of Malaysia prior to the 1983 Act, provided that the holder of a certificate of registration was conferred with the same rights and privileges similar in all respect to those conferred in the United

¹⁰⁷ See, for example, Viziball Ltd's Application [1988] RPC 213 (entitlement proceedings under section 8 of the 1977 Act), where Whitford J., at page 220, after finding that one of the claims in the application in suit (claim 10) was conceived wholly by the applicant, ordered that he be at liberty to have the subject matter of that claim excluded from the application, and that he be allowed to file a patent application for the subject matter of claim 10, such application having the original filing date of the application in suit.

¹⁰⁸ The definitions found in the statutes of the other jurisdictions are not very helpful either. In section 13, Patents Act 1990, Australia, there is a mere allusion to it in section 13(2), which states that the exclusive rights given by a patent are personal property and are capable of assignment and of devolution by law. Section 30(1) of the 1977 Act provides that "Any patent or application for a patent is personal property (without being a thing in action) ...". Section 261 of the United States statute simply provides that "Subject to the provisions of this title, patents shall have the attributes of personal property".

¹⁰⁹ A jointly owned patent can be held in two ways, by the owners holding it as joint tenants or as tenants in common. Before there can be a joint tenancy, the four unities must be present. There must be unity of possession (each co-owner is as much entitled to possession of any part of the property as the other), unity of interest (the owners hold but one estate), unity of title (each of the holder must claim his title under the same document) and unity of time (the interest of each owner must arise at the same time). In the case of tenancy in common, only unity of possession is required. Where property is held as a joint tenancy, on the death of one co-owner, his interest in the property vests in the surviving co-owner or owners. In the case of a tenancy in common, the share of the deceased vests in his personal representative. See generally, Burn, E.H., *Cheshire and Burn's Modern Law of Real Property*, 15th Ed., Butterworths, London, 1994, at pages 213-243, and Tyler, E.L.G., and Palmer, N.E., *Crossley Vaines' Personal Property*, 5th Ed., Butterworths, London, 1973, Chapter 5.

¹¹⁰ See section 50(iii) of this Enactment which states, "... Provided that any equities in respect of the grant may be enforced in like manner as in respect of any other moveable property"

Kingdom.¹¹¹ It is arguable then that by 1949 at least, co-owners held their shares equally as tenants in common since this was statutorily provided by the 1949 Act of the United Kingdom.¹¹² As far as the nature of the patent right is concerned, after the 1st of June, 1978, when the Patents Act 1977 of the United Kingdom came into force, it would seem that a patent right is regarded in Malaysia as a form of personal property, but without being a chose in action.¹¹³

The Act refers to the owners as joint owners, but it is not clear whether the patent is to be held by them as joint owners as usually understood, i.e., as opposed to tenants in common, or loosely in the sense of co-owned property. There is nothing in the certificate of grant indicating one way or the other that the jointly owned patent is to be held in a certain way. Neither are there any words of severance in the certificate of grant. There is no positive indication in the Act which may show an intention that the co-owners are to hold as tenants in common and not as joint tenants. It is submitted, however, that the fact that the Act permits an owner separately to assign his share in the patent without the consent of the other co-owners might indicate that the intention of Parliament is that the shares are to be held in common.

Since it is not clear from the present Act what the nature of the right granted by a patent is, or how it is meant to be held by the co-owners, would it be feasible to fall back on the common law position to assist in defining these rights? At common law there is wide acceptance that patent is a kind of property, but there is no complete agreement on what kind of property it is, except that it is a kind of personal property, and in the cases, various terms have been ascribed to it.¹¹⁴ As to what is the interest initially held by the co-owners

¹¹¹ By virtue of section 6, section 3 and section 8 respectively. For the background to these statutes, see Chapter 1.

¹¹² Under the 1949 and the 1977 Acts, it is expressly provided that each of the co-owners shall be entitled to an equal undivided share in the patent. See section 54 of the 1949 Act and section 36(1) of the 1977 Act.

¹¹³ Section 30(1) of the 1977 Act provides that "Any patent or application for a patent is personal property (without being a thing in action) ..." Terrell on the Law of Patents 13th Ed., 1982, states at page 252, that now that it is specifically provided that a patent is not a chose in action it must be doubtful whether the proposition stated in British Mutoscope and Biograph Co. v Homer, (1901) 18 RPC 177, that a patentee's right, being merely that of preventing others from working his invention, was a chose in action, and was incapable of seizure under a writ of *feri facias*, is still correct. According to C.I.P.A Guide to the Patents Act, 3rd edition, at page 256, subsection (1) reverses the position at common law under which "existing patents" were regarded as choses (or things) in action. For that reason the formerly granted "Letters Patents" could not be seized in execution of a writ of *feri facias* (British Mutoscope and Biograph Co. v Homer), but this may now be possible.

¹¹⁴ See, for example, the following attempts at defining it: Buckley L.J., in Edwards & Co. v. Picard [1909] 2 K.B. 903, at pages 909-910, "A patent has been described as an incorporeal chattel. I am not sure what legal qualities are involved in that description. The legal qualities of a patent are, not that it confers upon the patentee a right to manufacture, for that he could do without a patent, but that it gives him a monopoly in the manufacture. It creates in him a right of action to prevent any one else manufacturing. It creates in him a right to bring an action for infringement with resultant remedy by way of injunction, or damages, or both. This right is a legal right."; Vaughan Williams L.J., in Edwards & Co. v. Picard [1909] 2 K.B. 903, at 905, "Now, what is the right of the patentee? It is a chose in action, ... and entirely distinct from the right of property in a chattel

on the granting of the patent, the authorities are divided on this point. National Society for the Distribution of Electricity by Secondary Generators v. Gibbs¹¹⁵ contains a reasoned opinion on the very issue of the type of holding held by the co-owners. There a patent was jointly held by Gibbs and Gaulard who agreed to assign it to the plaintiffs. Gaulard died before the patent was assigned. In an action by the plaintiffs, Gaulard's administratrix argued that she was not a proper party to the action. The plaintiffs argued that the words of the grant did not of themselves suggested joint ownership and if anything, they suggested that the owners were tenants in common. Further, it was argued that a tenancy in common was the logical conclusion and joint ownership was an unjust conclusion. This being so, and the patent being a most unusual type of personal property, the law as to the more conventional personal property should not be applied to patents. The court, however, held that as the right or privilege granted by letters patent was for all purposes regarded as property, and the grant was to two persons, their executors, administrators, and assigns, only a joint interest was created. Therefore, Gibbs took the whole interest by survivorship, and Gaulard's administratrix was not a proper party to the action.

In contrast to this, it has been consistently held in the United States that joint owners held the patent as tenants in commons. Judge Seaman in Drake v. Hall declared that "the rule is elementary that each of these patentees was vested with an undivided half interest therein,

created under it; and the patentee's right under the patent, being a chose in action, cannot be taken under a *fi. fa.*, or *levari facias*, since it has no locality, and therefore cannot be found upon the premises."; Farwell, J, in British Mutoscope and Biograph Co. v. Homer (1901) 18 RPC 177, at pages 179-180, "Now a patent right is a privilege granted by the Crown ... and is described ... as an incorporeal chattel. I should be disposed to classify it myself as a chose in action; which has been defined to be a right to be asserted, or property reducible into possession either by action at law or suit in equity ... I refer to the common form of a patent ... Now this grant necessarily confers a right to bring an action to restrain infringement and to recover damages. At any rate, it is not a chose in possession. But a chose in action cannot be found upon the demised premises; it has no locality, and is incapable of manual seizure, and this is borne out by the fact that for this reason choses in action could not at common law be taken in execution under a writ of *fi fa.* ... or of *levari facias* ."; Yose v. Singer (1862) 4 Allen (Mass.) 226, at 230, "A patent right is a chattel interest."; *per* Justice Gray in Waterman v. MacKenzie 138 U.S. 252, at 260; 34 L. Ed. 923 at 927 (US Sup. Ct 1891), "A patent right is incorporeal property, not susceptible of actual delivery or possession". See also the interesting article by Brodhurst, S., "Is Copyright a Chose in Action?" (1894) 11 LQR 64, where he notes that the various kinds of property classified as choses in action "are so different in their nature and legal incidents, that care must be taken not to be misled by giving them all a common name which conceals their differences" (quoting Lindley L.J., in Colonial Bank v. Whinney 30 Ch. D. 284). He cautions that an attempt to identify the division of property into choses in action and choses in possession, with the division into things corporeal and things incorporeal could only lead to confusion. Therefore, copyrights and patent rights, if they must be classed as property at all, should be classed under the head of property in constructive possession. Cyprian Williams, T, "Property, Things in Action and Copyright", (1895) 11 LQR 223, however, disagrees with him and maintains that if copyrights and patents were to be classified, they should be classified as choses in action rather than choses in possession, the right being to a duty of forbearance, enforceable only by action. It is surprising that after the 1977 Act when a patent has been specifically declared not to be a chose in action, some authors still refer to it as a chose in action. See for example, Lawson, F.H. and Rudden, B., The Law of Property, 2nd Ed. 1982, Clarendon Press, Oxford, at page 33 and Bridge, M., Personal Property Law, Blackstone Press Limited, London, 1993, at page 4.

¹¹⁵ National Society for the Distribution of Electricity by Secondary Generators v. Gibbs [1899] 2 Ch. 289, *per* Cozens-Hardy J., at pages 299-300.

creating the relation between them of co-tenants for all benefits of the grant, so that each became entitled to use thereof without accountability to the other co-tenant."¹¹⁶

It is clear from the above that there is no consistent approach as to the nature of patent rights. For the sake of clarity, there should be an express provision as to the nature of such rights in the Act. A clarification of the nature of patent rights and the type of holding is important because in the case of co-ownership taking the form of a joint tenancy, the ownership rights of a joint tenant descend on death to the other joint tenant(s). In contrast to this right of survivorship, each tenant in common, while sharing possession of the whole, owns only his share of the whole, which on death goes to his next of kin. This will also facilitate dealing in the patent rights. Further, leaving the nature of the rights to be determined by common law principles may result in even more uncertainties.¹¹⁷ As has long been recognised by the courts grappling with this issue, patent rights are special in nature and it is not desirable nor proper to define them by reference to other types of personal property. Such a comparison will not be productive. So the solution is to provide a statutory definition of the property in a patent, listing the attributes that are possessed, instead of leaving it to the courts to grapple with the problem of deciding on its nature and the dealings which it can be applied to. It is well to take heed of the comments of Lindley L.J. in Colonial Bank v. Whinney,¹¹⁸ where he said, "Though debts, money in the funds, shares in companies, copyright and patents are all incorporeal personal property, they are so different in their nature and legal incidents, that care must be taken not to be misled by giving them all a common name which conceals their difference. We all know that our law has not been put into a very scientific shape, and there is often considerable difficulty in determining in what sense a particular expression, such as 'choses in action', is used."

It is, therefore, proposed that a provision be added to the Act defining the nature of patent rights. In framing a statutory definition of the nature of patent rights, it is also desirable to provide for the patents of a judgement debtor to be subject to the ordinary process of

¹¹⁶ Drake v. Hall 220 F. 905 (CCA, 7th Cir. 1914), *per* Seaman, Circuit Judge, at page 906. See also Talbot et al. v. Quaker-State Oil Refining Company 41 USPQ 1 (CCA 3rd Cir. 1939), *per* Kirkpatrick, District Judge, at page 2, "Property in patents, however, is of a peculiar character and, while the theory of separate and distinct undivided interest is preserved, there is actually a much closer interrelationship between the rights of co-owners and a much nearer approach to substantial identity of interests than with tangibles or ordinary choses in action."; McDuffee v. Hestonville, M. & F. Pass. Ry. Co. 162 F. 36 (CCA 3rd Cir. 1908); 23 US 719; 56 L. Ed. 629 (1911) certiorari denied, *per* Buffington, Circuit Judge, at page 38, "Patents are personal property ... and ... [t]he privileges granted by letters patent are plainly an instance of an incorporeal kind of personal property, which, as personalty, in the absence of context to the contrary, would go to the executor or administrator in trust for the next of kin. De La Vergne Machine Co. v. Featherstone, 147 U.S. 209, 222, 37 L. Ed. 138."

¹¹⁷ For an interesting account of the problems of applying traditional property law concepts to intellectual property transactions, see Anderson, M., "Applying Traditional Property Law to Intellectual Property Transactions," [1995] 5 EIPR 236.

¹¹⁸ Colonial Bank v. Whinney (1885) 30 Ch.D 261, *per* Lindley L.J., at page 284.

execution.¹¹⁹ A right should be given to the receiver to sue for infringement if the owner refuses to sue and also to work the patent if the patent has not been worked or to conclude licence contracts if necessary. As pointed out in the dissenting judgement of Fletcher Moulton L.J.,¹²⁰ not giving such a right would cause injustice when a judgement debtor is determined not to pay his judgement debt. Notice can be given to the Registrar of Patents for such impediment to the patents to be made known to the public.

2.5. Common Law Rights of Co-owners

The relationship of co-owners of a patent is not a relationship between partners. The mere fact of the co-owners holding property in common does not make them partners.¹²¹ This is in line with the statutory rules for the determination of whether a partnership exists between co-owners of property. The mere fact of common ownership of property or the sharing of gross profits from a co-owned property in itself does not constitute a partnership.¹²² Therefore, the rights of duties between co-owners of a patent will have to be sought elsewhere than in the rules relating to partnership.¹²³

The theory underlying patent rights is important since it gives rise to several common law rules regulating the rights of co-owners inter se in the absence of agreement, which rights have now mainly been codified in patent statutes. Two theories about the nature of patent rights have been enunciated by the courts in the various jurisdictions, the "exclusion"

119 Contrast the judgement in Edwards & Co. v. Picard [1909] 2 K.B. 903, where an application for the appointment of a receiver, by way of execution, of all rents, profits, and moneys receivable in respect of the defendant's interest in the patents was rejected - *per* Vaughan Williams L.J., at pages 905-906, and *per* Buckley L.J., pages 909-911.

120 Edwards & Co. v. Picard [1909] 2 K.B. 903, *per* Fletcher Moulton L.J., at pages 906-908.

121 See, for example, the following comments: Vose v. Singer 4 Allen (Mass.) 226, 230, "It is not and cannot be contended that these parties are co-partners; but the idea of mutual contribution for profits and losses would require even more than co-partnership. Nothing short of the relation of stockholders in a joint-stock company would meet the exigencies of parties whose interests may be thus transferred and subdivided."; Pitts v. Hall 19 F. Cas. 758 (CC ND N.Y., 1854), *per* Hall, District Judge at page 760, "In the case of joint patentees, where no agreement of co-partnership exists, the relation of copartners certainly does not result from their connection as joint patentees; and, when one joint owner of a patent transfers his undivided interest to a stranger, the assignee does not become the partner of his co-proprietor. In both cases, the parties interested in the patent are simply joint owners, or tenants in common, of the rights and property secured by the patent; and their rights, powers, and duties, as respects each other, must be substantially those of the joint owners of a chattel.; and Drake v. Hall 220 F. 905 (CCA 7th Cir. 1914), *per* Seaman, Circuit Judge, at page 906, "Under such grant the rule is elementary that each of these patentees was vested with an undivided half interest therein, creating the relation between them of co-tenants for all benefits of the grant, so that each became entitled to use thereof without accountability to the other co-tenant. No relation of co-partnership is involved in such ownership."

122 See section 4, Partnership Act 1961 (Revised 1974), Malaysia. As to the rules on ascertaining the existence of a partnership and the rights and duties between partners inter se, see generally, T'Anson Banks, R.C., Lindley & Banks on Partnership, 17th Ed. Sweet & Maxwell, London, 1995, Chapter 5 and Part 4 respectively.

123 As to the possibility that a patent owned by a partner that is used in a partnership may give the other partner a licence to use the patent after the expiry of the partnership, see Kenny's Patent Button-Holding Co. Ltd v. Sommerville & Lutwyche (1878) 38 LT (NS) 878.

theory, and what, for want of a better term, can be termed the "whole unit" theory. Under the "exclusion" theory, a patent is viewed as a right to exclude others from the right to make, use and sell the patented invention. It is only by virtue of a patent grant that the grantee has the right to prevent others from exploiting the invention. The grant does not give a positive right to the use of the invention. Such a right already exists at common law. Because of this right of exclusion, one co-owner can not exclude other co-owners from the use of the patent. This is because the grant allows the grantee to exclude others but not another co-owner. Therefore, each co-owner has the right to use the patent for his own benefit.¹²⁴ Under the "whole unit" theory, however, the grant of the patent is regarded as a grant to the patentees jointly and not to each one of them severally. Therefore, the enjoyment of the rights under the patent could only be exercised by all the patentees jointly. This would mean that any exercise of the rights without the full consent of all the owners, for example, by the grant of a licence by one owner, would give the other owners a right of action against him.¹²⁵ However, the "whole unit" theory has not found favour with the courts in the United States,¹²⁶ and it does not seem to have been canvassed before the

124 See Mathers v. Green LR 1 Ch. App. 29 (1865), *per* Lord Cranworth L.C., at page 33, "The letters patent grant to the three, their executors, administrators, and assigns, that they and every of them by themselves, their servants and agent, or such others as they may agree with, and on no others, shall, for the term of fourteen years, use, exercise, and vend the said invention. The rights conferred is a right to exclude all the world other than the grantees from using the invention. But there is no exclusion in the letters patent of any one of the patentees. The inability of any one of the patentees to use the invention, if any such inability exists, must be sought elsewhere than in the letters patent. But there is no principle, in the absence of contract, which can prevent any persons not prohibited by statute from using any invention whatever." In the United States, see, for example, Talbot et al. v. Quaker-State Oil Refining Company 41 USPQ 1 (CCA 3rd Cir. 1939), *per* Kirkpatrick, District Judge, at pages 2-3, "In its essence all that the Government confers by the patent is the right to exclude others from making, using or vending the invention (Crown Die and Tool Co. v. Nye Tool and Machine Works 261 US 24, 35 (US Sup. Ct 1922), and as to this essential attribute of the property each joint owner is in a very real sense at the mercy of the other. Each of them may use or license others to use the invention without the consent of his fellows, and without responsibility to such fellows for the profits arising from such use or licence."

125 See Pitts v. Hall 19 F. Cas. 758 (CC ND N.Y. 1854), *per* Hall, District Judge, at page 761.

126 See, for example, Lalancé & Grosjean Mfg. Co. v. National Enamelling & Stamping Co. 108 F. 77 (CC S.D.N.Y. 1901), *per* Coxe, District Judge, at pages 77-78, "The complainant contends ... [f]irst, that the St. Louis Company could not convey to the defendant the right to make, use and vend without the consent of the complainant; ... The first of these propositions has never been directly passed upon by the Supreme Court, but the overwhelming weight of authority in this country and in England is against the view asserted by the complainant. Indeed, but one authority is cited in its support, Pitts v. Hall, 3 Blatchf. 201, Fed. Cas. No. 11,193, decided in 1854, which has never, so far as the court has been able to ascertain, been followed in a carefully considered case. It is not thought that the learned judge ... intended to express a definitive opinion upon the question now under discussion. He considered the question an open one, but disposed of the motion upon other reasoning, which, at that stage of the litigation, appears to be unanswerable. The authorities supporting the defendant's contention are too numerous to cite, but the argument in its support will be found sufficiently stated in the following: (citation omitted) ... See, also, the recent and well-considered case of Blackledge v. Manufacturing Co. 108 Fed. 71. It is thought that a rule so generally recognised will not be disturbed, but in any view it is too firmly established and has been enforced for too long a period to be disregarded by this court." The case of Herring v. Gas Consumer's Association 9 F. 556 (CC E.D. Missouri 1878), which purported to distinguish Pitts v. Hall, seems to lend support to the "whole unit" theory - see Treat, District Judge, at pages 556-557, where he held that even though the defendant co-owner had, by virtue of the joint ownership, the right to use the patent, but he had no right, more than a stranger, to infringe the same. Therefore, the claim by the plaintiff co-owner for his proportion of the damages for infringement of

United Kingdom courts. Therefore, the weight of authority is in favour of the "exclusion" theory, with all its implications as will be discussed below. However, it is interesting to note here that even though both patent and copyrights are exclusive rights, and even though the use by one co-owner might devalue the rights, whether it be patent or copyright, yet the courts have evolved different rules regarding the right to exploit them without the consent of the other co-owners for copyrights.¹²⁷

Vose v. Singer¹²⁸ contains the most definitive statement of the relation between co-owners. The parties to that suit were the half owners of a patent. In considering whether the defendants should account to the plaintiffs for a share of profits made from the sales of the patented article, the court rejected as unsatisfactory the analogies supposed to be found in the joint ownership of real estate and the various species of personal property. Although a tenancy in common or part ownership in it is much like a tenancy in common or part ownership of other personal property, the use of a patent right is different from the use of any other property, and, therefore, it is not safe to follow the rules adopted in regard to the mutual liabilities of part owners of other types of personal property. The part owners must be regarded as having interests which are distinct and separate in their nature, though they are derived from the same contract, and having such interests, with the right to use them separately, they cannot for any legal use of them incur any obligation to each other. None of the co-owner has the right to control or exercise any supervision over the action of the other co-owner.

their common patent was allowed. However, this is a strange decision, containing, as such, a contradiction in terms, and was rightly criticised in Bell & Howell Co. v. Bliss 262 F. 131 (CCA 7th Cir. 1919), at page 136 as "not at all persuasive" and "difficult to comprehend".

¹²⁷ See the contrasting approach of the court under copyright law. In Cescinsky v. Routledge and Sons, Ltd [1916] 2 KB 325, the court held that notwithstanding that the defendants were part owners of the copyright in the plaintiff's book, the plaintiff was entitled to an injunction to restrain the defendants from infringing that copyright - *per* Rowlatt J., at pages 329-330, "But it is contended that the defendants as co-owners are entitled to use the property subject to accounting to the plaintiff in some way not easy to apply in respect of part of the profits. I think this contention is negated by the words of the Copyright Act, 1911. By section 2, subsection (1), 'Copyright in a work shall be deemed to be infringed by any person who, without the consent of the owner of the copyright, does anything the sole right to do which is by this Act conferred on the owner of the copyright'. ... Therefore, a reproduction without the consent of all the owners is an infringement, and I do not see why one co-owner is not as much within the statute as a stranger. I think that this was really laid down by Sir George Jessel in Powell v. Head (1879) 12 Ch.D. 686, upon practically identical words in 3 & 4 Will. 4, c. 15. Apart, however, from the statute, if this were not so, a part owner would be at the mercy of his co-owners, each of whom, and they might be any number, might issue as many, as large, and as cheap editions as he chose, thus completely ruining the value of the copyright. In my opinion, the old common law rule as to the right of a co-owner to use the common property has no application to such a property as a copyright. It seems to me that a sole right of reproducing, though divisible as to title, might be indivisible as to exercise."

¹²⁸ Vose v. Singer (1862) 4 Allen (Mass.) 226, at page 230. Note that this conclusion was arrived at despite the recognition that one part owner may so exploit the patent as to appropriate the whole value of the patent to himself, or to render it valueless, for the court also recognised the possibility that his exploitation of it may, on the other hand greatly enhance the value of the whole patent.

By the time of the 1907 Act of the United Kingdom, there was a provision regulating in some measures the rights of co-owners.¹²⁹ However, except for the Inventions Enactment, 1914 of the Federated Malay States,¹³⁰ none of the other Malaysian patent enactments prior to the 1983 Act provided for the allocation of right between co-owners. The Registration of United Kingdom Patents Act, 1951, and its predecessors, merely provided that the rights conferred by a certificate of registration were privileges and rights similar in all respects to those conferred by the issue of the patent in the United Kingdom.¹³¹

Therefore, in theory, three different sets of rights applied to regulate the rights between joint owners of patents issued before the coming into force of the 1983 Act in 1986. The first would be the common law rights as enunciated by the courts and the second those statutorily laid down by virtue of section 54 of the Patents Act, 1949, and lastly, those provided under section 36 of the 1977 Act of the United Kingdom. However, the provisions of the 1949 and the 1977 Acts are similar, and are substantially statutory enactment of the common law rights.¹³² Therefore, to fully appreciate the rights of co-owners before and after the 1983 Act comes into force and to determine whether any changes should be made, the common law rights need to be examined.

2.5.1. Common Law Right to Sue Separately

Flowing from the "exclusion" theory and the theory that each co-owner holds his share separate and distinct from the other co-owners, the courts have held that one owner can institute an infringement suit against infringers without the consent of, or the need to join, the other co-owners. In Sheehan v. Great Eastern Railway Co.,¹³³ the plaintiff sued the defendants for an account of profit made by them, and for royalties alleged to be due from them for the use of a patent taken out by the plaintiff. The defendants objected that the plaintiff could not sue alone and that he ought to have made his co-owners parties to the action. The court held, however, that a person interested in a patent was entitled to sue,

129 Patents and Designs Act 1907, United Kingdom, section 37(1) which provided that subject to any contract to the contrary, each co-owner was entitled to use the invention for his own profit, without accounting to the others, but was not entitled to grant a licence without their consent.

130 The Inventions Enactment, Law No. 19, 1914, Federated Malay States. Section 37 - Subject to the express terms of the grant, where after the commencement of this Enactment, a grant is made to two or more persons jointly, each of such persons shall, subject to any contract to the contrary, be entitled to use the invention for his own profit without accounting to the others but shall not be entitled to grant a licence without their consent, and, if any such person dies, his interest in the grant shall devolve on his legal representative. This provision is in all respect similar to the provision of section 37(1) of the Patents and Designs Act 1907, of the United Kingdom.

131 See Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.4.

132 For the provisions of section 36 of the Patents Act 1977, see Appendix.

133 Sheehan v. Great Eastern Railway Co. (1880-1881) 16 Ch. D. 59, *per* Malin, V.C., at pages 62-63, relying on Mr Justice Lindley's book on Partnership (4th Ed., Vol. 1, pp 68,69), Dent v. Turpin 2 J. & H. 139 (trade marks case).

without making his co-owners parties to the action.¹³⁴ In Turner v. Bowman,¹³⁵ the plaintiff, one of two co-owners of a patent, was able to proceed in his infringement suit without any objection, although an inquiry as to damages was ordered to be stood over in order that all the co-owners could be before the court. On the other hand, in the earlier case of Smith v. The London & North Western Railway Co.,¹³⁶ the court held that where two persons were tenants in common of a patent, and if one of the co-owner died, actions for infringements committed in the deceased's lifetime survived to the surviving co-owner, since the right of action was a joint one. It may be assumed that after Sheehan, this case is no more good law.

The opposite approach, however, seems to be adopted in the United States. The rationale for it is explained in Willingham, et al. v. Lawton, et al.,¹³⁷ where the principal issue was whether the owner of a two-thirds undivided interest in a patent could maintain an action for infringement without the voluntary joinder of the other co-owner. The court gave three reasons for the rule that all co-owners should be joined in a patent infringement suit, i.e., the interest of a co-owner in being able to licence third-parties under his or her patent without harassing suits by other co-owners; the interest of a co-owner in avoiding the estoppel effect of a judgement declaring the patent invalid in which he or she did not participate; and the interest of a defendant in avoiding multiple suits concerning infringement of the same patent. The court, however, held that co-owners could, by contract, waive their rights to be joined as co-plaintiffs. As to the right to recover damages, it would appear that each co-owner is only entitled to recover damages in proportion to the share of the patent owned by him.¹³⁸

134 Note that for the defendants, it was argued that it was stated in the claim that the plaintiff had parted with shares in the patent to several persons, and the utmost claim that he had amounted to no more than one-sixth of the patent, the other five-sixth of the patent having been parted with. If the plaintiff now succeeded in obtaining any royalties for the use of his invention, they would not belong to him, but to others as well, who would be obliged to take proceedings to recover the amount of the shares due to them, and if the plaintiff should not succeed in getting a decree, then the owners of the other five-sixth would be able to proceed against the defendants. They were, therefore, liable to be harassed by other persons who were not before the court. Hence, they argued that the action was not properly constituted, and that all the persons interested in the patent ought to be made parties.

135 Turner v. Bowman (1924) 42 RPC 29, *per* Astbury J., at page 41.

136 Smith v. The London & North Western Railway Co. (1853) Macr 203, at 207 (6 HPC 926, at 930), *per* Lord Campbell, "The right of action could not be split in half by the representatives of Willey and Smith. The rule is this, that although their interest in the corpus of the property is separate, yet the cause of action in respect of it is joint and survives to the survivor."

137 Willingham, et al. v. Lawton, et al. 194 USPQ 249 (CA 6th Cir. 1977), *per* Phillips, Chief Judge, at pages 252-253.

138 However, in Smith v. The London & North Western Railway Co. (1853) Macr 203; 6 HPC 926, the court held that where two persons were tenants in common of a patent assigned to them, and if one of the co-owner died, actions for infringements committed in the deceased's lifetime survived to the surviving co-owner., who was entitled at law to recover the whole damage. See Lord Campbell, Macr 203, at 207 (6 HPC 926, at 930).

2.5.2. Common Law Right to Assign

There does not seem to be any reported case in the United Kingdom concerning the right of a co-owner to assign his share of the patent without the consent of the other co-owners. Most of the cases reported seem to have proceeded on the assumption that such a right did exist.¹³⁹ Dunnicliff & anor v. Mallet¹⁴⁰ seems to be the first case where the issue of whether it was possible to assign a part of the patent arose. However, it has to be noted that the issue there was not whether a co-owner could assign a part of his share of a jointly held patent, but whether a sole owner could assign a part of the patent held by him. The court held that the partial assignment was valid and that an assignee of a separate and distinct part of a patent was entitled to sue for an infringement of such part, without joining in such action persons who were interested only in the other part of the patent. Similarly, Walton v. Lavater¹⁴¹ is also concerned with the question of the divisibility of a patent originally held by a sole owner. The defendant, the patentee, assigned a moiety of the patent to the plaintiff at one time, and the remaining moiety to a third person at another time. The plaintiff, having afterwards acquired, by assignment, such remaining moiety, was held entitled to sue the defendant for a subsequent infringement without giving him previous notice of such last assignment.

The nearest case to the issue at hand is the case of Horsley & Knighton's Patent,¹⁴² where it was held that neither of two joint patentees was entitled to cause to be made in the register of proprietors any entry which purported to affect or prejudice the rights of the other. There was no discussion on whether an assignment by one co-owner of his own share without the consent of the others was valid, although it seems implicit in the decision that such an assignment was valid.

The Patents, Designs, and Trade Marks Act 1883, of the United Kingdom for the first time provided that a patentee may assign his patent for any place in or part of the United Kingdom, or Isle of Man, as effectually as if the patent were originally granted to extend to

¹³⁹ See, for example, Hall v. Conder (1857) 140 ER 318, and Sheehan v. Great Eastern Railway Co. (1880-1881) 16 Ch. D. 59.

¹⁴⁰ Dunnicliff & anor v. Mallet 29 L.J.C.P 70 (1859), *per* Earle C.J., at pages 73-74. However, as observed by Terrell, T. and Terrell, C., *The Law and Practice Relating to Letters Patent for Invention*, 8th Ed., Edited by Jones, J.R., Sweet & Maxwell, London, 1934, at page 274, this case was decided in the days before patents were limited to single inventions where it was not uncommon for distinct portions of the patent rights to be assigned, i.e., the monopoly with respect to one or more of several inventions covered by the patent, and in such a case the assignee could grant licence as to, and sue in respect of, his part of the patent without reference to the owner of the other part - citing Dunnicliff & anor v. Mallet 29 L.J.C.P 70 (1859). In fact, it would seem that it was only in 1949 when unity of invention was made a statutory requirement - see section 4(4), Patents Act, 1949, United Kingdom.

¹⁴¹ Walton v. Lavater 29 L.J.C.P. 275 (1860), *per* Earle C.J., at page 278, relying on Dunnicliff & anor v. Mallet 29 L.J.C.P 70 (1859). Keating J., at page 279, and Byles J., at page 280, delivered concurring opinions.

¹⁴² Horsley & Knighton's Patent (1869) 8 L.R. Eq. 475, see Lord Romilly M.R., at page 477.

that place or part only.¹⁴³ However, there was no reference made to part assignment of the whole right, nor as regards whether co-owners could assign their shares in the patent without consent.

Pitts v. Hall is the first case in the United States where this point was raised. The court ventured an opinion, which was expressly not intended to be definitive, that it was not possible for a co-owner to dispose of his share of the co-owned patent without the consent of the others.¹⁴⁴ However, it is now settled that a share of the patent can be assigned without permission. For example, in Lalanc & Grosjean Mfg. Co. v. National Enamelling & Stamping Co.,¹⁴⁵ a patent which was originally granted to one Hubert Claus was assigned to the complainant plaintiff and the St. Louis Stamping Company, each holding a half interest in the patent. The St. Louis Stamping Company later assigned its half interest to some other parties who duly assigned it to the defendant. When sued for infringement, the defendant asserted its right to use the patent by virtue of its half interest in the patent. The plaintiff contended that the assignment to the defendant was invalid since the assignment was made without its consent. This contention was, however, rejected by the court, holding that the overwhelming authority was that such consent was not required.

Similarly, in the Canadian case of Forget v. Specialty Tools of Canada Inc.,¹⁴⁶ the Supreme Court of British Columbia held that the co-owner of a patent may assign his whole interest in the patent without the concurrence of any other co-owner. However, the interest of the co-owner can not be subdivided into two or more parts, nor may it be licensed without the concurrence of all the owners of the patent. This is because the subdivision of an interest in the patent by a co-owner can lead to unfair results and chaotic situations. Further, if one co-owner is entitled to license a patent the situation would be that a number of licences could be created thereby destroying the value of the patent of his co-owners. The court distinguished the case of Marchand v. Peloquin,¹⁴⁷ on the ground that the case could have been decided under the alternative ground of contract law.

¹⁴³ Patents, Designs, and Trade Marks Act, 1883, section 36. A similar provision was present in the proviso to section 14 of the Patents and Designs Act 1907, United Kingdom and the proviso to section 21(1) of the Patents Act, 1949. However, this provision is absent in the 1977 Acts. For the difficulties in the application of this section see Carpmael, W., "On the 36th Section of the Patents Act, 1883", Transactions of the Institute of Patent Agents, Vol. III, Session 1884-5, page 175.

¹⁴⁴ Pitts v. Hall 19 F. Cas. 758 (CC ND New York, 1854), *per* Hall, District Judge, at page 760. The judge expressly cautioned that since the issue had not been discussed by any writers or in any reported case, his reflection on it was to be without prejudice should he later felt inclined to a different opinion.

¹⁴⁵ Lalanc & Grosjean Mfg. Co. v. National Enamelling & Stamping Co. 108 F. 77 (CC S.D. New York, 1901), *per* Coxe, District Judge, at page 77.

¹⁴⁶ Forget v. Specialty Tools of Canada Inc. [1993] 48 CPR (3d) 323 (Sup. Ct of British Columbia), *per* Rowan J., at pages 638-642, applying Mathers v. Green LR 1 Ch. App. 29 (1865) and Steers v. Rogers (1893) 10 RPC 245 (HL).

¹⁴⁷ Marchand v. Peloquin [1978] 45 CPR (2d) 48 (Quebec Court of Appeal). The headnote of the case is in English but the report is in French. From the headnote it would appear that the opinion of the court was that a patent conferred a negative right in the sense that it conferred a right to exclude

2.5.3. Common Law Right to Exploit

Under the common law, each co-owner has the right to exploit the patent for his own use without the consent of the other co-owners. This was so held in Mathers v. Green,¹⁴⁸ where on appeal, the decision by the Master of the Rolls declaring that the plaintiff was entitled to an equal share of the profits derived by the defendant joint owner was overruled. Lord Cranworth L.C. held that in the absence of any contractual provisions to the contrary, the defendant had the right to exploit the patented invention without having to account for the profits to the other co-owner. This was because the rights conferred by a patent was a right to exclude all the world other than the grantees from using the invention. However, there was no exclusion in the letters patent of any one of the patentees.¹⁴⁹ The principle enunciated in Mathers v. Green was approved and followed by the House of Lords in Steers v. Rogers,¹⁵⁰ where the court stressed that a patent, unlike other chattels, was merely a right to exclude others from using it without the consent of the owner. However, even though a co-owner can exploit the patent without consent, he must do it personally or through an agent and not through an independent contractor. This principle was laid down in the case of Howard & Bullough v. Tweedales & Smalley.¹⁵¹

others from the area of the patent. Therefore, co-owners had rights which would normally be exercised together or at least for their joint benefit. The court disapproved of the English cases of Mathers v. Green LR 1 Ch. App. 29 (1865) and Steers v. Rogers (1893) 10 RPC 245 (HL) to the effect that the practical consideration of these cases was that any other conclusion would permit one patentee to prevent the use of the invention altogether, or in the alternative to risk his skill and capital on terms of being accountable for profits without having to share losses. Such consideration did not apply now because if one patentee refused to permit use of the invention, the other could get a compulsory licence as an interested person. The court further held that the result of the British cases would lead to serious inconvenience because if one patentee could give everybody a right to use the patented invention, he could sabotage the exclusivity of his co-owners. The court then noted that in Britain the case law has been overturned by statute.

With respect, it is submitted that the Court in Marchand v. Peloquin seems to have come to an incorrect reading of the British cases. The statutory provisions mentioned by the court above are in fact enactment of the common law position. Further, there was already a provision for compulsory licences under section 22 of the Patents, Designs, and Trade Marks Act, 1883.

¹⁴⁸ Mathers v. Green (1865) LR 1 Ch. App. 29. A patent was granted in the joint names of the plaintiff and the two defendants. The defendants used the patent independently of the plaintiff. The plaintiff contended that the intention, at the time of taking out the patent, was that the three grantees should have a joint interest therein. Sir John Romilly M.R., at first instance, held that the patent was the joint property of the plaintiff and the defendants and that he was entitled to an equal share of the profits of the manufacture attributable to the invention, as well as to an equal share of the royalties arising from a licence alleged to have been granted. Therefore, the plaintiff was entitled to an account of his share of the profit derived from the defendants' use of the patent.

¹⁴⁹ Mathers v. Green LR 1 Ch. App. 29 (1865), *per* Lord Cranworth L.C., at pages 33-34.

¹⁵⁰ Steers v. Rogers (1893) 10 RPC 245 (HL), *per* the Lord Chancellor at page 251. Lord Halsbury, Lord Macnaghten and Lord Shand concurred. Unlike Mathers v. Green, Steers v. Rogers involved a situation where the patent was not initially granted in the joint names of the plaintiff and defendant. The defendant became a joint owner by a subsequent assignment. However, the House of Lords held that this made no difference to the duty of the joint owner who worked the patent. He did not have a duty to account to the other joint owner. See also Wapshare Tube Co., Ltd v. Hyde Imperial Rubber Co. Ltd (1901) 18 RPC 374 (CA), *per* Collins L.J., at page 378, applying the rule that a co-owner could work the patent without the consent of the other co-owners.

¹⁵¹ Howard & Bullough v. Tweedales & Smalley (1895) 12 RPC 519. Note that the case was argued essentially on the true construction of the terms of an agreement whereby the assignor of two patents reserved to himself the right to work them personally. However, this case has been used as authority that the right to use is confined to the co-owner or his agent. The reason for this is best

The law on this aspect of the right of a co-owner is similar in the US. In Vose v. Singer,¹⁵² the court held that since the co-owners must be regarded as having interests which are distinct and separate in their nature, "they cannot for any legal use of them incur any obligation to each other." In Blackledge v. Weir & Craig Mfg. Co.,¹⁵³ the court held that one co-owner has the right to exploit the invention without the consent of the others, stressing the unfairness to the enterprising co-owner if it were to be otherwise. The only case where the court held that one co-owner could be sued for infringement by another co-owner is the case of Herring v. Gas Consumer's Association.¹⁵⁴ However this case has been criticised and regarded as not persuasive in Bell & Howell Co. v. Bliss.¹⁵⁵

Therefore, it is accepted that co-owners are free to use and exploit the patent without the consent of the other co-owners, unless the patent had been vested in a trustee in trust for them. In that case, the beneficiaries can not now freely exploit the patent. To hold otherwise would be to nullify the purpose of the trust, which is to "preserve the joint property and to prevent its practical destruction by co-owners".¹⁵⁶

2.5.4. Common Law Duty to Account

There is also no duty on the part of one co-owner to account to the other owners for any gains derived from his use of a jointly held patent. This was held to be so in Mathers v.

given by Chitty J., at page 528, "But I point out that the distinction between the servant and agents and the independent contractor is not one of mere words, or one merely of law, but it is one of very great importance, having regard to the nature of these contracts. A man who only ... employs his own servants and agents, risking his own capital and the like, in the manufacture of the patented articles, stands in a very different position from the man who can, either through himself or his friends, get others to assist him and bring them in as independent contractors. I think, as I have said, the object of the proviso was to confer rights personal to ST, and ST, acting within them, can bring whatever capital he himself has (it may be partially borrowed money) for the purpose of making, but making by himself, or his agents or servants, the articles in question. But if he can go to other persons and get them, however large the firm may be, to manufacture for him, that I conceive to be a very different state of things; and, therefore, this distinction, which might at first to some minds seem to be a rather subtle one and rather a refinement of law, is ... one of very great importance to the parties."

¹⁵² Vose v. Singer (1862) 4 Allen (Mass.) 226, at page 230.

¹⁵³ Relying on the UK cases of Mathers v. Green and Steers v. Rogers, and the US case of Vose v. Singer, see Blackledge v. Weir & Craig Mfg. Co. 108 F. 71 (CCA 7th Cir. 1901), *per* Woods, Circuit Judge, at page 73. For similar decisions, see Clum v. Brewer 5 F. Cas. 1097 (CC D. Mass. 1855), *per* Curtis, Circuit Justice, at page 1103; Aspinwall Mfg. Co. v. Gill 32 F. 697 (CC D. New Jersey, 1887), *per* Bradley J., at page 702; Drake v. Hall 220 F. 905 (CCA 7th Cir. 1914), *per* Seaman, Circuit Judge, at page 906; Central Brass & Stamping Co. v. Stuber 220 F. 909 (CCA 7th Cir. 1915), *per* Kohlsaat, Circuit Judge at pages 911-912; Bell & Howell Co. v. Bliss 262 F. 131 (CCA 7th Cir. 1919), at page 136.

¹⁵⁴ Herring v. Gas Consumer's Association 9 F. 556 (CC E.D. Missouri, 1878), see Treat, D.J., at pages 556-558.

¹⁵⁵ Bell & Howell Co. v. Bliss 262 F. 131 (CCA 7th Cir. 1919).

¹⁵⁶ See McDuffee v. Hestonville, M. & F. Pass. Ry. Co. 162 F. 36 (CCA 3rd Cir. 1908), *per* Buffington, Circuit Judge, at pages 38-39; cert. denied, 23 U.S. 719; 56 L. Ed. 629 (1911).

Green,¹⁵⁷ where besides declaring that one joint owner could exploit the invention without the permission of the others, the court also rejected the contention that if the joint right of the patentees was conceded, the only mode of making it effectual was to give them a joint interest in the profits. Lord Cranworth held that in the absence of any contractual provisions to the contrary, the defendant had the right to exploit the patented invention without having to account for the profits to the other co-owners. The above principle as regards the non-obligation to account to the other owners was adopted by the House of Lords in Steers v. Rogers.¹⁵⁸

In an early case in the United States, it was tentatively stated that one co-owner may have to account to the others for any profit derived from use of the patent. However, the statement was made obiter and the judge was at pain to stress that it was a mere speculation.¹⁵⁹ The contrary rule has now been firmly established.¹⁶⁰ It is pertinent to note that the reason given for denying the other co-owner a right to a share of the profits derived by one co-owner was that it would result in one co-owner having to risk his skill and capital and the other co-owner the right to a share of the profits without a corresponding duty to contribute towards any risk.¹⁶¹

¹⁵⁷ Mathers v. Green LR 1 Ch. App. 29 (1865).

¹⁵⁸ Steers v. Rogers (1893) 10 RPC 245 (HL), at page 251, *per* Lord Herschell L.C., "In the case of Mathers v. Green ... it was held that where a patent for an invention is granted to two or more persons, each one of them may use the invention without the consent of the others, and if he so uses it is not bound to account to the others for any share of the profits which he makes by its use. ... Now, ... counsel for the appellant maintained ... that that decision was not good law; but it appears to me to be both good law and good sense when the nature of patent rights is regarded. ... 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 entitled, to prevent the rest of the world from using it."

¹⁵⁹ Aspinwall Mfg. Co. v. Gill 32 F. 697 (CC D. New Jersey, 1887), *per* Justice Bradley, at page 702; appeal dismissed with cost, 40 US 669; 35 L. Ed. 597 (1891).

¹⁶⁰ See, for example, Vose v. Singer (1862) 4 Allen (Mass.) 226, 230, and Blackledge v. Weir & Craig Mfg. Co. 108 F. 71 (CCA 7th Cir. 1901), *per* Woods, Circuit Judge, "The use of an invention by one of co-owners or by his licensees is not the exercise of the entire monopoly conferred by the patent. That can be effected only by the joint or concurrent action of all owners. The separate action of any one owner or of his licensees can be an exercise or use only of his individual right, which, though exclusive of all besides, is not exclusive of the other patentees, their assignees or licensees. On principle, therefore, there can be no accountability on the part of a part owner of an invention to other owners for profits made by the exercise of his individual right, whether it be by engaging in the manufacture and sale, or by granting to others licenses, or by assigning interests in the patent. His use of the invention in any lawful way is not an appropriation of anything which belongs to another. The separate rights of the other owners remain unaffected. They are equally free to use the invention in all legitimate ways for their individual profit. Each is entitled to the fruits of his endeavours, taking no risk and expecting no reward from enterprises in which he does not choose to join."

¹⁶¹ See Mathers v. Green (1865) LR 1 Ch. App. 29, *per* Lord Cranworth, at page 34, "Is there any implied contract where two or more persons jointly obtain letters patent that no one of them shall use the invention without the consent of the others, or if he does, that he shall use it for their joint benefit? I can discover no principle for such a doctrine. It would enable one of two patentees either to prevent the use of the invention altogether, or else to compel the other patentee to risk his skill and capital in the use of the invention on the terms of being accountable for half the profit, if profit should be made, without being able to call on his co-patentee for contribution if there should

2.5.5. Common Law Right to License

In Horsley & Knighton's Patent,¹⁶² one of two co-owners purported to assign by deed his share and interest in a patent, and by the same deed purported to release him from all claims by both the co-owners in respect of the patent. This deed was entered verbatim on the register. The court allowed an application by the other co-owner to have the entry expunged, as one co-owner could not dispose of the right of the other. From the opinion, it would seem that a valid licence could only be granted by the acts of both co-owners. However, the Court of Appeal in Wapshare Tube Co., Ltd v. Hyde Imperial Rubber Co. Ltd¹⁶³ seemed to have implied that such a consent from all co-owners was not necessary.

The common law position in the United Kingdom is thus unclear. However, it is submitted that the reasoning of the court in Horsley is more in consonance with the principle of licensing, which is not a transfer of patent rights, but merely an agreement not to sue the licensee in respect of activities which fall within the licence. The licensor, by the licence, gives up his right to sue for infringement. However, this agreement does not bind the other co-owner, who, therefore, still retains the right to sue the alleged licensee. Further, as argued by Westell, for the law to be consistent, it has to follow that either both co-owners must sue and the licence of one will bind both; or one co-owner may sue in which case a licence from all co-owners would be required.¹⁶⁴ This is in accord with the accepted rule in

be loss."; see also Yose v. Singer (1862) 4 Allen (Mass.) 226, at page 230, "It is difficult to see how an equitable right of contribution can exist among any of them, unless it includes all the parties interested and extends through the whole term of the patent right; and if there be a claim for contribution of profits, there should also be a correlative claim for losses, and an obligation upon each party to use due diligence in making his interest profitable. It is not and cannot be contended that these parties are co-partners; but the idea of mutual contribution for profits and losses would require even more than co-partnership. Nothing short of the relation of stockholders in a joint-stock company would meet the exigencies of parties whose interests may be thus transferred and subdivided. But even as between the original parties, as there was no mutual obligation to contribute for losses, or to use any diligence to make the property profitable, and as each party was at liberty to buy, use, and sell machines at his pleasure, and to sell his moiety of the right, or fractional parts of it, we think no obligation arose out of the part ownership, as being legally or equitably incident to it, to make contribution of profits. ... If the defendants have realised any profit in the manner alleged, it has been by investing capital in the purchase of machines, and the use of skill and labour in selling them; and they have taken the risk of losses."

¹⁶² Horsley & Knighton's Patent (1869) 8 L.R. Eq. 475, *per* Lord Romilly M.R., at page 477, "Here is a patent granted to two persons, and therefore either of them may use it, but neither can dispose of the right of the other. ... Again, suppose a patent is vested in two persons who are both using it, and a man infringes the patent, upon which they both complain, and a large sum of money is paid to one of them by the infringer to be allowed to make use of the patent, is it meant to be said that he can immediately release all the rights which the other person may have for the injury he has sustained by reason of the user of the patent?" This case was cited by Terrell as authority that one co-owner cannot grant a licence without the consent of his co-owner - Terrell, T. and Terrell, C., The Law and Practice Relating to Letters Patent for Invention, 8th Ed., at page 276.

¹⁶³ Wapshare Tube Co., Ltd v. Hyde Imperial Rubber Co. Ltd (1901) 18 RPC 374 (CA). However, it has to be noted that this expression of the law was *obiter*, since the court had come to a conclusion that the defendants could not be sued as their claim to a legal title to a part share of the patent had been made out - see Collins L.J., at pages 377-378.

¹⁶⁴ See Westell, R.L., "Co-ownership of Patents", (1966) Patent & Trademark Institute of Canada, Report of Proceedings 151, at page 159.

personal property where in the basic case of Wilkinson v. Haygarth,¹⁶⁵ the judge held that one of two co-owners of a chattel could sue, giving as his reason that "otherwise the license of one would bind both".

It is interesting to note that, although purporting to follow United Kingdom precedents, and hence showing consistency with respect to the other rights of a co-owner, with regards to the right to licence, the United States courts have shown a divergence from the United Kingdom precedents. In Blackledge v. Weir & Craig Mfg. Co.,¹⁶⁶ the court, although relying on the UK cases of Mathers v. Green and Steers v. Rogers, and also the United States case of Vose v. Singer, held that one co-owner has the right to license the invention without the consent of the others.

2.6. The Statutory Rights of Co-owners

Under the common law, joint owners and owners in common of a patent may act independently of each other just as if each owns the patent solely. They are not liable to each other for an accounting for use of the invention, or in the United States, for royalties or profits received from licensing activities. These common law rules have now been enacted in the United Kingdom and the United States as statutory rights in the absence of agreement.¹⁶⁷

¹⁶⁵ Wilkinson v. Haygarth (1847) 12 QB 85; 116 ER 1085, at page 1090, *per* Lord Denman C.J.

¹⁶⁶ Blackledge v. Weir & Craig Mfg. Co. 108 F. 71 (CCA 7th Cir. 1901), *per* Woods, Circuit Judge at pages 75-77, "There is ... no ground for the distinction insisted upon between profits derived directly from the manufacture, use, and sale of the patented article by the owner and profits derived by him from the sale of licenses. It is conceded that the part owner of an invention may sell his title or interest as a whole or in parts without being accountable to another owner for any portion of the consideration received. But it is clear that he might part with his entire title or interest by granting a license or licenses in terms which should forbid further licenses and further use by himself of the invention."

See also the earlier case of Clum v. Brewer 5 F. Cas. 1097 (CC D. Mass. 1855), *per* Curtis, Circuit Justice, at page 1103, "One tenant in common has as good right to use, and to license third persons to use the thing patented, as the other tenant in common has. Neither can come into a court of equity and assert a superior equity, unless it has been created by some contract modifying the rights which belong to them, as tenants in common.". Similar decisions were reached by the court in Central Brass & Stamping Co. v. Stuber 220 F. 909 (CCA 7th Cir. 1915); Drake v. Hall, 220 Fed. 905 (CCA 7th Cir. 1914), *per* Kohlsaat, Circuit Judge at pages 911-912, "As owner of a one-half interest in the patent, appellant had no standing to restrain appellees from manufacturing under their ownership of the other one-half thereof, or from authorising others to do so."; Aberdeen Hosiery Mills Co. v. Kaufman 96 USPQ 133 (D.N.Y 1953), following Talbot v. Quaker State Oil Refinery 41 USPQ 1 (CCA 3rd Cir. 1939), *per* Leibell, District Judge, at page 143, "Although it is true that Kayser, as an owner of an undivided interest in the patent, had the right to issue licences on its own volition and without the consent of the other defendants ... the fact remains that there was an explicit authorisation from both Standard and Kaufman to act in their behalf in Kayser's licensing activities." See also Bendix Aviation Corp. v. Kury 84 USPQ 189 (D.N.Y. 1950), *per* Byers, District Judge, at pages 192-193, where he reviewed the cases.

¹⁶⁷ See section 36, Patents Act 1977, UK and section 262 of US Code, Title 35, Patents.

With the coming into force of the Act in 1986, the provisions therein enacted now govern. The statutory provisions of the Act regulating the rights and obligations of joint owners of patents follow in all respect that found in the WIPO Model Law.¹⁶⁸ There is no obvious reason why the status quo prior to the Act was not adopted, other than the possibility that the framers of the Act chose to adopt the WIPO model without realising the differences. Under section 40 of the Act, joint owners of a patent application or patent may, separately, assign or transmit their rights in the patent application or patent, exploit the patented invention and take action against any person exploiting the patented invention without their consent, but may only jointly withdraw the patent application, surrender the patent or conclude a licence contract. The statutory rules, however, only apply in the absence of an agreement to the contrary between the joint applicants or owners. Despite these provisions, there are still area of uncertainties and gaps that need to be addressed and catered for.

2.6.1. Statutory Right to Assign or Transmit Rights Separately

The Act gives the right to assign or transmit the rights in the patent separately. Therefore, no consent of the other co-owners is required. This is in contrast to the statutory rights under the 1977 Act of the United Kingdom, where consent of all the co-owners is required before a share of the patent could be assigned.¹⁶⁹ It is interesting to note that the opportunity was not taken to adopt the alternative scheme suggested by the WIPO Model Law, whereby a right of pre-emption is given to the other co-owners if one owner wishes to sell his share in the patent.¹⁷⁰

It is also unclear from the provision whether a co-owner can assign a portion only of his share in the patent.

2.6.2. Statutory Right to Exploit Separately

The statutory right to use a jointly held patent is similar to that provided by s. 36(2) of the Patents Act 1977, United Kingdom, which gives a co-owner the right to exploit the patented invention without the consent of the others. However, it has to be noted that the rights of free use of the invention provided by the United Kingdom Act are confined (unless otherwise agreed) to the co-owner and his agent, it does not permit a co-owner to employ an independent contractor to exploit it.¹⁷¹ There is no mention in the Act of the

¹⁶⁸ See s. 141, WIPO Model Law, and commentary thereto, at page 91.

¹⁶⁹ See s. 36(3), Patents Act 1977, United Kingdom, in Appendix.

¹⁷⁰ See WIPO Commentary - page 91, para. d.

¹⁷¹ See Howard & Bullough v. Tweedales & Smalley (1895) 12 RPC 519. For the facts and the decision, see footnote 151.

right to exploit the patent through the vehicle of an agency. Nevertheless, it is submitted that by virtue of agency principles, the right to exploit the patent separately can be construed as including the right to exploit through an agent, since the acts of the agent are the act of the principal. However, the right to exploit separately does not extend to having the patent exploited by a sub-contractor nor to a partner of the co-owner, and he cannot form a company to exploit the invention on his behalf. It is specifically provided that the statutory right to exploit the patent without the consent of the other co-owners can be overridden by agreement. So, if there is an agreement whereby one co-owner is to be responsible for the commercial exploitation of the patent, with the net profits from sales or licensing to be divided equally, the construction of the agreement may oust the right to exploit it personally without having to account for any profits.¹⁷²

It is not clear from the Act whether there is a duty to account to the other co-owners for any profit derived from individual exploitation by a co-owner. The Act is silent on this, unlike the provision of the United Kingdom equivalent, where the duty to account is specifically excluded. However, it would seem that having given the co-owners a right to separate exploitation of the patented invention without any conditions imposed, there may not be a need to account.

2.6.3. Statutory Right to Sue Separately

Under the Act, one of several co-owners may sue separately. There is again a difference in the right to sue when compared with the UK Act. Under section 66(2) of the 1977 Act of the United Kingdom, one of two or more joint proprietors of a patent may bring an action for infringement of the patent without the concurrence of the others. However, the other co-owners must be made parties to the proceedings, either as plaintiffs or nominal defendants.

2.6.4. Statutory Restrictions on the Rights of Co-owners

In Malaysia the only statutory restrictions of the right of a co-owner are that he cannot withdraw the patent application, surrender the patent or conclude a licence contract without the consent of the other co-owners. Since there is no express requirement that the consent should be in any form, it would appear that the consent of the other co-owners could be either expressed, antecedent to, or contemporaneous with, the alleged grant of the licence, or implied. The defence of acquiescence could also be relied upon.¹⁷³ This provision is

¹⁷² See, for example, Young v. Wilson (1955) 72 RPC 351.

¹⁷³ See Whitehead & Poole Ltd v. Sir James Farmer & Sons, Ltd (1918) 35 RPC 241, where it was held that the consent could be either expressed, antecedent to, or contemporaneous with, the alleged

very similar to the United Kingdom provision except that the co-owner there is also not entitled to mortgage without the consent of the other co-owners.

2.6.5. The Weaknesses of the Statutory Provisions

It has long been recognised by the courts that "joint owners are at the mercy of each other".¹⁷⁴ In an ideal world, the co-owners would have arrived at an amicable agreement regarding their respective rights, interests and duties in their joint patent even before the patent is granted or obtained. But in the real world, it is not inconceivable that people involved in applying jointly for patents would initially be more interested in, and concerned with, matters directly connected with the grant of the patent. They may not be aware of, or appreciate, the features and incidents connected with joint ownership and, therefore, would initially not realise the importance of the need to make provisions regulating the rights and relationship between themselves. This will be more so in the case of non-corporate owners. Even the presence of an agreement may not result in a fair allocation of rights and obligations, as for example, in a case where one of the joint owner is in a very strong financial position. In that case the weaker party may just have to accept whatever is offered. It is admitted that it is impossible to frame a set of statutory rules that could achieve complete justice between co-owners, and that it should be up to the joint owners to make contractual provisions governing their relationship, rights and duties. However, through ignorance, this may not have been done. Although there are express statutory provisions regulating the rights and obligations of owners of jointly held patents, as has been shown and will further be demonstrated, there are still a lot of uncertainties and the possibilities of avoidance of the restrictions on the rights of the individual co-owners. It is submitted that anything which tends to the establishment of greater certainty and the removal of uncertainty will be beneficial, not only to the joint owners, but also to the general public. This will also give the weaker party a viable alternative. If he is offered an unequal or unfair bargain by the stronger party, he can refuse to accept it and fall back on the statutory provisions which would govern in the absence of contract. Therefore, the statute should try to provide fall-back provisions which aim to achieve, as far as possible, a fair degree of balance between all the conflicting rights and interests of the owners.

2.6.5.a. Uncertainty as to proportion of share

There is no provision in the Act which deals with the delineation of the shares of the different owners. The Act merely assumes that the joint owners have agreed on the share

grant of the licence, or implied. The defence of acquiescence could also be relied upon - see Eve J., at pages 244 - 245.

¹⁷⁴ See, for example, Phillips, Chief Judge, at page 252, in Willingham, et al. v. Lawton, et al. 194 USPQ 249 (CA 6th Cir. 1977).

each is supposed to own. It is true that with the right to exploit the patented invention without the consent of the other owners being statutorily given, the exact amount of share each owner is deemed to own is immaterial, since an owner of a 1% share, in principle, has the same right and opportunity of exploiting the patent as much as the owner of 99% of the patent. However, the allocation of shares to the different owners will be important in the case of a sale of the patent, receipt from royalties from licensing, or when it comes to the question of division of compensation received from the Government for use of the patent under section 84 of the Act or under a compulsory licence granted under Part X of the Act. In such situations, it would seem that the joint owners will be entitled to a share of the proceeds in proportion to the amount of shares that they own in the patent. It will also be relevant when damages or account of profits have been awarded in an infringement action, as each co-owner is presumed to be entitled only to claim for damages in proportion to his share of the patent. It might also be important in determining the proportion of the renewal fees that each has to contribute.

It is submitted that in the absence of a contrary intention, it is only fair that each of the initial co-owners should be entitled to an equal share of the patent rights, regardless of their respective contributions, provided always that each of the claimants can satisfy the test to qualify as a joint inventor.¹⁷⁵ Although this principle may be implicit, for the clarification of doubts it would be preferable to have it expressed. Therefore, in the interest of certainty, the Act should provide that in the absence of any agreement to the contrary, joint owners are deemed to hold the patent in equal shares.¹⁷⁶

2.6.5.b. Unrestricted right to assign may be destructive

Under the Act, a joint owner may separately assign his share in a patent application or patent without the consent of the others. There is no mention of whether the share that he is allowed to assign is only the whole of his share or whether he can subdivide it into small

¹⁷⁵ See comments of Tollerfield, Assistant Comptroller in Florey's Patent [1962] RPC 186, at page 193, "As a general proposition, I should have thought that whatever their several contributions may have been, the members of a team pursuing different aspects of a research project under the direction of a team leader should, in any event, be entitled to an equal share in any benefit resulting from what must inevitably be regarded as a joint effort. The fact that one member of the team was fortunate enough to be allotted a line of investigation which led eventually to an important discovery ought not, in my view, to entitle him to a bigger share of the proceeds that other members of the team whose contributions in other directions, however ingenious, may not have been so fruitful."

¹⁷⁶ By virtue of section 36(1) of the UK Patents Act 1977, it is provided that, unless otherwise agreed, where a patent is granted to two or more person, each of them shall be entitled to an equal undivided share in the patent. In Florey's Patent [1962] RPC 186, Mr Tollerfield, Assistant Comptroller, held at page 188, that the effect of the equivalent provision in section 54(1) of the 1949 Act means that in the event of a joint assignment of the patent, each co-patentee assigns in effect, his own equal share. Therefore, each must be entitled to an equal share in any benefits accruing from the assignment, failing agreement to the contrary. See also Patchett's Patent [1963] RPC 90, *per* Lloyd-Jacob J., at page 98, where it was held that *prima facie* this provision entitled a co-owner to receive some part of any payment made pursuant to section 46(3), the provision regulating Crown use.

lots and dispose of them to as many different people as he wishes, thus giving more persons the right to exploit the patent. It has been recognised that such a possibility could bring about the complete devaluation of the patent.¹⁷⁷ Merges and Locke,¹⁷⁸ in arguing against the present United States rule allowing co-owners unrestricted right to license and assign their full interest, or any portion of it, apply the doctrine of the "tragedy of the commons", first applied to co-ownership of patents by Robinson.¹⁷⁹ They argue that such rights could lead to abuse in the exercise of the rights by greedy co-owners at the direct expense of the other co-owners, and should not be allowed. The unrestricted right to assign could also lead to fraud where a patent owner splits up his shares into various small units and sells them to members of the public who think that they are purchasing something of value.¹⁸⁰ If a part owner could split up and dispose of his share of the rights in this way *ad infinitum*, it could also result, as will be illustrated later, in the total nullification of the provision that all joint owners must consent before a licence contract is concluded.

One possible solution may be to provide expressly that any assignment of a part owner's share is restricted to the assignment of his whole interest. However, this may not solve the particular problem at hand. Even allowing that a joint owner can only dispose of his whole share in the patent, there is still the possibility of a loophole, even though he abides strictly by this proposed statutory rule. He could, instead, assign his whole share to several persons who are interested in exploiting the patent. Each of these persons, being now part owner, could exploit the invention, again reducing the value of the whole patent as regards the remaining original owners. Despite assertions by the Courts in the United States that each co-owner could do whatever he wishes with his own share of the patent, since this would not deprive the other owners of their right to enjoy it, it is submitted that the argument of Westell,¹⁸¹ that since the essence of a patent right is to prevent others from

¹⁷⁷ In *Forget v. Specialty Tools of Canada Inc.* [1993] 48 CPR (3d) 323 (Sup. Ct British Columbia), the court held that the interest of the co-owner could not be subdivided into two or more parts nor may it be licensed without the concurrence of all the owners of the patent. This was because the subdivision of an interest in the patent by a co-owner could lead to unfair results and chaotic situations. Further if one co-owner was entitled to license a patent the situation would be that a number of licences could be created thereby destroying the value of the patent of his co-owners - *per* Rowan J., at pages 638-642.

¹⁷⁸ See Merges, R.P., Locke, L.A., "Co-ownership of Patents: A Comparative and Economic View" [1990] JPTOS, June, 586, at pages 592-595.

¹⁷⁹ Robinson, W.C., *The Law of Patents*, Vol. 2, Little, Brown, and Co., Boston, 1890, at para. 796.

¹⁸⁰ This possibility is not as fanciful as it sounds. According to Berle, A.K., De Camp, L.S., *Inventions and Their Management*, 1st Ed., 2nd Impression, International Textbook Company, Pennsylvania, 1940, at pages 353-354, some years prior to date, the selling of part interests in patents amounted to a "racket" in the United States. Part interests sold in a single patent sometimes ran into thousands. The practice was to take a cash payment of any amount the seller could get and the balance in a note or a series of notes. According to the authors, great publicity was given to these fraudulent though unpunishable practices, and several states enacted laws to curb them. As a result, notes given in some states were not enforceable. Other states required that such a note give notice on its face that it was given for that purpose. One state required the notice to be written or printed in red ink. In other states it was illegal to accept such a note.

¹⁸¹ Westell, R.L., "Co-ownership of Patents", (1966) Patent & Trademark Institute of Canada, Report of Proceedings 151, at page 159.

exploiting it, such a right will be destroyed if each co-owner could split up and assign his shares among all potential major users of the invention, should be heeded.

It may also be questioned whether the right to assign without the consent of the others will be fair to the remaining co-owners. Should a part owner, by his unilateral action, bring about a situation where his other joint owners have foisted upon them a new joint owner whom they may not desire? To give an example,¹⁸² supposing A. and B. were joint owners. A. might be quite happy for B. to work the invention in competition with him, but he might not if B. were to assign to C., who might be a large corporation. The huge manufacturing capacity of the corporation might swamp A.'s.

One possible solution is to adopt the approach under the Australian and the United Kingdom statute, whereby a co-owner is not allowed to assign his share in the patent without the consent of the others.¹⁸³ Another alternative solution to the above problem may be to give the other co-owners a right of first refusal whenever a joint owner wishes to part with his share of the patent, giving them a right to purchase the share of the selling co-owner at the price contracted for with a third party.¹⁸⁴ Only on a refusal to exercise that right can he sell to the third party.¹⁸⁵ A combined approach which is preferred may be to give a right of first refusal to the other co-owners. If they refuse or is not in a position to exercise this right, then they have the right to nominate the name of another person to purchase the relevant shares. Failing this, the owner who intends to dispose of his shares is free to dispose of it to whoever he wishes.

2.6.5.c. Exercise of rights may result in unequal enjoyment

Giving each co-owner the right to exploit the patented invention without the consent of the others has its advantages and disadvantages. On the one hand, it may seem unfair that one of several co-owners can exploit the patented invention without the need to account to the others, especially when the person exploiting it is in a better financial position to exploit it effectively whereas the other owner may not have the required financial resources to do

182 See Owen, C.M., "On Certain Features of Joint Proprietorship in Patents", Transactions of the Chartered Institute of Patent Agents, Vol. VIII (1889-90), page 157, at page 198.

183 See section 16(1)(c), Patents Act 1990, Australia, and section 36(3), Patents Act 1977, UK.

184 This in fact, is an alternative rule proposed in the WIPO Model Law. See page 91, paragraph d, WIPO Model Law.

185 This is the solution adopted in France and Spain, see section 42(1)(e), Patent Law, France (WIPO Laws and Treaties, Industrial Property, June 1991) and section 72((2)(a), Law No. 11/1986 on Patents, Spain (WIPO Laws and Treaties, Industrial Property, July/August 1986). Under these provisions, a joint owner wishing to dispose of his share in the patent has the duty to notify the other co-owners of the intended disposal, giving them a right of pre-emption for a period of two (Spain) or three (France) months from the date of notification to exercise this right. In fact, the Spanish system goes even further than the French. If a co-owner had disposed of his share in the patent without giving the joint owners a right of pre-emption, the other joint owners can exercise the right of "prior purchase" within one month from the date of recording of the assignment in the Patent Register. This means that the other co-owners can follow the share in the hands of a third party and insist on a transfer back of the shares to them.

so.¹⁸⁶ One example comes to mind, for example, when one applicant for the patent is a poor inventor and the other is a capitalist. In this situation, the impoverished owner is not able to reap the fruit of his invention, while the other owner cannot be prevented from working the invention for his own exclusive interest without having to account to the inventor.

On the other hand, the converse is also true, i.e., if one joint owner can not use the invention without the consent of the other, then one part owner will have the power to prevent the use of the invention altogether. Alternatively, he is able to compel the other co-owner to risk his skill and capital in the exploitation of the invention on the condition of being accountable to him for a share of the profit, if any, without his being able to call upon him for contribution if there should be a loss.¹⁸⁷

France has a system whereby each co-owner has the right to work the invention for his own benefit, subject to equitably compensating the other joint owners who do not personally work the invention or who have not granted a licence.¹⁸⁸ Merges and Locke,¹⁸⁹ in fact demonstrated, by their game theory model, that where a non-working co-owner can "free-ride" on the efforts of the other co-owners, this would act as a disincentive to any of the co-owners working the patent, leading ultimately to the detriment of society, which has an interest in seeing patented technology developed.

Fairness, however, demands that before a co-owner can insist on a share of the profits, he should be willing to shoulder a part, not only of the investment capital, but also to bear any risk of possible losses too. One possible solution may be to statutorily provide that all co-owners should be liable to contribute to the expenses and losses in any exploitation by any of the co-owners. However, this will not be practical nor fair, compelling, as it is,

¹⁸⁶ One of the argument of the plaintiff in Mathers v. Green (1865) LR 1 Ch. App. 29 was that if there was no duty to account, a joint-inventor, like the plaintiff, who was not a manufacturer, would have no opportunity of gaining any advantage from the patent. The court, however, preferred the contrary argument that giving such a right would be unjust to a person who had invested his own capital in the venture. The same point was raised by Rantzen, M.J., "Co-Patentees", Transactions of the Chartered Institute of Patent Agents, Vol. LIV, (1935-36), page 145 at page 150. He argues that in view of the social justification for patents, the practical result of leaving co-owners each with an independent right to use was to leave their respective benefits very largely dependent upon their relative financial and commercial position and that this was inequitable and probably undesirable in the public interest.

¹⁸⁷ In fact, this was the justification used by Lord Cranworth in Mathers v. Green (1865) LR 1 Ch. App. 29, at pages 33-34, when he ruled that one co-owner could use the invention without the need for consent or account to the others.

¹⁸⁸ See section 42(1)(a), Patent Law, France (WIPO Laws and Treaties, Industrial Property, June 1991). In the absence of agreement between the parties, such compensation shall be fixed by the Court. Under section 72((2)(b), Law No. 11/1986 on Patents, Spain (WIPO Laws and Treaties, Industrial Property, July/August 1986), a co-owner of a patent in Spain may work the invention following notification to the other joint owners. There is no mention of any compensation.

¹⁸⁹ See Merges, R.P., Locke, L.A., "Co-ownership of Patents: A Comparative and Economic View" [1990] JPTOS, June, 586, at pages 596-597.

participation in ventures which may not be desired by some of the co-owners, in effect creating a partnership situation without the presence of any agreement.

Another possible solution will be to provide by statute that the non-exploiting co-owner should be given an opportunity to participate to any extent within his means. However, this solution will be undesirable if it leads to a partnership. Because of the unlimited nature of a partner's liability in any loss suffered by the partnership business, this will be particularly unacceptable to a co-owner with limited means. A more viable possibility is to incorporate a limited company wherein the co-owners can invest in the shares according to his means. Because of the limited liability of members in a registered company, this will be attractive to co-owners with limited means. The co-owner's share in the profit from exploitation of the patented invention will of course, depend on the amount of shares he invests in the company. If he refuses the opportunity, then the other owner need not account to him

If this is not a viable alternative, then the statutory status quo will have to be maintained. Each is then entitled to the fruits of his endeavours, taking no risk and expecting no reward from enterprises in which he does not choose to join. The more able co-owner should not be expected to be responsible for, or shoulder the burden arising from the impecunity or otherwise of his co-owners.

2.6.5.d. Getting around the restrictions on licensing

It has been noted by Gill¹⁹⁰ that this restriction can be overcome by the simple device of assigning a portion of his share in the patent to the intended licensee. The assignee of the share would then be in a position to work the patent without having to account for the profits to any of the other co-owners by virtue of his right as a joint owner. This would mean that the non-assigning party will be the ultimate loser, since the assignor would have received some payment for the part assignment. To illustrate, assume that one of two joint owners, A., holding 50% of the share in the patent, wishes to grant a licence to a third party, C. The other joint owner, B., refuses to give his consent. A. then transfers 10% of his 50% share in the patent to the third party. C., being now the owner of 5% of the whole patent, may work the patent without having to account to any of the other owners. A. gets a return in the form of the purchase price from C. B., however, gets nothing, although it is clear from the Act that it is intended that he is given the right to share in any income derived from licences jointly granted. Since, however, no licence was granted but a pure assignment or transfer of A.'s rights, B. gets nothing. It would appear, therefore, that there is a loophole in the Act

¹⁹⁰ Gill, H.A., "The Rights of Co-owners of Letters Patent", Transactions of the Chartered Institute of Patent Agents, Vol. XLI (1922-23), page 134, at page 140. See also Potter, E., "Joint Patentees", Transactions of the Chartered Institute of Patent Agents, Vol. LXII (1944-45), page 138, at 143, who is of the opinion that such a practice would defeat the provisions in the statute and would be contrary to their intention.

2.6.5.e. Multiplicity of actions

One co-owner can presently initiate an infringement suit against a third party without the need for the consent of the other co-owners. Phillips, Chief Judge, gave three primary interests protected by the requirement that all co-owners must join in a patent infringement suit.¹⁹¹ In the Malaysian context, two of these reasons are gratefully adopted, i.e., the interest of a co-owner in avoiding the estoppel effect of a judgement, in which he or she did not participate, declaring the patent invalid; and the interest of a defendant in avoiding multiple suits concerning infringement of the same patent. It is submitted that these two reasons demonstrate why the present provision allowing a co-owner to institute legal proceedings without the consent of all the other co-owners is undesirable. It is, therefore, proposed that the Act should be amended to make all interested persons parties to the suit, either as plaintiffs or as notional defendants to prevent multiplicity of actions.¹⁹²

2.6.5.f. Deadlock in agreement

As presently constituted, the Act does not contain any mechanism to resolve disagreement between the co-owners with regard to granting of licences. This would mean that when the co-owners are unable to come to an agreement, no licences can be granted. If there is any attempt to licence third parties without the consent of all the co-owners, proceedings can be brought against the third party for infringement of the patent. The patent will lie unexploited, to the detriment of the parties and the interest of society as a whole. Some times the inability to reach an agreement may arise from genuine objections to certain terms of the proposed agreement. However, there may also be situation when one co-owner "holds out" in the hope of getting a bigger share of the profit than he actually deserves. Therefore, a provision along the line of section 17 of the Australian Patents Act 1990 should be added to the present Act empowering the court to give directions to co-owners when they are unable to come to any agreement.

¹⁹¹ Willingham, et al. v. Lawton, et al. 194 USPQ 249 (CA 6th Cir. 1977). See text accompanying footnote 137.

¹⁹² See Section 66(2) of the Patents Act 1977, UK, which has such a provision.

2.7. Rights of Employee Inventors¹⁹³

The basic rule is that the right to a patent or a utility innovation belongs to the inventor.¹⁹⁴ There are, however, two situations in which the owner will not be the inventor. Section 20(1) provides that in the absence of any contrary agreement in the contract of employment or for the execution of work, the rights to a patent made in the performance of such contract or in the execution of such work shall be deemed to pass to the employer or the person who commissioned the work. The second situation, laid down in section 20(2), is where the employee, though not required to engage in any inventive activity in his contract of employment, makes an invention in the field of activities of his employer. This provision is again subject to a contrary agreement between the parties and also that the employee must have used data or means placed at his disposal by his employer.¹⁹⁵ The statutory rules as to allocation of patent ownership between employers and employees also apply to government employees.¹⁹⁶

For the purposes of the analysis of these provisions, the terms "service" and "commissioned" inventions for the section 20(1) category, "dependent" inventions for the section 20(2) category, and "free" inventions for inventions not covered by the earlier two categories, are adopted.

2.7.1. "Service" Invention and "Commissioned" Invention

From the provision of section 20(1), it would seem that the basic division of workers working under a contract of service and contract for services¹⁹⁷ is not adopted as far as allocation of the rights to inventions are concerned in a situation where one person performs

¹⁹³ The discussion on the rights of an employee inventor under the Act only focuses on the statutory rights. Therefore, the respective rights and obligations of the employer and employee under, as well as the legal status of, suggestions scheme for employees are beyond the scope of this thesis. For a discussion of the problems associated with such schemes, see, Segel, J.N., "Master and Servant - Rights to Inventions of Employees - Suggestion Boxes - Raybestos-Manhattan, Inc. v. Rowland", *Wisconsin Law Review* 1203 (1973). See also Prout v. British Gas plc & anor [1992] FSR 478.

¹⁹⁴ See para. 2.1., *supra*.

¹⁹⁵ These statutory provisions for allocating the rights to an employee invention between the employer and employee are *in pari materia* with sections 64 to 66 of the Sri Lankan Act. The Sri Lankan Act, in turn, follows section 120 (1)(a) and (2) of the WIPO Model Law. It has to be noted that alternative A, instead of alternative B of section 120(2) is the scheme chosen for the Malaysian and Sri Lankan statutes.

¹⁹⁶ See section 21 of the Act.

¹⁹⁷ The term "contract of employment" has usually been treated by the courts as synonymous with a contract of service, in contradistinction to the term "contract for services" which applies to the case of independent contractors see, for example, Employment Provident Fund Board v. M.S. Ally & Co. Ltd [1975] 2 MLJ 89; Inchcape Malaysia Holdings Bhd v. R.B. Gray & anor [1985] 2 MLJ 297; Kuala Lumpur Fund Bhd v. J. Bastian Leo & anor [1988] 2 MLJ 526; and Milan Auto Sdn Bhd v. Wong Seh Yen [1994] 2 MLJ 135.

work for another. In both situations, the rights to a patent made in the performance of such contract or in the execution of such work do not belong to the inventor.

2.7.1.a. "Service" invention

The Act does not lay down any definition of a contract of employment. A definition of employer and employee is, however, given in the Act. An "employer", in relation to an employee, "means the person by whom the employee is or was employed", and "employee" means "a person who works or has worked under a contract of employment, or who is in employment under, or for the purpose of, any individual or organisation."¹⁹⁸ Therefore, the task is to determine whether the inventor is working under a contract of employment.

Several tests have been devised by the courts to help determined whether a person is deemed to be an employee or not.¹⁹⁹ Initially, the test used was the "control" test. If the employer has a right to hire and fire, and right to control how, when and where the work is being done, this would tend to indicate that the person subject to such control is an employee of the person exercising the control. However, the "control" test was found to be difficult to apply in the case of skilled and specialist workers. Therefore, the "organisation" or "integration" test was suggested by Lord Denning in Stevenson Jordan and Harrison v. MacDonald & Evans Ltd.²⁰⁰ He said that a factor that was common to all employees, whether they were skilled or unskilled, was that they were employed as part of the business and their work was done as an integral part of the business. The latest test is a pragmatic one, known as the "economic reality" or "mixed" test. Essentially, the question to be asked is whether the person doing the work is in business on his own account or not.²⁰¹ If he is, then he is performing a contract for services and is not an employee. The test of "economic reality" in relation to the concept of employment has been approved by the Privy Council in Lee Ting Sang v. Chung Chi-Keung.²⁰²

¹⁹⁸ See section 3 - Interpretation, of the Act.

¹⁹⁹ For a fuller discussion, see Selwyn, N., Law of Employment, 8th Ed. Butterworths, London, 1993, Chapter 2 - The nature of a contract of employment.

²⁰⁰ Stevenson Jordan and Harrison v. MacDonald & Evans Ltd (1952) 1 TLR 101, at page 111.

²⁰¹ See Market Investigations Ltd v. Minister of Social Security (1969) 2 WLR 1, *per* Cooke J., at page 8. A more elaborate analysis can be found in Ready Mixed Concrete Ltd v. Minister of Pensions (1968) 1 All ER 433, at 439, *per* MacKenna J., in which a contract of service was defined as having three pre-conditions: (a) the employee agrees to provide his own work and skill for the employer's service in exchange for wages; (b) he agrees, expressly or by implication, that he will be subject to the employer's control; and (c) there are no other provisions inconsistent with it being a contract of employment.

²⁰² Lee Ting Sang v. Chung Chi-Keung [1990] ICR 409. Both the "control" test and the "integration" test were adopted by the Malaysian Federal Court in Employment Provident Fund Board v. M.S. Ally & Co. Ltd [1975] 2 MLJ 89. The Supreme Court in Kuala Lumpur Fund Bhd v. J. Bastian Leo & anor [1988] 2 MLJ 526, referred to both these test but held that in the circumstances of the case under appeal, the preferred test to apply was the "control" test - see Wan Suleiman S.C.J., at pages 527-529. From the opinion, there is no reason to doubt that in the proper circumstances, the "economic reality" test will not be applied.

An employment relationship can exist even though there is no formal written contract. Further, even if there is a written contract, the exact duties are seldom laid down. So the whole circumstances of the employment situation need to be considered to be able to determine the work which is deemed to be within the performance of the contract of employment.²⁰³ It has also to be noted that, just because the inventor is an employee, it does not automatically mean that every invention made by him will belong to the employer. The circumstances and terms of the contract of employment need to be considered. For example, in Vokes Ltd v. Heather,²⁰⁴ the claim by the plaintiff employer to the beneficial ownership of patents made by the defendant employee while in the plaintiff's service was rejected. On the proper construction of the employment contract, the court held that his duties were mainly in an advisory capacity to supervise and help the plaintiff develop and exploit the patents which they had earlier purchased from him.

In the case of "service" inventions, the statutory provision seems to be merely declaratory of the common law position, now replaced in the United Kingdom by section 39(1)(a) of the Patents Act 1977.²⁰⁵ However, unlike the United Kingdom provision where "normal duties" and "duties specifically assigned to him" are mentioned, there is no hint as to the type of activities which could fall under section 20(1) of the Act, which merely mentions "invention made in the performance of such contract of employment" or "in the execution of such work". It would appear that both categories of activities envisaged under the United

203 On this point, see generally, Chandler, A., Holland, J., *Information: Protection, Ownership and Rights*, Blackstone Press Ltd, 1993, at pages 121-123.

204 Vokes Ltd v. Heather (1945) 62 RPC 135 (CA), see Lord Greene M.R., at pages 140-141, and Morton L.J., at page 142.

205 There are varying opinions on whether the statutory provisions in section 39 of the 1977 Act are merely declaratory of the common law. For example, Cornish, W.R., *Intellectual Property*, 2nd Ed., Sweet & Maxwell, 1989, at page 179, is of the opinion that section 39 essentially in effect codifies the common law principles which determine whether employee or employer is initially entitled to an invention. But he notes in footnote 23 that in Harris's Patent, however, Falconer J. refused to accept that this statutory provision necessarily embodied the common law. Again, he opines that the statutory provision is a "pretty close approximation" of the common law in "Rights in Employees' Inventions - The United Kingdom Position", (1990) 21 IIC 298, at page 300. Chandler, A., Holland, J., *Information: Protection, Ownership and Rights*, Blackstone Press Ltd, 1993, at page 118, describe the statutory effects as "not dissimilar" to the pre-1977 position. However, the C.I.P.A. *Guide to the Patents Act*, 3rd Ed. Sweet & Maxwell, 1990, at page 306, states that "The introductory phrase of section 39(1) simply sweeps away any rule evolved under the common law before June 1, 1978 (Harris's Patent [1985] RPC 19). This renders precedents decided under the common law of dubious assistance", and at page 309, "Precedents decided under the former common law principles should be treated with considerable caution. This is partly ... because these cases were generally concerned to determine, as a first step, whether the invention was made 'in the course of employment'. It is submitted that this phrase has a wider meaning than the 'duties of an employee'". Reid, B.C., *A Practical Guide to Patent Law*, 2nd Ed., Sweet & Maxwell, 1993, states at page 124, "The new law enshrine statutorily in section 39(1) and (2) the broad pre-existing distinction as between inventions made by skilled employees (or those in fiduciary position) and those made by the unskilled, although it is over-simplistic to regard the new merely as a codification of the former common law in this respect."

Note that there is no equivalent provision in the Malaysian Act of section 39(1)(b) of the Patents Act, 1977, which applies when the employee has a special obligation to further the interests of his employer's undertaking, as for example, when he owes a duty of fidelity or a fiduciary duty to his employer - see Worthington Pumping Engine Co. v. Moore (1903) 20 RPC 41; Hop Extract Company Ltd v. Horst (1919) 36 RPC 177 and Fine Industrial Commodities Ltd v. Powling (1954) 71 RPC 253 and Re Harris' Patent (1985) RPC 19.

Kingdom provisions may fall within section 20(1).²⁰⁶ Further, read together with section 20(2), it would appear that section 20(1) envisages a situation where the employee is employed to invent or at least to solve problems relating to the business of his employer, the British Syphon v. Homewood situation,²⁰⁷ or where he had been commissioned to carry out some work which involves the possibilities of some inventive solutions being created.²⁰⁸ In this respect, it may be that the Malaysian provision is quite similar to the United Kingdom provision, which requires that "the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties".²⁰⁹

In fact, in many of the cases decided under the common law, there was this emphasis on the possibility of some invention being created, or the duty to solve some problem or engage in some innovative or inventive activity. For example, in British Reinforced Concrete v. Lind,²¹⁰ a company engaged in reinforced concrete work entrusted, through a chief engineer in charge of the Drawing Office, a draughtsman or assistant engineer, Lind, with the preparation of designs for lining of headings in a certain colliery. In the absence of personal experience of similar underground work, and of reliable data as to the earth pressure at the particular colliery, he was unable to prepare a satisfactory design, and suggested that he should visit the colliery. With the information acquired on his visit, he

²⁰⁶ In Greater Glasgow Health Board's Application [1996] RPC 207, at page 223, Jacob J., held that "work made in the course of employment" is much the same as the "normal duties" plus "specially assigned duties" of section 39(1) of the 1977 Act. For the problems associated with "specially assigned duties", see Bercusson, B., "The Contract of Employment and Contracting Out - The UK Patents Act 1977", [1980] EIPR 257, at page 258.

²⁰⁷ British Syphon v. Homewood [1956] RPC 225. See the speech of Roxburgh J., at pages 228 and 230, "He was employed to give the plaintiffs technical advice in relation to the design or development of anything connected with any part of the plaintiffs' business. No particular problem had been put before him, but, if, and as often has, any problem of that kind was put before him, it was his duty to be ready to tender his advice and to assist in any matter of design or development. He was, as I put it during the argument, standing by, and paid to stand by, in that respect," and at page 231, "that seems to me to be reasoning which, in the absence of authority, makes it right and proper for me to decide that this invention ... if made during a time during which the chief technician is standing by under the terms of his employment, must be held to be in equity the property of the employer."

²⁰⁸ This in fact seems to be the situation envisaged under the WIPO Model Law. See Commentary on the Model Law, at page 65, where "service" invention is referred to one made under a contract of employment for the performance of research work (emphasis added).

²⁰⁹ Perkins, D.C.L., Molyneux, P.A., "Rights of Employee Inventors in the United Kingdom under the Patents Act 1977", *Industrial Property Law*, 1979, 353, at page 354, state that this particular provision of the UK Act seemed to be aimed at those employees who are categorised as being "employed to invent". See also Cornish, W.R., "Employees' Inventions - The New United Kingdom Law", [1978] EIPR October, 4, for the same view.

²¹⁰ British Reinforced Concrete v. Lind (1917) 34 RPC 101, *per* Eve J., at page 109, "I must regard also the particular circumstances and the particular piece of work entrusted to him, out of which this invention grew. Now, the nett result is that after his visit of the 9th of November to the colliery he was employed by the plaintiff company to design, if he could, a form of lining which could comply with and meet the four specific and essential requirements enumerated in his report. In my opinion, from that moment the terms of his employment imposed upon him an obligation to place at the disposal of, and treat as the property of, the company the best design which he could, by the exercise of his industry, skill, ingenuity, and inventive ability, produce for the purpose of complying with the essential conditions of the work on which he was employed."

made a report stating the essential conditions, and prepared some designs, none of which complied with all of those conditions, but one of the designs was considered by the chief engineer to be feasible. Lind then informed the chief engineer that he had made an invention of a method of construction that would enable compliance with all the conditions. Immediately after, Lind applied for a patent for that invention, and informed the company of it. The company sought a declaration that Lind held the patent subsequently granted to him as trustee for the company. The defendant contended that he had been engaged to perform the duties ordinarily performed by a draughtsman or assistant engineer, not to make invention. It was held that after the visit of the defendant to the colliery, the terms of his employment imposed upon him an obligation to produce, by the exercise of his industry, skill, ingenuity and inventive ability, the best design he could, complying with the essential conditions of the work. Therefore, he was declared to be a trustee for the plaintiff as to the patent.

The same approach was also shown in Adamson v. Kenworthy.²¹¹ The defendant, a draughtsman employed by the plaintiffs, was instructed by them to design an unlubricated crane brake, a branch of work upon which the defendant had not been directly engaged. The design was finally produced and was patented in the defendant's name. The plaintiff claimed that the defendant was a trustee for them of his interest in the patent. The defendant alleged that the successful feature of the resilient disc had been evolved solely by him outside the scope of his duties and claimed to be entitled to the beneficial interest in the patent. The court held that it was the duty of a draughtsman when instructed by his employer to prepare a design, to use such skill and inventive faculty as he might possess in order to produce the best possible design within his ability, and that in this case the defendant evolved the invention which was the subject of the patent as a result of instruction given to him by the plaintiff and in the discharge of his duty. The patent was ordered to be assigned to the plaintiff.

In fact, in Triplex Safety Glass Co. v. Scorah,²¹² the court went even further. The defendant was employed by the plaintiffs under a service agreement as an assistant chemist. The defendant communicated to the plaintiffs during his employment the subject matter of an invention and suggested that they patent it. However, this suggestion was not accepted by the Board and they did nothing whatever at the time to patent, or protect in any way, the

²¹¹ Adamson v. Kenworthy (1932) 49 RPC 57, *per* Farwell J., at page 68, citing (amongst others) the case of British Reinforced Concrete Engineering Co. Ltd v Lind (1917) 34 RPC 101.

Note: Adamson v. Kenworthy was applied by the House of Lords in Stirling v. Patchett (1955) AC 534, at 544, *per* Viscount Simonds. See also Edisonia Ltd v. Forse (1908) 25 RPC 546, *per* Warrington J., at page 551, "The conclusions to which I have come on the facts is, that the defendant was expressly or impliedly, from the time he became the manager of that moulding department, directed to do the best he could with the view of improving the mode of sale and manufacture of these cylinders. ... I think that he must be taken to have been placed under the obligation of using the utmost skill and knowledge and inventive powers to produce in the business of the company the best possible cylinder and in the most economical way."

²¹² Triplex Safety Glass Co. v. Scorah (1938) 55 RPC 21, *per* Farwell J., at pages 28-29.

discovery. After his employment had been terminated, he developed this discovery for use in his own business and some two years after his employment had been terminated applied for a patent in respect of "An Improved Adhesive". The plaintiff commenced an action, *inter alia*, for a declaration that the patent was held in trust for the plaintiffs. The defendant argued that after a lapse of about three years and despite the prior communication to them of the invention the company had made no previous attempt to utilise the invention. Therefore, it was inequitable for them now to insist on their right. The court, however, held that once a person was put into the position of a trustee, he could not avoid the obligation attached thereto unless the beneficiaries released him, either expressly or impliedly. The defendant was, and remained, a trustee of the invention which he made while in the plaintiffs' employ, and was, therefore, bound to assign the patent subsequently obtained in respect of it to the plaintiffs.

In contrast to the above, the court refused to hold that the employee was obliged to assign his invention to the employer in Selz (Charles) Ltd's Application.²¹³ The employee in that case was employed as a general manager of one of the plaintiff's lampshade manufacturing factories. The business of the plaintiff consisted in covering wire frames with various textile materials, none of which were manufactured by them. While visiting a packaging exhibition with a view to selecting packaging materials for his company, he saw an exhibition of spray-plastic packaging, and conceived the idea that such process might be employed to produce articles for display, and more particularly advertising signs, although it might also be employed in making lampshades. Together with two co-applicants, he applied for a patent for a development of such process. The court held that there was nothing in the obligations which the employee had assumed, or in his duty to his employer,

²¹³ Selz (Charles) Ltd's Application (1954) 71 RPC 158, *per* Lloyd-Jacob J., at page 165, "I do not think that it is suggested ... that Mr Warren-Smith was at any time directed to apply his mind for the purpose of devising an invention or anything in the nature of an invention." See also Mellor v. William Beardmore & Co. Ltd (1927) 44 RPC 175, *per* Lord Ormildale, at page 191, "[T]he mere existence of a contract of service in no way disqualifies a servant from taking out a patent in his own name and entirely for his own benefit - and that notwithstanding that he had used his employers' time and materials to aid him in completing his invention - unless he has become bound by some agreement, either express or implied, to communicate the benefit of his invention to those in whose employment he is."; *per* Lord Anderson, at page 199, "He was not employed ... to invent, and therefore he is entitled to be paid for his invention by the use of which the defender have profited." In the Canadian case of Spiroll v. Putti (1976) 64 DLR (3d) 280 (Sup. Ct British Columbia), Putti was employed to render efficiently operational a machine for making precast concrete slabs. While carrying out this work he conceived improvements and the judge found that, as nothing relating to the design of the machine or its improvement was contemplated by Putti or his employer when he took up his duties, he was not a trustee to his employer in respect of the invention. McKenzie J., at pages 291-292 (after reviewing the United Kingdom cases), said, "But there is one crucial and significant difference between all of those cases and the present one, and I think it is a determinative difference. In all the cases referred to the employee was engaged because of his innovative capacities who in the ordinary course of his duties as an innovator creates something new or different. ... I take this to mean that a court must first find what the employee is engaged to do and, if he invents something while performing that function, it belongs to the employer. If he is employed to design, then it would be a 'normal incident' of his contract of employment that he should do so and that the result of his ingenuity should belong to his employer. I read all of the cases discussed so far to have that message in common. In none of them do I find the notion that the mere fact of employment ipso facto obligates the employee to deliver up his invention to his employer."

which rendered it improper for him to retain as against them his interest in his invention, since it was not part of his duty to be engaged in any inventive activity.

Re Harris' Patent ²¹⁴ is the first case to come before the United Kingdom court on the interpretation of section 39(1) of the Patents Act 1977. In holding that the invention belonged to the employee, the court stressed that the invention was not made in the course of the employee's normal duties, nor was it made in circumstances such that an invention might reasonably be expected to have resulted from his carrying out his normal duties. In fact, in the Patent Office, the hearing officer decided that the patent belonged to the employee since he was not employed to design or invent and did not have a special obligation to further the employer's interest. It would seem, therefore, that the approach is still the same.

Therefore, despite the seemingly wide coverage of the section, it is submitted that it should not be so construed. Inventions made by an employee in the performance of his contract of employment should only be deemed to belong to the employer when the employee is "employed to invent" or where he has been assigned specific duties outside his normal duties which involve problem solving. The earlier argument in favour of this construction is further supported by the wording of the proviso to section 20(1), relating to the payment of equitable remuneration, which begins with, "Provided that where the invention acquires an economic value much greater than the parties could reasonably have foreseen at the time of concluding the contract of employment ...". This implies that for the section to come into play, the employee should have been engaged in such a capacity where he is expected to apply his inventive faculty, and not merely his manual abilities, in the performance of his duties.

²¹⁴ Re Harris' Patent (1985) RPC 19. The patent in suit related to a slide valve for controlling flow of material such as coal dust through a duct. Harris made the invention while he was manager of the Wey valve department of Reiss Engineering who were licensees of a Swiss company, S. Harris' primary duty was to sell Wey valves and to use his specialist knowledge of such valves to deal with problems experienced by Reiss Engineering's customers. Reiss Engineering had no research laboratory, however, and never undertook any creative design activity; any major problem was referred to S. for solution. Harris applied for the patent in January 1979, and Reiss Engineering filed a reference under section 8 of the Patents Act 1977 alleging that the invention belonged to them by reason of s.39(1). In the Patent Office, the hearing officer decided that the patent belonged to Harris, holding that he was not employed to design or invent and did not have a special obligation to further R's interest. On appeal to the Patents Court, it was held, *inter alia*, that because R never took it upon themselves to solve design problems in the valves, it could not have been part of Harris' normal duties to provide solutions to such problems. His duty was to report them for transmission to S., for S.'s consideration and solution. The invention was, therefore, not made in the course of Harris' normal duties. See pages 28-29, also, *per* Falconer J., at page 37. See also Staeng Limited's Patents [1996] RPC 183, *per* Dr Ferdinando in the Patent Office, at pages 198-200.

2.7.1.b. "Commissioned" invention

There should not be any problem in determining whether a person is working under a contract for execution of work, or a commission,²¹⁵ the other branch of section 20(1) of the Act. Although there is no definition of the term "contract for the execution of work" it would seem that this will fall under the traditional description of a contract for services. When a person works for another, if the circumstance is not such that it is a contract of employment, then it would have to be a contract for the execution of work. In other words, the person working would be regarded as an independent contractor. The rule that an invention made in the performance of a contract for the execution of work belongs to the person commissioning the work is not usually found in the patent laws of other jurisdictions, except possibly those systems adopting the WIPO model.²¹⁶

Just as in the first subsection of section 20, a strict reading of the second subsection would lead to the conclusion that any invention arising from the execution of work will belong to the commissioner. However, it is submitted that not all inventions arising from a commission will belong to the person commissioning the work. Whether such "commissioned" invention belongs to the person who commissions the work depends on the nature of the work contracted for. Take, for example, the case of a commission whereby the contractor is awarded the work of servicing and keeping in working order the machinery of a particular company. If, during the contractual period, the commissioned worker made an invention related to the machinery under his care, and arising from the experience which he derived from the commission, could it be said that the legislature envisaged that the invention should belong to the person who commissioned the work? It is submitted that such is not the intention. The provision relating to commissioned inventions being placed together with service inventions in section 20(1) would imply that the requirement that before a service invention can be deemed to belong to the employer, the employee must be employed to work in an inventive capacity, will apply equally to commission contracts.²¹⁷ Hence it is only when the commissioned worker is commissioned to conduct research works which may result in an invention that any inventions made will belong to the person commissioning the work. An example would be when a firm engages the service of an independent contractor or consultant to conduct

215 For ease of discussion, the term "commission" will be used when referring to a contract for the execution of work, and the term "commissioned worker" will be used to refer to the person who has been asked to execute such work.

216 See, for example, the provision of section 66(1) of the Sri Lankan Act. However, in such a situation, to make business sense, it is usually an implied term of the contract that any invention arising from the commission would belong to the person commissioning the work - see, for example, Goddin and Rennie's Application [1996] RPC 141 (Court of Session), *per* Lord Cullen, at pages 178-180.

217 This view is also supported by the statement in the Commentary to the WIPO Model Law. In explaining section 120(1)(a) relating to "service" and "commissioned" work, the Commentary refers to "the performance of research work" when explaining the nature of such contracts - see page 65 of the WIPO Model Law.

research in a certain area of study which is of interest to the firm. To put it another way, the activities of the person commissioning the work have to be taken into consideration. Is he a user of the product or a manufacturer? If he is involved in manufacturing activities, then he might have a legitimate claim to the inventions created by the commissioned worker.

2.7.2. "Dependent" Invention

In the case of a "dependent" inventions, section 20(2) provides that "Where an employee whose contract of employment does not require him to engage in any inventive activity makes, in the field of activities of his employer, an invention using data or means placed at his disposal by his employer, the right to the patent for such invention shall be deemed to accrue to the employer, in the absence or any provision to the contrary in the contract of employment." From the provision, it is clear that the duties undertaken by the employee under his employment contract do not envisage any inventive ability or activity. Therefore, any invention envisaged would have to be devised by the employee outside his normal or assigned duties. Before the provision applies, however, all the conditions stated in the section must be present, i.e., the invention made must be within the "field of activities of his employer", and the employee must have made use of "data or means placed at his disposal by his employer".²¹⁸

It is not clear whether the "activities" mentioned include only those engaged in by the employer at the time the employee is taken into service or if it applies to all activities that the employer might be involved in the future, i.e., after the invention was made. It is submitted that the activities must be restricted to activities of the employer, at the latest, at the time when the employee conceives the invention. Further, it is not clear whether the field of activities referred to is restricted to the particular branch or division where the employee is working, or to all sort of diverse activities engaged in by the employer in all their branches or divisions. The question might also arise when the invention relates only to a field of activity engaged in by a subsidiary company of the employer. It is submitted that it should be construed to apply only to the present field of activities in the particular branch where the employee is attached to.²¹⁹

²¹⁸ The concept of the "dependent" invention seems to be quite similar to that of the "experience" invention, i.e., one which is essentially based upon the experience or activities of the employer, provided under section 4(2)(2) of the German Act on Employees' Invention, 1957, as amended in 1994.

²¹⁹ In fact, according to Rausing, F., "The Swedish Law of Employees' Inventions" in Phillips, J. (Ed.), *Employees' Inventions, A Comparative Study*, Fernsway Publication, 1981, at page 99, under The Act on the Right to Employee's Inventions (1949:345, as last amended 1980:171) of Sweden, only the field within which the inventor is employed shall be regarded as the one concerned in the Act.

The second condition which must be fulfilled is that the employee, in making the invention, uses data and means placed at his disposal by his employer. The word "data" would include information gained only because of the placement of the inventor in the particular work environment. Confidential information would fall within this category. Possibly other information which is not strictly confidential may be included. For example, where the employer is placed in the complaints department, he would be in possession of information relating to the defects and shortcomings of a particular product, which he would otherwise not be in possession of.²²⁰ It is not clear whether it applies also to special knowledge or expertise gained by the employee while in employment. "Means" presumably includes the use of equipment and machinery of the employer, materials, and possibly even the use of other workers in the employment of the employer.

If this provision is to provide a fair balance between the interest of the employer in being able to claim ownership of inventions in situations where the employee is not employed to exercise his inventive ability, and the interest of the inventor in being able to claim ownership of his own invention, it is hoped that the court will construe it in a narrow manner. It is submitted that a narrow approach is the only way to prevent it being applied unduly unfairly against the interest of the employee. If the provision is not restrictively interpreted, it would seem that if the situation in Harris's Patent²²¹ were to occur in Malaysia, the decision might be different. This is because the invention could be deemed to be made using data, i.e., information gained by Harris from his employment, placed at his disposal by the employer. There is no mention in the provision as to whether the invention needs to be made during the employer's time or whether it applies also to inventions made outside office hours, as long as use is made of the employer's data or means placed at his disposal. The second condition, i.e., that it is in the field of activities of the employer will also be satisfied. This argues for the contention that section 20(2) should be restrictively construed.²²²

220 This was the situation that occurred in Harris's Patent [1985] RPC 19.

221 Harris's Patent [1985] RPC 19.

222 The alternative provided by the WIPO Model Law is that such invention shall be deemed to belong to the employee, unless within a period of four months after the date at which the employer receives notification of the invention from the employee, the employer notifies the employee of his interest in the invention. In such case, the invention shall be deemed to have belonged to the employer from the beginning. This alternative is partly based on sections 4(2) and 8 of the German Act on Employees' Invention, 1957, as amended in 1994, and section 5 of the Act on the Right to Employee's Inventions (1949:345, as last amended 1980:171) of Sweden. However, this WIPO alternative is unsatisfactory because it does not incorporate other related provisions of the German model, which are intended to protect the interests of the employee. See, for example, sections 6 and 7 of the German Act, which envisage the possibility of the employer making a limited claim, as opposed to an unlimited claim, to the invention. The latter means that full ownership rights in the invention are claimed, whereas in the former, the employer takes only a non-exclusive licence to use the invention in his business. The employee has the right to apply for a patent and to grant non-exclusive licences to third persons, including the employer's competitors. For the German approach, see, Phillips, J. (Ed.), *Employees' Inventions, A Comparative Study*, Fernsway Publication, 1981, chapter 7, and the following articles: Davis-Ferid, H., "The Employed Inventor under United Kingdom and German Law", [1981] 4 EIPR 102; Pakuscher, E.K., "Rewards for Employee Inventors in the Federal Republic of Germany", [1991] 11 EIPR 318; [1981] 12 EIPR

The Act provides that when these conditions are satisfied, the invention belongs absolutely to the employer. There is no attempt to cater for the possibility that the invention may have many possible applications, over and above the possible use by the employer in their present field of activity. The argument that the scope of the invention went beyond the solution of the particular problem that the employers were keen to solve, and therefore, the right in the invention should be divided out between the employer and the employee was pleaded in Barnet Instruments Ltd v. Overton.²²³ The court, although agreeing that the invention covered things in which the employer had no interest or concern, held that this fact was immaterial. Further, the judge ruled that it would be impossible for the rights in the patent to be divided out, giving beneficial ownership to the employer according to the needs of the employer, while the beneficial ownership of the rest would go to the employee.²²⁴

Although there is a provision for equitable remuneration for the employee under this subsection, it is submitted that the statutory provision regulating "dependent" invention goes too far in favour of the employer. Admittedly, the employer should in some way benefit from a "dependent" invention, since the employee has made use of the data and means available to him through the employment. On the other hand, it has to be remembered that the employee is not employed to engage in inventive activity. The invention was due to his own initiative. The difficulties envisaged in the construction of section 20(2) and the apparent unfairness to the employee could be overcome by the adoption of a modified "shop right" doctrine as applied by the United States courts. Basically the shop right doctrine provides that an employee who uses his employer's facilities, time or resources to make an invention must allow his employer a non-exclusive, royalty-free, non-transferable licence to make use of the invention. The ownership of the invention, however, belongs to the employee.²²⁵

343; and Schade, H., "Employees' Inventions - Law and Practice in the Federal Republic of Germany", *Industrial Property*, September 1972, 249; Schadi, P., "German Law Relating to Service Inventions, Inventions of Employees, and the Determination of Remuneration and Compensation", *Industrial Property Law*, 1979, 169. It is interesting to note that the Nicholson Report (*Intellectual Property and Innovation*, Cmnd. 9117, HMSO, London, 1983), at paras. 5.29-5.31, recommends that employee inventors be given the rights to take title in their inventions which were not being exploited by their employer. However, this recommendation was not accepted by the UK Government - see *Intellectual Property and Innovation*, White paper, Cmnd. 9712, HMSO, London, 1986, at paras. 4.21-4.32.

223 Barnet Instruments Ltd v. Overton (1949) 66 RPC 315. See Romer J., at page 323.

224 Note that the now repealed section 56(2) of the Patents Act 1949 of the United Kingdom attempted to give the court a discretion to apportion the benefits of a patent between employer and employee in certain situation where it was unclear whether the invention should belong to the employer or employee. However, the provision had been rendered nugatory by the court's construction of the section - see Patchett v. Sterling Engineering Co. Ltd (1955) 72 RPC 50, *per* Viscount Simonds, at page 57. See also the comments of Cornish, W.R., "Rights in Employees' Inventions - The United Kingdom Position", (1990) 21 IIC 298, at page 300. For the genesis of this section, see Phillips, J., Hoolahan, M.J., *Employee's Invention in the United Kingdom*, ESC Publishing Ltd, Oxford, 1982, at pages 46-47.

225 See, generally, Chisum, D.S., *Patents*, Matthew Bender, Vol. 6, chapter 22. See also the interesting article by Morris, C.R., "Patent Rights in an Employee's invention: The American Shop Right Rule and the English View", (1959) 75 LQR 483, where he also discusses the Barnet case and argues that it would not be impossible for the English courts to adopt the shop right rule as a matter of common law.

However, the shop right doctrine could be modified to provide a fairer balance between the employer and employee.²²⁶ While the employee is given the right to the ownership of the patent, the employer, in return shall have an exclusive licence to use or exploit the invention in whatever way he wishes, as long as the exploitation or use is within the employer's present field of activities. The terms of the licence, in the absence of agreement, will be set by the court. The employee will have the sole discretion as to what he wishes to do with the invention in so far as it is unrelated to the field of activities of the employer. In this way, the employer will not have to fear that licences will be granted to his competitors in his field of activities.²²⁷ The employee will also be able to enjoy the benefit of his invention in areas which are not in competition with his employer, for example, by granting licences.

To ensure that the employer would have the opportunity to take up the exclusive licence, there should be a provision for notification of the invention by the employee. Only on the employer's failure to accept the offer of an exclusive licence after a fixed period will the employee be free to exploit it or offer it to others. At the same time, it should be expressly provided in the Act that despite the right to ownership of the dependent invention, the employee is still subject to any duty of confidentiality owed to his employer.

2.7.3. "Free" Invention

In the case of a "free" invention, that is when the invention is neither a "service" invention nor a "dependant" invention, the invention will belong to the employee inventor. There is no specific provision providing for such a situation.²²⁸ However this proposition is derived from the general provision of section 18(2) which provides that subject to section 19, the rights to a patent shall belong to the inventor. Therefore, it is only when the invention is made in the specific situations laid down in section 20(1) and (2) that it will be deemed to belong to the employer. Inventions outside these two situations remain the property of the employee. This follows the situation at common law.²²⁹

²²⁶ For a critique of the "shop right" doctrine, see Koenig, G.K., "The Shop Right - Time for Limitation", (1967) 49 JPOS 658. See also, Stedman, J.C., "The Employed Inventor, The Public Interest, and Horse and Buggy Law in the Space Age", Patent Law Review, 1970, 207, and Neumeyer, F., The Employed Inventor in the United States: R&D Policies, Law, and Practice, The Massachusetts Institute of Technology, 1971, at pages 42-43. In this respect, it is interesting to note that the patent law of South Korea appears to elevate the shop right doctrine to make it applicable to service inventions. However, this seemingly favourable position of an employee inventor is taken away by the possibility of contractual provisions to the contrary - see section 39(1) and (3), Patent Law, 1990, Republic of South Korea.

²²⁷ Witness the justifiable unhappiness of the employer in Electrolux v. Hudson (1977) FSR 312, where the employee's invention was offered to its rivals. See Whitford J., at pages 325, and 329-330.

²²⁸ Unlike the 1977 Act of the UK, which provides in section 39(2) that any other invention made by an employee shall, as between him and the employer, be deemed to belong to the employee.

²²⁹ In fact, the early English cases indicate a strong bias in favour of the employee concerning employers' claims to the exclusive benefit to all employees' inventions. See, for example, Bloxam v. Elsee (1825) 171 ER 1316, per Bayley J., at page 1320, "In the case of Hill v. Thompson 8

2.7.4. Equitable Remuneration

The Malaysian provision for compensation for "service" and "commission" inventions is laid down in the proviso to section 20(1). This provides that where the invention acquires an economic value much greater than the parties could reasonably have foreseen, the inventor shall be entitled to equitable remuneration. In the absence of agreement, the amount of remuneration may be fixed by the court. The only condition to be satisfied before an employee is entitled to equitable remuneration in the case of a "service" and a "commissioned" invention is that the invention should have acquired an economic value greater than the parties could reasonably have foreseen.²³⁰ Thus there is no requirement that the court should come to a finding that the invention should be of "outstanding benefit" to the employer.²³¹ Once a higher than expected economic benefit has been derived by the employer, the court is bound to grant equitable remuneration. It is significant to note that the mere existence of a benefit arising from the invention would not entitle the employee or commissioned worker to an equitable remuneration. It is only when the benefit is over and above what could reasonably have been foreseen by the parties that the remuneration scheme comes into play. This is fair, since the purpose of engaging the employee in the situation under consideration is to seek improvements and savings in the employer's business. In other words, the employee is employed to create or come out with solutions to benefit the employer. In return for this, the employee gets the benefit of his salary, improved employment prospects, or other perks. Therefore, it is only when higher than expected benefits are brought about by the employee's efforts that he should be additionally rewarded, and be entitled to receive something more, and over and above his usual

Taunt. 395, it is laid down, that if a servant makes an improvement, his master is not entitled to take out a patent for it."; Heald's Application for Patents (1891) 8 RPC 429, *per* the Solicitor-General, at page 430, "... there is no doubt in my mind ... that it was as the servant of the company, and in the desire to serve the interests of that company, that Heald made the improvements ... in question. But then I have to deal with the proposition upon which Mr Graham has challenged his opponent to quote an authority - the proposition that an improvement made by a servant is the property of his employer, so as to entitle the employer to take out a patent for it, or to prevent the servant from taking out a patent for it. I am not aware of any authority which lays down that the invention of a servant, even made in the employer's time, and with the use of the employer's material, and at the expense of the employer, thereby becomes the property of the employer, so as to prevent the person employed from taking out a patent for it." (Note - despite the accepted finding that Heald made the invention during the company's time and at the company's expense, the invention was held to belong to the employee); and Marshall and Naylor's Patent (1900) 17 RPC 553, *per* Farwell J., at page 555, "It is laid down in Mr Frost's book: 'In the absence of a special contract the invention of a servant, even though made in the employer's time and with the use of the employer's materials and at the expense of the employer, does not become the property of the employer so as to justify him in opposing the grant of a patent for the invention to the servant who is the proper patentee.'"

²³⁰ There is no definition of "economic value". However, it would appear that benefits in the form of outright sale of the invention, royalties from licensing, savings in manufacturing costs, the deterrent effect of the patent on competitors and increased sales would be included. See, for example, the comments of Aldous J., in Memco-Med Ltd's Patent [1992] RPC 403, at page 413, and the hearing officer, Dr Ferdinando, in British Steel PLC's Patent [1992] RPC 117, at 123.

²³¹ Unlike the UK scheme which requires "that the patent is ... of outstanding benefit" to the employer - s. 40(1). There the court is forced to think in terms of superlatives in assessing the benefit of the patent to the employers, see British Steel PLC's Patent [1992] RPC 117, at 122, *per* the hearing officer Dr Ferdinando; Aldous J., in Memco-Med Ltd's Patent [1992] RPC 403, at 414.

remuneration. It remains to be seen, however, how the court would construe "higher than expected" benefits.²³² Another related question is whether the benefit is to be assessed from the view point of the employer's whole commercial organisation, or only from the unit, division or site to which the employee is attached.²³³ It is submitted that the reference in the proviso to the expected economic value foreseen at the time of making the contract of employment is a strong indication that the benefit accruing to the employer should be assessed primarily at the level of the immediate undertaking to which the employee is attached. However, there may be problems if the invention is used elsewhere other than on the site where the employee is attached. Therefore, in fairness to the employee, the primary rule should be applied flexibly when the circumstances justify it, and benefits from other sites taken into account.²³⁴

There is no mention that a patent must have been granted for the invention before the right to claim equitable remuneration accrues.²³⁵ From this it can be argued that the compensation provision is meant to apply regardless of whether a patent has been granted for it. However, it would appear that the statutory scheme under consideration here is not meant to reward any innovative ideas which benefit the employer. Even though the invention need not be patented to entitle the employer to receive the statutory reward, it has still to reach the level of being a patentable invention under the Act.²³⁶ This can be deduced from the provisions of section 20(1) and (2) where reference is made to "the rights to a patent for an invention" in both the subsections. This is a fairer scheme than that in the UK Act, as it allows an inventor to claim remuneration even though the employer may decide not to patent the invention, as, for example, when the employer decides, for business

232 For the problems associated with identifying and quantifying the benefits accruing to the employer under the UK scheme, see Chandler, P.A., "Employees' Invention: Outstanding Compensation?" (1992) JBL 600.

233 Under the UK scheme, in determining outstanding benefit, section 40(1) focuses on the "size and nature of the employer's undertaking". The issue of how this "undertaking" is to be identified arose in British Steel PLC's Patent [1992] RPC 117, where the patent was only used at the South Teesside works. The hearing officer, Dr Ferdinando, at page 122, ruled that, as no cogent argument was forthcoming as to why the word "undertaking" should be construed as applying simply to this site, he should have regard to the "undivided totality of the British Steel operation". However, he did not rule out the possibility that in appropriate circumstances, and when supported by evidence to justify such an interpretation, the proper "undertaking" to be considered might be constituted by a particular sector or site of the employer's total organisation. Such a possibility was also envisaged by Aldous J., in Memco-Med Ltd's Patent [1992] RPC 403, at 414. Chandler, P.A., "Employees' Invention: Outstanding Compensation?" (1992) JBL 600, at page 606, regards this approach as "fair and logical".

234 See the alternative argument put forward by Chandler, P.A., "Employees' Invention: Outstanding Compensation?" (1992) JBL 600, at page 606, on the question of how to identify the "employer's undertaking" under section 40(1) of the UK Act.

235 cf the 1977 Act of the UK, s. 40(1), "... the employee has made an invention belonging to the employer for which a patent has been granted."

236 Section 11 of the Act provides that an invention is patentable if it is new, involves an inventive step and is industrially applicable, see Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.5.4.

reasons, to keep the invention as a trade secret. Further, it is the invention which needs to acquire an economic value higher than expected, not the patent.²³⁷

No guidance is provided in the Act of the factors to be taken into account in deciding the amount of the equitable remuneration to be awarded to the eligible employee or commissioned worker. It is submitted that the factors listed in section 41(4) of the 1977 Act of the United Kingdom could provide useful guidance. The factors listed in that section include the employee's duties, remuneration and other advantages from his employment; the effort and skill of others who give advice and assistance; and the employer's contribution, by the provision of advice, facilities and other assistance, the provision of opportunities, and managerial and commercial skill and activities.²³⁸

In the case of a "dependent" invention, the proviso to s.20(2) provides that the employee shall be entitled to equitable remuneration which, in the absence of agreement between the parties, may be fixed by the Court. Unlike the provision for "service" and "commissioned" inventions, entitlement to equitable remuneration is not conditioned upon the invention acquiring a greater value than was reasonably foreseen, since in a section 20(2) situation, no invention is expected in the first place. Hence a lesser benefit, or even any benefit would suffice to entitle the employee to the statutory remuneration. Further, in determining the amount of equitable remuneration for a "dependent" invention, the court has to take into account the emoluments of the employee, the economic value of the invention and any benefit derived from it by the employer.²³⁹ No further guidance is given in the Act as to the how the proper remuneration is to be calculated nor how it is to be distributed. However, from the German experience, it would seem that the method most commonly used in determining the value of the invention is the licensing analogy system. Under this method, the type of licence contract that might be concluded in similar circumstances is determined, and a royalty rate that would be customary for comparable licence agreement is arrived at. Since the employee is employed by the employer, is working with materials and facilities provided by the employer, and is not exposed to the costs and risk during the development of the invention, he will get a lower rate than the market rate - a market rate minus system. Another system of calculation is to calculate the measurable benefit of the invention to the

²³⁷ Thus the court is spared any arguments regarding whether it is the patent or the invention which gives the benefit to the employer. See the argument in Memco-Med Ltd's Patent [1992] RPC 403, the Patent Court, *per* Aldous J., at pages 416-417, on the construction of the United Kingdom provision.

²³⁸ The statutory factors used in assessing the amount of reasonable compensation under the German law include the commercial utility of the invention, the position and responsibility of the employee in the employer's business, and the extent to which the employer contributes to the invention - section 9, Act of Employees' Inventions, 1957, as last amended in 1994, Germany. For an account of the rules for determining the compensation to be paid to the employee inventor in Germany, see Laude, K. E., "The Compensation for Employee Invention in Germany", (1962) 44 JPOS 772, and Schmied-Kowarzik, V., "Employee Inventions Under German Law", (1972) 54 JPOS 807. See also further references in footnote 240 *infra*.

²³⁹ See proviso to section 20(2) of the Act.

employer. Out of this, a portion is given to the employee, either in a lump sum or by way of periodic payment. However, such a method is more difficult to assess in practice.²⁴⁰

There is no mention in the section regarding the time period within which a person entitled to equitable remuneration can apply for such payment. Further, under the present scheme, it does not seem possible for a person entitled, or the employer, to apply for an award to be increased or varied. In the interest of certainty, and to enable adjustments to be made regarding payments because of later circumstances, suitable amendments should be made to the Act.

2.7.5. Contracting Out

Section 20(3) of the Act provides that the rights conferred on the inventor under subsection (1) and (2) shall not be restricted by contract.²⁴¹ Presumably the purpose of this provision is to ensure that any attempts by the employer to curtail or diminish the right of the employee or commissioned worker to apply for equitable remuneration will not be enforceable, since these are the only rights prescribed in section 20(1) and (2) to the inventors. However, it does not go far enough. It would appear that if the employer were to insert in the contract of employment that any invention made during the period of employment would be deemed to belong to the employer, whether the invention be a "service", "dependent", or "free" invention, such a clause would fall outside the prohibition of section 20(3). The contractual allocation of rights in a "service" or "dependent" invention to the employer would not fall foul of section 20(3), since such rights have already been statutorily allocated. The appropriation of "free" invention by the employer would also not fall foul of this subsection, since "free" invention is not covered by section 20(1) and (2), and therefore, outside the ambit of section 20. It is, therefore, proposed that the reference in the subsection to section 20(1) and (2) be removed to prevent a restrictive reading of subsection (3).

²⁴⁰ For more detailed discussions of these methods, see Davis-Ferid, H., "The Employed Inventor under United Kingdom and German Law", [1981] 4 EIPR 102, at 104-105; Schade, H., "Employees' Inventions - Law and Practice in the Federal Republic of Germany", *Industrial Property*, September 1972, 249, at 252-253; Ruster, B. (Ed.), *World Intellectual Property Guidebook, Federal Republic of Germany, Australia, Switzerland*, Matthew Bender, 1991, at Ger 2-152-153; Phillips, J. (Ed.), *Employees' Inventions, A Comparative Study*, Fernsway Publication, 1981, at pages 193-200.

²⁴¹ Even under the common law, the doctrine of restraint of trade has already been applied by the courts to strike down unfair widely defined clauses obligating an employee to assign all inventions made during the duration of the employment, however and wherever made, to the employer. See, for example, *Electrolux v. Hudson* (1977) FSR 312, *per* Whitford J., at pages 321-324, and *Triplex Safety Glass Co. v. Scora* (1938) 55 RPC 21, *per* Farwell J., at pages 27-28, where the express term of the contract was held to be too wide to be enforceable. Note too that under section 28 of the Malaysian Contracts Act, 1950, "every agreement by which anyone is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void." See generally, Chandler, A., Holland, J., *Information: Protection, Ownership and Rights*, Blackstone Press Ltd, 1993, Chapter 2, Restraint of Trade.

2.8. Proposals for Change

The discussions and analyses of the relevant provisions of the Act regarding joint invention, joint ownership and employees' invention, show that there are weaknesses in the present provisions. The Act should be amended to make it more workable and to enable a fairer balance between all interested parties. This involves revisions of four sections, sections 18 to 20, and section 40. In relation to section 18, a new subsection (1A) needs to be added to define the attributes of a patent or patent application. It is proposed that subsection (2) of section 18 be amended to make the section subject to section 20 and not section 19. Further, a new subsection (2A) is incorporated. This subsection will expressly provide that where there is an assignment or transfer of the rights to a patent, then such rights shall now belong to the assignee or successor in title. A definition of joint inventorship is provided in the new subsection (3A), whereas a new subsection (5) specifies that the inventor or inventors have the right to be mentioned in a patent application. Provision is also made under this subsection to provide for the judicial resolution of inventorship disputes. In relation to ownership disputes, provisions are proposed to give express powers to the court to deal with them, and to make suitable orders in settlement of the disputes. These are dealt with in section 19 by the addition of two new subsections. The proposals regarding dependent inventions are dealt with under the amended subsection (2) of section 20. The amended subsection (3) and new subsections (4) and (5) of section 20 seek to clarify the provisions regarding avoidance of the statutory provisions by contract, the right to apply for, and also to vary an order for remuneration. The proposed formulation regarding the rights of joint owners are laid down in the proposed amendments to section 40 and a new section 40A.

The proposed amendments to the Act to deal with the problems identified in this Chapter are set out in Chapter 8.

CHAPTER 3: The Exclusive Rights

3. Introduction

The various statutory rights granted to a patentee under the Act are considered in this Chapter. Section 36 of the Act provides that the owner of the patent shall have the exclusive rights to exploit the patented invention, to assign or transmit the patent, and to conclude licence contracts.¹ The main focus is on the exploitation rights and infringement of such rights. The other exclusive rights, i.e., the right to assign and transmit, and the right to licence, are only dealt with in outline here for the sake of completeness. More detailed consideration of these two rights, especially the various controls, exceptions, and limitations to these rights are dealt with in other chapters.²

The different heads of the exploitation rights are examined to determine the scope of the exploitation rights, and the activities which would lead to an infringement of the patent. In the analysis of infringement, only acts of direct infringement are discussed here. The issues of indirect or contributory infringement are dealt with in Chapter 4, as is the question of joint tortfeasance. Again reliance is placed mainly on the judicial precedents of the United Kingdom courts, and the judicial decisions of the other Commonwealth courts which have also traditionally relied on the UK cases. Where relevant, reference is also made to US cases.³

In the analysis of the United Kingdom case law, reference to the old law or common law position refers to the law prior to the Patents Act 1977 of the United Kingdom (the 1977 Act). This is because prior to the enactment of the 1977 Act, there was no statutory definition of infringement, nor were there any statutory provisions laying down the exclusive rights attributed to the patent owner. The rights were derived from the form of

¹ These rights are similar to the rights provided in section 134(1)(ii) and (iii) of the WIPO Model Law. In fact, section 36(1) to (3) is modelled upon the provisions of section 81(1) to (3) of the Code Of Intellectual Property Act [No. 52 of 1979, as amended by the Code of Intellectual Property (Amendment) Act, No. 30 of 1980, and the Code of Intellectual Property (Amendment) Act, No. 2 of 1983], Sri Lanka (the Sri Lankan Act). The only difference is the absence of the equivalent of section 36(4) of the Malaysian Act in the Sri Lankan model (reversal of burden of proof). Note that the WIPO Model Law also does not contain a provision on the reversal of the burden of proof.

² See Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, and Chapter 7 - Exceptions, Limitations and Loss of Rights.

³ In fact, the exclusive rights granted to the patent owner in these countries are substantially the same and worded in similar fashion. For the US provisions, see section 271(a) USC Title 35 - Patents, United States in Appendix. See generally Chisum, Vol. 4, Chapter 16, on the law of infringement in the United States.

patent as judicially construed.⁴ These rights, as construed by the courts, were part of the law of Malaysia prior to the coming into force of the Act.⁵ Although section 60 of the 1977 Act was also deemed to be a part of the law relating to the patent owner's rights in Malaysia prior to the coming into force of the Malaysian Act,⁶ reference is only made to cases

⁴ For an example of the form of patent, see Patents Act 1949, Fourth Schedule. By the grant, the patent owner is given the exclusive right to "make, use, exercise and vend the said invention". The word "vend" has been equated with "sell" - see Badische Anilin und Soda-Fabrik v. Hickson (1906) 23 RPC 433 (HL), *per* Lord Loreburn L.C., at page 437, " ... He admitted that merely to make a contract of sale would not be "vending" or, to use a word in sense equivalent and in use more familiar, selling", and Domco Industries Ltd v. Mannington Mills, Inc. et al. 29 CPR (3d) 481 (1990), *per* Iacobucci C.J., of the Federal Court of Appeal, Canada, at page 490.

The exclusive rights of the patent owner in the other Commonwealth countries are either based on similar form of patent, or are worded in similar terms in the statutory provisions.

In New Zealand, the traditional terminology is reproduced in the Third Schedule to the Patents Regulations 1954 (S.R. 1954/211), Form A. Canada - see section 46 of the Patent Act 1935, c. 32, s. 1 (Canada) which specifies the rights conferred on a patentee using similar words, i.e., "... grant to the patentee and his legal representatives for the term herein mentioned, from the granting of the same, the exclusive right, privilege and liberty of making, constructing, using and vending to others to be used the said invention ..."; the current section 42 of the Patent Act, RSC 1985, c. P-4, is in similar terms. Australia - section 69, Patents Act 1952 (Cth) provides "... the effect of a patent is to grant to the patentee the exclusive right, by himself, his agent and licensees, during the term of the patent, to make, use, exercise and vend the invention in such manner as he thinks fit, so that he shall have and enjoy the whole profit and advantage accruing by reason of the invention during the term of the patent." Under the Patents Act 1990, there is again no provision relating to infringement. The extent of the patentee's rights is determined from the provision of section 13, and Schedule 1 - definition of "exploit". In South Africa, section 45(1), Patents Act 57 of 1978, provides that the effect of a patent is to grant to the patentee "the right to exclude others from making, using, exercising or disposing of the invention, so that he shall have and enjoy the whole profit and advantage accruing by reason of the invention". So it is not surprising that recourse is made to a large extent to United Kingdom law from which the words were derived.

⁵ On the rights conferred by registration in Hong Kong under a similar ordinance, Registration of United Kingdom Patents Ordinance, Cap. 42, Hong Kong, see Smith, Kline & French Laboratories v. Attorney General [1966] FSR 254 (Sup. Ct Hong Kong), *per* Rigby J., at pages 257-258, "Section 6 of that Ordinance ... does no more than extend to the patent holder, by virtue of his certificate of registration, the same protective rights in Hong Kong as he already held in the United Kingdom ... In my judgement it does not more than extend to Hong Kong the rights and privileges given to the holder of a patent issued in the United Kingdom as if the words "the colony of Hong Kong" had been included in the original letters patent."; *per* Huggins J., at page 263, "I find nothing in section 6 of the Ordinance which by necessary implication applies any part of the statute law of England to the Colony. Within the Colony the certificate of registration ... confers merely such privileges and rights as, against a subject, are granted by letters patent at common law, those privileges and rights being subject to the conditions and provisions of statutes in force in the Colony."

⁶ See, for example, Smith Kline & French Laboratories Ltd v. Salim (Malaysia) Sdn Bhd [1989] 2 MLJ 380, *per* George J., at page 382, "In my judgement the purport of the Malaysian Act generally and the effect of s. 6 of the Malaysian Act in particular is to confer on the patentee, upon registration of his patent in West Malaysia, rights and privileges as if the patent has been granted in West Malaysia and in respect of West Malaysia. Section 60(1)(a) of the UK Act when invoked in West Malaysia ... should be read with the words 'United Kingdom' therein read as 'States of Malaya'. The tenor of the Malaysian Act read as a whole makes this obvious." See also the following Hong Kong cases - Improver Corp. v. Raymond Industrial Ltd [1991] FSR 233 (CA Hong Kong), *per* Penlington J.A., at page 239, "While the position is not entirely clear and legislation is undoubtedly required to remove any doubts ... when the matter came before Mayo J. he took the view that the Patents Act 1977 was in force in Hong Kong, and registration in England gave protection in Hong Kong by virtue of the Registration of Patents Ordinance, Cap. 42. This has not been disputed by either party to the litigation and we are satisfied that he was correct to so hold."; National Research Development Corp. v. The Wellcome Foundation Ltd [1991] FSR 663 (Patents Court), *per* Aldous J., at pages 668-669, "In 1987, it seems that the courts in Hong Kong were not certain whether after the passing of the 1977 Act the holder of a patent registered in Hong Kong before the 1977 Act came into force enjoyed the original rights and privileges obtained upon registration or those contained in the 1977 Act ... However, Mayo J., in Improver Corp. v.

decided under the 1977 Act where they help in the construction of the equivalent provisions in the present Malaysian Act. Even though not all the old cases may be directly applicable now in view of statutory changes in the Act, analysis of these cases is productive to understand the concerns of the judges and how they construed the old provisions to provide proper safeguards for the patentee. This analysis and evaluation of the Act aim to determine whether the protection for the patentee is satisfactory or needs to be adjusted.

3.1. Exploitation Rights

The Act defines the extent of the "exploitation" rights granted for both a product patent and a process patent. Unlike the provisions of the United Kingdom Act, which has only an infringement section, the Malaysian Act expressly specifies the exclusive rights of exploitation, and refers back to these rights in the section on infringement. However, there does not seem to be any practical significance in this.

In the case of a product patent, the right of exploitation means the right to make, import, offer for sale, sell or use the product,⁷ and the right to stock such product for the purpose of offering for sale, selling or using.⁸ In this context, the difference between a product claim and a product-by-process claim needs to be distinguished. A product claim results in protection of a new article or substance independent of its manner of preparation, and extends to all possible uses of that product. Therefore, even though a method of preparation is specified in the specification, protection granted to the product is not restricted to the product made by this particular method of preparation.⁹ In the case of a product-by-process

Raymond Industrial Ltd [1988] 1 HKLR 5, held that the rights and privileges were those available to a U.K. patentee, namely the rights and privileges contained in the 1977 Act which had superseded the 1949 Act. ... I believe that Mayo J. was correct. It is correct that the Patents Act 1977 had not been extended to Hong Kong, but Hong Kong patentees have the same rights and privileges as if the patent had been granted in the United Kingdom with an extension to Hong Kong. Under the 1949 Act, the rights and privileges in the main came from the Letters Patent. After the 1977 Act came into force, it became necessary to look to the 1977 Act to ascertain the extent and nature of the United Kingdom patent rights and privileges. A Hong Kong patentee has the same rights and privileges and the 1977 Act must be consulted to ascertain their nature and extent."

⁷ See section 36(3)(a)(i) of the Act.

⁸ See section 36(3)(a)(ii) of the Act. The definition of exploitation rights is *in pari materia* with that provided in section 135(2)(a) and (b) of the WIPO Model Law.

⁹ See, for example, Adhesive Dry Mounting Co. Ltd v. Trapp & Co. (1910) 27 RPC 341, at pages 352- 353, *per* Parker J.; The Wellcome Foundation Ltd v. Discpharm Ltd & ors [1993] FSR 433, *per* Judge Ford in the Patents County Court, at pages 439-440, para. 2.9.; Merrell Dow Pharmaceuticals Inc. & anor v. H.N. Norton & Co. Ltd [1996] RPC 76 (HL), *per* Lord Hoffmann, at page 82. See also "Fungicide" (1971) 2 IIC 85, at 86 (Fed. Sup. Ct Germany) and "Trioxane" (1972) 3 IIC 226, at 236 (Fed. Sup. Ct Germany); and Ladas, S.P., *Patents, Trademarks, and Related Rights, National and International Protection*, Vol. 1, Harvard University Press, Cambridge, Massachusetts, 1975, at para. 231, page 392. It would appear from the decision of "Synthelabo" (Paris Court of Appeals) 25 IIC 266 (1994), at page 270, that although the holder of a product patent is entitled to prevent the exploitation of a new use that is the subject matter of a different dependent patent, he cannot himself exploit the new use without the consent of the holder of the patent granted for this new use. This is because the right to this dependent invention belongs

claim, a distinction has to be made between a claim which is framed "a product obtainable by ... (the process)," and one which is framed "product obtained by ... (the process)".¹⁰ In the first case the process described serves only as an example. This form of claim is used where the product is new, and hence the patentee could claim the new product *per se*, but could not describe it by the usual structural or chemical parameters. He is thus forced to describe it by the process of producing it. Therefore, protection is not confined to the product made by the particular method described. This is use of the term "product-by-process" in the strict sense of the term. The second use of the term "product-by-process" is when it is used in a loose sense to refer to a known product made by a particular new process. In the second case, protection is conferred on the product prepared in a given specified way and not when obtained by different methods of preparation. The first type of claim is regarded as a true product claim, whereas the second type is actually a limited product claim. So there is a need to distinguish between the strict use and a loose use of the term "product-by-process", because different protection arises in relation to the way the term is used.

There is some uncertainty as to whether a product-by-process claim in the loose sense could ever be made. There has been no reported case specifically discussing the legality or allowability of such product-by-process claims in the United Kingdom, and the cases wherein references were made to them seem to be in conflict.¹¹ It has, however, been suggested to be the proper course to take if the patentee desires to ensure adequate protection for a process patent.¹² No guidance could be derived from either the Malaysian

to the holder of the second patent, despite the latter's dependence on the first patent.

¹⁰ See generally, Percy, K., "'Obtainable By' Claims in the Patenting of Natural Products", CIPA, February 1992, 218. See also, *infra*, text accompanying footnotes 179-181.

¹¹ For example, Judge Ford in The Wellcome Foundation Ltd v. Discopharm Ltd & ors [1993] FSR 433, seems to accept that such a form of claim is possible - see pages 439-440, at para. 2.9. See also the submission by the Chartered Institute of Patent Agents that sale or use of the direct product of a patented process should always be an infringement and that if this was clearly stipulated in the law, the existing uncertainty would be removed and there would not be the need for separate "product by process" claims (Memorandum of Evidence to the Committee to Examine the Patent System and Patent Law (The Banks Committee) submitted by the Chartered Institute of Patent Agents. (Reproduced in Transactions of the Chartered Institute of Patent Agents, Vol. LXXXVI, Session 1967-68, at D 39-40).; and Merrell Dow Pharmaceuticals Inc. & anor v. H.N. Norton & Co. Ltd [1996] RPC 76 (HL), *per* Lord Hoffmann, at page 83, "In this case, the respondent would have no objection to a claim to the synthesis of the acid metabolite or to the product in isolation. The only respect in which they say it is not new is when made by terfenadine as part of the human body. It may be possible for Merrell Dow to amend the specification to exclude manufacture in this manner and form. In ordering the patent to be revoked, Aldous J. granted a stay pending an application to amend". But contrast - Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153 (HL), *per* Lord Diplock, at 199, "The monopoly granted by a patent is limited territorially to the United Kingdom and the Isle of Man and the corresponding prohibition is limited to acts done within those territorial limits. The wide words of the grant and prohibition were, however, treated as entitling the patentee to prohibit the obtaining from abroad and selling in this country an article manufactured abroad by a patented process, even though the article was of a kind that was not new and consequently of itself could not be, and was not, claimed as an invention in the specification."

¹² See, for example, CIPA Guide, 4th Ed., at paras. 14.24 and 14.26, which states that the approach taken by the EPO is that product-by-process claims are allowable only if the product is novel *per se* and if the product cannot be satisfactorily defined by reference to its composition, structure or

Patents Regulations or the UK Patent Rules, since both are silent on this point. It would seem that the preponderance of opinion is that such claims are acceptable in the United Kingdom even if the product claimed is not novel.¹³

Under the Act, a known product for a first medical use (a purpose-bound product claim) can be claimed.¹⁴ The exclusive rights are only with respect to the use of the product for the medical use. Where a process patent is involved, "exploitation" means the right to use the process and to commercially exploit any products obtained directly by means of the process.¹⁵ The exclusive rights granted to a patent for a new use of a known product are confined to the new use. In certain situations where a new use patent is granted despite the fact that the new use arises from an inherent, although unknown property of the known product, problem may arise regarding the question of whether there is an infringement of the use patent by a person who is merely using the known product for a known use.¹⁶

These exploitation rights are compatible with our obligations under international Conventions and Agreements.¹⁷ Once a patent is granted, the owner is able to prevent

some other testable parameters. The Guide, however, submits that in contrast, under UK law, novelty can be conferred by a process feature included in a product claim. However, no authority is cited. See also Report of the Committee to Examine the Patent System and Patent Law, Cmnd. 4407, at para. 297.

¹³ Note that the situation is different in other jurisdictions. In IFF/Claim Categories, the Technical Board of Appeal of the EPO held that product by process claims were only allowable where the product itself was patentable and could not properly be defined in any other way. It could not be allowed for a product if that was known or obvious in the light of the state of the art. The fact that existing practice of a single Member State, i.e., the United Kingdom, allowed such claims did not in itself control the interpretation and application by the EPO of the Articles and Rules of the European Patent Convention. In the Board's opinion, "product-by-process" claims could only be used as a manner of claiming structurally undefinable product inventions - IFF/Claim Categories T150/82 [1979-85] EPOR Vol. C 629, see Reasons for the decision, paras. 7 to 11. See also, Trioxane (1972) 3 IIC 226, at 236 (Fed. Sup. Ct Germany). A similar approach is adopted in the United States - see Dickman, M.H. "Product-by-process claims in the US Patent Practice", 28 IDEA 59, The Journal of Law and Technology, (1987-88), who reviews the position under US law of the allowability of a "product-by-process" claim. See also Mirabel, E.P., "Product-by-Process Claims: A Practical Perspective", 68 JPTOS 3 (1986). Note that the principle that a product which can not be identified by normal parameters can be identified or claimed by the process by which it is produced is not limited to chemical inventions. In certain cases, a product can also be identified by means of the device used for its production. Although exceptional, such a claim is permitted where there is no other way of describing the product. See, for example, "Colour Picture Tubes". In re N.V. Phillips (1980) 11 IIC 236 (Decision of the Fed. Sup. Ct Germany).

¹⁴ See section 14(4) of the Act.

¹⁵ See section 36(3)(b) of the Act.

¹⁶ See Merrell Dow Pharmaceuticals Inc. & anor v. H.N. Norton & Co. Ltd [1996] RPC 76 (HL), per Lord Hoffmann, at page 92, "I think it is fair to say that, in the United Kingdom at least, this aspect of the Enlarged Board's decision [in Mobil/Friction reducing additive Decision G02/88 [1990] EPOR 73] has been criticised on the ground that a patent for an old product used in an old way for a new purpose makes it difficult to apply the traditional United Kingdom doctrine of infringement. Liability for infringement is, as I have said, absolute. It depends upon whether the act in question falls within the claims and pays no attention to the alleged infringer's state of mind. But this doctrine may be difficult to apply for a patent for the use of a known substance in a known way for a new purpose. How does one tell whether the person putting the additive into his engine is legitimately using it to inhibit rust or infringing by using it to reduce friction? In this appeal, however, we are not concerned with this aspect of the case."

¹⁷ See TRIPS Agreement - MTN/FA II-AIC, Part II, Section 5: Patents, Article 28, Section 1, and Paris Convention, Article *Squater*. See also Alternative B of Article 19, of the proposed Patent

anyone from exploiting the same invention for a duration of 15 years after the date of its grant.¹⁸

3.2. Infringement of Rights

The exclusive rights conferred on a patentee by section 36 are backed up by section 58, which provides that the performance of any of the activities reserved for the patent owner under section 36 would amount to an infringement of the patentee's exclusive rights.¹⁹ A patent will be infringed if any person, other than the owner, without his agreement, exploits his exclusive right. The owner of the patent has the right to institute court proceedings against any person who has infringed or is infringing his patent. He also has the right to sue to prevent a threatened or imminent infringement.²⁰ This right to sue is subject to the limitation period of five years from the act of infringement, after which time the action is statute-barred.²¹

There is no mention in the section that the infringer has to be proved to have the requisite intention to infringe or that he has the necessary knowledge regarding the patent status of the invention which he is alleged to have infringed. Therefore, a person can be liable for infringing a patent without the need to prove these elements. This is in line with the common law position, where innocence of the infringer is not a defence to an infringement

18 Law Treaty (see Introductory Chapter, footnote 11, for further references to the Patent Law Treaty).
See section 35. Under section 35(1) of the Act, the patent will expire fifteen years after the date of its grant, provided that action is taken to pay the required renewal fees - see section 35(2) and (3). By virtue of section 31(2) and (4), the patent is deemed to be granted on the date that the Registrar issues to the applicant a certificate of grant of the patent, and the patent is recorded in the Register. Note that under Article 33 of the GATT-TRIPS Agreement, the term of protection shall not end before the expiration of a period of twenty years counted from the filing date. In this respect, therefore, the Act would have to be amended to increase the term of protection.

19 The provisions on infringement is *in pari materia* with those found in section 160 of the WIPO Model Law. The Sri Lankan Act does not contain any specific provision on infringement. When read together with the provisions on the exclusive rights, they are substantially similar in substance to the provisions on direct infringement in the 1977 Act of the United Kingdom (section 60(1)(a) to (c) of the Patents Act 1977), and other Commonwealth jurisdictions - see footnote 4. See generally, Terrell, 14th Ed., paras. 6.09 and 6.89., and CIPA Guide to the Patents Acts, 4th Ed. Sweet & Maxwell, London, 1995 at paras. 60.01-60.25 for infringement under the United Kingdom law. For the law on infringement in general in the other countries, see, Lahore, J., *et al.*, Intellectual Property in Australia - Patents, Designs and Trade Marks Law, Vol. 1, Butterworths, Sydney, 1994, Chapter 7, and Ricketson, S., The Law of Intellectual Property, The Law Book Co. Ltd, 1984, Chapter 50; Hughes, R.T., Woodley, J.H., Hughes and Woodley on Patents, Butterworths, 1995, at paras. 26-39 and Fox, H.G., The Canadian Law and Practice Relating to Letters Patent for Inventions, 4th Ed., The Carswell Company Limited, Toronto, 1969, for the Canadian law; Brown, A., & Grant, A., The Law of Intellectual Property in New Zealand, Butterworths, Wellington, 1989, at paras. 6.68-6.74; Burrell, T.D., Burrell - South African Patent Law and Practice, 2nd Ed. Butterworth, Durban, 1986 - Chapter 5. See generally, Ladas, S.P., Patents, Trademarks, and Related Rights, National and International Protection, Vol. 1, Harvard University Press, Cambridge, Massachusetts, 1975, at para. 231, page 392.

20 See *infra*, para. 3.3., for Imminent Infringement.

21 See section 59 of the Act. For proceedings by co-owners, see Chapter 2 - Ownership of Patent Rights *Inter Se*, at para. 2.6.3.

proceedings.²² Even an accidental infringement is actionable.²³ This is similar to the law on infringement in the countries considered. Nevertheless, proof of an intention to infringe, apart from actual infringement, may justify an injunction to restrain infringement. On the other hand, an intention to infringe, without an act amounting to infringement, is not an actionable wrong.²⁴ The scale of the infringing activities is also immaterial. For instance, sale of a very few articles, even though of trivial value, is sufficient to ground an action for infringement if the right of the patentee is put in issue.²⁵

Unlike the UK scheme, it is not possible to rely on innocence as a defence against a claim for damages or an order for an account of profits.²⁶ It is not known why such a form of relief is not provided under the Act, except for the fact that such a provision is also absent in the WIPO Model Law and the Sri Lankan Act. It is submitted that a similar provision is even more necessary in a developing country like Malaysia. As compared with their

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- ²² See for example, Tweeddale v. Ashworth (1890) 7 RPC 426, *per* Chitty J., at 432, "Infringement depends on what the alleged infringer has done. .. It may be rightly said that they had no intention to infringe but on the question of infringement, intention, or the absence of intention, is not material."; British Motor Syndicate Ltd & ors v. John Taylor & Sons Ltd (1900) 17 RPC 723 (CA), *per* Lord Alverstone L.C.J., at page 728, "They then took proceedings against the defendants, who are innocent in this sense, that they were ignorant of the patent rights, and in that sense innocent purchasers of infringing articles from Messrs. Richter & Green. I need scarcely say that ignorance is no defence, assuming that breaches of the patent rights are proved."; Dunlop Pneumatic Tyre Co. v. British & Colonial Motor Car Co. & anor (1901) 18 RPC 313 (King's Bench Division), *per* Lord Alverstone L.C.J., at page 316, "Of course no ignorance would be any defence."; Saccharine Corp. v. Reitmeyer (1900) 17 RPC 606, *per* Cozens-Hardy J., at page 612, "This is not an action based upon a charge of fraud or conspiracy. It is an action for infringement of a patent, as to which scienter is immaterial."; Merrell Dow Pharmaceuticals Inc. & anor v. H.N. Norton & Co. & anor [1996] RPC 76 (HL), *per* Lord Hoffmann, at page 92, "Liability for infringement is, as I have said, absolute. It depends upon whether the act in question falls within the claims and pays no attention to the alleged infringer's state of mind."
- ²³ Reymes-Cole v. Elite Hosiery Co. Ltd [1965] RPC 102 (CA), *per* Diplock L.J., at page 117, "If this patent were valid, as the judge held, then I should have been inclined to hold that the plaintiff could establish infringement even though the tucks in the infringing stockings were accidental. But ... I do not think that he was right in holding, as he did, that this patent was valid".
- ²⁴ See, for example, Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd (1904) 21 RPC 53, *per* Swinfen-Eady J., at page 60; (1904) 21 RPC 274, *per* Vaughan Williams L.J., at pages 278-279.
- ²⁵ See, for example, Cole v. Saqui (1888) 5 RPC 489, *per* Kekewich J., at page 493, "It is ... admitted that the defendants have sold some two or three toys not substantially different from that which is manufactured and sold by the plaintiff, and alleged to be covered by his patent; and, therefore, there is no question ... of infringement. The sale of two or three toys is a small matter, although, of course, enough to give ground for the action; but beyond that, I find in the defence what I construe as a distinct allegation by the defendants, that they have the right to use the alleged patented invention; in other words, to manufacture and sell the toys in question...; therefore I have the plaintiff's right distinctively challenged, and that raises above the triviality which might otherwise have been in it by reason of the small sale of only two or three toys, worth ... a shilling or so apiece." See also Neff Instrument Corp. v. Cohu Electronics, Inc., et al. 122 USPQ 554 (CA 9th Cir. 1959), *per* Barnes, Circuit Judge, at 558 - manufacture of one machine by an infringer is sufficient to make manufacturer liable, so too is one sale sufficient to make seller liable.
- ²⁶ See section 62(1) of the Patents Act 1977, United Kingdom (formerly section 59(1), Patents Act 1949). See also section 123, Patents Act 1990, Australia, and section 69(1), Patents Act 1994, Singapore. Note that a similar defence is also provided under section 4, United Kingdom Designs (Protection) Act 1949 (Revised 1978), Act 214, Malaysia, whereby the registered proprietor of a design is not entitled to recover any damages in respect of any infringement of copyright in a design from any defendant who proves that at the date of the infringement he was not aware nor had any reasonable means of making himself aware of the existence of the registration of the design.

counterparts in the developed countries, entrepreneurs, especially the small manufacturers and retailers, are less sophisticated and "patent-conscious",²⁷ and may not be in a position easily to determine whether the products they are dealing in are prohibited by the existence of a patent. Being enjoined from further dealings with such products is drastic enough without their being exposed to liability for damages or account of profits. Where a manufacturer copies a product without carrying out the necessary investigation, it is fair that he should be made to bear all the consequences that go with a finding of patent infringement.²⁸ However, when a product is not copied, or where a retailer is not in a position, or lacks reasonable means, to carry out the necessary investigation, it would appear harsh that he should be doubly punished. Hence it is proposed that a similar provision should be added to the Act to protect innocent infringers from the excessive consequence of their acts.²⁹ In view of the difficulties experienced in the construction of the UK section,³⁰ it is recommended that the more simply worded Australian provisions be adopted. Some modifications will, however, have to be made to clarify its intended application. The first is to clarify that the defence is applicable during the period when innocence could be established, despite the fact that there is still infringing activity after such a period.³¹ Further, a new subsection is added to the Australian model to prevent the

²⁷ See Reid, B.C., *A Practical Guide to Patent Law*, 2nd Ed., Sweet & Maxwell, 1993, at page 109.

²⁸ See comments of Graham J. in Lancer Boss Ltd v. Henley Forklift Co. Ltd [1975] RPC 307, at page 317, and the Privy Council in Khawam & Co. v. Chellaram & Sons (Nigeria) Ltd [1964] RPC 337, at page 344.

²⁹ As rightly pointed out in the CIPA Guide, 4th Ed., at page 571, a company with a research and development department, or its own in-house patent department, would seem rarely to be able to take advantage of the provision because of the presumption that such departments ought to take steps to become aware of patents in their field of interest. However, this defence is of value to small and medium-sized enterprises. See also Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143; (1953) 70 RPC 284, *per* Lloyd-Jacob J., at page 157, where the fact that a copy of the "Patent Journal" and two volumes of the official abridgements of specifications which included the specification of the patent in suit were in the defendant company's reference library resulted in their being unable to prove affirmatively that they were unaware or that they had no reasonable ground for supposing that the patent existed.

³⁰ See generally, CIPA Guide, 4th Ed., at para. 62.03, Terrell on the Law of Patents, 14th Ed., at paras. 12.240-12.241, and Vitoria, M., *et al.*, *Encyclopaedia of United Kingdom and European Patent Law*, Sweet & Maxwell, Vol. 1, 1996, at para. 10.128. For a review of the history of the section, and its present application, see Lancer Boss Ltd v. Henley Forklift Co. Ltd [1975] RPC 307, *per* Graham J., at pages 314-319.

³¹ In relation to the application of section 59(1) of the Patents Act 1949 of the UK (which was framed in similar terms to section 62(1) of the present UK Act, except for the non-inclusion of relief for account of profits), Lloyd-Jacob J., in Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143, at page 156, said that after having continued to infringe after having knowledge of the patent in suit, the defendant could not rely on the section because, "the protection it affords to an innocent infringer is absolute. It secures him against an order in the proceedings awarding damages to a successful patentee. It is not in terms directed to the division of a continuing period of infringing use between a state of ignorance and a state of knowledge of the plaintiff's rights ... a defendant who seeks to avail himself of the protection afforded by section 59(1) must plead and prove a complete ignorance of the existence of the patent monopoly during the period in which the wrongful acts were being done." It is submitted that such a construction of the section is to render it ineffectual since the purpose of the section is to permit the defendant to escape liability in respect of any period of ignorance of the patent monopoly. See, however, Lancer Boss Ltd v. Henley Forklift Co. Ltd [1975] RPC 307, at page 317, where Graham J. seemed prepared to divide the period of infringement, although on the facts, it was held that the defendants were not entitled to rely on the defence.

application of the rule of constructive knowledge arising from the mere fact of the patent being recorded in the Register.

3.2.1. Product Claims

The various exclusive rights of making, selling, offering for sale, using, importing, or stocking the product are now examined in depth in relation to product claims. These rights are listed in the disjunctive form by the use of "or" in the section. Therefore, any one of the infringing acts without the other will constitute infringement. For example, the making of a patented product in itself, even without use or sale will constitute an infringement.³²

3.2.1.a. Making

This is a word commonly used in most patent statutes, and therefore, should not cause much difficulty in construction. "Making" in the context of patent infringement would mean manufacturing the patented article.³³ Under the old law, "make" was construed as "making the whole article",³⁴ and there is no reason why this should not still be the rule. Further, where the making of an article requires a number of operative steps, then "making" occurs when the final step is carried out to result in the completed article.³⁵ From the case law decided by the UK courts, it would also apply to the making of all the constituent parts of a patented product for sale in kit form, so that they may be put together by the purchaser.³⁶ However, beyond this specific situation, the UK and other Commonwealth courts have not

³² In relation to similarly worded provisions of the US Patents Act, see, for example, Justice Story in Whittemore v. Cutter 29 F. Cas. 1120, at 1121 (CC D. Mass. 1813), "The legislature intends to make every one of the enumerated acts a substantive ground of action." See also Roche Products, Inc. v. Bolar Pharmaceutical Co., Inc. 221 USPQ 937 (CAFC 1984), *per* Nichols, Senior Circuit Judge, at page 939, "It is beyond argument that performance of any one of the three enumerated activities is patent infringement. It is well-established, in particular, that the use of a patented invention, without either manufacture or sale, is actionable ... Thus the patentee does not need to have any evidence of damage or lost sales to bring an infringement action."; and Neff Instrument Corp. v. Cohu Electronics, Inc., et al. 122 USPQ 554 (CA 9th Cir. 1959), *per* Barnes, Circuit Judge, at page 558 - mere manufacture, without sale, is sufficient to create infringement.

³³ See, for example, British Motor Syndicate Ltd & ors v. John Taylor & Sons Ltd (1900) 1 Ch. D. 577, at 581, *per* Stirling J. "... the defendants in this case did not make the invention if by that, as seems to be the proper interpretation, is meant manufacturing the patented article." See also Bauer & Cie v. O'Donnell 229 US 1, 57 L. Ed. 1041, at page 1044 (US Sup. Ct 1913), *per* Justice Day, "The right to make can scarcely be made plainer by definition, and embraces the construction of the things invented."

³⁴ See, The American Flange and Manufacturing Co. Inc. v. Bernard van Leer (1948) 65 RPC 305, *per* Sellers J., at pages 320-321.

³⁵ Sykes v. Howarth (1879) 12 Ch.D 826, *per* Fry J., at pages 832-833.

³⁶ See, for example, United Telephone Co. v. Dale (1884) 25 Ch.D. 778, at 782, *per* Pearson J., and Rotocrop International v. Genbourne [1982] FSR 241, at 259. See also Windsurfing International Inc & anor v. Petit & anor (1983-1985) 3 IPR 449 (Sup. Ct of New South Wales), *per* Waddell J., at pages 456-459, holding that the sale of an unassembled sailboard in kit form infringed the right given by s. 69 of the Patents Act 1952 (Australia) because of the ordinary course which vending the invention took.

been willing to extend patent protection under the common law to prevent the manufacture and supply of constituent parts which could be used in infringement of the patent.³⁷

As long as the "making" of the patented product is within jurisdiction, the act would amount to an infringing act, whether the products so manufactured are destined for sale within jurisdiction or in a foreign country.³⁸ Even the making of the patented article with intent to sell after the expiration of the patent is an infringement.³⁹ The main issue then, in the context of infringement by "making", is whether the manufactured article falls within the scope of the patent claim or claims.⁴⁰ However, if the product as initially made by the defendant does not fall within the scope of the patentee's claims, then there is no liability on the part of the defendant, even though it may later have been adjusted or modified to fall within the claims by a third party.⁴¹ Further, in relation to "making", a distinction has to be made between "repair" and "reconstruction".⁴²

3.2.1.b. Selling

The equivalent term used in the Patents Act 1977, United Kingdom is "dispose of". There thus appears to be a significant difference between the UK and the Malaysian provision.⁴³ While the word "dispose"⁴⁴ is wide enough to encompass "selling" and "leasing",⁴⁵ the

³⁷ In particular, the problems associated with the legality of making and supplying unassembled constituent parts for export markets, see for example, Deepsouth Packing Co. Inc. v. The Laitram Corporation 406 US 518; 173 USPQ 769 (US Sup. Ct 1972), *per* Mr Justice White, at pages 771-774. This, and related problems, including infringement by supply of essential means, are addressed in Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights.

³⁸ See Lyon v. Goddard (1894) 11 RPC 113, where despite the grant of an injunction against him to refrain from infringing the plaintiff's patent, the defendant manufactured and sold an infringing machine for shipment to Shanghai. The court held that there was a breach of the injunction - see Mathew J., at page 115. A similar approach is adopted in the United States. See, for example, Ketchum Harvester Co. v. Johnson Harvester 8 F. 586 (CC N.D.N.Y. 1881), *per* Blatchford C.J., at pages 586-587, where the court awarded damages as to devices made in the United States but sold abroad.

³⁹ See, for example, Crossley v. The Derby Gas Light Co. (1834) 4 L.J. Ch. 25, Lord Brougham L.C., at page 26, and the US case of Underwood Typewriter Co. v. Elliott-Fisher Co. 156 F. 588 (CC SD N.Y. 1907), *per* Holt, District Judge, at page 590.

⁴⁰ See *infra*, in para. 3.5., Determining the Scope of the Patent.

⁴¹ See Non-Drip Measure Co. Ltd v. Strangers Ltd (1942) 59 RPC 1 (CA), *per* MacKinnon L.J., at pages 24-25. See also the United States case of Knight v. Gavit 14 Fed. Cas. 765 (CC ED Penn. 1846), *per* Kane J., at pages 768-769, " ... if the machine, as made by the defendant, was not an infraction of the plaintiff's patent, the alteration of it by a third party will not make the defendant liable for an infraction to which he was not a party."

⁴² This aspect is discussed in Chapter 7 - Exceptions, Limitations and Loss of Rights, para. 7.3.

⁴³ The term used in Article 25 of the Community Patent Convention is "putting on the market".

⁴⁴ The dictionary meaning of "to dispose of" is "to deal with definitely; to get rid of; to get done with, finish; or to make over by way of sale or bargain, sell." - The Shorter Oxford English, Vol. 1, 3rd Ed., Clarendon Press, Oxford, 1987. Terrell, 14th Ed., at pages 176-177, is of the opinion that "dispose of", although in its widest sense could cover any loss of physical possession, including destruction, when construed with the provisions of the CPC in mind, has to be limited to a narrower meaning of covering only "loss of physical possession by transferring that possession to another in the course of trade, for example, by way of sale". According to Terrell, under this construction, lending would be an infringing act.

⁴⁵ Kalman v. PCL Packaging Ltd [1982] FSR 406 (Patents Court), *per* Falconer J., at page 413. It

normal meaning of the word "selling" does not include commercial transactions such as leasing and hiring. Under the Interpretation Act, the word "sell" is defined to include exchange, barter, offer for sale and expose for sale.⁴⁶ Even under this extended meaning, it is arguable that "leasing" would not be encompassed within the exclusive rights. Since all the listed activities in this definition involve a transfer, or future transfer, of ownership by one party to another, the application of the *ejusdem generis* rule of construction would preclude "leasing" being included in this class. Hence in this respect the exclusive rights of the patentee in Malaysia may be narrower, and there could be a lacuna in the law.

If the manufacturer were to sell the manufactured product, then he would also be caught under the head of infringement, to sell. This head would be applicable whether or not the product is manufactured within the jurisdiction, as long as there is a sale within jurisdiction. Further, the mere fact of selling within the jurisdiction is an infringement, whether it is for use in the country or for export.⁴⁷

Several hypothetical situations are envisaged to assist in the analysis of the possible scope of this right. **Situation 1** involves the convergence of all the three necessary ingredients in the transaction, i.e., the seller, buyer and the infringing product, within jurisdiction. In **situation 2**, both the seller and buyer are within the jurisdiction, but the product is outside the jurisdiction. **Situation 3** envisages only the buyer being within jurisdiction, the seller and the goods are outside jurisdiction. In **situation 4**, the seller alone is outside jurisdiction, while and the buyer and the product are inside jurisdiction. **Situation 5** envisages the buyer being outside jurisdiction, whereas the seller and the product are within jurisdiction, while in **situation 6**, only the seller is within jurisdiction while the product and the buyer are outside jurisdiction. In **situation 7**, only the product is within jurisdiction, while both the buyer and seller are outside the jurisdiction. Finally, in **situation 8**, there is a convergence of all the ingredients outside the jurisdiction.

The relevant decided cases are now analysed to determine whether a test could be devised to assist in determining whether a particular transaction will amount to a patent infringement under this head. In Saccharine Corp. v. Reitmeyer & Co.,⁴⁸ both the parties to the contract were resident within the jurisdiction. The particulars of breaches alleged, *inter alia*, infringement of the patent by the importation into the country by the defendants of certain

would also appear that "lending" would not amount to an infringing act. Under the law in the United Kingdom prior to the 1977 Act, lending was not an infringement - see United Telephone Co. Ltd v. Henry & Co. (1885) 2 RPC 11 (Ch. Div.), *per* Bacon V.C., at page 12, and also the statement of MacKinnon L.J., in Non-Drip Measure Co. Ltd v. Strangers Ltd (1942) 59 RPC 1 (CA), at page 25.

⁴⁶ See section 3, Interpretation Acts 1948 and 1967 (Consolidated and Revised, 1989) Act 388, Malaysia - "sell" includes exchange, barter, offer for sale and expose for sale. See also, *infra*, footnotes 78 and 79, and accompanying text.

⁴⁷ See Lyon v. Goddard (1894) 11 RPC 113, footnote 38, *supra*.

⁴⁸ Saccharine Corp. v. Reitmeyer & Co. (1900) 17 RPC 606, *per* Cozens-Hardy J., at page 611.

quantities of saccharin. The defendants contended that they had only contracted to deliver the saccharin at certain foreign ports, and had in fact delivered them there, and were not responsible for its importation. The court held that the mere entering into contracts in the country for sale by them to a company in England of such saccharin made abroad to be delivered at foreign ports did not constitute infringement. Further, the knowledge of the defendants as to the destination of the saccharin was immaterial. This approach was approved of by the House of Lords in Badische Anilin und Soda-Fabrik v. Hickson, which also involved a sale contract made within jurisdiction for the infringing product to be delivered outside the jurisdiction. The Court held that such a transaction was not a "vending" of the patented product, since to constitute an infringement, the delivery of the infringing products had to be made within the country.⁴⁹ In the above Badische Anilin case, the plaintiffs also argued that since the property in the goods passed at the time the contract was made, the defendant should be deemed to have infringed within jurisdiction. This contention was dismissed, *inter alia*, on the grounds that it was not material to consider whether or when the property in the goods passed to the purchaser, since the goods were manufactured and situated abroad, and were not brought into the country by the seller.⁵⁰

In Badische Anilin und Soda-Fabrik v. Johnson,⁵¹ a trader in England ordered infringing goods from the defendant in Switzerland to be sent by post to England. The defendant addressed the goods to the trader in England and delivered them to the Swiss Post Office, by whom they were forwarded to England. The House of Lords held that since the contract of sale was completed by the delivery to the Post Office in Switzerland, and since the Post Office was the agent of the buyer and not of the vendor, the patentee had no right of action against the vendor for an infringement of the patent.⁵² A similar decision was also reached in Kalman v. PCL Packaging Ltd,⁵³ a case decided under the 1977 Act. The first defendants (PCL) obtained two allegedly infringing filters from the second defendants (BC), a US corporation with no place of business in the UK. Both filters were sold and delivered in Massachusetts f.o.b the US shipping point against previous payment of the purchase price and were consigned by air to England. PCL paid the freight and charges. There was uncontested evidence that by US law, the sale f.o.b in Massachusetts divested BC of title, and that on delivery to the shipping point they lost both actual and constructive possession of the filter. In an action against PCL for infringement, leave was obtained to

49 Badische Anilin und Soda-Fabrik v. Hickson (1906) 23 RPC 433 (HL). See Lord Loreburn L.C., at pages 436-437, and Lord Davey, at page 437. A similar approach is adopted in Canada. See, for example, Domco Industries Ltd v. Mannington Mills, Inc. et al. 23 CPR (3d) 96 (1989); 29 CPR (3d) 481 (1990), *per* Iacobucci C.J., of the Federal Court of Appeal, Canada, at pages 489-496.

50 Badische Anilin und Soda-Fabrik v. Hickson (1906) 23 RPC 433 (HL), *per* Lord Davey, at page 438, and Lord James, at page 438.

51 Badische Anilin und Soda-Fabrik v. Johnson (1897) 14 RPC 919 (HL).

52 Badische Anilin und Soda-Fabrik v. Johnson (1897) 14 RPC 919 (HL), *per* Lord Halsbury L.C., at pages 927-929. See also, Saccharine Corp. v. Reitmeyer (1900) 17 RPC 606.

53 Kalman v. PCL Packaging Ltd [1982] FSR 406 (Patents Court).

serve BC out of jurisdiction, relying, *inter alia*, on the commission of torts within the jurisdiction, i.e. offering to dispose or disposing of infringing articles, offering for use in the UK. BC applied to set aside the writ and service as against them. It was held, following the Badische Anilin case, that BC had sold the filters in the USA and accordingly had no further rights in them of which they could "dispose" in the UK.⁵⁴ The same approach is adopted in the United States.⁵⁵ In contrast, in Morton-Norwich Products Inc. v. Intercen Ltd,⁵⁶ the court held the overseas defendants guilty on the ground that they still retained constructive possession of the infringing goods in the United Kingdom.

Based on the decided cases, and the purpose of the provision, it is possible to formulate a general principle to apply in the determination of whether the alleged infringer's activity amounts to "selling" a patented product in Malaysia. Since the whole purpose of selling something is to transfer the ownership or title in the goods sold to the buyer,⁵⁷ it would appear that the transfer of property has to be an essential element in the transaction. However, it is submitted that, as a general rule, as long as there is a contract to sell, i.e., the intention is that the property will eventually pass to the buyer, it is immaterial for the purpose of determining whether there is infringement by selling, that property has passed, or that delivery has taken place. If an "offer to sell", being an inchoate sale, is an infringing act, this should equally be so where there is a subsisting contract to sell, even though title has not passed. The question of transfer of title is only relevant where the issue is whether the seller has any rights or property in the goods which he can sell within jurisdiction. Therefore, if the infringing goods are outside jurisdiction, the issue of whether there has been a transfer of property is crucial. This is because, if the title in the goods has passed to the buyer outside jurisdiction, there is nothing that the seller can "sell" to the buyer within jurisdiction. The infringing transaction has occurred outside the jurisdiction. There cannot, therefore, be an infringement. Likewise, where the goods are originally physically outside the jurisdiction, if delivery takes place outside the jurisdiction, there can be no infringement even if property has passed at the time the contract was made within jurisdiction. However, to this must be added the rider that even if the transfer and delivery take place outside

⁵⁴ Kalman v. PCL Packaging Ltd [1982] FSR 406 (Patents Court), *per* Falconer J., at pages 413-414.

⁵⁵ See, for example, Minnesota Mining & Manufacturing Co. v. International Plastic Corp. 72 USPQ 97 (CA 7th Cir. 1947), *per* Sparks, Circuit Judge, at page 102, "Where a dealer solicits an order for goods in one state and forwards it to a manufacturer at its home office in another state and the goods are shipped direct by the manufacturer, the sale is considered as having been made in the latter state and does not constitute an infringement of a patent in the former state."; W.S. Tyler Co. v. Ludlow-Saylor Wire Co. 236 US 723 (US Sup. Ct 1915), *per* Justice McReynolds, at page 724, "The circumstances attending only one sale appear in the record, and this was negotiated by the purchaser in order that it might afford the basis for a suit. Guerin received and forwarded, and his principal accepted, the order for goods, which were thereafter manufactured and shipped ... to the purchaser in New York City. This sale was consummated at St. Louis, and did not constitute an infringement of appellant's patent within the district where suit was brought".

⁵⁶ Morton-Norwich Products Inc. v. Intercen Ltd [1978] RPC 501, *per* Graham J., at pages 518-519.

⁵⁷ The Shorter Oxford English, Vol. 1, 3rd Ed., Clarendon Press, Oxford, 1987, meaning no. 3 - to give up or hand over (something) to another person for money (or something that is reckoned as money); esp. to dispose of (merchandise, possessions, etc.) to a buyer for a price, to vend.

jurisdiction, the seller may still be liable as long as he still retains some form of control or possession, whether actual or constructive, over the goods within jurisdiction.

Therefore, it is submitted that where the subject matter of the transaction, the *corpus*, is physically present within the jurisdiction right from the beginning, an infringement arises whenever there is any contract to sell it. Where, however, the infringing product is initially outside the jurisdiction, the test is different. In this case, an infringement takes place under this head only when there is a transfer of property to the buyer when the goods are brought into the jurisdiction. If the property in the goods passes outside the jurisdiction, there cannot be an infringement, unless the seller still retains some control or possession, actual or constructive, over the goods.

Based on the "*corpus*" test derived from the above cases, the situations envisaged above can now be addressed. **Situation 1**, which involves the convergence of all the three necessary ingredients in the transaction, the seller, buyer and the infringing product, within jurisdiction would result in an infringing activity. This, it is submitted, is so even if delivery and transfer have not taken place. **Situation 2**, which involves the "*corpus*" being outside the jurisdiction, while both the buyer and seller are within jurisdiction, would not result in an infringing act committed within the jurisdiction.⁵⁸ **Situation 3**, where only the buyer is within jurisdiction, will also not involve an infringement.⁵⁹ In the second and third situations, however, there would be an infringing act if the seller had retained title or possession when the infringing product enters the jurisdiction.⁶⁰ The result in **situation 4**, where the seller alone is outside jurisdiction, while and the buyer and the product are inside jurisdiction, should also amount to an infringement regardless of whether there is a transfer of title within or without jurisdiction. The result should be similar in **situation 5**, where, even though the buyer is outside jurisdiction, the seller and the product are within jurisdiction. In the fourth and fifth situations, there is the physical presence of the product at the beginning of the transaction, i.e., the "*corpus*" is within jurisdiction. To hold that there is no infringement unless there is proof of the transfer of title within jurisdiction will be to place a premium upon technicalities. **Situation 6** should not give rise to any infringement. Since only the seller is within jurisdiction while the product and the buyer are outside jurisdiction, the seller could not be said to be selling within jurisdiction, even if the transfer of property takes place within jurisdiction. **Situation 7** presents a difficult situation. However, it is submitted that under the "*corpus*" test, the transaction should be an infringing act since the contract is meant to have effect, and involves a subject matter within the jurisdiction. Such a construction is, therefore, justifiable. Finally, in **situation 8**, the

⁵⁸ See Saccharine Corp. v. Reitmeyer & Co. (1900) 17 RPC 606, footnote 48, and Badische Anilin und Soda-Fabrik v. Hickson (1906) 23 RPC 433 (HL), footnote 49, *supra*.

⁵⁹ See Badische Anilin und Soda-Fabrik v. Johnson (1897) 14 RPC 919 (HL), footnote 52, and Kalman v. PCL Packaging Ltd [1982] FSR 406 (Patents Court), footnote 54, *supra*.

⁶⁰ See Morton-Norwich Products Inc. v. Intercen Ltd [1978] RPC 501, footnote 56, *supra*.

convergence of all the ingredients abroad means that the activity does not take place within jurisdiction, and is, therefore, out of the patent owner's control.

3.2.1.c. Offering for sale

Since offering for sale is made a separate head of exclusive right, and hence an infringing act, the mere offer, without the need to prove a subsequent sale arising from the offer, is an infringement. An old case decided in the late nineteenth century may give an indication as to the approach of the courts when dealing with infringement by "offering to sell" an allegedly infringing product. In Gwynne v. Drysdale, the patentee of certain type of swivelling pumps, sued the defenders for infringing his patent. The alleged infringements consisted of the sale of certain pumps and offers to execute orders for swivelling pumps in response to applications by persons interested. The court held that the defenders had not infringed because the pumps which they had sold were not swivelling pumps at all. With regard to their offers to execute orders for swivelling pumps, as the offers were general offers, and there was no proof that the defenders intended to supply pumps according to the description in the specification, the general presumption of innocence must be applied.⁶¹ Hence when the allegation is that the defendant has "offered to sell" infringing products, there should be credible evidence that the offer is to sell products that would infringe a patent. In fact, but for the fact that it has been made a specific head of infringement, such a situation would fall to be dealt with under imminent infringement.⁶²

It would also appear that in the case of an offer to sell infringing products, not only must the offer to sell be made within jurisdiction, but the goods offered to be sold must also be within the jurisdiction. Although both Saccharine Corp. v. Reitmeyer & Co. and Badische Anilin und Soda-Fabrik v. Hickson involved an actual sale, the ratio in the cases would apply equally to offer to sell.⁶³ Since the purpose of the patent system is to grant the patentee certain exclusive rights within the granting country, it is only interference with his economic exploitation of the patent within the country which is actionable.⁶⁴ In the case of an offer to sell a patented product, the approach of the court has been that there has to be a physical presence of the infringing goods within the jurisdiction before any liability could arise. For example, in Kalman v. PCL Packaging Ltd, a case decided under the 1977 United Kingdom Act, Falconer J. held that the expression "offers to dispose of" must be read as meaning, "offers in the United Kingdom to dispose of the product in the United

⁶¹ Gwynne v. Drysdale (1885) 2 RPC 160 (Court of Session, Scotland), *per* Lord McLaren, at pages 164-165.

⁶² See *infra*, at para. 3.3.

⁶³ See footnotes 48 and 49, *supra*.

⁶⁴ See Badische Anilin und Soda-Fabrik v. Hickson (1906) 23 RPC 433 (HL), *per* Lord Davey, at pages 437-438, "I am of opinion that the exclusive right of "vending the invention" in the statutory form of patent must be construed consistently with the language of the Statute of Monopolies, and with regard to the general purpose of the patent, to give the inventor the full benefit of his invention in this country."

Kingdom".⁶⁵ This decision has been criticised by Benyamini, who submits that an "offering" made within jurisdiction, for whatever purposes, by a foreign manufacturer, to supply a patented product abroad for use within jurisdiction would constitute an infringement under the CPC and the UK law.⁶⁶ This contention is, however, based on the wording of Article 25(a) of the CPC, whereby the word "offer" is not qualified by other words. Unlike the provision of the CPC, the Malaysian provision uses the expression "offer for sale". Therefore, attractive as Benyamini's view is, it is submitted that the present provision of the act prevents such a "purposive" construction.

However, while the logic of the UK approach may be beyond criticism, the problem with it is that it leaves free overseas "mail-order" suppliers to conduct their business without exposing themselves to infringement actions.⁶⁷ The foreign supplier would place advertisements within jurisdiction offering to supply patented products to private users from overseas. It would be a condition of the contract that the legal act of sale is to take place overseas, and the property in the goods ordered is to be transferred to the buyer at the time of acceptance. Since there is no disposal of the supplier's property within jurisdiction, they are beyond the control of the patentee. If this sort of business is carried out in a systematic and habitual manner, the patentee's rights would be subverted without any possible redress, either against the overseas suppliers or against the private consumers. There is no indication that this is a problem yet, but it may be that if such practices become widespread, legislative measures would have to be taken to control them. One possible solution would be to amend the Act to include, as an infringement, the act of "offering for use", and to expand the meaning of "offer".⁶⁸

3.2.1.c.(i). Advertisement and exhibition; offer to supply post expiry

A related question is whether the mere advertising or exhibiting of infringing goods would amount to an infringement under the Act. The decisions under the old law are not

⁶⁵ Kalman v. PCL Packaging Ltd [1982] FSR 406 (Patents Court), *per* Falconer J., at pages 417-418. See also, Domco Industries Ltd v. Mannington Mills, Inc. et al. 23 CPR (3d) 96 (1989), *per* Strayer J., at pages 100-101, "Just as in the Badische case the defendant Mannington was through its employees soliciting orders from Canadian distributors but for purchase in and delivery abroad. In my view this cannot amount to offering for sale in Canada as the sale was to take place in the United States, and if it is offering in Canada for sale elsewhere that activity does not *per se* amount to infringement in Canada.", and Domco Industries Ltd v. Mannington Mills, Inc. et al. 29 CPR (3d) 481 (1990), *per* Iacobucci C.J., of the Federal Court of Appeal, Canada, at page 491.

⁶⁶ See Benyamini, A., Patent Infringement in the European Community, IIC Studies Vol 13, VCH, Weinheim, 1993, at pages 114-118, and 254-255. Cornish, W.R., Intellectual Property, 2nd Ed. Sweet & Maxwell, London, 1989, at page 165, fn 42, is of the view that the approach is too restrictive and may have to be reviewed. The Kalman decision was criticised by Butler, J., "Letters to the Editor", 12 CIPA 317, April 1983, and 13 CIPA 105, December 1983, who notes that as construed, it would appear that there is a deficiency in the law.

⁶⁷ This was the scenario painted by Butler, J., "Letters to the Editor", 12 CIPA 317, April 1983, when he criticised the Kalman decision.

⁶⁸ As to this, see *infra*, footnote 79 and accompanying text.

conclusive on this point. The Court of Appeal in British Motor Syndicate Ltd & ors v. John Taylor & Sons Ltd decided that the possession of an infringing article, accompanied by exposure for sale, even without any proof of any actual sale, was actionable infringement.⁶⁹ However, in No-Fume Ltd v. Frank Pitchford & Co. Ltd,⁷⁰ the court held that advertisement for sale, unaccompanied by exposure for sale of any infringing article did not constitute infringement by vending. Even though it was proved that there was an "offer by advertisement", there was no proof of actual sale. The court distinguished the situation in British Motor Syndicate Ltd & ors v. John Taylor & Sons Ltd, which involved the actual possession of an infringing article, accompanied by exposure for sale. The case at hand was a "mere paper offer for sale" of an article. However, it has to be noted that the court had concluded on the facts that the defendants' product did not fall within the plaintiffs' claims, therefore, the articles, if actually sold, would not have been an infringement of the plaintiffs' patent. In view of this, the opinions relating to the advertisements could be regarded as *obiter*. However, it could be argued that the conduct could constitute a threat to infringe and therefore, actionable under the section on imminent infringement.⁷¹

Dunlop Pneumatic Tyre Co. Ltd v. Actien Gesellschaft fur Motor, etc., Co. has been cited as the authority for the proposition that use of a patented device will be an infringement where it consists of use for exhibition.⁷² However, that case was argued on the issue of whether the service of the writ should be set aside on the ground that the defendants were a foreign corporation resident out of jurisdiction at the time the writ was issued and served. So the case is not a strong authority for the proposition suggested. In fact, the courts in the United States have consistently held that the mere advertisement or display of infringing products does not amount to a patent infringement, since it could neither be considered as selling nor using the patented invention. It is only when there has been a demonstration of the product that it would amount to an infringing use.⁷³ However, it is worth noting that

69 British Motor Syndicate Ltd & ors v. John Taylor & Sons Ltd (1900) 17 RPC 723 (CA), *per* Lord Alverstone L.C.J., at page 729, and *per* Vaughan Williams L.J., at page 731.

70 No-Fume Ltd v. Frank Pitchford & Co. Ltd (1935) 52 RPC 231. Note: the court had already held that the defendants' ashtrays did not infringe since they did not give the same result as the plaintiffs', see Lord Hanworth M.R., at page 242, Romer L.J., at page 247, and especially Maugham L.J., at pages 251-252.

71 This, in fact, was alluded to by Maugham L.J., at page 252, in No-Fume Ltd v. Frank Pitchford & Co. Ltd (1935) 52 RPC 231. His Lordship held that such a threat would justify an injunction, following Adair v. Young L.R. 12 Ch.D. 13. However, the plaintiffs did not assert this point.

72 Dunlop Pneumatic Tyre Co. Ltd v. Actien Gesellschaft fur Motor, etc., Co. (1902) 19 RPC 46 (CA), cited by Fox, H.G., *Canadian Patent Law and Practice*, Vol. 1, 3rd Ed. The Carswell Company, Ltd, 1948, at page 719.

73 See, for example, Knapp-Monarch Co. v. Casco Products Corp. 145 USPQ 1 (CA 7th Cir. 1965), *per* Swygert, Circuit Judge, at pages 4-5; Ling-Temco-Vought, Inc. v. Kollsman Instrument Corp 152 USPQ (CA 2nd Cir. 1967), *per* Medina, Circuit Judge, at page 451. See also Molinaro et al. v. Sonar Radio Corporation 206 USPQ 901 (E.D.N.Y. 1979), *per* Bartels, District Judge, at pages 904-905, and cases on "use" in para. 3.2.1.d.

there was no express provision making an "offer to sell" an infringing act in the US patent statute until the patent statute was amended recently.⁷⁴

When the question of advertisement came up for decision in the United Kingdom under the Patents Act 1977, it was answered in the affirmative in the case of Gerber Garment Technology Inc. v. Lectra Systems Ltd & anor.⁷⁵ Two issues were involved in this case, the first was whether an advertisement for sale would amount to an infringement. The second was with regard to pre-expiry negotiations to supply patented products after the patent in issue had expired. The first issue turned on whether an advertisement or any negotiation without a firm offer, amounted to an "offer to dispose of" within the meaning of section 60(1)(a) of the Patents Act 1977, United Kingdom. Jacob J. preferred to approach the construction of section 60 purposively. On that ground he declined to adopt the distinction between an invitation to treat and an offer under normal contract law, and instead held that "a party who approaches potential customers individually or by advertisement saying he is willing to supply a machine, terms to be agreed, is offering it or putting it on the market. If that is to happen during the life of the patent he infringes." Therefore, the advertisement to supply the infringing product was an infringement. However, with regard to the negotiation to supply the products after the patent had expired, the matter stood on different ground. In principle, it was not a disturbance of the monopoly and could not be regarded as "offering a product which is the subject-matter of the patent," since the product offered was off patent.⁷⁶

It has to be noted that Justice Jacob was able to come to the conclusion that an advertisement could fall under the prohibition of "offering to dispose of" because of the provision of section 130(7) which enables him to refer to the provision of the Community Patent Convention and consider the act as "putting on the market". Interestingly, the judges in No-Fume Ltd v. Frank Pitchford & Co. Ltd referred to the offending advertisement issued by the defendant as an "offer by advertisement" and an "offer for sale".⁷⁷ It is unclear whether this results from looseness of expression, or that the judges regarded such activities, if accompanied by an exposure for sale, as an offer to sell, contrary to the accepted technical contractual sense. It is uncertain whether the Malaysian court will construe "offer" in this wide, popular sense. Nevertheless, it is submitted that such a purposive construction is partially possible in the Malaysian context. This could be derived from the extended meaning of "sell" in the Interpretation Act which is defined as including

74 Pub. L. 103-564, s. 533(a), which expanded the definition of infringement to include offers to sell patented inventions and importation into the US., became effective as of Jan. 1, 1996.

75 Gerber Garment Technology Inc. v. Lectra Systems Ltd & anor [1995] RPC 383.

76 Gerber Garment Technology Inc. v. Lectra Systems Ltd & anor [1995] RPC 383, *per* Jacob J., at pages 411-412. See also USC 35, section 271(i), which provides that an "offer for sale" or an "offer to sell" by a person other than the patentee is that in which the sale will occur before the expiration of the term of the patent.

77 See *supra*, text accompanying footnote 70.

exchange, barter, offer for sale and expose for sale.⁷⁸ Hence, any "exposure for sale" would fall within the definition of "sell" and thus encompass an "offer to sell". However, there would still be a problem if there has been no "exposure for sale". One solution would be to add a definition of "offer" in the definition section to include "advertisement for supply".⁷⁹

3.2.1.d. Using

This head of infringement can be used against one who has neither made nor sold an infringing product, but has bought it for use. For example, he may have bought an infringing machine from overseas, or from an infringing manufacturer. If he then uses it, for example, to manufacture other articles, he would be "using" the patented invention. It would also appear that for there to be an infringement, there need not be any permanence about the use. A use in transit would amount to infringement just as much as a continual use within jurisdiction.⁸⁰

The term "use" is of wide signification, and could, for example, be extended to mean any use of the patented product for commercial gain, including, for example, selling or transporting the product. It was present in the old form of patent. Hence the case law developed under the old United Kingdom patent statute is examined to determine the scope of the infringing act under this head. In Betts v. Neilson,⁸¹ the patent was for making metallic capsules of lead and tin compressed together, which were used in covering the corks of bottles. The defendants had purchased capsules, made according to the patented process, from a foreign manufacturer, and in Scotland,⁸² put these capsules upon their beer bottles, which were then sent to their agents in England, for transshipment and exportation. There was no evidence that the beer was sold in England for consumption there. The defendants denied infringement on, *inter alia*, the grounds that the capsule used by them were manufactured abroad, and that bottles of beer were covered with them in Scotland, which bottled beers were sent through England for exportation only, and consequently that

⁷⁸ See footnote 46.

⁷⁹ This would avoid the difficulty found in Partridge v. Crittenden [1968] 2 All ER 421, where an advertisement in newspaper was held to be only an invitation to treat and not an offer for sale. In fact, to overcome the problems created by the above case, and also cases such as Pharmaceutical Society of Great Britain v. Boots Cash Chemist (Southern) Ltd [1952] 2 All ER 456, affirmed [1953] 1 All ER 482 (goods exposed for sale on shelves did not amount to an offer), and Fisher v. Bell [1960] 3 All ER 731 (exhibition of flick knives in a shop window was not an "offering for sale"), section 6 of the Trade Descriptions Act 1968 (UK) provides that "A person exposing goods for supply or having goods in his possession for supply shall be deemed to offer to supply them". A similar provision is found in section 8 of the Trade Descriptions Act 1972, Act 87, Malaysia.

⁸⁰ See Neilson v. Betts (1871-72) L.R. 5 HL 1, *per* Lord Westbury, at page 10.

⁸¹ Betts v. Neilson (1867-68) L.R. 3 Ch. App. 429; (1871-72) L.R. 5 HL 1.

⁸² At that time, the patent did not extend beyond England, Wales, and the town of Berwick-upon-Tweed. Hence it was not effective in Scotland, see Neilson v. Betts (1871-72) L.R. 5 HL 1, *per* Lord Westbury, at page 9.

there was no user of the plaintiff's patented material in England. Wood V.C. granted an injunction. On appeal, it was held that it was "the employment of the machine or article for the purpose for which it was designed which constituted its active use."⁸³ The House of Lords, following similar line of reasoning, held that as long as the capsules were performing their purpose during the whole time, i.e., to protect the ale and beer in the bottle, and as long as the goods remained within jurisdiction, there was a continued user of the patented process.⁸⁴

In Adair v. Young, an action was brought against the master of an English ship to restrain him from using pumps which were in infringement of the plaintiff's letters patent. Even though it had not been shown that they had been worked in British waters, the Court of Appeal held that the injunction was rightly granted on the ground that the defendant, being in command of a ship exclusively fitted up with such pumps, was intending to use the patented invention.⁸⁵ The same approach was accepted in an *obiter* statement in Nobel's Explosives v. Jones, Scott & Co.⁸⁶ The question of whether there was user of the patented invention was also raised in Dunlop Pneumatic Tyre Co. v. British & Colonial Motor Car Co. & anor, where Lord Chief Justice Alverstone followed the approach he adopted in the British Motor Syndicate case.⁸⁷

In line with the above approach, it should follow that a commercial use of the patented invention by way of demonstration, would amount to an infringing use, since by the demonstration, the person so doing is getting the benefit of the patented invention. Thus, it was held to be so in Molins and Molins Machine Co. Ltd v. Industrial Machine Co. Ltd.⁸⁸

In most of the cases mentioned above, the courts seemed to have confined the meaning of the word "use" to mean using the patented article for the purpose for which it was patented - the narrow sense. However, in other cases, the courts had not been constrained to limit it to its narrow sense, and where found necessary, were not above extending the meaning of "use" to enable a wider net to be cast in order to enjoin defendants from continuing with

⁸³ Betts v. Neilson (1867-68) L.R. 3 Ch. App. 429, *per* Lord Chelmsford L.C., at pages 437-439.

⁸⁴ See Neilson v. Betts (1871-72) L.R. 5 HL 1, *per* Lord Westbury, at pages 9-11, Lord Colonsay, at pages 22-25, Lord Cairns, at page 25, Lord Hatherley L.C., at pages 25-27, and Lord Chelmsford, at page 27.

⁸⁵ Adair v. Young (1879) LR 12 ChD 13, *per* Cotton L.J., at page 19, "It appears from the master's own statement of defence that these pumps were the only pumps on board. He had the ship in British waters fitted up with these pumps ready for use, and if any accident had happened to the ship they would have been actually used within British waters. I therefore am of opinion that the master must be considered as intending the use them within British waters, and that on this ground the injunction ought to be sustained". See also Brett L.J., at page 20.

⁸⁶ Nobel's Explosives v. Jones, Scott & Co. (1881) 17 L.R. Ch.D. 721 (CA), *per* James L.J., at pages 741-742.

⁸⁷ Dunlop Pneumatic Tyre Co. v. British & Colonial Motor Car Co. & anor (1901) 18 RPC 313 (King's Bench Division), *per* Lord Alverstone L.C.J., at pages 515-516.

⁸⁸ Molins and Molins Machine Co. Ltd v. Industrial Machine Co. Ltd (1937) 54 RPC 94, at 108, *per* Farwell J.

activities which were deemed to be a trespass on the exclusive monopoly of the patentee. In fact in Gibson & Campbell v. Brand, the court held that the defendant who had sold an article made according to a patented process was guilty of infringement since such sale may be considered as a use of the invention.⁸⁹

The most obvious area for the court to apply this extension was with regard to the importation of infringing goods. Under the old law, the act of importation was not expressly mentioned in the form of patent. Nevertheless, the courts were willing to construe the word "use" to encompass the importation of infringing articles into the jurisdiction. In Pfizer Corporation v. Ministry of Health, it was held that "where an importer imports into the country articles made abroad, but in accordance with a British patent, for the purpose of distributing and selling them in this country, he ... is using and exercising the patent, and he thereby infringes the patent the moment he introduces them into this country."⁹⁰ The importer in Hoffmann-La Roche & Co. AG v. Harris Pharmaceuticals Ltd & ors who had, *inter alia*, imported patented drugs for export to Nigeria, was also held liable for infringement. The court held that possession with the intention of using the articles for trade purposes and for securing a profit amounted to infringement whether the proposed dealing was with a customer in the country or abroad.⁹¹ The authorities were reviewed by the Court of Appeal in Smith Kline Corp. v. D.D.S.A. Pharmaceuticals Ltd, and the position with regard to use summarised thus: that unlicensed possession by a merchant in the United Kingdom of patented goods for purposes of supplying customers wherever they may be, constitutes infringement.⁹²

This broad approach is understandable when it is noted that all these cases were decided at a time when there was no specific provision laying down the exclusive rights of the patentee. In considering whether the rights of the patentee had been infringed, reference had to be made to the form of patent. The word "import" was neither specifically mentioned in the granting part nor the prohibitory part of the form of patent.⁹³ In the desire to ensure that the patentee's rights were not circumvented by a strict interpretation of the words and phrases used in the form of patent, the court extended the meaning of "use" whenever the circumstances of the case dictated that fairness to the patentee demanded such an extension. So the courts had held that if "there was acquisition and possession of these articles for trade purposes with the intention of using them in trade", "such an acquisition and such a

⁸⁹ Gibson & Campbell v. Brand G 211 (1842), also reported in Hayward's Patent Cases, Vol. 3 768, at page 769, *per* Tindal C.J.

⁹⁰ Pfizer Corporation v. Ministry of Health [1965] RPC 261, *per* Lord Upjohn, at page 310. See also Lord Wilberforce, at page 320, "So importing and selling is 'using' the invention."

⁹¹ Hoffmann-La Roche & Co. AG v. Harris Pharmaceuticals Ltd & ors [1977] FSR 200, *per* Whitford J., at pages 205-207.

⁹² Smith Kline Corp. v. D.D.S.A. Pharmaceuticals Ltd [1978] FSR 109 (CA), *per* Buckley L.J., at page 111.

⁹³ See *supra*, footnote 4.

possession of an article, whatever its nature may be", was a user.⁹⁴ The acts of the importers were regarded as diverting profits from the patentee because "they were deriving an advantage from the invention, which otherwise would have fallen to the patentee".⁹⁵ However, due to the lack of an existing label to pin it on, there was, therefore, the need for the extension of the meaning of "use".

Hence two contrasting approaches were used by the courts to suit different situations. Where there was innocent possession, transport or storage of a patented article, the court did not hold it to be a use and hence did not amount to an infringement unless the "article itself was, when it was applied in a particular way, at the very time it was in use, serving the purpose for which it was patented".⁹⁶ Where, however, the possession was coupled with an intention to use the article for trade purposes, for example, the unlicensed possession by a merchant of patented goods for the purposes of supplying customers, this was held to be infringement.

In contrast to the UK jurisdiction, the position pertaining to infringement by the "use of the patented invention" seems to be different and more restricted in the United States. A hint of the approach is given in the statement of the Supreme Court in Bauer & Cie v. O'Donnell that "the right to use is a comprehensive term and embraces within its meaning the right to put into service any given invention."⁹⁷ The phrase "put into service any given invention" implies that "use" is to be applied in the narrow context, i.e., for the purpose of utilising the teaching of the patent. The lower courts seem to have followed suit and have applied the term "use" restrictively, and as confined to situations where there has been a benefit derived from the invention itself, as opposed to any use of the patented invention for a commercial gain. The decided cases show the courts' unwillingness to apply it beyond its normal meaning of using the invention in the sense of "getting the benefit of the invention" *per se*, or for the purpose of utilising the teaching of the patent.

The court in Hoegger v. F.H. Lawson & Co., where the allegation of infringement was that samples of the infringing products were displayed by the defendant's agent at the agent's office in the district of New York, held that the display of samples did not disclose any act of infringement.⁹⁸ In contrast, in Scott & Williams, Inc. v. Hemphill Co., the fact that the infringing machine for knitting stockings was at the defendant's New York office

⁹⁴ See, for example, British Motor Syndicate Ltd v. Taylor (1900) 17 RPC 723, *per* Vaughan-Williams L.J., at page 732.

⁹⁵ Pfizer Corporation v. Ministry of Health [1965] RPC 261, *per* Lord Wilberforce, at pages 320-321.

⁹⁶ Badische Anilin und Soda-Fabrik v. Johnson (1897) 14 RPC 919 (HL), *per* Lord Halsbury L.C., at page 929.

⁹⁷ Bauer & Cie v. O'Donnell 229 US 1; 57 L. Ed. 1041 (US Sup. Ct 1913), at page 1044. *per* Justice Day.

⁹⁸ Hoegger v. F.H. Lawson & Co. 35 F.2d 219 (S.D.N.Y. 1929), *per* Judge Caffey, at page 222.

and was operated with a fair degree of continuity, to demonstrate its advantages to prospective buyers, the stockings made on it being distributed as samples, was held sufficient to constitute an infringing use within the district. The court distinguished Hoegger v. Lawson, since the use in the case at hand was much more than the mere exhibition of an alleged infringing article.⁹⁹ The approach of the court in Scott & Williams was followed in Patent Tube Corp. v. Bristol-Myers Co., where the court held that the distribution of patented device to potential customers for advertising purposes amounted to an infringing use despite the fact that they were not distributed for sale or any monetary compensation. This was on the basis that "[t]he distribution of the patented device only for advertising purposes and without actual monetary compensation ... creates no exception to the general rule that use of the patented device is forbidden. To hold so would be permitting the doing of something indirectly which is forbidden to be done directly. It is common knowledge that it is an important medium for the obtaining of business. Therefore, what appears to be an innocuous use of a patented device becomes at some point a substantial source of business."¹⁰⁰

The District Judge in Marlatt v. Mergenthaler Linotype Co. reviewed the above three cases and also several older cases and concluded that the mere display of infringing article was not an act of infringement, since there was no evidence that the alleged infringing machine was ever demonstrated in the District. Therefore, a distinction was made between mere display of the infringing article and a demonstration of that article which would amount to a use.¹⁰¹ The same lenient attitude is shown towards the mere advertising of an infringing product.¹⁰² That a sales demonstration would amount to an infringing use was also applied by the court in Grinnell Corporation v. The American Monorail Co. et al.¹⁰³ A similar approach was adopted in Knapp-Monarch Co. v. Casco Products Corp., the Court of Appeal stressing the fact that the record showed that the irons were not operated for demonstration purposes and, therefore, these acts were not illegal "uses" of the device.¹⁰⁴

⁹⁹ Scott & Williams, Inc. v. Hemphill Co. 10 USPQ 104 (S.D.N.Y. 1931), *per* Patterson, District Judge, at page 105.

¹⁰⁰ Patent Tube Corp. v. Bristol-Myers Co. 39 USPQ 523 (S.D.N.Y. 1938), *per* Mandelbaum, District Judge, at page 524.

¹⁰¹ Marlatt v. Mergenthaler Linotype Co. 73 USPQ 336 (S.D. Calif. 1947), *per* Weinberger, District Judge, at pages 340-342.

¹⁰² See, for example, Ling-Temco-Vought, Inc. v. Kollsman Instrument Corp 152 USPQ (CA 2nd Cir. 1967), *per* Medina, Circuit Judge, at page 451, where the court, after dismissing the plaintiff's argument of infringing use, added that there was no actual sale proved, and the mere advertisement of device was not itself patent infringement. See also Molinaro et al. v. Sonar Radio Corporation 206 USPQ 901 (E.D.N.Y. 1979), *per* Bartels, District Judge, at pages 904-905.

¹⁰³ Grinnell Corporation v. The American Monorail Co. et al. 158 USPQ 129 (D.C.S.C. 1967), *per* Hemphill, District Judge, at page 136.

¹⁰⁴ Knapp-Monarch Co. v. Casco Products Corp. 145 USPQ 1 (CA 7th Cir. 1965), *per* Swygert, Circuit Judge, at pages 4-5.

Further, adopting an approach similar to that applied in the United Kingdom, the US courts have held that keeping a patented device as a "back-up", ready for use as and when necessary, even though no actual use was proved, amounted to an infringement.¹⁰⁵

From an analysis of the US cases, to constitute infringing use, the defendant must have made use of the patented invention in the narrow sense of deriving some advantage from the invention and not in the wider sense of gaining any commercial benefit from it by dealing with the patented products. Under this analysis, it is clear that an advertising demonstration will amount to an infringing use, since the process of demonstrating the product will invariably involve carrying out and deriving a benefit of the invention. In contrast, a mere advertisement or exhibition of the patented product without more, will not. The exhibited product is merely allowed to be seen in its passive mode. There is no opportunity for any one to witness or derive any benefit of the patented invention.

The question now is which approach should be adopted by the Malaysian court. The wider approach will enable the court to provide more protection for the patentee. The various activities that are not specifically enumerated under the statutory provisions could be caught under the extended coverage of "use". One example will be the leasing or hiring of a patented equipment. If the lessor or hirer does not make, sell, import, or stock for such purposes, the infringing equipment, it would seem that no action could be taken against him for infringement of the patent. Neither could any action be taken against the lessee or user if the use falls under the exception of non-industrial or commercial use. It is inconceivable that Parliament does not intend that these activities of the lessor or hirer should be regarded as infringing acts. Such a situation would result in the exclusive right to sell a hollow right, because it could be circumvented by the simple device of leasing instead of outright sale.¹⁰⁶

It is submitted that the better approach would be to construe the word "use" in the wider sense to cover situations not covered by "make", "sell", "import" or "stock". This approach will not be in conflict with the ordinary grammatical meanings of the word "use".¹⁰⁷ It is

¹⁰⁵ See Olsson v. United States 37 USPQ 767 (Ct Cls 1938), cert. denied 41 USPQ 799 (1939) where the Court of Claims held the United States liable under 28 USC, section 1498 for infringing howitzers kept ready for use in case of war - *per* Littleton, Judge, at page 769. See also Hughes Aircraft Co. v. United States 215 USPQ 787 (Ct Cls Trial Div. 1982), affirmed, 219 USPQ 473 (CAFC 1983), *per* Colaianni, Trial Judge, at page 814, "Use of a system as a backup mode or to provide an extra measure of safety is "use" within the meaning of 28 USC, section 1498, citing Olsson v. United States 37 USPQ 767 (Ct Cls 1938)."

¹⁰⁶ It should be noted that the situation envisaged above would not pose any problem under the United Kingdom provisions which made use of the word "disposing" instead of "selling". In Kalman v. PCL Packaging Ltd [1982] FSR 406, at pages 412-413, Falconer J. discussed the possible meanings to be attached to the word "dispose" and was of the view that it could embrace other forms of marketing a product, such as leasing.

¹⁰⁷ The ordinary grammatical meaning of the verb "use" means "to put into practice or operation; to carry into action or effect" - meaning no. I, 6. However, it also means "to employ (an article, etc.), esp. for a profitable end; to turn to account" - meaning no. II, 2. See *The Shorter Oxford English*, Vol. 1, 3rd Ed., Clarendon Press, Oxford, 1987.

also pertinent to note that the US provision is framed differently from the Malaysian provision. The expression used in the US provision refers to "uses ... any patented invention", while the Malaysian provision uses the expression "using the product". Hence there is a significant difference in the extent to which the word "use" could be construed. Both utilising the patented product for whatever trade purposes with the intention of using the articles in trade, and for the purpose of utilising the teaching of the patent, could equally fall under the description of "using the product". However, it is more difficult to stretch the expression "using the patented invention" beyond the activity or purpose of utilising the teaching of the patent.¹⁰⁸

Giving it a wide meaning is justified to give the patentee his just reward. Since it is uncertain whether the Malaysian courts will construe it purposively, the best solution is to add a definition of "use" to encompass hire, lease or any other use of the patented product for the purpose of, or in relation to, trading in that product, but does not include the activity of a mere carrier, warehousemen, customs agent, or others in similar capacity.

3.2.1.d.(i). Use: Regulatory purpose

In the course of complying with regulatory procedures to obtain a product licence for certain substances, the applicant may have to deal with patented products. In doing this he may be exposed to two possible allegations of infringement, i.e., the use of data arising from tests carried out for the purpose of applying for a product licence, and the use of the product to carry out the tests. These issues have been addressed in the United Kingdom in The Upjohn Co. v. Kerfoot & Co. Ltd.¹⁰⁹ The plaintiffs, proprietors of a patent relating to a pharmaceutical, triazolam, alleged that the defendants had infringed the patent by having applied to the regulatory authority (the DHSS) for product licences (under the Medicine Act 1968) for triazolam or formulation thereof which had been imported. It was contended that for an application to be made to permit any form of manufacture in the UK, data arising from tests that had been performed in the UK on the patented compound, or on formulations incorporating the patented compound, would have to be submitted to the DHSS. This would mean that if an application for a product licence had been made, triazolam would have been imported into the UK. This importation would itself amount to an infringement. The plaintiffs also argued that any use of triazolam whether imported or manufactured in the UK for any purpose, and in particular for the purpose of obtaining a product licence, would infringe either or both the product patent or the intermediate patent. They further alleged (in paragraph 4(b) of the particulars) that the patent had been infringed by the supply, to the DHSS, of product data relating to triazolam which had been generated

¹⁰⁸ Note, however, that Benyamini, A., *Patent Infringement in the European Community*, IIC Studies Vol 13, VCH, Weinheim, 1993, at page 122, is of the opinion that the expression "use of the invention" is broader than that of "using the product".

¹⁰⁹ The Upjohn Co. v. Kerfoot & Co. Ltd [1988] FSR 1, *per* Whitford J., at page 2.

by testing either in England or abroad without the plaintiffs' licence. The defendants applied to strike out the statement of claim as not disclosing any reasonable cause of action or alternatively under the inherent jurisdiction of the court. It was held that the matters pleaded under paragraph 4(b) of the particulars of infringement would be struck out as disclosing no reasonable cause of action and that the remainder of the pleading should be struck out under the court's inherent jurisdiction. Despite the plaintiffs' attempt to argue for the extension of the meaning of "use", the court held that section 60(1)(a) is directed to commercial use, therefore, an application to regulatory authorities to sell a product in the UK, even though accompanied by data relating to the patented product, is not "use" of the product in the UK.¹¹⁰

However, if samples of patented products are imported without the licence of the patentee for the purposes of satisfying regulatory authority with a view to obtaining marketing permission, such an import would amount to an infringement of the patent. In the New Zealand case of Smith Kline and French Laboratories Ltd & anor v. Douglas Pharmaceuticals Ltd, the defendant imported into the New Zealand a sample of cimetidine and submitted it to the Department of Health, the relevant regulatory authority under the Medicines Act 1951, with a view to procuring permission to market the drug in New Zealand. The Court of Appeal held that to send an embodiment of an invention to a government authority for approval was a use of the invention and moreover use for commercial advantage, even though it might not yet have resulted in any commercial advantage.¹¹¹ In contrast to the case of The Upjohn Co. v. Kerfoot & Co. Ltd, there was direct physical use of the subject matter of the patent itself.¹¹²

¹¹⁰ The Upjohn Co. v. Kerfoot & Co. Ltd [1988] FSR 1, *per* Whitford J., at pages 6-8. See also the South African case of Monsanto Co. v. Stauffer Chemical [1988] FSR 57 (Sup. Ct South Africa), where it was held the data generated by the field trials were not "anything involving infringement" within section 65(3) of the Patents Act 1978, and so could not be the subject-matter of a delivery up order - *per* Harms J., at pages 63-64.

¹¹¹ Smith Kline and French Laboratories Ltd & anor v. Douglas Pharmaceuticals Ltd [1991] FSR 522 (CA N.Z.), *per* Cooke, P., at page 524, "The issue reduces to whether the importation of a sample and its submission to a regulatory authority, with a view to procuring permission to market, although there is no intention to market until the patent protection expires, is a use of the invention within the language and spirit of the words of the grant. In my opinion, as a matter of the ordinary use of language, whether now or (one would suppose) in earlier centuries, to send an embodiment of the invention to a government authority for approval is plainly a use of it. Without doubt, too, Douglas acted for the commercial advantage or springboard of being ready to launch into the market when the patent expired. This seems to me an infringement of both the letter and spirit of the grant. Indeed, whenever obtained, statutory marketing approval is a form of licence and *prima facie* has commercial value."; *per* Hardie Boys J., at page 527-529. Reliance was placed on Pfizer Corporation v. Ministry of Health [1965] AC 512, Monsanto Co. v. Stauffer Chemical Co. [1985] RPC 515, and the judgement of the United States Court of Appeals, Federal Circuit, in Roche Products, Inc. v. Bolar Pharmaceutical Co. Inc. 733 F.2d 858; 221 USPQ 937 (CAFC 1984). For a commentary on this case, see Brown, B., "Patent Infringement by Importation of Drug Samples to Obtain Marketing Approval: Smith Kline & French Laboratories Ltd v. Attorney-General" [1992] 1 EIPR 20.

¹¹² Note that some countries have now enacted special provisions to exempt from infringement actions certain activities relating to the manufacture, use, sale, etc. of patented products in connection with the development and submission of information required for regulatory purposes. See, for example, section 55.2, Patent Act, Canada, RSC 1985, c. P-4, and section 271(e), USC Title 35 - Patents, United States. Therefore, as far as the United States is concerned, the rule in Roche Products, Inc.

3.2.1.e. Stocking

Although the dictionary meaning of stocking is also capable of wide import, and could even extend to keeping the patented product for whatever reasons, in the context of the Act, it should not cause any problem of interpretation because of its juxtaposition with, or qualification by, the phrase "right to stock such product for the purpose of offering for sale, selling or using". Hence it is clear that the prohibited act is confined to the patented products being in the possession of a trader, who is stocking them for commercial purposes, specifically, for the purposes of sale or use, for example, the use of patented substances in a manufacturing process in a factory.¹¹³

A good illustration of a person stocking patented articles for use can be found in the case of McDonald & anor v. Graham. The evidence clearly showed that the defendants had been keeping patented promotional cards in stock for the purpose of his business in order to make use of them as and when it would be beneficial for him to do so. The defendant argued that he had done nothing which would constitute infringement under section 60 of the 1977 Act. Although he had kept certain promotional cards, it was submitted that he was keeping them privately and for purposes which were not commercial. The court held that since he supplied unlicensed samples of the patented product kept by him to various people for the purpose of advancing his business in "Flip-cards", there was a commercial use and therefore, an infringement.¹¹⁴

The potential coverage of the term "keeping, whether for disposal or otherwise" in the 1977 United Kingdom statute has given rise to a number of cases involving the question of whether an innocent carrier or warehouseman could be liable for patent infringement. The question first arose in Smith, Kline & French v. Harbottle,¹¹⁵ where British Airways were alleged to have infringed the plaintiffs' patent by keeping a product covered by that patent in their capacity as warehousemen. Oliver J. held that having regard to section 130(7) and the words of the C.P.C., the word "keeping" did not extend to the activities of mere warehousemen and carriers such as British Airways, since the word "keeps" in the 1977 Act connoted a keeping in some capacity and for a purpose other than that of a mere custodian or warehouseman. He, therefore, favoured construing the term in the sense of

v. Bolar Pharmaceutical Co. Inc. 733 F.2d 858; 221 USPQ 937 (CAFC 1984) is now statutorily overruled. See generally, Chisum, Vol. 4, Chapter 16, at para. 16.03[1].

¹¹³ In this respect it is much clearer and narrower than the equivalent provision in the United Kingdom statute which is phrased "keeps the product whether for disposal or otherwise", and closer to the CPC, Article 25(a), which provides that a Community patent confers the right to prevent others "from making, offering, putting on the market or using a product ... or importing or stocking the product for these purposes."

¹¹⁴ McDonald & anor v. Graham [1994] RPC 407 (CA), *per* Ralph Gibson L.J., at pages 430-431.

¹¹⁵ Smith, Kline & French v. Harbottle [1980] RPC 363.

"keeping in stock", although as this was an interlocutory injunction application, he expressly declined to arrive at a definitive interpretation.¹¹⁶

Under the phraseology used in the Malaysian provision, it is clear that such activities would not be regarded as an infringing act. By no stretch of the imagination could they be deemed to be stocking the products for the purpose of making, using or selling them.¹¹⁷

3.2.1.f. Importing

The exclusive right to import the patented product has been part of the law for a long time. Although not expressly provided in the form of patent, the courts have construed the form of patent to include such a right.¹¹⁸ In view of the specific inclusion of "importing" as part of the exclusive rights and also as constituting a head of infringement, there is no need to derive such a right by way of "using and exercising" the patent. Like the other infringing acts, the act of importing is an infringement in itself, without being tied to, or conditioned upon, other activities.¹¹⁹ However, from the scheme of the Act, it is obvious that importation, to be an act of infringement, must be for the purposes of trade. Hence, the intention of the importer is important in determining whether the act is an infringing act. This is because of the various exceptions relating to infringement provided by the Act.¹²⁰ For example, the importer may be merely importing the patented article for his own personal use. It is only when the import is for commercial purposes that it would amount to infringement.¹²¹

3.2.1.f.(i). Importation for exportation

A more difficult question is whether importation of infringing products for export purposes, with no intention that any of the imported products would ever be sold or used within jurisdiction, would amount to an infringement.

Under the old law, such an act was deemed to be a "user" of the patented invention which constituted an infringement of the patent rights. In The United Telephone Co. v.

¹¹⁶ Smith, Kline & French v. Harbottle [1980] RPC 363, *per* Oliver J., at pages 371-374. See also Kalman v. PCL Packaging Ltd [1982] FSR 406 (Patents Court), *per* Falconer J., at pages 415-418, following Smith, Kline & French Laboratories Ltd v. R.D. Harbottle (Mercantile) Ltd & ors [1980] RPC 363, on the issue of liability of a carrier.

¹¹⁷ The potential liabilities of these people for patent infringement under other heads of infringement is further discussed in para. 3.2.1.g., *infra*.

¹¹⁸ See the discussion on the meaning of "use" in para. 3.2.1.d., *supra*.

¹¹⁹ Under section 3, Interpretation Acts 1948 and 1967 (Consolidated and Revised, 1989) Act 388, Malaysia, "import" is defined to mean "import into Malaysia".

¹²⁰ See Chapter 7 - Exceptions, Limitations and Loss of Rights, para. 7.1.1.

¹²¹ See comments of Cooke, P., in Smith Kline & French Laboratories Ltd & anor v. Douglas Pharmaceuticals Ltd [1991] FSR 522 (CA New Zealand), at page 524.

Sharples,¹²² the court held that where the defendant had imported patented instruments for exportation, the act constituted an infringement of the plaintiff's patent rights, on the ground that such an activity amounted to a user which would be infringement of the patent. In British Thomson-Houston Co. Ltd v. Charlesworth Peebles & Co.,¹²³ the respondents admitted infringing the patent in suit by importing infringing lamps from Holland and selling them in Scotland. However, they resisted the part of the interdict sought by the complainers against the respondents' exporting lamps made in infringement of the patent. They contended that they had an unlimited right to export any lamps that might be imported into the United Kingdom on the ground that exportation *per se* did not constitute infringement. This contention was rejected and the interdict sought, *inter alia*, to prevent the respondents from exporting the infringing lamps was upheld. Similarly, in Hoffmann-La Roche & Co. AG v. Harris Pharmaceuticals Ltd & ors,¹²⁴ the defendant company had, *inter alia*, imported patented drugs for export to Nigeria. It was held that possession with the intention of using the articles for trade purposes and for securing a profit amounted to infringement whether the proposed dealing was with a customer in this country or abroad. The defendants in Smith Kline Corp. v. D.D.S.A. Pharmaceuticals Ltd¹²⁵ tried another line of argument against infringement by contending that their activities, the importation of infringing drugs for the purpose of exporting to Nigeria did not occasion any loss to the plaintiffs, therefore, there was no infringement. This contention was rejected by the trial judge and the Court of Appeal, which held that it was not incumbent upon the plaintiff in a case of patent infringement to show that he had suffered commercial loss. There was

122 The United Telephone Co. v. Sharples (1885) 2 RPC 28 (Ch.D), *per* Kay J., at page 31, "It is admitted by Counsel for the defendant that if a man buys an instrument which he knows would, if made, sold or used in this country, be an infringement of a patent in this country, if he buys it abroad, imports it into this country, had it in his possession, and sells it, although to a foreign customer, that would be a user which would be an infringement of the patent. I confess, as at present advised, I should have very little hesitation in saying that that would be so."

123 British Thomson-Houston Co. Ltd v. Charlesworth Peebles & Co. (1922) 39 RPC 399, in the Court of Session in Scotland, Outer House, before Lord Blackburn; Inner House, First Division, before The Lord President, Lord MacKenzie, Lord Skerrington and Lord Cullen - *per* The Lord President, at pages 404-405, and Lord MacKenzie, at page 405.

124 Hoffmann-La Roche & Co. AG v. Harris Pharmaceuticals Ltd & ors [1977] FSR 200, *per* Whitford J., at pages 205-207, citing, *inter alia*, Pfizer Corporation v. Ministry of Health [1965] RPC 261, British Thomson-Houston Co. Ltd v. Charlesworth Peebles & Co. (1922) 39 RPC 399, The United Telephone Co. v. Sharples (1885) 2 RPC 28 (Ch.D), Morton-Norwich Products Inc. v. Intercen Ltd [1978] RPC 501; [1976] FSR 513, and British Motor Syndicate Ltd v. Taylor (1900) 17 RPC 723 for the proposition. See also the copyright case of Mattel Inc. v. Tonka Corporation [1992] FSR 28 (H. Ct, Hong Kong), *per* Deputy Judge, Andrew Li, at page 40, where it was held that "the word 'import' in section 5(2) of the Copyright Act 1956, UK, should be given its ordinary meaning. It simply means bringing into Hong Kong. That being so, cargo in transit such as the dolls here was imported into Hong Kong within section 5(2). It may be different where cargo came into Hong Kong involuntarily, for example, as a result of hijack or poor weather conditions. But here it came into Hong Kong for a deliberate reason. It had to transit though Hong Kong since, for political reasons, vessels cannot sail direct from China to Taiwan."

125 Smith Kline Corp. v. D.D.S.A. Pharmaceuticals Ltd [1978] FSR 109 (CA), *per* Buckley L.J., at pages 111-112. See also Smith, Kline & French v. Harbottle [1980] RPC 363, where, however, the defendant, Harbottle, admitted infringement by importing into the United Kingdom infringing drugs meant for export to Nigeria.

infringement if his monopoly had been infringed and he was entitled to a remedy in respect of that.

It would seem that the importation of patented products for the purpose of export would still amount to an infringement by importation under the Act. Because of the physical presence of the infringing products within jurisdiction, such an act would seem to fall within the prohibition of section 58. The exclusive right to import is not qualified in any way, so mere importation for whatever purposes, unless the importer could rely on the various exceptions provided by the Act, would amount to an infringement. This should not be viewed as an undue extension of the patentee's rights, since there is nothing to prevent third parties from selling in another country where there is no patent protecting the particular product, provided the infringing product does not enter the jurisdiction where patent protection is conferred.

3.2.1.g. Liability of "indifferent participants"

In transactions involving patented articles, persons, other than the direct and contributory infringers, may unwittingly be involved in activities related to the infringing act. For example, in the course of its business activities, a carrier may be involved in the transportation and storage of infringing products entrusted to them for carriage. For the carrier or forwarding agent, the character of the goods being transported or forwarded is irrelevant to them. They are totally indifferent as regards whether the goods passing through their hands possess any inventive features, and are, therefore, more valuable. These participants are involved in the transactions, whether for the purpose of transmitting them to the persons to whom they are consigned, or in other ways dealing with the goods which pass through their hands, in the course of their normal duties.

Would such activities of the "indifferent participants" amount to patent infringement? Under the old law, the position is best summed up by Whitford J. in Hoffmann-La Roche & Co. AG v. Harris Pharmaceuticals Ltd & ors, where he said, "where a man is doing no more than transporting a patented article from one place to another he gets nothing out of the transaction arising out of the merits to be found in the patented product. He is really doing nothing which in any way could be described as making use of the invention. He himself does not in any way detract from the patentee securing the full benefit of the invention, but with somebody who is carrying on a trade and who is making a profit, the position is quite different."¹²⁶

¹²⁶ Hoffmann-La Roche & Co. AG v. Harris Pharmaceuticals Ltd & ors [1977] FSR 200, *per* Whitford J., at page 207. It is true that the question of whether the mere transport of a patented article from one place to another within the country would be a user and amount to infringement, was initially subject to some doubts under the old law. In Washburn and Loen Manufacturing Co. v. Cunard Steamship Co. (1889) 6 RPC 398, at 403, Stirling J. held that it was proper to bring an action against carriers, even though innocent, to restrain them from dealing with or disposing of

Similarly an infringement action was held not to lie against the defendants who had acted as Custom House agents for the foreign manufacturing firm, in getting the goods landed and stored in the country since they were not the importers, and their dealing with the infringing articles involved no ownership or control over them. Such an activity could not be regarded as "making, vending, or using the patented invention."¹²⁷

The position of other participants involved in some other ways with the infringing goods was also dealt with in a similar way. In Norwich Pharmacal Co. v. Customs and Excise Commissioners, the proprietors of a patent for the drug Furazolidone were anxious to discover the identity of persons importing the drug in alleged infringement of the patent. They brought an action against the Commissioners of Customs and Excise claiming, *inter alia*, an order that they should give to the plaintiffs the names and addresses of the importers in question together with inspection of all relevant documents. The plaintiffs also sought declarations that the Commissioners had infringed and caused or enabled the importers to infringe and that they were under a duty to impose forfeiture of all unlicensed Furazolidone in their possession, custody or control. It was held that the Commissioners were not guilty of infringement. They did not have possession of the imported goods, but only collected duty on those goods, and the charging of such duty did not make them participators in infringement.¹²⁸

A similar approach seems to be adopted by the United States courts. Before a person could be liable for carrying out an infringing use of the patented invention, it would appear, from the case of Douglas v. United States, that the defendant must have played an active role instead of being a passive observer in the use of the patented invention. Since the defendant's role in Douglas was merely that of providing the facilities and observing the demonstration, the court held that the defendant was not guilty of committing an infringing use.¹²⁹ This distinction between an active and a passive role may explain the decision in Brennan v. Mr Hanger, Inc. et al. The defendant, Mr Hanger, had a booth at a trade show where the infringing hanger bars made by Sal Grinding were displayed under a placard bearing the name of Sal Grinding, and the Mr Hanger personnel manning the booth were

infringing articles. However, it has to be noted that it was the practice then to sue carriers or others having control of the goods so as to obtain the names of the infringers. In view of Hoffmann-La Roche & Co. AG v. Harris Pharmaceuticals Ltd & ors, and especially Norwich Pharmacal Co. v. Customs and Excise Commissioners [1974] RPC 101 (HL), that decision may not be good law since there is now available an action for discovery against an innocent person who has facilitated the commission of a wrongdoing by another.

¹²⁷ See Nobel's Explosives v. Jones, Scott & Co. (1881) 17 L.R. Ch.D. 721, *per* James L.J., at pages 738-743.

¹²⁸ Norwich Pharmacal Co. v. Customs and Excise Commissioners [1972] RPC 743 (CA), *per* Lord Denning M.R., at page 764. See also Buckley L.J., at pages 767-768, and Roskill L.J., at pages 773-774, in similar vein. Note that on appeal to the House of Lords, the allegations of infringement were not pursued and the action fell to be treated as a pure action for discovery, see Norwich Pharmacal Co. v. Customs and Excise Commissioners [1974] RPC 101 (HL).

¹²⁹ Douglas v. United States 181 USPQ 170 (Ct Cls 1974), *per* Cooper, Trial Judge, at page 176.

authorised to receive orders on behalf of Sal Grinding, although there was no evidence any such orders were actually received. Mr Hanger was charged with infringement because of its assistance to Sal Grinding in the sales of the latter's hanger bars. The court held that there could be no active inducement of infringement unless infringement actually resulted. Following Knapp-Monarch Co. v. Casco Products Corp., the court held that the mere display of the hanger bars would not constitute an infringing "use". The court concluded that infringement by Mr Hanger had not been established.¹³⁰

It is submitted that this approach could and should be adopted in Malaysia.

3.2.1.h. Products obtained from patented machine

Unlike the case of a product obtained by means of a patented process, where specific provision is laid down to extend patent protection to it, there is no mention of patent protection for products made by means of a product patent, for example, a patented machine.

Several cases decided in the United Kingdom prior to the 1977 Act seem to indicate that the products obtained by the use of a patented machine would be deemed infringing products and could be prevented from being sold in, or imported into, the country. In Townsend v. Haworth, the court said, in relation to the prohibitions relating to a patented invention, "he is prohibited from making, using, or vending the prohibited articles, and that, of course, includes in the case of machinery the product ... of the machinery which is the subject of the patent. It is that which is produced by the patent."¹³¹ A similar approach is seen in The Cartsburn Sugar Refining Co. v. Sharp & Sharp,¹³² although on the facts the court held that the apparatus claim for producing sugar cubes was not infringed by the respondents who sold cubes made by a similar machine since it was not proved to be an infringing machine. The patents in The United Horse Shoe & Nail Co. Ltd v. Stewart & Co. related to machinery for making nails. The pursuers sued for infringement of these patents by reason of the sale of imported nails made by machines using the invention in Sweden. The House of Lords held that the sale of goods manufactured without licence by patented machinery was, and must, be treated as an infringement of the patentees' rights. As to the defenders' submission that the pursuers were only entitled to nominal damages, because the main portions of the machines by which their nails were made were not covered by the patents

¹³⁰ Brennan v. Mr Hanger, Inc. et al. 203 USPQ 697 (S.D.N.Y. 1979), *per* Conner, District Judge, at pages 700-701. Note that Mr Hanger was merely the owner of the booth in which the infringing hangers made by Sal Grinder were displayed. In this sense, Mr Hanger could be considered as a passive or "indifferent participant" as in Douglas v. United States 181 USPQ 170 (Ct Cls 1974).

¹³¹ Townsend v. Haworth (1875) 48 L.J. Ch. 770n, *per* Jessel M.R., at 772n.

¹³² The Cartsburn Sugar Refining Co. v. Sharp & Sharp (1884) 1 RPC 181 (Court of Session, Scotland), *per* Lord Kinnear, at page 186.

admitted to be infringed, the court held that that factor was irrelevant.¹³³ Such an extension of the rights of the owner of a product patent seems to be accepted by the House of Lords in Beecham Group Ltd v. Bristol Laboratories Ltd.¹³⁴

The above cases were, however, decided at a time where no express exclusive rights were laid down in the patent statutes. The courts, therefore, relied on the form of patent which could be construed very widely. It is unlikely that the same would apply in the United Kingdom under the 1977 Act, as well as the Malaysian Act. It is submitted that products of patented apparatus or machine would not be subject to the patentee's control. Unlike the situation with regard to products obtained by means of a patented process, no special provisions are provided to cater for products obtained by means of apparatus or machine protected by a patent. Therefore, it is arguable that protection for the by-products of a product patent is meant to be excluded.¹³⁵

3.2.2. Process Patents

In the case of a process patent, the first exclusive right granted to the owner is the right to use the process. "Use" in relation to a process patent would presumably be construed in the same way as "use" in relation to a product patent.¹³⁶

The second right is in respect of a product obtained directly by means of the patented process. The exclusive rights granted by a process patent are also extended to such products.¹³⁷ Under the Act, therefore, it will also be a patent infringement to exploit without authority a product obtained directly by means of the patented process. If the infringer is using the infringing process to manufacture the relevant product, there will not be a problem of stopping the activity. However, problems will arise when the infringing

¹³³ The United Horse Shoe & Nail Co. Ltd v. Stewart & Co. (1888) 5 RPC 260 (HL), *per* The Lord Chancellor, at page 264; Lord Watson, at page 267; and Lord Macnaghten, at page 268.

¹³⁴ Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153 (HL), *per* Lord Diplock, at page 201.

¹³⁵ This view is in accord with the views expressed in Terrell, 14th Ed., at para. 6.27, and the CIPA Guide, 4th Ed., at page 506, although it is conceded in the CIPA Guide that this may be arguable, citing Haslam. Haslam, R.F., "Letters to the Editor" (1982-83) 12 CIPA 319, argues that based on the reported cases on "use" and the meaning the courts had given to this term, which is specifically mentioned in section 60 as infringing, a case could be made on infringement as regards this form of activity. His arguments are based on the following grounds, including the fact that Oliver J., in SKF v. Harbottle went directly to the CPC to find out what section 60 might mean. He says that Article 25 CPC gives the proprietor the right to prevent third parties not having his consent from "using a product which is the subject matter of the patent" [not, as in section 60, "where the invention is a product"] and he concludes that it would be very difficult to exclude an importation such as the one under consideration from the meaning of the words. However, it needs to be pointed out that, contrary to his view, it is difficult to see how the description, "using a product which is the subject matter of the patent" can refer to anything other than the patented product.

¹³⁶ See *supra*, para. 3.2.1.d. for discussion of "use" in relation to a patented product.

¹³⁷ See section 36(3)(b) of the Act.

process is used abroad in a country where there is no patent protection. In such a case, there is no possibility of suing under the head of "using". Further, if there is no patent protection for the product, there will again be no possible cause of action against the importer of the product. Therefore, this provision will mainly be of use in situations where there is no claim to the product as such, and where the process is carried out abroad and a product from that process is imported into the jurisdiction of the court.

In relation to a product obtained directly by means of the patented process, the terms "make", "import", "offer for sale", "sell", "use" or "stock" will also be similarly construed.¹³⁸ Therefore, this part of the chapter focuses on the meaning of "product obtained directly" by means of a patented process. Before liability can be established, two conditions need to be fulfilled. The first is that the impugned product must be the result of the sequential steps of the patented process, and the second is that it be "directly obtained" by means of that process. In analysing the second condition, the situation prior to the Act is analysed before examining the law under the present provision.

3.2.2.a. Statutory presumption

For the benefit of the patentee, there is a statutory presumption which reverses the burden of proof where infringement of a process patent is involved. If the patent has been granted in respect of a process for obtaining a product, the same product produced by a person other than the owner of the patent or his licensee shall, unless the contrary is proved, be taken in any infringement proceedings to have been obtained by that process.¹³⁹ There is, therefore, a presumption of infringement in such a situation.¹⁴⁰ The presumption applies only when the invention is for a process for obtaining a product. Where other process patents are involved, as for example, where a process patent relates to a method of use, or other processes which bring about a particular result, but do not result in a product being obtained, the burden of proof would still lie on the plaintiff.

The effect of the Malaysian provision is significantly different from the normal equivalent provisions found in countries adopting this reversal of the burden of proof. In these jurisdictions, the presumption applies only if the patent relates to a process for manufacturing a new product.¹⁴¹ The Malaysian provision is not limited to a new product,

¹³⁸ Refer *supra*, para. 3.2.1. for discussion on the import of these rights.

¹³⁹ See section 36(4) of the Act.

¹⁴⁰ For the history and purpose of this reversal of the burden of proof, see generally, Ladas, S.P., *Patents, Trademarks, and Related Rights, National and International Protection*, Vol. 1, Harvard University Press, Cambridge, Massachusetts, 1975, at para. 231.

¹⁴¹ See, for example, the equivalent provision in section 100 of the UK Patents Act 1977, in Appendix, and the similar optional provision suggested in section 161*bis* of the WIPO Model Law. See also similar provisions in section 55(1), Patent Act, RSC 1985, c. P-4, Canada, section 139(3), Patent Law 1980, Germany, Article 35 of the Community Patent Convention. Note, however, that section 121A of the Patents Act 1990, Australia, and section 295, USC Title 35 - Patents, United States, are worded to similar effect as the Malaysian provision.

but applies in any case where there is a patent relating to a process for making any product, whether old or new.

The need for a reversal of the burden of proof arose at a time when some countries did not provide patent protection for inventions relating to chemical compounds.¹⁴² Therefore, the only form of protection available to an inventor who had discovered a new chemical compound was a patent for the process of obtaining the new compound, and not the compound *per se*. In such a situation, or in a situation where the patented process was the only known way to produce the product, since the compound was a new compound, it was thought fair to shift the burden to the allegedly infringing manufacturer to prove that the compound was produced by a different process. However, the owner of a subsequent patent for another process for making the same compound was not entitled to rely on this presumption of infringement, for the reason that the compound was now not regarded as a new compound.

Where a country, like Malaysia, permits the grant of a patent for a chemical compound *per se*, such a reversal of the burden of proof would appear to be redundant. This is because a product patent for the compound covers every method of manufacture of the compound and every form which comes within the description in the claim.¹⁴³ Even in the case where a new product can not be described by normal parameters and hence the patentee has to rely on a process-by-product claim, the patent is regarded as a product *per se* claim.¹⁴⁴ Hence if an unlicensed person were to make the same compound, there would be an infringement of the product patent, regardless of the process used. There is no need for reliance on the presumption that the product was made by means of the same process. Therefore, it is surprising that the provision is still present in the statutes of countries providing product patent protection for chemical compounds.¹⁴⁵ However, despite its redundancy and irrelevance, its presence in the statute book does not occasion any undue burden on competitors, as in practice it would not be relied upon.

¹⁴² I am grateful to His Honour, Judge Ford, for his helpful discussion on this point. For example, in 1919, the Patents and Designs Act, 1907, of the United Kingdom was amended to prevent the hitherto patentable new chemical substances, from being protected by a product *per se* claim. The new section 38A of the amended Act permitted only a claim to the product when made by a particular process. The statutory reversal of the burden of proof was provided for the first time in the new section. This provision was repealed when the Patents Act 1949, United Kingdom was enacted, with the consequent restoration of protection for chemical substances *per se*. The provision on the reversal of the burden of proof is, however, reinstated by section 100 of the 1977 Act. Protection for chemical substances *per se* was first introduced in Germany in 1968, in Italy, no patents were allowed for pharmaceutical inventions from 1939 to 1978. See generally, Grubb, P.W., *Patents for Chemists*, Clarendon Press, Oxford, 1982, at pages 41 to 46, for a fuller list of countries not providing protection for chemical compounds.

¹⁴³ See *supra*, para. 3.2. - Infringement of Rights.

¹⁴⁴ For further discussion on product-by-process claims, see *infra*, para. 3.3.2.e.

¹⁴⁵ In fact, when referring to section 100 of the 1977 Act of the United Kingdom, the CIPA Guide, 4th Ed., comments that the section may have very little practical application except to a patent that includes no claim to the product *per se*. It is difficult to envisage a situation where the patentee, who has discovered a new product, is satisfied with claiming only the new process alone.

In the Malaysian context, however, the statutory presumption is not only redundant, but could bring about an absurd result and encourage unnecessary legal manoeuvring. Since the presumption is not limited to a new product, it is available to any person who owns a process patent for obtaining a product. If a plaintiff, the owner of a process patent for making a particular known product were to sue a person who owns another process patent for making the same product, the plaintiff could rely on this provision to impose the evidential burden on the defendant to prove that his product was not obtained by the plaintiff's process. On the other hand, if the defendant were to counterclaim for infringement of his process patent, he could similarly rely on the presumption to insist that the plaintiff proves that the plaintiff's product was not made by means of the defendant's process. The provision could also be abused if the owners of process patents make use of the provision as a device for obtaining the trade secrets and other manufacturing information of their rivals. Therefore, there is ground for arguing that this provision should be deleted from the Act.

However, Article 34 of the TRIPS Agreement imposes an obligation on signatory countries to provide such a reversal of burden, which in fact appears to be a historic relic.¹⁴⁶ Presumably this obligation is meant to be applicable in countries which are still not permitting product patents for chemical compounds to ensure proper safeguards to the owner of a process patent for making a new product. It might also be inserted in *abundans cautela* in case the courts of certain jurisdictions construe a product-by-process claim mentioned above as a process claim and not a claim to the product *per se*. In view of this obligation, it is proposed that although the provision is meaningless in the Malaysian context, section 36(4) of the Act be amended by the addition of the word "new", and the provisions of safeguard to protect the legitimate interest of a defendant in protecting his manufacturing and trade secrets.

3.2.2.b. The doctrine of infringing importation

Under the common law, it has been long been accepted that the direct product made by a patented process is protected, Betts v. Neilson being the first case in the United Kingdom involving this issue.¹⁴⁷ The plaintiffs in Elmslie v. Boursier¹⁴⁸ sought, *inter alia*, an injunction to restrain the defendant from importing into England any tin-foil made in any foreign country according to the invention, or by the machinery and apparatus described in the plaintiffs' specification. The substance of the invention was a method of making tin-foil by melting and casting the metal. It was held, following Betts v. Neilson, that the activities

¹⁴⁶ See also Alternative B, Article 24 of the proposed Patent Law Treaty (refer footnote 17).

¹⁴⁷ Betts v. Neilson (1867-68) L.R. 3 Ch. App. 429; (1871-72) L.R. 5 HL 1, *per* Lord Chelmsford L.C., L.R. 3 Ch. App. 429, at pages 437-439; *per* Lord Westbury, in Neilson v. Betts (1871-72) L.R. 5 HL 1, at pages 9-11, and *per* Lord Colonsay, at pages 22 to 25. For the facts, see *supra*, footnote 81 and accompanying text.

¹⁴⁸ Elmslie v. Boursier (1869-70) L.R. 9 Eq. 217.

of the defendants were a violation of the rights granted to the plaintiffs by the patent. To hold otherwise "would be a short mode of destroying 'every profit, benefit, commodity, and advantage' which a patentee could have from such a thing, if all that a man had to do was to get the thing made abroad, import it into this country, and then sell it in competition with the English patentee."¹⁴⁹ A similar approach was taken in Wright v. Hitchcock,¹⁵⁰ where the court held that the defendants, who had bought and sold, by way of trade, articles manufactured by a process which infringed the patented process, were guilty of an infringement of the patent. This decision is significant because the court specifically held that the patent was not for the manufactured product, but for the process of manufacturing it.¹⁵¹

The Court of Appeal in Von Heyden v. Neustadt was asked to reconsider and to overrule the decisions of the two courts of first instance. But the judges saw no ground for dissenting from them, stressing that "the patent in another part expressly forbids any person directly or indirectly to make, use, or put in practice the invention. A person who makes, or procures to be made, abroad for sale in this country, and sells the product here, is surely indirectly making, using and putting in practice the patented invention. Any other construction would, in fact, in the case of any really valuable invention of a process, render the whole privilege granted by the Crown futile."¹⁵² This proposition, that where a patent had been granted in England for a new process for producing a product which was previously known, the importation and sale in England of this substance made abroad according to the patented process was an infringement of the patent, was affirmed by the House of Lords in Pfizer Corporation v. Ministry of Health.¹⁵³

3.2.2.c. The Saccharin doctrine

In several cases decided prior to the 1977 Act, the courts have been willing to extend patent protection even to products which were not the direct product of a patented invention. So,

¹⁴⁹ Elmslie v. Boursier (1869-70) L.R. 9 Eq. 217, *per* Sir W.M. James V.C., at pages 222-223.

¹⁵⁰ Wright v. Hitchcock (1869-71) L.R. 5 Ex. 37 (Court of Exchequer Chamber), *per* Kelly C.B., at pages 46-47, "If the law were otherwise, then when a man has patented an invention, the profit of which consists in selling articles manufactured by means of the invention, another might, by merely crossing the Channel, and manufacturing abroad, and selling in London for far less than the original price, but also at a trifle less than the price charged by the patentee, articles made by the patented process, wholly deprive the patentee of the benefit of his invention." *Martin B.*, at pages 47-48, *Channell B.*, at pages 48-50, and *Pigott B.*, at pages 50-51, delivered concurring judgements.

¹⁵¹ Wright v. Hitchcock (1869-71) L.R. 5 Ex. 37 (Court of Exchequer Chamber), *per* Kelly C.B., at page 45, "Therefore, whether we look at the title of the patent, the specification, or the claim, the patent is not for the article manufactured, but for the mode by which the article described is brought into existence."

¹⁵² Von Heyden v. Neustadt (1880) L.R. 14 Ch. D. 230, *per* James L.J., at pages 231-233. See also The Carlsburn Sugar Refining Co. v. Sharp & Sharp (1884) 1 RPC 181 (Court of Session, Scotland), *per* Lord Kinnear, at page 186.

¹⁵³ Pfizer Corporation v. Ministry of Health (1965) 82 RPC 261, at page 303, *per* Lord Evershed.

in Saccharin Corp. v. Anglo-Continental Chem. Works Ltd,¹⁵⁴ the court held that there was infringement of the process patent for "improvement in the manufacture of toluene sulpho chlorides", an intermediate compound used in the manufacture of saccharin, by the sale of saccharin in the manufacture of which the process was used to manufacture the intermediate compound. The saccharin was manufactured in Switzerland using the patented process. The defendants imported and sold these allegedly infringing products in the United Kingdom. The court held that although the toluene sulpho chlorides had to be subjected to subsequent process to produce saccharin, the defendants, by importing saccharin, in the course of the production of which the patented process was used, were indirectly making use of the invention and had infringed. Although Buckley J. agreed that the cases of Elmslie v. Boursier and Von Heyden v. Neustadt did not entirely cover the point which had to be decided, the principles there determined it. On the principle that if the patented process were the last stage in the production of the article sold, the importation and sale of the product would plainly be an infringement, it should not, therefore, make it any less an infringement that the article produced and sold was manufactured by the use of the patented process which was subject to certain other process. By the sale of the saccharin, the patentee was deprived of some part of the whole profit and advantage of the invention, and the importer was indirectly making use of the invention.¹⁵⁵

However, Tomlin J. refused to apply the Saccharin doctrine without qualification in Wilderman v. F.W. Berk & Co. Ltd, which involved the importation of products manufactured by a patented apparatus.¹⁵⁶ The plaintiff alleged that the defendants had imported two quantities of caustic potash, manufactured by a German company in an apparatus in which the essential features of the invention were present, and that the importation was an infringement. It was held, *inter alia*, that the importation of the article was not necessarily an infringement, but that the nature of the invention, and the extent to which its employment had played a part in the production of the article, must be considered. In the absence of evidence as to those matters, infringement had not been proved.¹⁵⁷

¹⁵⁴ Saccharin Corp. v. Anglo-Continental Chem. Works Ltd (1900) 17 RPC 307. See also Saccharine Corp. v. Reitmeyer (1900) 17 RPC 606, *per* Cozens-Hardy J., at page 611.

¹⁵⁵ Saccharin Corp. v. Anglo-Continental Chem. Works Ltd (1900) 17 RPC 307 (Ch. Div.), *per* Buckley J., at pages 318-319, following Elmslie v. Boursier 1869-70 L.R. 9 Eq. 217 and Von Heyden v. Neustadt (1880) L.R. 14 Ch. D. 230. For a critique of this decision, see Lynfield, H.G., "Infringement in Great Britain by Importation of Transformed Products", Vol. 9 IDEA 577 (1965-66).

¹⁵⁶ Wilderman v. F.W. Berk & Co. Ltd (1925) 42 RPC 79.

¹⁵⁷ Wilderman v. F.W. Berk & Co. Ltd (1925) 42 RPC 79, *per* Tomlin J., at pages 87-88, "It does not, however ... necessarily follow that the importation of caustic potash made in those troughs was an infringement of the patent in suit. I have had no evidence of any kind directed to the nature or effect of the invention. I am not informed by evidence how far, if at all, the invention is effectual in practice, or what its precise function in the process of electrolysis of alkaline salts, that is, whether it relates to a mere mechanical detail of the apparatus employed or whether it is something the use of which is necessary to render the working of the process practicable or profitable. ... It is urged on the plaintiff's behalf that, once I am satisfied that there has been used in connection with the manufacture of an imported article, in however an unimportant or trifling respect, some apparatus or material in respect of which there is a subsisting patent, the importation

Relying on the Saccharin case, the plaintiffs in Beecham Group Ltd v. Bristol Laboratories Ltd,¹⁵⁸ argued that that case established that the importation into the UK of a product manufactured abroad constituted an infringement of a UK patent for any process that had been used at any stage in the manufacture of the imported product. The same applied to any product which was either used as a starting material or formed as an intermediate at any stage in the course of the manufacture of the imported product, even though the imported article was wholly different in composition, characteristics and usefulness from the patented product. The House of Lords held that the application by extension of the doctrine of infringing importation to the use of the claimed products in processes abroad could not be rejected in its entirety. However, it was categorically stated that the Saccharin doctrine must be applied with a rider that for an infringement, the "process must have played more than an unimportant or trifling part in the manufacture abroad of the product, each case depending on its own merits".¹⁵⁹

From the Beecham case, several observations may be made. The first is that the doctrine of infringing importation is applicable to prevent the importation of products made by means of a patented process, subject to the rule that the process must have played a substantial part in the manufacture of the product. Doubt was cast upon Buckley J.'s opinion in the Saccharin case that it would still be an infringement when the patented process was used not in the last stage but in an earlier stage of the manufacture of the imported article.¹⁶⁰ However, while the principle of the Saccharin doctrine was approved no decision was reached on the extent thereof as the House of Lords declined to come to any firm ruling on this point since it was not relevant to the decision.¹⁶¹ The question left unanswered by the Beecham case as regards the extent to which the Saccharin doctrine is applicable for imported products in the manufacture of which a patented process was used is now academic, in view of the new provision to which attention is now directed.

of the article manufactured is necessarily an infringement. I do not think that the cases to which I have been referred compel me to accept so wide a proposition, and I do not accept it."

¹⁵⁸ Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153 (HL).

¹⁵⁹ Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153 (HL), *per* Lord Simon, at pages 203-204, citing Tomlin J. in Wilderman v. F.W. Berk & Co. Ltd (1925) 42 RPC 79, at page 86.

¹⁶⁰ Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153 (HL), *per* Diplock, at page 200, "Expressed in this wide form the judgement in the Saccharin case stands in isolation."

¹⁶¹ The Saccharin doctrine was adopted and applied in Singapore in Beecham Group Ltd v. Sime Darby Singapore Ltd & ors [1968] 1 MLJ 86, *per* Buttrose J., at page 88, who held that the importation and sale of Hetacillin in Singapore was *prima facie* an infringement of the plaintiffs' patent under section 6 of the Registration of United Kingdom Patents Ordinance of Singapore. This decision was affirmed in Sime Darby Singapore Ltd & ors v. Beecham Group Ltd [1968] 2 MLJ 161, at page 164, *per* Wee C.J. (Fed. Ct Singapore).

3.2.2.d. The present law

The situations discussed above under the doctrine of infringing importation seem to be covered by the term "product obtained directly by means of the process", and would, therefore, be considered an infringement under the Act. Whether the Saccharin doctrine as modified, represents the law as laid down in the new statutory provision depends on how the courts interpret the word "directly". The major difficulty lies in relation to the question of what is meant by a "product obtained directly by means of the process". How proximate to the patented process must the offending product be before it is deemed to be an infringing product? How far up the whole production line which involves a series of processes, each resulting in intermediate products, can the owner of one of the intermediate processes reach?

Benyamini discusses two possible approaches to the construction of the meaning of "directly" in the context of the equivalent provision of Article 25(c) of the CPC, the narrow and literal interpretation and the broad approach.¹⁶² He agrees, *inter alia*, that the word "directly", if used in its natural and ordinary sense, should apply only to the initial and immediate result of practising the process, and that this provides a clear and simple test for infringement and hence certainty in the law. However, he favours the broad approach whereby the word "directly" does not necessarily import proximity in terms of time but also a qualitative connection. Under this test, if the value and characteristics of the final product were largely determined by the use of the process or original product, then in a qualitative sense the final product could be regarded as being obtained directly by means of the patented process. Hence there has to be a determination of the part the process played in the manufacture of the final product, regardless of whether the physical direct product of the patented process is a starting or intermediate material. This approximates the approach under the modified Saccharin doctrine, and is, in principle, the approach adopted by the US legislature in 1988, when a new section 271(g) was introduced.¹⁶³ Under the new US

¹⁶² See Benyamini, A., Patent Infringement in the European Community, IIC Studies Vol 13, VCH, Weinheim, 1993, at pages 158-164.

¹⁶³ Section 271 of USC 35 was amended in 1988 (by The Process Patent Amendments Act 1988, enacted on August 23, 1988, and became effective on February 23, 1989) to provide a new provision extending patent protection to certain products of a patented process. See Appendix for the provisions of section 271(g). Prior to the amendment, there was no patent protection available for the product of a patented process. The only possible remedy was for a patent owner to seek relief before the U.S. International Trade Commission under section 337 of the Tariff Act of 1930. However, the patent owner would have to prove that the importation of the product resulting from the process constituted an unfair practice in import trade. See generally, Stark, L.T., "Efforts by Treaty, Case and Statute to Provide Holders of Process Patents Protection Against Imported Goods made by the Patented Process", [1960] 42 JPOS 21, and Kramer, B., "Protecting the High-Tech Frontiers: The Need for Stronger Process Patent Laws", [1988] 21 Akron Law Review 429. For further commentaries and discussions on the new provision, see Chisum, Vol. 4, Chapter 16, paras. 16.02.[6]; Mirabel, E.P., "Product-by-Process Claims: A Practical Perspective", 68 JPTOS 3 (1986); Haymond, W.B., "The Process Patent Amendments Act of 1988: Solving an Old Problem, But Creating New Ones", [1989] Brigham Young University Law Review 567; Law, G., "Liability Under the Process Patent Amendments Act of 1988 for the Use of a Patented Process Outside the United States", 60 Geo. Wash. L. Rev. 245 (1991); and Hitchcock, D.L., Nard, C.A.,

provisions it is an infringement to import, sell or use within the United State a product which is made by a process patented in the United States. However, a product which is made by a patented process will not be considered to be so made after it has either been materially changed by subsequent processes or it has become a trivial and non-essential component of another product. Further, in an action for infringement of a process patent no remedy may be granted for infringement on account of the non-commercial use or retail sale of a product unless there is no adequate remedy for infringement on account of the importation or other use or sale of that product.

However, the hope that the court will construe the provision broadly seems to have been put to rest in the United Kingdom case of Pioneer Electronics Capital Inc. & anor v. Warner Music Manufacturing Europe GmbH & anor.¹⁶⁴ This is the first case to come before the court where the effect of the equivalent provision in the United Kingdom Act was considered. The plaintiffs were the proprietors of four European patents (United Kingdom) relating to the production of optical discs (compact discs). The claims of the plaintiffs' 1649 patent were directed to a method of forming stampers. One of the claims in the '1493 patent related to a process of controlling the velocity of a disc during mastering.

The defendants admitted the manufacture in Germany and the importation and sale of discs in the United Kingdom. For the purposes of their application to strike out the writ and statement of claim as disclosing no cause of action, they accepted that the plaintiffs' patented processes were used in their mastering process and also to produce the "father". However, they denied infringement on the ground that their discs were not obtained directly by means of the processes claimed in the plaintiffs' patents.

Aldous J. reviewed the case law but held that the law prior to the Patents Act 1977 was of historical interest only and did not throw light on the proper construction of section 60(1)(c) of the 1977 Act. Since section 60 was one of the sections referred to in section 130(7) of the 1977 Act and was framed so as to have the same effect as the corresponding provisions of the EPC (Art. 64(2)) and the CPC (Art. 29(c)), reference was made both to the German and French text of Art. 64(2) of the EPC. Considering the three texts, it was held that the word "directly" should be given the meaning of "without intermediary". Further, guidance from German, Dutch, Danish, Swiss and Austrian jurisprudence indicated that in those jurisdictions the product, to be "directly obtained" must be the product of the claimed invention and not an intermediate. Since none of the defendants' products was the direct

"The Process Patent Amendments Act: The Labyrinth", [1993] 3 Fordham Ent., Media & Intell. Prop. L.F. 441; Wright, A. "Comment: The North American Free Trade Agreement (NAFTA) and Process Patent Protection", [1994] 43 Am. U.L. Rev. 603.

¹⁶⁴ Pioneer Electronics Capital Inc. & anor v. Warner Music Manufacturing Europe GmbH & anor [1995] RPC 487 (Patents Court). For a comment on this case, see Russell, F., Hurdle, H., "What is the Direct Product of a Patented Process? Pioneer Electronics v. Warner Music Manufacturing" [1995] 5 EIPR 249.

product of the claimed processes but was the result of further material and important steps which were necessary in order to arrive at the end product, there was no infringement. It was stressed that a causal link, however important, was not sufficient.¹⁶⁵

Given the traditional reliance of the Malaysian courts on UK precedents, it is very likely that the approach of Aldous J. in the Pioneer case will be followed. It would seem, therefore, that in the absence of any valid product-by-process claim, the patent owner is not able to prevent any commercial dealings with a product obtained from a patented process when such product is not the direct result of the patented process. The result is the same even though the product of the patented process constitutes an important link in the creation of the final product. Therefore, if the product of the patented process is an intermediate product which constitutes a step in the overall production operation, there is no infringement. However, in coming to the opinion that there was no infringement, Aldous J. stated that none of the defendants' products were the direct product of the claimed processes but were the result of further material and important steps which were necessary in order to arrive at the end product. Hence if there is a colourable evasion like that attempted in the Beecham case, where an additional step was incorporated into the process to form a substance which did not literally fall within the description of the product of the patented process, it would seem that there would still be an infringement under the Act.¹⁶⁶ However, it is unlikely that under the approach the courts could go further than this. Construed this way, it would appear that the present statutory provision is less advantageous to the patentee, and has narrowed the earlier common law protection.

3.2.2.e. Observations on protection for process patents

In the cases decided under the old law the purpose of extending protection to products made by means of a patented process was to prevent the taking of the benefit of illegal use of the plaintiff's invention, the patent being rendered useless if protection was not granted and such products were allowed to flow in from abroad unimpeded.¹⁶⁷ However, the court was

¹⁶⁵ Pioneer Electronics Capital Inc. & anor v. Warner Music Manufacturing Europe GmbH & anor [1995] RPC 487, *per* Aldous J., at pages 492-495. Note that the Court of Appeal has affirmed Aldous J.'s approach - see *The Times*, 10/12/1996. It was stressed that a product does not cease to be a product so obtained if it was subjected to further processing which does not cause it to lose its identity, there being no such loss where it retains its essential characteristics.

¹⁶⁶ Wibbelmann, J., "Protection of 'Products Directly Obtained by Processes' According to Article 64(2) EPC", [1996] 3 EIPR 174, at 176, is of similar opinion. See also The Wellcome Foundation and Hoffmann-La Roche & Cie. v. Pires & Mourato Vermelho, L.da (Sup. Ct, Portugal 1979) 11 IIC 233 (1980), "... if the defendants... import trimethoprim manufactured abroad according to the patented process and put it on sale in Portugal, there can be no doubt that such course of conduct infringes the exclusive rights of the patent owner The question arises whether an infringement also takes place if defendants first combine trimethoprim with some other substance, e.g. a placebo, and then import it into Portugal ... It would indeed be incompatible with the law if we were to allow the clear violation of the cited provision by such indirect means, thus nullifying the benefits the plaintiff enjoys under the exclusive right accorded him...."

¹⁶⁷ See, for example, *per* Kelly C.B., at page 47, Martin B., at page 47. Pigott B., at page 51, in Wright v. Hitchcock (1869-71) L.R. 5 Ex. 37 (Ct of Exchequer Chamber); see also Von Heyden v.

able to do so because of the wide wording of the grant which, *inter alia*, prohibited third party from either "directly or indirectly" making, using and putting in practice the patented invention.¹⁶⁸ In the absence of such widely prescribed rights, the courts would be restricted in the extent to which the rights granted may be stretched.

The advantage of the strict approach is that it provides more certainty for third parties. There are difficulties if the patent owner is able to sue for patent infringement every time his patented process is used or applied, no matter how proximate or removed the final impugned product is to the original use of the patented process. If an intermediate product produced by a patented process were to be incorporated into another non-infringing article, or were to be used in the manufacture of other products, suppliers of these articles or products may be unfairly restrained in their trade. This problem has been the subject of concerns expressed by judges in various cases.¹⁶⁹

Neustadt (1880) L.R. 14 Ch. D. 230, *per* James L.J., at pages 233, "Any other construction would ... in the case of any really valuable invention of a process, render the whole privilege granted by the Crown futile. When the patent was an English patent only, an imitator would only have had to establish his factory on the other side of the border, and now such an imitator would only have to establish his factory or use the chemical process in Boulogne or Ostend, and he would effectually deprive the inventor of the 'whole profit, benefit, commodity, and advantage' of the invention, and the more valuable the invention, the more certain it would be that the prohibition in the letters patent would be so indirectly avoided - that is to say, evaded."

¹⁶⁸ See, for example, Von Heyden v. Neustadt (1880) L.R. 14 Ch. D. 230, *per* James L.J., at pages 233, "A person who makes, or procures to be made, abroad for sale in this country, and sells the product here, is surely indirectly making, using and putting in practice the patented invention. See also Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153 (HL), *per* Lord Diplock, at 199, "The monopoly granted by a patent is limited territorially to the United Kingdom and the Isle of Man and the corresponding prohibition is limited to acts done within those territorial limits. The wide word of the grant and prohibition were, however, treated as entitling the patentee to prohibit the obtaining from abroad and selling in this country an article manufactured abroad by a patented process, even though the article was of a kind that was not new and consequently of itself could not be, and was not, claimed as an invention in the specification."; and Pioneer Electronics Capital Inc. & anor v. Warner Music Manufacturing Europe GmbH & anor [1995] RPC 487 (Patents Court), *per* Aldous J., at page 494, "Whether or not the view expressed by the Saccharin case was correct was left open by the House of Lords in Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153. ... Prior to 1977 the courts had to decide whether indirect use had been made of a patent which is different to deciding whether a product has been obtained directly by means of the process."

¹⁶⁹ See, for example, the comments of the judges in the following cases: Betts v. Neilson (1867-68) L.R. 3 Ch. App. 429, *per* Lord Chelmsford, "A variety of cases were suggested in argument, to show to what extravagant consequences a decision against the defendants would lead. It was asked whether ... if there were a patent for a particular dye, and a lady were to purchase a dress in Paris dyed with the patented colour, and then to wear it in this country, she would be guilty of an infringement? ... As to the case of the patented dye upon a dress purchased abroad and brought into this country, there may be some difficulty in dealing with the case of the ignorant use of a patented invention under such circumstances, but I must decline to express any opinion upon extreme cases, which are merely matter for ingenious speculation, and not even likely to arise in such a manner as to call for a legal decision."; Wilderman v. F.W. Berk & Co. Ltd (1925) 42 RPC 79, *per* Tomlin J., at pages 93-94, "It is urged ... that, once I am satisfied that there has been used in connection with the manufacture of an imported article, in however an unimportant or trifling respect, some apparatus or material in respect of which there is a subsisting patent, the importation of the article manufactured is necessarily an infringement. I do not think that the cases to which I have been referred compel me to accept so wide a proposition, and I do not accept it. I cannot think, for example, that the employment of a patented cutting blowpipe or a patented hammer in the manufacture of some part of a locomotive would necessarily render the importation of the locomotive an infringement."; Beecham Group Ltd v. Bristol Laboratories Ltd [1978] RPC 153 (HL), *per* Lord Simon of Glaisdale, at page 204, "I would ... remark that English law has always

A possible extension of protection to the products made by a patented process could be derived by relying on the provision of section 3 of the Act. This definition section provides that "patented product" means a product which is a patented invention or, in relation to a patented process, a product obtained directly by means of the process or to which the process has been applied.¹⁷⁰ Thus where a substance or article is treated according to a patented process, the substance or article after such treatment is also deemed to be a patented product even if, *qua* product, it has not been altered by the treatment. However, although it is attractive to rely on this provision as a means of providing another layer of protection, it is submitted that reliance cannot be placed on this provision. Section 64 of the Act, relating to unauthorised claim of patent rights, is the only section in the Act where reference is made to the expression "patented product".¹⁷¹ Hence it would seem that the definition in section 3 is meant to be applied only in the specific context of the criminal provision of section 64 and not anywhere else.¹⁷² This submission is strengthened by the fact that section 36(3)(b)(ii) specifically mentions only "product obtained directly by means of the process" and the reference to "to which the process is applied" is omitted.

It is also worth remarking that in Germany, a claim to the use of a known material in a specified way has been held infringed by importation of the material with instructions for use in the claimed way.¹⁷³ The decision was said to arise from the "use" claim being directed to a process and the imported article being the direct product thereof, and that an English court would constitute a "use" claim in a similar fashion.¹⁷⁴ In this context, it needs to be mentioned that under the Act, a "process" includes an art or method.¹⁷⁵ However, it is submitted that the provision extending protection of a process patent to a direct product refers to a "product obtained directly by means of the process".¹⁷⁶ So although the extended protection may be applicable when the process involves preparation

resolutely refused to carry a legal doctrine to its logical conclusion in the face of convenience... I would have thought that some formula might be devised whereby the Saccharin doctrine could be extended to cover, say, 6-APA playing a significant part in the manufacture of a semi-synthetic penicillin, but not of a wholly different product like, say, glue." In V.D. Ltd v. Boston Deep Sea Fishing & Ice Co. Ltd (1935) 52 RPC 303 (Ch. D), the plaintiffs even attempted to submit that fish caught by the patented fishing gear would be caught by the doctrine of "infringing importation". However, this was testily brushed aside by the judge's comment that "Fish is not your invention", see at page 322.

170 This definition is the same as that found in section 130(1) of the UK Patents Act 1977. There are no equivalent provisions in the Sri Lankan Act, or in the WIPO Model Law on Inventions.

171 For the equivalent provisions in the 1977 Act, see sections 110 and 130.

172 Note that Benyamini relies on the same definition of a "patented product" in section 130 of the 1977 Act, and the EPO Guidelines C III 4.7b. clarifying Article 64(2) EPC (the equivalent EPC provision to section 36(3)(b)(ii) of the Act) to argue that the protection granted to a product directly produced by a process should also extend to cover products treated by a patented process - see Benyamini, A., Patent Infringement in the European Community, IIC Studies Vol 13, VCH, Weinheim, 1993, at pages 164-165. In view of what has been said above, it is submitted that Benyamini is wrong on this point.

173 See "Covering Sheeting with Slits" (Fed. Sup. Ct Germany), noted in (1991) 22 IIC 395, Reason 3(b) of the opinion.

174 See CIPA Guide, 4th Ed., para 60.06, at page 506.

175 See section 3 of the Act.

176 See section 36(3)(b)(ii) of the Act, and section 60(1)(c), Patents Act 1977, United Kingdom.

of a particular product in a certain specified way to obtain a particular result, it is submitted that where there is no change to the product to be used, the extended protection could not be relied upon. This is because it is difficult to see how that particular product could then be regarded as being a product obtained by means of the process, it being merely a known product used in a certain way to enable the patented process to be carried out.¹⁷⁷ Therefore, if such a product is to be protected at all, it has to be under the provisions on indirect infringement.

The effect of the new provision would be to place greater importance on proper claim drafting,¹⁷⁸ especially the use of "product-by-process" claims.¹⁷⁹ Although the protection conferred on a product covered by a "product-by-process" claim may in some instances be similar to the extended protection granted to a process patent with respect to the product obtained directly by means of the process,¹⁸⁰ it may be wider in certain situations. This is especially so where it may be difficult to determine in some processes what the "direct product" is. A process may result in more than one product and may give rise to by-products. There would be the consequent difficulties of determining which products are "direct" and which are "indirect" products of the process. If, on the other hand, the patentee specifies in his claim the various products that he wishes to be protected by his process claim, there would not be this uncertainty.

Further, if the patentee, who has discovered an improved process in one stage of a series of stages involved in the whole production chain, could claim the whole overall process, then he is assured of greater protection for his invention. Take, for example, a hypothetical situation where the patentee has discovered a new process **P** for producing substance **A**, where **A** is a known intermediate material in a known 3-step process for producing a known final product **F**. Where the inventor claims the new process **P**, and **A** as obtained by the process **P**, both the process **P** and the product **A** are protected by his patent. In this case there is no difference in the level of protection even if he does not claim product **A** as obtained by process **P**, since the law grants him protection for the product obtained directly by means of his process **P**, which in this case is **A**. However, the provision, as construed in the Pioneer case, does not grant him any exclusive right over the final product **F**. Therefore, to ensure that the final product is also within his exclusive right, he needs to be able to claim the overall process for making product **F**. Admittedly, the only novelty

¹⁷⁷ In "Covering Sheeting with Slits" (Fed. Sup. Ct Germany), noted (1991) 22 IIC 395, the patent in issue related to a known transparent plastic film in the form of a sheet for the purpose of covering plant culture consisting, inter alia, of a number of rows of slits parallel to the long side of the sheet.

¹⁷⁸ In fact Aldous J., in the Pioneer case endorses the view of Dr K. Bruchhausen that if the patentee desires to ensure adequate protection for his invention, he needs to make use of appropriate form of words in his claims, see Pioneer Electronics Capital Inc. & anor v. Warner Music Manufacturing Europe GmbH & anor [1995] RPC 487 (Patents Court), per Aldous J., at page 497.

¹⁷⁹ See *supra*, text accompanying footnotes 10 and 11.

¹⁸⁰ See explanation in "Trioxane" 3 IIC 226 (1972) (Fed. Sup. Ct Germany), at pages 236-238.

(assuming inventive step is present) in the overall process is the involvement of the new procedure in the manufacture of the known intermediate product. However, it is submitted that, in principle, the substitution of this new step in place of a previously used process in the overall process is enough to confer novelty and inventive step in the overall process which has now been modified. Having claimed this new overall process, the inventor could then add a claim to the final product produced by this new overall process, or rely on the statutory provision protecting the direct product of his process. Since the overall process is claimed, and the final product is thus protected, there is no longer the problem of protection even if the final product no longer contains or retains any element or trace of the intermediate substance.

This form of claim is, however, applicable only in the situation where the usefulness of the intermediate product A is confined only to its use in making the final product F. If there are other uses of product A, for producing other final products, then to ensure complete protection, the patentee would have to claim all the possible overall processes for making these various final products. Such wide ranging claims may not be feasible, nor allowable. Further, there is a logical limit to the extent to which reliance could be placed on method of framing claims to ensure proper protection against the use of the patented process. For example, it is unlikely that the court will allow, in a claim to a new method for processing harvested corn, the addition of a product claim to the corn as processed by the new method, or in a process for catching fish, the fish caught by the process.

Ultimately how far protection is to be extended to the direct or indirect products of patented processes is a line-drawing exercise based on policy decisions, which could only be dealt with by legislative action. The less than complete scope of protection for a process patent may be remedied by a more liberal allowance of product-by-process claims, if not by the patent office and the court, then by express statutory provision.¹⁸¹

Another possible solution is to statutorily provide that in all other cases where the imported product is not the direct product of a patented process, then the patent owner is entitled to recover from the importer, wholesaler, or retailer the value which the use of the patented process has imparted to the article as a whole. Although the retailer may be involved in

¹⁸¹ In fact Dickman, M.H., "Product-by-process Claims in the US Patent Practice", 28 IDEA 59 (1987-88), advocates a change in the US law to allow claims for old or obvious products made by patented processes to make it easier for a process patent holder to stop imports of articles made by an infringing process. On this issue, see also the interesting comments made by Judge Learned Hand, Circuit Judge, in Buono v. Yankee Maid Dress Corp. 26 USPQ 57 (CCA 2nd Cir. 1935), at page 61, that "Conceivably it might be possible to patent a product merely as the product of a machine or process, even though it were anticipated if made in other ways. While it would in that case not be infringed by anything but the product of the machine or of the process, it might be an important protection to the inventor, if the machine or the process was used in another country and the product imported. Such competition effectively diminishes the market for the patented machine or process. That is probably not the law, though it is hard to find instances, probably because the Patent Office does not grant product patents in that form."

litigation and may have to compensate the patent owner, he has a recourse against the supplier or importer for breach of the implied terms under the Sale of Goods Act, 1957.¹⁸² By virtue of section 14 of this Act, where a purchaser of goods finds himself unable to use these goods because of the existence of a third party patent, he has a right of action against the seller for breach of the implied undertaking as to title or as to quiet possession.¹⁸³ This possibility of compensation from the importer or the wholesaler will lessen the burden on innocent retailers. Further, to ensure that the patent owner's enforcement of his process patent will not cause undue interference with the trade of innocent retailers, a further provision could be inserted to prohibit the patent owner from applying for an injunction or seizure of the goods. The only remedy available to the owner is a claim for the value of the use of the process. It is admitted that this will raise cries of compulsory licences against the wishes of the patent owner. However, the choice is either a total lack of protection in the case of indirect products of a patented process, or a scheme which ensures that, to some extent, the patent owner is able to get the benefit of his invention within the jurisdiction. It has also to be borne in mind that the use of the patented process abroad may not invariably be a wilful or bad faith use. The process may be unpatentable in the jurisdiction where it is used, or the user may have a prior user right to use the process within the particular jurisdiction.

3.3. Imminent Infringement

In certain situations the patent owner need not prove that there is an infringement of his patent rights before he is entitled to commence proceedings. If he can prove that infringement is imminent, he is entitled to apply to the court for an injunction to prevent infringement.¹⁸⁴ This provision is just a restatement of the common law position, where a patentee could sustain an action for an injunction to restrain a threatened infringement of his patent, even if no actual infringement has taken place, provided that what is threatened to be done is an infringement.¹⁸⁵

Nevertheless, under the old law, before the patentee could be successful in an action for imminent infringement, it would appear that a sufficiently strong case of a likely infringement, and a possible loss to the patentee, had to be made out. In United Telephone Co. v. London Globe etc. Co., the plaintiffs brought their action for infringement on the

¹⁸² Sale of Goods Act, 1957, Act 382, as amended by the Sale of Goods (Amendment and Extension) Act 1990, Act A756, Malaysia.

¹⁸³ See Niblett v. Confectioners' Materials [1921] 3 KB 387 (CA). In Microbeads v. Vinhurst [1976] RPC 19, the Court of Appeal held that a seller would be in breach of the warranty of quiet possession if the buyer's enjoyment of the goods was subsequently disturbed, albeit by a patent right not existing at the date of the sale - see Lord Denning, at page 23, Roskill L.J., at page 26.

¹⁸⁴ See section 60(2) of the Act.

¹⁸⁵ See, for example, Frearson v. Loe [1878] 9 Ch.D. 48, *per* Jessel M.R., at page 65.

ground that certain instruments were infringement of their patent. The defendants had bought 800 or more of such admittedly infringing articles manufactured for them in Antwerp and imported into England. They were kept unused in a warehouse. When sued, the defendants dismantled the machines by taking out the patented element, and kept the separate parts stored in a warehouse. The court held that an injunction should be granted because possession without actual use of infringing articles was a sufficient ground for an injunction to restrain actual use.¹⁸⁶

In Pessers, Moody, Wraith & Gurr, Ltd v. Newell & Co.,¹⁸⁷ however, the court held that possession of patented article without intention to use before the expiration of the patent is not an infringement. The defendants admitted that they had bought, and had in their possession, the infringing apparatus but contended that they had bought it with the intention of keeping it, unused, until after the expiration of the patent, and they had not used it beyond merely trying it. The judge held that as the defendants had not used the patented article during the term of the patent there was no infringement, refusing to follow United Telephone Co. v. London Globe etc. Co.¹⁸⁸

Despite the contradictory decisions in the above two cases, the factual situations present could be distinguished. In United Telephone Co. v. London Globe etc. Co., the patent was only five years old at the time of the infringement suit, whereas in Pessers, the patent had only a few months to run.¹⁸⁹

Mere possession of an infringing article, without more, does not amount to an infringement. However, it is capable of raising a strong inference that an infringement is likely.¹⁹⁰ Therefore, there is a presumption of fact that the defendants, being in possession of these articles, has either used them, or has them for the purpose of using them, especially if the possessor is in the manufacturing, wholesale or retail business. Even then, if the possessor can prove that despite the possession of the infringing article, he has no intention to use it in infringement of the patent, an injunction may not be issued. This possibility is illustrated in British United Shoe Machinery Co. v. Simon Collier Ltd, where the machines were in a state in which the patented invention could not be used. Therefore, on the facts the defendants were able to show that there was no intention on their part to use

¹⁸⁶ United Telephone Co. v. London Globe etc., Co. (1884) 1 RPC 117, *per* Bacon V.C., at page 119.

¹⁸⁷ Pessers, Moody, Wraith & Gurr, Ltd v. Newell & Co. (1914) 31 RPC 510, disapproving United Telephone Co. v. London Globe etc., Co. (1909) 1 RPC 117.

¹⁸⁸ Pessers, Moody, Wraith & Gurr, Ltd v. Newell & Co. (1914) 31 RPC 510, *per* Bailhache J., at pages 511-512.

¹⁸⁹ In Pessers, Moody, Wraith & Gurr, Ltd v. Newell & Co. (1914) 31 RPC 510, the defendants bought the patented apparatus in April, 1914, whereas the patent was due to expire in December, 1914.

¹⁹⁰ British United Shoe Machinery Co. v. Simon Collier Ltd (1910) 27 RPC 567 (HL), *per* Loreburn L.C., at page 571, and Lord Dunedin, at page 572.

the infringing machine and that there was no likelihood that they would use it.¹⁹¹ If such an innocent intention cannot be shown, or if there is a likelihood of future use of the patented invention, then an injunction will issue. This will especially be so when the infringing machine, though not presently used, is intended to be put to used as and when necessary.¹⁹²

3.4. Territorial Scope of Patent

There will be an actionable tort only if the alleged infringing act takes place in Malaysia, i.e., patent rights are territorial in nature.¹⁹³ This situation is similar under the law prior to the coming into force of the Act.¹⁹⁴ However, several issues connected to territoriality are still unclear. Two aspects of this problem will be highlighted. The first concerns the question of infringement in territorial waters and airspace, the second relates to the issue of infringing activities aboard Malaysian registered vessels.¹⁹⁵

3.4.1. Infringement in Territorial Waters and Airspace

Caldwell v. Van Vlissingen is the earliest English case dealing with patent infringement on board ship. The plaintiffs were the assignees of a patent for special propellers. The defendants were the owners of vessels trading between Holland and England, which were fitted with these propellers. An injunction was granted to restrain the foreign defendants, while in England, from using the invention covered by the patent until they had obtained a

¹⁹¹ British United Shoe Machinery Co. v. Simon Collier Ltd (1910) 27 RPC 567 (HL). See Loreburn L.C., at pages 571-572, and Lord Dunedin, at page 572. However, the defendants in E.S. & A. Robinson Ltd v. Smith & Ritchie Ltd (1913) 30 RPC 63 were not successful in their attempt to rely on the British United Shoe Machinery case, since they had actually instructed their engineers to construct a machine that was capable of being put to infringing use. See Lord Hunter, Lord Ordinary, at pages 72-73.

¹⁹² See, for example, Adair v. Young (1879) LR 12 ChD 13, *per* Cotton L.J., at page 19, and Brett L.J., at 20.

¹⁹³ See section 58 of the Act, "... an infringement of a patent shall consist of the performance of any act referred to in subsection (3) of section 36 in Malaysia ..."

¹⁹⁴ See, for example, Neilson v. Betts (1871-72) L.R. 5 HL 1, *per* Lord Westbury, at page 9; Badische v. Anilin und Soda-Fabrik v. Johnson (1897) 14 RPC 919 (HL), Kalman v PCL Packaging Ltd (1982) FSR 406 (Patents Court).

¹⁹⁵ Note that there is growing concern and interest in the various aspects of intellectual property rights in outer space. Discussion of the problems and issues involved is, however, beyond the scope of this thesis. For further information on this area of the law, see Mostesher, S., Ed., *Research and Invention in Outer Space - Liability and Intellectual Property Rights*, Martinus Nijhoff Publishers, Dordrecht, 1995; European Space Agency, *European Centre for Space Law, Intellectual Property Rights and Space Activities - A World-Wide Perspective: Proceedings of the Workshop, 1994*; Meyer, C.B., "Protecting Inventors' Rights Aboard an International Space Station", (1988) JPTOS 332; Schwaab, R.L., "Patent Protection for Industrial Activity in Outer Space", *Industrial Property Law* 1976, 30; Burk, D.L., "Patents in Cyberspace: Territoriality and Infringement on Global Computer Networks", 68 *Tulane Law Review* 1 (1993); Saragovitz, H.M., "The Law of Intellectual Property in Outer Space", 17 *IDEA* 86 (1975).

proper licence, on the principle that foreigners were in all cases subject to the laws of the country in which they might happen to be. Despite the defendants' argument that such a holding would subject foreign vessels to undue inconvenience and hardship, the court held that this argument resolved itself into a question of national policy, and it was for the legislature and not for the courts to deal with that question.¹⁹⁶

In Adair v. Young,¹⁹⁷ an action was brought against the master of an English ship to restrain him from using pumps which infringed the plaintiff's letters patent. It was shown that the ship was fitted exclusively with such pumps, although they had never been worked in British waters. The appeal against an injunction granted to restrain him from using the patented invention was refused on the ground that the use of the invention on board the ship was an actionable infringement, therefore, an intention to use the pumps was sufficient ground for an injunction to restrain the infringement of the plaintiff's patent rights. However, it has to be noted that the judge stressed the fact that the ship was in British waters and that any use of the invention would have been within British waters. Further, it seemed to have been accepted that the pumps were used during the voyage from Buenos Aires, although it had never been used within British waters.¹⁹⁸

From the above two cases, it would seem that infringement within the territorial waters or airspace, whether on board a locally or foreign registered ship is an actionable infringement of the patentee's rights under the common law.¹⁹⁹ It is submitted that the same is also true under the Act. The fact that there is felt the need to insert a provisions exempting foreign ships temporarily in Malaysian waters and airspace points to the inference that the territorial waters and airspace of Malaysia is deemed to be part of the territory of Malaysia for patent infringement purposes.²⁰⁰

¹⁹⁶ Caldwell v. Van Vlissingen 21 LJ Ch. 97 (1852), *per* Turner V.C., at pages 102-104. The opposite result was reached in the United States in Brown v. Duchesne 19 Howard 183, at 196 (US Sup. Ct 1856)). The Caldwell case resulted in the passing of section 26 of the Patents Act 1852, United Kingdom, which provided an exception to patent infringement in such a situation. For an interesting account of this, and subsequent legislative activities in the United Kingdom and the United States, and the adoption of Article 5^{ter} of the Paris Convention in 1926 to exempt foreign ships and aircraft from patent infringement in similar situations, see, Lynfield, H.G., "Patent Infringement on British and American Ships", (1955) 37 JPOS 389.

¹⁹⁷ Adair v. Young (1879) LR 12 ChD 13, *per* Cotton L.J., at pages 18-19, "It appears from the master's own statement of defence that these pumps were the only pumps on board. He had the ship in British waters fitted up with these pumps ready for use, and if any accident had happened to the ship they would have been actually used within British waters. I therefore am of opinion that the master must be considered as intending the use them within British waters, and that on this ground the injunction ought to be sustained." See also Brett L.J., at pages 19-20.

¹⁹⁸ Adair v. Young (1879) LR 12 ChD 13, *per* Brett L.J., at page 19.

¹⁹⁹ Section 132(3) of the 1977 Act, UK, for the first time specifically provides that the territorial waters of the United Kingdom shall be treated as part of the United Kingdom for the purposes of the patent law.

²⁰⁰ Note that under section 3 of the Emergency (Essential Powers) Ordinance, No. 7 of 1969, Malaysia, the breadth of the territorial waters is declared to be twelve nautical miles from the baseline.

It would also appear that patent rights would extend to certain parts of the continental shelf. Under the Continental Shelf Act, 1966, every act or omission which takes place on, under or above, or in any waters within five hundred metres of any installation or device erected on the continental shelf in connection with the exploration or exploitation of the continental shelf is deemed to take place in Malaysia. In addition every such installation or device and any waters within five hundred meters of such installation or device is deemed to be situated in Malaysia.²⁰¹ Hence, if any infringing article or process is used on such an installation, there will be a patent infringement in Malaysia.²⁰²

3.4.2. Infringing Goods on Board Locally Registered Vessels

It has been seen earlier that where goods were imported into the country and stored in bonded warehouse for export, there is an infringement of the patent by importing the patented substance (under the pre-1977 law, the act amounted to an infringing use). The cases indicate that there is no distinction between whether the goods were landed or whether they remained on board the ship which brought them within the jurisdiction.²⁰³

²⁰¹ See section 5(1)(a) and (b), Continental Shelf Act, 1966, Act 83, Malaysia. Under section 5(2)(b) of this Act, power is given to the Yang di-Pertuan Agong to declare that the provisions of any written law shall apply with respect to the continental shelf, or any specified part of it. Similar power is given under section 42(1) of the Exclusive Economic Zone Act, 1984, Act 311, Malaysia. However, no such declaration has been made under any one of these Acts. For a general discussion on patent protection in extraterritorial areas, see Stauder, D., "Patent Protection in Extraterritorial Areas (Continental Shelf, High Seas, Air Space, and Outer Space", 7 IIC 470 (1976).

²⁰² The question of whether patent rights would also extend to the continental shelf was raised in Chevron Research Co.'s Extension [1975] 1 FSR 1 (Ch. D), which involved a petition for extension of a patent due to inadequate remuneration. The petitioner wanted to exploit the patent involving a method for drilling oil in deep waters by claiming royalties from those engaged in drilling operations in the British Continental Shelf. The petition was rejected for various reasons. Of interest is that in the course of the proceedings, there were arguments as to whether or not the rights under the UK patent extend to grant a monopoly in respect of the exercise of the invention in the area of the United Kingdom sector of the Continental Shelf. The judge held that in view of the earlier conclusion reached, it was unnecessary for him to reach a conclusion on that point. See Whitford J., at page 26. Note that section 132(4) of the Patents Act 1977, UK, provides that the Patents Act applies to acts done in an area designated by order under section 1(7) of the Continental Shelf Act 1964, or specified under section 22(5) of the Oil and Gas (Enterprise) Act 1982, in connection with any activity falling within section 23(2) of that Act, as it applies to acts done in the United Kingdom.

²⁰³ See, for example, Betts v. Neilson (1867-68) L.R. 3 Ch. App. 429, *per* Lord Chelmsford, at page 438, "With respect to the case of the article being brought into an English port and remaining on board the vessel, and transhipped for exportation, if the mode of transmission adopted by the defendant amounts to a user of the capsule in England, I can see no distinction in principle between the patented article being placed in a warehouse on land, and the ship in which it is brought from Scotland being made the warehouse until it can be put on board another vessel for exportation." In the House of Lords, this distinction was mentioned, though the court declined to rule on it, see (1871-72) L.R. 5 HL 1, *per* Lord Colonsay, at page 25, "It might be a question, if a Bavarian merchant shipped beer, protected by such capsules, part of a general cargo, in a vessel which merely called at a port in England, whether while the vessel was in the English port or in the English waters, it would be an infringement of the patent. I do not go into that question at all."

However, the position is not clear with respect to infringing good stored on a locally registered vessel while in international waters. It seems implicit in the two cases discussed above²⁰⁴ that the use of patented inventions on board locally registered ship in international waters is not an infringement. In Newall v. Elliott, the court held that an apparatus patent was not infringed by the use of a cable laying machine on board an English vessel outside the three mile limit. This was because as the apparatus patent was granted for the United Kingdom, the Channel Island, and the Isle of Man, it was not infringed by acts done between Malta and Alexandria. As to the plaintiff's contention that in point of law, a British ship was British soil, the judge held that the doctrine could not be carried so far as to make anything done on board an infringement of letters patent, which were in their terms limited to the United Kingdom, the Channel Islands, and the Isle of Man.²⁰⁵ Similarly, in V.D. Ltd v. Boston Deep Sea Fishing & Ice Co. Ltd,²⁰⁶ the plaintiff sued for infringement of five letters patents relating to deep sea fishing gear. The alleged infringing gear were all fitted on board British ships using British ports. The defendants, former licensees, denied infringement. It was held, *inter alia*, that a patent does not run at sea outside the three mile limit and user outside such limit could not constitute an infringement. Despite the plaintiff's contention that British ships were part of the British Isles, the court held that this was not proved, and further it was precluded by Newall v. Elliott from holding this to be an infringement even if use outside the territorial waters was proved.²⁰⁷ This approach was also similarly followed in Canada in Marconi Wireless Telegraph Co. v. Canadian Car & Foundry Co., where the court held that use on board a Canadian ship outside Canadian waters was no infringement and this notwithstanding the doctrine of international law that a vessel of a country is the territory of that country, for the monopoly is granted to cover only the Dominion of Canada.²⁰⁸

204 Caldwell v. Van Vlissingen 21 LJ Ch. 97 (1852) and Adair v. Young (1879) LR 12 ChD 13.

205 Newall v. Elliott (1864) 10 Jurist. N.S. 954 (Court of Exchequer), see Bramwell B., at page 958, and Channell B., at page 959. Contrast the case of Forbes v. Cochrane (1924) 2 B&C 448, 107 ER 450, where the court held that a war ship was regarded as part of territory of the country, *per* Holroyd J., at page 464.

206 V.D. Ltd v. Boston Deep Sea Fishing & Ice Co. Ltd (1935) 52 RPC 303 (Ch. D). Newall v. Elliott (1864) 10 Jurist. N.S. 954, followed. See Clauson J., at page 331.

207 Contrast this position with the position adopted by the United States courts with regard to use on board US registered ship. See, for example, Gardner v. Howe 2 Clifford 462, at 464 (US Sup. Ct 1865), where the court held that an American patent extended to an American vessel on the high seas. See also Ocean Science & Engineering, Inc., et al. v. United States 194 USPQ 380 (US Ct Cls 1977), *per* Browne, Trial Judge, at page 385, "The Glomar Explorer is an American-owned vessel of United States registry. By analogy to precedents in admiralty and maritime law, acts of a tortious nature committed upon such a vessel are governed by applicable United States law. Patent infringement, being of a tortious nature, is determined in accordance with United States patent law if a method claimed in a United States patent is practised aboard such a vessel or is controlled therefrom in whole or in part. United States patent law is applicable even though some or all of the acts of infringement are committed outside the political boundaries of the United States of America, including its territories, possessions and commonwealths." See also Wicker, J.C., "Territorial Limits of United States Patent Jurisdiction", 7 Houston Law Review 99 (1969).

208 Marconi Wireless Telegraph Co. v. Canadian Car & Foundry Co. (1920) 61 S.C.R. 78.

Under the criminal law it is clear that any criminal activity committed on board a Malaysian registered ship or aircraft is deemed to be committed on Malaysian soil.²⁰⁹ In this state of uncertainty, the problem is best solved by legislative action to clarify the issue, bearing in mind that if activity on a Malaysian registered vessel could amount to an infringement, then such activity could also be subject to prior user's rights.²¹⁰ It needs, therefore, proper consideration of the various implications and desirability of the various options.

3.5. Determining the Scope of a Patent

The Act provides that an infringement of the patent arises from the performance of certain acts by an unlicensed person in relation to a product or process falling within the scope of protection of the patent. Therefore, in the determination of whether an allegedly infringing act does in fact infringe, the scope of protection of the patent has to be ascertained. Since more than one claim is allowed under the Act, the inquiry as to whether there is an infringement would involve the question of whether any of the defendant's products or processes are "covered by at least one claim of the patent".²¹¹ This will require an examination of the specification of the patent to determine the scope of the claims. Thus in determining whether the defendant has infringed the patentee's patent, the claims have to be construed to answer the important question of whether the defendant has trespassed onto the plaintiff's property, i.e., whether he has infringed on the plaintiff's patents as claimed in his specification.²¹²

No problem arises if there is exact copying of the invention. The problem will surface if there is copying of the inventive concept with colourable variations, either by the introduction of a variant or variants or the discarding of certain elements in the patented invention. In this situation, there is a need to construe the claim or claims of the patent to determine whether what the alleged infringer has done would still fall within the claim. Various approaches to, or canons of construction, have been applied by the courts in the common law, and more specifically the UK, jurisdictions.²¹³ These range from the literal approach, the "pith and marrow" doctrine, and the "Catnic" or "purposive" approach.²¹⁴

²⁰⁹ See, for example, section 2, Extra-Territorial Offences Act, 1976, Act 163, Malaysia.

²¹⁰ Note that the Copyright Act 1988, United Kingdom, specifically defines "United Kingdom" to include its territorial waters, British ships, aircraft and hovercraft, and the UK sector of the continental shelf if on a structure or vessel which is present there for purposes directly connected with the exploration of the seabed or subsoil or the exploitation of their natural resources - see sections 161 and 162.

²¹¹ See WIPO Model Law, Commentary, at page 111.

²¹² See Buckley L.J., at the Court of Appeal, in Catnic Components Ltd v. Hill and Smith Ltd [1982] RPC 183, at page 225.

²¹³ Another major approach to claim construction, as practised, for example, in the US, Germany and Japan, is the doctrine of equivalents. Basically, under the doctrine as applied in the US, the court would come to a finding of infringement if three conditions are satisfied, i.e., if the allegedly infringing device "performs substantially the same function in substantially the same way to obtain the same result" - see Graver Tank & Mfg Co. v. The Linde Air Products Co. 85 USPQ

3.5.1. The "Catnic" or "Purposive" Approach to Construction

The Catnic approach or "purposive" approach to construction is based on the speech of Lord Diplock in Catnic Components Ltd v. Hill & Smith, where his Lordship held that a patent specification should be given a purposive construction rather than a purely literal one. His Lordship then set out several questions to be asked in the application of this principle.²¹⁵ The Diplock questions were reformulated in Improver Corp. v. Remington Consumer Products Ltd, where Hoffmann J. suggested that "if the issue was whether a feature embodied in an alleged infringement which fell outside the primary, literal or acontextual meaning of a descriptive word or phrase in the claim ("a variant") was nevertheless within its language as properly interpreted, the court should ask itself the following three questions:²¹⁶

1. Does the variant have a material effect upon the way the invention works? If yes, the variant is outside the claim. If no,
2. Would this (i.e. that the variant had no material effect) have been obvious at the date of publication of the patent to a reader skilled in the art? If no, the variant is outside the claim. If yes,

328 (US Sup. Ct 1950), per Justice Jackson, at page 330. Further discussion of this doctrine is beyond the scope of this thesis. For a detailed study of this approach, see Takenaka, T., *Interpreting Patent Claims: The United States, Germany and Japan*, IIC Studies Vol. 17, VCH, Weinheim, 1995. See also Rich, G.S., "Extent of Protection and Interpretation of Claims - American Perspectives", 21 IIC 497 (1990). For a comment on recent development in this area, see Hoffman, G.M., Oliver, E., "The Doctrine of Equivalents Goes Back to its Roots (with a View to the Future)", [1996] 2 EIPR 103. For a comparative analysis of the different approaches to construction of claims, see Bodenheimer, S.M., Beton, J., "Infringement by Equivalents in the United States and Europe: A Comparative Analysis", [1993] 3 EIPR 83. See also Beton, J., "Are International Standards for Patent Claim Interpretation Possible?" [1994] 7 EIPR 76.

Note that Article 21 of the proposed Patent Law Treaty, which deals with the extent of protection and interpretation of claims, would allow for alternative tests of whether an equivalent element falls within the scope of the claim. Basically, the first alternative is based on the US doctrine of equivalents. The next alternative seems to reflect the second Catnic question (as to this see, *infra*, text accompanying footnote 216). For further references to the Patent Law Treaty, see footnote 17, *supra*.

²¹⁴ For a discussion of the prior approaches to the construction of claims, i.e., the literal interpretation of claims (textual infringement) and applying to it the "pith and marrow" doctrine or doctrine of equivalents, see, Cole, P., "Patent Infringement 'Pith and Marrow' A Review of UK Practice", [1980] 9 EIPR 289; Reid, B., "Infringement under the UK Patents Act: The New Commandments", [1980] 12 EIPR 393; Reid, B., "The Catnic Decision: The Construction of Patent Claims", [1981] 2 EIPR 56; Blanco-White, T.A., "The Catnic Case: The Test for Infringement of a Patent", [1981] 3 EIPR 90; Cornish, W.R., & Vitoria, M., "Catnic in the House of Lords: A New Approach to Infringement", [1981] JBL 136; Pendleton, M., "Catnic - Signpost to Where?", [1982] 3 EIPR 79; Walton, A., "Purposive Construction" [1984] 4 EIPR 93; Annand, R., "Infringement of Patents - Is Catnic the Correct Approach?" 21 *Anglo-American Law Review* 39 (1992). See also Phillips and Firth, 3rd. Ed., at paras. 8.9 - 8.15.

²¹⁵ Catnic Components Ltd v. Hill & Smith [1982] RPC 183, *per* Lord Diplock, at pages 242-243.

²¹⁶ Improver Corp. v. Remington Consumer Products Ltd [1990] FSR 181, *per* Hoffmann J., at page 189.

3. Would the reader skilled in the art nevertheless have understood from the language of the claim that the patentee intended that strict compliance with the primary meaning was an essential requirement of the invention? If yes, the variant is outside the claim.

The purposive construction of claims has been adopted by the Malaysian court in Rhone-Poulenc AG Co. & anor v. Dikloride Herbicides Sdn Bhd & anor,²¹⁷ where the judge held that in respect of claims in patents, a purposive interpretation should be given, relying on the principle enunciated in the case of Catnic Components Ltd v. Hill & Smith Ltd.²¹⁸⁻²¹⁹

Adoption of the test would imply the need to go behind the claims and refer to the description in the specification. There is at present no statutory guidance to rely upon in the proper approach to adopt in the construction of the claims to assist in the determination of the scope of patent protection. Therefore, it would not be out of place to insert a provision specifying that the terms of the claim or claims shall determine the scope and extent of the protection afforded by the patent, however, the description and drawings may be used to interpret the claim or claims.²²⁰

217 Rhone-Poulenc AG Co. & anor v. Dikloride Herbicides Sdn Bhd & anor (1988) 2 MLJ 323; [1988] FSR 282. The Catnic test has also been adopted in several Commonwealth countries, see, for example, New Zealand - Monsanto Co. v. Stauffer Chemical Co. (No. 1) (1984) 1 NZIPR 518, *per* Eichelbaum J., at page 525, Inglis v. Mayson (1983) 3 IPR 588, at 602-604, *per* Prichard J. See generally, Brown, A., & Grant, A., *The Law of Intellectual Property in New Zealand*, Butterworths, Wellington, 1989, at pages 541-543. For the South African approach to purposive construction, see generally, Burrell, T.D., *Burrell - South African Patent Law and Practice*, 2nd Ed. Butterworth, Durban, 1986, at paras. 5.27 to 5.34. The Court of Appeal of Canada has also adopted the Catnic approach, see Beecham Canada Ltd v. Proctor & Gamble Co. (1982) 61 CPR (2d) 1, at page 10. See also the recent case of Eli Lilly and Co. & anor v. Novopharm Ltd & anor [1996] RPC 1 (Fed. Ct Canada), at page 20. For an informative account of the application of the Catnic test in Canada, see Hitchman, V.E. and MacOdrum, D.H., "Don't Fence Me In: Infringement in Substance in Patent Actions", (1991) 7 CIPR 167. See also Lahore, J., *et al.*, *Intellectual Property in Australia - Patents, Designs and Trade Marks Law*, Vol. 1, Butterworths, Sydney, 1994, at paras. 1.7.080-1.7.125, for the application of the Catnic principle in Australia.

218 Rhone-Poulenc AG Co. & anor v. Dikloride Herbicides Sdn Bhd & anor (1988) 2 MLJ 323; [1988] FSR 282, at page 290, *per* Justice V.C. George in the High Court of Malaysia. For a comprehensive discussion of the right methodology to adopt in the determination of the parameters of patent infringement, see Swycher, N., "Parameters of Patent Infringement", *Managing Intellectual Property*, November 1990, page 16.

219 Note that in the UK, there is at present a conflict of opinions in the Court of Appeal regarding the question of whether the Catnic approach is in line with the requirement of the Protocol on the Interpretation of Article 69. In PLG Research Ltd v. Ardon International Ltd [1993] FSR 197; [1995] RPC 287 (CA), Millett L.J., for the court, at pages 305-309, indicated that the Catnic approach may not be the right approach in view of the Protocol. However, in another Court of Appeal case in Kastner v. Rizla Ltd & anor [1995] RPC 585 (CA), Aldous L.J., at pages 593-594, together with Balcombe and Otton, L.J.J. ruled otherwise. See also Assidoman Multipack Ltd v. Mead Corp. [1995] RPC 321, at pages 328-337, *per* Aldous J. This conflict, however, should not make a difference to the Malaysian courts, since the Protocol is irrelevant in the Malaysian context. There is no reason why the present controversy in the UK, even if the House of Lords were to decide that Catnic is not the proper approach to adopt in the UK in view of the Protocol, should bring about any change to the approach. This is so especially in view of the fact that the Catnic approach was actually decided under the Patents Act 1949 of the United Kingdom, and the House of Lords was concerned with the law as it stood before the 1977 Act came into force.

220 This, in fact, is present in the WIPO Model Law, in section 123(4)(a), and the Sri Lankan Act, in

3.6. Assignment or Transmission of Patent

Besides the right to exploit the patented invention, the patent owner also has the right to assign or transmit a patent application or a patent.²²¹ The provisions on assignment and transmission are phrased exactly as those found in the Sri Lankan provisions.²²²

3.6.1. Requirement of Writing and Recordation

As in the Sri Lankan provisions, the Act does not specifically provide that all assignments should be in writing. Therefore, it would seem that as between the parties, an oral assignment would be binding and enforceable.²²³ However, before a person becoming entitled under such a transaction could be recorded in the Register, an assignment in writing and signed by or on behalf of the contracting parties has to be shown to the Registrar.²²⁴ There is no compulsion that transactions involving an assignment or transmission should be recorded, although the section provides for such fact being recorded if the parties so wish.

3.6.2. Effect of Non-Recordation

To be effective against third parties, however, all assignment or transmission of rights must be recorded in the Register kept by the Registrar of Patents.²²⁵ By virtue of sections 32 to 33A, matters entered in the Register shall be *prima facie* evidence of all matters required or

section 68(6). It is not clear why it is left out in the Malaysian Act. One possibility could be that, unlike the WIPO Model Law and the Sri Lankan Act, and also section 14 of the Patents Act 1977 United Kingdom, whereby the formal requirements of application are placed in the Act itself, the Malaysian scheme merely provides generally in section 23 that every application for the grant of a patent shall comply with the regulation as may be prescribed by the Minister under the Act. More detailed provisions are found in the Regulation - see, for example, regulations 4 to 16, Patents Regulations, 1986. It may be that, having adopted this approach, the framers of the Act could not find a suitable place to insert this particular provision in the main body of the Act.

²²¹ See section 36(1)(b) and section 39(1) of the Act.

²²² See section 84 of the Sri Lankan Act.

²²³ It would appear that consideration is not required for such a statutory assignment. See, for example, Harding v. Harding (1886) 17 QBD 442, *per* Wills J., at pages 444-446, and Grantham J., at pages 446-447; Re Westerton [1919] 2 Ch. 104, *per* Sargant J., at pages 111-114; and Holt v. Heatherfield Trust [1942] 2 KB 1, *per* Atkinson J., at pages 2-5.

²²⁴ See section 39(3)(b) of the Act, and cf section 84(3)(b) of the Sri Lankan Act - unlike the WIPO Model Law, which provides that any assignment of a patent application or patent must be in writing and signed by the parties to the contract. Failure to observe this requirement shall render the agreement invalid - Section 140 WIPO Model Law. See also section 30(6) of the UK Patents Act 1977, which similarly provides that failure to fulfil this condition will render the transaction void.

²²⁵ See section 39(4) of the Act, and cf section 84(4) of the Sri Lankan Act. For similar effect in the WIPO Model Law, see section 140(2). See also sections 32 and 33 of the UK Patents Act, 1977. However, as Kynric notes, these provisions, although intended to encourage registration and protect innocent parties, may cause problems. For the problems, possible abuse, and practical safeguards to take, see Kynric Lewis, A., "Dealings With UK Patents and Know How", [1979] EIPR 217.

authorised by the Act to be entered therein.²²⁶ Hence copies of, or extracts from the Register, if certified by the Registrar, are admissible in evidence in all courts without further proof or production of the original.²²⁷

A literal reading of the provision would imply that an unrecorded transaction would not be effective against a person claiming under a later transaction even if he knows of the earlier transaction.²²⁸ Although a court applying equitable principles would be loath to give the later party with knowledge of an earlier transaction a superior right to the earlier party, in the interest of certainty and clarity, it is preferable to provide specifically against this eventuality.

3.7. Right of Patent Owner to Conclude Licence Contracts

The third right given to a patent owner under the Act is the right to conclude licence contracts.²²⁹ Section 41(1) of the Act defines a licence contract to mean "any contract by which the owner of a patent (the "licensor") grants to another person or enterprise (the "licensee") a licence to do any or all of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36." Three types of licences are envisaged under the Act, non-exclusive, sole, and exclusive.²³⁰ The provisions on licence contracts are also modelled along the line of the equivalent provisions of the Sri Lankan Act.²³¹ The Malaysian provisions are contained in sections 41 to 47 of the Act.

3.7.1. Requirement of Writing and Recordation

It is specifically provided that all licence contracts must be in writing and signed by or on behalf on the contracting parties.²³² These formal requirements are the same as for assignment and transmission. However, the effect of non-observance of this statutory requirement is not provided in the Act.²³³ Further, there is no provision for registration of

²²⁶ See section 32 (as substituted by section 20 of the Patents (Amendment) Act 1993, Act A 863/93, and section 33A (1) (inserted by section 22 of the Patents (Amendment) Act 1993, Act A 863/93).

²²⁷ See section 33A(2) of the Act (Inserted by section 22, Patents (Amendment) Act 1993, Act A 863/93).

²²⁸ Contrast this with the UK provision, whereby under section 33(1), the later party's knowledge of the earlier transaction will disentitle the latter party from claiming priority over the transaction.

²²⁹ This right is subject to section 40 - if a patent is jointly owned, all the owners must jointly conclude such contracts - see Chapter 2 - Ownership of Patent Rights *Inter Se*, para. 2.6.4.

²³⁰ See section 44(1) and (2) of the Act. The possibility of sub-licensing is implicit - see *infra*, para. 3.7.2.

²³¹ See sections 86 - 92 of the Sri Lankan Act.

²³² Section 43(1) of the Act.

²³³ Unlike section 143(1) of the WIPO Model Law, which provides that failure to ensure that the licence is in writing and signed by the parties to the contract would mean that the contract is not valid.

the licence contract.²³⁴ The only specific mention of a duty to record a licence contract is found in section 42 relating to licences of right.²³⁵ However, reference to section 47 of the Act leads to the conclusion that the Legislature intended that licence contracts should be recorded in the Register.²³⁶ This omission could be explained by the fact that in both the WIPO Model Law and the Sri Lankan system, there is no provision for licences of right. In providing a section for the licences of right and making it a duty to record any concluded transaction entered into by virtue of section 42, the Legislature may have assumed that the recordation provisions also apply to other contractual licences. This belief is reinforced by the fact that the Malaysian licences of right provisions are actually entitled "Entry in Register".

There is a need to provide for recordation of licence contracts, or a provision providing for the possibility of recordation if the parties so wish. There is the possibility that innocent third parties may be prejudiced by the lack of record of licensed transactions. If the unrecorded licence granted is non-exclusive, a potential licensee may not be prejudiced, unless he is interested in obtaining a sole or exclusive licence, or if he is interested in obtaining an unencumbered assignment of the patent. On the other hand, if the granted licence is a sole, or exclusive licence, then a third party, for example, another licensee, may be prejudiced if he is not aware of this fact. Hence it is proposed that a provision be added to the Act to the effect that the fact that a licence contract has been concluded may be recorded in the Register within a certain time limit, and that no prior licences shall have effect against a third party who has acted to his detriment in reliance of the lack of entry in the Register. To encourage recordation, it is suggested that a licensee should not be entitled to seek damages or an account of profits in respect of any infringement occurring after the date of the licence transaction and before particulars of the transaction are recorded.

3.7.2. Rights of Licensee

In absence of agreement to the contrary, the licensee has all the rights of exploitation of the owner, "within the whole geographical area of Malaysia, and without limitation as to time and through any application of the invention".²³⁷ However, unless it has been contractually agreed upon, the licensee may not assign the licence, or grant sub-licences.²³⁸

234 In the WIPO Model Law, it is provided that the fact that a licence contract has been concluded may be recorded in the Register - section 143(2), see also section 87(2) of the Sri Lankan Act.

235 See *infra*, para. 3.8.

236 Section 47 of the Act, *inter alia*, provides that if the Registrar is satisfied that a recorded licence contract has expired or been terminated, he should record that fact in the Register.

237 See section 43(1) of the Act. For the extent of the right of the licensor to insert restrictive terms in the licence contract, see Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, para. 6.5.

238 See section 43(2) of the Act.

3.7.3. Right of Licensee to Sue

In the absence of any contrary provision in the licence agreement,²³⁹ a licensee has the right to request the owner of the patent to institute court proceedings for any infringement of the patent.²⁴⁰ If no action is taken by the patent owner within three months from the receipt of the request, the licensee may institute proceedings in his own name. This right is not restricted to an exclusive licensee, as the Act does not restrict the category of licensee who is entitled to make use of this provision. Where the licensee decides to proceed on his own, the owner of the patent has to be notified of the licensee's intention to bring proceedings in his own name, and he, the owner, has the right to join in the proceedings.²⁴¹

However, the strict requirement mentioned above need not be observed if the licensee proves to the court that immediate action is necessary to avoid substantial damage in the case of imminent infringement, or to prevent continuation of any infringement. In such cases, the court may grant an injunction on the request of the licensee, even though the three months period is not up.²⁴²

In Premier Products Co. Ltd & anor v. Zamrud Fibre Industries (M) Sdn Bhd & anor,²⁴³ the court held that under section 59(1) of the Act it was the owner of the patent who had the right to institute court proceedings for infringement. A licensee may, under section 61(2) of the Act, request the owner of the patent to do so. Only if the owner had refused the request or failed to institute the proceedings within three months from the receipt of the request, as provided in section 61(3) of the Act, could the licensee institute the proceedings in his own name. Since there was no evidence in the case that any of those steps had taken place, the court held that the licensee had no *locus standi* to sue. The court further held that a letter from the first plaintiff, the owner, before commencement of proceedings, authorising the licensee, the second plaintiff, to institute infringement proceedings was not in conformity with the provision of the Act. In effect, this would mean that a licensee could not institute proceedings and could do so only if the owner has failed to do so within three months of the licensee's request. This decision, if correct, is surely based on a strange reasoning. The section in question begins with "any licensee unless the licence contract provides that the provisions of this subsection do not apply or provides different provisions..." This is wide

²³⁹ For the validity of any agreement to the contrary, see Chapter 6, para. 6.5.4.b.(ii).

²⁴⁰ This right of a licensee extends to the beneficiary of a compulsory licence, see section 61(1)(b) of the Act. This provision is adopted from the WIPO Model Law, section 161(4). This is very different from the UK provision, whereby under section 67 of the Patents Act 1977, the exclusive licensee has the same right as the owner of the patent to bring proceedings. For compulsory licensing, see Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, paras. 6.1 to 6.3.

²⁴¹ See section 61(3) of the Act.

²⁴² See section 61(4) of the Act.

²⁴³ Premier Products Co. Ltd & anor v. Zamrud Fibre Industries (M) Sdn Bhd & anor [1994] (3) AMR 44, 2324 (H. Ct Malaya), before Judge Dato Haji Abdul Malek bin Haji Ahmad, at page 2340.

enough to cover situations where the contract provides that the licensee shall have to right to institute proceedings on the authorisation of the patent owner, or where there is a variation of the agreement by a later consent. It may be that no evidence of such a contract, or variation, was brought before the court.²⁴⁴ If that was the case, than the decision has to be confined to its particular facts, and is not to be taken as having wider import. Nevertheless, in the interest of certainty, and to resolve possible doubt, it may be that a clarification should be made to the provision that a licensee has the right to institute proceedings on the written authorisation of the owner of the patent. To prevent multiplicity of actions, the owner of the patent has to be made a nominal party to the action.

3.8. Licences of Right

As a departure from the WIPO Model Law, and following the United Kingdom model,²⁴⁵ although, as will be seen later, there are substantial differences, the Malaysian Act contains a provision relating to licences of right.²⁴⁶ The relevant section, section 42, is vaguely titled "entry in the register", and put in the part of the Act relating to licence contracts. By this section, a patentee may apply to the Registrar for an entry to be made in the Register to the effect that any person may obtain a licence.²⁴⁷ This facility is also extended to utility innovations. After an entry has been made in the Register any person may apply to the licensor through the Registrar for a licence.²⁴⁸ It has to be noted that under the Malaysian scheme, the Registrar acts as an intermediary at the initial stage, as a potential licensee has to apply to the patentee through the Registrar for a licence.²⁴⁹ It is not clear whether the

²⁴⁴ There was no argument on these possibilities in the judgement.

²⁴⁵ The licences of right scheme was first introduced in the United Kingdom statute in 1919, by virtue of section 2 of the 1919 Patents and Designs Act, which substituted a new section 24 for the old section. The new section 24 allowed a patentee to request the Comptroller to cause the patent to be endorsed with the words "licences of right". A new section 27 also empowered the Comptroller to endorse a patent with the words "licences of right" where an abuse of the monopoly rights was proved.

²⁴⁶ There are several different meanings of the phrase "licence of right" as used in the patent law of the United Kingdom. The first meaning refers to the voluntary endorsement of the patent on the application of the patentee. Such an endorsement has the effect that anyone interested shall be entitled as of right to a licence under the patent upon terms as agreed on between the parties. This is to be contrasted with a compulsory endorsement under the compulsory licensing provision, where an entry on the Register that licence are to be available as of right is requested by the applicant instead of a compulsory licence. A third meaning of the term "licence of right" is that used in relation to certain subsisting patents granted under the Patents Act 1949, "new existing patents", which had their term of protection extended to twenty years under the Patents Act 1977. For a discussion of the third type of licences of right, see Firth, A., "Licences of Right: "New Existing Patents" under the Patents Act 1977", [1986] 6 EIPR 168. Another form of licence of right is that imposed under section 51 of the 1977 Act, after an adverse decision of the Monopolies and Mergers Commission. The Malaysian licences of right is to be understood in the first sense.

²⁴⁷ Section 42 (1) of the Act and Regulations 34 to 37. Although there is no mention of any limitation on the patentee so applying, Patents Form No. 7 requires the patentee to testify that "The patent owner is not precluded by contract from granting licences under the patent."

²⁴⁸ Section 42(2) of the Act.

²⁴⁹ Contrast the position in the United Kingdom, where the Comptroller is involved only where there is a failure to settle terms - see section 46(3)(a), Patents Act 1977, United Kingdom.

Registrar is also involved in the negotiation over royalty and other terms as it is not stated that the Registrar has power to adjudicate if the parties could not come to an agreement over the terms of the contract. Once a licence contract has been concluded, the Registrar has to be informed and the fact recorded in the Register.²⁵⁰ If the parties wish, particulars of the concluded contract could be recorded in the Register upon payment of a fee.²⁵¹ The purpose of this seems to be to inform interested parties of the type of contract entered into and the type of exploitation involved, presumably to attract the interest of other licensees who may be interested in exploitation of the patent in a non-competing sphere. Where a licence contract is terminated, the contracting parties shall inform the Registrar of the termination and the Registrar shall record such termination in the Register.²⁵²

3.8.1. Effect of the Provision

Several important observations need to be made about the Malaysian provision. In the first place, section 42 cannot strictly be construed as a "licence of right" provision as in the United Kingdom sense. The section provides that an entry may be made "to the effect that any person may obtain a licence". The patent owner does not seem to be obliged to grant licences even when such an entry is made. In contrast, the United Kingdom provision states that an entry may be made "to the effect that licences under the patent are to be available as of right".²⁵³ Further, it is there provided that "any person shall, at any time after the entry is made, be entitled as of right to a licence".²⁵⁴ Hence in the United Kingdom, on an entry having been made, the patent owner is obliged to grant a licence. If there are disputes as to the terms of the licence, the Comptroller has the power to settle terms.²⁵⁵ In contrast to this, the Malaysian section does not empower the Comptroller to settle terms in case of default of agreement between the parties. Hence it may be concluded that the purpose of the section is merely to provide a means of advertising the availability of licence under the patent.

In the United Kingdom, the voluntary licence of right scheme seems to have been introduced with the purpose of encouraging "universal licensing" of a patented invention.²⁵⁶ In return for this, the patentee is only required to pay half the renewal fees. There are other advantages too. The patentee reduces the risk that he may be held at any

250 See section 42(3) of the Act.

251 See Section 42(4) of the Act.

252 See Section 42(5) of the Act.

253 See section 46(1), Patents Act, 1977, United Kingdom.

254 See section 46(3)(a) Patents Act 1977, United Kingdom.

255 See section 46(3)(a) Patents Act 1977, United Kingdom.

256 See Patents and Designs Acts, Second Interim Report of the Departmental Committee (Swan Committee), Cmnd. 6789, 1946, at para. 34. See also para. 224, Patents and Designs Acts, Final Report of the Departmental Committee (Swan Committee), Cmnd. 7206, 1947. However, there was no recommendation made for its removal.

time to have abused his monopoly,²⁵⁷ and to some small extent he advertises his invention. However, the Swan Committee found that the scheme had been little used, and that upon the grant of a licence under an endorsed patent, it was not unusual for the patentee to apply for cancellation of the endorsement. It concluded that "instead of encouraging universal licensing, [the scheme] has been used mainly to save fees on patents in whose commercial value the patentee has perhaps not much confidence".²⁵⁸

There has been no application so far to have a patent endorsed "licences of right". Whether this is due to the fact that there is no interest in such a method of "advertisement"²⁵⁹ of the patent is left to speculation. It is interesting to note that there has been a proposal to repeal the licences of right provision of New Zealand on the ground that there is little benefit in retaining the system as, by subjecting his patent to such endorsement, the patentee is giving up exclusivity in the patents, and, therefore, it is of limited value to a potential licensee as there is no possibility of obtaining an exclusive licence.²⁶⁰ There is no similar provision in the Australian Patents Act 1990.

3.8.2. Observations on Licence of Right

In the writer's opinion, the licence of right scheme should be retained, albeit with some changes to make it more attractive and workable.²⁶¹ It is very unlikely that the scheme would be of interest to foreign patentees or multi-national corporations. However, it would be especially useful to the small and medium enterprise owners of patents and individual inventors who may not have the experience or finance or expertise or even the inclination to undertake the exploitation of the invention. They may also not be in a position to seek out partners or interested parties to exploit the relevant inventions. Of special relevance may be

²⁵⁷ See Report of the Committee to Examine the Patent System and Patent Law, Cmnd. 4407 (The Banks Report), HMSO, London, 1970, para. 364.

²⁵⁸ Patents and Designs Acts, Second Interim Report of the Departmental Committee (Swan Committee), Cmnd. 6789, 1946, at para. 34. cf - Report of the Committee to Examine the Patent System and Patent Law, Cmnd. 4407 (The Banks Report), HMSO, London, 1970, para. 364, which found no criticism of the scheme.

²⁵⁹ See generally, Phillips and Firth, Introduction to Intellectual Property Law, 3rd Ed., Butterworths, London, 1995, at pages 83-84. It was also there pointed out that such a method of "advertisement" is far less efficient than relying on the employment of commercial innovation and development services.

²⁶⁰ See, "Reforms of the Patents Act 1953, Proposed Recommendation" - Competition Policy and Business Law Division, Ministry of Commerce, Wellington, New Zealand, February 1992, Chapter 4, at para. 4.2.1. In contrast to this, the Report of the Committee to Examine the Patent System and Patent Law, Cmnd. 4407 (The Banks Report), HMSO, London, 1970, at para. 367 made no recommendation to remove this provision since they had received very little criticism regarding it.

²⁶¹ In this respect, it is interesting to note that although the United States patent statute does not contain any provisions for licences of right, the US Patent Office has been issuing a list of American patents for which the owners are prepared to grant licences against reasonable royalties to any interested person - see Meinhardt, P., Inventions Patents and Monopoly, 2nd Ed. Stevens & Sons Limited, 1950, at pages 159-160.

the owners of utility innovations. If the scheme could encourage more use of patented inventions, it is to be encouraged. It could even provide an incentive to innovate, knowing that assistance is available. Through a lack of business sense, or an awareness of the prevailing commercial practices, the patentee may shy away from attempting to negotiate arrangements with potential investors. The Registrar, with his wider experience and exposure, may be most helpful here to help negotiate fair terms. To make it more attractive to enable it to serve its intended purpose, and because of the time in getting the necessary interested entrepreneurs, it might be helpful to halve the fees payable to keep the patent in force. However, in return for this "service", the patent owner should be obliged to give licences as of right. Further, a provision should be included to give specific powers to enable the Registrar to settle terms in the absence of agreement between the parties.

Under the present provision, the licensor may apply to the Registrar for the cancellation of the entry made. However, there is no mention of the effect on existing licensees or applicants under the section. It is proposed that a provision, similar to section 47 of the Patents Act 1977, United Kingdom, be introduced.

3.9. Proposals for Change

In accordance with the views expressed and observations made regarding ways whereby the various provisions discussed in this chapter could be improved, proposals are made to amend various provisions of the Act. It is proposed that two new definitions, relating to "offer" and "use", be added to section 3, the definition section. Section 35 is also amended to increase the duration of patent protection, and to provide protection for the interim period between the filing date and the issue of the grant. The amendments to section 36 involve the addition of a new paragraph to subsection (3)(b), to enable the patent owner to sue for the value which the use of a patented process has imparted to the article as a whole. The other proposed amendments to this section involve clarification to the reversal of the burden of proof in the case of a process patent. To encourage the recordation of assignment of patents, section 39(4) is amended. The proposals mentioned in the chapter relating to licence contracts and licences of right are laid down in the various amendments to sections 41 and 42. The new section 58A defines the scope of protection of a patent. The recommended provisions to restrict the recovery of damages or account of profits for innocent infringement are set out in a new section 60A. Finally, proposals to the right of a licensee to institute infringement proceedings are dealt with by the incorporation of the new subsections (5) and (6) of section 61.

The proposed amendments to the Act to deal with the problems identified in this Chapter are set out in Chapter 8.

CHAPTER 4: Patent Infringement and Unauthorised Indirect Exploitation of Rights

4. Introduction

In Chapter 3, the various statutory rights granted to the patent owner, and the right to institute infringement proceedings against an unlicensed person who is commercially exploiting his exclusive rights, are analysed and evaluated. However, these provisions only deal with what could be called an outright or direct infringement of a patent, by person or persons carrying out the whole complete act of infringement. There is no express provision dealing with the situation where persons are involved in activities, which, taken in isolation may not amount to an infringing act, but which ultimately lead to an infringement, or other use, of a patent. For example, a person may manufacture and supply parts or other products, which supply enables another person to make or use the patented invention. This problem arises in the area of combination patents, and for process or method claims. It also arises in claims for new uses of a known product, or purpose-bound product claims for a first medical use.¹ Would a person who manufactures and sells only one, or some, but not all the component parts be liable as an infringer of the combination patent? Would one who manufactures and sells all the component parts, but in an unassembled form, be liable? Similarly, would a supplier of a known product covered by a new use patent be held accountable to the patent owner for the supply of the product to a person who puts it to infringing use? These activities are variously described as indirect or contributory infringement by some commentators.²

¹ For a discussion of the problems of indirect exploitation with reference to "use", "use-bound" product claims, and the "Swiss form" of claims, see White, A.W., "Protect the Known, Explore the Unknown", *Managing Intellectual Property*, October 1991, page 18, at pages 22-23.

² See, for example, Thomas, E.M., "The Law of Contributory Infringement", 21 *JPOS* 811 (1939), at page 811, "Contributory infringement is defined as 'the intentional aiding of one person by another in the unlawful making, selling or using of the patented invention; and a contributory infringer is one who induces, aids or contributes to wrongful acts of another which constitutes infringement of a patent. The essence of contributory infringement lies in concerting with others in an unlawful invasion of the patentee's rights; an intent to aid is necessary; and before one may be held liable for contributory infringement it must appear that he has knowingly done some act without which the infringement would not have occurred.'"; Ladas, S.P., *Patents, Trademarks and Related Rights, National and International Protection* (1975), Vol. 1, at 402, "This notion (of contributory infringement) comprises acts which do not in themselves constitute an infringement of a patent claim, but otherwise assist, contribute, procure or result in infringement by others."; Benyamini, A., *Patent Infringement in the European Community*, IIC Studies Vol 13, VCH, Weinheim, 1993, at page 173, "The concept of 'indirect' or 'contributory' infringement is used to denote a form of a prohibited activity where a person makes use of the invention without actually infringing the patent claims himself, and facilitates direct infringement by supplying elements of the invention to unauthorised persons who directly use the invention."; Banks Committee on the British Patent System, Cmnd. 4407 (1970), at page 76, "... make use of, or gain some advantage from, a patented invention, to the detriment of the patentee, without ... actually infringing."; Hoffmann, K., "Contributory or Indirect Infringement of Patents - A Review of the Legal Position

This chapter investigates the extent to which such form of activities is actionable under the Malaysian patent law. For convenience, the term "indirect exploitation" is used to refer to the act of a manufacturer or supplier, who by his activities, enables the direct infringer or final user to make use of the patented invention. It includes activities like supplying component parts of a patented combination or process without which the direct infringer or final user could not make or use the invention. In the absence of an express statutory provision to deal with these activities, and due to the dearth of local cases on infringement, guidance is sought from the jurisprudence of the United Kingdom, Australia and Canada to examine the grounds or the basis of liability upon which actions had been taken there to curb such activities. As the case law from the United States had been well-developed prior to legislative intervention, it is instructive to refer to their cases to determine the extent to which their jurisprudence could usefully be adopted by the Malaysian courts.

The first part of this Chapter examines the situation prior to the 1983 Act. The second deals with the principles of tortious liability that have been used by the courts in various common law jurisdictions in relation to patent infringements. In the examination of the control of unauthorised indirect exploitation of a patented invention in these countries, the concept of joint-tortfeasance is examined. This encompasses the activities of one party, who either by co-operating, assisting, advising, persuading or otherwise taking part intentionally in the infringement or use, result in infringement of a patent by another. This concept is, however, dealt with only in the context of how far it could be of assistance in dealing with the problem of indirect exploitation. Further, examination of the case law is focused only on the position before legislative changes introduced specific statutory provisions for contributory or indirect infringement in all these jurisdictions. The extent to which the common law principles provide a viable and fair degree of protection against indirect exploitation in the Malaysian context is evaluated. Finally, the features of the proposed section to deal with such indirect exploitation are laid down.³

in 13 Countries", 6 CIPA 371, 374 (1977), calls it a "form of complicity"; In Dawson Chemical Co. v. Rohm & Haas Co. 448 US 176, at page 188 (US Sup. Ct 1980), the court said that contributory infringement "exists to protect patent rights from subversion by those who without directly infringing the patent themselves, engage in acts designed to facilitate infringement by others."; In Windsurfing International Inc. v. Dieckow-Segal KG 13 IIC 645, at page 647 (German Fed. Sup. Ct 1982), the Court explained, "Indirect patent infringement deals with a range of acts which, while representing a significant threat to the rights of the patent owner without quite constituting an accomplished infringement of the patent, are not covered by the customary categories of complicity and participation, because there is usually no collaboration between the indirect and the direct infringer."

³ Note that the TRIPS Agreement does not obligate a country to introduce specific provisions to deal with such unauthorised indirect exploitation - see Section 5, Article 28 of the TRIPS Agreement.

4.1. The Situation Prior to the 1983 Act

Prior to the coming into force of the Act, the two relevant United Kingdom patent statutes that were "imported" into the patent law of Malaysia were the Patents Act 1949 and the Patents Act 1977.⁴ Unlike the 1949 Act, the 1977 Act contains a specific section on infringement, and in particular, provides remedies for certain types of indirect exploitation.⁵ Since there is no specific mention of contributory infringement in the Malaysian Act, the question arises as to whether, and if so, the extent to which, indirect exploitation of a patented invention is actionable in Malaysia, both for re-registered patents that are still in force, and for patents registered under the Act.

To date, there is only one reported case on contributory patent infringement in Malaysia. The case, Rhone-Poulenc AG Co. & anor v. Dikloride Herbicides Sdn Bhd & anor,⁶ involved, *inter alia*, the issue of infringement of a patent granted under the repealed Registration of United Kingdom Patents Act 1951.⁷ The four patents in suit were granted under the Patents Act 1949 (UK). They consisted of numerous claims, including a method of treating rubber trees by the application of a compound called ethephon, specifically for stimulating the flow of latex in such trees, and certain aqueous compositions which included ethephon as the active ingredients to provide a formulation suitable for such use. By virtue of having been registered in West Malaysia under the Registration of United Kingdom Patents Act 1951, these patents enjoyed protection in West Malaysia. The defendants manufactured and sold a product called Latex 100E which contained ethephon as the active ingredient, compositions which were suitable for stimulating latex flow in rubber trees. The acts of infringement complained of were in respect of acts which took place prior to the coming into force of the Patents Act 1983. Accordingly, the relevant statutory provisions for the purposes of this case were those contained in the 1951 Act.

On the question of infringement, the Judge held that by virtue of section 6 of the 1951 Act,⁸ section 60 of the UK Patents Act 1977 applied *mutatis mutandis*.⁹ The evidence showed that the defendants supplied similar aqueous composition of ethephon to identified distributors and wholesalers, and also sales by retailers to ultimate users who used them as latex yield stimulants. The judge held that the fact that the defendants' product had been proved to be suitable for the stimulation of latex yield in rubber trees tantamount to an infringement by the defendants of the plaintiffs' composition claim regardless of whether the product was in fact used or intended for use for other purposes. As to the process

4 Refer to Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.4.

5 See section 60(2), Patents Act 1977, United Kingdom in Appendix.

6 Rhone-Poulenc AG Co. & anor v. Dikloride Herbicides Sdn Bhd & anor (1988) 2 MLJ 323.

7 For a discussion of the events which led to this 1951 Act, see Chapter 1, paras. 1.4 and 1.5.

8 See Chapter 1 - Historical Development of the Malaysian Patent System, at para. 1.4.

9 See Appendix for provisions of Section 60 of the Patents Act 1977, United Kingdom.

claims, he held that there were both direct and contributory infringements of the claims. Since the defendants had induced the planters into committing direct infringements of these claims, they were liable for contributory infringement of the process claims.¹⁰

It is rather unfortunate that there was no discussion as to the factors influencing the judge in finding that there was inducement on the part of the defendant. However, in the absence of any higher authority, this case has to be relied on as an authority for the proposition that contributory infringement, as defined in the 1977 UK Act, is justiciable, at least in respect of re-registered patents, for infringing activities prior to the coming into force of the 1983 Act. The same, however, cannot be said for infringing activities related to re-registered patents, where the alleged infringing act takes place after 1st October, 1986. For these patents, the exclusive rights under the Act will govern.¹¹ This means that, if at all contributory infringement is to be actionable, it has to be based on the provisions of the Act and not by virtue of importation of section 60 of the 1977 Act. Therefore, it is submitted that this case could not be relied on as authority that contributory infringement is actionable for all re-registered patents or for patents granted under the present Act. If such then is the situation, it would mean that there appears to be a lacuna in the law which may require legislative actions, unless the lacuna can just as effectively be remedied by common law doctrines. There is no reason why the common law should not apply, since although section 60 of the 1977 UK Act is "repealed" by the 1983 Act, the Act does not suppress the common law rules.

4.2. The Governing Principle on Infringement of a Patent

In the determination of whether the exclusive rights of the patent owner are infringed, problem arises where the patent relates to a combination patent or patent for a method or process of getting a certain result, where the claimed invention is defined as a combination of elements, e.g., the components of a machine, steps in a process, or constituents of a composition of matters. Take the example of a combination patent. The combination may fall under various categories. For example, all the part involved in the making of the combination article may be old and taken individually, not patentable. In some cases, some parts may be new, but, again, taken individually, not patentable because the condition of inventive step may not be satisfied. In the third category, some of the parts may be new and patentable in themselves, while the other parts are old. In all the three categories, it is only the combination as a whole which is patentable because it is regarded as new and involving an inventive step and capable of industrial application.¹² However, in the last category

¹⁰ Rhone-Poulenc AG Co. & anor v. Dikloride Herbicides Sdn Bhd & anor (1988) 2 MLJ 323; [1988] FSR 282, at pages 288-291, *per* Mr Justice V.C. George, in the High Court of Malaysia.

¹¹ See section 89(c), Patents Act 1983, Malaysia, as amended in 1986 and 1993.

¹² The Mercoid Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup.

mentioned above, the novel parts may be protected by a separate claim or patent if they are in themselves patentable. Further, the components parts may consist of normal articles of manufacture or they could be specially adapted to fit the combination.

In these kinds of patent, the courts, right from early times had held that there was no infringement unless all the elements of the combination had been taken. In other words, there was no doctrine of partial infringement which could be applied to give a remedy to the owner of a patent when only some elements of his combination were taken. One American commentator was of the opinion that such a doctrine of partial infringement did exist in England,¹³ and as illustration, he mentioned the case of Smith v. The London and North Western Railway Co.¹⁴ If this were so, then the problem associated with enforcement of rights in a combination patent would not have arisen, because by virtue of this doctrine, a person who had taken some but not all the elements of a patent article could be found to have partially infringed the combination patent and some relief could be obtained by the owner. However, a closer examination of the relevant case, and some cases prior to and also after that, revealed that this was not so.

In the earlier case of Newton v. The Grand Junction Railway Co., the Lord Baron observed that in considering the question of infringement, all that was to be looked at was whether the defendant had "pirated a part of that to which the patent applied".¹⁵ In Sellers v. Dickinsons, the same judge, in answer to the contention that a combination patent could only be infringed by the use of the whole combination, held that "there may be infringement by using so much of a combination as is material".¹⁶ Similarly, in Smith v. The London and North Western Railway Co.,¹⁷ the jury was directed that, though any one was entitled

Ct 1944), *per* Mr Justice Douglas, at page 25, "That result may not be obviated in the present case by calling the combustion stoker switch the 'heart of the invention' or the 'advance in the art'. The patent is for the combination only. Since none of the separate elements of the combination is claimed as the invention, none of them when dealt with separately is protected by the patent monopoly."; Leeds & Catlin v. Victor Talking Machine Co. 213 US 325 (US Sup. Ct 1909), Mr Justice McKenna, at page 335, "Whether the parts are new or old, the combination is the invention and it is distinct from any of them."

¹³ Thomas, E.M., "The Law of Contributory Infringement", 21 JPOS 811 (1939), at page 815.

¹⁴ Smith v. The London and North Western Railway Co. 2 EL & BL 69 (1853).

¹⁵ Newton v. The Grand Junction Railway Co. 5 Exch. 331 (1850), *per* Pollock C.B., at page 344. In the same case, Alderson B., at page 335, was of the opinion that, "where the invention consists partly of what is old and partly of what is new, the combination is the subject of the patent. Therefore, a person cannot infringe that part of the patent which is old, because the public cannot be prevented from using that which they had before used in that state. If the invention consists of something new, and a combination of that with what is old, then, if an individual takes for his own and uses that which is the new part of the patent, that is an infringement of it."

¹⁶ Sellers v. Dickinsons 5 Exch. 312 (1850), at pages 324-325, *per* Pollock C.B., "The argument ... was that this is a patent for a combination of old and new mechanisms, and the defendant not having used the combination, there can be no infringement. But this is not so. There may be infringement by using so much of a combination as is material, and it would be a question for the jury whether that used was not substantially the same thing. ... Now, suppose that had been a mere combination of matters entirely new as a combination, but all of them old singly, I cannot help thinking that if the jury had found that the substantial parts of the combination were used, that would have been an infringement of the patent."

¹⁷ Smith v. The London and North Western Railway Co. 2 EL & BL 69 (1853).

to use an old contrivance, the patent protected the patentee against the use by others of any new and material part of the invention described, whether or not used in combination with what was old. In an action by the defendant for a new trial on the ground, *inter alia*, that the judge had misdirected the jury, Lord Campbell C.J., in upholding the ruling, said that where a patent was for a combination of several known parts, a user of any of them would not be an infringement of the patent but that "where there [was] an invention consisting of several parts, the imitation or pirating of any part of the invention" would be an infringement of the patent.¹⁸

From the opinions expressed in the above cases there seems to be strong indication that partial infringement of a patent could be relied upon to make a person who had made partial use of a combination patent liable. However, as the later cases showed, this is not so. The opinions expressed have to be considered in the light of the patent law existing at that time when no specific claims were required to be made, a description of the subject matter sufficed. Hence the judge in deciding whether there was infringement, had to decide on what the essence of the invention was.¹⁹

Such an approach could be distilled from the case of Lister v. Leather, when the Court of Exchequer Chamber held that the use of a subordinate part only of a combination may be an infringement of a patent for the combination if the "parts so used be new and inventive."²⁰ The effect of the judgement seems to be that in a combination patent, the taking of one or more component parts of the patented combination may amount to an infringement if the part or parts taken could of themselves be separately claimed. This is confirmed in Clarke v. Adie, where Lord Hatherley in the House of Lords explained Lister v. Leather thus:

"In the case of Lister v. Leather it was decided that in an improved machine, the result of several combinations, the patent might be so claimed that the several combinations leading up to the one combination might be themselves divided into several parts, in which each specific combination, say A and B and C, might be considered as a separate integer ... and each such integer might in itself be a subject

¹⁸ Smith v. The London and North Western Railway Co. 2 EL & BL 69 (1853), at pages 75-76.

¹⁹ Note: It only became obligatory after the Patent, Design and Trade Marks Act 1883 (UK) to include at least one claim in a complete specification - section 5(5). However, it was, in fact, held in 1890 in Siddell v. Vickers L.R. 15 App. Cas. 496 (1890), at pages 500, 505, that an inventor could still, if he wished, adopt the old established practice of claiming 'the invention substantially as described' and leave it to the court to determine the scope of his monopoly. The House of Lords also held that the enactment in section 5 of the Act of 1883, that a complete specification must end with a distinct statement of the invention claimed, was directory only, and when letters patent had been granted, they would not be invalid because it had not been complied with. See generally, Davenport, N., The United Kingdom Patent System - A Brief History, Kenneth Mason, Hampshire, 1979, at page 31.

²⁰ Lister v. Leather 8 El & BL 1004 (1858), *per* William J., at page 1033.

of a letters patent, and also in their combination, the several inventions A and B and C, might produce a total which should also be a subject of letters patent..."²¹

Hence it is clear that, despite earlier indications, there is no doctrine of partial infringement under the common law. Before a combination patent can be infringed, each and every element of the combination must be taken. Merely taking one or more of the combination would not, in itself, amount to an infringing act. The above principle applies to a process patent too. So the individual elements involved in the process are not protected unless they are separately protected by a patent.²²

The same rule, that infringement of a combination patent occurs only when all the elements of the combination are taken, is also applied by the courts in the United States. The Supreme Court had to consider this question in David Prouty and John Mears v. Draper Ruggles et al.²³ The plaintiffs' patent was for an improvement in the construction of a plough. They claimed the combination of certain parts of the plough and not for the parts separately. The defendant manufactured certain ploughs which were alleged to be in infringement of the patent. The Circuit Court instructed the jury that there was no violation of the patent unless it was proved that the whole combination was substantially used in the defendant's ploughs. The use of one or more of the parts specified in the letters patent by the defendant was not enough to constitute an infringement. The Supreme Court held that the instructions of the Circuit Court were correct. Taney C.J. laid down the principle that where a patent was for a combination, the use of some only of the parts which went into the combination would not constitute an infringement of the plaintiffs' combination patent.²⁴

The above principle was reiterated in two other Supreme Court decisions, Vance v. Campbell²⁵ and Fuller et al. v. Yentzer et al.,²⁶ where it was stressed that as long as one element of the combination was not used, there was no infringement of the patent. For there to be an infringement, the entire combination must be taken. In Harvey Hubbell v. General Electric, the Circuit Court of Appeals firmly stated that there was no such thing as partial infringement in US patent law.²⁷ To this rule there appears to be no exception.²⁸

²¹ Clarke v. Adie (1877) 2 App. Cas. 315, *per* Lord Hatherley, at page 327.

²² See, for example, Sarason v. Frenay (1914) 31 RPC 252. For a similar approach in Australia, see Walker & anor v. Alemite Corporation (1933) 49 CLR 643, *per* Dixon J., at pages 657-658.

²³ David Prouty and John Mears v. Draper Ruggles et al. 41 US 336 (US Sup. Ct 1842).

²⁴ David Prouty and John Mears v. Draper Ruggles et al. 41 US 336 (US Sup. Ct 1842), *per* Taney C.J., at page 339, "The patent is for a combination, ... None of the parts referred to are new, and none are claimed as new; nor is any portion of the combination less than the whole claimed as new, or stated to produce any given result. ... The use of any two of these parts only, or of two combined with a third, which is substantially different, in form or in the manner of its arrangement and connection with the other, is therefore not the thing patented. It is not the same combination if it substantially differs from it in any of its parts."

²⁵ Vance v. Campbell 66 US 427 (US Sup. Ct 1862).

²⁶ Fuller et al. v. Yentzer et al. 94 US 288 (US Sup. Ct 1877).

²⁷ Harvey Hubbell v. General Electric 267 Fed. 564 (CCA 2nd Cir. 1920), *per* Hough, Circuit Judge,

4.3. The Problem Arising and the Need to Find a Proper Balance

The basic doctrine that only a complete infringement of a patent is justiciable presents a practical problem for the patent owner. He can not initiate actions against the manufacturers whose activities have enabled others, usually consumers, to make use of his patent, as for example by combining the various elements together to make the patented combination, or by using substances bought from the manufacturers to use in a patented process. In most situations, the ultimate users are too numerous and not worthwhile suing in terms of the damages that could be recovered, or in terms of the cost involved. There are also the practical problems of detecting and policing the patents against these people, including the commercial advisability of suing potential customers for patent infringement.²⁹ Further, where the use of the patented invention is for private and personal use, it is specifically provided by the Act that such use is outside the exclusive right of the patent owner to control.³⁰ Therefore, in practice this would often leave the patentee without a remedy and his patent valueless.³¹

speaking for the court, at page 571, "The allegation of contributory infringement cannot be supported, there having been no possibility of complete infringement ... , and there is no such thing as partial infringement."

28 McCormick v. Manny 15 Fed. Cas. 1314 (CC ND Ill. 1856), *per* McLean J., at page 1318, "A patent which claims mechanical powers or things in combination, is not infringed by using a part of the combination. To this rule there is no exception. If, therefore, the wooden divider of the defendant's machine be similar to that of the plaintiff's, there is no infringement; as the combination is not violated in whole but in part."

29 See, for example, Ciby-Geigy A.G (Durr's) Applications [1977] RPC 83, at page 88, "However, since the compound is a known compound, the monopoly may be of little value, and the appellants' research and experiment little rewarded, because of the difficulty of 'policing' the unlicensed exercise of the discovered method of selective weed eradication. Apart from the manifest difficulties of policing, it would be commercially invidious to sue potential purchasers from the appellants (or their licensees) such as farmers and crop-spraying firms."; Thomas-Houston Electric Co. v. Ohio Brass Co. 80 Fed. Rep. 712 (CCA 6th Cir. 1897), *per* Judge Taft, "If this ... rule [i.e., the rule that when there is some concert of action between the person who does the injury and the person who is charged with aiding and abetting, the latter can be held liable on the principle of joint liability] is not to apply to trespass upon patent property, then indeed, the protection which is promised by the constitution and laws of the United States to inventors is a poor sham. Many of the most valuable patents are combinations of non-patentable elements, and the only effective mode of preventing infringement is by suits against those who, by furnishing the parts which distinguish the combination, make it possible for others to assemble and use the combination, and who, by advertisement of the sale of such parts and otherwise, intentionally solicit and promote such invasions of the patentee's rights." See also Thomas, E.M., "The Law of Contributory Infringement", 21 JPOS 811 (1939), at pages 811-812, "Where his financial responsibility is greater it is often more practicable to bring action against the contributory infringer than against the outright infringer. Often, too, the number of transactions involved in the single action may be many times greater and will justify the expense of bringing suit whereas the individual ultimate infringers may be so numerous or the damages occasioned by each infringement so small that it would be useless to try to enforce the patent against them."; Wiles, R., "Joint Trespasses on Patent Property", 26 JPOS 676 (1944), at pages 683-684, "Nobody should make parts or devices usable only in infringement, and the court should give relief against such practices. If they do not, they will be swamped with little suits against host of little infringers. Patentees prefer to proceed in a simple way, but they can probably make as much money by a properly systematised collection organisation, which carefully follows up small trespassers. ... Theoretically, joint participation in trespasses on patents should create some liability. Practically to force suits against numerous small primary infringers, by denying this simpler remedy, would be unfair to patentees, and oppressive to the public."

30 See Chapter 7 - Exceptions, Limitations and Loss of Rights, at para. 7.7.1.

31 See for example, the comments of Mr Justice Jackson in The Mercoid Corporation v. Mid-

On the other hand, if the mere manufacture or sale of unpatented parts in a combination patent, or the supply of common materials used in a patented method or process were to entitle the patentee to sue the manufacturer or supplier, this would often mean that the patentee is given more protection than is warranted by the patent. He would, in effect, be given an unwarranted and undeserved extension of his monopoly over articles or supplies in common everyday use.³² This may not be objectionable if the articles were specially adapted, by reason of the shape or configuration or other properties, for use in the patented invention. Since the parts are novel, the restraint of such manufacture and sale does not deprive the public of anything it has before, therefore, they should be considered as part of the patentee's monopoly. On the other hand, there is the counter argument that these specially adapted components may be legitimately commercialised without the consent of the patentee, as for example, for repairs, to licensees of the patentee, or for export purposes, bearing in mind that patent rights can only be enforced within jurisdiction. As is seen later from the cases, this reluctance to extend the patentee's monopoly explains the courts' approach to indirect unauthorised exploitation under the common law.

There is thus a need for a proper balancing of rights between the patentee on the one hand, and the public on the other. This is to ensure that a patentee's monopoly does not extend to unpatented products but at the same time to ensure that, through indirect exploitation by others, the patentee's just rewards are not impinged upon and subverted by unscrupulous traders who could with impunity "seek to reap what they had not sown".³³

4.4. Treatment of Unauthorised Indirect Exploitation in Selected Countries

This part of the Chapter, therefore, focuses on the way the courts in the United Kingdom, Australia, Canada and the United States deal with unauthorised indirect exploitation of component parts or elements of a patented invention. The aim is to investigate whether the common law provides satisfactory rights to the patent owner to prevent such indirect exploitation.

Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), at page 30, "If the patentee may not exclude competitors from making and vending strategic unpatented elements such as the thermostat, adapted to use in the combination, the patent system is so vulnerable to competition as to be almost worthless. On the other hand, if he may prohibit such competition, his system patent gathers up into its monopoly devices long known to the art and hence not themselves subject to any patent."

³² See, for example, Jessel M.R., in Townsend v. Haworth (1875) 48 L.J. Ch. 770n, at 772n, "It is an attempt to extend the patent laws beyond their purport; that such extension ought not to be granted now by me, at any event for the first time." See also the comments of Mr Justice Jackson in footnote 31 *supra*.

³³ In fact, in the United States, the contributory infringement doctrine was invoked, as stated by the Supreme Court in the Dawson Chemical Co. v. Rohm & Haas Co. 448 US 176, 206 USPQ 385 (US Sup Ct 1980), "to protect patent rights from subversion by those who without directly infringing the patent themselves engage in acts designed to facilitate infringement by others".

4.4.1. United Kingdom

Prior to the 1977 Act, there was no statutory provision governing the position of a person who had assisted or in some way contributed to, or facilitated another, in infringing the patent.³⁴ However, as early as 1786, in the case of Bancroft v. Warder and ors, there was an inkling of the possible attitude of the court in resolving this type of situation. In that case the plaintiff had a patent for a method of dyeing by use of certain barks. The defendants were sued for importing a great quantity of these barks into England and supplying different dyers with it. The dyers had used the barks in infringement of the method claim. The defendants were charged with being in collusion with the dyers to defraud the plaintiff of the lawful benefits of his patent. They demurred that under the patent the plaintiff only had the exclusive right to the use of the bark in dyeing, it did not give him the exclusive right to import the bark. Hence the plaintiff had no title either in law or equity to a discovery as to whether they had imported barks or not. In overruling the demurrer, the court agreed that had the patent given the plaintiff the exclusive right to import the bark, it would have been illegal and a nullity. However, the court stressed the fact that as it was alleged in the bill that there was collusion between the defendants and the dyers, the allegation ought to be answered.³⁵ So even in the Bancroft case, it would seem that the supply of a component part of a patented invention *per se* was not determinative. A further element was required, which in the present case was the allegation of collusion between the suppliers and the ultimate user. In other words, it would seem that to be liable for infringement by the supply of the bark, the defendant suppliers had to be regarded as joint infringers with the users of the dye.

In the frequently quoted case of Townsend v. Haworth,³⁶ the court expressly made this nexus a necessary element to find the supplier liable. The plaintiff was the owner of a patent relating to an invention for preserving textile materials. The claims were for the use of certain solutions made up from certain known compounds, among them, chloride of magnesium and zinc, for such purposes. The defendant company, who were manufacturers of chloride of zinc, was alleged to have induced persons to buy their products for the purpose of being used according to the patent. It was further alleged that in consideration of the defendant Haworth buying the products, the company would indemnify him against litigation in respect of infringement of the patent by reason of such purchase. In pursuance of the agreement, the company had sold large quantities of the substances to Haworth who

³⁴ The Banks Committee recommended that certain forms of contributory infringement should be included in the definition of infringement, see paras. 269-273, Report of the Committee to Examine the Patent System and Patent Law, Cmnd. 4407, HMSO, London, 1970. To bring the domestic law into line with the requirements of the Strasbourg Convention, the Patents Act 1977 was passed on July 29, 1977. Section 60(2) and (3) deals with contributory infringement, see Appendix.

³⁵ Bancroft v. Warder and ors 11 Hayward's Patent Cases 631 (1786), *per* Kenyon M.R., at page 632.

³⁶ Townsend v. Haworth (1875) 48 L.J. Ch. 770n.

had used them in infringement of the patent. The plaintiff argued that since the defendant company had induced and procured the infringement, and were in fact in the position of principals, they ought to be responsible for the infringement. In dismissing the action, Jessel M.R. held that the act of the company did not amount to an infringement. From the judgement, it would seem that the reason for the decision was that the chemical substances in suit were common substances and, therefore, sale to a person, even knowing that he was going to use it to infringe a patent, did not make the seller himself an infringer. Further, by analogy with a combination patent, where protection extended only to the whole combination and not to the separate elements which went into it, they had no right to complain.³⁷ As to the contention that the defendant company should be liable as a principal, the court did not rule out the possibility that they might, therefore, be liable as the actual infringer, but as it was not made out that the company was a partner or had made Haworth its agent, the contention failed. On the issue of the indemnity, Jessel M.R. said that there were two possibilities. One was that the defendants had doubts about the validity of the patent. In that case, they had the right to challenge it and to give an indemnity to their purchasers. The second possibility was that the defendants knew that the patent was valid. However, this was not pleaded by the plaintiff, and in any case, the judge doubted whether the defendant who had so acted would have been liable as an infringer.³⁸ Townsend v. Haworth has subsequently been understood as deciding that a sale of an article capable of innocent use with knowledge that it would or might be utilised in infringement does not by that fact alone make the vendor an infringer. In Sykes v. Howarth,³⁹ the court held that if the person who actually carried out the infringing act was the agent of the defendant, then the defendant would be liable for the infringement. The judge, in reaching that conclusion, however, expressly stated that he was not saying anything at variance with Townsend v. Haworth.⁴⁰

37 Townsend v. Haworth (1875) 48 L.J. Ch. 770n, *per* Jessel M.R., at 771n, "He is prohibited from making, using, or vending the prohibited articles ... But has any one ever dreamt before this case that that extends to the component articles which enter into the patent? So far from that being the law, it has been decided that in cases of what they call combination patents it is only the combinations claimed that may not be used; the other elementary combinations may be used. ... The line of cases seems to me to shew conclusively that the mere making, using, or vending of the elements ... which afterwards enter into the combination is not prohibited by the patent and if not prohibited, I do not see how I am to extend the patent laws to make a new prohibition."

38 Townsend v. Haworth (1875) 48 L.J. Ch. 770n, *per* Jessel M.R., at 771n-772n. James L.J., and Mellish L.J., delivered concurring opinions. At 773n, Mellish L.J., said, "Selling materials for the purpose of infringing a patent to the man who is going to infringe it, even although the party who sells it knows that he is going to infringe it and indemnifies him, does not by itself make the person who sells an infringer. He must be a party with the man who so infringes, and actually infringe. I am of the opinion that the demurrer must be allowed."

39 Sykes v. Howarth 12 Ch. D 826 (1879). See also, on a similar point, The Incandescent Gas Light Co. Ltd & ors v. Brogden (1899) 16 RPC 179, *per* Mr Justice Kennedy, at page 184, "It is clear to me the business is being carried on by ... the defendant, in such a connection with Smith as makes him responsible if Smith supplies, on orders being sent to him, infringing mantles."

40 Sykes v. Howarth 12 Ch.D 826 (1879), *per* Fry J., at page 833.

United Telephone Company v. Dale⁴¹ seems to suggest the possibility that indirect exploitation could be justiciable in England. In an earlier action against the defendants to restrain them from infringing two patents for telephonic apparatus, an order was made perpetually restraining the defendants from, *inter alia*, manufacturing and selling any instruments manufactured according to the specifications of the plaintiffs' patents. In the present action, the plaintiffs alleged that the defendants were selling the said instruments and applied to commit the defendants for breach of the injunction granted against them. It was also alleged that the defendants had issued an "Illustrated Descriptive Price List of Electrical and Physical Apparatus", manufactured and supplied by them. Among other things mentioned in this list were "microphones and telephonic apparatus and materials". Under this head were mentioned "materials for telephonic experiments," which comprised all the parts, including "binding screws," and these parts when put together would form an instrument which when complete would have been an infringement of the plaintiffs' patents. It appeared that the parts could be put together quickly without any difficulty by an ordinary skilled workman. Mr Justice Pearson held that there was a breach of the injunction by the sale of the instruments. He also commented that the injunction restraining sale of a complete machine, the subject of a patent, was violated by sale of the component parts in such a way that they could easily be put together.⁴² The United Telephone Company case was accepted as correct, but distinguished, in Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor on the ground that if a supplier were selling parts which were so manufactured as to be adapted to be put together, then he was in essence selling the whole of the patented machine, and was liable for infringement. This was a different situation from the mere sale of one or more assorted parts of a patented article.⁴³

Where connivance with another person to infringe a patent could be shown, however, the court would not be constrained in giving a remedy to the patentee, even though the articles sold by the different parties do not in themselves infringe the patent. This is especially so where the circumstances were such as to indicate very clearly that the person selling the elements was practically in partnership with another person who completed the infringement, and the real object of his business was to aid in the infringement. This was

⁴¹ United Telephone Company v. Dale (1884) 25 Ch.D. 778.

⁴² United Telephone Company v. Dale (1884) 25 Ch.D. 778, *per* Person J., at page 782, "If there was a patent for a knife of a particular construction, and an injunction was granted restraining a defendant from selling knives made according to the patent, and he was to sell the component parts, so that any school boy could put them together and construct the knife, surely the sale would be a breach of the injunction?"

⁴³ See Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor (1904) 21 RPC 274, *per* Vaughan Williams L.J., at page 280. See also E. M. Bowden's Patent Syndicate Ltd v. Wilson (1903) 20 RPC 644, which involved a motion to commit the defendant for breach of an injunction restraining him from infringing two letters patent relating to bicycle brakes by, *inter alia*, manufacturing and selling articles similar to the patented article. The defendant had sent by post all the component parts of a brake which had not been put together. In granting the motion, Swinfen-Eady J. said, at page 645, "It is a brake not put together, but all the component parts are present. It is not a genuine Bowden brake. There is no doubt whatever that it is an infringement of the Bowden brake."

clearly illustrated in the case of The Incandescent Gas Light Co. Ltd v. The New Incandescent Mantle Co., J. Herbert, De Tossel, and Lefroy, where the patents related to illuminant appliances for gas and other burners. The defendants were alleged to be selling fittings in the same building where someone else sold infringing mantles to be used together with the fittings. In finding against the defendants, the court held that the parties involved "were carrying on systematically the business of infringers of the patent".⁴⁴

The possibility that two persons could in principle be liable as joint infringers in other situations was, however, recognised in Badische Anilin und Soda Fabrik v. Johnson & Co. and Basle Chemical Works Bindschedler,⁴⁵ where the concept of liability as a joint tortfeasor was first broached and the plaintiff succeeded on that ground at first instance. The plaintiffs were the owner of a patent for a dye. The second defendants were chemical manufacturers in Switzerland. The first defendants ordered the dye from the second defendants in Switzerland to be sent by post to England. It was accepted that the dye would be an infringement if made or sold in England. The plaintiffs alleged that this transaction was a sale by the Basle Company of the plaintiffs' patented article in England, and, therefore, an infringement of the patent.

North J. found the second defendants liable as a joint tortfeasor.⁴⁶ The judgement was reversed on appeal. The House of Lords affirmed the decision of the Court of Appeal, holding that the contract of sale was completed by delivery to the Post Office in Switzerland. Since the Post Office was the agent of the buyer and not of the vendor, the vendor had not made, used, exercised or vended the invention within the ambit of the patent.⁴⁷ The sole issue that was argued before both the Court of Appeal and the House of Lords was the question as to where the delivery took place. It was unfortunate that the courts had no opportunity to address the issue of joint tortfeasance.⁴⁸

⁴⁴ The Incandescent Gas Light Co. Ltd v. The New Incandescent Mantle Co., J. Herbert, De Tossel, and Lefroy (1898)15 RPC 81, *per* Mathew J., at page 84.

⁴⁵ Badische Anilin und Soda Fabrik v. Johnson & Co. and Basle Chemical Works Bindschedler [1897] 2 Ch. 322; (1897)14 RPC 405 (C.A.); affirmed [1898] A.C. 200 (H.L.). See *infra*, text accompanying footnote 59, for later cases.

⁴⁶ See Badische Anilin und Soda Fabrik v. Johnson & Co. and Basle Chemical Works Bindschedler [1897] 2 Ch. 322, *per* North J., at pages 332-334, "It is clear that there was a course of dealing between the Basle Company and Niebergall & Goth which was perfectly understood by the latter. It was in accordance with this course of dealing that as soon as this parcel was received by Niebergall & Goth they sent it on by post to Johnson & Co. in London ... It could not destroy the effect of that which had already been complete, namely the joint execution of an order given by Johnson & Co. to the Basle Company to place the goods in the hands of the post-office in order that they might carry them to England and deliver them here. ... The result is that, in which ever person the property in the goods was, they were jointly implicated in a transaction the effect of which was to infringe the patent law of this country, and they are both liable as principals in the transaction."

⁴⁷ Badische Anilin und Soda Fabrik v. Johnson & Co. and Basle Chemical Works Bindschedler [1898] A.C. 200 (H.L.), *per* Lord Halsbury L.C., at page 203, *per* Lord Herschell, at page 206.

⁴⁸ However North J.'s approach was expressly approved in Morton-Norwich Products Inc. v. Intercen Ltd [1976] FSR 513 (H. Ct), *per* Graham J., at page 525.

It appears that up to this stage, it was already accepted that the mere sale of an ordinary article of commerce, even with knowledge that it would be put to infringing use would not amount to an infringement of the patent. Something more needs to be shown, as was illustrated by the case of Innes v. Short and Beal,⁴⁹ which dealt with the allegation of inducement. The patent related to an improved method of preventing corrosion and incrustation in steam boilers by the introduction of metallic zinc in a powdered state into steam boilers. The defendant sold bags of ordinary powdered zinc with directions for the use of the powder in boilers. They contended that they had merely sold an article which was well-known to the trade, and which anyone had the right to sell, since the powder itself was not claimed in the specification. The fact that they knew the article was to be used for infringing purposes did not make them infringers. Bigham J., while agreeing with the defendants on this point on the authority of Townsend v. Haworth, was able to distinguish it from the present case in that here Short had himself asked and invited the purchasers to use the article in such a way as to infringe the patent rights. An injunction was granted to "restrain the defendant from selling powdered zinc with an invitation to his purchasers to use it in such a way as to infringe the Plaintiff's patent". It is noteworthy that the defendant was restrained from inviting or inducing other people to infringe. He himself was not infringing the patent by merely selling powdered zinc.⁵⁰

However, the court in Adhesive Dry Mounting Co. v. Trapp & Co. expressed the opinion, in an *obiter* statement, that in view of the decision of the Court of Appeal in Townsend v. Howarth, the Innes v. Short decision appeared to be of doubtful authority.⁵¹ It is difficult to see why the decision in Innes v. Short should be doubted, since Townsend was on a different point. Russell L.J., in Ciby-Geigy A.G (Durr's) Applications, left open the question whether a rival manufacturer of a known substance would be entitled to sell it with instruction for the patented use.⁵² However, in C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd, Lord Templeman referred without disapproval

49 Innes v. Short and Beal 15 RPC 449 (1898).

50 Innes v. Short and Beal 5 RPC 449 (1898). In granting an injunction to restrain the sale in this manner, Bigham J. said, at page 452, "I think, as a matter of fact, that Mr Short did invite the persons who bought this article of commerce, powdered zinc, from him, and thereby led them to infringe this patent at the time that he was selling the powdered zinc to them. That ... is a violation of the plaintiff's rights. There is no reason whatever why Mr Short should not sell powdered zinc, and he will not be in the wrong, though he may know or expect that the people who buy it from him are going to use it in such a way as will amount to an infringement of Mr Innes' patent rights. But he must not ask the people to use it in that way in order to induce them to buy his powdered zinc from him."

51 See Adhesive Dry Mounting Co. v. Trapp & Co. (1910) 27 RPC 341, *per* Parker J., at page 353. In fact, it was also submitted by Terrell and Shelley on the Law of Patents, 10th Ed., Sweet and Maxwell, London, 1961, at page 138, that Innes v. Short was in fact wrongly decided, and that there was no such tort as "aiding and abetting infringement".

52 Ciby-Geigy A.G (Durr's) Applications [1977] RPC 83 (CA), Russell L.J., at page 89. Note, however, that Blanco White, T.A., Patents for Inventions, 4th Ed., Stevens & Sons, London, 1974, at 3-210, held the view that Innes v. Short was rightly decided.

to Innes v. Short as a case where the vendor and the purchasers had a common design to carry out an infringing act.⁵³

In the same line as Townsend v. Haworth was the case of Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd.⁵⁴ The patent was for a pneumatic tyre cover, held on to the rim of the wheel by wires passing through circumferential pockets in the edges of the cover. The defendants made and sold covers only, fitted with pockets, but without wires, and advertised them as "ready for wires". The defendants denied infringement and claimed that they were lawfully entitled to sell the cover. They further contended that intent was immaterial. At first instance, it was held that as the covers were not new and were not separately claimed (the patents being for combinations), the defendants were lawfully entitled to make and sell or sell the covers, since there were many other lawful use to which they could be put to. To hold otherwise would be to impose an undue burden on the defendants to ensure that the ultimate users did not infringe. Consequently, the defendants had not infringed.⁵⁵ The Court of Appeal affirmed the decision, and held, relying on Townsend v. Haworth, that the selling of an article intended to be used for the purpose of infringing a patent, did not amount to an infringement of the patent. It was stressed in the judgement that it was necessary for the purposes of constituting the vendor an infringer to show that he had made himself a party to the infringement, although what activities would constitute the vendor a party to such infringement was not discussed.⁵⁶

The question whether the case would have been decided differently had the material sold not been an ordinary article in common use, but specially constructed or adapted for the purpose of the invention, seemed to have been answered by Vaughan Williams L.J., when he said that the case would fail even though the plaintiffs were able to substantiate the proposition that the covers, as manufactured and sold by these defendants, could not be used for any other purpose than fitting them into the plaintiffs' tyres under one or other of

⁵³ C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567 (H.L.), *per* Lord Templeman, at page 607, "In Rotocrop International Ltd v. Genbourne Ltd ... Graham J. held ... that a rival manufacturer who made and sold infringing bins in parts with assembly instructions was a joint tortfeasor with his customers. In that case as in Innes v. Short and Beal ... the vendor and the purchaser had a common design to carry out an infringing act."

⁵⁴ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd (1904) 21 RPC 53 and 274, at pages 278-282; [1904] 1 Ch. 164 and 612.

⁵⁵ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd (1904) 21 RPC 53, *per* Swinfen-Eady J., at page 60, "They only make and sell the outer covers; they may also make inner tubes; but no reference to that has been made. They are rubber manufacturers. They do not sell the wires, and they do not sell the rims - that they have nothing to do with; and by merely making and selling these outer covers they do not infringe either of the patents. It would be difficult, indeed, to see from a practical point of view, if that were not so, how the defendants could carry on their business. Selling these covers to licensees of the plaintiffs is a lawful trade; selling them for export is a lawful trade, but the purchasers, nevertheless, might not export them; and to make the defendants ... responsible for the ultimate use of the covers, so as to put upon them the burden of ascertaining whether the purchasers intended to use, and to use them lawfully, would be imposing upon them a hardship, which in my opinion, the law does not impose."

⁵⁶ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd (1904) 21 RPC 274, *per* Vaughan Williams L.J., at pages 278-279. Stirling L.J., and Cozens-Hardy L.J. concurring.

the patents.⁵⁷ The reason for so holding seemed to have been answered by Cozens-Hardy L.J., who expressed the opinion that since the covers could be sold in a lawful trade (like selling to licensees, for export or for repair), to make the defendants responsible for the ultimate use of the covers would be to impose an undue hardship upon them.⁵⁸

The second case in England where the concept of joint tortfeasors was argued and applied by the court was that of Morton-Norwich Products Inc. v. Intercen Ltd.⁵⁹ The defendant, a Dutch corporation, sold quantities of a chemical to a group of UK companies controlled by one E. It was admitted that the chemical was covered by a valid patent owned by the plaintiff. One of the contentions of the plaintiff was that the defendant had counselled, procured and encouraged the English buyers to infringe the patent in the UK, and that in pursuance of a common design between them and the defendant, the English buyers had, in fact, infringed.

It was found that the chemical had been specially formulated for the British market and could not be sold on the Continent; that the defendant's marketing manager took a keen interest in E.'s campaign to sell the chemical to the UK, and had met him frequently in the U.K. and in Holland; that he had encouraged E. to sell the material; and that there had been an intention to work together in the promotion of its sales. The court held that there was sufficient evidence to show that there had been a concerted design by the defendant and the English buyers to sell the chemical in this country, and that the defendant had been aware of the patent. If there was a concerted design by two persons to sell goods which in fact infringed a patent, then the parties who had such design and did so sell were joint tortfeasors and both infringed the patent, whether or not they knew that such sale would be an infringement. On the facts, the E. companies had sold the chemical in the UK in pursuance of the said common design, and the defendant was, therefore, liable as a joint tortfeasor, even if it had done nothing within the jurisdiction, and even if the underlying agreement had been made abroad.⁶⁰

⁵⁷ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd (1904) 21 RPC 274, at page 280.

⁵⁸ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd (1904) 21 RPC 274, at page 282. This obstacle was also alluded to by Swinfen-Eady J. at first instance, see Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd (1904) 21 RPC 53, at page 62. A similar approach was followed in White v. Todd Oil Burner, Ltd (1929) 46 RPC 275, *per* Clauson J., at 293. In view of the problems identified in the cases, special provisions would have to be inserted in any proposed amendments to cater for the right to engage in any such activities without being subjected to infringement suit - see *infra*, para. 4.8.

⁵⁹ Morton-Norwich Products Inc. v. Intercen Ltd [1978] RPC 501; [1976] FSR 513, at pages 519-526 (H. Ct), *per* Graham J. See footnote 45, *supra*, for the first case.

⁶⁰ Dictum of Scrutton L.J., in The Koursk [1924] P. 140, at page 155; and Brook v. Bool [1928] 2 K.B. 578, at page 586 was applied; Badische Anilin und Soda Fabrik v. Johnson [1897] 2 Ch. 322, (1897) 14 RPC 405 explained. See Morton-Norwich Products Inc. v. Intercen Ltd [1978] RPC 501; [1976] FSR 513, at page 524, *per* Graham J.

The law as to inducing and procuring infringement was considered by the Court of Appeal in Belegging En Exploitiemaatschappij Lavender v. Witten Industrial Diamonds.⁶¹ The plaintiff owned a patent for diamond grit coated with metal of a specified thickness and embedded in a resin bond. There was no claim to metal coated diamond grit *per se*. The defendants dealt in metal coated diamond grits and it was alleged they had sold and supplied to certain other concerns such grit for the making of grinding tools in which the grit was embedded in a resin bond. The plaintiff's action was dismissed on a technical point, in that there were no allegations in the pleadings that the defendants procured or counselled anyone to do anything, nor was there any allegation that anyone had used any metal coated grits sold by the defendants in an infringing manner.⁶² However, the case is interesting in that from the opinion of the Court, there was an indication of the possibility of holding the defendant liable on the distinct tort of procurement of an infringement.⁶³ Further, from the judgement, Buckley L.J. seemed to indicate that a person would be liable as an infringer if he had either participated in the infringing activities or he had induced someone to infringe. This view seemed to be reinforced, when in the later part of his judgement, he referred to the idea of "indirect" infringement in relation to procuring and/or aiding others to infringe.

In Kalman v. PCL Packaging (U.K.) Ltd, the allegations against the second defendants, B., were that B. were joint tortfeasors with the ultimate infringer, PCL, and that they had procured the infringement by PCL. The learned judge rejected each of these contentions, and ordered that the writ and order for service should be set aside, in relation to B. On the first point the learned judge regarded it as clear that at common law, B. could not be infringers, citing Townsend, Dunlop and Belegging. After distinguishing Morton-Norwich, Falconer J. went on to dismiss the allegations of joint tortfeasance on the ground that there was no evidence of concerted actions,⁶⁴ and of procurement, since on the facts, it was PCL who had persuaded B. to sell the articles, rather than the other way round.⁶⁵

⁶¹ Belegging En Exploitiemaatschappij Lavender v. Witten Industrial Diamonds [1979] FSR 59 (CA).

⁶² Belegging En Exploitiemaatschappij Lavender v. Witten Industrial Diamonds [1979] FSR 59 (CA), see at page 66. At page 65, Buckley L.J., differentiated between the facilitating of an act from procuring the doing of an act. Following Townsend v. Haworth and Dunlop v. Moseley, he held that mere facilitation, even with knowledge that the materials supplied would be used for infringing purposes, would not amount to an infringement.

⁶³ Belegging En Exploitiemaatschappij Lavender v. Witten Industrial Diamonds [1979] FSR 59 (CA), at page 66, "The plaintiffs do not only assert infringement by the defendants. They also say that the defendants have procured, counselled and/or aided other persons to infringe. This may perhaps amount to an allegation of indirect infringement by the defendants themselves, but I am inclined to think that it is a claim in respect of a distinct, suggested tort of procuring infringement by others (based upon the principle enunciated by Erle J., in Lumley v. Gye 2 E & B 216, 231)." See, however, footnote 73, and accompanying text, where the Court of Appeal seems to regard procurement as a different way of infringing.

⁶⁴ Kalman v. PCL Packaging (UK) Ltd [1982] FSR 406 (Patents Court), Falconer J., at pages 420 and 424. In an action essentially based on infringement of copyright and negligence, the Court of Appeal in Peterson Zochonis Limited and ors v. Marfarken Packaging Limited and ors [1983] FSR 273, again stressed that to make a defendant a joint tortfeasor there must be an allegation of knowledge and a common design - *per* Oliver J., at page 282. See also the trade mark case of Cadbury Limited v. Ulmer GmbH [1988] FSR 385 (Ch. Div.), where Falconer J., at pages 394-

The question of whether a sale of kits of parts would amount to an infringement arose in Rotocrop International Ltd v. Genbourne Ltd.⁶⁶ Graham J. was able to hold that the sale by the defendants of kits of parts with instructions to build into bins for making compost made them joint tortfeasors with their customers who erected and used their bins in accordance with the defendants' instructions and thereby infringed the plaintiffs claims for a process for making compost. Both had a common design within the meaning of The Koursk and Morton-Norwich Products v. Intercen Limited, respectively. Though there was no proof that the customer had directly infringed, it was a proper inference from the circumstances. As to the product claim, a compost bin, the court held that the defendant had directly infringed the product claim, since there was no practical distinction from the point of view of infringement between the sale of an article in parts with full instruction on how to put it together and a complete bin. As an alternative ground for their liability, the court held that they were also liable for procuring an infringement.⁶⁷

C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd,⁶⁸ though on a copyright matter, was the first case involving the issue of joint tortfeasance and procurement of an infringement of intellectual property rights to reach the House of Lords. On the issue of inducement and joint tortfeasance, the House of Lords held that joint infringers were two or more persons who acted in concert with one another pursuant to a common design in the infringement. In the present case, there was no such common design since Amstrad had sold the machine, and the purchaser or other operator of the machine decided the purpose for which the machine should be used from time to time. Amstrad were also not liable for inciting or procuring breach of copyright, nor were they liable for the statutory tort of authorisation. However, a defendant who procured a specific infringement of copyright, whether by inducement, incitement or persuasion would be liable as a joint infringer.⁶⁹

404, held that before a person could be said to be a joint tortfeasor, he must have acted in concert with another person in the commission of the tort. The mere sale in the ordinary way of business of goods which the vendor was entitled to sell was not tortious, even though the purchaser might subsequently use the goods wrongly, applying Belegging, Paterson and Amstrad Consumer Electronics Plc v. The British Phonographic Industry Limited (1986) FSR 159 (CA).

⁶⁵ In Dow Chemical AG & anor v. Spence Bryson & Co. Ltd & anor [1982] FSR 598, Falconer J., at pages 626 and 630, held that had he found the first defendants' process had infringed, he would have found the second defendant's conduct had amounted to an inducement and procurement of an infringement. This was because the second defendant's activities had gone beyond mere facilitation and into the realm of inducement and procurement. The evidence was that the second defendant had persuaded the first defendant to adopt their no-gel process so as to secure the first defendant's custom for the 729 latex which could only be used in a no-gel process, that the second defendant had taught the first defendant how to operate that process and that the second defendant had provided technical assistance in the conduct of the necessary trials and in compounding suitable lattices.

⁶⁶ Rotocrop International Ltd v. Genbourne Ltd [1982] FSR 241.

⁶⁷ Rotocrop International Ltd v. Genbourne Ltd [1982] FSR 241, *per* Graham J., at pages 258-260. See also Dow Chemical AG & anor v. Spence Bryson & Co. Ltd & anor [1982] FSR 397 (CA), at page 404, where the court stressed that it is persuading someone to do something which is a very important factor in the tort of procuring someone else to do an unlawful act.

⁶⁸ C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567.

⁶⁹ C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567,

Although the case of Unilever PLC v. Gillette (U.K.) Limited⁷⁰ was involved with the effect of the provisions of section 60(1)(a) and (b) of the 1977 UK Patents Act (the direct infringement provisions), it provides a very good outline of the way in which the history of the concept of joint tortfeasance was developed by the courts. It shows that despite the enactment of the "contributory infringement" provisions of section 60(2) and (3) of the 1977 Act, the doctrine of infringement as joint tortfeasors in a direct infringement is still alive and applicable in the United Kingdom. Mustill L.J. held that from the way the law has developed, infringement under section 60(1)(a) and (b) of the 1977 Act is applicable not only to the case of the person who had actually sold and imported the patented product but also to other situations.⁷¹ He then proceeded to trace the two-stage development of the law. The first stage arose in the general law of torts. Flowing from the cases of The Koursk and Brooke v. Bool, the proposition was laid down and accepted that participation in a common venture may cause someone to become directly liable as tortfeasor, together with the person who actually did the damage. The second stage concerns people who were said to have jointly infringed a patent. Even though a person may not have himself carried out any act which directly infringed, he would be held to have jointly infringed if there was a common design with the actual infringer. This principle was firmly established in the light of C.B.S Songs v. Amstrad Consumer Electronics.⁷² He went on to say that these principles were no more in doubt, except as regards the relationship between indirect infringement by procuring and participation in a common design. However, he was inclined to the view that they were different ways of infringing.⁷³ On the facts, he found that the allegation, if true,

per Lord Templeman, at pages 606-609, "My Lords, joint infringers are two or more persons who act in concert with one another pursuant to a common design in the infringement. In the present case there was no common design. Amstrad sold the machine and the purchaser or operator of the machine decided the purpose for which the machine should from time to time be used. The machine was capable of being used for lawful or unlawful purposes. All recording machines and many other machines are capable of being used for unlawful purposes but manufacturers and retailers are not joint infringers if purchasers chose to break the law. ... On behalf of BPI it was submitted that even if Amstrad had not authorised infringement and were not themselves infringers, nevertheless the activities of Amstrad in the sale and advertisement of Amstrad's models constitute a common law tort. The suggested torts were three in number, namely incitement to commit a tort, incitement to commit a criminal offence and negligence. ... I accept that a defendant who procures a breach of copyright is liable jointly and severally with the infringer for the damages suffered by the plaintiff as a result of the infringement. The defendant is a joint infringer; he intends and procures and share a common design that infringement shall take place. A defendant may procure an infringement by inducement, incitement or persuasion. ... Generally speaking, inducement, incitement or persuasion to infringe must be by a defendant to an individual infringer and must identifiably procure a particular infringement in order to make the defendant liable as a joint infringer."

70 Unilever PLC v. Gillette (U.K.) Limited [1989] RPC 583 (CA), Mustill L.J., at page 602.

71 Unilever PLC v. Gillette (U.K.) Limited [1989] RPC 583 (CA), Mustill L.J., at page 602, Ralph Gibson and Slade L.JJ. concurring.

72 After discussing the case of Townsend v. Haworth (1875) 48 L.J. Ch. 770, Dunlop Pneumatic Tyre Co. v. David Moseley & Sons [1904] 1 Ch. 164 and 612, Badische Anilin und Soda Fabrik v. Henry Johnson & Co. [1897] 2 Ch. 322, 334, Innes v. Short and Beal (1898) 15 RPC 449, Morton-Norwich Products Inc. v. Intercen Ltd [1978] RPC 501, Belegging etc. Lavender v. Witten Industrial Diamonds [1979] FSR 59, Kalman v. PCL Packaging (U.K.) Ltd [1982] FSR 406, and C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567.

73 Unilever PLC v. Gillette (U.K.) Limited [1989] RPC 583 (CA), Mustill L.J., at page 608, "I have set out these cases in some detail ... In truth, however, I believe that they do little more than

warranted a conclusion that there was a common design between the defendants and that Boston had acted in furtherance of that design.⁷⁴

From the above discussion, it is clear that the notion of joint tortfeasorship by participation in a common design is still accepted and applied by the courts. Mere supply of materials by a person will not make the supplier a joint tortfeasor. There must be more in their relationship to show that there is a "meeting of the minds" to commit an infringement. Though the law is reasonably clear, each case would have to be determined on its own facts before a conclusion could be reached as to whether there was a common design between them.⁷⁵

4.4.2. Australia

Australian patent law has, until recently, not given patentees a direct right against a person who sells products to people who then use those products to infringe the patent.⁷⁶ The former statute, the Patents Act 1952, did not define what constituted an infringement of a patent, though the owner was given the exclusive right to make, use, exercise and vend the invention.

illustrate how in various situations the court have applied principles which are no longer in doubt, save perhaps as regards the relationship between indirect infringement by procuring and by participation in a common design. There may still be a question whether these are distinct ways of infringing, or different aspect of a single way. I prefer the former view, although of course a procurement may lead to a common design, and hence qualify under both heads." Note that in The Electric Furnace Co. v. Selas Corporation of America [1987] RPC 23 (CA), a striking out action, Slade L.J., at page 33, seemed to be of the opinion that a defendant who had induced an infringement is guilty of a different tort. See also Copeland-Chatterson Co. Ltd v. Hatton and Guertin (1906) 10 Ex. C.R. 224; affd (1906) 37 S.C.R. 651.

⁷⁴ The factors on each side were summed up by Mustill L.J., at pages 609-610 of his judgement in Unilever PLC v. Gillette (U.K.) Limited [1989] RPC 583 (CA).

⁷⁵ For factors relied upon by the court to indicate a common design, see Puschner v. Tom Palmer (Scotland) Ltd and anor [1989] RPC 430 (Patents Court), pages 438-439, *per* Aldous J. - joint marketing agreement between the defendants was more than a sales agreement. There was a common design to the extent of the second defendant assisting the first defendant to make sales by the supply of demonstration machines and literature and advertising material and by the provision of training; Intel Corporation v. General Instrument Corporation and ors (No. 2) [1991] RPC 235, *per* Aldous J., at pages 239-242 - the factors relied on by the plaintiff to establish its arguable case (1) The relationship of the United States defendants to the United Kingdom defendants which was shown to be more than a parent/subsidiary relationship, (2) Sales Support, and (3) The first defendant's patent portfolio; Molnlycke and another v. Proctor & Gamble Limited and others (No. 4) [1992] RPC 21 (CA), see Dillon L.J., at page 29.

⁷⁶ The Industrial Property Advisory Committee (IPAC) in its report "Patents, Innovation and Competition in Australia" 1984, recommended in Recommendation 33, "That in general the supply of goods whose only use would infringe a patent, or which are accompanied by a positive inducement for the ultimate consumer to perform actions which would innocently or knowingly infringe a patent, should itself be an infringement of the patent." The Patents Act 1990 contains a provision to implement the response of the Australian Government to this recommendation - see section 117. The situation is, therefore, now different under the new Patents Act (Patents Act 1990 and the Patents Regulations 1991 which came into effect on 30th April 1991) - see Appendix.

Regarding the question of whether the mere supply of component parts of a patented invention could amount to any act of infringement in itself, the earliest reported case was Walker & anor v. Alemite Corporation.⁷⁷ In that case the plaintiff claimed, *inter alia*, infringement of a patent for lubricating apparatus, of which a grease cup was an element. The plaintiff contended that a grease cup manufactured by the defendant infringed his combination claim because the grease cup would or had inevitably to be used with the other parts of the plaintiff's invention. The Supreme Court of Victoria held that the defendant was guilty of infringement.⁷⁸ In reversing the decision, the High Court held that a patent for a combination of various parts was not infringed by the manufacture or sale of the separate parts, even with knowledge that the buyer would use it for infringement. To be liable the vendor must have made himself a party to the act of infringement.⁷⁹

From the opinion, it is clear that the approach of Dixon J. echoed that of the English approach. Hence the mere sale of a component part of a patented combination to a person, even if it is known that he would use it to infringe the patent is not an infringement of the patent. This is so even if the seller gives the purchaser an indemnity against any infringement suit and even if the components sold have no other use than an infringing use. The only way a person can be found liable is if he has made himself a party to the infringement. It remains now to examine later cases to see whether this approach has changed in any way, or whether any gloss has been added to the basic approach.

The concept of joint infringement was applied by the court in Best Australia Ltd and ors v. Aquagas Marketing Pty Ltd and ors⁸⁰ which involved an application to discharge an order giving leave to serve the applicants' amended application and statement of claim upon the second respondent, Hydrox, outside Australia. Hydrox was a New Zealand corporation and it contended that the proceeding did not fall within the category of cases in which service could be effected outside Australia. The court dismissed the motion, holding that the exclusive licence agreement between the first and second respondent took the second respondent into the role of participant in the alleged infringement and there was a *prima facie* case of infringement by the second respondent in association with the first respondent. After discussing the cases of Walker v. Alemite Corp., Belegging, Morton-Norwich Products Inc. v. Intercen, and after holding that the "joint venture agreement" between the

⁷⁷ Walker & anor v. Alemite Corporation (1933) 49 C.L.R. 643 (H. Ct, Australia).

⁷⁸ Alemite Corporation v. Walker (1933) V.L.R. 154.

⁷⁹ Walker & anor v. Alemite Corporation (1933) 49 C.L.R. 643 (H. Ct, Australia), *per* Dixon J., at pages 657-658, relying on Townsend v. Haworth, Sykes v. Howarth, and Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd. McTiernan J. expressed agreement with the judgement of Dixon J., while Rich J., and Starke J., with whom Evatt J., concurred, expressed similar views.

⁸⁰ Best Australia Ltd and ors v. Aquagas Marketing Pty Ltd and ors (1987-1988) 12 IPR 143 (Fed. Ct, Australia, General Div.).

respondents was not enough to constitute Hydrox a participant in the alleged infringement by Aquagas, the court went to consider the exclusive licence agreement and concluded:⁸¹

"... It seems to me that the effect of the exclusive licence agreement is to take Hydrox beyond the role of facilitator and into the role of participant. Clause 5.5 is particularly significant. It casts upon Hydrox a positive obligation to assist Aquagas in marketing the product. Moreover, the evidence discloses that Hydrox has already taken some action to open up market opportunities in Australia."

The patentee sought an interlocutory injunction restraining the defendants from infringing the plaintiff's patent in Firth Industries Ltd & ors v. Polyglas Engineering Pty Ltd and ors.⁸² One of the grounds for the alleged infringement of the method claims by the defendants was that the defendants, in selling infringing compost bins with instructions as to their use, had advised and procured others to employ the patented methods. In refusing interlocutory injunction upon the defendants giving certain undertakings, the Court held, *inter alia*, that it was a matter open to some doubt whether the type of acts by which it was alleged the defendants infringed the five method claims could amount to infringement. Even if they could, no case of infringement of these claims had been made out as the evidence did not establish that anyone had on the defendants' advice undertaken a particular integral step prescribed in those claims.⁸³ Besides doubting that the activities of the defendants could amount to an infringing act, the court also relied on a technical objection that there was no evidence of any actual direct infringement. However, the High Court of Australia in Wellcome Foundation Ltd's Application⁸⁴ seems to be of the opinion that such activities could amount to an infringement, though the matter was left open.⁸⁵ Wootten J. in Eli Lilly & Co's Application⁸⁶ also expressed the same opinion.

⁸¹ Best Australia Ltd and ors v. Aquagas Marketing Pty Ltd and ors (1987-1988) 12 IPR 143 (Fed. Ct, Australia, General Div.), *per* Wilcox J., at page 147.

⁸² Firth Industries Ltd & ors v. Polyglas Engineering Pty Ltd and ors [1977] RPC 213; [1975] 49 ALJR 263.

⁸³ See Stephen J., Firth Industries Ltd & ors v. Polyglas Engineering Pty Ltd and ors [1977] RPC 213, at page 218, citing Innes v. Short and comparing it with Townsend v Howarth, Adhesive Dry Mounting Co. Ltd v. Trapp and Walker v. Alemite Corporation.

⁸⁴ Wellcome Foundation Ltd's Application [1981] FSR 72; (1979-1980) 30 ALR 510.

⁸⁵ The appellant urged the Court to sustain a claim to the substance in a package with directions where a claim for the process has been allowed because this would provide a solution to the problem of policing the patent and thereby deter rival manufacturers from destroying the efficacy of the patent by selling the container and contents with instructions to use the contents in the patented process. The Court, relying on the dictum of Russell L.J. in Ciba-Geigy (Durr's) Application ([1977] RPC 83, at page 89, said that "it is questionable whether a rival manufacturer of the known substance would be entitled to sell it with instructions that it is suitable for use in a manner which would infringe the appellants' patent", *per*, Gibbs, Stephen, Mason, Murphy and Wilson JJ., [1981] FSR 72, at page 76.

⁸⁶ Eli Lilly & Co's Application (1982) 42 ALR 101, at 110; [1982] 1 NSWLR 526, at 534. "Such a doctrine of contributory infringement has not to date been established in English law. In Ciba-Geigy AG (Durr's) Application ..., the question was left open by the Court of Appeal. The High Court adopted a similar stand in Wellcome Foundation Ltd v. Commissioner of Patents 30 ALJ 510, at 515 ... It would seem, therefore, that the question whether our law recognises a doctrine of

The question of whether selling all the unassembled parts of a patented article with instruction for its use was an infringement was again an issue in Windsurfing International Inc & anor v. Petit & anor.⁸⁷ The first plaintiff was the proprietor and the second plaintiff, the exclusive licensee in Australia of a patent for a wind surfer. The patent was for a combination of various known integers. Claim 10 of the specification was for a particular embodiment of the invention described by reference to drawings which depicted a sailboard. The defendants, Madowind Pty Ltd and Borsimex Pty Ltd, imported and sold in Australia sailboards in an unassembled kit form which was the way in which sailboards were invariably sold.

The plaintiffs alleged infringement by the defendants of the patent and sought an injunction and damages. The defendants denied infringement, relying on Walker v. Alemite, Townsend v. Haworth, and Dunlop Pneumatic Tyre Co. v. David Moseley. The patent was held to be invalid and the plaintiffs' claim failed. However, what was more important was the court's opinion that the facts of the cited cases were different from the present in that sailboards were invariably sold in an unassembled form. Therefore, the sale of an unassembled sailboard in kit form would have infringed the right given by s. 69 of the Patents Act 1952, because of the ordinary course which vending the invention took.⁸⁸

However, the matter has still to be regarded as open and subject to some doubt. Young J. in Ryan v. Lum, after holding that the patent should be revoked for lack of novelty and obviousness, went on to record the relevant cases but he finally declined to express an opinion on it.⁸⁹

4.4.3. Canada

There is still no specific provision regulating the indirect exploitation of a patented invention in Canada.⁹⁰ The first and leading case on the problem of indirect exploitation in Canada is

contributory infringement has not really been put to the test, but there is some encouragement to think that it might be adopted as part of our law."

⁸⁷ Windsurfing International Inc & anor v. Petit & anor (1983-1985) 3 IPR 449 (Sup. Ct of New South Wales).

⁸⁸ Windsurfing International Inc & anor v. Petit & anor (1983-1985) 3 IPR 449, *per* Waddell J., at page 456, and at page 459.

⁸⁹ Ryan v. Lum (1988-1989) 14 IPR 513, *per* Young J., at pages 521-522. It seems strange that he should say that "however, in the light of analogous cases in copyright such as CBS Songs v. Amstrad ... that it would need a lot more than mere instructions of use on a product to enable a court to find that the seller procures the tort". Instructions to use a tape deck to record a song is totally a different matter from giving instructions to operate a patented process or make a patented combination. Further it has to be noted that Windsurfing International Inc. & anor v. Petit & anor was not cited in his opinion.

⁹⁰ The Ilsley Report recommended against the incorporation of a provision for contributory infringement without providing any reasons or argument on the point (pages 107-8, Royal Commission of Patents, Copyright and Industrial Design "Report on Patents of Invention", Chairman - J.L. Ilsley, 1960]. Despite the fact that the Working Paper on Patent Law Revision,

that of Copeland-Chatterson Co. Ltd v. Hatton and Guertin.⁹¹ The plaintiffs were the owners of a patent for an improvement in binders and sheets therefor. There were, *inter alia*, claims relating to the combination of the binder and sheets. The defendant Hatton bought a binder from the plaintiffs on the condition that it was for use only with sheets sold by or under the plaintiffs' authority. It was alleged that contrary to such condition, Hatton had used in it sheets supplied by the defendants, the Guertins. The Guertins, knowing of the terms upon which Hatton had purchased a binder from the plaintiffs, had furnished him with sheets prepared and adapted for use in that binder. To induce Hatton to buy the Guertins sheets, they had given him an undertaking to indemnify him against any action the plaintiffs might bring against him in that behalf. Based upon the above facts, the plaintiffs contended that Hatton had infringed their patent and that the Guertins were contributory infringers.

Burbridge J. held that having purchased a binder from the plaintiffs on the condition that it was to be used with sheets sold by or under the plaintiffs' authority, breach of that condition amounted not only to a breach of contract but also an infringement of the patent by Hatton. On the issue of infringement by the Guertins, the court, despite being urged by counsel for the plaintiffs that the activities would amount to a contributory infringement, was doubtful whether such a doctrine would apply in Canada. However, if the act complained of as a contributory infringement was in fact an infringement, the court had jurisdiction.⁹² After considering the relevant United Kingdom cases, the judge said that in answering that question, two questions needed to be answered, namely, whether what they did was actionable or not, and if so, then whether that actionable wrong may, with propriety, be termed an infringement of the plaintiffs' patent.⁹³ The judge concluded that one who knowingly and for his own ends and benefit and to the damage of the patentee

prepared for the Department of Consumer and Corporate Affairs, June 1976, recommended the inclusion of such a provision (at page 198), this has still not been accepted by the Government. For a review of the case law in this area, see Grenier, F., "Contributory and/or Induced Patent Infringement", (1987) 4 Canadian Intellectual Property Review 26.

⁹¹ Copeland-Chatterson Co. Ltd v. Hatton and Guertin (1906) 10 Ex. C.R. 224 (Exchequer Court); *affd* (1906) 37 S.C.R. 651, although there was no discussion on the issue of inducement.

⁹² Copeland-Chatterson Co. Ltd v. Hatton and Guertin (1906) 10 Ex. C.R. 224 (Exchequer Court) *per* Burbridge J., at pages 241-242.

⁹³ On the second question, the judge said, at pages 246-247, "But it does not follow of course that the actionable wrong that the Guertins in that way committed was an infringement of the patent. One who without justification or excuse induces another to break a contract may commit a wrong but he does not break the contract. One may commit a wrong by knowingly and for his own ends inducing another person to commit an actionable wrong, but the two wrongs may not always be the same. Under the grant made by Canadian letters patent the patentee ... acquire during the prescribed term the exclusive right privilege ... of making, constructing and using and vending to others to be used, in Canada, the invention covered by the patent. And ... any invasion or violation of that right is an invasion of the patent. But is not that the right which one invades who knowingly and for his own ends induces and procures another to violate or infringe it? And if so, may not the act of the procurer or inducer be with propriety termed an infringement of the patent? In short does not one who knowingly and for his own ends and benefits and to the damage of the patentee induces and procures another to infringe a patent himself infringe the patent? It seems to me on principle that it comes to that."

induces, or procures, another to infringe a patent is himself guilty of infringement. The Guertins had, therefore, infringed the patent.

It is interesting to note that the judge considered the Guertins' activities as an infringement and not a separate tort of procuring an infringement. Further, it has to be noted that the injunction did not restrain them from selling the sheets, but from procuring or inducing persons whom they knew to have purchased one or more of the plaintiffs' binders on the conditions mentioned to purchase such sheets from themselves and to use them in such binders.

The above view was accepted in Slater Steel Industries Ltd et al. v. R. Payer Co. Ltd et al.⁹⁴ The patents in issue was for the combination of preformed armour rods with a stranded electric power line. It was alleged that the defendants had infringed their combination claims by manufacturing the component, preformed armour rods, and offering them for sale to hydro-electric authorities (the power entities) in Canada knowing that such authorities would use them in a combination that would fall within the scope of the claims in the patent. The preformed armour rods made and sold by the defendants could not be used otherwise than as one of the components of the combination claims. The defendants had also prepared a catalogue in which they offered the preformed armour rods for sale to all hydro companies in Canada. The catalogue contained directions for the use of the rod, showing that they were intended to be used as a component of the combination.

After making an exhaustive review of the case law on the point, it was held by Jackett P., applying Copeland-Chatterson Co. Ltd v. Hatton, that the defendants had not infringed the patents. Infringement of a claim in a patent is established when it has been alleged and proved that the defendant knowingly induced or procured another to infringe the patent. In the present case, the plaintiff had failed to make out a case that the defendants had exercised such influence that the defendants should be regarded as parties to a decision of one of these power entities to use the patented combination. The user of the combination was not induced to effect such use by the defendants.⁹⁵ The judge concluded that the defendants had not been guilty of infringement.⁹⁶

⁹⁴ Slater Steel Industries Ltd et al. v. R. Payer Co. Ltd et al. (1968) 55 CPR 61.

⁹⁵ Slater Steel Industries Ltd et al. v. R. Payer Co. Ltd et al. (1968) 55 CPR 61, *per* Jackett P., at pages 84-90. At page 87, he said, "In considering whether what the power entities did ... was induced or procured by the defendants, it must be borne in mind that what we are talking about is such acts by the defendants as would constitute the defendants parties to the power entities' wrongful acts. It must be clear, I think, that merely doing something that was the part of the events leading up to the wrongful acts, but which could not legally be regarded as the cause or one of the causes of the wrongful acts (a *sine qua non*), cannot be regarded as having induced or procured the wrongful acts."; and at pages 88-90, "I cannot conceive that, assuming these entities knew of the existence of the patents, any one of them was induced or procured by the defendants to do something knowing it was illegal. Any one of them is a giant compared with the defendants. Judicial knowledge can be taken in this modern world that they are all well serviced by lawyers and engineers. I am prepared from my experience with such organisations to say that the balance of probability is that none of them would decide knowingly to do something that it regarded as

It is unfortunate that there was no discussion at all on the effect of the instructions contained in the catalogue issued by the defendant, even though Innes v. Short & Beal was referred to. It would seem that the existence of such directions is not conclusive of the issue of inducement or procurement. Therefore, there is a possibility of a finding of no inducement in fact, even though the vendor of the component gives directions in respect of the use of the component in a manner that would result in infringement.

In Proctor & Gamble Co. v. Bristol-Myers Canada Ltd,⁹⁷ the plaintiff owned a patent which included method claims for conditioning fabrics and product therefor by the commingling of clothes in the dryer during the drying process with a piece of cloth or other flexible carrier or substrate, treated with a chemical substance which imparted softness to the clothes and also removed "static cling". The defendant marketed in Canada a dryer-added fabric conditioner, "Fleecy II", which imparted softness and a scent to fabrics and removed static electricity therefrom. The product, which was very similar to that of the plaintiff's, was specially designed for and sold with instructions for use in a domestic laundry dryer. The defendant was sued, *inter alia*, for infringement of the method claim. The court considered first the question whether these claims were infringed by the users and concluded that any person using Fleecy II for the purpose for which it was manufactured and in accordance with the directions of the defendant on the package of Fleecy II would be committing a literal infringement of all the method claims. Having concluded that the method claims were infringed by the users, the next question was whether the defendant was also guilty of infringement of these method claims. On the facts there was no evidence that the defendant itself used its product in accordance with the methods outlined in the method claims. On the other hand, it was evident that the members of the public who used the defendant's products had no licence expressed or implied from the plaintiff to do so. Addy J. referred to Slater Steel Industries Ltd et al. v. R. Payer Co. Ltd et al. and Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor, and said that it was clear that the mere making, using or vending of elements which afterwards entered into a combination was not prohibited where the patent was limited to the combination itself. He went on to say further that the mere selling, without more, of articles to be used for the purpose of infringing a patent is not an infringement of the patent. However, he said that there could be an infringement where the person who actually

illegal. It is even less probable that they could be 'induced' or 'procured' against their own judgement to do something illegal by a 'one man show' such as that operated by the defendants."

⁹⁶ See also Reading & Bates Construction Co. v. Baker Energy Resources Corp. et al. (1986) 9 CPR (3d) 158, complete report (1987)13 C.P.R. (3d) 410, *affd* (1988) 18 CPR (3d) 180 (Fed. Ct of Appeal); Permacon Quebec Inc. et al. v. Lee Enterprises Arsenault & Freres Inc. et al. (1988) 19 CPR (3d) 378 [Fed. Ct. Trial Div.], Dube J.

⁹⁷ Proctor & Gamble Co. v. Bristol-Myers Canada Ltd (1979) 39 CPR (2d) 145 (Fed. Ct. Trial Div.), Addy J. Note: Proctor & Gamble Co. v. Bristol-Myers Canada Ltd (1979) 42 CPR (2d) 33 (Fed. Ct of Appeal) - The defendant's appeal to the Federal Court of Appeal on the question of validity of the patent was dismissed. There was no appeal on the question of infringement. An application for leave to appeal to the Supreme Court of Canada was dismissed (Martland, Ritchie, Dickson, Estey and McIntyre, JJ.).

committed the act of infringement was the defendant's agent, or where some sort of a continuing systematic business arrangement existed between the vendor and the infringer purchaser, or where there had been not only a sale but also an invitation or request by the defendant to the purchaser of the article, to use it in order to infringe the plaintiff's patent.⁹⁸

Addy J. said that in the present case, not only by its instructions and directions on the packages of Fleecy as to the method of using it, but by its advertising on television, the defendant invited and induced the public to infringe the method claims of the patent. He described the defendant's marketing tactics as amounting to "brain washing" or more appropriately in the circumstances, as "brain softening". He concluded that the defendant was thus a party to each infringement committed by such users.⁹⁹

The plaintiff in Cooper & Beatty v. Alpha Graphics Ltd, et al., the owner of a patent relating to photochemical images and a method of producing the same, sued the defendants for infringement of its image and process claims. The Court held that by providing others with the wherewithal to produce images by the infringing process, the defendants had infringed the image claims.¹⁰⁰ The next case to come before the court was Saunders et al. v. Airglide Deflectors Ltd et al.¹⁰¹ The plaintiffs sued four defendants for infringement of their patent for a method of using certain deflectors in a tractor-trailer combination in a specified way. It was alleged that the first defendant, Airglide Deflectors Limited, manufactured and sold an allegedly infringing product called Airglide deflector. The second defendant, Levy-Russell Limited, sold and installed such deflectors, the third defendant, Aftercoolers of Canada Limited, bought these deflectors from the first defendant and

⁹⁸ Proctor & Gamble Co. v. Bristol-Myers Canada Ltd (1979) 39 CPR (2d) 145 (Fed. Ct, Trial Div.), Addy J., at pages 165-167, relying on Sykes v. Haworth (1879) 12 Ch.D 826, Incandescent Gas Light Co. Ltd v. New Incandescent Mantle Co. et al. (1898) 15 RPC 83, and Innes v. Short & Beal (1898) 15 RPC 449.

⁹⁹ Proctor & Gamble Co. v. Bristol-Myers Canada Ltd (1979) 39 CPR (2d) 145 (Fed. Ct, Trial Div.), Addy J., at page 167, "... it is difficult to conceive how the defendant should not be considered as systematically engaging for its own profit in aiding and abetting any infringement by the public of the plaintiff's method claims and should not be considered as constituting itself a party to each infringement committed by such users. Where the defendant has induced or procured an infringement, I do not feel that it is at all necessary in such cases for the supplier to have had any personal contact with the infringing consumer, to even know his or her identity or to have sold the article directly to that person. It is sufficient in such cases, if it is also established, that the article in fact has been sold by the defendant for the purpose of putting it on the market for sale to the ultimate infringer, regardless of whether the final sale is made by an agent of the defendant or by independent distributors or retailers. In the present case, the article being sold infringes the product claims of the plaintiff's patent and is produced and sold initially for the express purpose of having it resold to the public to be used as directed by the defendant. The invention consists of both a product and a method. Under the circumstances, knowingly inducing or procuring the infringement by the public of any of the method claims constitutes in itself an infringement at law by the defendant of that method claim of the invention." See also Reeves Brothers Inc. Toronto Quilting & Embroidery Ltd (1979) 43 CPR (2d) 145 (Fed. Ct, Trial Div.), Gibson J., at page 163, Proctor v. Gamble Co. v. Bristol-Myers Canada Ltd (1978) 39 CPR (2d) 145.

¹⁰⁰ Cooper & Beatty v. Alpha Graphics Ltd, et al. (1980) 49 CPR (2d) 145 (Fed. Ct Trial Div.), Mahoney J., at page 152. No reference, however, was made to any authorities.

¹⁰¹ Saunders et al. v. Airglide Deflectors Ltd et al. (1981) 50 CPR (2d) 6.

distributed them but did not install them. The last defendant, United Tire and Rubber Co. Limited used the Airglide deflectors as described in the claim.

On the issue of infringement, it was held by Gibson J. that the first three defendants did not infringe despite the fact that they knew that the fourth defendant intended to use the deflector in an infringing manner, since they had not in any way made themselves a party to the infringement, nor had in any way procured or induced the infringement by the fourth defendant. Only the fourth defendant was, therefore, liable for the infringement.¹⁰²

In Dyckerhoff & Widmann AG et al v. Advanced Construction Enterprise Inc. et al.,¹⁰³ the plaintiffs sought an interlocutory injunction in respect of three patents relating to reinforced concrete. One of the three patents contained method claims. The defendants denied infringement since they had only sold the components to a user who would be the infringer. Walsh J. granted the application for interlocutory injunction for the plaintiffs had established a strong *prima facie* case since the allegation was that the defendants did propose to prospective purchasers and advised them in the use of the patented methods.¹⁰⁴

In Windsurfing International Inc. et al. v. Trilantic Corp.,¹⁰⁵ the plaintiffs' patent was for a sailboard for use on water (windsurfer). It was alleged that the defendant, and others

¹⁰² Saunders et al. v. Airglide Deflectors Ltd et al. (1981) 50 CPR (2d) 6 (Trial Div., Fed. Ct), *per* Gibson J., at page 27, "The evidence established ... that the defendant, Airglide Deflectors Ltd manufactured the Airglide deflector and that the defendant-vendors and intermediate purchaser, namely, Levy-Russell Limited and Aftercoolers of Canada Ltd knew ... that the ultimate purchaser/user, ... the defendant, United Tire and Rubber Co. Ltd, intended ... to use the deflector it purchased in a tractor-trailer combination in a manner contemplated by the patent. But the evidence does not establish that the defendants, Airglide Deflectors Limited, Levy-Russell Limited or Aftercooler of Canada Ltd or any of them, as the case may be, by their respective activities made themselves a party to infringement, breaching the right of the patentee as defined by s. 46 of the Patent Act (cf. Slater Steel Industries Ltd et al. v. R. Payer Co et al. (1968) 55 CPR 61] ... In addition, the evidence does not prove inducement or procurement by these other defendants of the ultimate purchaser/user, ... United Tire and Rubber Co. Ltd to infringe, nor does it prove conspiracy among these other defendants to cause the ultimate purchaser/user ... to infringe."

¹⁰³ Dyckerhoff & Widmann AG et al v. Advanced Construction Enterprise Inc. et al. (1986) 11 CPR (3d) 371 (Fed. Ct Trial Div.).

¹⁰⁴ Dyckerhoff & Widmann AG et al v. Advanced Construction Enterprise Inc. et al. (1986) 11 CPR (3d) 371 (Fed. Ct Trial Div.), *per* Walsh J., at pages 380-381, "One of the arguments raised by the defendants is that with respect to the Anchor patent which is for a method only and not in respect of the components thereof or the anchor itself the mere selling of components to be used in the method indicated by the patent is not an infringement, as they themselves do not carry out the method. They merely supply Allthread bar...and related parts and are not contractors engaged in the installation of armouring rods or related products and do not carry out the method claims in the Anchor patent. It would be the users therefore who are the infringers: see Saunders et al v Airglide Deflectors Ltd et al. (1980) 50 CPR (2d) 6. See also Procter & Gamble Co. v. Bristol-Meyers Canada Ltd (1978) 39 CPR (2d) 145. However it would appear that defendants did propose... to prospective purchasers and advise them in the use of methods which plaintiffs allege are in infringement of its methods patents. Plaintiffs contend that this is 'contributory infringement' which was dealt with at length by Jackett P. ... in the case of Slater Steel Industries Ltd et al. v. R. Payer Co. Ltd (1968), 55 CPR 61. ... I find ... that the plaintiffs have established a strong *prima facie* case."

¹⁰⁵ Windsurfing International Inc. et al. v. Trilantic Corp. (1986) 8 CPR (3d) 241, at page 270 (Fed. Ct of Appeal).

induced by the defendant, infringed the patent by selling the sailboards in unassembled form. The trial judge dismissed the action, holding that the patent was invalid.¹⁰⁶ The Federal Court of Appeal allowed the appeal and held that the patent was valid and infringed. The Court rejected the defendant's technical defence that there was no evidence that it had sold its sailboard in fully assembled form and the absence of evidence that anyone was induced or procured by the defendant or any retailer to assemble the sailboard in any manner that infringed the patent, as having no substance on the facts of the case. The defendant had clearly sold parts for the purpose of making a sailboard. Without assembly there could be no purpose in a purchaser buying the unassembled parts. In unassembled form they could not be used for the purpose for which they were purchased, to is to say, sail. The only inference to be drawn from the evidence was that the defendant knew and intended that the ultimate purchaser would utilise the sailboard parts for the assembly of a usable sailboard, which on assembly would infringe the plaintiffs' patent. To suggest that a person purchasing components, the only known use for which was assembling to provide the purchaser with what he obviously desired - a sailboard - had not been persuaded to do so by the holding out of the desired result by both the manufacturer and the vendor thereof, "stretched credulity to its limits". It must be inferred that by its conduct, the defendant knew of the existence of the plaintiffs' patent and induced and procured purchasers of its sailboards (albeit in kit form) to infringe the plaintiffs' patent. Therefore, it had become a party to the infringement.¹⁰⁷

The Windsurfing case above seems to show that in blatant cases, the court is willing to give a remedy, despite reliance in other cases on Dunlop v. Moseley that even knowledge and intention, without inducement, is not enough to make the supplier liable. The case was cited by the Court of Appeal in a later case for the proposition that a person who sells all the component parts of a patented combination is guilty of an infringement.¹⁰⁸

Warner-Lambert Co. v. Wilkinson Sword Canada Inc. et al.,¹⁰⁹ seems to be the first case in Canada involving not only an allegation of inducement but also an alternative ground of concerted action. On the issue of inducement, the judge followed the line of authorities established by the case of Copeland-Chatterson Co. Ltd v. Hatton and Slater Steel

¹⁰⁶ Windsurfing International Inc. et al. v. Trilantic Corp. (1985) 3 CPR (3d) 95 and (1986) 8 CPR (3d) 241 and 270.

¹⁰⁷ Windsurfing International Inc. et al. v. Trilantic Corp. (1985) 3 CPR (3d) 95 and (1986) 8 CPR (3d) 241 and 270, *per* Urie J., (Heald and Stone, JJ. concurring) at pages 263-268.

¹⁰⁸ See Valmet Oy et al. v. Beloit Canada Ltd (1988) 20 CPR (3d) 1, *per* Pratte J., at page 14 (Marceau and MacGuigan JJ., concurred), "There seem to be only two exceptions to that rule, namely, that there is infringement, (a) if the vendor, alone (Windsurfing International Inc. v. Trilantic Corp. (Now BIC SPORTS INC.) (1986) 8 CPR (3d) 241) or in association with another (The Incandescent Gas Light Co. Ltd v. The New Incandescent Mantle Co., J. Herbert, De Tossel, and Lefroy (1898)15 RPC 81), sells all the components of the invention to a purchaser in order that they be assembled by him."

¹⁰⁹ Warner-Lambert Co. v. Wilkinson Sword Canada Inc. et al. (1988)19 CPR (3d) 402 (Fed. Ct, Trial Div.).

Industries Ltd et al. v. R. Payer Co. Ltd et al. After making the finding that there was inducement on the part of the defendants, the judge went on to consider the issue of concerted action between the defendants. Relying on Morton-Norwich Products Inc. v. Intercen Ltd, the Judge held that there was an arguable case that the English defendant joined with the Canadian company, by means of the registered user agreement, in a concerted design to sell the infringing razors.¹¹⁰

Valmet Oy et al. v. Beloit Canada Ltd,¹¹¹ involved a contempt proceeding for an alleged breach of an injunction order made earlier to refrain from infringing the plaintiff's patent by making, using or selling press sections within certain defined claims. The defendants were alleged to have, *inter alia*, supplied certain components of the press sections to a third party. The Court of Appeal allowed the appeal against a finding of guilt. On the question of infringement of a patent, the Court reiterated that the sale of parts did not constitute sale of a press section within the claim of the patent in suit. There was no infringement of a patent in selling an article which did not in itself infringe the patent, even when the vendor knew that the purchaser bought the article for the purpose of using it in the infringement of a patent, unless the vendor sold all the components to be assembled by the purchaser or if the vendor knowingly and for his own purpose and benefit, induces or procures the purchaser to infringe. To induce infringement, a person must do something that led the other person to infringe. If one did nothing, there could not be any inducement and there cannot be breach of a negative injunction. Since none of the above had been established, the defendants were not guilty of contempt.¹¹²

4.4.4. Summary of the Approaches of the Commonwealth Jurisdictions

The approaches towards the issue of indirect exploitation show very close convergence.

1. The court has shown a willingness to apply the concepts of tort law to assist the patentee in getting a remedy for certain indirect exploitation leading to a direct infringement of his patent.
2. However, merely facilitating an ultimate direct infringement is not actionable *per se*. Hence a person is not liable as such if he makes or sells some parts or components of a patented product or supplies materials which are used in a patented process.

¹¹⁰ Warner-Lambert Co. v. Wilkinson Sword Canada Inc. et al. (1988)19 CPR (3d) 402 (Fed. Ct. Trial Div.), *per* Jerome, A.C.J., at page 407.

¹¹¹ Valmet Oy et al. v. Beloit Canada Ltd (1988) 20 CPR (3d) 1.

¹¹² Valmet Oy et al. v. Beloit Canada Ltd (1988) 20 CPR (3d) 1. On the question of infringement, see the speech of Pratte J., at pages 13-17, with whom Marceau and MacGuigan JJ., concurred.

This is so, even though he knows that the purchaser will use such parts or supplies to infringe the patent.

3. This principle applies even if the parts sold have no other use than in the patented invention.
4. If a concerted action could be shown between the parties, then the parties involved would be liable as joint tortfeasors. Liability as a joint tortfeasor may be imposed where a person acts pursuant to a common design with another person, even though the first person himself commits no act of infringement, for example, where he simply supplies parts or is situated outside the jurisdiction.
5. When the defendant could be shown to have procured the direct infringement, he would be liable as a joint infringer. Inducing a person to commit an infringement of a patent would probably in itself constitute an infringement, for example, where materials for use in a patented process are sold with instructions for use in that process. In blatant cases, the court is willing to infer that the other party has been induced by the defendant's act, for example, by intensive advertising.
6. Selling all the components parts packaged together, so that they could be assembled by the consumer would make the supplier liable as a joint infringer. This flows from the fact that where the vendor sells all the parts of a patented product together, this would be regarded as a sale of the whole product and, therefore, an infringement.
7. Before a person could be made liable for procuring an infringement, there must be a direct infringement caused by it.¹¹³

4.4.5. United States

Prior to 1952, there was no express provision in the American patent law on contributory infringement.¹¹⁴ However, it soon became apparent that patented inventions would be inadequately protected if the definition of "infringer" was limited to one who makes, uses, or sells only the complete invention as defined by the claims. Under the rule in Prouty¹¹⁵ and other cases on the same point, the patentee could only exclude others from practising

¹¹³ C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567, *per* Lord Templeman, at page 609, "Generally speaking, inducement, incitement or persuasion to infringe must be by a defendant to an individual infringer and must identifiably procure a particular infringement in order to make the defendant liable as a joint infringer."

¹¹⁴ The Act of 1952 codified the decisional law on the subject in section 271. See Appendix.

¹¹⁵ See *supra*, footnote 24 and accompanying text.

the complete invention as defined by the claim. Acts falling short of direct infringement, for example, unauthorised manufacture, use, or sale of one or more but less than all of the elements of the patented combination, would not be actionable. To deal with this situation, and to ensure that proper protection was given to the patent owner,¹¹⁶ the courts, rather early in the development of American patent law, borrowed from the common law of torts the concept of joint and several liability among contributory tortfeasors. Application of this principle to one whose acts did not *per se* infringe a patent claim, but who nevertheless aided and abetted another's act of direct infringement, gave rise to a new form of the tort of patent infringement, known traditionally as "contributory infringement."

According to many commentators, the first case in which this idea was put to judicial use was probably that of Wallace v. Holmes decided in 1871.¹¹⁷ However, as early as in 1846, the possibility of such an approach had already been expressed by Judge Kane in Knight v. Gavit.¹¹⁸ The patent in suit covered a paper calendering machine having certain rolls in contact with each other. The defendant made a similar machine but mounted the rolls out of contact with each other. He relied on this as a defence under Prouty v. Ruggles but it was noted that he had provided adjusting screws so that the rolls might be brought together if desired. Kane J. charged the jury that "if the machine, as made by him, was intended by him to operate in such a way as to violate the patent, and was, in fact, so operated, he was a party to the infraction notwithstanding the ingenuity with which he may have sought to disguise his wrong."¹¹⁹ The jury found for the plaintiff. From the facts of the case it appears, however, that the activities of the defendant amounted to an outright infringement. Though not fully fleshed out, there seems to be some indication of the beginning of the concept of contributory infringement. However, Wallace v. Holmes¹²⁰ was the case relied upon by all later judges to apply the concept of contributory infringement to cases before them.¹²¹ In that case, the complainant patentee had a patent on a lamp claimed as a combination of a specially designed oil burner and a detachable chimney of conventional

¹¹⁶ See for example, Wallace v. Holmes 29 Fed. Cas. 74 (CC D. Conn. 1871), *per* Judge Woodruff, at page 89, "It cannot be that, when a useful machine is patented as a combination of parts, two or more can engage in its construction and sale, and protect themselves by showing that, though united in an effort to produce the same machine, sell, and bring it into extensive use, each makes and sells one part only, which is useless without the other, and still another person, in precise conformity with the purpose in view, puts them together for use. If it were so, such patents would indeed be of little value."; Cortelyou v. Johnson, 145 Fed. 933, affirmed 207 US 167 (1907), *per* Judge Coxe, "The doctrine originates in a desire to secure to a patentee complete protection in all the rights granted him by the patent."

¹¹⁷ See for example Miller, C.E., "Some Views on the Law of Patent Infringement by Inducement", 53 JPOS 86 (1971), at page 90; also Thomas, E.M., "The Law of Contributory Infringement", 21 JPOS 811 (1939), at page 816, and Oddi A.S., "Contributory Infringement in the United States of America: Theory, Application, Developments", 81 Patent and Trademark Review 499 (1983), at page 499.

¹¹⁸ Knight v. Gavit 14 Fed. Cas. 765 (CC ED Penn. 1846).

¹¹⁹ Knight v. Gavit 14 Fed. Cas. 765 (CC ED Penn. 1846), *per* Kane J., at pages 768-769.

¹²⁰ Wallace v. Holmes 29 Fed. Cas. 74 (CC D. Conn. 1871).

¹²¹ Though it was only 15 years later that the term "contributory infringement" was first used in Synder v. Bunnell 29 Fed. Rep. 47 (CC S.D.N.Y. 1886).

design. The defendants manufactured and sold only the burner, leaving the purchasers to buy the chimney, without which the burner was useless, independently from other sources. Chimneys of standard size could be bought almost anywhere. The lamps in the hands of purchasers from the defendants became a complete infringement of the patent claim. When sued for infringement, the defendants relied on the doctrine of Prouty v. Ruggles and Vance v. Campbell that there was no infringement of a combination patent unless every element was taken.

The complainants argued that although the defendants had sold only the burners, that sale had been with the intention that the purchaser should complete the combination by obtaining a chimney elsewhere. They further argued that where the combination manufactured and sold, containing less than all the elements of the patented combination, was made and sold with the express purpose of having the other elements of the patented combination added, and was useless without such addition, the case was entirely different. In such a case, one who made and sold the minor combination knowingly and wilfully committed a part of an act the whole of which constituted infringement. He, therefore, was guilty of infringement, because he had participated in the infringement. It was further contended that infringement of a patented combination did not consist alone of putting the parts together. It commenced when the unauthorised party began to make the parts with the intention of completing them and putting them together, and at any stage of progress he was liable as an infringer. If the different parts were made by different persons, they jointly infringed the patent, and were liable both jointly and severally.

The defendants were enjoined, notwithstanding that the things which they manufactured and sold did not in themselves embody the invention secured to the complainants. The act was found to be wrongful because of the obvious intent of the defendants to make the burner for use only with another thing which the user was to supply.

Judge Woodruff said:

"... [T]he defendants have manufactured and sold extensively the burner, leaving the purchasers to supply the chimney, without which such burner is useless. They have done this for the express purpose of assisting, and making profit by assisting, in gross infringement of the complainants' patent. They have exhibited their burner furnished with a chimney, using it in their sales room, to recommend it to customers, and prove its superiority, and, therefore, as a means of inducing the unlawful use of the complainants' invention. ... If in actual concert with a third party, with a view to the actual production of the patented improvement in lamps, and the sale and use thereof, they consented to manufacture the burner, and such other party to manufacture the chimney, and in such concert, they actually make and sell the burner, and he the chimney, each utterly useless without the other, and each

intended to be used, and actually sold to be used, with the other, it cannot be doubted that they must be decreed to be joint infringers of the complainants' patent. ... In such cases all are tortfeasors, engaged in a common purpose to infringe the patent, and actually by their concerted action, producing that result. ... Each is liable for all the damages. Here the actual concert with others is a certain inference, from the nature of the case, and from the distinct efforts of the defendants to bring the burner in question into use, which could only be done by adding the chimney. The defendants have not, perhaps, made an actual prearrangement with any particular person to supply the chimney to be added to the burner, but every sale they make is a proposal to the purchaser to do this, and his purchase is consent with the defendants that he will do or cause it to be done. The defendants are, therefore, active parties in the whole infringement, consenting and acting to that end, manufacturing and selling for that purpose. If the want of joinder of any parties could avail for any purpose (which is not to be conceded) they must set it up as a defence, and point out the parties who are acting in express or implied concert with them; nor is it any excuse that parties desiring to use the burner have all the glass manufacturers in the world from which to procure the chimneys. The question may be novel, but in my judgement, upon these proofs, the defendants have no protection in the rule upon which alone they rely as a defence against the charge of infringement."¹²²

Several points should be noted from Judge Woodruff's opinion.

1. The part sold had no independent use other than in the patented combination.
2. Although it is clear that the defendants were found liable on the principle of tortious liability, it is not clear on what basis the defendants were made liable. The judge used the words, "assisting", "inducing", "concerted action", "common purpose" in various parts of his opinion. It seems that on the ground that they had assisted or induced the actual infringers, they were deemed to be in actual concert with the direct infringers because they were engaged in a common purpose to infringe the patent.
3. There must be knowledge and intent that the elements sold would be used for an infringing purpose. The activities of the alleged infringer must be for the purpose and with the intent of assisting in the outright infringement.

¹²² Wallace v. Holmes 29 Fed. Cas. 74 (CC D. Conn. 1871), *per* Judge Woodruff, at pages 79-80.

4. Though there was no evidence to show that the defendants had actually engaged in any prearrangement to act in concert with the direct infringers, this fact could be inferred from the circumstances.¹²³
5. Their conduct constituted them joint infringers, making them joint tortfeasors with the direct infringers.

From that beginning in Wallace v. Holmes, the doctrine of contributory infringement soon became well-entrenched and accepted as part of the patent law of the United States, applicable not only to combination claims, but also to use claims.¹²⁴

Knowledge that the elements he sells would be used to infringe a patent is essential before the defendant could be held liable. The burden of proof is on the plaintiff.¹²⁵ Alternatively, it seems to suffice if the element sold is specially adapted for use in the patented invention. This was stressed by the Court of Appeals in Elevator Appliance Co., Inc., et al. v. Brooks et al.¹²⁶

Where, however, the individual elements sold were not specially adapted for use in the patented combination alone, but had other common uses, or are also useful in other devices as well, then the alleged infringer would not be liable under this doctrine unless he could be shown by evidence to have the necessary intent to assist others in outright infringement of the patent. This was clearly pointed out in Saxe v. Hammond, where Judge Shepley, while agreeing with the rationale in Wallace v. Holmes, was able to distinguish the case before

¹²³ In Bowker v. Dows, 3 Fed. Cas. 1070 (CC Mass. 1878), Lowell J. at page 1071, applying Wallace v. Holmes, held that the "concert of action" between two or more parties necessary to support a finding of joint tortfeasance in the infringement of a patent could be shown by flagrant activities (i.e., sale of an unpatented item coupled with advertising suggesting infringing use) on the part of one party (i.e., the vendor of the saponine extract) to encourage direct infringement by another party (i.e., the purchaser). The necessary concert of actions having been established, the aggrieved patent owner can turn to either or both joint tortfeasors for his remedy. See also Judge Taft, in Thomson-Houston Electric Co. v. Ohio Brass Works Co. 80 F. 712 (CCA 6th Cir. 1897), at pages 720-722.

¹²⁴ For examples of the application of the Wallace v. Holmes principle in a use claim, see Rumford Chemical Works v. Hecker 20 Fed. Cas. 1342 (D.C.N.J. 1876), *per* Nixon, District Judge, at page 1346. For combination claims, see: Barnes v. Straus 2 Fed. Cas. 876 (D.C.N.Y. 1872), *per* Blatchford, District Judge, at page 879; Renwick v. Pond 20 Fed. Cas. 536 (D.C.N.Y. 1872), *per* Blatchford, District Judge, at page 541; Richardson v. Noyes 20 Fed. Cas. 723 (Mass. 1876), *per* Lowell, District Judge, at page 724; Schneider v. Pountney 21 Fed. 339 (D.C.N.J. 1884), *per* Nixon J., at page 403. See also Alabastine v. Payne 27 Fed. 559 (CC N.Y. 1886), Travers v. Beyer and ors 26 Fed. Rep. 450 (CC N.Y., 1886) and Willis and ors v. McCullen 29 Fed. Rep. 641 (CC Penn. 1886).

¹²⁵ Whitney v. New York Scaffolding Co. 243 Fed. Rep. 180 (CCA 8th Cir. 1917), *per* Sanborn, Circuit Judge, at page 185, "The question in contributory infringement is whether or not the defendant made or sold his machine or improvements with the intent or purpose of aiding another in the unlawful making, selling, or using of a third person's patented invention, and the burden is on the plaintiff to establish the affirmative of this issue."

¹²⁶ Elevator Appliance Co., Inc., et al. v. Brooks et al. 40 USPQ 582 (CCA 2nd Cir. 1939), *per* Swan, Circuit Judge, at page 583.

him because that intent was lacking.¹²⁷ This was again emphasised in Whitney v. New York Scaffolding Co., where Sanborn, Circuit Judge, said:¹²⁸

" ... The facts that the plaintiff's machine or device is capable of use in such a way as to aid in the infringement of the patented invention, that it has been so used in that way, that the defendant knew that it had been so used and still continue to manufacture and sell it, and that he fitted it for such use, are competent evidence of such an intention or purpose. But the mere fact that it is capable of such a use, when it is at the same time capable and fitted for a rightful and innocent use, is not sufficient to establish such an intention or purpose where, as in this case, the evidence is that the machine and its parts were expressly fitted for use in a rightful way without aiding in any infringement, and there is no evidence that the defendant ever knew of the use of the machine, or that it ever was sold or used in such a way as to aid others in infringing the patented invention."

4.4.5.a. Refinement of the doctrine

In Young Radiator Co. v. Modine Manufacturing Co.,¹²⁹ the Court of Appeals held that the defendant who manufactured and sold only one element of a claim will be guilty of contributory infringement if it sold an article capable of being installed in either an infringing or non-infringing manner, and if it materially contributed to installation or use of the article in an infringing manner, whether the contributing conduct be direct or indirect. In the particular instance, the defendant had, in its advertisements suggested and urged the installation and use of its device in such a manner as to secure the same results, and by the same means, as those employed and used by plaintiff. Despite the fact that these advertisements had been withdrawn shortly before the suit was filed, Judge Sparks said that the defendant was still guilty because nothing was done to counteract the effect of the

¹²⁷ Saxe v. Hammond 2 Fed. Cas. 593 (CC Mass. 1875), at page 594, *per* Judge Shepley. See also Snyder v. Bunnell 29 Fed. 47 (CC N.Y. 1886), *per* Coxe J., at page 48, "In each of these cases the complainant succeeded because the article dealt in by the defendant was only useful when combined as provided by the patent in question, and was sold by him intending that it should be put to this unlawful use. A careful examination has failed to find an authority holding a party liable as an infringer solely because an article sold by him might be used by the purchaser as one element of a patented combination. Such a doctrine would be too dangerous to be upheld ... The record upon this branch of the case is too vague and uncertain to uphold the charge of infringement. Where a necessary link is absent in the chain of evidence it cannot be supplied by mere suspicion."; Keystone Bridge Co. v. Phoenix Iron Co. et al. 14 Fed. Cas. 449 (Penna. 1872), *per* Mckennan, Circuit Judge, at page 450; Harvey Hubbell v. General Electric 267 Fed. 564 (CCA 2nd Cir. 1920), *per* Hough, Circuit Judge, at page 571.

¹²⁸ Whitney v. New York Scaffolding Co. 243 Fed. Rep. 180 (CCA 8th Cir. 1917), at page 185; see also George C. Beidler v. Photostat Corp. 26 USPQ 237 (D.C. W.D. New York, 1935), "In order to sustain contributory infringement in the case of an article capable of general use, it must be alleged and proofs must show that the article is manufactured and/or sold to infringers with knowledge and intent and with purpose that it will be used as an infringing use," *per* Rippey, District Judge, at pages 240-241, citing Westinghouse Electric & Mfg Co. et al. v. Precise Mfg Corp. 11 Fed. Rep. (2d) 209 (CCA 2nd Cir. 1926).

¹²⁹ Young Radiator Co. v. Modine Manufacturing Co. 12 USPQ 123 (CCA 7th Cir. 1931).

advertisements. Therefore, under all the circumstances, the court was convinced that the defendant's conduct contributed to the infringements.¹³⁰

Another refinement to the doctrine of contributory infringement was added in Individual Drinking Cup Co. v. Errett.¹³¹ The defendant was found guilty of contributory infringement by the district court for supplying paper cups, an article of ordinary use, and which could be used without relation to any apparatus, to the owner of an infringing cup-vending machine. The Court of Appeals held that such a sale could not make the supplier a contributory infringer, even if he had knowledge that the same would be used in the infringing machine, and he was under no duty to ascertain whether the cups were adapted for use in the infringing apparatus.¹³² However, on the facts, the defendant was found to have induced the purchaser to use the infringing vending machine in order to sell his own products, and, therefore, was guilty of contributory infringement. This approach was followed in Duplex Envelope Co, Inc. v. Denominational Envelope Co., Union Envelope Co. & Wesley P. Shomaker.¹³³

In The Morgan Envelope Company v. The Albany Perforated Wrapper Paper Company,¹³⁴ the claim of the patent involved was for a combination of a mechanism for the delivery of

¹³⁰ Young Radiator Co. v. Modine Manufacturing Co. 12 USPQ 123 (CCA 7th Cir. 1931), at page 128; see also Gauvin v. Smith 40 USPQ 267 (DC D. Connecticut, 1939) and Cugley et al. v. Bundy Incubator Co. 36 USPQ 524 (CCA 6th Cir. 1937), where again, despite changing the offending catalogues which taught the patented method after notification of infringement, and suggesting another non-infringing use, the defendant was found guilty.

¹³¹ Individual Drinking Cup Co. v. Errett. 297 Fed. Rep. 733 (CCA 2nd Cir. 1924).

¹³² Individual Drinking Cup Co. v. Errett. 297 Fed. Rep. 733 (CCA 2nd Cir. 1924), *per* Mayer, Circuit Judge, at page 740. This is because, "it would ... place a heavy burden upon trade, and go far beyond the beneficial purposes of the patent monopoly, to hold that it was the duty of the vendor of an unpatented article of commerce to ascertain whether the article was, as held by the decree below, 'adapted for use' in the infringing apparatus 'under such circumstances as would lead a reasonable person to suppose that the purchasers meant to use' the article in the infringing apparatus. Such a duty would require a vendor of the almost limitless ordinary article of trade, whether in raw or manufactured form, to determine first whether the device was an infringement, and, secondly, to what use the lumber, steel, or what not was to be put by the purchaser." See also the dissenting opinion of Wallace, Circuit Judge, at page 1011, in Thomson-Houston Electric Co. v. Kelsey Electric Railway Specialty Co. et al. 75 Fed. Rep. 1005 (CCA 2nd Cir. 1896), "Being entitled to sell their article [for repairs etc.], they are under no obligation, before selling it, to inquire whether the purchasers intend to make an illegal use of it. Privity with a wrongdoer is not to be inferred from the exercise of a legal right. The man who sells a gun or a knife would be guilty of impertinence if he should inquire of the purchaser whether he intends to use it legitimately, and is under no duty to do so. The same rule applies to one who makes or sells an article which is not patented, but which may be used by the purchaser to work an infringement of a patent if he so chooses. One who assists another to infringe a patent is, of course, a tortfeasor; and whether he is called a contributory infringer, or merely an infringer, is only a matter of nomenclature. But he does not assist or concert with another to infringe merely because he sells him an article which may be used to effect an infringement. In other words, participation in a wrong is not established by doing a lawful act, without evidence of an unlawful intention."

¹³³ Duplex Envelope Co, Inc. v. Denominational Envelope Co., Union Envelope Co. & Wesley P. Shomaker 27 USPQ 325 (CCA 4th Cir. 1935), before Parker, Northcott and Soper, Circuit Judges. See page 328, opinion of Soper, Circuit Judge, citing Individual Drinking Cup Co. v Errett 197 Fed. 733 (CCA 2nd Cir. 1924).

¹³⁴ The Morgan Envelope Company v. The Albany Perforated Wrapper Paper Company 152 US 500 (US Sup. Ct 1894).

paper to be delivered as used, with a paper roll. The infringement charged, *inter alia*, consisted "in the defendants selling oval rolls of paper of their own manufacture, with fixtures manufactured and sold by the plaintiffs, the fixtures having been obtained by the defendants from the original purchasers of the patented combination, and also by selling oval rolls of paper of the defendants' own manufacture to persons who had previously purchased fixtures and paper from the plaintiffs, with the knowledge and intention that the paper so sold was to be used in connection with the plaintiffs' fixtures." It had not been the practice of the plaintiffs to sell fixtures independently of its paper, and that they sold only to such parties as dealt in and used their paper. Purchasers were also required to buy a given quantity of paper to a given number of fixtures, to be sold only in connection with the paper, the rule being not to sell more than one fixture to one case of paper. The fixtures were also sold to hotels and other public buildings, with the understanding that their paper would be subsequently purchased of the plaintiffs' company. It appeared to have been their invariable rule to refuse to sell their fixtures except to persons also ordering paper.

One of the question for decision was whether the sale by the defendants of paper made by themselves for use in fixtures bought from the complainants, amounted to an infringement or contributory infringement of the patent. With respect to this question, the court decided that the real question in this case was whether, conceding the combination of the oval roll with the fixture to be a valid combination, the sale of one element of such combination, with the intent that it should be used with the other element, was an infringement. The court was of the opinion that it was not. While agreeing with the rule that the manufacture and sale of a single element of a combination, with intent that it should be united to the other elements, and so completed the combination, was an infringement (citing Saxe v. Hammond, Wallace v. Holmes, Barnes v. Straus, Schneider v. Pountney) the court held that those cases had no application to one where the element made by the alleged infringer was an article of manufacture perishable in its nature, which it was the object of the mechanism to deliver, and which must be renewed periodically, whenever the device was put to use. The effect of holding that a sale of such product would amount to an infringement would be to give to the patentee of the machine the benefit of a patent upon the product, by requiring such product be bought of him. The defendants were, therefore, found not guilty of infringement.

However, the Morgan Envelope case was distinguished in Leeds & Catlin Co. v. Victor Talking Machine Company.¹³⁵ This was an action to enforce a court ordered injunction against contributory infringement. The defendant was found guilty of contempt for manufacturing unpatented records that could be played in the plaintiff's patented player.

¹³⁵ Leeds & Catlin Co. v. Victor Talking Machine Company 213 US 325; 53 L. Ed 816 (US Sup. Ct 1909).

Although the records themselves were not patented *per se*, they were claimed as part of the patented combination.

The lower courts found the following facts to exist. The discs sold by the petitioner were equally suitable for the petitioner's machine as well as for the machine of the Victor Company, but that it "was not, at or before the time of beginning this proceeding, a practically or commercially known reproducer of musical or spoken sound, whereas the Victor machine, embodying the claims of the Berliner patent here under consideration, was at such times widely known and generally used, and that the petitioner knew, and sold its records with the knowledge that, if its output were to be used at all by the public, it would be used with the Victor machine, and in the combination protected by the claims of the Berliner patent." The lower courts also found that it was clear that the petitioner had "made and sold a single element of the claims of the Berliner patent, with the intent that it should be united to the other element and complete the combination; and this is an infringement." In finding for the patentee, the Supreme Court distinguished the Morgan Envelope case, where the substance involved was a "passive" and perishable element of the combination, whereas in the present case the element coacted with the other elements of the combination, in other words, it was regarded as an "active" element.¹³⁶

4.4.5.b. Extension of the doctrine to breach of licensed conditions

The willingness of the court to use the doctrine of contributory infringement to prevent the manufacture and sale of unpatented elements of a patented combination or process extended even to situations where a licensee was supplied with such parts in breach of the licence agreement. For example, a patentee could impose restrictions over the use of the patented invention in licence agreements unless certain other non-patented articles were used in conjunction with it.¹³⁷ Sometimes the patent owner would prescribe by notice attached to a patented machine the conditions of its use and the supplies which must be used in the operation of it, under pain of infringement of the patent. Initially, the courts were willing to

¹³⁶ Leeds & Catlin Co. v. Victor Talking Machine Company 213 US 325 (US Sup. Ct 1909), Mr Justice McKenna delivering the judgement of the court, at page 335, "The function it performs is the result of the joint action of the disc and the stylus. The disc is not a mere concomitant to the stylus; it coacts with the stylus to produce the result. Indeed, as we have seen, it is the distinction of the invention, constituting, by its laterally undulating line of even depth and the effect thereof, the advance upon the prior art. To confound its active co-operation with the mere passivity of the paper in the mechanism in Morgan Envelope Company is not only to confound essential distinctions made by the patent laws, but essential distinctions between entirely different things. Besides, the lower courts found that the discs were not perishable"

¹³⁷ See, for example, Victor Talking Machine Co. et al. v. The Fair 123 Fed. Rep. 424 (CCA 7th Cir. 1903), *per Baker*, Circuit Judge, at page 426, where the court held that the owner of a patent who manufactures and sells the patented article may reserve to himself, as an ungranted part of his monopoly, the right to fix and control the prices at which jobbers or dealers buying from him may sell to the public, and a dealer who buys from a jobber with knowledge of such reservations, and resells in violation of it, is an infringer of the patent.

find for the owners, on the principle that "within his domain, the patentee is czar".¹³⁸ The high point of the power of the patentee to impose, by licence or notice, restrictions on use of the patented invention subject to conditions was the case of Sidney Henry et al. v. A.B. Dick Co.,¹³⁹ where the Supreme Court, in effect, gave the imprimatur to the further extension of the patentee's right to substances which were not even part of the patented combination, i.e., not only were unpatented elements in a patented combination protected by the doctrine of contributory infringement, but the doctrine was extended also to cover cases where the article sold was not part of the combination but the patentee had made it a condition that licence to use the patented subject matter was subject to the use of some other unpatented articles to be used in connection with the patented article. The Supreme Court had to consider the question whether the above act of the defendant constituted contributory infringement of the complainants' patent and answered in the affirmative, on the ground that since any use in excess of the restriction would be an infringement, therefore, anyone aiding in the infringement would also be liable.¹⁴⁰

138 Victor Talking Machine Co. et al. v. The Fair 123 Fed. Rep. 424 (CCA 7th Cir. 1903), *per* Baker, Circuit Judge, at page 426. See also, Heaton-Peninsular Button-Fastener Co. v. Eureka Specialty Co. et al. 77 Fed. Rep. 288 (CCA 6th Cir. 1896). While admitting that it was "an unusual mode" of infringing, the court held that where the machines were sold by the patentee upon the condition that only the staples manufactured by the patentee (which were not patented) should be used therein, the manufacture and sale by another party, to the users of such machines, of staples which were intended to and could only be used therein, was a contributory infringement, and would be enjoined. This was based on the principle that since a licensee in breach of the condition would be an infringer, therefore any person assisting him in the breach would also be an infringer - see opinion of Judge Lurton at page 296. Further extension of this principle occurred in Rupp & Wittgenfeld Co. v. Elliott et al. 131 Fed. Rep. 730 (CCA 6th Cir. 1904), where the patent owner of a machine for fastening buttons onto shoes allowed customers free use of the machines on the condition that the machines were to be used only with wires purchased from the patent owner. The court held that one who, with knowledge of the restrictions, supplied wires to such users, with the intention that it should be used on such machines, was liable as a contributory infringer. See Lurton, Circuit Judge, at pages 732-733.

139 Sidney Henry et al. v. A.B. Dick Co. 224 US 1 (US Sup. Ct 1912).

140 Sidney Henry et al. v. A.B. Dick Co. 224 US 1 (US Sup. Ct 1912), Mr Justice Lurton, for the Court, at pages 17-18, "That a patentee may effectually restrict the time, place, or manner of using a patented machine, so that a prohibited use will constitute an infringement of the patent, is fully conceded ... Any use in excess would obviously be an infringing use and the licence would be no defence. ... This is so elementary that we shall not stop to cite cases". At pages 31-32, "But it has been earnestly said that a condition restricting the buyer to use it only in connection with ink made by the patentee is one of a character which gives to a patentee the power to extend his monopoly so as to cause it to embrace any subject, not within the patent, which he chooses to require that the invention shall be used in connection with. Of course, the argument does not mean that the effect of such a condition is to cause things to become patented which were not so without the requirement. The stencil, the paper, and the ink made by the patentee will continue to be unpatented. Anyone will be free to make, sell, and use like articles as they would be without this restriction, save in one particular - namely, they may not be sold to a user of one of the patentee's machine with intent that they shall be used in violation of the licence. To that extent competition in the sale of such articles, for use with the machine, will be affected; for sale to such users for infringing purposes will constitute contributory infringement. But the same consequence results from the sale of any article to one who proposes to associate it with other articles to infringe a patent, when such purpose is known to the seller. But could it be said that the doctrine of contributory infringement operates to extend the monopoly of the patent over subjects not within it because one subjects himself to the penalties of the law when he sells unpatented things for an infringing use?" Note, however, the dissenting opinions of Mr Chief Justice White, at pages 51-52, with whom Mr Justice Hughes and Mr Justice Lamar concurred, that giving the patentee such a right "amounts to exercising legislative power", and Chief Justice White, at page 53, that it would give such a vast power "to multiply monopolies" at the will of the patentee.

4.4.5.c. Contributory infringement and patent misuse

Later, however, there was a growing unease and reluctance by the courts to allow such use of the patent monopoly to gain an unwarranted extension of patent monopolies by the use of tie-in and tie-out, and other devices to achieve the same ends.¹⁴¹ The tide began to turn against the patentee in Motion Picture Patents Co. v. Universal Film Manufacturing Company et al.¹⁴² The Supreme Court held that the owner of a patent might not restrict its use by a purchaser, by a notice attached to the machine embodying the patent, to specific materials necessary in its operation, but which were not part of the patented machine, and were not themselves patented. Neither could he, by such notice, make the use of the machine subject to further conditions as to use or royalties that might be imposed thereafter in his discretion. In so holding, the court also held that the decision in Henry v. A.B. Dick Co. must be regarded as overruled. Since there was an attempt to extend the scope of the lawful monopoly granted under the patent statute, the patent owner was guilty of a patent misuse and was thus prevented from suing for contributory infringement.¹⁴³

In Carbice Corporation of America v. American Patents Development Corporation and Dry Ice Corporation of America¹⁴⁴ the American Patents Corporation had a patent for a distinctive transportation box. The relevant combination claims were directed towards a package in which ice cream could be kept cold and transported using dry ice (which was not patented and had been long known to the public, although it was one of the elements of the combination claim for the manufacture of the transportation package). The Dry Ice Company, its exclusive licensee, manufactured and sold carbon dioxide for use in the patented box, which it called by the name DryIce. It did not make or sell transportation packages in which solid carbon dioxide was used as a refrigerant, nor issue to other concerns licences to make such packages upon payment of a stipulated royalty. It did not formally license buyers of its dry ice to use the invention in suit. But each invoice for the dry ice sold by it bore the notice: "The merchandise herein described is shipped upon the following conditions: That DryIce shall not be used except in DryIce Cabinets or other containers or apparatus provided or approved by the Dry Ice Corporation of America; and that DryIce cabinets or other containers or apparatus provided or approved by the Dry Ice Corporation of America shall be refrigerated or used only with DryIce". The defendant,

¹⁴¹ How the Malaysian Act regulates the use of such restrictive clauses in patent licences to prevent the patent owner from deriving rights not conferred by the patent is discussed in Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, at para. 6.5.

¹⁴² Motion Picture Patents Co. v. Universal Film Manufacturing Company et al. 243 US 502 (US Sup. Ct 1917). This case is discussed in greater detail in Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, at para. 6.5.2.b.

¹⁴³ Motion Picture Patents Co. v. Universal Film Manufacturing Company et al. 243 US 502 (US Sup. Ct 1917). See opinion of Mr Justice Clark, who delivered the opinion of the Court, at pages 509-518.

¹⁴⁴ Carbice Corporation of America v. American Patents Development Corporation and Dry Ice Corporation of America 283 US 27 (US Sup. Ct 1931).

Carbice Corporation also sold dry ice. It was charged with contributory infringement because it sold its product to customers of the Dry Ice Corporation with knowledge that the dry ice was to be used by the purchasers in transportation packages like those described in the patent. Relying on the Motion Picture case the Supreme Court held that the limited monopoly to make, use, and vend an article may not be "expanded by limitations as to materials and supplies necessary to the operation of it." As to the plaintiff's attempt to distinguish the Motion Picture case and the Morgan Envelope case from the present, by arguing that in the present case the unpatented supplies over which they were trying to obtain control was a necessary element in the patented combination, a dynamic element which produced the refrigeration, Mr Justice Brandeis said that it was a distinction without any legal significance.¹⁴⁵ Relief was denied because the Dry Ice Corporation was attempting to employ the patent to secure a limited monopoly of unpatented material used in applying the invention. Leeds & Catlin Co. v. Victor Talking Machine was also distinguished in that that case was an ordinary case of contributory infringement where the patentee had not tried to derive its profits from the unpatented supplies with which it was used.¹⁴⁶

So in Carbice the court refused to allow the patentee plaintiff the right to enforce combination claims against the manufacturer of a component of a claim where the patentee had misused his patent rights to attempt to gain a monopoly over the supplies of unpatented products. Although Carbice did not overturn Leeds, it did indicate a limitation on the scope of contributory infringement. However, the tide had irreversibly turned against the patentee as shown in the next case.

In Leitch Manufacturing Co. Inc. v. The Barber Company, Inc.,¹⁴⁷ the Barber Company, the owner of a patent to a road-building process, permitted its use without charge so long as the user purchased from it an unpatented bituminous emulsion which the process called for. This emulsion was an unpatented staple article of commerce produced in the United States by many concerns and in common use by their customers for many uses. The Leitch Company also produced and distributed an emulsion which served the same purpose. It was sued by the plaintiff for contributory infringement by the sale and delivery of bituminous emulsion to a road builder, knowing that it was to be used in accordance with

¹⁴⁵ Carbice Corporation of America v. American Patents Development Corporation and Dry Ice Corporation of America 283 US 27 (US Sup. Ct 1931), at pages 31, 33, "These distinctions are without legal significance. Infringement, whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee, ... The Dry Ice Corporation has no right to be free from competition in the sale of solid carbon dioxide. Control over the supply of such unpatented material is beyond the scope of the patentee's monopoly; and this limitation, inherent in the patent grant, is not dependent upon the peculiar function or character of the unpatented material or on the way in which it is used."

¹⁴⁶ Carbice Corporation of America v. American Patents Development Corporation and Dry Ice Corporation of America 283 US 27 (US Sup. Ct 1931), *per* Mr Justice Brandeis, at page 34.

¹⁴⁷ Leitch Manufacturing Co. Inc. v. The Barber Company, Inc. 302 US 458; 36 USPQ 35 (US Sup. Ct 1938).

the patented method. The defendant contended that the suit could not be maintained because to do so would give a limited monopoly of an unpatented staple article of commerce. The Supreme Court went beyond the Carbice holding and held that the patentee's method of doing business was the practical equivalent of granting a written licence subject to a condition that the patented method may only be practised with emulsion purchased from it. Relying on the Carbice case, the patentee was denied relief, since the sole purpose to which the patent was put was thereby to suppress competition in the production and sale of a staple unpatented material for use in road building. The Court made it very clear that no form of legal words can make legal that which was an obvious attempt to control the market in unpatented wares.¹⁴⁸

Two more cases in which the patentee had imposed licensed conditions on the use of its patented product reached the Supreme Court and in both the court had refused to lend its aid on the ground that the person who went beyond his grant in attempting to secure a limited monopoly of an unpatented article is barred from enforcing his patent against any alleged infringer.¹⁴⁹ In fact, in B.B. Chemical Co. v. Ellis, the court went so far as to say that even if the defendant had actively induced the infringement, in view of petitioner's use of the patent as the means of establishing a limited monopoly in its unpatented material, the maintenance of the suit to restrain any form of infringement was contrary to public policy, and that the district court had rightly dismissed it. Neither the convenience nor the commercial necessities of the patentee nor the activities of the seller of the alleged infringing unpatented product, justifies an extension of the grant to the unpatented product.¹⁵⁰

Finally came the case of The Mercoid Corporation v. Mid-Continental Investment Company et al.¹⁵¹ This suit was brought by the respondent, Mid-Continent Investment Co., against the petitioner, Mercoid Corporation, for contributory infringement of the Cross combination patent for a domestic heating system. Mercoid denied contributory

¹⁴⁸ Leitch Manufacturing Co. Inc. v. The Barber Company, Inc. 36 USPQ 35 (US Sup. Ct 1938), *per* Mr Justice Brandeis for the Court, at pages 35-37.

¹⁴⁹ See Morton Salt Co. v. G.S. Suppiger 314 US 488, 86 L. Ed. 363 (US Sup. Ct 1942) - patent for a machine for depositing salt tablets, respondent leased its patented machines to commercial canners under licences to use the machine upon conditions and with the agreement of the licensees that only the subsidiary's salt tablet be used with the leased machines. Mr Chief Justice Stone delivering judgement of the court, said at page 491, "But a patent affords no immunity for a monopoly not within the grant...and the use of it to suppress competition in the sale of an unpatented article may deprive the patentee of the aid of the court of equity to restrain an alleged infringement by one who is a competitor. It is the established rule that a patentee who has granted a licence on condition that the patented invention be used by the licensee only with unpatented materials furnished by the licensor, may not restrain as a contributory infringer one who sells to the licensee like materials for like use."; and B.B. Chemical Co. v. Ellis 314 US 495 (US Sup. Ct 1942) - patent claimed a method of reinforcing insoles in shoe manufacturing. The petitioner-patentee supplied shoe manufacturers with a pre-coated fabric for use in the claimed process and as part of the transaction a licence was granted to the purchaser.

¹⁵⁰ B.B. Chemical Co. v. Ellis 314 US 495 (US Sup. Ct 1942), Mr Chief Justice Stone delivering the judgement of the court, at page 497.

¹⁵¹ The Mercoid Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944).

infringement and contended that Mid-Continent should be barred from relief because it was seeking to extend the grant of the patent to unpatented devices. The controversy centred around the licence agreement between Mid-Continent and Minneapolis-Honeywell. By that agreement, Minneapolis-Honeywell received an exclusive licence to make, sell, and to sub-license others to make, use, and sell the Cross combination patent. The royalty payments under the licence, however, were to be based only upon sales of the combustion stoker switch, which was an element of the combination patent embodied in the patented article but which was itself unpatented. Minneapolis-Honeywell, in advertising its stoker switches, stated that the "right to use" the Cross system patent was "only granted to the user" when the stoker switches of Minneapolis-Honeywell were purchased from it and used in the system. Neither Mid-Continent nor Minneapolis-Honeywell manufactured nor installed heating systems under the Cross combination patent.

The District Court found that Mercoid did not contribute to the infringement of the Cross patent; that the respondents had conspired to establish a monopoly in an unpatented appliance beyond the scope of the patent and in violation of the anti-trust law. Therefore, the respondents were in no position to maintain the suit because of that conspiracy. The Circuit Court of Appeals reversed that judgement, holding that Mercoid was guilty of contributory infringement under the rule in Leeds & Catlin Co. v. Victor Talking Machine Co., and that Carbice Corp. v. American Patents Corp., and Leitch Mfg. Co. v. Barber, did not bar recovery as the District Court had thought.

The Supreme Court reversed, and held, by a majority, that a patent owner may not employ a patent to secure a limited monopoly of unpatented material used in applying the invention.¹⁵²

The following points were made:

1. To allow either direct or contributory infringement suits would extend the aid of equity court in expanding the patent beyond its legitimate scope.
2. There is no difference in principle to the above where unpatented material or device is an integral part of the structure embodying the patent.¹⁵³

¹⁵² Mr Justice Douglas delivered the opinion of the court, Mr Justice Roberts affirmed the judgement and Mr Justice Reed joined in his opinion. Mr Justice Black, while agreeing with the Court's judgement, added a few remarks, to which Mr Justice Murphy concurred, Mr Justice Frankfurter dissented, as did Mr Justice Jackson.

¹⁵³ The Mercoid Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), *per* Mr Justice Douglas, at page 24, "The Court has repeatedly held that to allow such suits would be to extend the aid of a court of equity in expanding the patent beyond the legitimate scope of its monopoly. It is true that those cases involved the use of the patent for a machine or process to secure a partial monopoly in supplies consumed in its operation or unpatented materials employed in it. But we can see no difference in principle where the unpatented material or device is itself an integral part of the structure employing the patent."

3. The rule in Leeds & Catlin v. Victor Talking Machine Co., that one contributorily infringes by selling unpatented part of combination patent for use in assembled machine no longer prevails against the defence that the combination patent was being used to protect unpatented part from competition.¹⁵⁴

4. Misuse of patent precludes the patent owner from enjoining direct, as well as contributory, infringement.

5. Where there is collision between the principle in Carbice Corp. v. American Patents Corp., and conventional rules governing direct or contributory infringement, the former rule prevails.¹⁵⁵

After the decision in the Mercoïd case there was confusion and uncertainty as to the future of the doctrine of contributory infringement. This was due to the comment of Mr Justice Douglas at the end of his opinion, where he said:¹⁵⁶

"The result of this decision, together with those which have preceded it, is to limit substantially the doctrine of contributory infringement. What residuum may be left we need not stop to consider. It is sufficient to say that in whatever posture the issue may be tendered courts of equity will withhold relief where the patentee and those claiming under him are using the patent privilege contrary to the public interest."

There were differences of opinion as to whether the doctrine of contributory infringement was still applicable.¹⁵⁷ It has to be borne in mind that the statement was made *obiter*. The

¹⁵⁴ The Mercoïd Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), *per* Mr Justice Douglas, at page 25, "Leeds & Catlin v. Victor Talking Machine Co. (No. 2) 213 US 325 is authority for the conclusion that he who sells an unpatented part of a combination patent for use in the assembled machine may be guilty of contributory infringement. The protection which the Court in that case extended to the phonograph record, which was an unpatented part of the patented phonograph, is in substance inconsistent with the view we have expressed in this case. The rule of the Leeds v. Catlin case (No. 2) accordingly must no longer prevail against the defence that a combination patent is being used to protect an unpatented part from competition. That result obtains here though we assume for the purposes of this case that Mercoïd was a contributory infringer and that respondents could have enjoined the infringement had they not misused the patent for the purpose of monopolising unpatented material.

¹⁵⁵ The Mercoïd Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), *per* Mr Justice Douglas, at pages 25-26, "Inasmuch as their misuse of the patent would have precluded them from enjoining a direct infringement (Morton Salt Co. v. Suppiger) they cannot stand in any better position with respect to a contributory infringer. Where there is a collusion between the principle of the Carbice case and conventional rules governing either direct or contributory infringement, the former prevail."

¹⁵⁶ The Mercoïd Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), *per* Mr Justice Douglas, at page 26.

¹⁵⁷ Landis Machine Co. v. Chaso Tool Co. 61 USPQ 164 (CCA 6th Cir. 1944), *per* Sions, Circuit Judge, at page 166; The Girdler Corp. v. E.I. Du Pont de Nemours & Co. 62 USPQ 450 (DC D. Del. 1944), *per* Leahy, District Judge, at page 452; Hall v. Montgomery Ward & Co; Same v. Sears, Roebuck and Co. 63 USPQ 114 (DC N.D. West Virginia, 1944), *per* Baker, District Judge,

ratio of the case is that a patentee who misuses his patent rights to monopolise trade in unpatented products would be deprived of the protection of the court. This applies even as against a direct infringer. Whether there was contributory infringement on the part of the defendant was not an issue before the court. In fact, in his dissenting judgement, Mr Justice Frankfurter, in the Mercoïd case, said:¹⁵⁸

"... But in the series of cases in which that doctrine has heretofore been applied ... , not once has this Court found it relevant to reject, either explicitly or by indirection, another doctrine of the law, that of contributory infringement, nor has it seen fit to make animadversions upon it. That is so doubtless for the simple reason that appropriate occasions for relief against contributory infringement are unrelated to the circumstances which brings the Carbice doctrine into play ...

To be sure, the doctrine of contributory infringement may be misconceived and has been misapplied. That is the fact of all shorthand statements of complicated ideas, whether in law or in the natural sciences. But the misapplication of a formula into which a complicated idea is compressed and thereby mutilated is a poor excuse for rejecting the idea. It will be time enough to define the appropriate limits of the doctrine of contributory infringement when we are required to deal with the problem. Until then litigants and lower courts ought not to be embarrassed by gratuitous innuendoes against a principle of the law which, within its proper bounds, is accredited by legal history as well as ethics. The long and on the whole not unworthy history of our judicial administration admonishes us against expressing views on matters not before us. ..."

Congress, in 1952, finally enacted express statutory provisions to clear the doubts created.¹⁵⁹

at page 122; Detroit Lubricator Co. v. Toussaint 63 USPQ 139 (DC N.D. Illinois, 1944), *per* LA Buy, District Judge, at page 139; American Optical Co. v. New Jersey Optical Co. 65 USPQ 114 (DC D. Massa. 1944), *per* Sweeney, District Judge, at pages 117-118; Chicago Pneumatic Tool Co. et al. v. Hughes Tool Company 66 USPQ 425 (DC D. Delaware, 1945), Leahy, District Judge, page 428; Stokes & Smith Co. v. Transparent-Wrap Machine Corp. 69 USPQ 278 (CCA 2nd Cir. 1946), *per* L. Hand, Circuit Judge, at page 280; Sunlite Manufacturing Company v. Clarvan Corp. 75 USPQ 269 (DC E.D. Wisconsin, 1947), *per* Duffy, District Judge, at page 270; Florence-Mayo Nuway Company v. Hardy et al. 77 USPQ 439 (CCA 4th Cir. 1948), *per* Parker, Circuit Judge, at page 444. For a comment on the uncertain aftermath of the Mercoïd case, see Wood, Lawrence I., "The Tangle of Mercoïd Case Implications", Vol. 27 JPOS 230 (1945).

¹⁵⁸ The Mercoïd Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), *per* Justice Frankfurter, at page 29.

¹⁵⁹ See 35 USC section 271(b)-(d) in Appendix. Section 271(d) now regulates the relationship between contributory infringement and patent misuse. For an analysis of its application, see Dawson Chemical Co. v. Rohm & Haas Co. 206 USPQ 385 (US Sup. Ct 1980), *per* Justice Blackmun, at pages 398-407. See also the dissenting opinion of Justice White, for the minority, at pages 408-415.

4.4.5.d. Summary of US position

1. An infringement of a patent is a tort analogous to trespass or trespass on the case.¹⁶⁰
2. All who take part in a trespass, either by actual participation therein or by aiding and abetting it, will be held to be jointly and severally liable for the injuries inflicted.
3. One who makes and sells one element of a patented combination with the intention and for the purpose of bringing about its use in such a combination, is guilty of contributory infringement, and is equally liable with him who in fact organises the complete combination.
4. One who makes articles which are only adapted to be used in a patented combination, and offers them for sale to the general public, will be presumed to intend the natural consequences of his act, and will, therefore, be held to intend that they shall be used in the combination of the patent, and an injunction will be granted.
5. Such an inference could not be drawn where the articles are adapted to other uses than in the patented combination. In the latter case the intention to assist in infringement must be otherwise shown affirmatively, and cannot be inferred from the mere fact that the articles are in fact used in the patented combination or may be so used.¹⁶¹
6. Knowledge that a normal article of commerce would be used to infringe is not sufficient in itself to make the supplier a contributory infringer. There must, in addition, be proof that he has induced the infringement.¹⁶²
7. Before a person can be found guilty of contributory infringement, there must have been committed a direct infringement. However, in certain cases, even an anticipatory contributory infringement could be enjoined if the evidence warrants it.¹⁶³

¹⁶⁰ Thomson-Houston Electric Co. v. Ohio Brass Works Co. 80 F. 712 (CCA 6th Cir. 1897), *per* Judge Taft, at pages 720-722; Lincoln Engineering Co. of Illinois v. Stewart-Warner Corp. 34 USPQ 92 (CCA 7th Cir. 1937), Evan, Circuit Judge for the Court, at page 98.

¹⁶¹ Where, however, the instructed non-infringing use is a colourable attempt to disguise an infringing use, the defendant is still liable. See, for example, Westinghouse Electric & Mfg. Co. et al. v. Precise Mfg Corp. 11 Fed. Rep. (2d) 209 (CCA 2nd Cir. 1926), *per* Manton, Circuit Judge, at page 212.

¹⁶² Individual Drinking Cup Co. v. Errett 297 Fed. Rep. 733 (CCA 2nd Cir. 1924).

¹⁶³ See Thomson-Houston Electric Co. v. Kelsey Electric Railway Specialty Co. et al. 75 Fed. Rep. 1005 (CCA 2nd Cir. 1896), *per* Shipman, Circuit Judge, for the majority, at pages 1007-1008.

8. Misuse of a patent to gain a partial monopoly over unpatented products would disentitle the patentee from suing either for direct or contributory infringement.
9. If the supply is for a legitimate use, as for example, supply of parts for the purposes of repair, to licensees or for export, the doctrine is not applicable.

4.5. The Problem of Export Trade

Closely linked to the problem of providing a fair degree of protection against unauthorised indirect exploitation by the supply of individual elements of a patented invention within the country is the problem associated with the manufacture of component elements of a patented invention for sale overseas. If the parts manufactured are assembled before export, there is no problem since there would be a direct infringement by the manufacturer. But where the complete assembly is to be carried out abroad, it could be argued that since there would not be a direct infringement within jurisdiction, the manufacturer could not be guilty of any wrongful indirect exploitation. If this argument were to prevail, it would be to "unduly reward the artful competitor who uses another's invention in its entirety and who seeks to profit thereby" and the holder of a combination patent would be denied "the benefits of his invention with respect to sales to foreign purchasers."¹⁶⁴

There does not seem to be any reported case dealing with this situation in the United Kingdom or the other Commonwealth jurisdictions surveyed. It may be that faced with such a situation, the courts may be prepared to find the manufacturer liable for infringement. This view is based on the fact that where warranted, the courts have been prepared to find the manufacturer and supplier of "kits of parts" liable for infringement.¹⁶⁵ However, the decisions were based on the fact that the ultimate user would be infringers when they assembled the kits of parts. It is uncertain what the outcome would be if the final user could not be regarded as infringers since there could not be an infringement by activities overseas.

Under the doctrine of contributory infringement as developed by the United States courts, a manufacturer will not be liable for contributory infringement if he were to make and sell a single element of a patented combination with the purpose and expectation that such element

¹⁶⁴ See Deepsouth Packing Co. Inc. v. The Laitram Corporation 406 US 518; 173 USPQ 769 (US Sup. Ct 1972), *per* Justice Blackmun, in his dissenting opinion, with whom the Chief Justice, Mr Justice Powell, and Mr Justice Rehnquist joined, at pages 775-776.

¹⁶⁵ See, for example, United Telephone Company v. Dale (1884) 25 Ch.D. 778, *per* Person J., at page 782; Rotocrop International Ltd v. Genbourne Ltd [1982] FSR 241, *per* Graham J., at pages 258-260; Windsurfing International Inc & anor v. Petit & anor (1983-1985) 3 IPR 449, *per* Waddell J., at pages 456 and 459; and Windsurfing International Inc. et al. v. Trilantic Corp. (1985) 3 CPR (3d) 95 and (1986) 8 CPR (3d) 241 and 270, *per* Urie J. (Heald and Stone JJ. concurring), at pages 263-268.

should be sent to a foreign country and be used there in combination with other elements, or in the practice of a method covered by the patent. This is because the protection of the patent does not extend beyond the limits of the United States, and as there is no intent that the element should be put to an infringing use within the jurisdiction, there can not be an outright infringement within the jurisdiction. Absent this outright infringement, there can not be a contributory infringement. This was so held in Bullock Electric & Mfg Co. v. Westinghouse Electric & Mfg. Co.¹⁶⁶ The Court of Appeals in Computing Scale Co. v. Toledo Computing Scale Co.¹⁶⁷ extended this further and held that where the defendant made in the United States and shipped to Canada parts, to be assembled into complete scales, including the patented cylinder, in Canada, and there delivered to Canadian users, the defendant was not liable as a contributory infringing maker of such scales. Since no completed scale or complete cylinder was ever shipped to Canada, the defendant could not be liable, as there must be a completed infringement in the United States to which a contribution could be made.

The defendants in Radio Corp. of America and American Telephone and Telegraph Co. (appellees) v. Frank Andrea and Frank Andrea Inc. (appellants),¹⁶⁸ had manufactured all the elements of a patented combination for a radio receiver, except the required vacuum tube which they acquired in the open market. The tubes were separately packaged and placed within the same carton as the receiver. They contended that the apparatus was sold solely for export, and that, when it was sold, the patented combination was incomplete and was not intended to be completed except outside the country. Hence they denied that there was proof of any direct infringement, and they claimed to escape contributory infringement.

¹⁶⁶ Bullock Electric & Mfg Co. v. Westinghouse Electric & Mfg. Co. 129 Fed. Rep. 105 (CCA 6th Cir. 1904), *Per* Lurton, Circuit Judge, delivering the opinion of the court, at pages 111-112, "The intent and purpose that the element made and sold shall be used in a way that shall infringe the combination in which it is an element constitutes the necessary concert of action between him who furnish the single part and he who actually does the injury by the assembling and using of all the parts in such as way as to be an infringement ... That the single element was made and sold with the intent and purpose of aiding another in infringing must appear, or the necessary concert of action will be missing. This may be shown presumptively, as it is when the article is incapable of any other use than an infringing one. If, on the other hand, it be adapted to other uses 'the intention to assist in infringement must be otherwise shown affirmatively', Thomson-Houston Co. v Ohio Brass Works ... These principles we think determine this case.

The finding that the intent and purpose in making and selling this motor was that it should be used in the patented devices in Canada is a finding against any infringing purpose. It would not be an infringement to put the motor to the use intended, because the use was beyond the protection of the patent. The defence is as complete as if the intent had been to furnish the motor to one having a licence to make, sell, and use. In neither case would there be an intent to assist in an infringement, and without such intent that plaintiff in error was not infringing the patent or disobeying the order of the court.

What we have said applies as well to the method patent as to the combination claim. There must be shown a intent to assist another in an infringing use of the patented method. There being no intent to provide means by which another might unlawfully use the Tesla method, there is no contributory infringement."

¹⁶⁷ Computing Scale Co. v. Toledo Computing Scale Co. 279 Fed. Rep. 648 (CCA 7th Cir. 1921), *see* Baker, Circuit Judge, at page 678.

¹⁶⁸ Radio Corp. of America and American Telephone and Telegraph Co. v. Frank Andrea and Frank Andrea Inc. 27 USPQ 365 (CCA 2nd Cir. 1935), *per* Swan, Circuit Judge, at pages 365-366.

The Court of Appeals, following the doctrine propounded in Bullock Electric & Mfg. Co. v. Westinghouse Electric & Mfg. Co., found for the defendants, holding that sales of disassembled elements of a patented combination did not constitute direct infringement. Since the vacuum tubes were not yet physically connected to the receiver sets, the elements were not in operable relationship to each other. Even if all the elements of a patented combination were sold in the country with the intent that the purchaser should make and use the invention abroad, this would not be a contributory infringement.¹⁶⁹ The above approach was affirmed by the Supreme Court in Deepsouth Packing Co. Inc. v. The Laitram Corporation.¹⁷⁰ In Deepsouth the plaintiff's patent was for a machine to devein shrimp. The defendant manufactured all the parts of the machines and shipped them in separate boxes to purchasers overseas, where they could easily be assembled by the purchasers in less than an hour. The Supreme Court rejected the contention that "make" connoted the substantial manufacture of the constituent parts of the machine, and instead preferred the approach in Radio Corp. of America v. Andrea that a product was made only when it reached the state of final "operable" assembly. Therefore, the manufacturer of the unassembled parts in the United States could, if at all, only be guilty of contributory infringement. Since contributory infringement must relate to an actual infringement, and sale or use outside the United States did not constitute such an infringement, the defendant could not be liable as a contributory infringer.¹⁷¹ However, in 1984, section 271 was amended to alter the holding in Deepsouth, and the factual situation that occurred in Deepsouth would now amount to an infringement.¹⁷²

4.6. Application of these Tort Principles in the Malaysian Context

How does the above discussion affect the position in Malaysia? As far as the present position in Malaysia is concerned, the law of tort is governed by section 3 of the Civil Law Act 1956,¹⁷³ which in essence states that in the absence of any written local law, the common law and principles of equity will apply. Since there is no specific statute on the law of tort in Malaysia, the common law and principles of equity as administered in England will apply. There has been no reported case concerning issues of indirect exploitation of patented inventions in Malaysia where the common law principle is applied.

¹⁶⁹ The principle in the above case was followed in the Court of Appeals in Cold Metal Process Co. v. United Eng'r & Foundry Co. 110 USPQ 332 (CA 3rd Cir. 1956) and Hewitt-Robins, Inc. v. Link-Belt Co. 151 USPQ 670 (CA 7th Cir. 1966).

¹⁷⁰ Deepsouth Packing Co. Inc. v. The Laitram Corporation 406 US 518; 173 USPQ 769 (US Sup. Ct 1972).

¹⁷¹ Deepsouth Packing Co. Inc. v. The Laitram Corporation 173 USPQ 769 (US Sup. Ct 1972), *per* Mr Justice White, at pages 771-774.

¹⁷² See USC 35, section 271(f) in Appendix. For a commentary on this amendment, see Unsigned Note, "Patent Infringement: Redefining the 'Making' Standard to Include Partial Assemblies," 60 Wash. L. Rev. 889 (1985).

¹⁷³ Civil Law Act 1956 (Revised 1972), Act 67, Malaysia. See Appendix. For a discussion of the reception of common law principles in Malaysia, see Chapter 1, at para. 1.2.4.

However, a trawl of the Malaysian cases revealed two cases relevant for present purpose. In Government of Perak v. Adams,¹⁷⁴ the court turned for guidance to English tort decisions on fundamental principles. The cases of Lumley v. Gye and Allen v. Flood were cited by the judge in coming to his decision in In the matter of the petition of the Straits Steamship Company, Ltd and the Attorney-General.¹⁷⁵ Lumley v. Gye and Allen v. Flood were relied upon in The Kursk,¹⁷⁶ which was cited with approval in Morton Norwich and also in Unilever.¹⁷⁷ Further, since there have been express recognition that patent infringement is just a specie of tort, a statutory tort, and, therefore, the principles of the law of torts should be applicable to patent infringement,¹⁷⁸ there no reason to believe that the principles discussed above would not be applied by the Malaysian courts when similar issues come before them.

4.7. Observations on the Common Law Remedies

Despite what is said above, it is submitted that reliance on the common law remedies is unsatisfactory. A patentee who has been granted a patent should be entitled to the full economic benefits derivable from it. Keeping in mind the balance that needs to be maintained between the patentee and the public, it is justifiable that certain types of indirect exploitation of his invention by others should be restrained. This is to ensure that others do not unfairly impinge upon, or subvert his rights. Therefore, the patentee should be able to

¹⁷⁴ Government of Perak v. Adams [1914] 2 FMSLR 144.

¹⁷⁵ In the matter of the petition of the Straits Steamship Company, Ltd and the Attorney-General [1933] 2 MLJ 43. In Lumley v. Gye (1853) 2 E. & B. 216, involving an action for procuring a breach of a contract for a theatre performance, Erle J. laid down the general statement that the procurement of the violation of a right is a cause of action in all instances where the violation is an actionable wrong. Therefore, a person who procures the wrong is a joint wrongdoer, and may be sued, either alone or jointly with the agent - at page 232. This statement of principle was accepted by the House of Lords in Allen v. Flood [1898] A.C. 1, *per* Lord Watson, at page 96. See also the speech of Lord Macnaghten in Quinn v. Leatham [1901] A.C. 495.

¹⁷⁶ The Kursk [1924] P. 140, a decision of the Court of Appeal which held that persons are not joint tortfeasors merely because their independent wrongful acts have resulted in one *damnum*, contained a useful discussion of the meaning of joint tortfeasors. There has to be a "nexus of responsibility" between the two parties alleged to be joint tortfeasors. Where there is a relationship of master and servant or of agency, such a nexus is obviously present. However, in other cases, the nexus of responsibility to tie two persons alleged to be joint tortfeasors together is the presence of a common design or concerted action, in the course of, and in furtherance of which, one of them commits a tort - *per* Scrutton L.J., at page 155.

¹⁷⁷ See *supra*, text accompanying footnotes 59 and 70 respectively.

¹⁷⁸ See, for example, Morton-Norwich Products Inc. v. Intercen Ltd [1976] FSR 513 (H. Ct), *per* Graham J., at page 521, "It will be convenient to deal first with the question of joint tortfeasance ... There does not appear to be much authority on this question as applied to patent actions, but I see no reason why the law should be any different in the tort of infringement than of any other tort...", and Unilever PLC v. Gillette (U.K.) Limited [1989] RPC 83, *per* Mustill L.J., at page 602. For similar views from the other jurisdictions, see, for example, Australia - Spotless Group Ltd and anor v. Proplast Pty Ltd and anor (1986-1988) 10 IPR 668, King J., at page 670, and Best Australia Ltd and ors v. Aquagas Marketing Pty Ltd and ors (1987-1988) 12 IPR 143, *per* Wilcox J., at page 145; Canada - Copeland-Chatterson Co. Ltd v. Hatton and Guertin (1906) 10 Ex. C.R. 224, Exchequer Court, at page 243; USA - Lincoln Engineering Co. of Illinois v. Stewart-Warner Corp. 34 USPQ 92 (CCA 7th Cir. 1937), *per* Evan, Circuit Judge, at page 98.

prevent any active assistance leading to infringement, or any acts to induce or procure an infringement. His rights should also extend to the control of other forms of exploitation which, although not directly resulting in an infringement by the exploiter, nevertheless impinge on the exclusive rights of the patentee to exploit his invention commercially.

From the earlier discussion, it is evident that by applying the principles of the law of torts, such activities could partially be curbed. Under the approach in the United States, the person who either induces another, or takes part in a concerted action to infringe is liable as a contributory infringer and could be sued severally, without the necessity of bringing action against the outright infringer. In the case of a staple article of commerce, there has to be evidence that the defendant has the intent and purpose to assist in the actual infringement. Mere knowledge that the article would be use in infringement of the patent is not enough. There has to be some active assistance to provide the necessary nexus between the two. If the article is specially adapted for the patented invention, such an intention could be presumed in the absence of evidence to the contrary.

The question is whether there is any difference in substance between the approach in the United States and that in the United Kingdom (which for all intent and purpose includes the Australian and the Canadian approaches). One of the most important principle in both approaches is that before an indirect exploitation can be actionable, a direct infringement must result from it. This rule is tied to the concept that the wrong caused by the indirect exploitation is due to the contribution to, or some form of inducement or participation in, the actual infringement. At common law, a mere conspiracy or common design to commit a tort, without more, is not actionable, as damage is the gist of the right to bring a private action.¹⁷⁹ In the absence of proof of a direct infringement, or if it could not be presumed from the circumstances, the indirect exploiter cannot be made liable as a contributory or joint infringer or joint tortfeasor. In both the systems, for an unauthorised indirect exploitation to be actionable, there is a requirement of some positive actions on the part of the indirect exploiter, whether it be by inducement, procurement, concerted actions or other

¹⁷⁹ See Morton-Norwich Products Inc. v. Intercen Ltd [1976] FSR 513, *per* Graham J., at 524. This rule arises from the principle enunciated by Lord Coleridge C.J., in Mogul S.S. Co. v. McGregor, Gow & Co. (1888), 21 QBD 544, at 549, "But in an indictment it suffices if the combination exists and is unlawful because it is the combination itself which is mischievous, and which gives the public an interest to interfere by indictment. Nothing need be actually done in furtherance of it ... It is otherwise in a civil suit; it is the damage which results from the unlawful combination itself with which the civil action is concerned. It is not every combination which is unlawful, and if the combination is lawful, that is to say, is for a lawful end pursued by lawful means, or being unlawful there is no damage from it to the plaintiff, the action will not lie."; see also Crofter Hand Woven Harris Tweed Co. v. Veitch [1942] AC 435, *per* Viscount Simon L.C. at 439-440, "But the tort of conspiracy is constituted only if the agreed combination is carried into effect in a greater or less degree and damage to the plaintiff is thereby produced. It must be so, for, regarded as a civil wrong, conspiracy is one of those wrongs (like fraud or negligence) which sound in damage, and a mere agreement to injure, if it was never acted upon at all and never led to any result affecting the party complaining, could not produce damage to him. The distinction between the essential conditions to be fulfilled by the crime and the tort respectively are conveniently set out by Lord Coleridge in his judgement in Mogul Steamship Co. v. McGregor, Gow & Co."

forms of indirect participation which contribute to the buyer's infringing activities. The terms, inducement, concerted action, aiding and abetting, etc., seem to be used very loosely in the cases.¹⁸⁰ In the United States, it was only after the enactment of section 271 that there was a distinction made between contributory infringement and inducing an infringement.¹⁸¹ Prior to that, both form of activities amounted to a contributory infringement. In the United Kingdom, there was initially an attempt to distinguish the wrongful acts by describing a person who took part in a concerted action to infringe as a joint tortfeasors (primary direct infringer), and the inducer as a joint infringer (secondary infringer). However, the distinction is sometimes blurred and seemed to be used interchangeably in the later cases.¹⁸²

In the final analysis, despite the differences in the terms used, the doctrine of contributory infringement exists in the United Kingdom, even prior to the 1977 Act, despite assertions to the contrary.¹⁸³ If the mere making or selling of parts or components of a patented product or the supplying of materials which are used in a patented process amounts to a "contributory infringement", then it is correct to say that that concept does not form part of the law in the United Kingdom system. However, this is not even true in the United States. As mentioned earlier, there has to be some form of active participation over and above the mere supply of the components or materials. This is especially true in the case of a supply

¹⁸⁰ See, for example, Lord Templeman in C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567, at page 608, "My Lords, I accept that a defendant who procures a breach of copyright is liable jointly and severally with the infringer for the damages suffered by the plaintiff as a result of the infringement. The defendant is a joint infringer; he intends and procures and share a common design that infringement shall take place. A defendant may procure an infringement by inducement, incitement or persuasion."; Mustill L.J., in Unilever PLC v. Gillette (U.K.) Limited [1989] RPC 583, at page 608, "I use the word 'common design' because they are readily to hand, but there are other expressions in the cases, such as 'concerted action' or 'agreed on common action' which will serve just as well. The words are not to be construed as if they formed part of a statute. They all convey the same idea. This idea does not, as it seems to me, call for any finding that the secondary party has explicitly mapped out a plan with the primary offender. Their tacit agreement will be sufficient. Nor, as it seems to me, is there any need for a common design to infringe. It is enough if the parties combine to secure the doing of acts which in the event prove to be infringement."

¹⁸¹ See United States Code, Title 35, section 271(b), active inducement and section 271(c), contributory infringement. See also, Notes on the Committee of Experts on the Harmonisation of Certain Provisions in Laws for the Protection of Invention, Fifth Session (WIPO), Industrial Property - October 1988, 358 at pages 362 and 365, where the Chairman, in summing up the conclusion of the discussion, stated that a distinction should be drawn between contributory infringement of a patent, which involved the indirect exploitation of a patent by the supply of the means of exploiting the patent, on the one hand, and inducement to infringe a patent, which involved more than the mere supply of means and an active incitement to use, by way of, for example, instructions, on the other hand.

¹⁸² See, for example, Lord Templeman in C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567, at page 608, cited in footnote 69, and Unilever PLC v. Gillette (U.K.) Limited [1989] RPC 583 (CA), Mustill L.J., at page 608, cited in footnote 73.

¹⁸³ See, for example, Ladas, S.P., *Patents, Trademarks and Related Rights, National and International Protection* (1975), Vol. 1, at page 402; Cornish, W.R., *Intellectual Property*, 2nd Ed. Sweet & Maxwell, London, 1989, at page 167; Lahore, J., *et al* (Eds) *Intellectual Property in Australia - Patents, Designs, Trade Marks, Confidential Information, Unfair Competition*. Volume 1 Butterworths, Sydney, 1991, at page 802; Ricketson, S., *The Law of Intellectual Property*, The Law Book Company Ltd, 1984, at page 988; Hoffmann, K., "Contributory or Indirect Infringement of Patents - A Review of the Legal position in 13 Countries", 6 CIPA 371 (1977).

of a staple commodity.¹⁸⁴ If no specific meaning is attached to the words used but to the legal consequence of the activities, it would be seen that the United Kingdom courts have recognised as infringement the activities which would have been censured as contributory infringement in the United States.

Different terms are also used in the various jurisdictions to describe the indirect exploiter who had been found guilty of carrying out the proscribed acts. In the United States, he was known as a contributory infringer. No practical distinction seemed to be made between the two modes of indirect exploitation, they were simply regarded as contributory infringement, implying that in both cases, there were contributions or participation in the outright infringement.¹⁸⁵ The approach in the United Kingdom, and Australia, is to regard the inducer as a joint infringer. Persons who take part in a concerted action or common design to infringe are regarded as joint tortfeasors.¹⁸⁶ In Canada, the person who induces or procures an infringement would himself be regarded as an infringer.¹⁸⁷ In principle, there seems to be no difference in the liability between a joint infringer and a joint tortfeasor. Since the tort involved is the infringement of a patent, the joint tortfeasor would be jointly involved in the infringement, and hence is an infringer. So it would seem that despite the various descriptions used to describe these activities and the wrongdoers, the persons involved in the indirect acts are infringers, just like the outright infringer, and are severally and jointly liable for their wrong. No importance should be attached to the descriptive words used, as it is only a matter of nomenclature, and in practice, it does not detract from giving the patentee due protection.¹⁸⁸

Whatever difference that exists is a matter of degree and is found in the different approach or attitude of the courts towards manufacture and supply of parts specially adapted for use in the patented invention, or what is sometimes referred to as a non-staple article. In the United Kingdom, unlike the United States, it had been held that even in the case of these class of articles, mere knowledge and intent that the articles were to be used to infringe a

¹⁸⁴ Thomson-Houston Electric Co. v. Kelsey Electric Railway Specialty Co. et al. 75 Fed. Rep. 1005 (CCA 2nd Cir. 1896), *per* Wallace, Circuit Judge, dissenting, at page 1011; Individual Drinking Cup Co. v. Errett 297 Fed. Rep. 733 (CCA 2nd Cir. 1924), *per* Mayer, Circuit Judge, at 740.

¹⁸⁵ cf section 271 of the United States Code, Title 35 - Patents (as last amended by Public Law 101-580 of November 16, 1990), where a distinction is made between s. 271(b), "Whoever actively induces infringement of a patent shall be liable as an infringer" and s. 271(c), which describes the person who supplies components, etc. as a contributory infringer.

¹⁸⁶ Although Lord Templeman in C.B.S Songs Ltd & ors v. Amstrad Consumer Electronics Plc and Dixons Ltd [1988] RPC 567, referred to such a person as a joint infringer too - see at page 606.

¹⁸⁷ Copeland-Chatterson Co. Ltd v. Hatton and Guertin (1906) 10 Ex. C.R. 224, at page 247.

¹⁸⁸ See Osborne, J.C., "Contributory Infringement" 14 CPR 75 (1951), at page 75, "It has often been said that the doctrine of contributory infringement is unknown to the patent law of Canada. A moment's reflection will at once reveal that this very interesting and apparently conclusive observation only acquires importance if some meaning can be attributed to the words used.", and at page 89, "The momentous question of whether or not there is an action for contributory infringement in Canada reveals itself as a mere debate over the meaning of an expression."

patent was not enough to fix liability on the supplier.¹⁸⁹ However, it has to be noted that the statement was made *obiter*, because the finding of facts was that the parts supplied had other non-infringing uses and there was no allegation of any actual infringement, the plaintiffs suing on the mere sales of the component parts.¹⁹⁰ The court also had no need to make any adverse inference against the defendants because of the finding that the plaintiffs' tyres had world-wide users and also that they had granted large and extensive licences within the United Kingdom.¹⁹¹

It is submitted that there is no reason, in principle, why the Malaysian court could not adopt the tort approach in giving a remedy to the patentee where there is an unauthorised indirect exploitation of his patent. As mentioned earlier, the law of torts in Malaysia is based on the common law of the United Kingdom. Adopting this approach would not create an independent form of infringement, or new rights, outside those specifically provided for under the Act. Recognising that patent infringement is a tort, albeit a statutory tort, and that the indirect exploitation are different ways of committing the tort would remove the legal objections to the purported extension of the statutory provision. A person who makes the whole patented article is an infringer. Anyone who supplies the components with the intention to induce an infringement would thereby be taking part in the steps required to infringe. He can thus be said to be participating in the final act of infringement and should, therefore, be liable. Procurement and concerted actions merely deal with the different aspects of the statutory tort of infringement.

The next question is whether relying solely on tortious principles is enough to give full protection. At first sight it would seem that reliance on the common law principles of torts would give sufficient protection against indirect exploitation. However, the patentee's rights would be further strengthened if the Malaysian courts could be persuaded to adopt the American approach towards component parts specially adapted to fit a patented article. It will be remembered that under the American system, sale of such parts would give rise to an inference that the supplier has the necessary intent and purpose to assist in the final infringement, unless the contrary is proved. This does not impose any undue hardship on legitimate trade because the innocent supplier could always prove that he was supplying the parts for legitimate trade, for example, for repair, export or to a licensee of the patentee. Together with the principle of vicarious liability in the case of agency and partnership, the patentee's rights seem to be satisfactorily protected.

¹⁸⁹ See Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor (1904) 21 RPC 274, *per* Vaughan Williams L.J., at page 280.

¹⁹⁰ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor (1904) 21 RPC 274, *per* Vaughan Williams L.J., at page 278.

¹⁹¹ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor (1904) 21 RPC 274, *per* Vaughan Williams L.J., at page 281. See also Cozens-Hardy L.J., at page 282, where he mentioned that the parts sold could have legally been used for export, sold to licensees or for use in repairs.

Having said that, there is an obstacle to adopting the principles and approaches discussed above that may prevent an effective protection for the patentee. This is because of the rule that there can be no contributory infringement unless there is a direct infringement.¹⁹² The Act contains an express provision limiting the rights of the patentee only to acts done for industrial or commercial purposes.¹⁹³ There is no problem if the purchasers of the component parts were commercial users. They would infringe by making or using the product. Hence the supplier would also be liable for indirect infringement of the patent. If, however, the purchasers from the supplier of component parts were to assemble the parts for private use, it would seem that there would be no infringement of the patent. The same argument goes for purchasers of compounds or materials for use in a method or process claim. Since these purchasers would be protected by virtue of section 37, they could not be liable as direct infringers. Following this, the suppliers, too, would not be liable for any indirect infringement. There is no case law on this point in Malaysia or in the four jurisdictions investigated, but in principle, this seems to be correct. However, guidance may be found in German jurisprudence.

Windsurfing International Inc. v. Diekow-Segel KG¹⁹⁴ was a decision taken under section 6 of the Patents Act 1968 of the Federal Republic of Germany.¹⁹⁵ The plaintiff was the owner of a German patent concerning a "Rig for a sailboard". It was alleged, *inter alia*, that the defendant sold the sails to end users for non-commercial use, and to two firms in the fine foods and beverage business who placed advertising messages on the sails and then let end users have them for non-commercial use. It was also alleged that the defendant had also supplied sporting goods stores who completed the sails to make up windsurfers possessing the characteristics of the patent in suit, and also sold them as extra, or replacement sails. The plaintiff contended that the production and distribution of the sales constituted a direct infringement of the patent through manufacture and distribution of parts of the protected overall device, as well as an indirect infringement of the patent rights.

¹⁹² See, for example, Deepsouth Packing Co. Inc. v. The Laitram Corporation 173 USPQ 769 (US Sup. Ct 1972), *per* Mr Justice White, at pages 771-774; see also Dow Chemical AG & anor v. Spence Bryson & Co. Ltd & anor [1982] FSR 598, *per* Falconer J., at 626, "As I have held that the first defendant's process for the manufacture of the alleged infringing carpet did not infringe the plaintiffs' patent, the plaintiffs' case against the second defendant that the second defendant infringed by procuring the first defendant's infringement must fail."

¹⁹³ Section 37, Patents Act 1983 (as amended in 1986) Malaysia. This exception is further discussed in Chapter 7 - Exceptions, Limitations and Loss of Rights, at para. 7.1.1.

¹⁹⁴ Windsurfing International Inc. v. Diekow-Segel KG 13 IIC 645 (1982) (Fed. Sup. Ct Germany).

¹⁹⁵ Patent Law, 1968, of the Federal Republic of Germany, Article 6, "The effect of the patent shall be such that the patentee alone is authorised to produce, put on the market, offer for sale, or use, the subject matter of the invention industrially, commercially or professionally. If the patent has been granted for a process, the effect shall also extend to the products obtained directly by means of such process."; Article 47(1) - Any person who uses a invention contrary to the provisions of Article 6, 7 and 8 may be sued by the injured party to enjoin such use. The present Act is now the Patents Act 1981, ss. 10 and 11. See Schafers, A., and Hallmann, U.C., "Completion of the Patent Law Reform in the Federal Republic of Germany", Vol. 20 Industrial Property 159 (1981), at page 163.

The action was dismissed by the District Court. The Court of Appeal ruled against the defendant. The defendant petitioned for legal review. On the issue of indirect infringement, the Federal Supreme Court held that the defendant did not indirectly infringe by the sale to the end users since indirect infringement was the first part of a two-act sequence whose second part was the direct infringement committed by a third party while using the supplied item. Therefore, the indirect use could only amount to an infringement if there was a direct infringement.¹⁹⁶ It held that to hold otherwise would be to create an independent form of infringement which would be inconsistent with the provision of the 1968 Act.¹⁹⁷ Since the second part of the two-act sequence was missing, the defendant could not be held liable.

As is evident from the above decision, the feasibility of adopting the common law approach to solve the problem of indirect acts leading to direct infringement suffers from this inherent weakness. This weakness is not present in the various jurisdictions discussed earlier because the monopoly rights in these countries were not restricted only to commercial exploitation under their former patent laws. To overcome this weakness, express provisions would have to be legislated for. It is submitted that commercial activities leading to supplies of component parts or materials to consumers should not be exempted from infringement actions. This is because the supplier, by taking away potential sales from the patentee, has obtained a profit which was derived from the patented invention, and which should rightly belong to the patentee. To rely solely on tortious principles would not give the patentee an adequate remedy.

¹⁹⁶ Windsurfing International Inc. v. Diekow-Segel KG 13 IIC 645 (1982) (Fed. Sup. Ct Germany), at page 647, "Indirect infringement deals with a range of acts which, while representing a significant threat to the rights of the patent owner without quite constituting an accomplished infringement of the patent, are not covered by the customary categories of complicity and participation, because there is usually no collaboration between the indirect and the direct infringer. In order to cover this group of acts and to protect the patent owner against this type of threat to his rights, the courts have affirmed the latter's rights vis-a-vis the indirect user. In so doing, they regarded indirect patent infringement not as an independent category of use besides the four categories reserved to the patent owner under s. 6 Patent Act 1968 - which would not have been admissible in view of the statutory restrictions of the rights to the four categories of acts of use - but as a special form of participation in one of these four acts of use. Therefore, indirect patent infringement is the first part of a two-act sequence whose second part is the direct infringement committed by a third party while using the supplied item ... Accordingly, the indirect act of use becomes an illegal patent violation only after it results in a direct infringement."

¹⁹⁷ Windsurfing International Inc. v. Diekow-Segel KG 13 IIC 645 (1982) (Fed. Sup. Ct Germany), at page 647, "According to the new legal provisions which, pursuant to Art. 12(1) Act on the Community Patent are not applicable to the present case, indirect patent infringement represents an independent form of patent infringement whereas on the basis of previously applicable law, indirect infringement was actionable only if it was viewed as a special form of participation in a third party's - direct - patent infringement. Accordingly, this court finds itself prevented from developing, for reason of equity, the legal doctrine of indirect patent infringement in the sense of the new legislation pursuant to secs. 10 and 11, Patent Act 1981, because this - in conflict with the provisions of sec. 6 Patent Act 1968 which is applicable to the present case - would create an independent form of patent infringement which would not be consistent with the acts of use listed therein."

4.8. Proposals for Change

Ultimately, therefore, there is still a need for legislative intervention to add a new provision to the Act, to cater for indirect exploitation of a patent without the need to show a nexus with a direct infringement. Legislation is also required to remove any uncertainty under the common law. The two models that could be followed are the United States model and the United Kingdom model.¹⁹⁸ It is submitted that the more appropriate model to follow is the United Kingdom model. The most cogent reason for the choice is that under the United States model, both forms of indirect exploitation are actionable only if there is a contribution to an underlying direct infringement.¹⁹⁹ This would not work in the Malaysian context because of the private use exception to infringement which is absent in the United States patent code. The United Kingdom model, by making these indirect exploitation an independent form of infringement is more suitable in the Malaysian context.²⁰⁰ It is, therefore, proposed that the overall structure of section 60(2) to (4), and section 60(6) of the 1977 Patents Act of the UK be adapted and adopted.²⁰¹

The proposed section should provide that it will be an infringement for a person to supply or offer to supply component part of a patented product or process when the supplier knows, or it is obvious to a reasonable person in the circumstances, that it will be used to put the invention into effect. To cater for the possibility that the new right will result in a virtual monopoly of unpatented components of a patented invention, an exception should be made in the case where the supply is made to a person entitled to work the patent. These

¹⁹⁸ Although the Patents Act 1990, Australia, contains in section 117 provisions on contributory infringement, the phraseology of the section has caused problems in construction, and as construed by the court in Rescare Ltd v. Anaesthetic Supplies Pty Ltd (1992) 25 IPR 119; and Anaesthetic Supplies Pty Ltd v. Rescare Ltd (1994) AIPC 91-076, at 38,395, has rendered ineffective the envisaged protection for process patents against indirect exploitation. For a commentary on the case, see Monotti, A., "Contributory Infringement of a Process Patent under the Patents Act 1990: Does it Exist After Rescare?" (1995) 6 AIPJ 217.

¹⁹⁹ See, for example, Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc. (Aro I) 128 USPQ 354 (US Sup. Ct 1961), *per* Mr Justice Whittaker, at page 357. There are also other differences. For a detailed discussion on these differences, see Benyamini, A., *Patent Infringement in the European Community*, IIC Studies Vol 13, VCH, Weinheim, 1993 - Chapter 9.

²⁰⁰ See section 60(6) of the 1977 Patents Act, UK, which specially caters for the situation of private users.

²⁰¹ Admittedly a substantial body of case law relating to the construction of section 60(2) and (3) of the 1977 Act has yet to be established. The few cases reported do not contain any analysis of the various ingredients of the provisions. See, for example, Rotocrop International Ltd v. Genbourne Ltd [1982] FSR 241, Furr v. Truline [1985] FSR 553, Rhone-Poulenc AG Co. & anor v. Dikloride Herbicides Sdn Bhd & anor [1988] FSR 282, Helitune Ltd v. Stewart Hughes Ltd [1991] FSR 171, and Pavel v. Sony noted Vol. 16 IPD 16070 (1993). However, the UK provisions on indirect exploitation of a patented invention are substantially similar to the equivalent provisions of the Community Patent Convention - see Article 26 CPC. A detailed and exhaustive analysis of the working of the relevant provisions of the CPC is found in Benyamini, A., *Patent Infringement in the European Community*, IIC Studies Vol 13, VCH, Weinheim, 1993 - Chapter 9. It is noteworthy that the proposed Article 19(4) of the Draft Treaty Supplementing the Paris Convention for the Protection of Industrial Property as Far as Patents are Concerned (Patent Law Treaty) is modelled upon Article 26 of the CPC - see Document PLT/DC/3, in *Industrial Property*, February 1991, page 118. See also Introductory Chapter, at footnote 11, for further references.

would include compulsory licensees, concurrent patent owners, prior users, persons entitled to work a patented invention after a patent has lapsed and before reinstatement, and persons entitled to work the invention by virtue of the rights of the Government.²⁰² To this end, a non-exclusive list of persons entitled to work the invention is laid down. So as to enable the provision to work where the supply is to private users, the section should clarify that supply to such persons will not be regarded as supply to persons entitled to work the invention. However, as rightly observed by Benyamini, persons conducting experiments may be unable to produce the means needed for carrying out the invention, and the patentee is not obliged to supply them with such means.²⁰³ To prevent the supply of means essential to work a patented invention to experimental users would be to deprive the exception from infringement actions of any usefulness.²⁰⁴ It is, therefore, proposed that in this respect there should be a departure from the UK model by providing that for the purposes of the section on contributory infringement, experimental users are to be regarded as persons entitled to work the invention.

Since the provision is not meant to permit the patent owner to control supply of staple commercial products, the supply of such products should, *prima facie*, not be an infringement unless there was inducement by the supplier. However, to assist the court in the proper construction of the term "staple commercial product", it is proposed that a definition of this term be included. Benyamini, in his analysis, submits that the term is characterised by two main qualities, i.e., that it is a basic product commonly used for various purposes, and that it is generally available on the market.²⁰⁵ In Regicentre v. Isoka, International-Celomer et al., the Paris District Court used the definition "a product generally available in commerce and customarily used" in other non-patented processes.²⁰⁶ It is submitted that such a definition could usefully be adopted in the proposed section. The new section should also contain a provision similar to that found in section 271(f) of the United States statute relating to export trade.²⁰⁷

202 See Chapter 7 - Exceptions, Limitations and Loss of Rights, at paras. 7.2.2. to 7.2.4.

203 Benyamini, A., Patent Infringement in the European Community, IIC Studies Vol 13, VCH, Weinheim, 1993 - Chapter 9, at page 185. Since supplying means for experimental purposes is unlikely to entail use of the invention on a large scale by the supplier or the experimenter, he further submits that the rights conferred by Article 27(c) of the CPC in relation to experimental use go beyond what is necessary to protect the patentee.

204 For the analysis of the experimental use exception, see Chapter 7 - Exceptions, Limitations and Loss of Rights, at para. 7.2.

205 Benyamini, A., Patent Infringement in the European Community, IIC Studies Vol 13, VCH, Weinheim, 1993, at pages 234-235. See also Benyamini, para. 9.8.3., at footnotes 25 and 26, for a summary of the various definitions proposed or applied to this expression in relation to Article 26(2) of the CPC and the corresponding provisions in the patent laws of the EEC countries.

206 Regicentre v. Isoka, International-Celomer et al. 20 IIC 217 (Paris District Court, 1989), at page 220.

207 See discussion in para. 4.5., *supra*.

Therefore, it is proposed that a new section, section 58B, similar to the UK provision, but with the suggested modifications, be inserted in the Act. The proposed amendments to the Act to deal with the problems identified in this Chapter are set out in Chapter 8.

CHAPTER 5: The Issuance of Threats to Enforce Patent Rights

5. Introduction

The owner of a patent has the right to bring infringement proceedings to protect his exclusive rights under the patent. This is a legitimate means of protecting his monopoly. Could he, however, instead of resorting to the proper legal mechanism for resolving his dispute, rely on self help remedies by making allegations of infringement and by threatening to institute legal proceedings for the alleged infringement of his right? Should not competing manufacturers and traders be protected from patentees, licensees and others seeking to "obtain or extend the monopoly"¹ by possibly unwarranted allegations of infringement and threats of proceedings? The effect on the party to whom the allegations were made or against whom the threats were made may not be undeserved if they are true. What if they are false? The allegations and the threats may cause damage to his business. In this situation would the victim of such false statements in respect of his patent position have any remedy against such unfair attacks?

The objective of this chapter is to examine the extent to which an owner could legitimately "warn off" his competitors or customers of the competitors, by making allegations or threats pertaining to patent infringement. It analyses the common law remedies for false allegations and unjustified threats to determine whether, and to what extent, a person unjustifiably threatened with legal proceedings for patent infringement could obtain satisfactory relief for any damage that he suffers. This is followed by an examination of the development of the United Kingdom threats provisions. The United Kingdom threats provision is chosen because of its long tradition and its more than one hundred years experience in dealing with this problem. Where necessary, references are made to the Australian and New Zealand statutes and case law on this area. The extent to which the common law remedies are applicable to Malaysia is considered. Since there is no statutory remedy provided in the 1983 Act for actions to be taken against unjustified threats, this chapter also discusses whether a statutory machinery should be provided, and if so, what provisions should be present.² The proposal is made in the light of the experience gained from the study of the United Kingdom system and with the aim of making remedial recommendations to achieve a proper balance between the rights of an owner to attempt to

¹ See Townsend Controls Pty Ltd v. Gilead and anor (1988-1989) 14 IPR 443, *per* von Doussa J. at page 448.

² Note that the provision of a statutory remedy for groundless threats is not something that is novel in the Malaysian context. Such a provision was found in the repealed Invention Enactment 1914, of the Federated Malay States - see Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.3.2.b.

protect his exclusive rights and also the right of his competitors to be free from unfair and false allegations or other unfair activities.

5.1. The Remedies under the Common Law

Besides the use of unjustified threats, other forms of actions are also utilised, for example, slander of title, or false and malicious representation, where an imputation is made questioning the title of certain person to deal with certain property, without at the same time containing a threat of legal proceedings. This would also deter the person to whom the communication was addressed from carrying on dealing with the person whose title was impugned. However, behind every threat is contained an implication that the person threatened has no right to deal with the relevant product or process. The common law remedy for such unfounded allegations is now examined.

The main remedy available under common law involving false allegations is the action for the tort of injurious falsehood. Two particular forms of this tort of injurious falsehood are slander of title and slander of goods (sometimes referred to as trade libel). The law reports abound with cases on this topic. However, only two non-patent cases will be discussed because of their adoption by later courts when dealing specifically with false allegations in relation to patents.

The first case, Pitt v. Donovan,³ involved an action for slander of title relating to land. The defendant imputed that the plaintiff's title to an estate would be disputed because he had purchased it from a person who was alleged to be insane. Due to this imputation the potential purchaser from the plaintiff refused to complete the purchase. At the trial the judge directed the jury that in order to maintain the action some malice must be fixed on the defendant, that is, the act must arise from an improper motive and be injurious. He further instructed the jury that if on a reasonable man's test, the evidence satisfied them that the vendor was insane, or that the defendant reasonably held such a view, then the defendant would not be liable.

On that instruction the jury found a verdict for the plaintiff. On appeal on the ground of a misdirection, it was held that the objective test of a reasonable man was not the proper test to be applied. The proper question for the jury was whether the defendant acted *bona fide* in the statement which he made, believing it to be true. This was to be judged according to the defendant's own understanding and impressions of the particular circumstance known to him.⁴ This means that whether the defendant is to be judged to have acted maliciously is to

³ Pitt v. Donovan (1813) 1 M. & S. 639; 105 E.R. 238.

⁴ See the speeches of Lord Ellenborough C.J., at pages 643-646, and Bayley J. at page 649. "The question here is not what judgement a sensible and reasonable man would have formed in this case,

be based on a subjective test. Even if the statement made proves to be untrue or false there is no slander of the title, if he believes them.

The same approach was followed in Green v. Button,⁵ an action on the case for a false and malicious representation. Parke J. stressed that the action was maintainable if it was made maliciously, and without reasonable or probable cause, and the special damage accrued from the claim so made.⁶ Since it appeared that the defendant knew that there had been no agreement for a lien, he had falsely and wrongfully pretended that he was entitled to a lien, and made the representation from improper and malicious motives.⁷

The first of the cases involving patents was that of Wren v. Weild.⁸ The plaintiffs brought an action against the defendant for falsely and maliciously writing to the plaintiffs' customers alleging that the plaintiffs' machines were infringements of the defendant's patent, and that the defendant would sue them for infringement if they used the machine without paying royalties. The judge applied the rule in Pitt v. Donovan⁹ and Green v. Button,¹⁰ and directed the jury accordingly. The plaintiffs obtained a rule for a new trial on, *inter alia*, misdirection by the judge. The ruling of the judge was upheld. Blackburn J. in delivering the judgement of the court, acknowledged that no action precisely like this had ever been brought. However, he then referred to the "well-known action for slander of title where an unfounded assertion that the owner of real property has not title to it, if made under such circumstances that the law would imply malice, or if express malice be proved, and special damage is shown ... is held to give a cause of action."¹¹ He went on to say that there was no reason "why a similar rule should not apply where the false and malicious assertion relate to goods, and the damage arises from the loss of a bargain to sell them."¹² He concluded that no action would lie in such a situation unless it could be shown that the threats were made *mala fide* only with the intention to injure the plaintiff. Basically therefore, the approach of the court was in line with the earlier decisions. Since the defendant had a subsisting patent, he had the right to threaten infringement action, as long as he was doing it *bona fide* and without malicious intent.¹³ This judgement has always been taken as the foundation of the law on this subject.

but whether the defendant did or did not entertain the opinion he communicated. I forbear to give any opinion on the weight of evidence, but the short question is, whether the defendant acted *bona fide*." Dampier J. gave concurring opinions.

⁵ Green v. Button (1835) 2 Crompt. M. & R. 707; 150 E.R. 299.

⁶ Green v. Button (1835) 2 Crompt. M. & R. 707, at page 715, and relying on the authority of Gerrard v. Dickinson (4th resolution, 4 Rep. 18) and also Lovett v. Weller (1 Roll. Rep. 309).

⁷ Alderson B., and Gurney B., concurred.

⁸ Wren v. Weild (1868-69) 4 L.R. Q.B. 730.

⁹ Pitt v. Donovan (1813) 1 M. & S. 639; 105 E.R. 238.

¹⁰ Green v. Button (1835) 2 Crompt. M. & R. 707.

¹¹ Wren v. Weild (1868-69) 4 L.R. Q.B. 730, at page 734, *per* Blackburn J.

¹² Wren v. Weild (1868-69) 4 L.R. Q.B. 730, at page 735, *per* Blackburn J.

¹³ It is interesting to note in the speech of Blackburn J. in Wren v. Weild (1868-69) 4 L.R. Q.B. 730, at page 735, that the threats made were not actionable so long as the person making the

Another patent case which involved a threat of legal proceedings was Halsey v. Brotherhood,¹⁴ where it was alleged that the defendant had threatened persons proposing to buy the plaintiff's engines that in the event of their dealing with the plaintiff, the defendant would take legal proceedings against them. Again, applying the law applicable to an action for slander of title, Jessel M.R. stressed that "the essence of the case is the falsity of the assertion and the want of good faith in making it. That is, the assertion is made, not for the purpose of preserving the alleged legal right, but for a different purpose, and has injured the plaintiff in his trade."¹⁵

The Court of Appeal, in affirming the decision, held that the holder of a patent, the validity of which was not impeached, had the right to issue notices threatening legal proceedings to protect his rights. He would not be liable to an action for damages by the vendor of those articles for the injury done to the vendor's trade by his issuing them, provided they were issued *bona fide* in the belief that the articles complained of were infringement of his patent. Lord Coleridge L.C.J. said, "It seems to be clear law that in an action in the High Court in the nature of slander of title, where the defendant has property of his own in defence of

statement was willing to take legal proceedings to protect his right. Similarly, in Rollins v. Hinks (1871-72) 13 L.R. Eq. 355, Sir R. Malins V.C. held, *inter alia*, that a patentee was not entitled to publish statements of his intention to institute legal proceedings, in order to deter persons from purchasing alleged infringements of his patent, if he had no *bona fide* intention to follow up his threats by taking such proceedings, and the court would in such case restrain him from making such publication. Relying on his own decision in Dixon v. Holden 7 L.R. Eq. 488, Sir R. Malins V.C., at page 360, stressed that "this refraining from bringing an action, after their threat to do so, is of itself strong evidence of doubt on their part. ... Then do the defendants believe in the validity of their patent? If they do, these circulars may be issued in good faith; but if not, I consider them so totally wanting in good faith as to approach closely to fraud." A similar approach seems to be present in Axmann v. Lund (1874) 18 L.R. Eq. 330, where it was held that the court would restrain a patentee from issuing circulars threatening legal proceedings against infringers unless he would undertake to commence proceedings to assert the validity of his patent. Similarly, in Household and Rosher v. Fairburn and Hall (1884) 1 RPC 109, and Household and Rosher v. Fairburn and Hall (1885) 2 RPC 140, the judges insisted on proceedings being brought too. However, this attempted restraint on the patentee's freedom to make allegations against his competitors, as long as it was made *bona fide* was disapproved in Halsey v. Brotherhood (1880) 15 Ch.D. 514; (1881) 19 Ch.D. 386 (confirmed by CA), resulting in further strengthening of the threatener's position and erosion of the rights of the person threatened. Jessel M.R. held that a patent, so long as it subsisted, was *prima facie* good, and, therefore, a patentee who issued notices against purchasing from a vendor alleging infringement of his patent was not bound to follow up his notices by taking legal proceedings; and provided he issued the notices *bona fide* in assertion of what he believed, though erroneously, to be his legal rights under his patent, he did not render himself liable to an action by the vendor for damages for injury caused by issuing them. At page 517, Jessel M.R. said, "It is said that he is not entitled to tell persons buying the plaintiff's engines that they are infringements and that those persons are liable to an action; and that he is not entitled to even to give a notice that these engines are infringements of his patent rights unless he follows up that notice by some legal proceeding. I must entirely dissent from that proposition. There is ... no law in this country compelling a man to assert his legal right by action." His judgement was unanimously upheld by the Court of Appeal. However, in Royal Baking Powder Co. v. Wright, Crossley & Co. (1901) 18 RPC 95 (HL), Lord Davey, at page 99, said, "It is only repeating the same proposition in another form if I add that the threat to sue must be shown to have been made for the purpose of injuring the plaintiffs, and not for the *bona fide* protection of the defendants' rights, and without any real intention to follow it up by action or other legal proceedings".

¹⁴ Halsey v. Brotherhood (1880) 15 Ch.D. 514; (1881) 19 Ch.D. 386 (confirmed by CA).

¹⁵ Halsey v. Brotherhood (1880) 15 Ch.D. 514, *per* Jessel M.R., at page 518.

which the supposed slander of the plaintiff's title is uttered, it is not enough that the statement should be untrue, but there must be some evidence, either from the nature of the statement or otherwise, to satisfy the court or the jury that the statement was not only untrue, but was made *mala fide* for the purpose of injuring the plaintiff, and not in the *bona fide* defence of the defendant's own property. It seems to be clear that if a statement is made in defence of the defendant's own property, although it injures and is untrue, it is still what the law calls a privileged statement, it is a statement that the defendant has a right to make, unless, besides its untruth and besides its injury, express malice is proved, that is to say, want of *bona fide* or the presence of *mala fide*. The law is so laid down in Wren v. Weild ... The result of that may be injury to the plaintiff, ... but it appears to me that a statement made under such circumstances does not give a ground of action merely because it is untrue and injurious to the plaintiff, there must also be the element of *mala fide* and a distinct intention to injure the plaintiff apart from the honest defence of the defendant's own property."¹⁶

It is instructive to note that despite the fact that the judge felt that the defendant's belief was not based on reasonable or probable cause, the plaintiffs were not entitled to damages nor to an injunction.¹⁷ What was paramount was that the plaintiffs had not been able to prove the defendant's lack of *bona fide*.

Though not stated in so many words, a similar approach was followed by the Court of Appeal in The Societe Anonyme des Manufactures de Glacés v. Tilghman's Patent Sand Blast Co.¹⁸ There the plaintiffs brought an action to restrain the issue of threatening circulars by the defendants until the matters in dispute had been determined by arbitration. The Court of Appeal held, *inter alia*, that where a trade circular is issued *bona fide*, an interim injunction will not be granted to restrain it unless it is in violation of some contract between the plaintiff and defendant, however much the balance of convenience may be in favour of granting it.

For a brief moment the possibility was held out that a plaintiff in such a situation could be granted a remedy to restrain such unfair activities which tended to injure his property. This possibility could be discerned from the case of Dixon v. Holden,¹⁹ where it was held that

¹⁶ Halsey v. Brotherhood (1881) 19 Ch.D. 386, *per* Lord Coleridge L.C.J., at page 388. See the concurring opinions of Baggallay L.J., at pages 389-390, and Lindley L.J., at page 392; see also Sugg v. Bray (1885) 2 RPC 223, where the same principle was applied.

¹⁷ See also North J., at page 243, in Sugg v. Bray (1885) 2 RPC 223, "Now, if this question has to be decided by the expression of my own personal opinion, formed after hearing all the evidence and all the arguments, I should say - knowing what I now know - that ... there was no reasonable or probable cause for any of the statements. But that is not the mode in which the question must be dealt with."

¹⁸ The Societe Anonyme des Manufactures de Glacés v. Tilghman's Patent Sand Blast Co. (1884) 25 L.R. Ch. D. 1, see Cotton L.J., at pages 6, 7 and 9, and Lindley L.J., at page 11.

¹⁹ Dixon v. Holden (1868-69) 7 L.R. Eq. 488, *per* Sir R. Malins V.C., at page 494, "In the decision I arrive at I beg to be understood as laying down that this court has jurisdiction to prevent the

the court had jurisdiction to restrain the publication of any document tending to the destruction of property, whether consisting of money or of professional reputation by which property was acquired. However, this short-lived possibility disappeared when the Court of Chancery Appeal, in Prudential Assurance Company v. Knott,²⁰ held that the court had no jurisdiction to restrain the publication of a libel as such, even if it was injurious to property. Dixon v. Holden and Springhead Spinning Company v. Riley²¹ were expressly overruled.²²

So Wren v. Weild and Halsey v. Brotherhood laid down the foundation for the approach of the common law to threats in relation to patent infringement. To obtain a remedy, it is not enough for the plaintiff to prove that the statement is untrue. It is not enough if the plaintiff merely proves that he has suffered damage. The rule is that as long as the statement is not malicious,²³ there is no possibility of an action for damages. Even if malice is to be proved,

publication of any letter, advertisement, or other document, which, if permitted to go on, would have the effect of destroying the property of another person, whether that consists of tangible or intangible property - whether it consists of money or reputation".

20 Prudential Assurance Company v. Knott (1874-75) 10 L.R. Ch. App. 142.

21 Springhead Spinning Company v. Riley (1868) L.R. 6 Eq. 551.

22 Prudential Assurance Company v. Knott (1874-75) 10 L.R. Ch. App. 142, *per* Lord Cairns L.C., at pages 144 and 147, and Sir W.M. James L.J., at page 147; see also White v. Mellin [1895] AC 154 (HL) - an action will not lie for a false statement disparaging a trader's goods where no special damage is proved. Lord Macnaghten, at page 169, with regard to the need to show special damage, specifically referred to the comments of Lord Cairns L.C., at page 147; and Skinner & Co. v. Perry (1893) 10 RPC 1, *per* Bowen L.J., at page 6.

23 Although in an actions for slander of goods and malicious or injurious falsehood, malice is an essential element, the definition of malice in the context of malicious falsehood remains uncertain. It had been said that "there is a regrettable exuberance of definition" - British Railway Traffic and Electric Co. Ltd v. CRC Co. Ltd and LCC [1922] 2 KB 260, at 268, *per* McCardie J. Various definitions have been adopted. See, for example, Royal Baking Powder Co. v. Wright, Crossley & Co. (1901) 18 RPC 95 (HL), where "maliciously" was said to mean "without just cause or excuse ... It is only repeating the same proposition in another form if I add that the threat to sue must be shown to have been made for the purpose of injuring the plaintiffs, and not for the *bona fide* protection of the defendants' rights, and without any real intention to follow it up by action or other legal proceedings", *per* Lord Davey, at page 99; Halsey v. Brotherhood (1881) 19 Ch.D. 386, *per* Baggallay L.J., at page 390, "reasonable and probable cause is necessary."; White v. Mellin [1895] AC 154 (HL), at 160, *per* Lord Herschell - There is no evidence of malice if all that was shown was that the defendant wrote or spoke honestly, even though wrongly, in defence of a real or supposed right or title to the property, or carelessly, believing the words to be true, or merely for the purpose of advancing the sale of his own goods; Dunlop Pneumatic Tyre Co. Ltd v. Maison Talbot (1904) 20 TLR 579 (CA) - Collins M.R. was reported to have said, at page 581, that "It was not malice if the object of the writer was to push his own business, though at the same time it might incidentally injure another person's business. To make the act malicious it must be done with the direct object of injuring that other person's business. Therefore, the mere fact that it could injure another person's business was no evidence of malice."; Olin Mathieson Chemical Co. v. Biorex Laboratories Ltd [1970] RPC 157, *per* Graham J., at page 196, "Malice in this context means improper motive."; Household and Rosher v. Fairburn and Hall (1884) 1 RPC 109, at 113, "That it is not *mala fide* for a man to issue circulars in defence of his own right, if he *bona fide* believes that what is being done is an infringement of that right"; The Societe Anonyme des Manufactures de Glacés v. Tilghman's Patent Sand Blast Co. (1884) 25 L.R. Ch. D. 1, *per* Cotton L.J., at pages 6-7, "We must assume that those circulars are honestly issued, ... that they are issued by the defendants in the belief that they are required for the protection of their right to the invention."; see also Pratt and ors v. British Medical Association and ors [1919] 1 KB 244, at 276, where McCardie J. reviewed the cases and pointed out the various and wide meanings to the word "malice".

the plaintiff has to show that he has suffered special damage²⁴ to be entitled to a remedy. In the absence of malice, even an injunction will not issue.²⁵ This approach has been followed in every later case until the present day.²⁶

In conclusion, the making of false statements about existing actions or goods, whilst not in itself an actionable threat may be actionable at common law if the statements are malicious. To establish his cause of action in an action for slander of title or goods or malicious falsehood, the plaintiff must prove that the words were uttered, that they were false, that they were published maliciously and, that they caused him special damage. Only if all the four conditions are satisfied would the person alleged to be aggrieved have a remedy. If even one of them is missing, then he is helpless because he has not suffered any legal *injuria*.

5.2. The Introduction and Development of Threats Provisions in the United Kingdom

5.2.1. The Legislative Response in the United Kingdom

The case of Halsey v. Brotherhood exposed the weakness of the common law remedy for groundless threats. There was a realisation that the available common law remedy is far from satisfactory and is not the proper remedy for person subject to unfair or adverse

²⁴ The words "special damage" was clarified in Ratcliffe v. Evans [1892] 2 QB 524, at 527-528, *per* Bowen L.J., where the various meanings of special damage was discussed and explained. He further added that to support a case for malicious prosecution special damage in the sense of actual damage must be shown. See also Farr v. Weatherhead & Harding (1932) 49 RPC 262, *per* Luxmoore J., at page 267, "I think that so far as this type of case is concerned that means that the plaintiff must prove that he has suffered some actual loss which is directly attributable to the threats of which he is making complaint."

Note that it is not necessary to prove special damage where section 3, Defamation Act 1952, as amended by Defamation Act 1996, Chap. 31 (UK) applies - i.e., if (1) the words on which the action is founded are calculated to cause pecuniary damage to the plaintiff and are published in writing or other permanent form; or (2) the words are calculated to cause pecuniary damage to the plaintiff in respect of any office, profession, calling, trade or business held or carried on by him at the time of the publication. There is no such a provision in the Malaysian Defamation Act.

²⁵ Halsey v. Brotherhood (1880) 15 Ch.D. 514; (1881) 19 Ch.D. 386, *per* Lindley L.J., at page 393, "It seems to me that no injunction will lie against him so long as he acts honestly. But if it is proved that his statement is false to his knowledge, and there is reason to suppose that he intends to repeat these false statements, an injunction ought to lie, because he would be about to do that which he has not right to do."

²⁶ See, for example: Household and Rosher v. Fairburn and Hall (1884) 1 RPC 109; Household and Rosher v. Fairburn and Hall (1885) 2 RPC 140; Brauer v. Sharp (1886) 3 RPC 193; Colley v. Hart (1890) 7 RPC 101. See also the more recent cases on slander of title or trade libel, Farr v. Weatherhead & Harding (1932) 49 RPC 262; Berkeley & Young Ltd & Goodman Ltd v. Stillwell Darby & Co. Ltd & Konig (1940) 57 RPC 291; Bestobell Paints Ltd v. Bigg [1975] FSR 421; Crest Homes Ltd v. Ascott [1980] FSR 396; Granby Marketing Services Ltd v. Interlego A.G. & anor [1984] RPC 209. The same principle was applied in Olin Mathieson Chemical Co. v. Biorex Laboratories Ltd [1970] RPC 157, *per* Graham J., at pages 176-177.

comments about his business, especially when threats were issued.²⁷ Though the problems were recognised yet the court felt unable to give any remedy and felt that legislative intervention was necessary. It was clear that some legislative action was needed to provide some justice to victims of such threats. Therefore, partly in response to the case of Halsey v. Brotherhood, the United Kingdom legislature introduced a statutory remedy for persons who were aggrieved by the issuance of unjustified threats.²⁸

The object of the provisions is to give the person threatened an entirely new right of action in which malice is not an issue.²⁹ The provisions are aimed at "a patentee who causes damage by disseminating threats which he dare not or will not justify by an action, who is willing to wound, but yet afraid to strike."³⁰ Bowen L.J. said that it was the outcome of the Legislature's desire that "threats of patent actions shall not hang over a man's head; that the Sword of Damocles, in such a case, "shall either not be suspended or should fall at

²⁷ See, for example, the following comments: Halsey v. Brotherhood (1880) 15 Ch.D. 514; (1881) 19 Ch.D. 386, *per* Lord Coleridge L.C.J., at page 389, "I feel strongly that there is great force in what Mr Ince has said about the difficulty in which a plaintiff may be placed by the conduct of a person in the position of the defendant. I do not pretend to be able to answer his observation on that head, but unless there is *mala fide*, it is one of those instances in which the law, in the interest of society, permits an injury to be done without any remedy commensurate with it."; Crompton v. The Patents Investment Co., Ltd (1888) 5 RPC 382, *per* Field J., at page 392, "Before this enactment, if a person maliciously and without reasonable and probable cause, threatened to interfere with another man's rights in that way, it might be made the subject of an action. But it was thought by the legislature that this did not afford sufficient protection to persons who were using patented inventions. ... There were ... several cases which were considered to be very oppressive. People in possession of rights apparently covered by patents were in the habit of threatening the customers of persons claiming to be patentees, destroying the sale by them of the subject of their patents, and then never proceeding any further."; Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143; (1953) 70 RPC 284 (CA); *per* Evershed M.R., for the Court of Appeal (Jenkins L.J., and Morris L.J., concurring) at pages 294-295, "I can well understand that a business which receives what are commonly called "threatening" letters from persons who have a somewhat similar business may suffer serious business damage, and to rely upon the common law action for slander of goods may be a wholly ineffective remedy, having regard to the necessity of proving malice."

²⁸ Skinner & Co. v. Perry (1893)10 RPC 1, *per* Lindley L.J., at page 5, "... this section in the Patent Act was introduced after, and partly in consequence of the decision of the court in Halsey v. Brotherhood (1880) 15 Ch.D. 514. ... Now the object of this Act was to cure two blots - first of all to give an action for damages where there was not one before; and secondly, to enable an action to be brought against one who uses threats unless he will or does follow up his threats by commencing an action himself. That is the key note."

It is not clear who exactly originated the threats provision in the 1883 Act. It did not appear in the original Bill, nor was it mentioned by Mr Chamberlain, President of the Board of Trade, when he presented it during the Second Reading - Hansard Set 3, CCLXXVIII, 1883. It seems to have been introduced during the Committee stage (see Davies, A.J., "On Threats of Legal Proceedings and the 32nd Section of the Patents, Designs, and Trade Marks Act, 1833." Transaction of the Institute of Patents Agents, Vol. V Session 1886-7, 218). According to Daniel, section 32 was introduced by Sir George Jessel who decided the case of Halsey v. Brotherhood, see Daniel, E.M., "On the Proviso to Section 32 of the Patents Act 1883", Transactions of the Institute of Patents Agent, Vol. VIII, Session 1889-90, 241, at 242.

²⁹ See Skinner & Co. v. Perry (1893)10 RPC 1, *bona fides* of defendant is irrelevant, what matters is what he said not what he intended; Craig v. Dowding (1908) 25 RPC 259, *per* Cozens-Hardy M.R., at page 262, "Section 32 does not ... merely relieve a plaintiff from the obligation of establishing malice in the old common law action, but it confers an entirely new right of action, and one in which malice is not an issue between the parties."; see also Alpi v Wright [1972] RPC 125, *per* Whitford J., at page 129.

³⁰ Day v. Foster (1890) RPC 54, *per* North J., at page 60.

once."³¹ The provisions give a right to the plaintiff but not to the defendant. The latter is only given a shield or defence when he is able successfully to prove justification.³²

5.2.2. The Revealed Weaknesses and Further Strengthening of the Threats Provisions

The original "threats section" was introduced by section 32 of the Patents, Designs and Trade Marks Act 1883. This was re-enacted in section 36 of the Patents and Designs Act, 1907. The threats provisions, though welcomed, contained several weaknesses. With reference to the 1883 Act, Kekewich J. said:

" ... I have already said that the section is a legislative puzzle, and I am not sure that the puzzle can be properly resolved without the assistance of the Legislature."³³

Hence, despite the intended purpose of providing protection against unjustified threats, the weaknesses of the section resulted in depriving persons threatened from getting the remedies intended by the section. This part of the chapter discusses the weaknesses revealed in the working of the threats provision and the legislative interventions to rectify them.

1. The first defect in the 1907 Act was revealed, as illustrated in Diamond Coal Cutter Company v. Mining Appliances Company,³⁴ where it was held that a person who claimed to be a licensee, even an exclusive licensee, did not claim to be the patentee of an invention within the meaning of section 36 of the Patents and Designs Act 1907. Therefore, the threats issued by him did not fall within the "threats" section.³⁵ This led to an amendment in the 1919 Act, whereby the phrase "Where any person claiming to be the patentee of an invention ..." in the 1907 Act was replaced by the phrase "Where any person claiming to *have an interest in a patent* ...".

³¹ Skinner & Co. v. Perry (1893)10 RPC 1, at page 8; see also Norbert Steinhardt and Son Ltd v. Meth and anor [1960-1961] 105 CLR 440, *per* Fullagar J., in the High Court of Australia, in relation to an equivalent provision in the Patents Act 1952-1955 (Cth), at page 447, "It is intended, I think, to have a strict and dramatic effect - to supplement a less effective common law remedy."; and Townsend Controls Pty Ltd v. Gilead and anor (1988-1989) 14 IPR 443, *per* von Doussa J., at page 448.

³² Mechanical Services (Trailer Engineers) Ltd v. Avon Rubber Co. Ltd [1977] RPC 66, *per* Graham J., at page 75; see also Townsend Controls Pty Ltd v. Gilead and anor (1988-1989) 14 IPR 443, *per* von Doussa J., at page 448.

³³ The Combined Weighing Machine Co. v. The Automatic Weighing Machine Co. (1889) 6 RPC 502, at page 506.

³⁴ Diamond Coal Cutter Company v. Mining Appliances Company (1915) 32 RPC 569.

³⁵ Diamond Coal Cutter Company v. Mining Appliances Company (1915) 32 RPC 569, *per* Lord Cozens-Hardy M.R., at page 574, *per* Bankes L.J., at pages 574-575, who also expressed the view that "there may be ground for an amendment of the law", and Warrington L.J., at pages 575-576.

2. A further defect in the section was revealed by the case of Ellis and Sons Limited v. Pogson,³⁶ where it was held that although it had been proved that the defendant had threatened the plaintiffs' customers as alleged and that in consequence, the plaintiffs had suffered damage, the defendant was not liable. This was because section 36 of the Patents and Designs Act, 1907, as amended by the Patents and Designs Act, 1919, presupposed the existence of a patent. It did not apply to the case, such as that in the case at hand, where there had never been in existence a patent in respect of which the threats had been made.³⁷

This defect was cured by section 36 of the Patents and Designs Act, 1932, which repealed the former section 36 of the 1907-28 Acts, and enacted a new section 36 in its place. The new section gave a remedy for groundless threats irrespective of whether the person making the threat did or did not have any interest in a patent.

3. Prior to the 1932 Act there was a special proviso to the threats section which read:

"Provided that this section shall not apply if an action for infringement of the patent is commenced and prosecuted with due diligence."

This proviso was subjected to a lot of adverse comments by judges.³⁸ On the recommendation of the Sargent Committee,³⁹ section 36 of the Patents and Designs Act

³⁶ Ellis and Sons Limited v. Pogson (1923) 40 RPC 62; (1923) 40 RPC 179, Court of Appeal, *per* Lawrence J., at pages 66-68, and Warrington L.J., at page 182.

³⁷ The defendant had applied for a patent in January, 1921, and had lodged the complete specification in September, 1921. The threats were alleged to be uttered in November, 1921. Following opposition to the grant, the grant was refused in 1922.

³⁸ See reservation of Pearson J., at page 2, in Barnett and Foster v. Barrett's Screw Stopper Bottling Co., Ltd (1884) 1 RPC 9, on the potential for abuse of the proviso, "I do not mean in the slightest degree to suggest any impropriety; but I do see this, that a motion of this kind being made, a defendant might, simply to stave off proceedings, issue a writ and nothing more; and then, when it had served his purpose, he might discontinue the action, and the court might be in great difficulties to know what to do."; Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143; (1953) 70 RPC 284 (CA), *per* Evershed M.R., for the Court of Appeal (Jenkins L.J., and Morris L.J., concurring), at pages 295-96, "One of the problems which the section had earlier presented was solved by the removal from the present section of the former proviso that it had no application when an action for infringement was brought within a reasonable time after the alleged threat. I can see a sensible ground for removing that limitation."; see also The Combined Weighing Machine Co. v. The Automatic Weighing Machine Co. (1889) 6 RPC 502, *per* Kekewich J., page 508, "On the other hand, it seems to me impossible, even apart from authority, to hold that the patentee did not commence his action with due diligence, when he commenced within the fortnight after the threat was made. That lands me in a position of considerable difficulty. I find a plaintiff properly commencing his action, and exercising the right which is given him by Act of Parliament, ... at the time of issuing the writ, then, possibly, if one construction of the Act should prevail, defeated by something entirely future, which happened after his action is commenced, so that what was right on the 27th, became wrong on the 30th. The right of action given by the Legislature, and properly exercised at one time, is, apparently, on that construction, taken away by the legislature three days afterwards. It is a strange conclusion at which to arrive; but if the Legislature has said so in plain words, I have no other duty than to adopt the Legislature's express meaning ... I hold that he has commenced his action with due diligence, and it is an action for infringement; and under those circumstances, this follows. The section does not apply. It is a strange result, but the language .. is perfectly plain... It certainly has given with one hand a right of action, and taken it way with the other."

1932, revoked this previous statutory defence to an action for threats of commencing and prosecuting an action for infringement with due diligence.⁴⁰

4. Section 36 of the 1932 Act was re-enacted in section 65 of the 1949 Act (Consolidating Act). This section substantially re-enacted section 36 of the Act of 1932. The new provision was the addition of a new subsection (3) which read as follows:

"For the avoidance of doubt, it is hereby declared that a mere notification of the existence of a patent does not constitute a threat of proceedings within the meaning of this section."⁴¹

5. The present provision is found in section 70 of the 1977 Act. In substance subsections (1), (2), (3) and (5) reproduce, although in slightly modified language, the provisions of the previous legislation. Subsection (4) of section 70 is, however, new.⁴² The new subsection (4) reads as follows:

³⁹ Report of the Departmental Committee on the Patents and Designs Acts and Practices of the Patent Office, Cmnd 3829 (1931), in paragraphs 163-169.

⁴⁰ For the difficulties in applying the proviso and who should the action for infringement be taken against, see Challender v Royce (1887) 4 RPC 363, *per* Cotton L.J., at pages 373-374; *per* Bowen L.J., at pages 374-375; as to the meaning of "action for infringement", see The Combined Weighing Machine Co. v. The Automatic Weighing Machine Co. (1889) 6 RPC 502, *per* Kekewich J., at page 506, where he held that to be an action for infringement within the proviso it must be an infringement of the of the same character as that which is threatened." As to the discussion on the meaning of due diligence, see Challender v Royce (1887) 4 RPC 363, *per* Cotton L.J., at pages 372-373, and *per* Bowen L.J., at page 375; Herrburger v. Squire (1888) 5 RPC 581; The Combined Weighing Machine Co. v. The Automatic Weighing Machine Co. (1889) 6 RPC 502, *per* Kekewich J., at page 508, "It certainly has given with one hand a right of action, and taken it way with the other."; Barrett & Elers, Ltd v. Day; Day v. Foster(1890) 7 RPC 54; Colley v. Hart (1890) 7 RPC 101; Waite & Saville, Ltd v. Johnson Die Press Co. Ltd (1901) 18 RPC 1; Voelker Incandescent Mantle, Ltd v. Welsbach Incandescent Gas Light Co. Ltd (1901) 18 RPC 494, *per* Lord Alverstone L.C.J., at page 496; Pittevil & Co. v. Brackelsberg Melting Processes Ltd (1932) 49 RPC 73 and 327, *per* Luxmoore J., at pages 80-81; Farr v. Weatherhead & Harding (1932) 49 RPC 262, *per* Luxmoore J., at pages 266-267. For a thorough discussion of this proviso, see Colley v. Hart (1890) 7 RPC 101, where it was also held that it was not necessary to prosecute the action for infringement to a successful termination to be protected by the proviso. The difficulties of fixing a definite time within which an action must be brought to be commenced with due diligence was also illustrated. See North J., at pages 106-110; North J.'s approach in Colley v. Hart was approved of and applied by the Court of Appeal in Craig v. Dowding (1908) 25 RPC 259, *per* Buckley L.J., at page 264.

⁴¹ Subsection (3) was based on the recommendation of the Swan Committee. Three reports were made: 1) Patents and Designs Acts - First Interim Report of the Departmental Committee, Cmnd 6618 (April 1945), (2) Patents and Designs Acts - Second Interim Report of the Departmental Committee, Cmnd 6789, April 1946, and (3) Patents and Designs Acts - Final Report of the Departmental Committee, Cmnd 7206, September 1947. Paragraph 238 of the Swan Committee recommendations - Final Report of the Departmental Committee Cmnd 7206 states:
"We recommend that a proviso should be added to subsection (1) to the effect that a circular, advertisement or communication addressed to any person, which comprises only a notification of the existence of a particular patent or patents upon which the proprietor relies for protecting his interests shall not, by itself, be deemed to be a threat of an action for infringement."
No reason was given by the Committee in its Report.

⁴² The inclusion of subsection (4) of section 70 was proposed by the Banks Committee, Report of the Committee to Examine the Patent System and Patent Law, Cmnd. 4407 (The Banks Report), HMSO, London, 1970, see paragraphs 274 and 275, at page 78; see also Patent Law Reform - A Consultative Document (Department of Trade) 1975, Her Majesty's Stationery Office (note: This

"Proceedings may not be brought under this section for a threat to bring proceedings for an infringement alleged to consist of making or importing a product for disposal or of using a process."

5.3. The Present Working of the United Kingdom Threats Provisions

This section of the chapter will focus on the working in practice of this threats provision. Some of the issues that were in doubt and the construction of the various elements in the section will be discussed.

5.3.1. Could the Validity of the Patent be Challenged in a Threats Action?

In the early case of Wren v. Weild,⁴³ the position was that the validity of the patent was not in issue, therefore, any evidence by the plaintiff to show that the defendant's patent was invalid was irrelevant. As far as action under the threats section was concerned, it was initially uncertain whether the validity of the patent could be challenged. For example, in Kurtz v. Spence,⁴⁴ evidence tending to establish the invalidity of the patent in issue was held to be inadmissible. The issue was also raised in Challender v. Royce, where the Court of Appeal held that in an action under section 32 of the 1883 Act, the validity of the defendant's patent may be put in issue.⁴⁵

The issue was finally settled in Pittevil & Co. v. Brackelsberg Melting Processes Ltd,⁴⁶ following Challender v Royce, and it is now accepted that invalidity could be made an issue in such a proceeding. The basic philosophy is based on the theory that since the essence of

document supplements the White Paper on Patent Law Reform, Cmnd 6000, and sets out in detail the Government's proposals for implementing the recommendations of the Banks Committee) - see paragraph 72, "Section 65 of the Patents Act provides protection against a patentee seeking to end competitive activities without putting his patent and claim for infringement to the test of court proceedings. The need for such protection is to obviate the possibility of the patentee seeking to coerce the customers of a competitor not to purchase the competitor's goods. But section 65 goes too far in giving protection also to primary infringers, as Banks recognised. Section 65 will therefore be revised so as to provide that no action for threats will lie where the threat is made against a person making apparatus or products for sale which are alleged to infringe, or using an alleged infringing process or importing for sale apparatus or products which are alleged to infringe. Such an action will still lie where the threat is made against a customer of such a manufacturer." See also, Patent Law Reform - Department of Trade, presented to Parliament on April 1975, Cmnd 6000, London, Her Majesty's Stationery Office, 1975, paragraph 20, "Other Banks' recommendations on infringement were for the abolition of the Comptroller General's jurisdiction over infringement, and for changes in the law on declaration of non-infringement, and the remedy for groundless threats in infringement proceedings. These recommendations will also be implemented."

⁴³ Wren v. Weild (1868-69) 4 L.R. Q.B. 730.

⁴⁴ Kurtz v. Spence (1886) 3 RPC 368, *per* Chitty J., at page 371.

⁴⁵ Challender v. Royce (1887) 4 RPC 363, *per* Bowen L.J., at page 375; also allowed in Law v. Ashworth (1890) 7 RPC 86.

⁴⁶ Pittevil & Co. v. Brackelsberg Melting Processes Ltd (1932) 49 RPC 23.

the allegation is that a patent has been infringed, the person threatened should be allowed to defend himself by proving non-infringement and a patent that is invalid can not be infringed.⁴⁷

Since the 1932 Act, the point is beyond doubt because of the addition of "which is not shown by the plaintiff to be invalid".

5.3.2. "Or Otherwise" not to be Construed *Ejusdem Generis*

The term "or otherwise" had been held to encompass oral threats.⁴⁸ Driffield & Co. v. Waterloo & Co.⁴⁹ was the first reported case on whether letters fall within the threats section. It was held that as each circular must be directed to some person in order to be useful, the words "any other person," plainly brought the letter which was written within the provisions of the section.⁵⁰

This issue was exhaustively argued in the Court of Appeal in Skinner & Co. v. Perry,⁵¹ where it was unanimously agreed by the judges that the term "or otherwise" is not to be construed *ejusdem generis* with the words, "circular" or "advertisement". The addition of the words "circulars or advertisements" was rather to enlarge the words "or otherwise" than to cut them down.

⁴⁷ Pittevil & Co. v. Brackelsberg Melting Processes Ltd (1932) 49 RPC 23, *per* Luxmoore J., at page 26, at first instance, and *per* Lord Hanworth M.R., at page 29, Lawrence L.J., at pages 31-32, and Romer L.J., at page 32.

⁴⁸ See, for example, Luna Advertising Co. Ltd v. Burnham & Co. (1928) 45 RPC 258; The National School of Salesmanship. Ltd v. The Plomien Fuel Economiser. Ltd (1942) 59 RPC 95, and H.V.E.(Electric) Ltd and ors v. Cufflin Holdings Ltd [1964] RPC 149. See also Tapley (HL) and Co. Ltd v. White Star Products Ltd [1957] NZLR 612, *per* North J., at 617, decision under a similar provision of the Patents Act 1953, New Zealand, section 74.

⁴⁹ Driffield & Co. v. Waterloo & Co. (1886) 3 RPC 46.

⁵⁰ Driffield & Co. v. Waterloo & Co. (1886) 3 RPC 46, *per* Bacon V.C., at page 48. See also, Crampton v. The Patents Investment Co., Ltd (1888) 5 RPC 382, *per* Field J., at page 393, "For that purpose they allege that the ... words 'or otherwise' must be read by reference to the previous words 'by circulars, or advertisements', or something *ejusdem generis* with that. I have considered the point and I do not think there is any foundation for it."; The Combined Weighing Machine Co. v. The Automatic Weighing Machine Co. (1889) 6 RPC 502; Barrett & Elers. Ltd v. Day (1890) 7 RPC 54.

⁵¹ Skinner & Co. v. Perry (1893)10 RPC 1, *per* Lindley L.J., at pages 5-6, and Bowen L.J., at pages 7-8. The same approach was followed in subsequent cases, see, for example, Douglass v. Pintsch's Patent Lighting Company (1896) 13 RPC 673; Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143; (1953) 70 RPC 284 (CA), *per* Evershed M.R., for the Court of Appeal (Jenkins L.J., and Morris L.J., concurring), at pages 294-295.

5.3.3. What is a "Threat"

An express and direct threat would obviously fall within the meaning of the word "threat" in the section. However, the cases have shown that there is no need to prove that the defendants had actually threatened proceedings to constitute "threats" within the meaning of the threats section. The test that is to be applied is that enunciated by Clauson J. in Luna Advertising Co. Ltd v. Burnham & Co.⁵² The sole issue in that case was whether the words expressed by a representative of the defendant amounted to a threat of legal proceedings for patent infringement. Mr Justice Clauson held that it was a question which entirely depended upon the inferences which an ordinary man would draw from the attitude of the parties if he was present at the interview.⁵³ This approach was applied in Willis & Bates Ltd v. Tilley Lamp Co.,⁵⁴ where Bennett J. held that the terms of the Act were satisfied if the defendant in the action was proved to have asserted that he had legal rights in respect of letters patent and that he intended as against the plaintiff to enforce those rights.⁵⁵

Since a threat of an action for infringement could thus be made indirectly or by implication, regard had to be had to the background in which the alleged threat was made.⁵⁶ It has, however, been held that to circulate threats by others is not to threaten, but may nevertheless be restrained by injunction.⁵⁷ The threats need to have been made within jurisdiction.⁵⁸

52 Luna Advertising Co. Ltd v. Burnham & Co. (1928) 45 RPC 258.

53 Luna Advertising Co. Ltd v. Burnham & Co. (1928) 45 RPC 258, *per* Clauson J., at page 260.

54 Willis & Bates Ltd v. Tilley Lamp Co. (1944) 61 RPC 8.

55 Willis & Bates Ltd v. Tilley Lamp Co. (1944) 61 RPC 8, *per* Bennett J., at page 11; Desiderio v. Currus Ltd (1935) 52 RPC 201, *per* Crossman J., at page 205; also followed by the Court of Appeal in H.V.E.(Electric) Ltd and ors v. Cufflin Holdings Ltd [1964] RPC 149, *per* Salmon L.J., at page 158, and Reymes-Cole v. Elite Hosiery Co. Ltd [1965] RPC 102 (CA), at 112, 119-120, see Willmer L.J., at page 111. The same approach was also followed in John Summers & Sons Ltd v. The Cold Metal Process Co. (1948) 65 RPC 75; C. & P. Development Co. v Sisabro Novelty Co. Ltd (1953) 70 RPC 277 (CA), *per* Jenkins L.J., at page 282; Speedcranes Ltd v. Thomson and anor [1978] RPC 221, *per* Lord Emslie at page 224; Bowden Controls Ltd v. Acco Cable Controls Ltd and anor [1990] RPC 427, *per* Aldous J., at page 431, "The letter does not explicitly threaten patent proceedings, but states that the first defendant will enforce its rights. The fact that it is not explicit that patent proceedings will be taken is in no way conclusive as a threat can be veiled or implied just as much as it can be explicit. ... (applying the approach of Clauson J. in Luna Advertising Co. Ltd v. Burnham & Co. (1928) 45 RPC 258)."

56 See Surrige's Patents Ltd v. Trico-Folberth Ltd 53 RPC 420, at 423, 424; and Bowden Controls Ltd v. Acco Cable Controls Ltd and anor [1990] RPC 427, *per* Aldous J., at page 432.

57 See Ellam v. H.F. Martyn & Co. (1898) 16 RPC 28 (CA).

58 See Egg Fillers & Containers (Aust) Proprietary Ltd v. Holed-Tite Packing Corp. & Packing Products Corp. (1934) 51 RPC 9, followed by the High Court of Australia in Norbert Steinhardt and Son Ltd v. Meth and anor [1960-1961] 105 CLR 440, *per* Fullagar J., at page 442, "It does, in my opinion, threaten to institute proceedings for infringements of patents in various countries. But these threats were not made in Australia but in England. And, in my opinion, an action cannot be maintained in an Australian court for threats made in another country. See also Townsend Controls Pty Ltd v. Gilead and anor (1989-1990) 16 IPR 469, *per* von Doussa J., at page 474.

5.3.4. Could an Answer to Inquiry be Construed as a Threat?

It would seem that a threat is not necessarily confined to volunteered threats. In some situations an answer to an inquiry may be construed as a threat. One of the issues in Beven & Alexander v. Welsbach Incandescent Gas Light Co. Ltd⁵⁹ was whether an answer in response to an inquiry from the customer of the plaintiff who sued for unjustified threats could amount to a threat. Byrne J., after discussing the difficulties in such a situation, held that though in principle it could amount to a threat, the circumstances in the present case were different.⁶⁰ In Alpi v Wright,⁶¹ the decision on this point was reserved.

5.3.5. Conditional, Contingent and Future Threats

A conditional or contingent threat, i.e., threatening to commence infringement proceeding unless the person threatened ceases carrying out the infringing activity will also amount to a threat, for "to threaten a person with an action for infringement must include case of threatening a person if he does not do what he is not bound to do."⁶²

Bowen L.J. in Challender v. Royce,⁶³ seemed to have created some doubts as to whether the threats section is applicable to threats relating to an intended infringement. He said, "I think these words indicate that the threat, which is the subject matter of the action, must not be merely a warning about something which is going to be done. It must be a threat of legal proceedings for liability in respect of an alleged manufacture - not a proposed manufacture, but an "alleged manufacture, use, sale, or purchase of the invention."⁶⁴ He further added, "Now, applying that to the facts, it seems to me that threats would not fall within that definition if they were mere threats or warning as to something which might be done in the future."⁶⁵

This aspect of the Court of Appeal decision was to create some conflict of opinions until clarified by the later decision of the Court of Appeal in Johnson v. Edge.⁶⁶ There the court

⁵⁹ Beven & Alexander v. Welsbach Incandescent Gas Light Co. Ltd (1903) 20 RPC 69.

⁶⁰ Beven & Alexander v. Welsbach Incandescent Gas Light Co. Ltd (1903) 20 RPC 69, *per* Byrne J., at pages 73-74, after referring to Douglass v. Pintsch's Patent Lighting Company (1896) 13 RPC 673 and Skinner & Co. v. Perry (1893)10 RPC 1.

⁶¹ Alpi v. Wright [1972] RPC 125, *per* Whitford J., at page 132.

⁶² See Kurtz v. Spence (1888) 5 RPC 161, *per* Kekewich J., at pages 171-173; Desiderio v. Currus Ltd (1935) 52 RPC 201, *per* Crossman J., at page 205; see also Reymes-Cole v. Elite Hosiery Co. Ltd [1965] RPC 102 - conditional threats - *per* Diplock L.J., at page 120.

⁶³ Challender v. Royce (1887) 4 RPC 363.

⁶⁴ Challender v Royce (1887) 4 RPC 363, Bowen L.J., at page 374.

⁶⁵ Challender v Royce (1887) 4 RPC 363, Bowen L.J., at page 375. In fact the headnotes to the case stated that "the section relates to threats of legal proceedings or liability in respect only of past acts alleged to be infringements."

⁶⁶ Johnson v. Edge (1892) 9 RPC 142.

considered and explained the judgement of Bowen J. in Challender v Royce and held that a warning directed against an intended infringement may be a threat within the section, provided that it could be made out that the intended infringement if carried out would be an actual infringement.⁶⁷ Further, a threat to sue, once a patent is granted, is also caught by the section.⁶⁸

5.3.6. "Threatens any Person"

It was not necessary in order that the threat should be actionable that it should have been communicated either directly or through an agent to the person threatened.

An interesting point was raised by the defendant in John Summers & Sons Ltd v. The Cold Metal Process Co.,⁶⁹ where it was argued that the provisions of the section were not brought into play unless the threatener communicated a threat of proceedings to the person threatened, either directly or through an agent. This question was answered by Bowen L.J. in Skinner & Co. v. Perry,⁷⁰ where he said in general term, "If I threaten a man that I will bring an action against him, I threaten him none the less because I address that intimation to himself, and I threaten him none the less because I address the intimation to a third person." Romer J., in line with the views expressed by Bowen L.J., and taking into consideration the motive of the Legislature, held that the words in section 36, "threatens any person", read in their proper context did not only mean "communicate a threat to any person" but included also the expression of a threat, by circulars, advertisements or otherwise, in relation to any person. Therefore, a person who had expressed a threat to sue another person, although the threat was not communicated to the person threatened but to a third party, would be liable under the section.⁷¹

⁶⁷ Johnson v. Edge (1892) 9 RPC 142, *per* Lindley L.J., at page 148, Kay L.J., at page 149.

⁶⁸ See Patrick John Brain v. Ingledew Brown Bennison and Garret & anor [1995] FSR 552, *per* Jacob J., at page 557. This part of his decision was affirmed by the Court of Appeal, see Patrick John Brain v. Ingledew Brown Bennison and Garret & anor [1996] FSR 341 (CA), *per* Aldous L.J., at pages 347-348.

⁶⁹ John Summers & Sons Ltd v. The Cold Metal Process Co. (1948) 65 RPC 75.

⁷⁰ Skinner & Co. v. Perry (1893) 10 RPC 1, at page 7.

⁷¹ See Romer J.'s discussion on this issue in John Summers & Sons Ltd v. The Cold Metal Process Co. (1948) 65 RPC 75, at pages 96-97; followed in Speedcranes Ltd v. Thomson and anor [1978] RPC 221, *per* Lord Emslie, at page 224; see also the facts in Olin Mathieson Chemical Co. v. Biorex Laboratories Ltd [1970] RPC 157.

5.3.7. "Person Aggrieved"

Any person who was actually threatened is a person aggrieved.⁷² However, the statutory right of action is not merely limited to the person to whom the threats were directly made; any person aggrieved, such as a rival patentee, to whom damage was occasioned by the issue of the threats is entitled to relief. Thus in Johnson v. Edge,⁷³ where circulars were issued to the trade intimating that the articles manufactured and sold by the plaintiff were infringements of the defendant's patent and that proceedings would then be taken against any person dealing with such articles, it was held that the plaintiff was a person aggrieved and could maintain an action, although no threats were made to him personally. However, in Reymes-Cole v. Elite Hosiery Co. Ltd,⁷⁴ the defendants were held not to be persons aggrieved as they had ceased production of the type of stocking prior to the threat being made.⁷⁵ It would appear that even if the threats are directed at a company, a person who is likely to suffer damage in his personal capacity due to his intimate involvement with the direction and work of the company may be regarded as a person aggrieved.⁷⁶

5.3.8. Mere Notification and General Warning

A mere notification of the existence of patent does not constitute a threat. This is specifically provided for in section 70(5). If, however, words are added to the effect that what was complained of constitutes an infringement of the patent, this will constitute a threat.⁷⁷

A general warning to the trade that a patentee intends to enforce such rights as he has may avoid being an actionable threat so long as it points no warning finger against any specific

⁷² Challender v Royce (1887) 4 RPC 363, *per* Cotton L.J., at page 371; John Summers & Sons Ltd v. The Cold Metal Process Co. (1948) 65 RPC 75, *per* Romer J., at page 98.

⁷³ Johnson v. Edge (1892) 9 RPC 142.

⁷⁴ Reymes-Cole v. Elite Hosiery Co. Ltd [1965] RPC 102, *per* Willmer L.J., at pages 111-112, and Diplock L.J., at page 120.

⁷⁵ In Hart & Co. Pty Ltd v. Edwards Hot Water System (1979-80) 30 ALR 657, Lavan SPJ., following the case of Johnson v. Edge, held that "The statutory right of action conferred by s. 202(1) is not limited merely to the person to whom the threats are made but may be exercised by any person to whom damage may be occasioned by the issue of the threats: see Johnson v. Edge [1892] 9 RPC 142."; see also Townsend Controls Pty Ltd v. Gilead and anor (1989-1990) 16 IPR 469, *per* von Doussa J., at page 475, relying on John Summers.

⁷⁶ See Patrick John Brain v. Ingledeu Brown Bennisson and Garret & anor [1995] FSR 552, *per* Jacob J., at pages 558-559. In that case, the plaintiff was the managing director and controller of the company threatened (Intox), and was regarded as the driving force behind it. However, this part of Jacob J.'s declaration was set aside on appeal. See Patrick John Brain v. Ingledeu Brown Bennisson and Garret & anor [1996] FSR 341 (CA), *per* Aldous L.J., at pages 350-351, on the ground that it was not open to the judge to grant such a declaration pursuant to R.S.C., Order 14A, as it involved a question of fact. However, Aldous L.J. did leave open the possibility that the plaintiff in that case might be able to establish that he was a person aggrieved in the particular situation.

⁷⁷ A good example is found in Finkelstein v. Billig (1930) 47 RPC 516, *per* Bennett J., at page 518 (threats in relation to a registered design, Patents and Designs Acts, 1907 to 1919, sections 36 and 61. See also Jaybeam Ltd v. Abru Aluminium Ltd [1975] FSR 334; [1976] RPC 308.

trader. The threats section does not prevent a trader from issuing general warnings that he intends to enforce his patent against infringers.⁷⁸ However, should such warning amount, by implication, to a suggestion that the manufactures of a certain person are infringements of the patent referred to, an action will lie under the section.⁷⁹

5.3.9. Justification for Threats

It is a defence to the action for threats to show that "the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of a patent," unless the plaintiff shows the patent to be invalid so far as infringed.⁸⁰ To set up this defence the defendant must in effect prove everything he would need to prove in a patent infringement action. For example, a patent for the use of an article cannot justify a threat of proceedings for the manufacture and sale of the article itself, unless the defendant could prove the additional facts needed to establish infringement by use.⁸¹ Similarly a plea that acts "if done would constitute" infringement is answered by evidence that they could be done in a non-infringing way.⁸² The defendant, however, need not justify his threat upon all the patents mentioned in it, so long as he shows infringement of some such patent.⁸³

Justification will rarely be a defence to a motion for interlocutory injunction to prevent threats; the balance of convenience will nearly always call for threats to be stopped whilst the merits of the matter are fought out. The issue of whether interlocutory injunction is available if threats are to be justified was argued in Johnson Electric Industrial Manufactory

⁷⁸ Johnson v. Edge (1892) 9 RPC 142, *per* Lindley L.J., at page 148, "I cannot suppose that the section prevents a patentee from saying that which the patent itself implies - that anybody infringing must expect legal proceedings to be taken against him. I do not think it can mean that. That is merely saying what everybody knows already. That is not a threat against anybody in particular."

⁷⁹ Johnson v. Edge (1892) 9 RPC 142, *per* Lindley L.J., at pages 148-149. Kay L.J., at page 149, after referring to Challender v Royce (1887) 4 RPC 363, held that "a general warning ... not pointed against any particular person, which would not be by the public understood to apply to any particular person, might not be within this 32nd section at all." See also Boneham & Hart v. Hirst Bros. & Co. Ltd (1917) 34 RPC 209, *per* Peterson J., at page 212, "The question is whether the warning, which they have issued, is merely a general warning that they have a design or have a patent and warns persons generally against the infringement of it, or is it directed against the plaintiffs?"; Alpi v Wright [1972] RPC 125, *per* Whitford J., at page 133, "... if anybody is to bring a successful proceeding under section 65, it appears to me that they must be able to satisfy the court that a warning finger is pointed against the product of some other specific manufacturer or importer, or vendor."; The Selsdon Fountain Pen Co. Ltd v. Miles Martin Pen Co. Ltd (1948) 65 RPC 365, *per* Harman J., at page 215, "It was suggested that there was here no threat to 'any person', because no one in particular was named or indicated. I do not think this point will stand scrutiny. All the witnesses for the Martin Co. who were questioned on this point agreed that the Selsdon Co., amongst others, were aimed at."

⁸⁰ See section 70(2)(a) Patents Act 1977, UK.

⁸¹ The National School of Salesmanship, Ltd v. The Plomien Fuel Economiser, Ltd (1942) 59 RPC 95, *per* Bennett J., at page 108.

⁸² Blackett v. Dixon & Mann (1909) 26 RPC 73, at page 80.

⁸³ Rosedale Associated Manufacturers Ltd v. Carlton Tyre Saving Co. Ltd [1960] RPC 59 (CA), *per* Lord Evershed M.R., at pages 62-63.

Ltd v. Mabuchi Motor K.K.⁸⁴ The plaintiffs sought interlocutory relief to restrain threats. The defendants, however, contended that infringement had occurred, that the patents in issue were valid, and that accordingly the threats were justified. This being so, they sought further to argue, by analogy to the practice with respect to justification in libel and trade libel cases, that interlocutory relief should not be granted. The judge held that "threats in relation to allegations of infringement of patent do not stand in the same position in relation to their potential damage as does a question of trade libel. Threats in the context of allegations of patent infringement represented a very grave mischief. To accede to this application would effectively mean that the threats section in the Act would be of no real use to persons who were aggrieved by activities of this kind."⁸⁵

5.3.10. Is Relief Mandatory or Discretionary?

The section provides that "In any such proceedings the plaintiff or pursuer shall, if he proves that the threats were so made and satisfies the court that he is a person aggrieved by them, be entitled to the relief claimed unless:- ...". The question to be answered here is whether such relief is discretionary or mandatory. This question was discussed exhaustively in Benmax v. Austin Motor Co., Ltd.⁸⁶ In Evershed M.R.'s view, the phrase "the plaintiff shall be entitled" cannot mean more than "that the plaintiff shall be entitled *prima facie*,"⁸⁷ and that the court retained a discretion to grant an injunction or declaration.⁸⁸

⁸⁴ Johnson Electric Industrial Manufactory Ltd v. Mabuchi Motor K.K. [1986] FSR 280.

⁸⁵ Johnson Electric Industrial Manufactory Ltd v. Mabuchi Motor K.K. [1986] FSR 280, *per* Whitford J., at pages 284-289. It is otherwise if a threat within the ambit of section 70 is not involved. In such a case, the normal rule, that no interlocutory injunction will be granted where the defendant declares his intention of justifying his statement, will apply. See, for example, Easycare Inc. and anor v. Bryan Lawrence & Co. [1995] FSR 597, *per* Aldous J., at page 602, citing Bestobell Paints Ltd v. Bigg [1975] FSR 421, at page 429.

⁸⁶ Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143; (1953) 70 RPC 284 (CA).

⁸⁷ Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143; (1953) 70 RPC 284 (CA), *per* Evershed M.R. for the Court of Appeal (Jenkins L.J., and Morris L.J., concurring), at pages 295-96.

⁸⁸ See also, Tudor Accessories Ltd v. J.N. Somers Ltd [1960] RPC 215, where the court held that although the plaintiff was a "person aggrieved" by the threat within Patents Act 1949, s. 65, the court should in its discretion make no order in the action; and Rosedale Associated Manufacturers Ltd v Carlton Tyre Saving Co. Ltd [1960] RPC 59, *per* Lord Evershed M.R., at pages 62-63, "If the relevant words in the subsection 'shall be entitled' lead (and we express no view, one way or the other) to the result that, in the absence of satisfaction of the specified conditions, the Court has no option but to grant the relief sought and this relief includes the equitable remedy of the injunction, it must (to say the least) be unusual to deprive the court, in granting such form of relief, of any discretion in the matter; and the absence of any such discretion would at least support the view that the language of the subsection ought to be somewhat closely construed." But see Norbert Steinhardt and Son Ltd v. Meth and anor [1960-1961] 105 CLR 440, *per* Fullagar J., at page 448, in the High Court of Australia, in relation to the equivalent provision in the Patents Act 1952-1955 (Cth), where section 121 of that statute provides that "a person aggrieved ... may obtain a declaration to the effect that the threats are unjustifiable, and an injunction against the continuance of the threats, and may recover such damage, if any, ..." He said, "The only remaining question ... is ... whether the remedies given by section 121 are discretionary or as of right. This is ... a difficult question. The corresponding English section (s. 65 of the Patents Act 1949) says that,

5.3.11. The Operation of Section 70(4)

The effect of section 70(4) is to enable "primary" infringers to be "threatened with impunity".⁸⁹ This applies to the actual users of processes, and the actual makers and prime importers of infringing articles. But the "secondary" infringers, the wholesalers and retailers of infringing articles and the actual users of articles (as opposed to processes) still may not be threatened.

The subsection was considered and explained by the Court of Appeal in Therm-A-Stor Ltd v. Weatherseal Windows Ltd,⁹⁰ where the ambit of subsection (4) came into question. Threats were made to certain manufacturers and suppliers of parts used by the defendants for making the alleged infringing products. The plaintiffs tried to rely on the section 70(4) defence in relation to the threats made to the three suppliers. The defendants argued that section 60(1) provides that a person infringes a patent if, when the invention is a product, he makes, disposes of, offers to dispose off, uses or imports "the product". So, it was submitted that section 70(4) is referring to a threat in relation to the making of the same product as is referred to in section 60(1). The Court rejected that argument. It was held that this exception extends to the making or importing of means essential for putting the invention into effect, thus making suppliers of components to a primary infringer susceptible to threats. The plaintiffs' threat in respect of the manufacture and supply to the defendants of the particular type of aluminium extrusion were, therefore, threats to which section 70(4) applied and could not properly be made the subject matter of a threats action.⁹¹ Therefore, it would seem that a person who makes or imports, for supply to a

unless the act threatened would be an infringement, the person aggrieved "shall be entitled" to the remedies of declaration, injunction and damages (if any damages have been sustained), but the difference of language in our s. 121 does not suggest to my mind that any different meaning was intended, and the "unless" clause strongly suggests that the only answer the defendant may make to the action for threats is by way of proof of infringement of a patent. On the whole, I am of opinion that, having reached the conclusion which I have reached, I am bound to make a declaration and grant an injunction. I can see no strong affirmative reason why I should not do so, but, if I had thought that these remedies under the section were discretionary in the sense in which they are discretionary in equity, I should have had to take into account my belief that an injunction is entirely unnecessary, and that the truth most probably is that it was merely *per incuriam* that the "threat" was expressed too widely." Note that Fullagar J.'s decision was in part reversed on a different point by the Full High Court - see Meth and anor v. Norbert Steinhardt and Son Ltd [1962] 107 CLR 187). See however, Townsend Controls Pty Ltd v. Gilead and anor (1989-1990) 16 IPR 469, *per* von Doussa J., at page 475, "I consider the remedies of injunction and declaration should be treated as discretionary in the sense in which injunctions and declarations generally are discretionary in equity: see Benmax v. Austin Motor Co. Ltd (1953) 70 RPC 284, at 295-6. Such relief should not be granted by consent or in default of defence or appearance at trial unless it is established to the satisfaction of the court that it is proper to do so."

⁸⁹ Therm-A-Stor Ltd v. Weatherseal Windows Ltd [1981] FSR 579, *per* Oliver L.J., at page 594. For the reason for the introduction of this subsection, see *supra*, footnote 42.

⁹⁰ Therm-A-Stor Ltd v. Weatherseal Windows Ltd [1981] FSR 579.

⁹¹ See opinion of Oliver L.J., for the court, in Therm-A-Stor Ltd v. Weatherseal Windows Ltd [1981] FSR 579, at pages 593-594. At page 594, he said, "The word 'product' is a perfectly general word apt to describe any article and there is nothing in subsection (4) of section 70 which indicates an intention to confine it to a product which is itself the subject matter of a patent. The intention of the legislature seems to have been to enable a person, whether a patentee or not, to threaten infringement proceedings with impunity under either subsection (1) or (2) of section 60 where what

primary infringer, any of the means relating to a essential element of the invention, for putting the invention into effect, i.e., infringement under section 60(2) could also be threatened without any legal repercussion.

In Bowden Controls Ltd v. Acco Cable Controls Ltd and anor,⁹² the plaintiff, manufacturer of the allegedly infringing parts, submitted that subsection (4) only prevented proceedings being brought in respect of threats alleged to consist of making or importing a product for disposal and that the statements made in the defendants' letter went wider and included threats in respect of sales by the plaintiffs. Thus, the subsection did not provide a defence in respect of the particular threats that were made. Aldous J. held that the plaintiff had a reasonably arguable case that the threats did go wider than threats to enforce the patent to restrain the manufacture, since the letter could be read as seeking to enforce all rights given under section 60 of the Patents Act 1977.⁹³

Though admittedly at interlocutory level, it is submitted that this decision could not stand in view of the purpose for the introduction of the subsection. Since every manufacturer of articles or parts of articles would ultimately have to sell them to third parties, it would leave the subsection inoperative if Aldous J.'s argument were to be accepted. However, the views expressed in Bowden Controls were adopted by the Court of Appeal in Cavity Trays Ltd v. RMC Panel Products Ltd,⁹⁴ where it was held that section 70(4) defined the acts of alleged infringement that were excluded and not the type of persons who could be threatened. Therefore, a person who threatens a manufacturer in respect of sale of the infringing manufacture could not rely on the defence.⁹⁵

5.4. The Consequences of Threats by Patent Owner

The detrimental effects of unjustified threats and false allegations of patent infringement are glaringly illustrated by the cases. Underlying the harmful effects of a threat of patent infringement action is the fear of getting involved in one. Whitford J. aptly explained why threats in relation to patent infringement action are so effective. He said that "it is never advisable to get involved in any type of litigation if it can possibly be avoided, but the expense and the waste of time and money which is involved in patent litigation is likely to mean that the mere threat of proceedings is going to be a very effective deterrent calculated

is complained of as an infringement is the making of a product for disposal." For another case relating to the operation of section 70(4), see Neild v. Rockley and anor [1986] FSR 3, *per* Falconer J., at pages 5-6.

⁹² Bowden Controls Ltd v. Acco Cable Controls Ltd and anor [1990] RPC 427.

⁹³ Bowden Controls Ltd v. Acco Cable Controls Ltd and anor [1990] RPC 427, *per* Aldous J., at page 434.

⁹⁴ Cavity Trays Ltd v. RMC Panel Products Ltd [1996] RPC 361.

⁹⁵ Cavity Trays Ltd v. RMC Panel Products Ltd [1996] RPC 361, *per* Aldous L.J., at pages 370-380. Sir John Balcombe and Neill L.J.J., concurred, at pages 382, and 384-386 respectively.

to ensure that anybody who might have embarked upon a course which could bring him into conflict with a patentee will decide that it is better to abandon it."⁹⁶

Lord Esher M.R. quaintly commented that "a man had better have his patent infringed, or have anything happen to him in this world, short of losing all his family by influenza, than have a dispute about a patent."⁹⁷ Threats in relation to allegations of infringement of patent do not stand in the same position in relation to their potential damage as does any question of trade libel. It is true that in a trade libel case damage may be caused by loss of business through the activities of the defendant. This, however, is not the same or as serious as when potential customers of one manufacturer were told by another manufacturer that if they were to continue buying from the first manufacturer they would be sued for patent infringement.⁹⁸

This fear of being involved in patent litigation has been effectively used by unscrupulous patent owners to falsely accuse their competitors or potential competitors of infringing their patents. Several tactics, based on the utilisation and exploitation of this fear were used by the threatener. They range from direct threat of infringement proceedings against the competitor to direct threats against the customers of the competitor. More insidious are the indirect or veiled threats like intimating or insinuating to the rival's customers that the product they are dealing in may lead to problems of infringement actions, or that the competitor has no right to deal with the products, thereby implying that the customers had better be careful too, or else they might find themselves in legal difficulties.

All these forms can have equally disastrous result on the competitor. When a person rightly or wrongly accuses another person of infringing his patent, the threats could do serious damage to his business and could even wipe out his business.⁹⁹ The effect is worse if the

⁹⁶ Johnson Electric Industrial Manufactory Ltd v. Mabuchi Motor K.K. [1986] FSR 280, *per* Whitford J., at page 284. Stedman, J.C., "Invention and Public Policy", 12 *Law and Contemporary Problems* 649 (1947), at page 658, said, "Theoretically, the existence of a horde of spurious patents poses no serious problems. The error can be corrected by an infringer's going into court and demonstrating the invalidity of the patent, whereupon the court will declare it unenforceable. Unfortunately, the problem is not that simple. Patent litigation is notoriously expensive, complicated, cumbersome, and slow. It is little satisfaction to an 'infringer' of an invalid patent to prove that he had a right to use the 'invention' if he had been ruined, or almost ruined, in the process of proving it. In these circumstances, a patent may constitute a powerful coercive weapon for a long period before the court get around to taking the weapon away."

⁹⁷ In Ungar v. Sugg (1892) 9 RPC 113, at page 117. See also Bowen L.J., in Skinner & Co. v. Perry (1893) 10 RPC 1, at page 8, "Now, every person of common sense knows what is involved in patent actions, and what the expense of them is, and everybody knows that to be threatened with a patent action is about as disagreeable a thing as can happen to a man in business, and the thing most calculated to paralyse a man in his business, even if he is innocent of any infringement of patent law; and Cars v. Bland Light Syndicate Ltd (1911) 28 RPC 33, *per* Warrington J., at page 39.

⁹⁸ As explained by Whitford J., in Johnson Electric Industrial Manufactory Ltd v. Mabuchi Motor K.K. [1986] FSR 280, at page 287.

⁹⁹ A good example is in Neild v. Rockley and anor [1986] FSR 3, *per* Falconer J., at pages 5-6, "The threats had and have frustrated the two sets of negotiations... She has had several years delay in

threats were made to customers of the competitor, who would be reluctant to get involved in what is essentially a dispute between the patent owner and the competitor. Therefore, the customers are easily persuaded into not dealing with the competitor of the patent owner. This, in a way, is worse than a direct threat made to the competitor himself, who would be in a better position to assess the validity of the threats. An even more ingenious tactic is to send letters to customers of the competitor, intimating to them that they may be dealing with infringing products, but at the same time assuring them that they would not be sued. This is especially effective when both are competing for supply of products or competing for the same supply contract.¹⁰⁰ Even if the customers were not put in fear of being sued directly, there is still the problem of being cut off from supplies in the future if there was action against their supplier, resulting in disruption of their production or services to their own clients.¹⁰¹ This would result in a commercial decision not to have any further dealings with such a "risky" supplier whose right to deal with the products in question was impugned. At the very least, the competitor threatened would be inconvenienced in having to persuade his customers that it is safe to buy or use the products.

The cases show vividly the effect of such threats on the patentee's rival. Threats of legal proceedings could and had led, at the very least, to the threatened competitor being inconvenienced by having to waste the time and effort of taking expert advice about his patent position,¹⁰² or being forced to give an indemnity to his customers to safeguard against any risk before they would be willing to purchase his products.¹⁰³ His financing arrangement with a financial institute could be temporarily derailed or aborted.¹⁰⁴ It could deter customers from dealing with him or lead to a cessation of negotiation of purchase contract by his customer who feared getting involved in a patent litigation with the patent owner,¹⁰⁵ or the competitor's retailer ceasing to advertise or carry the competitor's

marketing her existing stock... she had not been able to obtain some return on her capital expenditure ... and had lost a possible opportunity to obtain a niche in the market."

100 See, for example in Johnson Electric Industrial Manufactory Ltd v. Mabuchi Motor K.K. [1986] FSR 280.

101 Bowden Controls Ltd v. Acco Cable Controls Ltd and anor [1990] RPC 427, *per* Aldous J., at page 434.

102 Benmax v. Austin Motor Co., Ltd (1953) 70 RPC 143; (1953) 70 RPC 284 (CA), *per* Evershed M.R., for the Court of Appeal (Jenkins L.J. and Morris L.J. concurring), at page 295, "It also seems open to serious doubt whether on any inquiry as to damages they could prove any damage at all, and whether taking expert advice about their patent position and the costs thereby involved could be regarded in any event as damages within the meaning of this section."

103 As in Wren v. Weild (1868-69) 4 L.R. Q.B. 730, see Blackburn J., at page 733, and Howson (W.H.) Ltd v. Algraphy Ltd [1965] RPC 183, *per* Lloyd-Jacob J., at page 186.

104 As happened in Berkeley & Young Ltd & Goodman Ltd v. Stillwell Darby & Co. Ltd & Konig (1940) 57 RPC 291, where the Finance Corporation were not prepared to find any further moneys for financing the schemes of the second plaintiffs until they could be satisfied that there was no question of infringement of the patent - see Farwell J., at pages 302-303.

105 See, for example, in Halsey v. Brotherhood (1880) 15 Ch.D. 514; (1881) 19 Ch.D. 386, Wren v. Weild 1868-69) 4 L.R. Q.B. 730, Blackburn J., at page 733, and Skinner & Co. v. Perry (1893) 10 RPC 1. See also Solanite Signs Ltd v. Wood (1933) 50 RPC 315, *per* Maugham J., at page 319 - negotiation for an amalgamation of their businesses broken off, also loss in investment of capital in the proposed venture.

products.¹⁰⁶ Even when there was already a contractual relationship between the competitor and his client, the threats could result in countermanding of orders made to the competitors.¹⁰⁷ In the case of a pending patent, threats could lead to abandonment of negotiation for the sale or licence of the patent rights when acquired.¹⁰⁸ Last but not least, in one case it led to the customers insisting on a deduction from the contracted price, amounting to the sum which they had paid the patentee in consideration of the patentee waiving any rights which he might have in the patent.¹⁰⁹ According to the British Science Guild, "hardship from this cause is most frequently incurred by makers of seasonal goods, who sometimes lose the market for a year in consequence of threats addressed to their customers by some person claiming an interest in a patent."¹¹⁰

Finally, it is not only the business of the competitors which are affected or ruined, the public at large is also affected. The closing down of a competitor's business or the resultant impairment in competition results in the consumers having fewer sources of supply or alternative choices. This would have the undesirable anti-competitive effects on the supply of the particular product in question. Ultimately, assuring fair competition among enterprises will benefit the economic development of the country.¹¹¹

5.5. The Present Position in Malaysia

There is at present no statutory provision in the Patents Act providing a statutory remedy for unjustified threats. There is also an absence of any unfair trade practices statute. The only section that may have a bearing on this issue is section 62 of the Act, which provides a possibility for any interested person to bring proceedings against the owner of a patent for a declaration that the performance of a specific act does not constitute an infringement. However, this provision will not be able to give as effective a remedy as a threats provision because the plaintiff in such action will have to prove non-infringement. There is also no provision for the award of damages or the grant of an injunction. Therefore, a person aggrieved can only rely, if at all, on the common law remedies. It may be surprising that a search through the Malaysian law reports failed to come up with any reported cases dealing

¹⁰⁶ As in Berkeley & Young Ltd & Goodman Ltd v. Stillwell Darby & Co. Ltd & Konig (1940) 57 RPC 291; see also Craig v. Dowding (1908) 25 RPC 259.

¹⁰⁷ As in The National School of Salesmanship, Ltd v. The Plomien Fuel Economiser, Ltd (1942) 59 RPC 95, at page 108.

¹⁰⁸ As in Home v Johnston Brothers (1921) 38 RPC 366, *per* Sargant J., at pages 371-372.

¹⁰⁹ See Speedcranes Ltd v. Thomson and anor [1978] RPC 221, *per* Lord Emslie, at page 225.

¹¹⁰ Report of the Departmental Committee on the Patents and Designs Acts and Practices of the Patent Office, Cmnd 3829 (1931) (Sargent Committee), paragraph 47 of the submission of the Committee of the British Science Guild cited in paragraph 164 of the Report. See also Mentmore v. Fomento (1955) 72 RPC 157 (CA) - threats which stopped "Christmas trade".

¹¹¹ See WIPO Model Law for Developing Countries on Invention - Volume 1 Patents, World Intellectual Property Organisation, Geneva 1979, Commentary on the Model law, at page 114.

with threats of infringement proceedings for patent infringement (or for that matter, infringement of other intellectual property rights) under the common law. Similarly the search failed to reveal any reported cases dealing with the common law actions for slander of title or goods or malicious falsehood relating to any economic activity.¹¹²

The first question is whether the common law doctrines discussed earlier are applicable to Malaysia.¹¹³ The latest opinion on this point was given in the case of MBF Holdings Bhd & anor v. Houg Hai Kong & ors.¹¹⁴ In this case concerning a motion to commit for contempt, it was argued, *inter alia*, that the court had no jurisdiction to deal with proceedings for contempt of court since it was derived from the common law of England. This would mean that after independence the court no longer enjoys the same jurisdiction in respect of proceeding for contempt of court as it has done before Merdeka (Independence Day) by virtue of section 25 of the Courts of Judicature Act 1964, read together with Article 162 of the Federal Constitution. Annuar J. held that:

"... With respect I do not agree with the learned counsel's interpretation of Article 162. The common law is not a mere precedence for the purposes of making a judicial decision. The common law is a substantive law which has the same force and effect as written law. It has been accepted in this country and is recognised as a binding authority. It is therefore not true to say that under Article 162 the common law no longer exists. I am of the view that under Article 162 the common law comes within the meaning of "existing law" and therefore until it is repealed by the authority it continues to be enforced after Merdeka Day..."¹¹⁵

Secondly, is such a tort of malicious falsehood recognised in Malaysia? Two reported cases on malicious falsehood were uncovered, although there was no detailed discussion on the proper application of the law to be used because the point was not directly in issue. In Joseph v. Government of Sarawak & anor,¹¹⁶ the plaintiff sued for malicious falsehood, alleging that a memorandum contained statements about the plaintiff which the defendants knew to be false. The defendants made an application to set aside the writ on the ground that the statement of claim disclosed no reasonable cause of action and that it was frivolous and vexatious. It was held that as the statement of claim properly set out the facts in support of his claim for damages arising out of the alleged malicious falsehood directed against him,

¹¹² There are, however, many cases on the common law action for libel and slander, but all dealing with personal reputation. It is of interest to note that in all these cases, common law principles are unhesitatingly applied by the court, and English cases on this branch of the law are constantly referred to as guidance on the proper application of the law to Malaysia.

¹¹³ Note: In certain situations, the Common Law of England is deemed to be a part of the general law of Malaysia - see section 3, Civil Law Act 1956 (Revised 1972), Act 67, in Appendix. See also Chapter I - Historical Development of the Malaysian Patent System, para. 1.2.

¹¹⁴ MBF Holdings Bhd & anor v. Houg Hai Kong & ors [1993] 2 MLJ 516.

¹¹⁵ MBF Holdings Bhd & anor v. Houg Hai Kong & ors 1993] 2 MLJ 516, at page 524.

¹¹⁶ Joseph v. Government of Sarawak & anor [1975] 2 MLJ 38.

"the action is not frivolous and vexatious and should be allowed to proceed to trial." In this event this motion was refused with costs.¹¹⁷

The only other reported case on malicious falsehood was Dato Ong Kee Hui v. Sinyium Anak Mutit,¹¹⁸ regarding false statements leading to the loss of the plaintiff's seat in parliament. Salleh Abas F.J., delivering the judgement of the Court, said: -

"The tort of malicious falsehood, sometimes known as injurious falsehood, consists of a false statement made by the defendant to a third party concerning the plaintiff whereby he suffers loss through the action of this third party. (Salmond, 13th Edn. page 682)."¹¹⁹

From the above it can be concluded that the English doctrines will be applied, together with all the weaknesses in the law. On this point it is useful to refer to the opinion of the Privy Council in Lee Kee Choong v. Empat Nombor Ekor (NS) Sdn Bhd & ors.¹²⁰ On the application of English law, Lord Russell, delivering the judgement of their Lordships, said:

"Their Lordships do not need to go to comment on possible developments since 1956 in the law in England concerning ability to go behind a valuation on the ground of mistake or error in principle, having regard to the emergence of an ability to sue such a valuer for negligence: see, for example Campbell v. Edwards [1976] 1 WLR 403. For present purpose it appears that the Civil Law Ordinance 1956, section 3, adopted English law as administered at its effective date, so that any subsequent march in English authority is not embodied..."¹²¹

So even if there is a change in the common law approach to trade libel, the Malaysian courts would not necessarily apply it to Malaysia because of this cut-off date.¹²² Therefore, if and when such a case comes up for decision in a Malaysian court, there is no reason to hope that the court will apply a different set of rules which would be more favourable to the plaintiff aggrieved by such threats or falsehood. This shows that it is all the more important that the Patents Act should have a provision dealing with unjustified threats to provide a remedy for persons aggrieved in such a situation.

¹¹⁷ Joseph v. Government of Sarawak & anor [1975] 2 MLJ 38, *per* Yusoff J., at page 40.

¹¹⁸ Dato Ong Kee Hui v. Sinyium Anak Mutit [1983] 1 MLJ 36.

¹¹⁹ Dato Ong Kee Hui v. Sinyium Anak Mutit [1983] 1 MLJ 36, at page 42.

¹²⁰ Lee Kee Choong v. Empat Nombor Ekor (NS) Sdn Bhd & ors (1976) 3 PCC 235.

¹²¹ Lee Kee Choong v. Empat Nombor Ekor (NS) Sdn Bhd & ors (1976) 3 PCC 235, at pages 240-241.

¹²² For citations of the various contentions of the effect of this cut-off date, see Chapter I - Historical Development of the Malaysian Patent System, para. 1.2.3., footnote 17.

5.6. Is There a Need for Legislative Reforms?

The cases have shown the detrimental effects threats have on those subjected to them. Such threats will undoubtedly be even more effective in a country like Malaysia where the awareness of intellectual property is low and so the mere whiff of the danger of being involved in any patent litigation is enough to scare traders off from dealing in the alleged infringing products. Even more pertinent for present purposes is the fact that it seems to be a matter of course for intellectual property owners in Malaysia to issue threats of legal proceedings against anyone suspected of being involved in dealings with allegedly infringing goods.¹²³

From the study of the United Kingdom situation it can be seen that the threats provisions, even though they have not completely eliminated the occurrence of groundless threats, have succeeded to a great extent in achieving the desired effect of reducing the incidence of such threats.¹²⁴ The fact that despite the presence of the provisions there are still threat proceedings shows that such provisions are essential to act as a deterrent to traders who may be inclined to these kind of activities, and to provide an effective remedy to those affected by them.

The common law remedies are clearly shown to be inadequate.¹²⁵ No liability will attach to the threatener if he acts *bona fide* in the protection of his rights. His honest belief, even though false and even though damage is occasioned to the person to whom the statement is directed at, provides a good defence. Malice has to be proved, but "the inquiry into the good faith or actual belief of a man in the righteousness of the threats or representation he was making, is one of the most difficult of all tasks of judicial investigation."¹²⁶ This

¹²³ Personal communications from legal practitioners and officials in the Intellectual Property Division of the Ministry of Domestic Trade and Consumer Affairs, Malaysia.

¹²⁴ The figures culled from the Reports of Patent Cases and Fleet Street Reports on the number of reported threats actions for every ten year period from the years 1884 - 1995 are illuminating: 1884-1893 = 28; 1894 - 1903 = 26; 1904 - 1913 = 9; 1914 - 1923 = 5; 1924 - 1933 = 7; 1934 - 1943 = 12; 1944 - 1953 = 7; 1954 - 1963 = 6; 1964 - 1973 = 6; 1974 - 1983 = 3; 1984 - 1994 = 3.

¹²⁵ Farr v. Weatherhead & Harding (1932) 49 RPC 262, illustrates the weak position of the person aggrieved in the absence of statutory protection. In Farr, the plaintiff was forced to rely on the common law remedy as the defendants were able to avail themselves of the proviso of section 36 of the Patents and Designs Acts, 1907-1928. Despite the fact that it was held that the statements published by the defendants amounted to threats and that they were not justifiable, but since there was no evidence of *mala fides* or of special damages the plaintiff was not entitled to any remedy - see Luxmoore J., at page 266. In this respect, it is perhaps quite surprising that the New Zealand Ministry of Commerce has recommended that the existing threats provision in the Patents Act 1953 (section 74) be repealed. In their view, it is questionable whether retention of such remedies is justifiable. They were of the opinion that the existing common law remedies and under section 13(i) of The Fair Trading Act 1986 are adequate. Further, the threats provision may have the effect of protecting infringers - see Reform of the Patents Act 1953 - Proposed Recommendations - Competition Policy and Business Law Division, Ministry of Commerce, Wellington, February 1992 (Publication prepared by the Intellectual Property section and the Patent Office of the Ministry of Commerce), paragraph 6.2.7 - Groundless Threats of Infringement - page 51 and Paragraph 6.3, Proposed Recommendations (page 52).

¹²⁶ Daniel, E.M., "On the Proviso to Section 32 of the Patents Act 1883", Transactions of the

position is unduly favourable to the patentee. Under the common law, the person threatened would have to prove the four elements required for a successful action - the fact that the threat was made, that it was false (which would mean that he has to bear the onus of proving that he had not infringed), that it was made *mala fide*, and lastly that he has suffered special damage.¹²⁷ This places too onerous a burden on the plaintiff. Another shortcoming of the common law provision is that interlocutory injunction will normally not be granted if the defendant pleads justification. By the time the action comes for trial and it is held that the defendant is liable for malicious falsehood, the damage would already have been done. The trial judge in Crest Homes Ltd v. Ascott¹²⁸ granted the plaintiffs an interlocutory injunction, departing from the general rule that no such relief will be granted where the defendant says he will justify his assertion. The Court of Appeal, allowing appeal and discharging the injunction, held that there was no reason to depart from the general rule that an interlocutory injunction will not be granted against a defendant in a libel action if he intends to plead justification unless the plaintiff can prove that the statement is untrue.¹²⁹

Introducing a threats section¹³⁰ would not in any way detract from the rights of a patent owner. A patentee who feels that his right has been impinged upon always has the right to initiate infringement proceedings. In fact that should be the proper procedure to adopt.¹³¹ Besides, commencing an action will not constitute a threat.¹³²

Institute of Patents Agent, Vol. III, Session 1884-5, 241, at page 242.

127 Farr v. Weatherhead & Harding (1932) 49 RPC 262, *per* Luxmoore J., at page 266, "In order to establish a right of action in such a case there are four things which a plaintiff must establish. He must establish first that the defendant has made threats; secondly that the threats are not justifiable in fact, thirdly that the threats were made *mala fide*; and lastly, that he has suffered special damage."

128 Crest Homes Ltd v. Ascott [1980] FSR 396.

129 Crest Homes Ltd v. Ascott [1980] FSR 396, *per* Lord Denning M.R., at pages 397-398, referring to Bonnard v. Perryman [1891] 2 Ch. 269, Monson v. Tussauds Ltd (1894) 1 QB 671, and Quartz Hill Consolidated Gold Mining Co. v. Beall (1882) 20 Ch. D. 501. Contrast this with Johnson Electric Industrial Manufactory Ltd v. Mabuchi Motor K.K. [1986] FSR 280, *per* Whitford J., at page 287 - a case under the threats section.

130 The Royal Commission of Patents, Copyright and Industrial Design "Report on Patents of Invention", Chairman - J.L. Ilsley, 1960 (Canada) - in Part XI, section 7, page 109, recommended the introduction of a threats section in the Canadian Patent Act. The Ilsley recommendation was incorporated into the Proposed Patent Law in the proposed section 101. The proposal followed section 65 of the Patents Act 1949 (United Kingdom) - see Proposed Patent Law - prepared for the Department of Consumer and Corporate Affairs, June 1976 (Canada). It is not known for what reasons this proposal was not carried into effect when the Canadian Patent Act (R.S.C. 1970, c. P-4) was amended in 1987 by the Patent Amendment Act, 1987 (S.C. 1987, c. 41).

131 See Graham J., in Mechanical Services (Trailer Engineers) Ltd v. Avon Rubber Co. Ltd [1977] RPC 66, at page 75, "A patentee's first and proper remedy when he considers the defendant is infringing is to bring an action for infringement, without making any threats at all. This is however in the life of the market place no doubt a counsel of perfection and, patentees and travellers being human as they are, no doubts threats against potential defendants will continue to be made. That does not mean to say that the law approves of such action, which, as already stated, can obviously cause serious damage which is often difficult or impossible to recover."; see also Townsend Controls Pty Ltd v. Gilead and anor (1988-1989) 14 IPR 443, *per* Doussa J., at page 448.

132 See Beven & Alexander v. Welsbach Incandescent Gas Light Co. Ltd (1903) 20 RPC 69, and also Benmax v. Austin Motor Co. Ltd (1953) 70 RPC 284, at 295, *per* Evershed M.R.
Note that the costs of, and incident to, an action for infringement of a patent, as the costs in any

In these hard economic times, a trader in trying to guard his business from rivals may see it as fair game to try to gain an advantage over, or stem the flow from his business to a rival enterprise by indulging in unfair market behaviour.¹³³ To prevent unscrupulous traders from trying to maximise or extend their monopoly right by unscrupulous means in the market place and to deter them from temptation, there is a need for such a provision to combat this "grave mischief".¹³⁴

It is true that in some cases of innocent infringement a simple warning letter may be enough to bring such activities to a stop. This will be faster and cheaper and it is also more advantageous to the innocent infringer. However, on balance, because of the potential for abuse it is still better to have a statutory machinery for threats.

5.7. Features of the Proposed Section

From an analysis of the case law and the legislative development of the United Kingdom threats provision, the proposed threats section, to provide the proper balance, should cater for the following considerations.

other action, are in the discretion of the court, and the court has full power to determine by whom and to what extent such costs shall be paid - see, for example, Rediffusion Simulation Ltd v. Link-Miles Ltd [1993] FSR 369, *per* Aldous J., at page 410. Therefore, a party who is responsible for unnecessary litigation, or the costs of a part of the process of litigation will have to bear his own costs or even his opponent's costs - see Mohamed bin Hussin & anor v. Hashim bin Said [1978] 1 MLJ 127, Petroliam Nasional Bhd & anor v. Cheah Kam Chiew [1987] 1 MLJ 25. According to O'Hare, J., Hill. R.N., Civil Litigation, 5th Ed., Longman, 1990, at page 22, the writing of a letter before action is an important procedural step. A litigant who commences proceedings without writing such a letter may find that, even if successful, the court will disallow some or even all of the costs, citing R. v. Inland Revenue, ex parte Opman International UK [1986] 1 WLR 568. There does not seem to be any case on point where the interface between the "duty" to send a letter before action and the liability for threats is discussed. In relation to intellectual property cases, there does not seem to be any firm rule that such letters should be sent. See, for example, Weingarten Bros v. Charles Bayer & Co. (1905) 22 RPC 341 (HL), *per* Lord Macnaghten, at page 350, "It was also argued that if the plaintiffs really objected to Mr Bayer taking their scroll they ought to have written to complain and told him what they complained of before taking legal proceedings. I cannot think that there is any substance in that objection. Why should a person assailed and injured by unfair competition teach his opponent how far he may safely go in undermining a rival business which he wishes to destroy? Why should he throw away the only chance of obtaining by process of law redress for injury already done?", and contrast this with American Tobacco Co. v. Guest (1892) 9 RPC 218, *per* Stirling J. at page 220, where costs were refused in a trivial case, where an action had been commenced without notice against the innocent purchaser of a small quantity of spuriously marked goods. It would appear that there could be a tension between the usual practice in Malaysia of sending "letters before action" or "notices of demand" and the existence of threats actions. However, it is submitted that the proposed inclusion of the threats section to the Act would have the force of law. It would override the discretion vested in the court to award costs of proceedings provided by the Rules of the High Court. Further, there is nothing to prevent the patent owner from adopting the safe option of sending "notifications" - see *infra*, para. 5.7., point 7.

133 Byrne, N., "Groundless Threats of Patent Proceedings" Law for Business, February 1992, page 102.

134 Johnson Electric Industrial Manufactory Ltd v. Mabuchi Motor K.K. [1986] FSR 280, *per* Whitford J. at page 287.

1. The threats provision should apply to any person who issues threats, whether he has or has not an interest in a patent or patent application. This is to prevent circumvention of the provision by the issuing of threats by someone who has no interest in the patent.
2. The provision must make clear that any form of threats is actionable. Instead of the phrase "or otherwise" used in the United Kingdom and Australian provisions, the phrase "or in any other way, whether in oral or written form" is to be preferred.
3. Any person aggrieved by the threats should have a right to institute a threats proceeding. The proposed section should be framed in such a way that it is beyond question that the threat need not be communicated to the person threatened for there to be an actionable threat. So the phrase "or express a threat in relation to any person..." should be added for the purpose of ensuring greater clarity and certainty in the law.¹³⁵
4. For the purpose of clarification, the remedies available should be stated in a way to show that the granting of the remedies is discretionary. There is, at present, still conflict of opinions among the judges in United Kingdom and also in Australia as to whether the remedies are discretionary or mandatory. Therefore, in the proposed section, the preferred phrase to use is "may, in its discretion" instead of "shall" or "may" to show the remedies available are discretionary, and not mandatory.¹³⁶
5. A patentee who is able to justify his threats should not be liable for threats. The provision should, therefore, provide a defence for him where he can show that the alleged act amounts or would amount to an infringement of his right. The burden of proof to show infringement should, however, be on the patentee.¹³⁷ Even if the patentee proves that the alleged act was an infringement or would constitute an infringement of his patent rights, the plaintiff should be able to obtain his remedies if he could show that the patent is invalid. So the present United Kingdom defence should be adopted in the proposed law.
6. A threat against a primary infringer, i.e., a person who is the originating source of the allegedly infringing products, should not be actionable. The patent owner should be allowed to threaten at "source", i.e. the person who manufactures or imports the infringing products. This exemption should also apply to the person

¹³⁵ See the earlier discussion on John Summers & Sons Ltd v. The Cold Metal Process Co. (1948) 65 RPC 75, in paragraph 5.3.6.

¹³⁶ See earlier discussion on this aspect in paragraph 5.3.10.

¹³⁷ On this aspect, the writer feels that the WIPO Model Law approach, which places the burden of proving non-infringement on the plaintiff, is too onerous. See the WIPO Model Law, section 163(2).

who supplies the means for enabling an infringement to take place.¹³⁸ In the first place, the primary infringer may be in a better position to face the threats. Secondly, in certain situation the issuing of threats may be beneficial because it could lead to negotiations for the settlement of the patent dispute and thus avoid the necessity for the needless issuing of court proceedings.¹³⁹ It is believed that this exception will provide a proper balance between practical expediency and the potential for abuse when the threats are issued against people involved in the alleged secondary infringing act. There is a need to clarify in the proposed section that the exception applies even against the manufacturer in his retail or other activities, because he is not, in the true sense of the word, involved in the secondary activities of retailing the products.¹⁴⁰ To prevent possible side-stepping of this exception by the communication of threats against the primary infringer, not to him directly, but to customers, the section should contain a provision that the exception applies only if communicated directly to the alleged primary infringer. It is not applicable if the threats are communicated to the customers of the alleged primary infringer.¹⁴¹

138 As to this, see the recommendation for a statutory provision for contributory infringement in Malaysia in Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights, para. 4.8.

139 See the justifiable disquiet of North J., in Barrett & Elers, Ltd v. Day; Day v. Foster(1890) 7 RPC 54, at page 59, "It has been held ... that such a letter by a patentee's solicitor to an alleged infringer or his solicitor, threatening an action for infringement, does give a cause of action under this section, and I fear this will have the effect of preventing a patentee from adopting the course thus pointed out to be fair and reasonable, and that for the future the warning letter will only accompany instead of preceding the writ, and will consequently be useless.". See also Alpi v. Wright [1972] RPC 125, *per* Whitford J., at page 132, "Section 65 has presented great difficulties in the past in a number of cases. It does very often stand in the way of the initiation of negotiations for settlement of patent actions, because people are afraid to say anything to potential defendants lest they be faced with a threats action. It is no doubt a very useful weapon against patentees who make a habit of going round and threatening purchasers so as to impede the arrangement for distribution and sale by their competitors. It is probably of more doubtful value for its relation to direct dealings between competing manufacturers or distributors." The problem alluded by the judges has now be mitigated by section 70(4) of the 1977 Act.

140 Compare the views expressed by Aldous J. in Bowden Controls Ltd v. Acco Cable Controls Ltd and anor [1990] RPC 427, at page 434, and the Court of Appeal in Cavity Trays Ltd v. RMC Panel Products Ltd [1996] RPC 361. See, *supra*, para. 5.3.11.

141 One possible scenario where there could be an attempted evasion if there is no such condition is when the patentee issues circulars to customers of the alleged infringing manufacturer. The circular will contain allegations that the manufacturer is infringing certain patent rights and that actions will be taken against him. However, the circular is careful to assure the customers that the patentee will not in any circumstances proceed against them for infringement. In this scenario, there is no threats against the retailers. If the aggrieved manufacturer sues for threats, he will be met by the defence of merely issuing a threat against the primary infringer. However, despite the assurance of being told that they will not be sued, the manufacturer's customers may be reluctant to deal further with the manufacturer, who will then suffer damage without a remedy. The potential for harm is neatly illustrated by the case of Strix Ltd v. Otter Controls Ltd [1991] FSR 163, though the case was on a different issue, being concerned with an application by the defendants for costs on the indemnity basis. The plaintiffs had written to some ten customers of the defendants, drawing their attention to the existence of litigation for patent infringement between the plaintiffs and the defendants. However these letters made it clear that the customers themselves would not be sued. There was evidence that at least one contract which the defendants believed they were certain to obtain was put on hold pending disposal of the action. Aldous J. in the Patents Court, commented that a party who had been damaged by the action of another must look to his legal remedies to recover them; whether it be by way of a threats action or by way of an action for malicious falsehood, or otherwise, depending on the facts. But it has to be noted that on the facts he was

Further, the provision should state that a person not entitled to sue for patent infringement cannot rely on this proviso.¹⁴² Therefore, the defence only applies to a person having the right to actually bring legal proceedings in respect of a patent. This would exclude the defence from any person other than the patent owner or the "beneficiary" under section 61 of the Act.¹⁴³

7. The owner should still be allowed to issue general warnings or to notify the public of the existence of his patent rights. This is merely a right flowing from the monopoly given by a patent.¹⁴⁴ Therefore, the common practice of issuing a general warning against infringement by the insertion of notices in the public press should still be allowed. These notices serve a useful function as they bring notice of the patent to the public.
8. There should not be a proviso that the threatener is absolved from his threats if he commences and prosecutes an proceedings for infringement with due diligence. This is justified by the difficulties involved in applying this proviso prior to the 1932 amendments,¹⁴⁵ and that it "gives with one hand a right of action, and takes it way with the other."¹⁴⁶ With reference to this proviso, North J. said of the plaintiff, that "he may find that his cause of action is cut from his feet by an action such as was threatened being commenced within a reasonable time."¹⁴⁷
9. The proposed section should include a provision exempting a legal practitioner or a registered patent agent from threats proceedings in respect of an act done in his professional capacity on behalf on his client, similar to section 132 of the Australian provision. This would obviate the necessity for adopting the dubious reasoning in

unlikely to get a remedy for either cause of action. As regards the possibility of a threats action, it is likely that the plaintiff could shelter behind the section 70(4) defence since the threats were made against the defendants and not against their customers.

¹⁴² This point was raised in Bowden Controls Ltd v. Acco Cable Controls Ltd and anor [1990] RPC 427. However, Aldous J. declined to rule on it since it was unnecessary to his decision - see page 434.

¹⁴³ Note that under the Act, the right of a licensee to sue is not restricted to an exclusive licensee. On this point, see Chapter 3 - The Exclusive Rights, para. 3.7.3.

¹⁴⁴ Challender v Royce (1887) 4 RPC 363, *per* Bowen L.J., at page 375, "Everybody, it seems to me, has still a right to issue a general warning to pirates not to pirate, and to infringers not to infringe, and to warn the public that the patent to which the patentee is entitled, and under which he claims, is one which he intends to enforce."; Johnson v. Edge (1892) 9 RPC 142, *per* Lindley L.J., at page 148, "I cannot suppose that the section prevents a patentee from saying that which the patent itself implies - that anybody infringing must expect legal proceedings to be taken against him. I do not think it can mean that. That is merely saying what everybody knows already. That is not a threat against anybody in particular."

¹⁴⁵ See the discussion on this point in paragraph 5.2.2, point 3.

¹⁴⁶ The Combined Weighing Machine Co. v. The Automatic Weighing Machine Co. (1889) 6 RPC 502, *per* Kekewich J., at page 508. See also the critique on this proviso by Daniel, E.M., "On the Proviso to Section 32 of the Patents Act 1883", Transactions of the Institute of Patents Agent, Vol. III, Session 1884-5, 241.

¹⁴⁷ Skinner & Co. v. Shaw & Co. (1893) 1 Ch. 413, *per* North J., at 417.

Earles Utilities Ltd v. Harrison,¹⁴⁸ which could have stemmed from a desire not to have a solicitor acting in his professional capacity to be sued, even though the section under consideration clearly states that "any person" could be sued.¹⁴⁹

10. To ensure that all the issues are settled, the defendant in a threats action should be allowed to make a counterclaim for infringement of the patent. Similarly, the plaintiff is entitled to make a counterclaim for invalidation of the patent.

5.8. Proposals for Change

The harmful effects of threats of patent infringement proceedings against the receiver have already been shown. The common law remedies have been found wanting and are too favourable in favour of the patent owner. Bearing in mind the cut and thrust of the business world, it is conceivable that every loophole will be exploited to its fullest to the advantage of the exploiter and to the consequent disadvantage and detriment of his competitors and the public in general. There is a need to achieve a proper balance between the right of the patentee to notify the public of his patent rights and to issue general warnings against infringement of his rights, and the need to ensure that such warnings do not exceed the boundary of fair practices to the detriment of his rivals. It is believed that the proposed addition of a new section 61A to the Patents Act 1983 will achieve this balance. The provision will go towards deterring patent owners from indulging in such unfair practices. At the very least, the alleged secondary infringers would be spared being harassed by "legal thunderbolts in the shape of lawyers' letter warning them of the awful consequences that will ensue if they continue to infringe."¹⁵⁰

The proposed amendments to the Act to deal with the problems identified in this Chapter are set out in Chapter 8.

¹⁴⁸ Earles Utilities Ltd v. Harrison (1935) 52 RPC 77 - letter by solicitor stating that he will advise his clients to apply for an injunction unless manufacture of alleged infringing article is ceased - letter held not to be a threat, *per* Farwell J., at page 80, "... it has been known for a client to refuse to take his solicitor's advice. In my judgement, that cannot be said to be a threat within the meaning of section 36. If a solicitor says: I shall advise my client to commence proceedings, there is not, in my judgement, a threat within section 36."

¹⁴⁹ In view of what is expressed in point 6 of para. 5.7., *supra*, that a person not having the right to bring legal proceedings in respect of a patent infringement should not be covered by the proposed defence, such a provision needs to be spelled out.

¹⁵⁰ Davies, A.J., "On Threats of Legal Proceedings and the 32nd Section of the Patents, Designs, and Trade Marks Act, 1833." Transaction of the Institute of Patents Agents, Vol. V, Session 1886-7, at page 174.

CHAPTER 6: Statutory Control of the Patentee's Exercise of His Exclusive Rights

6. Introduction

Several rationales have been advanced for the justification of the patent system. Machlup listed four major bases for patent protection, namely, the "natural-law" thesis, the "reward-by-monopoly" thesis, the "monopoly-profit-incentive" thesis, and the "exchange-for-secrets" thesis.¹ That the reward to the inventor is not the prime, but rather one of the several incidental objects of the Malaysian patent system can be derived from the inclusion of the various provisions offering the possibility of compulsory licensing, and the provisions making certain conditions in licensing agreements invalid. The inclusion of these provisions in the Act indicates that the underlying policy behind the Act is not only to protect the interest of the patentee, but at the same time, the interests of the public. Further, the provisions on exhaustion of rights clearly show that the Act does not intend that the patentee should be able to exercise his exclusive rights indefinitely. The protection given to a prior user, despite the fact that no patent has been applied for by the prior user, at the expense of the patentee who as a result has a less than complete set of exclusive rights, is also an indication of this balance.

The powerful position of the patentee was best reflected by an early US case, Victor Talking Machine Co. v. The Fair,² where it was said that "[w]ithin his domain, the patentee is czar. The people must take the invention on the terms he dictates or let it alone for 17 years. This is a necessity from the nature of the grant. Cries of restraint of trade and impairment of the freedom of sales are unavailing, because for the promotion of the useful arts the constitution and statutes authorise this very monopoly." However, contemporary judicial and statutory attitude is reflected in Transparent-Wrap Machine Corp. v. Stokes &

¹ See Machlup, F., *An Economic Review of the Patent System*, Study No. 15 (1958), at pages 20-25.

² Victor Talking Machine Co. v. The Fair 123 Fed. Rep. 424 (CCA 7th Cir. 1903), *per* Baker, Circuit Judge, at page 426. In the UK, see Incandescent Gas Company Ltd v. Cantelo (1895) 12 RPC 262, *per* Wills J., at page 264, "[T]he patentee has the sole right of using and selling the articles, and he may prevent anybody from dealing with them at all. Inasmuch as he has the right to prevent people from using them or dealing in them at all, he has the right to do the lesser thing, that is to say, to impose his own conditions. It does not matter how unreasonable or how absurd the conditions are." See also Columbia Graphophone Co. Ltd v. Murray (1922) 39 RPC 239 (Ch.D.), *per* Russell J., at page 241, "[T]he owner of a patented article is entitled to impose any conditions he likes when he is granting a licence to somebody to use the patented article. There appears to be no limitation to the conditions that he may impose, and if he imposes conditions and those conditions are brought to the knowledge of the person who uses the patented article, the person using the patented article must refrain from violating those conditions. It appears to me that ... if he violates the conditions imposed by the licence, then he has no licence at all, and, therefore, he has committed a breach of the patentee's rights."

Smith Co.,³ where the US Supreme Court said, "The fact that a patentee has the power to refuse a licence does not mean that he has the power to grant a licence on such conditions as he may choose." Aware of the potentially powerful position of the patentee, and the need to curb any attempts at abuse by the exercise of the patentee's patent monopoly,⁴ the Act contains express provisions to deal with actions or inactions which might be contrary to the public interest. The two provisions in the Act designed to deal with the abuse of the patent rights are those on compulsory licensing, and the prohibition against the insertion of certain clauses in a licence agreement which attempt to extend the patents rights beyond their lawful scope. The provisions of the Act on invalid clauses practically echo the sentiment voiced in Transparent-Wrap.

The first part of the chapter deals with the provisions on compulsory licensing, both for abuse of monopoly position and for interdependence of patents. Another form of compulsory use, those given to the government to use the patented invention is also analysed. In discussing the extent of the application of the provisions dealing with invalid clauses in licence contracts, guidance will be sought from the US cases. Even though there are no general statutory provisions covering patent licences in the US law, in practice, through the misuse doctrine, there is an effective code regulating illegal licensing practices. The analysis will, however, be kept only in the context of the exclusive rights as provided for in the Act, since the regulation of competition as such is outside the scope of this thesis. References to principles of competition and so on must be read within the context of patent law. Accordingly, although guidance will of necessity be sought from the US cases, cases based exclusively on antitrust or competition law will not be relied on. The Malaysian Government has announced its intention to legislate for a competition statute. To date, there has been no indication of the proposed coverage, structure, and philosophical framework of the proposed legislation. It may be a long while before the Bill is finally produced. However, there is no reason to believe that it could not co-exist with the prohibitions under the Patents Act. Any potential conflict could be resolved by the provision of exceptions under the proposed Bill. Finally, a brief summary is given of the administrative control

³ Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 72 USPQ 148 (US Sup. Ct 1947), *per* Justice Douglas, at page 152.

⁴ Although the word "monopoly" is used to refer to the exclusive rights given to a patent owner under the Act, it is merely used here for the sake of convenience. It is recognised that it is not strictly correct to refer to a patent right as a monopoly within the traditional and accurate sense of that term. For example, the US Court in Standard Oil v. United States 221 US 1 (US Sup. Ct 1911) defined monopoly thus, "(1) the monopolists have the sole right to buy, sell or make, and (2) others [are] deprived of a pre-existing right to buy, sell, or make. The patent grant gives the patentee only the right to exclude others; his own right to practise the invention may be subservient to another patent. Moreover, since novelty is a requisite of patentability, the grant does not exclude the public from a pre-existing right." In United States v. Dubilier 289 US 178 (US Sup. Ct 1933), the Supreme Court said, "Though often so characterised, a patent is not, accurately speaking, a monopoly. ... The term monopoly connotes the giving of an exclusive privilege for buying, selling, working or using a thing which the public freely enjoyed prior to the grant. Thus a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge. ... He may keep his invention secret and reap its fruits indefinitely."

over transfer of technology under the Industrial Co-ordination Act. However, since measures taken under this Act are administrative in nature, a detailed evaluation of the effects of this control is beyond the scope of this thesis.

6.1. Compulsory licences

Although a patentee has the right to decide on whether, and how he wishes to exploit his patent,⁵ in certain circumstances, this will come up against the public interest policy of the country. When the action or inaction of the patent owner leads to demand for the patented product being inadequately satisfied or being only available at an unreasonably high price, or when there is no local working of the patented invention, the State may have to intervene to prevent continuation of the state of affairs. The potential for abuse of the patent system leading to anti-competitive consequences or which retards the economic development of a country is recognised and it is internationally accepted that powers should be given to regulate such practices.⁶ It is generally accepted that the compulsory licensing regime of a patent system is introduced to prevent or correct such abuse of monopoly rights.⁷ It is a feature present in most of the patent systems throughout the world, with the notable exception of the United States, the main opponent of such a regime in the international arena.⁸ However, even in the USA where attempts to enact a statutory code for compulsory licensing in the patent statute have so far been resisted,⁹ a *de facto* regime in fact exists

⁵ See, for example, the statement of Warrington J., in Re Robin Electric Lamp Co. Ltd (1915) 32 RPC 202, at page 215, "A patentee may use the advantage given by his patent either by putting it into operation himself and supplying the public with the article, or by licensing others to do so. If he himself maintains an adequate supply there is no necessity, from the public point of view, for the granting of licences, and, in my opinion, subsection (5) contemplates these alternatives as legitimate mode of working a patent."

⁶ See Article 5A, Paris Convention for the Protection of Industrial Property, as revised at Stockholm in 1967, and Article 31, Document MTN/FA II-A1C, Agreement on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, Part II, Section 5: Patents.

⁷ See, for example, Halcon SD Group Inc.s' Patents [1989] RPC 1, *per* Falconer J., in the Patents Court, at page 17, "I accept that the policy of section 48 and the ancillary provisions, for example under section 50(1), is to prevent the abuse of monopoly and to get the invention into use in the sense of being worked in the United Kingdom."

⁸ Although 35 USC, the US patent statute does not contain a compulsory licensing provision, provisions regarding the compulsory use of patents are in fact to be found in various other statutes. See, for example, 28 USC, section 1498, enacted in 1910, which provides immunity from injunction when a patented invention is used or manufactured by the United States or by a contractor of the United States. Only compensation remedy is provided, hence this amounts to a *de facto* compulsory licence; Atomic Energy Act, 1946, 42 USC, sections 2011-2183 which provide that if the Atomic Energy Commission finds a patent meets certain qualifications, including primary importance in the production and utilisation of special nuclear material, a compulsory non-exclusive licence can be issued; The Plant Variety Protection Act, 1973, 7 USCA, sections 2321-583. Section 2404 of this Act provides that a compulsory licence is obtainable where "necessary in order to ensure an adequate supply of fibre, food or feed ... (if) the owner is unwilling or unable ... to supply the public needs ... at a price which may reasonably be deemed fair"; and The Clean Air Act, 1970, 42 USCA, sections 1857-58a (Supp. 1974) which provides for the mandatory licensing of patents upon the Attorney General's certification to a District Court that the use of the patent is necessary to meet the environmental standards set by the Act and the court's subsequent determination of reasonable licence terms.

⁹ For a comprehensive review of the various attempts to impose a statutory regime for compulsory

through the impositions of certain sanctions against the patent owner on proof of abuse of his patent monopoly or violation of the antitrust laws.¹⁰ Through judicial refusal to enjoin the defendant from continuing infringing acts in cases where there have been patent abuse or in the case of a patentee's conviction for violation of the antitrust laws, there is a *de facto* scheme to compel the granting of licences on reasonable terms.¹¹ The US Supreme Court in Besser Manufacturing Co. v. United States upheld this principle on the ground that "compulsory licensing is a well-recognised remedy where patent abuses are proved in antitrust actions and it is required for effective relief".¹² In fact, in some cases of abuse the court had gone even further than the mere granting of compulsory licences on reasonable terms, and had ordered a royalty-free compulsory licence to whoever desired it. In the Hartford case, the Supreme Court refused to sanction the grant of royalty-free compulsory licences, saying that if it was assumed that the defendant owned a valid patent, it was difficult to say that, however much in the past the defendant had abused the rights thereby conferred, it must now dedicate them to the public.¹³ However, in United States v. National Lead Co., the Supreme Court did not rule out the constitutionality of such an order where it "would be more necessary and appropriate to the enforcement of the Antitrust Act" than the case at hand.¹⁴ Even where patent misuse or breach of the anti-trust laws is not alleged, the court has sometimes refused to grant an injunction against the infringer. For

licensing in the USA, see Herz, A., "Compulsory Licensing" 28 JPOS 889 (1946); Mirabito, A.J., "Compulsory Patent Licensing for the United States: A Current Proposal", 57 JPOS 404 (1975); Arnold, T., Goldstein, E., "Compulsory Licensing: The 'Uncentive' for Invention", Patent Law Review 1975, 113.

¹⁰ The justification for this is based on the provision of 35 USC 283, under which the court may grant injunctive relief in accordance with the "principles of equity", see Arnold, T., Goldstein, E., "Compulsory Licensing: The 'Uncentive' for Invention", Patent Law Review 1975, 113.

¹¹ See, for example, Morton Salt Co. v. G.S. Suppiger Co. 314 US 488, 52 USPQ 30 (US Sup. Ct 1942), and B.B. Chemical Co. v Ellis, 314 US 495, 52 USPQ 33 (US Sup. Ct 1942). For a review of the cases, see Coburn, H.H., "Compulsory Licensing by the Courts", 28 JPOS 180 (1946); Sease, E.J., "Common Sense, Nonsense and the Compulsory Licence", 55 JPOS 233 (1973). Hagan, T.W., Henry, S.J., "Is a Compulsory Patent Licensing Statute Necessary? A Study of the U.S. and Foreign Experience", 7 Law and Policy in International Business 1207 (1975), and Arnold, T., Goldstein, E., "Compulsory Licensing: The 'Uncentive' for Invention", Patent Law Review 1975, 113. In fact, Coburn argues that the decision of the Supreme Court in the Morton Salt case interferes with the rights of the owner of the abused patent more radically than the most general compulsory licensing on a royalty basis could possibly do.

¹² Besser Manufacturing Co. v. United States 343 US 444, 93 USPQ 321 (US Sup. Ct 1952).

¹³ Hartford Empire Co. et al. v. US 323 US 386, 64 USPQ 18, opinion clarified at 324 US 570, 65 USPQ 1 (US Sup. Ct 1945). In the Hartford Empire antitrust proceedings, the principle was clearly established that where there has been a violation of the antitrust laws, the Federal Courts have the power to compel a patent owner to grant licences under his patent to all applicants therefor at reasonable royalties. For a critique of this case, see Coburn, H.H., "Compulsory Licensing by the Courts", 28 JPOS 180 (1946), who also argues that the judicial branch of the government today possesses, without enabling legislation, the power effectively to deal with a great many of the so-called abuses of the patent system by directing the offender to grant licences on reasonable terms and conditions to all or to any selected group of applicants therefor. See also Clapp, N.A., "Some Recent Developments in Patent-Antitrust Law", 34 JPOS 945, at pages 958-961, where the possibility of judges ordering royalty-free compulsory licences after the Hartford case is discussed; and Bicks, R.A., "The Relation Between Antitrust Patent Relief and the Patent Laws", 41 JPOS 791 (1959), where the history of patent-antitrust relief is reviewed, and the role played by the courts in providing antitrust relief, in the form of compulsory licences, whether with royalty or royalty-free, to promote competitive conditions, is discussed.

¹⁴ United States v. National Lead Co. 331 US 319 (US Sup. Ct 1947).

example, in a case where there was non-use of the patent by the owner, the court, instead, awarded the patentee damages on a royalty basis, on the ground of fairness.¹⁵

6.1.1. History of Compulsory Licensing in Malaysia

Statutory compulsory licensing has been a feature of the Malaysian patent system for more than a century. On the whole, the development of the compulsory licensing provisions in the various component states prior to the 1983 Act followed closely the pattern developed in the United Kingdom. Although the first patent statute of the Straits Settlements in 1871 contained no specific provision for grant of compulsory licences, power was given to the Governor in Council to revoke the exclusive privilege on certain grounds.¹⁶ The absence of a compulsory licensing provision then is not surprising in view of the fact that such provisions were only enacted for the first time in United Kingdom in the Act of 1883.¹⁷ However, even when the Ordinance was amended at various times, the opportunity was not taken to insert these provisions.¹⁸ Similarly, the first North Borneo patent legislation, being

¹⁵ See, for example, Foster v. American Machine & Foundry Co. 182 USPQ 1 (2nd Cir. 1974), cert. denied, 95 S. Ct 58 (1974). The Second Circuit Court of Appeals refused an injunction and refused the plaintiff Foster to use the patent injunction "as a club to be wielded" to enhance his negotiating stance. Foster was a patent lawyer who had never been in the welding or welding equipment business, had never been equipped to practise his patented process, or to manufacture equipment that would. His patent had both apparatus and method claims directed to a feature of the progressive continuous welding of metal that was only a part of the total continuous welding technology. The defendants manufactured infringing welding equipment and was sued. The patent was found valid and infringed. However, while damage was awarded, the injunctive relief was refused. The Appeal Court affirmed, and after noting that the patent owner did not manufacture while the infringer did, said (*per* Gurfein, District Judge, at page 6), "Here the compulsory licence is a benefit to the patentee who has been unable to prevail in his quest for injunctive relief. To grant him a compulsory royalty is to give him half a loaf. In the circumstances of his utter failure to exploit the patent on his own, that seems fair," and concluded, "In the assessment of relative equities, the court could properly conclude that to impose irreparable hardship on the infringer by injunction, without any concomitant benefit to the patentee, would be inequitable." For a critique of this case, see Arnold, T., Goldstein, E., "Compulsory Licensing: The 'Uncentive' for Invention", *Patent Law Review* 1975, 113, at pages 128-131. See also Goldstein, E., and Arnold, T., "Compulsory Licensing: A Slowly Awakening Reality", *Industrial Property Law*, 1975, 503 at 511, "For some, the decision in the Foster case may be a rude awakening into the realities of compulsory licensing in the United States. For others, it is merely an extension of, and possibly an expected outgrowth of, a slow awakening started many years ago. For all, however, it must be considered a recognition that to deny that compulsory licensing exists in the United States is to be out of touch with reality. The Second Circuit Court of Appeal in the Foster case typifies the new awakening to the reality of compulsory licensing."

¹⁶ Ordinance No. 15 (Inventions) of the Straits Settlements, 1871. The grounds provided under section 22 were that the grant or the mode in which it was exercised, "was mischievous to the State or generally prejudicial to the public; or if a breach of any special condition on which the petitioner had been authorised to file a specification, or upon which the term of the exclusive privilege has been extended, is proved to the satisfaction of the Supreme Court, and if the Governor in Council thereupon declares that such exclusive privilege shall cease." It is interesting to note that such an equivalent provision was absent in the UK statute of that time or thereafter.

¹⁷ See section 22, Patents, Designs, and Trade Marks Act 1883, UK. In Brownie Wireless Co.'s Application (1929) 46 RPC 457, Luxmoore J., at pages 469-472, conveniently set out the history of the compulsory licensing provisions of the Patents Act from 1883 to 1919. See also Hatschek's Patents (1909) 26 RPC 228, *per* Parker J., at pages 244-245.

¹⁸ It is not known whether this was due to a deliberate policy, ignorance of the prevailing law in the United Kingdom, or reflected a lack of real importance of the system.

almost an exact replica of the Straits Settlements model, did not contain any provisions for compulsory licensing, although it had a provision for revoking the patent rights on the same grounds.¹⁹

However, by the time the other states enacted local patent legislation in 1896 and thereafter, the United Kingdom patent statute had already in place statutory control of abuse of monopoly rights by means of compulsory licensing. Therefore, each of these indigenous patent codes contained provisions for compulsory licensing. So, when Selangor enacted its patent legislation in 1896, there was present a compulsory licensing provision. This provision, also present in the other enactments of Perak, Negri Sembilan and Pahang,²⁰ was *in pari materia* with that found in section 22 of the Patents, Designs, and Trade Marks Act, 1883, of the UK.²¹ Section 22 of the 1883 Act of the UK was repealed and substituted by section 3 of the Patents Act 1902, UK, which provided a different code for compulsory licences. This new code was substantially adopted in the Federated Malay States when the 1914 Inventions Enactment for the Confederation was enacted, replacing the earlier identical codes adopted by the four separate states before confederation.²²

It is interesting to note that in line with the UK scheme, the actions that could be taken under the Federated Malay States provisions included not only an application for compulsory licence but revocation of the patent grant as well.²³ The grounds for revocation

¹⁹ See section 24, The Patents Proclamation 1908, North Borneo.

²⁰ See, sections 15 and 16 of The Inventions Order in Council No. 2 of 1896, Perak, Inventions Order in Council IV of 1896, Negri Sembilan, and Inventions Enactment No. V of 1897, Pahang, respectively.

²¹ Inventions Regulation V of 1896, Selangor, section 16. By virtue of section 15, there was also a provision for revoking patent rights similar to that found in the Straits Settlements Ordinance. See generally, Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.3.2.a.

²² See Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.3.2.b. By section 25 of the Inventions Enactment, 1914, FMS, if the court was satisfied that the reasonable requirements of the public with regard to an invention had not been satisfied, it might order the grantee to grant licences on such terms as was just, or if not satisfied that the reasonable requirement of the public would be satisfied by the grant of licences, the patent might be revoked. These provisions practically mirrored the new provisions substituted by The Patents Act, 1902, United Kingdom. The only difference was that the provision of the amended section 22(5) of the UK was not adopted. Section 22(5) of the UK Act provided that "If it is proved to the satisfaction of the Judicial Committee that the patent is worked or that the patented article is manufactured exclusively or mainly outside the United Kingdom, then, unless the patentee can show that the reasonable requirements of the public have been satisfied, the petitioner shall be entitled either to an order for a compulsory licence or, subject to the above proviso, to an order for the revocation of the patent."

²³ Under the 1907 Patents and Designs Act of the UK, the provisions regarding revocation and issue of compulsory licences for abuse of monopoly rights were regulated by the same provisions of the Act in section 24. There was also a separate provision under section 27 of the 1907 Act for revocation of a patent where the patented invention was exclusively or mainly worked outside the United Kingdom. However, the Patents and Designs Act of 1919 repealed section 24 and replaced it with a provision for licence of right. Section 27 of the 1907 Act was also repealed and substituted by a new section which laid down the provisions for the prevention of abuse of monopoly rights. This new section 27 gave power to the Comptroller to order that the patent to be endorsed with the words "licences of right", or grant compulsory licences, or revoke the patent. The Patents Act 1932 made some minor amendments and additions to section 27 of the 1907-1932 Patents Act, maintaining, however, the power of the Comptroller to give the same relief for abuse of monopoly rights, i.e., endorsed licence of right, compulsory licence and revocation. The Patents Act 1949

laid down in section 26 of the FMS enactment were similar to the provisions found in section 15 of the previous enactments of the four states mentioned earlier, which, in turn, were similar to those found in the Straits Settlements Ordinance.²⁴ Further, by virtue of section 16 of the same Enactment, the Chief Secretary was empowered to refuse to refer an application to an examiner or to accept an application or specification or to make a grant of exclusive privileges in any case in which it might appear to him that the granting of exclusive privileges would be prejudicial to the public interest or of doubtful public utility. Section 16 allowed the Chief Secretary to refuse to grant, whereas section 26 gave power to revoke. As can be seen, there were in place wide powers to either refuse or to revoke a grant conferred on the issuing authority.

The first patent enactment of Johore followed the Selangor model.²⁵ However, in 1924, there were amendments made to the grounds for compulsory licences.²⁶ Section 8 of the 1924 Amendment Act repealed section 16 of the principal enactment and substituted new provisions for compulsory licences. The new grounds were exactly the same as those contained in the Inventions Enactment, 1914, of the Federated Malay States, with the single difference that there was no power to entertain any request for revocation of the patent based on the same grounds.

When all these local granting systems were later converted to a re-registration of UK granted patents, these provisions relating to compulsory licences were not incorporated into the new enactment. Similarly, when these statutes were repealed and replaced by the Registration of United Kingdom Patents Ordinance, 1951 with the formation of the Federation of Malaya in 1948,²⁷ there were no specific provisions relating to compulsory licensing.

The remaining component states of the Federation which had a patent system, Sarawak, Perlis and Kelantan, adopted a re-registration system from the beginning.²⁸ Hence there

basically maintained the previous scheme, with voluntary endorsement of licences of right now in section 35, and compulsory licences under section 37, power being given to the Comptroller to order compulsory licences or endorsement of the patent with the words "licences of right". Power is given under section 40 for any Government department to apply to the Comptroller that the patent be endorsed with the words "licences of right". The power of the Comptroller to revoke for abuse is now transferred to section 42. A revocation order may be applied for at any time after the expiration of two years from the date of any order for a compulsory licence under section 37. Under the 1977 Patents Act, the provisions are now contained in sections 46 and 47 for licences of right, and sections 48 to 54 for compulsory licences, including non-voluntary endorsement with the words "licences of right". There is no power to revoke the patent for abuse of monopoly rights.

²⁴ See footnote 16, *supra*.

²⁵ By the Inventions Enactment, Enactment No. 3 of 1911, Johore. Section 15, relating to cessation of exclusive privileges, and section 16 on grounds for compulsory licensing, were exactly the same as that contained in the Selangor Ordinance.

²⁶ See Inventions Enactment, 1911, Amendment Enactment, 1924, Enactment No. 13 of 1924, Johore, section 8.

²⁷ See Chapter 1 - Development of the Malaysian Patent System, para. 1.4.

²⁸ For an account of the introduction of patent law in these States, see Chapter 1 - Development of the Malaysian Patent System, paras. 1.3.3 and 1.3.4.

were no express provisions for compulsory licensing, contending as it were, with the provision that "the certificate of registration shall confer on the applicant privileges and rights ... similar in all respects to those conferred by the issue of the patent in the United Kingdom." However, it may be argued that the sanction of compulsory licensing for abuse of monopoly rights that were found in the Federated Malay States and the United Kingdom may be incorporated into the statutes.

Therefore, from 1937, and until the coming into force of the Patents Act 1983 in 1986, the availability of compulsory licensing in Malaysia is uncertain.

6.1.2. The Present Scheme

Unlike the position under the various repealed statutes, the present Malaysian scheme does not mirror the provisions of the UK or other common law countries.²⁹ In this respect, there is also a departure from the tendency of the drafters of the Act to adhere closely to the WIPO Model Law.³⁰ As in the former law, there is no special provision relating to compulsory licensing in respect of food or medicine. Also, unlike the provisions of some countries, and as allowed under the Paris Convention on the fulfilment of certain strict conditions, there is no provision for forfeiture of a patent for non-working.³¹ Hence the scheme is meant to be remedial rather than punitive, since there is no power to revoke a patent even if abuse is found to exist.

The Malaysian model provides for the possibility of compulsory licensing and compulsory use in three different situations:³²

1. compulsory licensing for "abuse of monopoly",³³

²⁹ See sections 48-54, Patents Act 1977, United Kingdom; sections 133-136, Patents Act 1990, Australia; and sections 65-69, Patent Act (R.S.C. 1985. c. P-4) Canada. The Australian and Canadian provisions are substantially similar to the UK provisions.

³⁰ Section 148(1) of the WIPO Model Law provides that non-working or insufficient working in the country is a ground for the grant of a compulsory licence. As will be discussed later, the Malaysian provisions lay down further grounds for the application for a compulsory licence. No compulsory licensing scheme exists under the Sri Lankan Act.

³¹ See Paris Convention, Article 5A(3). The possibility of revocation is also envisaged by the TRIPS Agreement, see TRIPS, Part II, Section 5, Article 32.

³² By section 48 of the Act, "compulsory licence" means the authorisation to perform in Malaysia without the agreement of the owner of the patent in respect of the patented invention any of the exclusive rights that are given to the owner. Another form of "compulsory licence" is envisaged under section 35A (rights after reinstatement of lapsed patents). This is discussed in Chapter 7 - Exceptions, Limitations and Loss of Rights, para. 7.2.4.

³³ Although the expression "abuse of monopoly" is used, it is accepted that certain situations which justify a grant of a compulsory licence under the Malaysian provision do not necessarily arise from an abuse through the patentee's exercise of his patent rights. Sometimes the lack of exploitation of the patent is through the inability of the patentee to make more extensive use of his patent for various reasons. See generally, Coburn, H.H., "Compulsory Licensing by the Courts", 28 JPOS 180 (1946), at page 191, "However, non-use of a patented invention may constitute anything from

2. compulsory licensing on grounds of "dependency", and
3. compulsory use of a patent by the Government.

The provisions governing compulsory licensing under the Malaysian system are found in sections 48 to 54 and section 84. Section 49 relates to grant of compulsory licence for abuse of monopoly status, section 49A governs compulsory licence based on inter-dependence of patents, while section 84 relates to Government use of a patented invention.

6.2. Compulsory Licences for "Abuse of Monopoly" Status

6.2.1. Grounds of Application for "Abuse of Monopoly"

Section 49(1) of the Act provides that at any time after the expiration of three years from the grant of a patent, any person may apply to the Registrar for a compulsory licence on the following grounds:

- (a) that there is no production of the patented product or application of the patented process without any legitimate reason;
- (b) that there is no product produced under the patent for sale in any domestic market, or there are some but they are sold at unreasonably high prices or do not meet the public demand without any legitimate reason.

From an analysis of the section, there are four possible grounds that could be relied upon by an applicant for a compulsory licence:³⁴

1. non- working in the country without any legitimate reason.
2. no sale in the domestic market despite local production.

a mere absence of commercial use of the invention by the patentee to a deliberate plan of acquiring exclusive rights in all invention that are competitive with a particular invention, with the intent of suppressing any commercial use of the inventions covered by the patent rights acquired. ... [I]f Congress should merely declare that unreasonable refusal to permit a patented invention to be commercially used was unlawful, it is quite possible that the actual abuses could be reached by the courts without substantial impairment of the lawful rights conferred by the patent monopoly."

³⁴ Note that the GATT-TRIPS Agreement does not lay down the grounds which would justify the grant of a compulsory licence. The relevant provisions contained in Article 31 merely specify the conditions that must be observed before a compulsory licence is granted. Article 5A(2) and (4) of the Paris Convention mentions, as examples of abuses which might result from the exercise of the exclusive rights conferred by the patent, a failure to work or insufficient working. Therefore, it would appear that the various grounds provided under the Act are not incompatible with our international obligations, nor under Alternative B of Article 26(1) of the proposed Patent Law Treaty (see Introductory Chapter, footnote 11, for further references to the Patent Law Treaty).

- 3 unreasonably high price of patented products despite local production and sale in the domestic market.
4. insufficient supply to meet the public demand despite local production and sale in the domestic market.

The first ground applies in the simplest situation where it can be shown that the patent owner has not used his patent to manufacture the patented product or use the patented process. The Act does not expressly mention that these activities need to take place in Malaysia. However, read together with section 49(1)(b), it would seem that the above activities have to take place in Malaysia. This is because section 49(1)(b) envisages situations which are meant to qualify the circumstances in section 49(1)(a).³⁵ It is submitted, therefore, that a ground could be made out under section 49(1)(a) if it were proved that there is no production of the patented product or application of the patented process in Malaysia. It would be helpful if this were made clear in the provision.³⁶

Further, to ensure that the patentee does not try to circumvent the provisions, the local working has to be more than token or symbolic. It has to be understood to be a long-term manufacture of the patented product or use of the patented process, involving effective exploitation, with adequate quality and price conditions.³⁷

Grounds 2-4 apply even if there is working of the patented invention in the country. Ground 2 seems to envisage a situation where the patent owner has made use of his patent by causing the manufacture of the patented product locally, but the products so

³⁵ Further, it is unlikely that the Legislature intended that the applicant be put to the trouble and expense of having to make world-wide enquiries and search to ascertain the place and level of production. It is also worth noting that a domestic working requirement is the norm in most countries - see Julian-Arnold, G., "International Compulsory Licensing: The Rationales and the Reality", 33 IDEA 349 (1993), in Appendix A, where the author identifies only four countries where importation of the patented products is considered working. Note that the situation is different now in the UK because of the effect of European Community law - see generally, CIPA Guide, 4th Ed., at para. 48.07. In view of the decision of the ECJ in E.C. Commission v. United Kingdom (Case C-30/90) [1993] RPC 283, the compulsory licensing provisions in the 1977 UK Act have now to be interpreted as if most of the references in these provisions to "the United Kingdom" should be replaced by a reference to "a member state of the European Community". See also Articles 46 and 77 of the CPC, where the putting on the market, in a territory of a Contracting State, of patented goods manufactured in another Contracting State, is deemed to be sufficient working of the patent in the first-mentioned State.

³⁶ It is still unclear whether the TRIPS Agreement has negated the right of a country to insist on local working of a patented invention. Gosain, R., Sherrill, H.K., "The Effects of GATT/TRIPS on Brazil's Patent Legislation", Patent World, May 1995, 24, at page 25, commenting on the proposed changes to the law which include amending the provisions for compulsory licences, note that the proposed law requires local working of the patented invention, and that importation *per se* would not be sufficient. This, they feel, could be seen as conflicting with the provisions of Article 27(1) of TRIPS. For the view that the requirement of local working is a contravention of the TRIPS Agreement, see *infra*, footnote 38. Note that Alternative B of Article 26(1) of the proposed Patent Law Treaty would allow compulsory licensing measures to be taken for non-compliance with the obligation, specified in Alternative B of Article 25(1)(iii), to work the patented invention locally.

³⁷ See Mckechnie Bros. Ltd's Application (1934) 51 RPC 461, at 468, *per* Luxmoore J. See also The Fabricmeter Co. Ltd's Application (1936) 53 RPC 307, *per* Comptroller-General, at page 310.

manufactured are meant only for the export market. Hence none of the manufactured products are made available for sale in Malaysia. The third ground is similar to the situation in ground 2, with the difference that the goods are made available locally, although only at an unreasonably high price. The last ground applies when, although manufactured locally, the goods are not made in sufficient quantity to satisfy the reasonable demand of the public.

It would seem from the provisions that the availability of the patented products locally through importation by the patentee is not enough to prevent a successful application for compulsory licence.³⁸ It would also appear that this applies even if the patented products are available in sufficient quantity and at a reasonable price, provided again that the goods are made available only through importation and not local manufacture.

From the four grounds mentioned above, it is clear that the policy consideration underlying the Malaysian provisions seeks to achieve two main objectives, local working of the patented invention,³⁹ and to ensure that the patented products are available in sufficient quantity to satisfy the reasonable requirement of the public. Closely related to the second objective is the need to ensure that the patented products are obtainable at a reasonable price.⁴⁰

38 Under section 148(2) of the WIPO Model Law, a compulsory licence will not be granted if the patentee could show circumstances which justify the non-working or insufficient working. However, importation of the patented product does not constitute such a circumstance. Kolker, P.L., *Should Importation be Considered as Working? A Study of Article 27 of the GATT TRIPS Agreement*, The Intellectual Property Institute, 1996, at pages 17-21, argues that since Article 27 of the TRIPS Agreement, provides, *inter alia*, that patent rights are enjoyable without discrimination as to whether products are imported or locally produced, a requirement for local working is a clear discrimination against imports. Therefore, he maintains that lack of local working of a patented invention, when the patented product is imported, as a ground for the grant of a compulsory licence, is a breach of the obligations under the TRIPS Agreement. If this view is correct, it would mean that the grounds provided under the Malaysian provision would have to be construed accordingly. Straus, J., "Implications of the TRIPS Agreement in the Field of Patent Law", in Beier, F.K., Schricker, G., (Eds), *From GATT to TRIPS - The Agreement on Trade-Related Aspects of Intellectual Property Rights*, IIC Studies Vol. 18, VCH, 1996, at page 205, states, without giving any reason, that by virtue of Article 27(1) it may be assumed that sufficient exercise of the patent rights may also be ensured by importation of patented products. However, it has to be pointed out that the provision regarding non-discrimination between imported and locally manufactured product is found in Article 27, which relates to patentable subject matter and patent rights. If the intention is to be in accordance with his submission, surely it would be more logical to insert this provision in Article 31, which deals specifically with compulsory licences? Further, Article 27 of the TRIPS Agreement could be construed as referring otherwise than to compulsory licensing. For example, it is more likely that the provision that "patents shall be available and patent rights enjoyable without discrimination as to ... whether products are imported or locally produced" is meant to reinforce the obligation under Article 5 *quater* of the Paris Convention, which provides that if a country grants rights to holders of process patents, it has to grant such rights irrespective of whether the product made from the patented process are manufactured domestically or imported.

39 In fact, section 52(a) of the Act specifically provides that the scope of the compulsory licence may not extend to the act of importation. This objective is commonly found in all the three jurisdictions surveyed. To quote from a case in the United Kingdom, Extrude Hone Corporation's Patent [1982] RPC 361, *per* Whitford J. at page 384, "Patents are not granted in this country to enable patentees who are able to afford to take out world-wide protection to manipulate its market in this country as it pleases, but to encourage the working of the invention here. In my judgement, the superintending examiner rightly concluded that a licence should be granted..."

40 In this context, it is relevant to quote Penrose, Edith Tilton, *The Economics of the International*

Before the applicant can make an application based on any of the grounds specified under section 49, it would appear that he must have made a request to the patentee for a voluntary licence, and that he had been unable to obtain such a licence on reasonable terms and within a reasonable time. Although this requirement is not specifically mentioned in the section, evidence of this is required when the application for a compulsory licence is made to the Registrar of Patents.⁴¹ The application is made to the Registrar, but consideration of the application is by the Patents Board.⁴²

6.2.1.a. When is a patented product deemed to be produced?

There is no problem if a patented product is wholly made within jurisdiction. However, there could be problems of deciding whether the compulsory licensing regime is applicable in cases where the patented product is only partially manufactured within the country. From the cases, it would seem that there is no necessity that the patented product should be wholly made within the jurisdiction to escape the penalties of the compulsory licensing provisions. United Kingdom jurisprudence relating to this issue is helpful. In Johnson's Patent,⁴³ the machines made in accordance with the patented invention were wholly made abroad in the United States. However, before sale in the United Kingdom, a few parts were taken out and other locally made parts substituted. It was contended that, owing to the special tools and to the precision required in making the patented machines, certain important parts could not be made in the UK, or could only be so made with great difficulty and expense and after a long time. It was further contended that there were serious practical obstacles in the way of working into the machine parts which could be made in the UK with those which could not, and that the substitution of certain parts of the machine for others contained in it when imported, which substitution was carried out in the UK, was practically all that could be done towards manufacturing it there. It was held that the

Patent System", The Johns Hopkins Press, Baltimore, 1951, at pages 116-117, "Any country must lose if it grants monopoly privileges in the domestic market which neither improve nor cheapen the goods available, develop its own productive capacity nor obtain for its producers at least equivalent privileges in other markets. No amount of talk about the 'economic unity of the world' can hide the fact that some countries with little export trade in industrial goods and few, if any, inventions for sale have nothing to gain by granting patents on inventions worked and patented abroad except the avoidance of unpleasant foreign retaliation in other directions. In this category are agricultural countries and countries striving to industrialise but exporting primarily raw materials. Strong supporters of the International Union deplore the fact that many of these countries have failed to join the Union. ... Whatever advantages may exist for these countries if they joined the International Union ... they do not include advantages related to their own economic gain from granting or obtaining patents on inventions."

⁴¹ See section 49(2), Regulation 38, and Patents Form No. 11. The position is the same in the United Kingdom. See, for example, Re Loewe Radio (1929) 46 RPC 479, before an application can succeed, there must be a concrete refusal by patentee to grant a reasonable licence - *per* Luxmoore J. at page 490. This is also a requirement under the TRIPS Agreement - see Part II, Section 5, Article 31, (b).

⁴² See sections 51, 52 and 54 of the Act. For the composition and other functions of the Board, see Part II of the Act, and Chapter 1 - Development of the Malaysian Patent System, para. 1.5.3.

⁴³ Johnson's Patent (1909) 26 RPC 52, revocation for non-working, Patents and Designs Act 1907, section 27.

patented article had not been manufactured to an adequate extent in the UK, and an order was made revoking the patent forthwith. In coming to this decision, the Comptroller applied the test of whether the "essential features of the patented article" were manufactured in the UK to such an extent as to substantially satisfy the local demand there. If the essential features were manufactured overseas, then the patented article was not manufactured to an adequate extent in the UK. 44

Lake's Patent⁴⁵ contains a useful guideline to assist in the determination of this issue. There, an application was made to revoke a patent relating to improvements in sound-magnifying horns for phonographs and the like on the ground that the patented article was manufactured exclusively or mainly outside the UK. The evidence for the applicant was directed to showing that the "sound boxes," which he alleged to be part of the patented article, were in all cases made in the US; and that large numbers of talking machines coming within the claims were imported and sold by other parties. The patent owners filed declaration to the effect that there was a substantial manufacture of "the improved sound magnifying horn" in the country, and that these improved horns was the only "patented article" which it was necessary for them to manufacture in the UK to escape the penalties of the Act. The Comptroller-General held that on a proper construction of the specification, the real invention of the patentee was the improved sound magnifying horn, and that although a sound box was claimed in combination, there was no claim for any special form of sound box. It was not necessary, therefore, for the sound box to be manufactured in the country to escape the provisions of section 27, the general rule being that a patentee ought not to be called upon to manufacture any mechanism or machine, which he had not specifically described and claimed in his specification.⁴⁶ The application was dismissed.

44 Johnson's Patent (1909) 26 RPC 52, *per* Comptroller-General, at page 56, "It seems to me impossible to contend that the public demand in this country for the patented article is substantially met by the manufacture here of a comparatively small number of substituted parts, which are mere modifications, made to suit the taste and convenience of certain purchasers, for which there would be no demand except for the purpose of using them as parts of the entire machine."

45 Lake's Patent (1909) 26 RPC 443.

46 Lake's Patent (1909) 26 RPC 443, at 447. The Comptroller-General continued, "If, however, the general principle stated is correct, the following general rule would seem to follow, viz. : If the patentee has claimed a wholly new machine or mechanism, he must manufacture that in this country or run the risk of coming within the provision of section 27. If he claims a new improvement in a well-known machine, he must manufacture the improvement, and not necessarily the whole machine: but if he claims the improvement in combination with a machine consisting of well-known parts it may be that he must, besides manufacturing the improvement, put together the whole machine in this county, or at any rate the combination he claims. If his new invention merely consists in a new combination of old and well-known elements, it would seem sufficient for him *prima facie* to put together the whole machine in this country, and it is not necessary for him to manufacture the old and well-known parts, which are also possibly the subject matter of prior patents [and therefore, he would infringe if he were to manufacture them]; but different consideration may again arise where important alterations in the well-known parts are necessary for the new combination. Each case must of course be decided upon its merits; and in each case it will have to be determined on a proper construction of the patentee's specification what the patentee's invention really is, and what are its essential features." For the same Canadian approach, see Cie Machinerie Rennele, Inc. v. Putzmeister Interholding GmbH (1983) 1 CIPR 155 (Commissioner of Patents, Canada), at pages 157-158 - Mere mounting in Canada of the patented

What the "patented article" is in each case must, therefore, be determined after an examination of the whole specification, which should be construed like an ordinary legal document; and a patentee may be estopped by his claims if they are too widely drawn.⁴⁷

The cases also show that in the determination of this issue, the comptroller and the court have not been too rigid. For example, in Kent's Patent,⁴⁸ the application for revocation was based, *inter alia*, on the allegation that the patented machines made in the UK since the relevant date were not completely made in the country, but that some of the most important parts had been provided from abroad. In rejecting the application, the Comptroller-General held, *inter alia*, that taken as a whole the machine was made within the country. As to the allegation that the most distinctive portions were made not locally, it was held that in the particular circumstances of the case it was excusable in view of the need for special material to manufacture these parts. However, as a rule the excuse that it was impossible to manufacture efficiently certain parts of the machinery would not be viewed favourably.⁴⁹

An interesting case is the case of Hatschek's Patents,⁵⁰ where the term "patented article" in section 27(1) of the then United Kingdom statute was held to mean an article which was the subject of a British patent, and was manufactured in accordance with the specification, or by means of the process therein described, by whomsoever manufactured, and that consequently manufacture by infringers in the United Kingdom had to be taken into account in favour of the patentee under the relevant section. The same approach was followed in Mercedes Daimler Motor Co. Ltd's Patent.⁵¹ In that case, Fiat Motor Ltd applied to revoke 7 patents belonging to Mercedes Co. Ltd on the ground that the patented articles were manufactured exclusively or mainly outside the UK. It was admitted by the applicants that, in addition to the manufacture of the patentees and their licensees, there was an extensive

combination, a concrete pump assembly, on carrier and repairs of the pump did not amount to working of the patent - an application for compulsory licence on ground of non-working under section 67(2)(c) of the then Canadian Patent Act, R.S.C. 1970, c. P-4.

47 See also The Cooperative Union, Ltd's Application (1933) 50 RPC 161, Comptroller-General (Mr M.F. Lindley), at page 163.

48 Kent's Patent (1909) 26 RPC 666.

49 Kent's Patent (1909) 26 RPC 666, at page 670, "On behalf of the applicants it was urged that the most distinctive portions, the rolls and the rings, were supplied in each case from abroad. The answer to this was that these required somewhat special material, and that the patentee was anxious not to prejudice the early sales of the machines by obtaining inferior material. It was also pointed out that these same parts had equally been supplied for many years in the manufacture of the foreign machines. While I should not accept this as a conclusive answer in all cases, I think that in view of all the circumstances, it is in this case sufficient as a reason for the present absence of manufacture of these parts in this country. I shall always decline to accept, as a rule, any argument based on the impossibility of securing an efficient manufacture of special machinery in this country, but I think it is natural for a patentee, who desires to put the best possible machine upon the market, to be somewhat over-scrupulous at first in obtaining his materials, and supervising the construction of his machine. This appear to be the case, at first here, but the machine as a whole is now substantially made in this country, and there appears to be no reason why the ring and the rolls should not also be manufactured here, at an early date."

50 Hatschek's Patents (1909) 26 RPC 228.

51 Mercedes Daimler Motor Co. Ltd's Patent (1910) 27 RPC 762.

manufacture by infringers in the UK, but it was contended by the applicants that manufacture by infringers in the UK should not be taken into consideration, and could not be relied upon by the patentees in defence to an application under the section. Relying on the decision in Hatschek's Patents,⁵² the Comptroller was of the view that the term "patented article" in section 27(1) meant an article which was the subject of a British patent, and was manufactured in accordance with the specification, or by means of the process therein described, by whomsoever manufactured, and that consequently manufacture by infringers in this country had to be taken into account in favour of the patentee under section 27(1). The Comptroller's decision was upheld on appeal.⁵³

6.2.1.b. Unmet public demand

Unmet public demand for the patented product, without any legitimate reason, is made one of the grounds for an application for a compulsory licence. It would be a simple matter to show that there was no availability of the product at all. However, where the products are available for sale, but the contention is that it is insufficient to satisfy the local demand, then evidence would have to be forwarded to show the level of this demand and the level of availability of the products to enable the Board to determine whether the allegation of inadequacy is satisfied.

6.2.1.c. Excessive pricing

There is no guideline provided as to what is meant by "unreasonably high price". The UK cases seem to show that even though the price charged is higher than that charged in other

⁵² Hatschek's Patents (1909) 26 RPC 228.

⁵³ Mercedes Daimler Motor Co. Ltd's Patent (1910) 27 RPC 762. The explanation for this approach was given by Parker J., at pages 767-768. At page 768, he said, "The present case raises an analogous point with regard to the extent to which the article or process ... is, within the meaning of the subsection, manufactured or carried on within the limits of the UK. In computing this extent ought the Comptroller to enquire whether what has been done within the UK is, or is not, in derogation of the rights of the patentee under his patent, and to exclude from the computation what has been done in derogation of such rights? I have come to the conclusion that he ought not to. This appears to follow from what I have decided in Hatschek's Patent, for it would be illogical and unfair to count against a patentee all that is done abroad without his licence, consent or cooperation, and to count in his favour only what is done in this country by himself or his licensees or otherwise without derogating from his rights under the patent. Further than this, it seems to me impossible that the Legislature could have contemplated, under subsection (1), an enquiry so far-reaching as to embrace the rights inter se of the patentee and everybody in the UK, who is manufacturing the article or carrying on the process the subject of his patent. One man may be manufacturing the article, or carrying on the process, because he believes the patent is invalid, another because he maintains that, on the construction of certain correspondence between himself and the patentee, he has a free licence; a third because he contends that in equity the patent belongs to him; and yet a fourth because he thinks that in an action for infringement he will have a defence under section 25 of the Act. There may be all sorts of questions to determine before it can be decided whether what is being done in any particular case is in derogation of the patentee's rights or otherwise. The Comptroller has quite enough to do in coming to a conclusion as to whether a particular article or process is in fact the article or process for which the patent has been obtained without entering into all these further questions, and in my opinion he is not, according to the true construction of the subsection, concerned with these further questions at all."

countries, this in itself would not lead to the conclusion that the price charged is unreasonable or exorbitant. At most, a *prima facie* case would be made out.⁵⁴ Consideration has to be given for the possibility of the patentee charging a monopoly profit. The fact that prices charged in other countries are lower could be explained by the fact that in countries where he does not have a patent, the patentee has to compete with other manufacturers, and the consequence of that is that he would be compelled in those countries where he has competition, to sell at a lower price.⁵⁵ Re Kamborian's Patent seems to indicate that the proper approach to be taken in this situation is a pragmatic approach, i.e., in deciding whether the price charged is reasonable, the question is to be judged in the light of what the customer is prepared to pay. Therefore, in the absence of public dissatisfaction with the price, this ground is unlikely to be made out.⁵⁶

6.2.2. Legitimate Reasons for Non-Working

The compulsory licensing regime prevents a patentee from using his patent for mere obstructive purpose. Therefore, merely using the patent to obstruct the local working by others is not deemed to be legitimate.⁵⁷ However, both the sections 49(1)(a) and (b) grounds are not available to the applicant if the patentee is able to satisfy the Patents Board that there is a legitimate reason for his action or inaction. Again, guidance may usefully be sought from the United Kingdom cases concerning the reasons which may be deemed legitimate. The basic rule seems to be that if there is a demand, however small, it has to be satisfied. In Intertype Ltd's Application, the reason advanced by the patentee for his failure to manufacture the patented article in the UK was that there was no demand for the patented product. This was rejected, the Comptroller holding that the fact that the applicant had done some trade in machines containing the patented invention showed that a demand, albeit small, for the patented product existed. Therefore, the applicant should be allowed to

⁵⁴ See Kent's Patent (1909) 26 RPC 666, *per* the Comptroller-General, at page 669.

⁵⁵ Badische Anilin und Soda Fabrik v. W.G. Thompson & Co. Ltd. & ors (1904) 21 RPC 473. In an action for infringement of two patents relating to dyes the defendants alleged that the patents were, or had become invalid because, *inter alia*, the plaintiffs had charged exorbitant prices for the patented articles, much in excess of those in other countries. The plaintiffs contended that their prices in the United Kingdom were not exorbitant having regard to the circumstances, including the more complete protection against infringement as compared with other countries, in some of which chemical products cannot be protected by patents - see Warrington J., at page 478.

⁵⁶ Re Kamborian's Patent [1961] RPC 403, Mr A.E. Tollerfield, Assistant Comptroller, at page 405, "The question of whether terms are reasonable or not falls ... to be judged in the light of what the customer is prepared to pay. There is no evidence before me of public dissatisfaction with the price of the machine at the date of the application."

⁵⁷ See Intertype Ltd's Application (1926) 43 RPC 305, *per* Mr Martin, Assistant Comptroller, at page 309, "I cannot conceive that, because the patentees, for reasons which seem to them expedient and sufficient, do not see fit to exploit the invention in this country, they have an unquestionable right to decline to permit the manufacture of the patented article on reasonable terms by other persons interested. If this view is correct, it would appear that, in effect, the patentee are maintaining the patent in force mainly for obstructive purposes and it seems to me, therefore, on the evidence available, that the present case is precisely one which the provisions of section 27 were intended to meet."

satisfy this demand since the patentee was reluctant to do so.⁵⁸ The fact that the patentee may have to import special machinery or skilled personnel into the country to produce the patented article would also not seem to be valid reasons for non-working.⁵⁹ However, in Re Boulton's Patent, the fact that special equipment was required was held to justify the limited local production to date. The Comptroller-General held that the particular facts of the case and the special character of the machine furnished satisfactory reasons for any deficiencies in respect to adequacy of working.⁶⁰

It would appear that the failure of the patentees to exploit the invention in the country during and within a reasonable period after a state of war may be excusable.⁶¹ It may be that the inability to make a profit could also be considered a reasonable ground.⁶² Although, if despite the patentee's contention that local manufacture is not commercially viable, the

58 Intertype Ltd's Application (1926) 43 RPC 305, *per* Mr Martin, Assistant Comptroller, at page 309.

59 See Johnson's Patent (1909) 26 RPC 52, *per* Comptroller-General at page 57, "In paragraph 11 of the declaration he ... declares that having regard to the nature of the tools and the skilled workmanship required, it would be absolutely impossible to successfully manufacture in the UK entire sewing machines according to the patent. It is very natural that the patentees and their employees should, in perfect good faith, believe that their machine is a better one than any one else can produce, and that the American firm, which has done their work well for 40 years, are the best tool manufacturers in the world. But it is manifest that opinions of this kind must be received with considerable hesitation, having regard to the high class machinery turned out in this country and on the Continent; and that, even if they can be substantiated, they would not, of themselves, afford a satisfactory reason for not manufacturing in the UK. For assuming them to be correct, they do not explain why the patentees have not taken steps to import into this country the requisite tools and skilled labour for the manufacture of the machine."

60 Re Boulton's Patent (1909) 26 RPC 383, at pages 386-399, "The circumstances of each case are often widely different, and it will be difficult to make any case serve as a precedent for another, either as regards the definition of adequate working, or as an illustration of what may be held to be satisfactory reasons. Had this been a case of a simple process, or an improvement in machinery already at work and established in the UK, I do not think that the same consideration would apply, or the arguments put forward by the patentees have had equal weight. Such a process might have been started here without any delay, and such an improvement might have at once been applied to existing machinery and the patentees would have greater difficulty in explaining any delay or inaction on their part, or claiming consideration for any efforts to improve the machine in their own country. In this case the machine is a new machine with no established market here. It has been constantly improved by the patentees' effort, which were confined in their own country. Had the patentees given any preferential treatment to other foreign countries like France or Germany, it might have been difficult for them to excuse their inaction, but upon the evidence I am satisfied that this has not been the case here. Stress was also laid upon the fact that the article in question was a complicated and delicate piece of mechanism, and it was stated that many of the parts could not properly be manufactured here. I think it possible that there may be exceptional instances in which this is the case, but I shall be slow to believe without the strongest evidence that manufacturers and workmen of this country are incapable of turning out even the finest and most delicate machinery."

61 See Intertype Ltd's Application (1926) 43 RPC 305, *per* Mr Martin, Assistant Comptroller, at page 309.

62 See the *obiter* comment of Warrington J., in Badische Anilin und Soda Fabrik v. W.G. Thompson & Co. Ltd. & ors (1904) 21 RPC 473, at page 478, "So far as the facts are concerned I have this: - The plaintiffs have never manufactured in England. The ground which they put forwards as the reason for their not having manufactured in England is that alcohol forms an important element in the manufacture of this product, and that the excise laws in England impose such a duty upon alcohol as that the manufacture cannot be carried on at a profit in this country. Whether their reason is a good or bad one does not really concern me; but, at all events, it is not an unreasonable one, and it commends itself as having some reasonableness behind it."

applicant is still willing and able to start local manufacturing, the opportunity should be given to him to do so.⁶³ Therefore, when such an assertion is made, a strict examination of its veracity needs to be made. However, according to The Fabricmeter Co. Ltd's Application case, the fact that a smaller profit will be realised if the patentee goes for local manufacture instead of importation is not acceptable, although this case seems to reinforce the earlier statement that the impossibility of profit is a valid ground.⁶⁴ Similarly, where the demand is extremely small, that would justify the absence of a more extensive manufacture.⁶⁵ Consideration should also be taken of the difficulty of starting a new industry,⁶⁶ or the difficulty involved in developing and establishing a new market, or when the invention is of an unusual character which involves new technology and may need new basic manufacturing techniques,⁶⁷ or of a trade recession.⁶⁸

63 See Hamson's Application [1958] RPC 88. See also Meinhardt, P., *Inventions Patents and Monopoly*, 2nd Ed. Stevens & Sons Limited, 1950, at page 264, who opines that it would be difficult for a patentee to substantiate a satisfactory reason for non-working, since the mere fact that a competitor is interested to work the patent creates a presumption that the non-working by the patentee is wrongful.

64 See The Fabricmeter Co. Ltd's Application (1936) 53 RPC 307, the Comptroller-General, at page 313, "But even if it had been proved that the patentees would have made smaller profits by manufacturing them here than by manufacturing in America and exporting to this country, that in itself would not in my view be a satisfactory reason for non-working, and in this view I am supported by a consideration of the remarks of Mr Justice Parker in the case of Hatschek's Patent. It has certainly not been shown that the patentees would have made no profits at all by manufacturing their machines here in the numbers in which they were imported from America, and, having regard to the estimated and actual figures given in evidence of the cost of manufacturing this and similar machines in this country and to the prices charged for the completed machines, it seems to me that such a contention would have been difficult to sustain."

65 Kent's Patent (1909) 26 RPC 666, at page 669.

66 See, for example, Bremer's Patents / Hogner's Patent (1909) 26 RPC 449, *per* Parker J., at page 464, "It is by no means an easy thing to establish an industry for the first time. Both managers and workmen must buy their experience, and the attempt becomes the more difficult if it must be made in the teeth of the competition from a firm who has already acquired a great reputation for the quality of their own goods, and have access to English markets. If, however, the person who attempts to establish such an industry has patent rights in this country, such patent rights are, of course, of great value, for they will enable him to exclude or limit, the competition which might otherwise prove fatal, but even such patent rights may be of little use if the competitor is in a position to put goods on the market which he can sell by virtue of his reputation, even if they do not contain the latest improvements." See also, Extrude Hone Corporation's Patent [1982] RPC 361, *per* Whitford J. at page 383, "Of course, no patentee, especially perhaps a foreign patentee, can be expected to launch into a full scale attempt to meet the demands of the UK market as soon as he got his patent. ... Some inventions are less easy to market than others, a fact recognised by section 50(2). That was well in the mind of the superintending examiner, who accepted the evidence in this case that this was an invention of a kind which was not going to be especially easy to introduce upon the market. [H]owever ... Extrude Hone have failed all together to make out a case that any reasonable steps were taken to secure a satisfactory level of exploitation over a considerable period."

67 Fette's Patent [1961] RPC 396, *per* Mr A.E. Tollerfield, at page 400, "[I]t is sought to justify it on the ground that the invention is of an unusual character involving difficulties in developing and marketing. I am not ... convinced ... that the invention is of this nature. It does not break new ground in the sense of introducing a new art of thread rolling as distinct from thread cutting, and such as might be expected to involve the development of new basic manufacturing techniques; ... The only remaining reason for the delay in manufacturing in the UK seems to have been the difficulty encountered by the patentees in establishing a market. It was to be expected that customers using thread cutting devices had to be convinced that thread rolling was an efficient and preferable alternative, and that in some cases the heads had to be modified to meet customers' requirement. In these circumstances, it is not surprising that the operations of a single agency did not bring more rapid development of sales. It is also understandable that while sales were limited it

Other reasons that were accepted include the fact that serious and genuine negotiations had already been entered into prior to the application for a compulsory licence.⁶⁹

It would seem, from the approach adopted in the United Kingdom, that attempts by the patentee to justify non-manufacture within the country on the ground of lack of demand may not be sympathetically received, if there was evidence of a demand abroad.⁷⁰

6.2.3. Scope of the Compulsory Licence

Once a decision to grant a compulsory licence is made, the Board is empowered by section 52 of the Act to fix terms regarding the scope of licence, the time period and the royalty rate payable by the licensee. The time limit within which the beneficiary of the compulsory licence shall begin to work the patented invention in Malaysia has also to be laid down. This is important because it is a ground for cancellation of the compulsory licence if the licensee has not begun the working of the patented invention within the time limit fixed, or has not begun serious preparation towards such working.⁷¹

Under section 52(a), the Board, in fixing the terms of the compulsory licence, may not extend the licence to the act of importation. In this connection, it is pertinent to note that in some situations, parallel importation of goods originating from the patentee seems to be allowed under the Act.⁷² Therefore, the prohibition would have to be read to mean that a compulsory licensee cannot be authorised by the Board to import products not originating from the patentee or someone acting with his consent. Further, by virtue of section 53 of the Act, the beneficiary of the compulsory licence has no right to conclude licence contracts with third persons under the patent in respect of which the compulsory licence is granted. The provisions of section 54 deal with amendment, cancellation and surrender of compulsory licence. By this section, the patentee or the compulsory licensee may apply to

would not be a commercial proposition to set up a new plant for the sole purpose of meeting that demand. But it seems to me that the patentees were content with this position, for there is no evidence ... of any attempt on their part either to extend the sales organisation and so speed up sales to the point where they or MSE could begin manufacture in the UK, or to interest other British manufacturers."

68 Extrude Hone Corporation's Patent [1982] RPC 361, *per* Whitford J. at page 384, "The superintending examiner, in my judgement, gave careful consideration to all the relevant factors. He did not fail to take into account consideration of the argument advanced by Mr Laddie based on, for example, outside influences which may have affected sales, such as trade recession."

69 See Jottrand's Patent (1909) 26 RPC 830, *per* Comptroller-General, at pages 832-833.

70 On this point, the Comptroller-General in Re Boulton's Patent (1909) 26 RPC 383, held, in relation to the question of adequate manufacture, that if the patentee manufactures abroad, and there is a demand abroad, the absence of a demand in the United Kingdom was not necessarily a valid excuse for absence of manufacture. The patentee must in any case make an effort to create a demand for the patented article in the country, and the establishment of a manufacture may help to create the demand - see at page 387.

71 See section 54(2)(b) of the Act.

72 See, *infra*, Chapter 7 - Exceptions, Limitations and Loss of Rights, para. 7.1.2.

the Board to amend the decision granting the compulsory licence to the extent that new facts justify such amendment. This enables the scope of the compulsory licence as originally fixed by the Board to be either narrowed or broadened. Further, the patentee may request the Board to cancel the compulsory licence on various grounds.⁷³

6.2.4. Observations

To date there has not been any application for compulsory licences,⁷⁴ and hence the effectiveness of the provisions in combating abuse of monopoly rights could not be assessed. However, non-use of the provisions does not necessarily imply that such provisions are irrelevant or unnecessary. It may have a deterrent effect against abuses and serves a disciplinary function as an incentive for patentees to grant licences voluntarily.⁷⁵ This seems to be one of the commonly accepted views among writers and researchers.⁷⁶ It is also interesting to note that despite the low usage of the scheme, the Banks Committee, set up to review the British patent system, decided to retain it.⁷⁷ So, despite the lack of use

⁷³ See, section 54(2)(a) to (d) of the Act.

⁷⁴ In fact, the experience in other countries indicates that the compulsory licensing procedure is seldom resorted to. See, for example, Working Paper on Patent Law Revision, Department of Consumer and Corporate Affairs, Canada, 1976, page 103, Herz, A., "Compulsory Licensing" 28 JPOS 889 (1946); and Kolker, P.L., Should Importation be Considered as Working? A Study of Article 27 of the GATT TRIPS Agreement, The Intellectual Property Institute, 1996, at pages 15-17.

⁷⁵ Herz, A., "Compulsory Licensing" JPOS, December, 1946, Vol. XXVIII, No. 12, page 889, at page 902, notes in his study of the compulsory licensing system in the United Kingdom that in the majority of the suits brought for a compulsory licence as a remedy against patent abuse or "in the public interest", the litigation had not been terminated by decision, but was settled by the parties, with the respective patent offices encouraging such settlement. He concludes that this showed very clearly to what great extent the compulsory licensing provisions in the British Patent Act served their disciplinary function. Arnold, T., Goldstein, E., "Compulsory Licensing: The 'Uncentive' for Invention", Patent Law Review 1975, 113, at page 152 refer to these situations as the yielding of voluntary licences "*in terrorem*".

⁷⁶ See, for example, UN Report No. 65: The Role of Patents in the Transfer of Technology to Developing Countries, Report to the Secretary-General, United Nations, New York, 1964, at page 25; Working Paper on Patent Law Revision, Department of Consumer and Corporate Affairs, Canada, 1976, page 104; Cohen, S., "Compulsory Licensing of Patents - The Paris Convention Model", 20 IDEA 153 (1979), at page 189, "The infrequent use of compulsory licensing may be attributed to the fact that the courts, especially in developed countries, have placed substantial obstacles in the path of applicants seeking a compulsory licence. It may indicate, however, that compulsory licences are an effective remedy, and that patentees prefer to negotiate a voluntary licence to avoid the sanctions of compulsory licensing. In some instances, a patentee may be induced to work the patent itself rather than expose it to compulsory licence. In some countries revocation or forfeiture of a patent is added incentive for the patentee to attempt local working of the patented technology." This possibility was also mentioned in Phillips and Firth, Introduction to Intellectual Property Law, 3rd Ed., Butterworths, London, 1995, at page 85; Lees, C., Patent Protection - The Inventor and His Patent, Business Publications Ltd, London, 1965; Herz, A., "Compulsory Licensing" 28 JPOS 889 (1946) at page 901. See also, Intellectual Property Advisory Committee: Report on Patents, Innovation and Competition in Australia", 29.08.84, at page 28; Patents and Designs Acts, Second Interim Report of the Departmental Committee (Swan Committee), Cmnd. 6789, 1946, at para. 27; Memorandum of Evidence to the Committee to Examine the Patent System and Patent Law, Chartered Institute of Patent Agents, 1968, at para. 39. However, this possibility was doubted in the UK Government Green Paper "Intellectual Property and Innovation", Cmnd. 9117, 1983, at para 5.15.

⁷⁷ Report of the Committee to Examine the Patent System and Patent Law, Cmnd. 4407 (The Banks

to date, some observations will be made towards determining whether any changes should be made to the provisions to make the compulsory licensing mechanism more effective to serve its intended purpose.

The compulsory licensing scheme is based on the premise that if the patentee refuses or neglects to work the patent locally, or in any other way abuses his patent rights, then an interested applicant can step in to fill the void. It presupposes that such an applicant is in possession of the necessary financial capability and specialised skills in the relevant technology to exploit the patented invention. This may be true when the technology involved is of a low level. However, where high technology is involved and the expenditure of considerable amount of money is necessary to exploit the patented invention, such a scenario is fanciful in view of the comparatively low level of technological skills in Malaysia. In other words, there is a technological barrier preventing a local entrepreneur from taking advantage of the scheme.⁷⁸ This non-legal external constraint due to a lack of technological capabilities will in many cases result in a lack of use of the system. An applicant for a compulsory licence, if successful, is entitled to a licence to exploit the invention. He is not entitled to have the patentee reveal all the necessary know-how relevant to the manufacture of the patented product or the use of the patented process, since the patentee is under no obligation to supply the necessary know-how.⁷⁹ Therefore, these provisions are of most relevance to "an experienced applicant who is anxious to adopt the new technology and has the capability and initiative to do so on his own without cooperation from the patentee".⁸⁰ In other words, compulsory licences provide access to patented invention but it may not be an effective vehicle for full technology transfer.⁸¹

Report), HMSO, London, 1970, at pages 101-106.

78 See UN Report No. 65: The Role of Patents in the Transfer of Technology to Developing Countries, Report to the Secretary-General, United Nations, New York, 1964, at pages 25 and 43. This, and several other constraints are listed by Beier, F-K., "Does Compulsory Use of Patents Promote Technology Transfer to Developing Countries?" [1986] 12 EIPR 363, at pages 365-364. They are, "... On the production side the patentee or the licensee must have access to sufficient capital, a suitable work force, raw materials and supplies, a suitable location, organisational ability, and most importantly, the technical know-how so critical for carrying the patented invention into effect. On the marketing side, a sufficiently large demand must exist in the internal market, or there must be access to export markets along with a corresponding organisation for distribution. Finally, other legal and economic conditions must be considered which allow an economically profitable production within the country, or at any rate not hinder it. Worthy of mention are employment and tax rules, regulations for investment and limitations on capital and licence transactions."

79 See, for example, Cassou's Patent [1971] RPC 91, *per* Mr J.E. Mirams, in the Patent Office, at page 93. The Working Paper on Patent Law Revision, Department of Consumer and Corporate Affairs, Canada, 1976, page 105, quoting the Economic Council of Canada "Report on Intellectual and Industrial Property" of January, 1971, notes that as long as a potential licensee requires not only a licence under the patent but also the assistance of the patentee in supplying essential know-how, compulsory licensing procedures are not likely to encourage full technology transfer.

80 The Working Paper on Patent Law Revision, Department of Consumer and Corporate Affairs, Canada, 1976, at pages 105-106.

81 Note that under section 57 of the Law on Inventions and Marks of Mexico, 1981, the patentee is required to supply all the necessary know-how to manufacture the product covered by the patent to a compulsory licensee. Failure to do so could result in the patent being revoked. However, such a requirement is absent in the new Industrial Property Law of 1991, as amended in 1994. Under section 55(3)(a) and (c) of the present Patents Act 1994, of Singapore, the Registrar may, on

Hence in the absence of power to order that the required know-how be supplied to the successful applicant for a compulsory licence, the mechanism may not be effective. In fact this weakness was pointed out in a UK Green Paper as one of the reasons for minimal use of the mechanism, and it was proposed therein that the existing UK compulsory licensing provisions be made more effective by the inclusion of the transfer of associated know-how essential to its successful working. It suggested that the existing powers to set licence terms should be used to require the patentee to transfer the associated know-how to the compulsory licensee.⁸² However, the UK Government's response to this was that since "know-how" is an "inherently imprecise term" and that the licensee may only have a limited idea of what information he needs, there would be difficulty in determining what know-how existed and how much should be transferred. In any case, where the patentee was not exploiting the patent, there may not be any significant know-how to impart. Further, the result of requiring a compulsory transfer of know-how may result in inventors relying on secrecy rather than patents to protect their valuable information. In view of this, the UK Government decided against the proposal.⁸³

It would seem, therefore, that unless there are foreign entrepreneurs who are interested in exploiting the patented technology, either alone, or through a joint venture, the statutory scheme may be of little relevance.

Even when an applicant is technologically and financially capable of taking advantage of the compulsory licensing scheme, there is another major problem to be faced. This is the problem of competition from the patentee himself, unless the compulsory licensee is given an exclusive licence. In view of the high proportion of foreign applicants for Malaysian patents,⁸⁴ it is more likely than not, if there is non-working of the invention, that the foreign patentee obtains the patent merely to protect his export market in Malaysia. He may have made a commercial decision not to manufacture locally in Malaysia, but to rely on imports of patented articles manufactured elsewhere into Malaysia. If a patent has been compulsorily licensed, especially on ground of unmet local demand or unreasonably high price, an unhappy or dissatisfied patentee may nullify the whole thing by the simple device of resorting to selling the products which hitherto are meant only for the export market, or increasing his local production, or by importation from abroad.⁸⁵ This would be

granting a compulsory licence, order the transfer of any know-how associated with the patented invention as he thinks fit.

⁸² See UK Green Paper "Intellectual Property and Innovation", Cmnd. 9117, 1983, at para. 5.16 (iii) and para. 5.22. The fact that the acquisition of a compulsory licence in itself is of no advantage since its terms could not compel an unwilling patentee to disclose the know-how to the licensee, is also mentioned in the Second Interim Report of the Departmental Committee (Swan Committee), Cmnd. 6789, 1946, at para. 45.

⁸³ See UK Government White Paper "Intellectual Property and Innovation", Cmnd. 99712, 1986, paras. 4.17 to 4.20.

⁸⁴ See Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.6.

⁸⁵ The Working Paper on Patent Law Revision, Department of Consumer and Corporate Affairs, Canada, 1976, page 105, quoting the Economic Council of Canada "Report on Intellectual and

catastrophic to the compulsory licensee who has invested huge financial resources and efforts in setting up manufacturing plants and distribution network. The result is that it would make it impossible for the local manufacturer to make a reasonable profit.

The problem mentioned above, especially when high investment is needed to set up the manufacturing plants, could be solved if, when a compulsory licence is issued, the Board has the power to cancel existing licences, even exclusive licences, leaving the applicant as the exclusive licensee without fear of any competition.⁸⁶ This power, in fact, was present in the Patents Act 1977 of the United Kingdom until it was repealed.⁸⁷ Similar power was also present in the former Canadian scheme.⁸⁸ The introduction of a similar power under the Malaysian Act would solve the above-stated problem. However, this would be in conflict with Malaysia's obligation under both the Paris Convention and the TRIPS Agreement.⁸⁹

Another possible solution, to cater for the situation where the patentee is competing by importation, is to provide that if the working of the invention in Malaysia is being hindered by the importation of the patented products, an abuse may exist. In the above case, a licence could be granted to anyone who could satisfy the Board that he could manufacture the invention adequately in Malaysia, if relieved from the competition of the imported articles.

Industrial Property" of January, 1971, notes that perhaps one of the reasons why compulsory licence provisions have attracted relatively little attention is that a potential licensee must necessarily look ahead to the possibility that the patentee will be his major competitor once he obtains a licence and attempts to enter the market. It points out that there is nothing to prevent the patentee from drastically reducing his prices for the market to the point where they are marginally above his cost. Faced with the patentee as a competitor, the licensee would have little margin for profit, even if he could manufacture as efficiently as the patentee.

⁸⁶ On this point, the commentary to the WIPO Model Law, at page 97, states, "The question of the possible exclusive character of non-voluntary licences is very controversial. The supporters of exclusive licences point out that Article 5A of the Stockholm text deprives non-voluntary licences based upon non-working or insufficient working of a good part of their efficacy in advance. According to this argument, working by the beneficiary of a non-voluntary licence often involves a considerable investment, to which must be added the payment due under the non-voluntary licence. If, after these investments have been made, the beneficiary finds himself exposed to the competition of the owner of the patent or licensees, he may not be able to be competitive, especially if this competition is from imported products. The risks encountered by the beneficiary are thus considerable, which discourages requests for the grant of non-voluntary licences and, consequently, prevents the system from achieving its goal, which is the promotion of local working."

⁸⁷ See the former section 49(3), Patents Act 1977, UK, which gave power to the Comptroller to direct that the licence shall operate to deprive the proprietor of the patent any right he has to work the invention concerned or grant licences under the patent. In addition the Comptroller had power to revoke all existing licences granted under the patent. Section 49(3) has, however, been deleted by the C.D.P.A. 1988, Schedule 5, para. 13, with effect from August 1, 1989.

⁸⁸ See sections 66 and 67, Patent Act, R.S.,c. P-4, s.1. (Canada). Under this power, if the Commissioner is satisfied that the invention "is such that it cannot be so worked without the expenditure of capital for the raising of which it would be necessary to rely on the exclusive rights under the patent, he may, unless the patentee or those claiming under him will undertake to find that capital, order the grant to the applicant if able and willing to provide that capital, of an exclusive licence on such terms as the Commissioner may think just..." - section 66(1)(b) Patent Act, R.S.,c. P-4, s.1. (Canada). Effective the 1st of October, 1989, this subsection has now been repealed.

⁸⁹ See Paris Convention, Article 5A(4) and TRIPS Agreement, Part II, Section 5: Patents, Article 31, (d), both of which provide that such use shall be non-exclusive.

Power is also given to the Board to include a term in the licence precluding importation by the patentee or his licensees. Such a provision could be found in the Canadian Patent Act prior to 1st October 1989, which provided that the exclusive rights under a patent shall be deemed to have been abused if the working of the invention within Canada on a commercial scale was being prevented or hindered by the importation from abroad of the patented article by the patentee or persons claiming under him, by persons directly or indirectly purchasing from him or by other persons against whom the patentee was not taking or had not taken any proceedings for infringement.⁹⁰ Under section 66(1)(b) of the same Act, the Commissioner, in ordering the grant to the applicant of a licence, might include a term precluding importation by the patentee and all his licensees. However, this ground, and the related power, was deleted from the statute in 1993. Such a provision would now seem to be prohibited by the TRIPS Agreement.⁹¹

Further, the problem is compounded by the fact that Malaysia is a small market. A manufacturer may not be willing to take the risk of applying for a compulsory licence to manufacture locally merely to supply the small home demand unless he is also assured of being able to export outside the country. One possible solution is to adopt the approach found in some countries, whereby the compulsory licensee is allowed to supply the export market. However, this may be prevented by the patentee if he holds parallel patent rights in the countries with promising marketing opportunities, leaving only a few countries unprotected by patents. Invariably these will be the small unimportant markets. Another obstacle is that under the TRIPS agreement, the compulsory licensee is only allowed to manufacture "predominantly for the supply of the domestic market of the Member authorising such use".⁹²

It would appear, therefore, that international obligations, under the GATT TRIPS Agreement in particular, have emasculated the compulsory licensing scheme to a point when it has lost most of its potency. In view of these restrictions, it would seem that the alternative, albeit, a less desirable remedy, is to allow the applicant to import the patented products into Malaysia. This would be useful in the case where the patentee is charging

⁹⁰ See section 65(2)(b) Patent Act, R.S.C. 1985, c. P-4, Canada. These provisions were based on similar provisions found in sections 37(1)(c) and 38(3) of the 1949 Patents Act of the UK (now sections 48(3)(c) and 49(3) of the 1977 Act). Under section 49(3) of the 1977 Act, in granting a compulsory licence, the Comptroller may direct that the licence shall operate to deprive the patentee of any right which he may have as patentee to make, use, exercise or vend the invention or to grant licence under the patent. He also has the power to revoke all existing licences in respect of the invention. However, from August, 1, 1989, the powers of the Comptroller under section 49(3) of the 1977 Act has been deleted by the C.D.P.A. 1988, Schedule 5, para. 13. According to the CIPA Guide, the operation of the provision appeared never to have been seriously considered and its existence was an embarrassment to the Government in resisting the implementation of similar provisions by some developing countries - see C.I.P.A. Guide to the Patents Act, Fourth Ed., Sweet & Maxwell, London, 1995, at para. 49.02. There is no equivalent provision in Australia.

⁹¹ See TRIPS Agreement, Part II, Section 5: Patents, Article 31, (d), which provides that use without the authorisation of the right holder shall be non-exclusive.

⁹² See TRIPS Agreement, Part II, Section 5: Patents, Article 31, (f).

excessive prices for the patented products which are either manufactured locally or imported. It would be an especially useful tool to use in the situation envisaged above where there has been an abuse of the patent rights but the invention cannot be manufactured in Malaysia. This would mean that the present restriction against importation by a compulsory licensee would have to be amended to allow importation in certain situations. It is admitted that the proposed power to allow for importation by the compulsory licensee is drastic. However, this is less drastic than to propose the introduction of a power to revoke the patent on the ground that the grant of a compulsory licence would not have been sufficient to prevent the abuse of the monopoly rights.⁹³

Some commentators of the compulsory licensing systems have said that the systems, especially in the developing countries, have not been effective to serve the objective of technology transfer between developed and developing countries.⁹⁴ In this context it is of interest to refer to Beier's view.⁹⁵ He notes that not every patented product can be profitably produced in every country regardless of the size of the internal market, the opportunities for export or other basic economic conditions. The traditional compulsory working of patents, which is related to the national market, contradicts basic economic sense as well as principles of international division of labour in research, development and production. In most cases it is only possible and practical, for micro-economic as well as macro-economic reasons, to produce the patented products in a sufficiently large quantity in a few countries for a larger, generally regional marketing area. He concludes that it necessarily follows that the different markets within this region can be supplied better and cheaper through imports than through domestic, licensed products. This may be so. However, if a local applicant, after carrying out the necessary market research and assessing all the factors, still feels that he could manufacture locally at a profit, there seems to be no reason why he should not be allowed to do so. Beier also argues that sanctions and other compulsory measures basically manifest an intent to "nationalise" foreign inventions for the benefit of the domestic economy.⁹⁶ However, this misses the point of the scheme, i.e., compulsory licence can be asked for by foreign applicants with the necessary expertise and capital, and willing to work the patented invention locally in the country. Hence, it is

⁹³ See Article 5A (3), Paris Convention.

⁹⁴ See, for example, UNCTAD Secretariat Report, *The International Patent System as an Instrument of Policy for National Development*, TD/B/C. 6/AC.2/3, 1975, at paras. 42 to 46; Beier, F-K., "Does Compulsory Use of Patents Promote Technology Transfer to Developing Countries?" [1986] 12 EIPR 363, at 364. It must be noted that under the Malaysian scheme, the objective of the compulsory licensing provision is strictly speaking, not to encourage the transfer of technology, but to encourage local working and to prevent abuse of the system by monopoly pricing - see earlier discussion.

⁹⁵ Beier, F-K., "Does Compulsory Use of Patents Promote Technology Transfer to Developing Countries?" [1986] 12 EIPR 363, at 364. See also, Kolker, P.L., *Should Importation be Considered as Working? A Study of Article 27 of the GATT TRIPS Agreement*, The Intellectual Property Institute, 1996, at pages 17-18, and UN Report No. 65: *The Role of Patents in the Transfer of Technology to Developing Countries*, Report to the Secretary-General, United Nations, New York, 1964, at pages 39-40.

⁹⁶ Beier, F-K., "Does Compulsory Use of Patents Promote Technology Transfer to Developing Countries?" [1986] 12 EIPR 363, at 364.

not true that the scheme manifest an intent to "nationalise" but it is more accurate to describe it as an attempt to "localise" manufacturing facilities within the country.

Therefore, bearing in mind the possibility that there could be parties interested and capable of exploiting the invention in the future, it will be useful to identify the possible weaknesses of these provisions and propose possible solutions to overcome them.

There have been several observations that the compulsory licensing provisions are stacked heavily against the applicant, and that an applicant would need infinite patience and resources before he would ever contemplate an application.⁹⁷ To make it easier for an applicant, it is proposed that a provision like that previously found in the Canadian scheme be introduced. Under this scheme, the Registrar is empowered to require the patentee to deliver to him a return stating whether the patented invention is being worked on a commercial scale in the country, and the place where, and the name and address of the person by whom, the patented invention is being so worked. The failure of the patentee to comply with the terms of the notice shall be deemed to be an admission on the part of the patentee that the patented invention is not being worked on a commercial scale in the country.⁹⁸ The advantage of this provision is that the applicant will not have to be put to unnecessary time and expense in discovering these facts. If the working is disputed, it is the owner of the patent who bears the burden of proof and has to show that the patented invention is in fact being worked in the country in a sufficient manner.⁹⁹ Such a burden would not be deemed to be onerous because the patentee would be the person who is in the best position to be able to furnish all this information. It would be unduly burdensome for the applicant to have to show insufficient working.¹⁰⁰ This is also the approach of the WIPO Model Law.¹⁰¹

Under section 51 of the Act, the Board, in considering an application for a compulsory licence, is empowered to require the applicant, licensor or licensee to appear before the

⁹⁷ See, for example, Patents and Designs Acts, Second Interim Report of the Departmental Committee (Swan Committee), Cmnd. 6789, 1946, para. 30. See also Phillips, J., & Firth, A., Introduction to Intellectual Property Law, 3rd Ed., Butterworths, London, 1995, at para. 7.18.

⁹⁸ See section 64(1) and (2), Patent Act, R.S.,c. P-4, s.1. (Canada). Effective the 1st of October, 1989, this subsection has now been repealed.

⁹⁹ The legal technique of reversing the burden of proof in suitable situations is not unprecedented. See, for example, the reversal of the burden of proof in the case of a process for obtaining a product, Chapter 3 - The Exclusive Rights, para. 3.2.2.a. See also, section 100 of the Trade Marks Act 1994, United Kingdom, which provides that in any civil proceedings where a question arises as to the use to which a registered trade mark has been put, it is for the proprietor to show what use has been made of it.

¹⁰⁰ For example, see Patents and Designs Acts, Second Interim Report of the Departmental Committee (Swan Committee), Cmnd. 6789, 1946, para. 30. "Such interpretation have narrowed the apparent scope of section 27. Moreover, the uncertainty of its application, the high costs of proceedings under it which are taken to appeal, and the heavy onus of proof cast upon the applicant, who in the ordinary course is not in so advantageous a position as the patentee to furnish proof of the relevant facts, have combined to discourage resort to this section. Relatively few applications have been made under it, while the abuses which it intended to curb still occur."

¹⁰¹ See page 98, WIPO Model Law.

Board and to give a statement or to hand to the Board any document or any other item. This power could usefully be used to request of the patentee production of documents relating to his cost, expenses and profits to help in the determination of whether the price charged by the patentee is unreasonably high.

However, to prevent the system from being abused, and the patentee being put to unnecessary harassment, the present provisions need to be amended to provide a balance. Under the present scheme, any person can make an application for a compulsory licence. There is a possibility of abuse of the system in that a person who is not interested in working the patent may make applications for compulsory licences just to cause inconvenience to the patentee or to discover information about the business of the patentee with whom he is in competition.¹⁰² To safeguard the interest of patentee and "to prevent the patentee being harassed and put to expense by frivolous, vexatious or hopeless litigation",¹⁰³ section 49 should be amended with the addition of the word "interested" to the word "person" in section 49(1). Such an "interested person" may be a person who is genuinely interested in exploiting the patent,¹⁰⁴ or a person who is being sued for infringement,¹⁰⁵ even though he does not admit the validity of the patent involved,¹⁰⁶ or even a present licensee.

To ensure that the sanctions of the compulsory licensing provisions are not evaded by means of sham exclusive licensing agreements, power should be given to the Registrar to deprive existing exclusive licensees of exclusivity under the agreement. There should, therefore, be a provision that the grant of a compulsory licence will not amount to a breach of contract between the patentee and his exclusive licensee.

One glaring omission from the ambit of the compulsory licensing scheme is the exclusion of inventions protected by utility innovations.¹⁰⁷ Is this desirable? In view of the low threshold for the grant of utility innovation rights, which makes them more easily

¹⁰² See Hatschek's Patents (1909) 26 RPC 228, at pages 245-246, *per* Mr Justice Parker. See also The Cooperative Union, Ltd's Application (1933) 50 RPC 161, the Comptroller-General (Mr M.F. Lindley), at pages 163-164; Cathro's Application (No. 1) (1934) 51 RPC 75, the Comptroller-General, at page 79.

¹⁰³ Richco Plastic Co's Patent [1989] RPC 722 (Patent Office), *per* Dr P. Ferdinando, at page 723.

¹⁰⁴ See also F. Hoffmann-La Roche & Co. S.A.'s Patent [1971] RPC 311, *per* Whitford J., at pages 330-332, a person interested need not necessarily be already engaged in manufacture or should already have incurred expense in setting up a production line.

¹⁰⁵ See, for example, Intertype Ltd's Application (1926) 43 RPC 305, and Extrude Hone Corporation's Patent [1982] RPC 361.

¹⁰⁶ See Halcon SD Group Inc.s' Patents [1989] RPC 1, *per* Falconer J., in the Patents Court, at page 19.

¹⁰⁷ See section 17A(2) of the Act, which provides, *inter alia*, that Part X of the Act does not apply to utility innovations. However, the other provisions, i.e., invalid clauses, government use, etc., apply.

obtainable, it is all the more important that compulsory licences should be made available against the holders of such rights if there are abuses.

The grounds provided under the present provisions are worded wide enough to cover the different situations that need to be catered for arising from an abuse of the monopoly rights. So there is no need to amend the provisions with respect to the grounds for application. However, from the above discussion, it will be seen that it is the limited scope of the exercise of the patent rights allowed to a successful applicant that makes the compulsory licensing mechanism unsuited to serve its intended purpose. Due mainly to the various constraints imposed on it by international treaty obligations, many possible options to make it a more effective tool are not available. In view of this, it is clear that the powers given to the government by virtue of section 84 is potentially the most effective weapon against any abuse of a patentee's exclusive rights.¹⁰⁸ This will be especially relevant where the patentee has made a commercial decision not to market a patented product in Malaysia, and it is not economically viable, or through the lack of the requisite know-how, possible, for an applicant to take advantage of the compulsory licensing provisions to start local manufacture. To the extent that it is in the public interest that the market be supplied with the relevant products, the Government can intervene to import these products.

6.3. Compulsory Licence Based on Inter-Dependence of Patents

The purpose of this provision is to remedy the situation that arises where it is not possible, without infringing an earlier patent, to work in the country an invention claimed in a later patent. To use the customary terminology, the earlier patent and the later patent are "interdependent". The best solution for the owner of the later patent is to obtain a contractual licence from the owner of the earlier patent. However, if, due to the understandable reluctance on the part of the earlier patentee to grant a licence, the owner of the latter patent may, provided the invention claimed in the later patent constitutes an important technical advance with respect to the invention claimed in the earlier patent, obtain a compulsory licence. Without this provision, the owner of the earlier patent can arbitrarily block the working in the country of a patented invention constituting an important technical advance.

More than the grounds discussed earlier, the present ground is even more important to ensure that the holder of a patent does not use his exclusive rights to stifle or hinder technological development that could result from a later invention based on an earlier invention. It has first to be noted that an application for a compulsory licence based on section 49A can be made at any time after the patent is granted, unlike under section 49

¹⁰⁸ See later, para. 6.4.

where the applicant has to wait for a period of three years from the date of the grant before making any application.¹⁰⁹ Further, the provision is only applicable to the owner of the later patent, assuming all the conditions are satisfied. It is not independently available to the owner of the earlier patent. The owner of the earlier patent is merely entitled to a "reciprocal licence" which is contingent upon the granting of the first one.

6.3.1. Conditions to be Satisfied

Two conditions need to be satisfied before an applicant can succeed under this head. The first is that the carrying out of his invention would infringe the earlier patent. If the later patent can be used in a way which would not involve the use of the earlier patent, then section 49A does not apply. It would seem that if the owner of the earlier patent can show that the invention covered by his patent would not be infringed if the later patentee were to make or exercise his invention in some other practical way which would avoid infringement the ground would not be made out.¹¹⁰ The second, and more important condition, is that the invention of the later patent constitutes an important technical advance in relation to the invention claimed in the earlier patent.¹¹¹ No guidance is given in the Act as to what is meant by "important technical advance". This qualification is meant to protect the patent owner against applications made by the owner of a later patents which merely embodies minor inventive features and serves the purpose of avoiding abuses which could result from applicants filing patent applications on trifling inventions for the sole purpose of being able to work the invention.¹¹² However, from the provision, it is clear that any such advance has to be measured against the earlier invention and not against the general state of the art.¹¹³

¹⁰⁹ Article 5A(4) of the Paris Convention, which requires that an application for a compulsory licence may not be made on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of a patent application or three years from the date of the grant of the patent, does not apply here since there is no "abuse" involved. See also Parke Davis & Co. v. The Comptroller of Patents and British Drug Houses, Ltd [1954] 71 RPC 169, involving the question of whether section 41 of the Patents Act, 1949, UK, relating to compulsory licences under patents for food and medicine, and which allowed application to be made within three years of the grant, was at variance with Article 5A of the Paris Convention. The House of Lords held that Article 5A was concerned only with abuse of monopoly, whilst section 41 was not concerned with such abuse, being based on the character of the invention. The Comptroller was, therefore, entitled to consider such applications before the period of three years was up - *per* Lord Cohen, at page 172.

¹¹⁰ See Burrell, T.D., Burrell - South African Patent Law and Practice, 2nd Ed., Butterworths, Durban, 1986, on the equivalent provision in section 55 of the Patents Act 1978, South Africa, at page 341.

¹¹¹ This follows the term used in the WIPO Model Law - see section 149(1) of the Model Law. cf the equivalent provision in section 48(3)(d)(ii) of the Patents Act 1977, UK, which used the term "substantial contribution to the art". There does not appear to be any reported cases on the meaning of this qualification.

¹¹² See WIPO Model Law, at page 99.

¹¹³ For similar views in relation to the section 36 of the Federal Law on Patents for Invention, Switzerland, 1954, as revised in 1976, regulating compulsory licences for patent dependency, see Walter, H.P., "Compulsory Licences in Respect of Dependent Patents under the Law of Switzerland and Other European States," 21 IIC 532 (1990), at page 534.

Under the TRIPS Agreement, before a compulsory licence based on dependency could be granted, besides satisfying all the conditions listed in Article 31(a) to (k), and Article 31(l)(ii), the dependent patent has, in addition, to involve "an important technical advance of considerable economic significance in relation to the invention claimed in the first patent".¹¹⁴ This latter requirement seem to imply that two further conditions have to be satisfied, i.e., not only must the second patent involve an important technical advance (the normal pre-TRIPS requirement), but now an added requirement, that it must be "of considerable economic significance in relation to the invention claimed in the first patent", has to be satisfied. It is not clear what the added condition means, though it seems to have introduced some commercial consideration which is tied to the first patent.¹¹⁵

A compulsory licence under this section may be granted only to the extent necessary to avoid infringement of the earlier patent . Therefore, if the application is only to enable the applicant to simply work the earlier patent *simpliciter*, then he would have to go under s. 49 and not s. 49A. Further, the possibility of obtaining such a compulsory licence is available not only to the owner of the later patent, but also to any licensee of a contractual licence and beneficiary of a compulsory licence under the later patent.

6.3.2. Cross-Licensing

If a decision is made to grant a compulsory licence under this section, the Board, upon the request of the owner of the earlier patent, the licensee of a licence contract under the earlier patent or the beneficiary of a compulsory licence under the earlier patent, may grant a compulsory licence under the later patent.¹¹⁶ This possibility is designed to introduce a balance between the relative positions of the interested persons. This is especially important when the production and sale of products based on the later patent will result in obsolescence of products under the earlier patent.

¹¹⁴ See TRIPS Agreement, Part II, Section 5, Article 31(l)(i). The Paris Convention, and also the proposed Patent Law Treaty, do not have any specific provision regulating patent dependency.

¹¹⁵ Section 133(3B)(a) of the Australian Patents Act 1990, with effect from 10 January 1995, contains an equivalent provision. Similar changes are made to the patent law of Switzerland - see Article 36, Federal Law on Patents for Invention (Patent Law, LBI) of 1954, as last amended on February 3, 1995. The proposed Bill to amend the Brazilian patent law also provides that where there is patent dependency, a compulsory licence will only be granted if the second invention is an important technical advance of considerable economic significance in respect of the base patent - see Gosain, R., Sherrill, H.K., "The Effects of GATT/TRIPS on Brazil's Patent Legislation", Patent World, May 1995, 24, at page 25. As yet there is no reported case on the construction of this phrase.

¹¹⁶ Section 49A(2) of the Act.

6.3.3. Observations

As some junior patents may not be able to satisfy the requirement that they should constitute an "important technical advance", there may be a possibility that the later patentee may not be able to exploit his patent until the expiry of the earlier patent. This is undesirable and may act as a disincentive to innovation activities, and there should be a provision allowing him to exploit his patent where it does not conflict with the economic interest of the earlier patentee even if the later patentee does not satisfy the requirement that it should constitute an "important technical advance". Since the desired use is non-competitive, the earlier patentee's position is not jeopardised. The former provision found in Switzerland may be useful here. Under the former Swiss scheme, a compulsory licence for dependency could be granted on two grounds. The first was when the later patent involved a considerable technical advance. The second ground was that the invention served a purpose entirely different from that of the prior patent.¹¹⁷ According to Walter, difference of purpose is understood in economic and not technical terms, in the sense that the two inventions must fulfil different needs. The requirement will be satisfied if the invention is made or used in different branches of industry.¹¹⁸

6.4. Rights of Government

None of the previous indigenous State patent enactments contained any specific provision regulating government use of a patent.¹¹⁹ Presumably, therefore, the government had to rely on the general compulsory licensing provision provided for by these enactments. When the re-registration of United Kingdom patents was introduced, it is unclear to what extent the government use provision of the United Kingdom statute was applicable to Malaysia. However, the matter became academic when the Patents (Rights of Government) Act, 1967, was enacted. By this statute, the government was free to use any patented invention without the obligation to pay any compensation.¹²⁰ The present provision is contained in section 84 of the Act.

¹¹⁷ See Article 36 of the Federal Law on Patents for Invention, Switzerland, 1954, as revised in 1976. However, when the Federal Law was amended in 1995, the second ground was repealed. The Patent Law 1992, of Ghana, in section 46(1)(a) also contains a similar provision, i.e., "serves industrial purposes different from those served in the invention which is the subject of the earlier patent". Although the repeal in the Swiss Act was presumably to conform to the TRIPS Agreement, it needs to be mentioned that this ground for a compulsory licence for a dependent patent is not expressly prohibited - refer TRIPS Agreement, Part II, Section 5, Article 31(1).

¹¹⁸ See Walter, H.P., "Compulsory Licences in Respect of Dependent Patents under the Law of Switzerland and Other European States," 21 IIC 532 (1990), at page 534.

¹¹⁹ Unlike the United Kingdom patent statutes, which from an early time, contained specific provisions relating to government use of a patented invention. See, for example, section 27 of the Patents, Designs, and Trade Marks Act, 1883. The present provision is found in sections 55-59 of the Patents Act 1977, United Kingdom.

¹²⁰ See section 3 (a) and (b), Patents (Rights of Government) Act, 1967, Act 53 of 1967, Malaysia.

The first thing to note about this provision is that there is no time limit imposed on the government before it can rely on the provision. Further, there is no mention of the grounds on which the government could rely on before it can take advantage of this provision.¹²¹ There need not, therefore, be demonstrated an abuse by the patentee of his monopoly rights. Section 84 provides that the government "may do any act which would otherwise be an infringement of the privileges or rights of the patentee. This would, therefore, include importation which is not allowed under a compulsory licence. Secondly, the rights under the section apply not only to the Government of the Federation, but include the Government of any State, a Ministry or Government department or any person authorised by such Government, Ministry or Government department."¹²²

From the way the section is framed, any exploitation of the patented invention by the Government by virtue of this section is not an infringement of patent right, for no infringement is involved. No prior permission need to be sought from the patentee. The section basically provides the Government with rights which amounts to a concurrent right of use, with the condition that a reasonable amount of compensation is paid. If this view is right, this is an important distinction because it has an impact upon the way the compensation is to be assessed.¹²³ For "compensation" for exercising a "concurrent right of use, does not stand on the same footing as a claim for damages for infringement".¹²⁴

¹²¹ In this respect, it is similar to the former section 19 of the Canadian Patent Act, R.S.,c. P-4, s.1. (Canada). From the 1st of October, 1989, however, the Government has to apply to the Commissioner for authority to use a patented invention. Under the new section 19(1), the authority will not be given unless it could be shown that there had been an unsuccessful attempt to obtain a licence from the patentee on reasonable terms, although this requirement need not be observed in cases of national emergency or extreme urgency or when the use for which the authorisation is sought is a public non-commercial use. The use of this provision is limited in its scope to the supply of a predominantly domestic market. This change was brought about by the TRIPS Agreement - see Part II, Section 5, Article 31(b). See also section 156 of the WIPO Model Law, which authorises the Government to exploit a patent where the "public interest, in particular, national security, nutrition, health or the development of other vital sectors of the national economy, so requires."

¹²² See section 84(a) of the Act.

¹²³ See, Patchett's Patent [1967] RPC 237 (CA), *per* Diplock L.J., at pages 251-53, "The sum payable by the Government department is not compensation for an infringement by the Crown of the patentee's monopoly rights, for no infringement is involved. It is erroneous to regard a patentee as having an exclusive right to manufacture or to permit the manufacture of the patented invention. For that is a right which is shared by the Crown. The sum payable under [the Act] is in the nature of remuneration payable to the inventor or his successor entitled for the use made by the Crown of his invention pursuant to that concurrent right ... The learned judge approached the matter by asking himself the question: "What would a patentee of the invention as a willing licensor and the Crown as a willing licensee agree upon as a reasonable royalty to be paid by the Crown for its use of the patented invention?" This is the correct approach provided it is borne in mind that the only subject matter of the payment is the use of the invention. The learned judge took the view that the patentee who was himself a manufacturer, and had invested money in providing facilities for manufacturing the invention himself, would be more reluctant to grant licences to another person, which would reduce the demand for the products of his own manufacture, and would be likely to insist upon a royalty which included either a return upon his investment in any manufacturing facilities which would be unused as a result of his failing to obtain an order himself, or the cost of converting his unused facilities to some other manufacturing use. But any such element in the royalty, like the claim based on loss of profits, is by way of compensation for not obtaining an order although the measure of such compensation is different. It is a sum included in the royalty which is claimed by him not in his capacity of a willing licensor of the patented invention but as one who, like an exclusive or other licensee, has invested money in preparing to manufacturing it.

6.4.1. Observations

On the face of it, this provision is capable of such a wide interpretation that it could render the exclusive rights of the patentee economically valueless, although, unlike the previous scheme, a reasonable compensation has to be paid.¹²⁵ Under the present provision, there is nothing to prevent the government from authorising another person to exploit the patented invention even if the patentee has been manufacturing his patented invention in Malaysia and supplying the public at a reasonable price. For example, permission may be granted to a favoured third person to import a patented product in competition with the patentee. Even if there is no reduction in the price charged, the sale of the imported version may undermine the patentee's sale, resulting in damage to his business. In the interest of the patentee, the grounds under which the government may exercise its rights under section 84 should be laid down to indicate that these rights of government should only be used in special situations where the interest of the country is affected. The present provision may also be a breach of the obligations under the TRIPS Agreement.¹²⁶ Therefore, there may be a need to specify the circumstances under which the Government can make use of the provision, like on the ground of national defence, public health and public safety, or when they have been violation of competition law.¹²⁷

In my view no regard should be had to any circumstance of this kind in assessing the payment to be made by the Crown to the patentee under section 46 of the [1949] Act".

¹²⁴ See Allen & Hanburys Ltd's (Salbutamol) Patent [1987] RPC 327 (Patents Court and Court of Appeal), *per* Whitford J., at pages 357-358, "I can now turn to the question of royalty. Royalty is not an easy question. To say, as everyone said before me, that it should be such a royalty as would be agreed between a willing licensor and a willing licensee sounds satisfactory enough but, although it sounds well, it is of little assistance because, in cases such as these, no such creatures exist. A question arose as to whether it would be right, in fixing the royalty, to consider the patentees position as manufacturers Compensation for Crown use, the Crown having a concurrent right of use, does not stand on the same footing as a claim for damages for infringement and Patchett's Patent, in my judgement, in no way establishes that in considering the question of royalty, the patentees' position as a manufacturer should not be brought into consideration. In my experience of royalty negotiations, it always has been considered. In the Crown use cases you are considering compensation. You are not considering the royalty which would be appropriate to the bargain struck between a willing licensor and a willing licensor and, in a royalty negotiation between two such creatures, the position of the licensor as manufacturer must be one of the relevant matters to be brought into account". *Contra* Dillon L.J., in the Court of Appeal, at pages 379-380, where he disagreed with Whitford J.'s holding that the position of the patentee as a manufacturer was to be taken into account.

¹²⁵ See section 84(b) of the Act.

¹²⁶ See TRIPS Agreement, Part II, Section 5: Patents, Article 31 (b), and Section 8, Article 40.

¹²⁷ See Article 31(k), TRIPS Agreement, Part II, Section 5: Patents. Note that Alternative B of Article 26(3) of the proposed Patent Law Treaty (for this, see footnote 34, *supra*) would allow for the exploitation of a patented invention by the Government, etc., on the grounds of public interest, national security, nutrition, health, or the development of other vital sectors of national economy.

6.5. Invalid Clauses in Licensing Contracts

6.5.1. General

As part of the exclusive rights granted to the owner of a patent, the owner is given the exclusive right to conclude licence contracts. Under the Act, a licence contract means "any contract by which the owner of a patent (the licensor) grants to another person or enterprise (the licensee) a licence to do any or all of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36".¹²⁸ It would seem that the definition of a licence contract is wide enough to include a leasing agreement. A patent licence is no more than the right not to be sued for infringement by the patentee.¹²⁹ It is a legal device which enables the patentee to retain at least the right to sue those who infringe his claims and yet to allow others, namely the licensees, to share in the exploitation of the patented invention. A patentee may grant to another the right only to use. Such an arrangement would, in effect, be a lease. Similarly, a patentee may grant to another the right only to sell or the right to make and sell upon certain conditions, as for use in a defined field. The defined field may be expressed either positively, enumerating the applications to which the article may be put, or negatively, enumerating the forbidden applications. Correctly used, the right to licence gives the patentee a greater opportunity, and possibly greater efficiency, in exploiting his patented invention profitably.

However, by use of various arrangements in the licence agreements, the patent owner may abuse his position as a patentee and use the patent as a tool to control or monopolise areas of trade which the patent rights do not legitimately grant to him. Therefore, certain limitations in the patentee's licensing powers are normally provided, either in the form of specific statutory prohibitions, as in the United Kingdom, or through decisional law, as in the United States. To borrow the expression of Justice Douglas, the absence of any restrictions, statutory or otherwise, would mean that "[e]ach patent owner would be his own patent office and, by reason of the leverage of the patent, obtain a larger monopoly of the market than the Constitution or statutes permit."¹³⁰

Under the common law, such "limited licences" were quite common and the courts were quite ready to enforce them, unless they could be considered illegal under the doctrine of unfair restraint of trade.¹³¹ Statutory control of monopolistic practices in relation to unfair

¹²⁸ See section 41 of the Act, and also see generally, Chapter 3 - The Exclusive Rights, para. 3.7.

¹²⁹ See, for example, General Talking Pictures Co. v. Western Electric Co. 304 US 175, 181, 37 USPQ 357, 359 (US Sup. Ct 1938), citing DeForest Radio Co. v. United States 273 US 236, 242 (US Sup. Ct 1927).

¹³⁰ Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Douglas, at page 382.

¹³¹ Incandescent Gas Company Ltd v. Cantelo (1895) 12 RPC 262 reflects the attitude of the Courts towards this kind of device. In relation to validity of a tying clause in a contract for the sale of a patented gas mantle, Wills J. at page 264 held that "[The] sale of a patented article carries with it

conditions attached to the sale or other dealings with patented articles was first introduced in the United Kingdom by section 38 of the Patents and Designs Act 1907.¹³² Breach of the section resulted in the impugned conditions being rendered null and void, as being in restraint of trade and contrary to public policy. Further, by virtue of section 38(4) of that 1907 Act, the existence of such conditions was a defence to any infringement action relating to the same patent. Hence it was of a penal nature. The present United Kingdom provision is found in section 44 of the Patents Act 1977.¹³³ Despite the existence of these powerful weapons to combat these form of abuse of the monopoly power of the patentee, it is perhaps surprising that none of the earlier Malaysian patent statutes contained any express provision to regulate these abusive practices. However, it is arguable that the provisions allowing the authority to revoke a patent on the ground that "the mode of exercising the exclusive privilege is mischievous to the state or generally prejudicial to the public"¹³⁴ may be wide enough, although drastic, to cater for such abusive practices.

The provision in the Act which has a bearing upon the abuses of monopoly rights is section 45, which makes certain clauses containing restrictive conditions invalid in any licensing contracts. It is the means whereby the patentee's private interest is reconciled with the public interest, imposing, as it were, a statutory code of licensing practice. This provision is especially important in the Malaysian context in the absence of any competition law and provisions on unfair competition.¹³⁵

the right to use it in any way that the purchaser chooses to use it, unless he knows of restrictions. Of course, if he knows of restrictions, and they are brought to his mind at the time of the sale, he is bound by them. He is bound by them on this principle: the patentee has the sole right of using and selling the articles, and he may prevent anybody from dealing with them at all. Inasmuch as he has the right to prevent people from using them or dealing in them at all, he has the right to do the lesser thing, that is to say, to impose his own conditions. It does not matter how unreasonable or how absurd the conditions are." See also Incandescent Gas Light Company Ltd v. Brogden (1899) 16 RPC 179, at 183, *per* Kennedy J.

132 See, for example, the comments of Romer L.J., in Huntoon Coy v. Kolynos (Incorporated) (1930) 47 RPC 403, "... the object of the legislation was to prevent persons who had obtained a monopoly in respect of an article or a process by means of a patents of using that monopoly as to obtain for themselves a virtual monopoly in respect of other articles and processes for which they had not obtained any patent"; Viscount Simonds in Tool Metal v. Tungsten Electric (1955) 72 RPC 209 (House of Lords), at pages 213-214. See also Banks Report at para. 519, with reference to sections 57 and 58 of the Patents Act, 1949, United Kingdom - the provisions of section 57 of the Act are intended to prevent insertion in contracts relating to patents of conditions by which a patentee uses his patent rights to obtain business in goods not covered by the patent.

133 This section is substantially a re-enactment, though more broadly drafted, of section 57 of the Patents Act 1949, which in turn was based on section 38 of the 1907 Act. The corresponding provisions in the Australian patents statute can be found in sections 144 to 146 of the Australian Patents Act, 1990.

134 See *supra*, para. 6.1.1.

135 Note that Section 8, Article 40 of the TRIPS Agreement allows for remedial measures to be taken to prevent abuses of intellectual property rights through licensing practices having an adverse effect of competition in the relevant market. However, there is no specific provision regulating licensing practices which attempt to enlarge the scope of patent rights, irrespective of whether or not competition is affected. Neither the Paris Convention, nor the proposed Patent Law Treaty, has regulatory provisions on these areas.

6.5.2. The Malaysian Model

Although having the same objective as the equivalent provisions found in the United Kingdom Act, the Malaysian provision is laid down in very different terms, and has different effects, from the United Kingdom model. It, in fact, mirrors the provision of the Sri Lankan Model,¹³⁶ which is in turn modelled along the line of the 1964 WIPO Model Law.¹³⁷ Such being the case, United Kingdom cases pertaining to this area are merely indicators of the way the UK courts have interpreted the specific provisions of the UK Act. They could not be used as a basis on which to construe the Malaysian provisions, though the cases may be useful as an indication of what is regarded as unjustified conduct by patentees which would justify certain measures to be taken against him.

The Act provides that "Any clause or condition in a licence contract shall be invalid in so far as it imposes upon the licensee, in the industrial or commercial field, restrictions not derived from the rights conferred by this part on the owner of the patent, or unnecessary for the safeguarding of such rights."¹³⁸

6.5.2.a. Preliminary observations

It is important to note that unlike the UK model, the Malaysian prohibitions are not of a penal nature. Breach of the section merely results in the offending clauses being deemed invalid and hence not enforceable. This would mean that the failure to fulfil or observe the impugned restrictions will not be actionable as a breach of contract.¹³⁹ However, a third party who is not in a contractual relationship with the patent owner is not given a right to use the presence of these invalid clauses as a defence to an infringement action. Therefore, it is submitted that the section does not have to be construed strictly in favour of the patentee.¹⁴⁰

Further, it is not necessary that before the section comes into operation, the restrictive clause should be inserted or imposed by the patent owner. The section is not so limited. It, therefore, applies to any conditions, whether imposed by the patentee, or by or with the knowledge or authority of the patentee. Therefore, an exclusive licensee who has the power to grant sub-licences would also be affected.

¹³⁶ See the Sri Lankan Act, section 90.

¹³⁷ See section 33, WIPO Model Law, 1964. This provision is absent in the new WIPO Model Law of 1979. Unfortunately, no guidance is given in the 1964 Model Law regarding the construction of this provision. There have also been no reported cases in the Sri Lankan law reports relating to the application of this provision. Hence guidance will have to be sought elsewhere.

¹³⁸ See section 45 of the Act.

¹³⁹ Huntoon Co. v. Kolynos (Incorporated) (1930) 47 RPC 403, *per* Clauson J., at page 410.

¹⁴⁰ Unlike the approach in the United Kingdom. See, for example Tool Metal v. Tungsten Electric (1955) 72 RPC 209, and Fichera v. Flogates [1984] RPC 257 (CA).

Unlike the United Kingdom provisions, there are no express prohibitions set out. The prohibition is expressed in terms of restrictions not derived from the rights under the Act. Hence reference has to be made to section 36 which lists the rights conferred on a patent owner.¹⁴¹ Therefore, where the clauses in a licence agreement seek to restrict the licensee's activities with reference to any of the patentee's exclusive rights, such clauses would not be deemed to be illegal. Any clause which goes outside this boundary would be invalid, unless specifically permitted under section 45(a) and (b) of the Act.¹⁴²

As is evident from the phraseology of the section, the import of the section is potentially very wide, the only guidance given in the Act is that "restrictions not derived from the rights conferred by this part on the owner of the patent, or unnecessary for the safeguarding of such rights" are invalid. In the determination of what clause or condition in a licence contract is to be deemed invalid, the section has to be construed on the basis that a licence is required only when the act, if done, would infringe the patentee's exclusive rights. Therefore, the general rule should be that any condition in the contract that would result in the patentee's rights in respect of his patented invention being wider in scope and longer in duration than that conferred by a patent itself would be invalid, since this results in an extension of his lawful exclusive rights as defined under the Act.¹⁴³ For example, in a process patent which involved the use of certain unpatented substances as an ingredient in the patented process, the substances are not protected by the patent, and hence any condition requiring the purchase of these substances from the patentee will be invalid.¹⁴⁴

6.5.2.b. Applicability of the doctrine of patent misuse

In 1873, the US Supreme Court pronounced that "A patentee may license any, some or all, of his patents on any terms which the parties agree, and the licence will be enforced by the courts according to its language, just like any other contracts. These are substantive rights."¹⁴⁵ This early willingness of the US courts to allow the patentees to expand the scope of their lawful monopoly to include unpatented products reached its high point in Sidney Henry et al. v. A.B. Dick Co.¹⁴⁶ However, judicial attitude has changed since then, and the court soon moved away from its earlier policy of assisting patentees in securing an extended monopoly through the leverage of their patent monopolies. In Motion Picture

¹⁴¹ See Chapter 3 - The Exclusive Rights, paras 3.1 and 3.2.

¹⁴² Permissible restrictions are discussed in para. 6.5.4., *infra*.

¹⁴³ Sarason v. Frenay (1914) 31 RPC 330 (CA), *per* Swinfen Eady L.J., at page 336, "In order to be protected by the patent the right that is sought to be protected must be within the protection afforded by the patent; it must be properly described, and specified and claimed, otherwise it is not protected by the patent."

¹⁴⁴ Sarason v. Frenay (1914) 31 RPC 330 (CA), *per* Swinfen Eady L.J., at page 336 - ingredient in a patented process. See also Huntoon Co. v. Kolynos (Incorporated) (1930) 47 RPC 403, *per* Lord Hanworth M.R., at page 418 - unpatented component parts of a patented article.

¹⁴⁵ Adams v. Burke 17 Wall. 453, 21 Law Ed. 700 (US Sup. Ct 1873).

¹⁴⁶ For a discussion of this case and the doctrine of contributory infringement, see Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights, at para. 4.4.5.b.

Patents Co. v Universal Film Manufacturing Company et al.,¹⁴⁷ the Supreme Court expressly overruled A.B. Dick, and refused to hold the defendants liable for contributory infringement by the supply of unpatented films to purchasers of the licensees in breach of the licensed conditions attached to their patented motion picture projection machines. The rationale for refusing a remedy to the patentee was based on the ground that the patentee, if he decided to exploit the invention, whether by himself or through others, was thereby restricted to "the use of the invention as it was described in the claims of his patent, and not as it might be expanded by limitations as to materials and supplies necessary to the operation of it." Therefore, "the exclusive right granted in every patent must be limited to the invention described in the claims of the patent, and that it was not competent for the owner of a patent, by notice attached to its machine, to, in effect, extend the scope of its patent monopoly by restricting the use of it to materials necessary in its operation, but which are no part of the patented invention, or to send its machine forth into the channels of trade of the country subject to conditions as to its use or royalty to be paid, to be imposed thereafter at the discretion of such patent owner." Up to this point, however, the court had not gone so far as to hold that the patentee's illegal conduct in attempting to expand his monopoly would be a defence to actual infringement of the patent.¹⁴⁸

The seminal case for the patent misuse defence is Morton Salt Co. v. G.S. Suppiger,¹⁴⁹ where the basis for refusal of the court's aid to the patentee and the relationship between the misuse doctrine and violation of the anti-trust legislation was explained. In Morton Salt, the respondent leased its patented machines to commercial canners under licences to use the machine upon conditions, and with the agreement of the licensees, that only the subsidiary's salt tablet be used with the leased machines. The petitioner made and leased to canners unpatented salt depositing machine, alleged to infringe the respondent's patent. The petitioner also competed with the respondent in the sale of the tablets. The trial court, passing over the issues of validity and infringement, granted summary judgement dismissing the complaint. It took the ground that the respondent was making use of the patent to restrain the sale of salt tablets in competition with its own sale of unpatented tablets, by requiring licensees to use with the patented machines only tablets sold by the

¹⁴⁷ Motion Picture Patents Co. v. Universal Film Manufacturing Company et al. 243 US 502 (US Sup. Ct 1917).

¹⁴⁸ Motion Picture Patents Co. v. Universal Film Manufacturing Company et al. 243 US 502 (US Sup. Ct 1917). See Justice Clarke, who delivered the opinion of the court, at pages 508-518. See also Carbice Corporation of America v. American Patents Development Corporation and Dry Ice Corporation of America. 283 US 27 (1931), Mr Justice Brandeis delivered the judgement of the court, at page 31; Leitch Manufacturing Co. Inc. v. The Barber Company, Inc., 36 USPQ 35 (1938); 302 US 458. *per* Mr Justice Brandeis, for the court: 36 USPQ 35, at pages 35-37; The Mercoid Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), *per* Justice Douglas, at page 24, delivering the opinion of the Court. These cases are discussed in Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights, at para. 4.4.5.b.

¹⁴⁹ Morton Salt Co. v. G.S. Suppiger Co. 314 US 488, 86 L. Ed. 363 (US Sup. Ct 1942). See also International Salt Co. v. United States 332 US 392, 75 USPQ 184 (US Sup. Ct 1947).

respondent. The Court of Appeals reversed the decision because it thought that respondent's use of the patent was not shown to violate s. 3 of the Clayton Act as it did not appear that the use of its patent substantially lessened competition or tended to create a monopoly in salt tablets. The Supreme Court reversed. Chief Justice Stone, who delivered judgement of the court, stated categorically that "The question we must ask is not necessarily whether the respondent has violated the Clayton Act, but whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article."¹⁵⁰ It is pertinent to note that relief was denied to the patentee when he attempted to monopolise the trade in unpatented articles, not on the basis that there was a violation of the anti-trust law. By such conduct, the patentee was deprived of the aid of the court of equity to restrain an alleged infringement by one who was a competitor. By attempting to extend his monopoly rights outside the scope of his patent rights, the patentee had misused his patent, hence the doctrine of patent misuse. The court recognises that since the patent right is limited by the "letter", the person who goes beyond his grant in attempting to secure a limited monopoly of an unpatented article is barred from enforcing his patent.¹⁵¹

It has been repeatedly held in the Supreme Court, and Morton Salt is the leading case, that the patentee is under an obligation not to use the patent beyond the limits of the grant. The fact that the patentee has the power to refuse a licence is no justification for his granting a licence subject to terms which are not within the scope of his patent rights, and which have the effect of enlarging the monopoly of the patent.¹⁵²

The philosophical basis for the patent misuse doctrine is the policy of protecting the public's interest in free competition by refusing to enforce contracts which suppress free competition or restrain trade. Under this doctrine, the patentee enjoys a monopoly as to his invention, but he may not use his patent or patents to control the manufacture, use, or sale of unpatented articles or materials. Hence restrictive controls are legitimate only if they are made with reference to the particular patents. The Supreme Court in Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd said that "[t]hat which is condemned as against the

¹⁵⁰ Morton Salt Co. v. G.S. Suppiger Co. 314 US 488 at 491, 86 L. Ed. 363 (US Sup. Ct 1942), *per* Chief Justice Stone.

¹⁵¹ Morton Salt Co. v. G.S. Suppiger Co. 314 US 488, at 490, 86 L. Ed. 363 (US Sup. Ct 1942), *per* Chief Justice Stone, "A patent operates to create and grant to the patentee an exclusive right to make, use and vend the particular device described and claimed in the patent. But a patent affords no immunity for a monopoly not within the grant ... and the use of it to suppress competition in the sale of an unpatented article may deprive the patentee of the aid of the court of equity to restrain an alleged infringement by one who is a competitor. It is the established rule that a patentee who has granted a licence on condition that the patented invention be used by the licensee only with unpatented materials furnished by the licensor, may not restrain as a contributory infringer one who sells to the licensee like materials for like use."

¹⁵² United States v. Masonite Corp. 53 USPQ 396 (US Sup. Ct 1942), at page 401, *per* Justice Douglas, "The owner of a patent cannot extend his statutory grant by contract or agreement ... Beyond the limited monopoly which is granted, the arrangements by which the patent are utilised are subject to the general law."

public policy by the 'tie-in' cases is the extension of the monopoly of the patent to 'create another monopoly' or restraint of competition - a restraint not countenanced by the patent grant".¹⁵³ The same Judge explained that "[t]he patent law confers on the patentee a limited monopoly, the right or power to exclude all others from manufacturing, using, or selling his invention... The extent of that right is limited by the definition of his invention, as its boundaries are marked by the specification and claims of the patent. ... He may grant licences to make, use, or vend, restricted in point of space or time, or with any other restriction upon the exercise of the granted privilege, save only that by attaching a condition to his licence he may not enlarge his monopoly and thus acquire some other which the statute and the patent together does not give."¹⁵⁴ The stress in all these cases is the prohibition against the patentee attempting to enlarge his patent monopoly by the use of restrictive terms or conditions in a licence agreement.¹⁵⁵

Under United States law, the effect of a finding of misuse is the possibility of the invocation of it as a defence in either an action for infringement or in an action for royalty payment. Relief is denied to the patentee even though the buyer, by the contract of sale, has assented to the plaintiff's condition. Such a defence of patent misuse is available not only to one under licence with the patentee but to all parties who are sued for infringement.¹⁵⁶

¹⁵³ Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Minton, at page 380.

¹⁵⁴ Ethyl Gasoline Corp. et al. v. United States 44 USPQ 614 (US Sup. Ct 1940), *per* Justice Stone, at page 620.

¹⁵⁵ See also The Mercoid Corporation v. Mid-Continental Investment Company et al. 60 USPQ 21 (US Sup. Ct 1944), *per* Justice Douglas, at page 25, delivering the opinion of the Court, "The instant case is a graphic illustration of the evils of an expansion of the patent monopoly by private engagements. ... The patent is employed to protect the market for a device on which no patent has been granted. But for the patent such restraint on trade would plainly run foul of the anti-trust laws. If the restraint is lawful because of the patent, the patent will have been expanded by contract. That on which no patent could be obtained would be as effectively protected as if a patent had been issued. Private business would function as its own patent office and impose its own law upon its licensees. It would obtain by contract what letters patent alone may grant. Such a vast power 'to multiply monopolies' at the will of the patentee (Chief Justice White dissenting in Henry v. A.B. Dick at p. 53) would carve out exceptions to the anti-trust law which Congress has not sanctioned."

¹⁵⁶ The reason for this was explained in Morton Salt Co. v G.S. Suppiger Co. 314 US 488 (US Sup. Ct 1942), at 493-4, *per* Stone C.J., "Where the patent is used as a means of restraining competition with the patentee's sale of an unpatented product, the successful prosecution of an infringement suit even against one who is not a competitor in such a sale is a powerful aid to the maintenance of the attempted monopoly of the unpatented article, and is thus a contributing factor in thwarting the public policy underlying the grant of the patent. Maintenance and enlargement of the attempted monopoly of the unpatented article are dependent to some extent upon persuading the public of the validity of the patent, which the infringement suit is intended to establish. Equity may rightly withhold its assistance from such a use of the patent by declining to entertain a suit for infringement, and should do so at least until it is made to appear that the improper practice has been abandoned and that the consequences of the misuse of the patent have been dissipated. cf. B.B. Chemical Co. v. Ellis ... The reason for barring the prosecution of such a suit against one who is not a competitor with the patentee in the sale of unpatented product are fundamentally the same as those which preclude an infringement suit against a licensee who has violated a condition of the licence by using with the licensed machine a competing unpatented article, Motion Picture ..., or against a vendee of a patented or copyrighted article for violation of a condition for the maintenance of a resale price, ... It is the adverse effect upon the public interest of a successful infringement suit in conjunction with the patentee's course of conduct which disqualifies him to maintain the suit,

The essence of the misuse then, is that the inherent monopoly power of the patent grant is being expanded beyond its statutory scope to engulf other objects.¹⁵⁷ Under the doctrine it is a matter of "public policy....[that] excludes from [the grant] all that is not embraced in the invention".¹⁵⁸ Justice Roberts considered patent misuse to be "a pure question of the extent of the right of exclusion conferred by the patent statute. It nowise involves the antitrust acts."¹⁵⁹ Similarly, it is a matter of statutory policy, as laid down by the Malaysian Patents Act that certain restrictions which are not derived from the Act are proscribed. The basic underlying policy behind the Malaysian provision seems to be that while it is in the public interest to grant exclusive rights to a patent owner, it is also in the public interest that such rights should not be exercised in such a way that competition is restricted by using the patent as a lever to compel the acceptance of terms which tend to extend the owner's patent rights. Provisions in licence contracts will be invalid if they are deemed to be outside the rights conferred on the patentee by the Act, or unnecessary for the safeguarding of such rights. This statutory philosophy reflects the "misuse doctrine" as developed by the courts in the United States. The statutory language "restrictions not derived from the rights conferred on the owner of the patent" in the Act, and the expression used by the United States courts, "rights not derived from the patent grant" reflect a common philosophical basis, prohibiting unfair extension of the scope of the patent rights. In view of this similarity, there is justification in relying on the misuse doctrine in the construing the extent and application of the Malaysian provisions.

6.5.2.c. A caveat

It is important to note that to establish the defence of patent misuse, it is not necessary to show a violation of the antitrust statutes, or the existence of an actual monopoly. A court of equity will not lend its aid to protect the patent monopoly if the patent is used as an effective means of restraining competition through misuse of the patent.¹⁶⁰ Misuse is an application of the "venerable equity doctrine of 'unclean hands' in the patent field."¹⁶¹ The doctrine "is a rejection of the concept of the patent as an absolute property right in favour of its definition as a right which must not be exercised in a manner not consistent with the constitutionally-defined purpose for which it was conferred".¹⁶² However, a patent misuse

regardless of whether the particular defendant has suffered from the misuse of the patent." (citations omitted).

¹⁵⁷ See Siekman, T.C., "Post Expiration Royalty Payments and Mandatory Package Licensing as Patent Misuse," 11 Vill. L. Rev. 382 (1966), at page 390.

¹⁵⁸ Morton Salt Co. v G.S. Suppiger Co. 314 US 488, at 492, 86 L. ed. 363 (US Sup. Ct 1942), *per* Chief Justice Stone.

¹⁵⁹ Mercoid Corp. v. Mid-Continent Co. 320 US 661 (US Sup. Ct 1944), at page 674.

¹⁶⁰ See Morton Salt Co. v. G.S. Suppiger Co. 314 US 488 (US Sup. Ct 1942), 52 USPQ 30, at 32, *per* Chief Justice Stone; Berlenbach v. Anderson & Thompson Ski. Co. Inc. 141 USPQ 84 (CA 9th Cir. 1964).

¹⁶¹ United States Gypsum Co. v. National Gypsum Co. 352 US 457, at 465, 112 USPQ 340, at 343-344 (US Sup. Ct 1957).

¹⁶² Hensley Equipment Co. v. Esco Corp. 155 USPQ 183, 189 (CA 5th Cir. 1967).

may restrain trade and thereby violate antitrust laws,¹⁶³ and violation of the antitrust statutes would amount to a patent misuse, since by violating the antitrust laws as a patent holder, he also violates the patent law by extending his limited grant beyond its statutory limit.¹⁶⁴ Originally, the doctrine was grounded on a violation of patent policy itself. Recently, however, certain anticompetitive licensing practices have prompted the courts to utilise the broader standards of antitrust in applying the doctrine of patent misuse.¹⁶⁵ However, even though it is now settled that patent misuse may be found in the absence of an antitrust violation, some patent misuse cases have been decided solely within the antitrust framework.¹⁶⁶ In these cases, the court have utilised the standard prohibiting

163 See International Salt Co. v. United States 332 US 392, 75 USPQ 184 (US Sup. Ct 1947), United States v. Loew's Inc. 371 US 38, 135 USPQ 201 (US Sup. Ct 1962), and Hensley Equipment Co. Inc. v. Esco Corp. 155 USPQ 183 (CA 5th Cir. 1967). Since activities giving rise to patent misuse frequently have actual or anticipated adverse effects on competition, there is a close relationship between patent misuse doctrine and anti-trust law.

164 For a more detailed analysis of the relation between misuse and the anti-trust laws, see Chisum, D.S., Patents A Treatise on the Law of Patentability and Infringement, Matthew Bender, Times Mirror Books, 1995, Vol. 5, at para. 19.04[2].

165 There have also been legislative proposals to abolish patent misuse and incorporate it under the antitrust regime. For a discussion of these proposals, see Merges, R.P., "Reflections on Current Legislation Affecting Patent Misuse", JPTOS 793 (1988), and Unsigned Note, "Standard Antitrust Analysis and the Doctrine of Patent Misuse: A Unification Under the Rule of Reason", 46 U. Pitt. L. Rev. 209 (1984).

166 See, for example, USM Corp. v. SPS Technologies, Inc. 216 USPQ 959 (CA 7th Cir. 1982), *per* Posner, Circuit Judge, at pages 964-65, "But we must also consider whether the patent misuse doctrine goes beyond these specific practices and constitutes a general code of patent licensing distinct from antitrust law. The doctrine arose before there was any significant body of federal antitrust law, and reached maturity long before that law (a product largely of free interpretation of unclear statutory language) attained its present broad scope. Since the antitrust law as currently interpreted reaches every practice that could impair competition substantially, it is not easy to define a separate role for a doctrine also designed to prevent anti competitive practice - abuse of a patent monopoly. One possibility is that the doctrine of patent misuse, unlike antitrust law, condemns any patent licensing practice that is even trivially anti competitive, at least if it has no socially beneficial effects. This might seem to explain cases such as Duplan Corp. v. Deering Milliken, Inc. 197 USPQ 342 (D.S.C. 1977) ... which held that a patent tie-in agreement is misuse *per se* unless the patentee shows that he had some non-monopolistic reason for the tie-in, such as protection of goodwill. To prove a tie-in *prima facie* unlawful under the antitrust laws all you have to show is that the defendant has some economic power in the market for the tying product. United States Steel Corp. v. Fortner Enterprises, Inc. 429 US 610 (1977), and Duplan eliminates this requirement in misuse cases. But if a patentee has no market power ... he cannot use a tie-in to practice price discrimination, which presupposes market power ... Much less can he lever his way into a dominant position in the market for the tied product. The logical presumption in such a case is that the tie-in promotes efficiency - and there is no lack of hypothesis as to how this might do it. See Bork, The Antitrust Paradox 375-81 (1978). It is hard to understand why in these circumstances, where if any presumption is warranted it is that the tie-in promotes efficiency rather than reduces competition, the burden of proof on the issue of misuse should be shifted to the patentee. But probably cases like Duplan - which was, like Motion Picture, a tie-in case - are best understood simply as application of the patent misuse doctrine within its conventional, rather stereotyped boundaries. Outside those boundaries there is increasing convergence of patent misuse analysis with standard antitrust analysis. ... One still finds plenty of statements in judicial opinions that less evidence of anticompetitive effect is required in a misuse case than in an antitrust case ... But apart from the conventional applications of the doctrine we have found no cases where standards different from those of antitrust law were actually applied to yield different results. ... [I]f misuse claims are not tested by conventional antitrust principles, by what principles shall they be tested? Our law is not rich in alternative concepts of monopolistic abuse; and it is rather late in the day to try to develop one without in the process subjecting the rights of patent holders to debilitating uncertainty. ... We come at last to the particulars of USM's charge of patent misuse, which the district court dismissed on summary judgement and which for reasons just explained we think must be evaluated under antitrust principles."

restraint of trade and lessening of competition to determine the legality of the patentee's conduct.¹⁶⁷

This trend is significant, since the Malaysian provision is based on restrictions going beyond the scope of the patent rights and not on any breach of any competition law. Therefore, in the examination of US case law, it is important to keep in mind the need to distinguish between situations which amount to a mere patent misuse and those that are in violation of the relevant anti-trust law. Some of the decided cases involved both patent misuse and anti-trust matters, so that care has to be taken to sieve out only those principles relevant to the concept of patent misuse in the interpretation of the Malaysian provision to ensure that condemnation of the patentee's conduct is based on the doctrine of patent misuse rather than on, and as a separate issue from, antitrust law.¹⁶⁸

6.5.3. The Prohibited Restrictions

The application of the misuse doctrine to the various licensing arrangements in the United States, and, where applicable, the common law position, are, therefore, examined to determine and evaluate the extent to which the specific instances are relevant to the Malaysian context. The classic patent misuse cases will first be examined,¹⁶⁹ before examining other arrangements which are also considered by the US courts as patent misuse. However, it needs to be stressed here that an exhaustive discussion of the misuse doctrine in all its potential applications is not possible here and is not within the scope of the

¹⁶⁷ For the argument that the legitimate rights of the patent holder have been abrogated by the court's utilisation of antitrust principles, see Nicoson, "Misuse of the Misuse Doctrine in Infringement Suits", 9 U.C.L.A. L. Rev. 76 (1962). See, however, Maffei, T.F., "The Patent Misuse Doctrine: A Balance of Patent Rights and the Public Interest", 52 JPOS 178 (1970), who argues that by upholding the independent status of the patent misuse doctrine as a check on the patentee's conduct apart from the application of antitrust principles, the court has achieved the necessary balance between the patentee's legitimate rights under the patent grant and the public interest in safeguarding competitive market opportunities.

¹⁶⁸ It has been argued that the lower antitrust-based standard is an inappropriate way to determine if certain restrictive practices amount to patent misuse. Therefore, there is no sound reason why the present misuse doctrines need to be eliminated in favour of antitrust analysis of the same practices. Therefore, the misuse doctrine has a *bona fide* claim to a viable, independent existence - see Merges, R.P., "Reflections on Current Legislation Affecting Patent Misuse", JPTOS 793 (1988).

¹⁶⁹ The classic situations of patent misuse are conditions requiring the purchase of unpatented goods for use with patented apparatus or processes, prohibiting production or sale of competing goods, and conditioning the granting of a licence under one patent upon the acceptance of another and different licence - Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Minton, at page 379. However, the list is not close - see Riker Laboratories, Inc. v. Gist-Brocades N.V. 208 USPQ 777 (CA District of Columbia Circuit, 1980), *per* MacKinnon, Circuit Judge, at page 781, "... the parameters of the doctrine are indistinct ... and fluid."; Skil Corp. v. Lucerne Products, Inc. et al. 206 USPQ 792 (ND Ohio, 1980), *per* Lambros, District Judge, at page 821, "The guiding doctrine in patent misuse is the equitable doctrine that 'he who comes into equity must come with cleans hands'. ... The outer scope of the doctrine has not been clearly defined."; and Report of the Attorney General's Committee to Study the Antitrust Law 251 (1965), "The outer reach of the misuse doctrine has not yet been fully defined".

thesis. Only the more common situations will be analysed to illustrate the possible application of the section.

6.5.3.a. Tying arrangements

The most common method of extending a patentee's rights in a patent to non-patented products is by the use of the device of tying arrangements. A tying arrangement may consist of either a tie-in or a tie-out. Basically a tie-in clause is one in which the licensor or vendor makes the purchase, hire or use of a patented article or invention conditional on the purchaser, hirer or licensee also acquiring other goods from the patentee or his nominee. In a tie-out situation, the purchaser, hirer or licensee is prevented from using certain goods, materials or processes not supplied or owned by the patentee.¹⁷⁰ In the case of a process patent, a tying arrangement could, for example, involve the patentee allowing the licensing of the use of his process patent only if the licensee agrees to practice the process together with the use of the patentee's machinery.¹⁷¹ These practices are expressly prohibited under the United Kingdom provision.¹⁷² Such practices were formerly frequently resorted to in the United States,¹⁷³ and it was only in Motion Picture Patents Co. v Universal Film Manufacturing Company et al. that they were enjoined.¹⁷⁴

Neither the convenience nor the commercial necessities of the patentee nor the activities of the seller of the alleged infringing unpatented product, justifies an extension of the grant to the unpatented product.¹⁷⁵ A clause would still be regarded as having this effect even if there were no express clause requiring the licensee to undertake to purchase the non-patented product from the patentee, as long as the effect of the clause is, in practice, to result in tying of an unpatented products.¹⁷⁶ Therefore, even indirect methods of achieving

¹⁷⁰ The US Supreme Court in Northern Pacific R. Co. v. United States 356 US 1 (US Sup. Ct 1958), at pages 5-6, defined a tying arrangement as "An agreement by a party to sell one product but only on the condition that the buyer also purchases a different (or tied) product, or at least agrees that he will not purchase that product from any other supplier ... and [w]here such conditions are successfully exacted competition on the merits with respect to the tied product is inevitably curbed."

¹⁷¹ See, for example, Senza-Gel Corp. et al. v. Seiffhart et al. 231 USPQ 363 (CAFC 1986).

¹⁷² See s. 44(1)(a) and (b) Patents Act 1977, United Kingdom.

¹⁷³ See Motion Picture Patents Co. v Universal Film Manufacturing Company et al. 243 US 502 (US Sup. Ct 1917), *per* Justice Clarke, who delivered the opinion of the court, at page 509, "It is obvious that in this case we have presented anew the inquiry, which is arising with increasing frequency in recent years, as to the extent to which a patentee or his assignee is authorised by our patent laws to prescribe by notice attached to a patented machine the conditions of its use and the supplies which must be used in the operation of it, under pain of infringement of the patent."

¹⁷⁴ Motion Picture Patents Co. v Universal Film Manufacturing Company et al., 243 US 502 (US Sup. Ct 1917). See text accompanying footnote 147, *supra*.

¹⁷⁵ B.B. Chemical Co. v. Ellis, 314 US 495, 52 USPQ 33 (US Sup. Ct 1942). See Chief Justice Stone, who delivered the judgement of the court, at page 497, "It is without significance that ... it is not practicable to exploit the patent rights by granting licences because of the preferences of manufacturers and of the method by which petitioner has found it convenient to conduct its business. The patent monopoly is not enlarged by reason of the fact that it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limits of the grant."

¹⁷⁶ See Hunter's Patent [1965] RPC 416 (Sup. Ct Republic of Ireland), on an issue relating to the

the end of tying unpatented articles to the use of a patented device will be caught by the rule against tying.¹⁷⁷

It is important to note, however, that the patent misuse doctrine does not prevent a patent owner from producing unpatented materials for sale to licensees or purchasers. The owner is free to do so. However, it will be patent misuse to condition the grant of a licence on purchase of the unpatented compounds.¹⁷⁸ Similarly, in Bissell Inc. v. E.R. Wagner Mfg Co.,¹⁷⁹ the patents in suit related to an apparatus for applying detergent to rugs and the like, commonly called a rug shampoo applicator. In a suit for infringement, the defendant, Wagner, alleged that Bissell had misused its patents. It was held that the patent was misused where dealers in the patented applicator were required to purchase unpatented shampoo to be applied by the applicator inasmuch as no reasonable business purpose was shown other than the patentee's intent to use the patented device to promote sale of unpatented shampoo. However, it was not misuse of patent for the manufacturer to package its applicator together with a container of its unpatented shampoo and to sell such combination at one unit price. The shampoo in the container was sufficient only to clean a 9' x 18' carpet. After the shampoo was consumed, and for the remainder of the life of the applicator, the end-users could purchase any desired shampoo, and competitors were equally free to vie for the trade in shampoo. The plaintiff had established a proper manufacturer's motive in furnishing sample of its shampoo for sale and efficient initial operation of the applicator which introduced a new concept in home carpet cleaning.¹⁸⁰

Another situation where a tie-in may be justified is where the restriction is motivated by quality control. This, in fact, will fall within proviso (a) to the section, which will be dealt with later. Dehydrating Process Co. v. A.O. Smith Corp. involved two patented devices, a glass-lined silo and a silo unloader. The defendant originally sold the devices separately. However, upon receiving many complaints that the unloader did not perform satisfactorily in other silos, thus tending to discredit the usefulness of the unloader, the defendant instituted a policy of refusing to sell unloaders to any customers who did not have a patented glass-lined silo or who would not buy one. The court looked at the particular

equivalent section in the Irish Patents Act, *per* Kingsmill Moore J., at page 427. For similar attempts which failed in the United States, see Leitch Manufacturing Co. Inc. v. The Barber Company, Inc., 36 USPQ 35, at pages 36-37 (US Sup. Ct 1938); 302 US 458, *per* Mr Justice Brandeis, for the court.

¹⁷⁷ See, for example, Barber Asphalt Corp. v. La Fera Greco Contacting Co. 116 F2d 211 (3rd Cir. 1940) - A patentee may not charge a lower rate of royalty when unpatented supplies are purchased from him than when they are purchased from others. See also Dehydrators, Ltd v. Petrolite Corp. 117 F2d 183 (9th Cir. 1941, and National Foam System, Inc. v. Urquhart 202 F2d 659 (3rd Cir. 1953).

¹⁷⁸ This point was specifically made by Kinneary, District Judge, in Noll et al. v. O.M. Scott & Sons Co. 169 USPQ 336 (DC SD Ohio 1971), at page 349, where he referred to Morton Salt Co. v. G.S. Supiger Co. and Mercoid.

¹⁷⁹ Bissell Inc. v. E.R. Wagner Mfg Co. 133 USPQ 469 (DC ED. Wisconsin 1962).

¹⁸⁰ Bissell Inc. v. E.R. Wagner Mfg Co. 133 USPQ 469 (DC ED. Wisconsin 1962), *per* Grubb, District Judge, at pages 480-481.

technological facts involved and noted that the real question was whether the devices were truly "separate" in a technological sense. Holding that the selling arrangement was not illegal, the court stated, "Articles, though physically distinct, may be related through circumstances. The sound business interests of the seller, or phrasing it another way, a substantial hardship apart from the loss of the tie-in sale, may be a circumstance. It would not be thought, for example, that a one-legged man could insist on purchasing only a left shoe .. we must first consider what may be fairly treated by seller as inseparable."¹⁸¹

Further example indicating that the court will look carefully at all the particular circumstances before summary condemnation is United States v. Jerrold Electronics Corp.,¹⁸² which recognises that entry into a new technological field might justify tie-in restrictions for a limited time. The defendant was installer and manufacturer of community TV antenna systems, which systems solved a particularly vexing problem in home TV reception. Because of the history of equipment malfunctioning, and because the fledgling defendant corporation could ill-afford to acquire a bad reputation in relation to service, the defendant contracted with distributors under, *inter alia*, the following provisos: (1) that all service to the system be provided by defendant's servicemen and (2) that all replacement parts either be furnished by the defendant or approved by them. The court applied the *per se* rule with respect to operations of the Jerrold corporation after finally establishing itself economically and technologically. With respect to "tying" arrangements at the inception of the business, there was no violation, since the unique position of the new corporation both in relation to business and technology necessitated rigid control over maintenance of its antenna systems with respect both to service and replacement parts, in order to serve properly the contract customers. However, once established, the defendant could not continue to maintain tying set-ups since initial technical and business problems did not justify them.

6.5.3.b. Mandatory package

Another device that could be used by a patentee is the practice of mandatory package licensing, whereby the patentee refuses to grant a licence under one or more of his patents unless the licensee accepts and pays for additional patents which are not required by him. Like the prohibition against tying, the practice of package licensing could be deemed to be outside the exclusive rights of a patentee. This practice would be condemned as an unlawful use of a patent and hence comes under the patent misuse doctrine in the United States.¹⁸³

¹⁸¹ See, for example, Dehydrating Process Co. v. A.O. Smith Corp. 292 F.2d 653 (CA 1st Cir.), cert. denied 368 US 931 (1961).

¹⁸² United States v. Jerrold Electronics Corp. 187 F. Supp. 545 (E.D. Pa. 1960), aff'd *per curiam*, 365 US 567 (1961).

¹⁸³ See United States v. Paramount Pictures, Inc. 334 US 131, 77 USPQ 243 (US Sup. Ct 1948); Ethyl Gasoline Corp. v. United States 309 US 436, 44 USPQ 614 (US Sup. Ct 1940), and Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950). See

The Supreme Court of the United States has said, "The patent monopoly of one invention may no more be enlarged for the exploitation of a monopoly of another ... than for the exploitation of an unpatented article, ... or for the exploitation or promotion of a business not embraced within the patent."¹⁸⁴ In the words of Chief Judge Biggs, "Mandatory package licensing is no more than the exercise of the power created by a particular patent monopoly to condition the licensing of that patent upon the acceptance of another patent, but that is too much. The protection, or monopoly, which is given to the first patent stops where the monopoly of the second begins. Whatever may be the asserted reason or justification of the patent owner, if he compels a licensee to accept a package of patents or none at all, he employs one patent as a lever to compel the acceptance of a licence under another. Equity will not countenance such a result."¹⁸⁵

Thus, the possible vice of package licensing lies in its potential use to coerce the licensee to accept a licence under one patent on condition of acceptance of a licence under another, or the entire package. Therefore, in order to constitute a misuse, there must be an element of coercion, such as where there has been a request by a prospective licensee for a licence under less than all of the patents and a refusal by the licensor to grant such a licence.¹⁸⁶ The mere inclusion of two or more patents in a single licence agreement does not of itself constitute patent misuse where the parties mutually agree that a group of patents are to form the subject matter of the licence agreement.¹⁸⁷ It is only where the patent owner refuses to grant a licence under less than all of his patents, or requires a licensee to accept a licence under unwanted or inapplicable patents in order to obtain the use of desired patents, that the practice is condemned as mandatory or coercive package licensing.¹⁸⁸ Therefore, when the

generally, Adams, E.F., "The Legality of Compulsory Package Licensing of Patents", 12 Antitrust Bull. 773 (1967).

¹⁸⁴ Ethyl Gasoline Corp. v. United States 309 US 436, 44 USPQ 614 (US Sup. Ct 1940).

¹⁸⁵ American Securit Co. v. Shatterproof Glass Corp. 122 USPQ 167 (CA 3rd Cir. 1959), *per* Biggs, Chief Judge, at 174.

¹⁸⁶ Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950). In McCullough Tool Co. v. Well Surveys, Inc. 145 USPQ 6 (CA 10th Cir. 1965), the defence failed because there was no such showing of coercion. In fact the trial judge specifically found: 'After June 1, 1956, WSI has been willing to grant licences on its patent individually or collectively upon negotiated reasonable terms ... There was no coercion of licensees contracting subsequent to June 1, 1956 to accept licences under all of the WSI patents unwillingly.' - see Hill, Circuit Judge, at pages 27-29.

¹⁸⁷ Duplan Corp. v. Deering Milliken, Inc. 197 USPQ 342 (D.S.C. 1977), at 384, *per* Dupree, District Judge, citing United States v. Paramount Pictures 334 US 131, 77 USPQ 243 (US Sup. Ct 1948).

¹⁸⁸ See American Securit Co. v. Shatterproof Glass Corp. 122 USPQ 167 (3rd Cir. 1959), *see* Biggs, Chief Judge, at 174, cert. denied, 361 US 902, 123 USPQ 589 (US Sup. Ct 1959). The Third Circuit found for the defendant in an infringement action where the plaintiff had maintained a policy of requiring its licensees to accept package licensing. See also Beckman Instruments, Inc. v. Technical development Corp. et al. 167 USPQ 10 (CA 7th Cir. 1970), *per* Swygert, Chief Judge, at page 14, "The licence agreement provides that it shall extend to the 'date of expiration of the last to expire of the United States letters patent included in Licensed Patent Rights'. In Count II of its complaint, the plaintiff charges that this provision constitutes patent misuse by extending its royalty obligation for an indefinite and unreasonable period of time and beyond the expiration date of patents which may cover some of the apparatus manufactured by plaintiffs. ... We are in agreement with the Tenth Circuit that a package licence agreement, voluntarily entered into, which

licensee is not presented with a "take all or none of the patents and no alternative was available", and the package licence is purely voluntary and a licensee who does not want the whole package could obtain a licence on a reasonable basis covering any particular patent he does want, the agreement will be enforceable.¹⁸⁹

Not all package licensing is an attempt by the patentee to extend the scope of his monopoly illegally. In a highly complex and defined field, it will often be difficult and time consuming to ascertain whether a licensee's product utilises inventions protected by patents. This is especially true when the manufacturer-licensee produces articles very similar to those patented, but unlicensed. He may thus overstep his licence. In such situations, package licensing is the only viable option to enable the licensee to exploit certain inventions without fear of being involved in infringement actions. In relation to a package involving process patents, there are other advantages where a licence includes future improvements, the licensee benefits by being able to use the improved process. Where the licence includes two groups of patents, covering alternative processes, the licensee receives the benefit of being able to use either one, and being able to change at will from one to the other.¹⁹⁰

Further, a mandatory package may be permissible in certain situations where interlocking or blocking patents are involved. The expressions "interlocking patents" or "blocking patents" refer to patents related to the production of one product whereby a commercially feasible product could not be manufactured under one of the patents without infringing the other.¹⁹¹

requires the payment of royalties beyond the expiration of some, but not all, of the licensed patents is valid. However, the question remains whether the licensing agreement in the case before us was voluntarily entered into or was 'conditioned' in a manner proscribed by Zenith. We perceive no significant distinction between the payment of royalties on apparatus which were never patented and payment of royalties on apparatus on which the licensed patents have expired. When improper conditioning is proved, both arrangements are unjustified attempts to expand the scope of the patent monopoly to cover ideas in the public domain."

¹⁸⁹ McCullough Tool Co. v. Well Surveys, Inc. 145 USPQ 6 (CA 10th Cir. 1965), *per* Hill, Circuit Judge, at page 29. See also, GAF Corporation v. Eastman Kodak Co. 213 USPQ 356 (DC, S.D., New Jersey, 1981), *per* Pierce, District Judge, at pages 380-381; Hull v. Brunswick Corporation 218 USPQ 24 (CA 10th Cir. 1983).

¹⁹⁰ See Burns, J.W., "Does Package Licensing of Patents Violate the Antitrust Laws?", 41 JPOS 258 (1959), at page 269. See also, Report of the Attorney General's National Committee to Study the Antitrust Laws (1955), at 239, "A package licence may include more than one or all of the licensor's patents. Packaging is frequently used to avoid troublesome questions of infringement, complex bookkeeping, the difficulty of determining which patents cover the present and future needs of the licensee, cost differences, and similar practical considerations". See, however, Siekman, T.C., "Post Expiration Royalty Payments and Mandatory Package Licensing as Patent Misuse," 11 Vill. L. Rev. 382 (1966), at page 391, where he argues that the licensing of many complicated and entangled patents as a package should not find refuge from the sanctions of the misuse doctrine merely by reason of the complexity and entanglement and warns that the practice should be scrutinised closely, to ensure that they are kept within the law.

¹⁹¹ Further, even though the licensed patents are not interlocking in the sense that devices sold by the licensee require use of all licensed patents, there might not necessarily be a misuse. For example, when the initial agreement is made with reference to a single patent, with the licensee agreeing to pay a certain royalty on articles incorporating the invention. Later, by a supplementary agreement, two or more patents are included in the agreement, to enable the licensee to incorporate the new features in his products, without any change in the royalty rate. In this situation, the licensee's contention that the licence agreement covers more than one patent and provides for a flat percentage of the sales price of the article in which they are embodied without providing for a reduction in the

This situation is best illustrated by the case of International Mfg Co., Inc. v. Landon, Inc.¹⁹² In that case, the defendant alleged misuse as a defence to an infringement suit. The patents covered device for skimming and filtering the water in swimming pools and vacuuming the sides and bottom of such pools. One patent was granted to Robert Pace and the other was granted to Steffan and Cavenah. Both had been assigned to Landon Inc. It was alleged that Landon was guilty of patent misuse, because it adopted a policy of mandatory package licensing of both the Cavenah and Pace patents. The trial court found that, although the two patents were issued at different times, they together covered only a single article and that no commercially feasible device could be manufactured under one of the patents without infringing the other. In fact, Landon's first efforts to licence manufacturers under the Cavenah patent alone were frustrated by the manufacturers' unwillingness to accept Cavenah without also being licensed under Pace. In order to end this impasse, Pace, then owner of the Pace patent, and Landon entered into an agreement whereby (1) the Pace patent was assigned to Landon, (2) Landon granted Robert Pace a royalty-free, non-exclusive licence under both patents, (3) Landon promised to licence the patents collectively only, and (4) Landon and Robert Pace agreed to share royalties according to a set formula. The Court of Appeals held that Landon's practice of mandatorily licensing both patents collectively and never individually did not amount to a patent misuse. The Court made a distinction between competing patents and blocking patents. In the case of competing patents, although they produced the same result, they could possibly be used independently without infringing one another. This is a crucial distinction, since mandatory package licensing in that case would mean that the prospective licensee, in order to obtain a licence under one patent, would be compelled to accept licences under patents that were not necessarily needed. In the case of blocking patents, the prospective licensee is being compelled to accept no more than he would, in any event, have to obtain in order to make worthwhile a licence under any of the patents. It is different from a tying arrangement since a tying arrangement involves two separate, distinct products. It follows that it is not an unlawful tying arrangement for a seller to include several items in a single mandatory package when the items may be reasonably considered to constitute parts of a single distinct product. A licence package containing blocking patents may be considered a single distinct product. By definition, blocking patents disclose interdependent parts of the same product. The product - in this case a skimming and filter device for swimming pools - is no less a single product because its novel aspects are disclosed by two interlocking patents. In such a

amount of royalty at the expiration of the first patent, which is considered as the most important in the package, is in effect exacting a royalty for the use of the invention after the patent expires, will not be accepted. This is because there is no reason why, where an article might embody only one of the invention, the parties can not agree that a proper royalty for the use of the later patent alone should be the same for the use of the first patent alone, or for the use of both together - see Perbal v. Dazor Mfg Corp. 161 USPQ 168 (Mo. Sup. Ct 1968), *per* Stockard, Commissioner, at page 178 - where the device might embody only one invention, it is proper that royalty for use thereof be same for use of another invention alone or for the use of both together.

¹⁹² International Mfg Co., Inc. v. Landon, Inc. 142 USPQ 421 (CA 9th Cir. 1964), see Hamley, Circuit Judge, at pages 426-427.

case, not only is it not unreasonable to treat both patents as constituting a single product, but also licensing them in a package deal appears to be the most practical way of making them available for public use.¹⁹³ It is important to note that just because mandatory package licensing of blocking patents is condoned, it does not mean that a licensor can compel a prospective licensee to accept an entire licence package - thought by its owner to contain only interlocking patents - even though the licensee believes that he can produce a commercially feasible product under only part of the licence package. This is because if the licensee could produce a commercially acceptable product utilising one patent but not infringing the other in the package, then clearly the package does not involve blocking patents.

When a licensee seeks relief from mandatory package licensing which he signs voluntarily, he should show a demand by him and a refusal by patent holder for the desired patent as a separate item.¹⁹⁴ To escape from the charge of mandatory package licensing, the patentee not only has to offer individual patents as well as the entire package to licensees, but he must also price the licences of individual patents in such a way that price "disproportion" will not result.¹⁹⁵ Therefore, there may have to be an inquiry as to what the patents are, the value of each patent, whether they are basic, improvement, complementary, or supplementary.

The practice of mandatory package licensing seems to be acceptable in the United Kingdom. In Brownie Wireless Co.'s Application,¹⁹⁶ the applicant for a compulsory licence alleged, *inter alia*, that the patentee had refused to grant a licence on reasonable terms. One of the grounds of complaint was that the patentee, Marconi Company, had refused to differentiate between the various circuit patents and declined to grant any separate licences in respect of particular patents, but offered to grant a general licence in respect of

¹⁹³ The court also gave another reason for upholding the mandatory package licensing of blocking patents. See International Mfg Co., Inc. v. Landon, Inc. 142 USPQ 421 (CA 9th Cir. 1964), see Hamley, Circuit Judge, at page 427, "There is a further consideration which supports the result we reached here. If we were to condemn mandatory package licensing of blocking patents as a patent misuse, an owner of a blocking patent complex would be compelled to licence only a part of the patent complex. This would be true even though he knew full well that the licensee would be able to use the patents only by violating the remaining unlicensed patents. A patent infringement suit arising from such circumstances could produce only one of two results: (1) it would be held that the licensee has obtained a useless licence because it cannot be used without infringing other outstanding patents, or (2) it would be held that the licence carried with it an implied licence to utilise the remaining part of the complex. The only relief a court could logically give in such a case is a privilege to use all the blocking patents or none of them. For this reason, we cannot see how it would be unreasonable for the parties, under these circumstances, to negotiate on an all or nothing basis from the beginning."

¹⁹⁴ See Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc. 151 USPQ 305 (CA 6th Cir. 1966), *per* Edwards, Circuit Judge, at page 307.

¹⁹⁵ See, for example, Sheller-Globe Corp. et al. v. Milsco Mfg Co. et al. 206 USPQ 42 (ED Wisconsin, 1979), *per* Reynolds, Chief Judge, at pages 67-68, "As a matter of licensing policy, plaintiffs attempted to licence the Henrickson and Gonzalez patents at a specific, inflexible royalty rate that would remain the same whether the licensee elected to accept rights under both or under just one of those patents. ... Plaintiffs' policy amounts to package licensing."

¹⁹⁶ Brownie Wireless Co.'s Application (1929) 46 RPC 457, *per* Luxmoore J., at pages 475-476.

the whole group of circuit patents. Both the Comptroller and the Court found that this practice was reasonable for several reasons. They included the fact that the whole subject matter of the circuit patents was highly technical and difficult and frequently it was a debatable question as to which of the circuit patents were being utilised in any particular receiving sets. Further it was impracticable to deal with individual patents and to demand in respect of each set manufactured a royalty proportionate to the value of the patents actually used in that set. It was consequently fairest to the manufacturers to strike a general average and impose royalties calculated in a simple manner to cover the whole range of the circuit patents. Such a course not only avoided the complication and expense in assessing the royalties, but placed each manufacturer in a secure position, because whatever variation he might make in his receiving sets, he did not need, in practice, to consider the range and extent of his licence, for he would always be working within it. Consequently the court held that the standard form of licence known as A2 was not an unreasonable licence.¹⁹⁷

In the Malaysian context, mandatory packaging seeks to impose on the licensee restrictions which are not derived from the rights conferred on the patent by the Act. It is also not necessary for the safeguarding of such rights. Hence it would be caught by section 45.

6.5.3.c. Royalty payments

Closely linked to the legality of the practice of mandatory package licensing is the issue of the obligations relating to the payment of royalties. The way a royalty is charged may fall foul of the prohibition under section 45. The various aspects of this question relate mainly to the question of post-expiration royalty and the royalty bases. On the basis that a patentee has the right to exclude any one from the use of his patented invention, including the right to refuse to license any one to use his patented invention, this would mean that a patent owner, when giving permission to use his invention, has the right to charge a consideration for its use. In theory, a patent empowers the owner to exact royalties as high as he can negotiate with the leverage of that monopoly.¹⁹⁸ However, the right to license and charge for that privilege should not include a right to charge royalties on the use of patents which have expired. If a patent is used as a leverage to project the royalty payment beyond the life of the patent, this should be regarded as analogous to an effort to enlarge the monopoly of the patent by tying the sale or use of the patented article to the purchase or use of unpatented

¹⁹⁷ Brownie Wireless Co.'s Application (1929) 46 RPC 457, *per* Luxmoore J., at page 476, "The whole subject matter of the circuit patents is highly technical and difficult. Frequently it is a debatable question as to which of the circuit patents are being utilised in any particular receiving sets. It is impracticable to deal with individual patents and to demand in respect of each set manufactured a royalty proportionate to the value of the patents actually used in that set. It is consequently fairest to the manufacturers to strike a general average and impose royalties calculated in a simple manner to cover the whole range of the circuit patents. Such a course not only avoids the complication and expense in assessing the royalties, but places each manufacturer in a secure position, because whatever variation he may make in his receiving sets, he need not in practice consider the range and extent of his licence, for he will always be working within it..."

¹⁹⁸ See Brulotte v. Thys Co. 143 USPQ 264 (US Sup. Ct 1964), *per* Justice Douglas, at page 266.

ones. On expiration of the duration of protection, the grant of patent monopoly is spent, and the public is entitled to full and free use of the invention which is now in the public domain. Any attempt to make the licensee pay after that time will amount to attempting to derive rights from the patent which is not conferred by the Act. In theory, the patentee may utilise any method for the computation of such a royalty as may be acceptable to his licensees. Bases used in the determination of royalty payments fall into two main groups, those that bear a direct relationship to the use made of the patent right and those that do not. The latter type of base is used when the total royalty charge depends on the total commercial activities of the licensee and not solely on activities connected with the licensed patent rights. The imposition of royalty obligations on the licensee, and the method of computation, or the royalty structure, may expose the licensor to charges of attempting to derive a benefit which is in contravention of section 45. The royalty provision in a licence agreement, therefore, has to be scrutinised closely since the licensor may, by use of the royalty provision, accomplish indirectly what he is forbidden to accomplish directly.

Under the law of the UK and countries following the common law tradition, the courts seems to regard the issue of royalty duration as purely a question of contractual interpretation, not constrained by considerations of statutory patent policy. Following this "contractual intent" approach, such clauses are binding and enforceable if they are agreed to, and contracted for. Such clauses are not regarded as illegal *per se*, and any attack on them has to be judged by the common law doctrine of unreasonable restraints of trade.¹⁹⁹ However, when that defence is raised the onus is on the party seeking to enforce the obligation to show that, having regard to the circumstances, the obligation is reasonable between the parties and in the public interest. It would be so regarded if, for example, the obligation was seen as a reasonable way of allowing a licensee to compensate the licensor for past infringement.²⁰⁰ A similar approach to assessing the legality of such clauses is

¹⁹⁹ In the early case of Siemens v. Taylor (1892) 9 RPC 393, the royalty of 2 shillings per ton of steel produced was to be paid "until the expiration by effluxion of time of all the terms of years respectively granted by the said letters patents, and of any prolongation or extension of the said terms respectively, or until the said letters patent should become void or invalid by reason of the fees and stamp duties payable thereon not being paid within the requisite period, or by reason of any decision of any court or competent jurisdiction, either unappealed from or unreversed on appeal, cancelling or in fact rendering invalid the same letters, or until the licensee should entirely abandon the use of the said invention, and destroy the said furnace or furnaces erected by them, whichever even should happen first". The licensees contended that royalties had only to be paid in respect of any use of the patents still in force. They argued that as soon as a patent had expired all the world could use them, and if they used it there were no longer working under the patent but under the rights common to everyone. Further, it was contended that the contrary construction would offend against the Statute of Monopolies and it was not reasonable that they should go on paying royalties while anyone else could use the thing for nothing. The court held that the contrary contention of the plaintiffs, that royalties had to be paid for any use of the inventions so long as any one of the patents were subsisting, was correct. However, on the facts the court held that no royalty was to be paid since there was no use of the invention by the defendants - see Romer J., at page 400.

²⁰⁰ See, for example, Tool Metal v. Tungsten Electric (1955) 72 RPC 209, *per* Lord Oaksey, at page 218.

seen in Canada.²⁰¹ It may be surprising that there had been no attempts to formulate a doctrine similar to the patent misuse doctrine, as has emerged through judicial activism in the United States, in the United Kingdom and Commonwealth jurisprudence. However, a possible explanation may be that at a comparatively early stage, the United Kingdom legislature had already enacted specific provisions to deal with any attempted abuse of the exercise of a patentee's monopoly rights.²⁰² However, be that as it may, the propriety of the obligation to pay royalty on patents which had expired was questioned, although eventually upheld, in Bristol Repetition Ltd v. Fomento (Stirling Area) Ltd.²⁰³

Therefore, guidance will have to be sought from the US cases to assist in the determination of the extent to which provisions relating to royalty payments may fall within the misuse doctrine. An analysis of US cases pertaining to the legality of these devices shows that the mere presence of such clauses need not necessarily lead to the conclusion that there is patent misuse in these situations.

6.5.3.c.(i). Post-expiration royalties

The obligation of a licensee to pay royalties for patents which have expired falls under the misuse doctrine in the United States.²⁰⁴ The leading case in the United States on the legality of such obligations is Brulotte v. Thys Co.,²⁰⁵ where the court determined the validity of

201 See Culzean Inventions Ltd v. Midwestern Broom Co Ltd (1984) 1 CIPR 243 (Saskatchewan Court of Queen's Bench) - on the issue of whether a post-expiry patent royalty was an unlawful restraint of trade. The defendant contended that notwithstanding that clause 6 of the licensing agreement provided for payment of royalty up to and including the date of termination of the agreement, the patentee was not, at common law, entitled to retain and require payment of royalties beyond the term of the patent. The plaintiff argued that the fact that the licensing agreement required payment of royalties beyond the expiration of the patent did not itself make the agreement void unless the defendant established that it was void for other reasons, as in restraint of trade. The defendant failed to establish that, and the court was satisfied that the licence agreement was not unreasonable or unconscionable, nor contrary to the public interest. The agreement was entered into with a full and complete understanding of its purpose, obligations and effect, in respect of which each party had independent, well-informed, legal advice. See *per* Grotsky J., at pages 263-264.

202 In the form of the former section 38 of the Patents and Designs Act 1907, United Kingdom. See, *supra*, para. 6.5.1. General.

203 Bristol Repetition Ltd v. Fomento (Stirling Area) Ltd [1961] RPC 222, *per* Cross J., at 226, "It certainly does not seem very reasonable that one particular person should be obliged to pay for the use of an invention after the monopoly granted to the inventor had expired and the rest of the world was free to use it without charge. There is, however, nothing to prevent people entering into an agreement to this effect, if they decided to do so and with the best will in the world." Note that under section 45 of the Patents Act 1977, United Kingdom, the licensee can give three months notice to terminate the agreement if the relevant patent or patents have expired.

204 Note that this has not always been so. Prior to the leading case of Brulotte v. Thys Co. 143 USPQ 264 (US Sup. Ct 1964), the court seems to have applied the "contractual intent" approach instead of the "statutory policy" approach. See, for example, E.R. Squibb & Sons v. Chemical Foundation 36 USPQ 282, at 283-284 (CCA 2nd Cir. 1937), *per* Swan, Circuit Judge, "There is a presumption that royalties are not to be paid after the expiration of a patent; if the intention is to have them continue longer, the parties should phrase their contract in language from which such intention may fairly be inferred." For a historical discussion of the two approaches, see Altman, L., "Is There an Afterlife?" *The Effect of Patent or Copyright Expiration on Licence Agreements*, 64 JPOS 297 (1982).

205 Brulotte v. Thys Co. 143 USPQ 264 (US Sup. Ct 1964).

post-expiration patent royalties upon public policy considerations, rather than upon the private arrangement of the contracting parties. The respondent, owner of various patents for hop-picking, sold a machine to each of the petitioners for a flat sum and issued a licence for its use. The licence issued to the petitioners listed 12 patents relating to hop-picking machines, but only seven were incorporated into the machines sold to and licensed for use by the petitioners. Of these seven, all expired on or before 1957. But the licences issued by the respondent to them continued for terms beyond that date. The petitioners refused to make royalty payments accruing both before and after the expiration of the patents, relying as defence, on the respondent's misuse of the patents through the extension of the licence agreement beyond the expiration date of the patents. The Supreme Court reversed the lower court's judgement allowing the collection of royalties which accrued after the expiry of the last of the patents incorporated into the licensee's machines. The court rejected the holding of the court below that the requirement for post-expiration payment was a device to spread over the payment for the use of the patents. The evidence showed that the agreements were not designed with that view in mind. No distinction in the amount of yearly royalties was drawn between the term of the patent and the post expiration period. The same provisions as respects both use and royalties were applicable to each. The court held that the contracts were "a bald attempt to exact the same terms and conditions for the period after the patent have expired as they do for the monopoly period." The fact that the licensor was demanding royalties for "the post-expiration period was a telltale sign that the licensor was using the licences to project his monopoly beyond the patent period." Such a projection of the patent monopoly after the patent expired was unlawful *per se* and not enforceable. If that device is available to patentees, the free market visualised for the post-expiration period would be subject to monopoly influences that have no proper place there.²⁰⁶ Misuse of the leverage afforded by a pending patent is also subject to the Brulotte rule.²⁰⁷

The general rule from Brulotte is that any obligation imposed on a licensee to continue payment after the expiration of the patent in issue is a patent misuse and unenforceable. However, from Brulotte, and other cases, several other principles could be derived. In

²⁰⁶ Brulotte v. Thys Co. 143 USPQ 264 (US Sup. Ct 1964), *per* Justice Douglas, for the Court, at pages 265-268. For a critique of this case, see See, H., Caprio, F.M., "The Trouble with Brulotte: The Patent Royalty Term and Patent Monopoly Extension", 4 Utah L. Rev. 813 (1990). See also Aronson v. Quick Point Pencil Co. 440 US 257, 201 USPQ 1, at 4 (US Sup. Ct 1979), *per* Burger C.J. Stone C.J., speaking for the Court in Scott Paper Co. v. Marcalus Co. 326 US 249; 67 USPQ 193, at page 196 (US Sup. Ct 1945), said, "Any attempted reservation or continuation in the patentee or those claiming under him of the patent monopoly, after the patent expires, whatever the legal device employed, runs counter to the policy and purpose of the patent laws."

²⁰⁷ See Aronson v. Quick Point Pencil Co. 440 US 257, 201 USPQ 1, at page 4 (US Sup. Ct 1979). See also Boggled v. Keener Products 228 USPQ 130 (CA 6th Cir. 1985), *per* Keith, Circuit Judge, at page 134. In Boggled, the licensee had invented an extruder specifically for use with the licensor/defendant's Play Do product. The licence agreement, executed prior to the plaintiff's application for a patent but in clear contemplation of such application, called for royalty payments to be made for 25 years - regardless of whether the patent application resulted in the issuance of a patent. The court held that the licensee was not obligated to pay royalties beyond the seventeen year term of the patent that eventually issued. The same rule was applied in Machine v. PPG Industries, Inc. 231 USPQ 400 (CA 7th Cir. 1986), *per* Cummins C.J., at pages 404-402.

certain situations, an obligation which may, at first sight, be seen as an attempt to extend the payment of royalty beyond the term of the patent grant, will be allowed if it is in fact used as a method of spreading the payments for the use of the patents during the life of the patent.²⁰⁸ If the agreement relates both to the use of patent rights and use of trade secrets, a hybrid agreement, then any royalty payment beyond the date of the expiration of the last of the patents involved may be valid as relating to a post-expiration payment intended for the use of trade secrets. However, in this case, there must be evidence to show that there is an allocation of payments between trade secrets and patent rights, and the payments for patent rights are not continued after the expiration of the patent, even though the payment for trade secrets may extend beyond the period of the patent.²⁰⁹ This difference in rates is to reflect the fact that, after the expiration of the patent, what is payable is only for the use of the trade secrets. If the base is the same, then the inference is that the licensor is attempting to charge royalties for an expired patent. The burden of proof to establish that there is a contractual intent that the royalties are divisible, or that they are for purposes other than the use of the patents, whether before or after their expiration, is upon the patentee.²¹⁰

²⁰⁸ See, for example, Veltman et al. v. Norton Simon, Inc., et al. 194 USPQ 168 (DC SDNY, 1977), *per* Pollack, District Judge, at page 170. This is also the approach of the Court of Justice of the European Communities, see Kai Ottung v. Klee & Weilbach A/S and Thomas Schmidt A/S (case 320/87) [1990] 4 CMLR 915, at page 919.

²⁰⁹ See, for example, Pitney Bowes, Inc. v. Mestre 218 USPQ 987 (CA 11th Cir. 1983). In Pitney, one of the agreements in issue, the Vertical Collator Agreement, licensed both patent rights and trade secrets. By its term the agreement was to expire on the latest of three dates: the date of the death of Mestre (the licensor), after 17 years, or when the last patent expired. Mestre died on April 6, 1980, the 17 years period expired October 16, 1976, and the last patent expired October 17, 1978. Therefore, by its terms the agreement should have expired April 6, 1980. However, Pitney, the licensee by its letter of February 28, 1979, notified Mestre that in its view the Vertical Collator Agreement expired on October 17, 1978. The District Court, citing Brulotte v. Thys Co. agreed with Pitney Bowes. The Court of Appeals upheld the decision. Johnson, Circuit Judge, at page 993, "With these general considerations in mind, we turn to an analysis of the Vertical Collator Agreement. As in Brulotte, two provisions in the agreement suggest that the patentee used the leverage of his patent to project its monopoly beyond the 17-years patent period. First, the 'exclusive rights' granted under the agreement applied equally before and after expiration of the patent. Like the assignment and removal restrictions on the hop-picking machines in Brulotte, the grant of exclusive rights is 'pertinent to protection of the patent monopoly,' but its applicability to the post-expiration period is a 'telltale sign that the licensor was using the licence to project its monopoly beyond the patent period'. ... Second, the agreement required Pitney Bowes to pay royalties at the same rate and on the same basis after the patent expires that it paid while the patent was in effect. Assuming that the value of the agreement to Pitney Bowes was not as high after the patent expired, it is reasonable to assume that at least some part of the post-expiration payment constituted an effort to extend payments for patent rights beyond the patent period. Thus we conclude that the Vertical Collator Agreement is unenforceable under Brulotte." See also Veltman et al. v. Norton Simon, Inc., et al. 194 USPQ 168 (DC SDNY 1977), *per* Pollack, District Judge, at pages 170-71. Under the agreement, the licensee was obliged to pay a royalty of 5% of the annual net sale of the patented product. It was specifically provided that the percentage royalty would remain at 5% even if both the patents involved were to expire. The plaintiffs tried to avoid the holding of Brulotte by characterising the disputed royalty as payment for not only the use of their patented composition but also their know-how. The court held that this was not made out, since they had failed to establish what part, if any, of the percentage royalty was allegedly intended to be compensation for consideration other than the patent licence.

²¹⁰ Veltman et al. v. Norton Simon, Inc., et al. 194 USPQ 168 (DC SDNY 1977), *per* Pollack, District Judge, at page 169.

An obligation may sometimes be imposed on the licensee that royalty payment should still be made despite a finding of patent invalidity by the court. This will fall under the Brulotte doctrine. There is also an express provision in the Act covering this situation. It is provided in section 46 of the Act that, where before the expiration of the licence contract, the patent is declared invalid, the licensee is no longer required to make any payment to the licensor, and shall be entitled to repayment of any payment already made. However, the licensor may not be required to make any repayment if he shows that such repayment is inequitable under all the circumstances of the case, as when the licensee has effectively profited from the licence.

6.5.3.c.(ii). Royalty rate based on percentage of selling price of manufactured goods

Another situation where the licensor may seem to extend his patent monopoly beyond the scope of his patent rights occurs when the licence agreement calls for a royalty rate based on the licensee's total sales, and not merely on the actual use of the patent. Such a scheme may be a very convenient device for computing the amount due to the licensor without the necessity of close and painstaking analysis of the licensee's product. In the leading case on this issue, Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd, the petitioner acquired permission to use, in the manufacture of its "home" products, any or all of the patents which the respondent held or to which it might acquire rights. The petitioner was not, however, obligated to use the respondent's patents in the manufacture of its products. For this licence the petitioner agreed to pay the respondent royalties based upon a small percentage of the petitioner's selling price of complete radio broadcasting receivers, and in any event, a minimum of \$10,000 *per* year. The US Supreme Court held that it is not *per se* a misuse of patents to measure the consideration by a percentage of the licensee's sales. In reaching that conclusion the court distinguished between the privilege of use and actual use, stating that royalties could be exacted for the former as well as the latter, and that "[s]ound business judgement could indicate that such payment represents the most convenient method of fixing the business value of the privileges granted by the licensing agreement."²¹¹ Therefore, such a computation may not amount to patent misuse if it is voluntarily entered into by the licensee and is based on the commercial convenience of fixing royalty payment on such basis.²¹² The word "convenience" may imply that the convenience of the parties is the deciding factor. However, this is not so, since "convenience" is not a determinative factor in a finding that the patent has not been misused. The word "convenience" is merely used as a useful short-cut to denote a finding of fact that the patentee has not used its accumulation of patents "for exaction of tribute" and

²¹¹ Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Minton, at page 380.

²¹² Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Minton, at page 380. See also McCullough Tool Co. v. Well Surveys, Inc. 145 USPQ 6 (CA 10th Cir. 1965), *per* Hill, Circuit Judge, at pages 27-29; Zajicek v. Koolvent Metal Awning Corp. of America 127 USPQ 227 (CA 9th Cir. 1960), *per* Barnes, Circuit Judge, at page 229.

to show that the reason for the royalty provision is sound business judgement and not for the purpose of enlarging the patent monopoly.²¹³

An analysis of the decision in Automatic Radio shows that the test for whether there is patent misuse based on allegation of illegal royalty provision is the purpose and effect of the royalty provision. If its purpose and effect is to enlarge the patent monopoly and to restrain the free competition in unpatented items, then the patent has been misused.²¹⁴ Therefore, the grant of a patent licence upon the payment of royalties based on manufacture of products which do not use patent in their production constitutes patent misuse. However, there is no misuse if the reason for employing royalty provision based on total sales is the mutual convenience of both parties, i.e., when it is used as a reasonable "metering device" rather than as leverage from which licensor can extract payment for manufacture of unpatented items.²¹⁵ It is also not patent misuse when this method of calculating royalty is conceived and applied to accomplish simplified accounting.²¹⁶

This approach is reinforced by Zenith Radio Corp. v. Hazeltine Research, Inc., which contained a licence provision identical to the one in the Automatic Radio case. The US Supreme Court again stressed that the fact that royalty payment is imposed on products

²¹³ As explained in Valmont Industries, Inc. et al. v. Yuma Manufacturing Co. Inc. 161 USPQ 567 (DC Colorado 1969), *per* Doyle, District Judge, at page 572.

²¹⁴ See also Valmont Industries, Inc. et al. v. Yuma Manufacturing Co. Inc. 161 USPQ 567 (DC Colorado 1969), *per* Doyle, District Judge, at pages 572-572, where the court applied this approach.

²¹⁵ See also the similar approach of the Court of Justice of the European Communities in Kai Ottung v. Klee & Weilbach A/S and Thomas Schmidt A/S (case 320/87) [1990] 4 CMLR 915, at page 922.

²¹⁶ The Plastic Contact Lens Co. v. Butterfield 151 USPQ 83 (CA 9th Cir. 1966), *per* Ely, Circuit Judge, at page 87. See also Glen Mfg Inc. v. Perfect Fit Industries, Inc. 169 USPQ 678 (DC SNY 1969), *per* Levet, District Judge, at pages 681-682, "If the reason for employing a royalty provision which is based on total sales is the mutual convenience of both of the parties, rather than as leverage from which a licensor can extract payment for the manufacture of unpatented items, there is no patent misuse. ... [Therefore if] the royalty structure adopted was unnecessary and for the sole benefit of the plaintiff rather than for the mutual convenience of licensor and the licensee [there is patent misuse]."; The Magnavox Co. et al. v. Mattell, Inc., et al. 216 USPQ 28 (DC Illinois 1982), *per* Leighton, District Judge, at pages 59-60, "Patent royalties may be based upon any convenient measure of the business value of a patent licence, even if it includes royalties on items not embodying the patented invention or royalties on a percentage of the licensee's total sales. Automatic Radio, Zenith Corp., American Photocopy etc. The fact that royalties are paid or may be paid on unpatented goods is not the test of misuse; rather it is the business purpose and effect of the royalty provision. Zenith, Automatic Radio, General Tire & Rubber Co. v. Firestone Tire & Rubber Co. 174 USPQ 427, 436 (6th Cir. 1970) ... If the mutual convenience or efficiency of both the licensor and the licensee results in a royalty base which includes the licensee's total sales or sales of non-patented items, there can be no patent misuse. Zenith 161 USPQ at 592; Hazeltine 85 USPQ at 381, Ohio-Sealy Mattress Mfg Co. v. Sealy, Inc. 200 USPQ at 350-51. One may use any basis for calculating patent royalties, even a base which includes the licensee's total sales or sales of non-patented items, if the licence grant or royalty base is not "conditioned" upon the payment of royalties on unpatented items, i.e., where the patentee refuses to licence on any other basis. Zenith 161 USPQ at 591; Ohio-Sealy 200 USPQ at 349-351. If a licence agreement, including a royalty based upon the licensee's total sales or sales of non-patented items, resulted from good faith bargaining between the parties, there can be no conditioning, and thus no misuse. Zenith 161 USPQ at 591; Leesona Corp. v. Varta Batteries, Inc. 213 USPQ 222, 252-53 (SD NY 1981) ..."

which do not use the teaching of the patent does not automatically amount to a patent misuse. It would only amount to a patent misuse if the patentee directly or indirectly "conditions" or "coerces" his licence upon the payment of royalties upon unpatented goods. Such a "conditioning" would arise where the patentee refuses to licence on any other basis and leaves the licensee with the choice between a licence so providing and no licence at all. On the facts, the court held that patent misuse existed because the patent holder conditioned the grant of a licence upon payment of royalties based on a percentage of the total sales, regardless of whether the licensee used the patent. The evidence showed that the protestation of the licensee that some of his products were unsuited to the patent, or that for some lines of his merchandise he had no need or desire to purchase the use of the patent, was overridden by the leverage of the patent. His proposal that he was to pay only for actual use was rejected.²¹⁷ The Court distinguished Automatic Radio, stating that its decision was not contrary to the holding in Automatic Radio since that decision "is not authority for the proposition that patentee have carte blanche authority to condition the grant of patent licences upon the payment of royalties on unpatented articles."²¹⁸

In general, therefore, the courts have approved royalty bases on this nature on the theory that it is permissible to exact royalties for the privilege of use as well as for the actual use of the patent right. The decision in Automatic Radio, therefore, supports the proposition that a royalty based on a percentage of total sales, absent other circumstances, is not illegal. In reaching its decision, the Court observed that the presence of coercion might have produced a different result. This lack of "conditioning" or coercion was also the reason to reject the misuse defence in a suit for payment of royalty in Hull v. Brunswick Corporation.²¹⁹ Even the fact that the patentee inserts a clause calculating royalties "depending on the extent of unpatented products employed with the licensed product or process," for example, basing the royalty rates for a cartridge patent on the type and amount of film used in the cartridge, will not necessarily amount to patent misuse. This is because a patent licence agreement is valid so long as royalties are based upon products which use the teaching of the patent.²²⁰

²¹⁷ Zenith Radio Corp. v. Hazeltine Research, Inc. 161 USPQ 577 (US Sup. Ct 1969), *per* Justice White, at pages 591-593. See also The Plastic Contact Lens Co. v. W.R.S. Contact Lens Laboratories, Inc. et al. 169 USPQ 684 (D.C.S.D. New York 1970), *per* Motley, District Judge, at page 685.

²¹⁸ Zenith Radio Corp. v. Hazeltine Research, Inc. 161 USPQ 577 (US Sup. Ct 1969), *per* Justice White, at page 592.

²¹⁹ Hull v. Brunswick Corporation 218 USPQ 24 (CA 10th Cir. 1983), *per* Logan, Circuit Judge, at pages 27-28.

²²⁰ See Zenith Radio Corp. v. Hazeltine Research, Inc. 161 USPQ 577 (US Sup. Ct 1969), at 591. See also GAF Corporation v. Eastman Kodak Co. 213 USPQ 356 (DC S.D. New Jersey 1981), *per* Pierce, District Judge, at page 380, "GAF challenges Kodak's practice of calculating royalties 'depending on the extent of unpatented products employed with the licensed product or process.' As an example, GAF points to Kodak's practice of basing its royalty rates for its cartridge patent on the type and amount of film used in the cartridge. Patent licence agreements are valid so long as royalties are based upon products which use the teaching of the patent. Zenith Radio Corp. v. Hazeltine Research, Inc. 161 USPQ 577, at 591. It is uncontroverted that all of GAF's licence agreements called for royalties only on products which used the teaching of one or more licensed patents.... The fact that royalties were based on the selling price (i.e., commercial value) of

However, Automatic Radio should not be read as sanctioning the charging of royalties on unpatented articles or the imposition of a royalty based on the licensee's total sales for the grant of a patent licence.²²¹ As explained in Glen Mfg Inc. v. Perfect Fit Industries, Inc., Automatic Radio is an exception to the general rule requiring a strict, limited royalty structure. In particular, it is not the standard in a case where the patented item involved is a single, simple, uncomplicated object. On the facts, the court found that the plaintiff had attempted to restrain competition in the toilet tank industry by requiring royalties both on patented and unpatented toilet tank covers produced by its patent licensee, Perfect Fit. Toilet tank covers are simple, uncomplicated items, therefore, it was both reasonable and proper to require strict royalty standards, since "strict royalty standards are required when no complexities of accounting dictate a variant course." Accordingly, the plaintiff was guilty of misuse which vitiated the licence agreement.²²²

6.5.3.c.(iii). Flat royalty rate

A more difficult question to answer is whether the imposition of a flat royalty rate applicable to a single patent or to a group of patents will be construed as mandatory package licensing,²²³ even though the licensor is willing to licence less than the package, provided he gets his full royalty. In American Securit Co. v. Shatterproof Glass Corp.,²²⁴ the court found that the plaintiff generally refused to license individual patents and that when the plaintiff did offer to license individual patents it demanded the same royalty rate as provided for in the group or package licence. The court concluded that this was a mere "catalyst" to compel Shatterproof to accept the package.²²⁵ It is relevant to note that the key feature of

products which incorporated teachings of licensed patents does not render the licence agreement illegal. See Zenith Radio 161 USPQ at 591-592. Thus GAF's claim may not stand."

²²¹ Zenith Radio Corp. v. Hazeltine Research, Inc. 161 USPQ 577 (US Sup. Ct 1969), at page 592.

²²² Glen Mfg Inc. v. Perfect Fit Industries, Inc. 161 USPQ 688 (DC SDNY 1969), *per* Levet, District Judge, at pages 690-91, "Automatic Radio v. Hazeltine ... did little more than establish a reasonable method of calculating royalties in a situation where it was virtually impossible to determine whether each product manufactured by the licensee embodied any of the 570 patents or 200 patent applications for electronic apparatus. Because of the complexities involved in the patents and the difficulties in determining whether the patented devices were used in the licensee's products, the court permitted the royalty structure in question. The Hazeltine rationale is, therefore, an exception to the general rule requiring a strict, limited royalty structure; it is by no means the standard in a case such as the present where the patented item involved a single, simple, uncomplicated object.... Brulotte, in the very passage cited by the plaintiff, demonstrated the unique application of the Hazeltine rationale to situations where the patent usage is impossible to determine, and computation by formula is both convenient and reasonably necessary. ... By contrast, the royalty payment provisions of the licence agreement in the instant case are totally unnecessary for accounting or any other legitimate purpose."

²²³ See *supra*, para. 6.5.3.b - Mandatory Packaging.

²²⁴ American Securit Co. v. Shatterproof Glass Corp. 122 USPQ 167 (3rd Cir. 1959), cert. denied, 123 USPQ 589 (US Sup. Ct 1959).

²²⁵ American Securit Co. v. Shatterproof Glass Corp. 122 USPQ 167 (3rd Cir. 1959), see Biggs, Chief Judge, at 174, "I thus find no significant difference between, on the one hand, conditioning the granting of a licence under one patent upon the acceptance of another for an additional consideration, a practice the Supreme Court has condemned, and, on the other hand, as here, granting a licence only under all patents at a fixed rate, or under any one patent at the same rate, which is, in effect, equivalent to apportioning the fixed rate amongst all the patents and then

this plan was that the same royalty rate was set for the package as for each individual patent. The court was, therefore, justified in holding that such a price disproportion amounts to another form of coercive package licensing. This rule from the Securit case follows the reasoning of the policy outlined in the Report of the Attorney General's National Committee to Study the Antitrust Laws.²²⁶

That such a flat rate royalty obligation could amount to a misuse is also shown in Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc.,²²⁷ where it was held that a mandatory package licence may constitute a misuse when the agreement calls for the continuation of a flat rate royalty after the expiration of the patent constituting the most important consideration for the licence.²²⁸ Therefore, there has to be a caveat to the rule in Brulotte and Automatic Radio which allows a patentee to charge royalty up to the expiration of last patent. Where there is no right to terminate and no reduction in price after the most important patent expires, the condition may amount to a patent misuse.

6.5.3.c.(iv). Royalty payments where package agreement is involved

Where the licensing agreement relates to a package agreement²²⁹ involving several patents, then a condition that royalty is still payable after the last patent involved in the package has

requiring the applicant to take a licence under all if he wishes to have a licence under one. In either case plaintiff's policy is inexorable." For a critique of this case, see Burns, J.W., "Does Package Licensing of Patents Violate the Antitrust Laws?", 41 JPOS 258 (1959).

226 Report of the Attorney General's National Committee to Study the Antitrust Laws (1955), at 239, "Yet we think that the courts have properly distinguished a package licence for reasons of convenience and made without coercion. Furthermore, we believe that strictures against package licensing should not be applied to frustrate good faith licence offers. Package licensing should be prohibited only where there is a refusal, after a request, to licence less than a complete package. Additionally, the licensor should not be required to justify on any proportional basis the royalty rate for less than the complete package, so long as the rate set is not so disproportionate as to amount to a refusal to license less than the complete package. For example, where a substantial group of patents are offered at a flat royalty rate, the deletion of one or several specified patents need not affect the rate. Rather the benefit to the licensee will lie in other factors such as exclusion of products subject to the several patents from the royalty computation. Moreover, where several 'per piece' licences are requested and offered the mere fact that the sum of the 'per piece' licence royalties exceeds the package royalty rate should not of itself be considered a condition that all or no patents be taken, again, so long as the 'per piece' rate is not so disproportionate as to amount to a refusal to license less than the complete package."

227 Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc. 151 USPQ 305 (CA 6th Cir. 1966), *per* Edwards, Circuit Judge, at page 307.

228 Rocform Corp. v. Acitelli-Standard Concrete Wall, Inc. 151 USPQ 305 (CA 6th Cir. 1966), *per* Edwards, Circuit Judge, at page 308, "The dissent also contends that a flat price for use of a number of patents is permissible practice up to the termination date of 'the last necessary patent.' ... We believe this is too broad a contention. We do not deal here (as did the Supreme Court in Brulotte) with the sale of a piece of machinery which incorporated a number of patents. Rather we deal with licensing agreement where one important patent (about to expire) is grouped with other longer duration for 'leverage' of American Securit. We believe such a contract, when it contains no diminution of licence fee at the expiration of the most important patent and contains no termination clause at the will of the licensee, constitutes, in effect, an effort to continue to collect royalties on an expired patent. Brulotte, American Securit ..."

229 See *supra*, para. 6.5.3.b.

expired is a patent misuse and illegal.²³⁰ Ideally, the agreement should provide for royalties to be reduced in proportion to the importance of the right lost through expiry or invalidity.²³¹ However, this is not always so. Therefore, another question in this area is whether in every case, to avoid misuse, a flat royalty rate that has been stipulated for must be proportionately reduced as each patent expires. The court in the Securit case held that provisions in Securit's licence agreement that effectively extended royalty payments until the expiration of the last patent in the group constituted a patent misuse. The court cited no authority to support this holding, but merely stated that the expiration clause worked "an aggravating hardship" on the licensee in that it demanded the renunciation of all patents, "whether wanted or not."²³² This demand actually appeared to have been coupled with the package licence requirement and not the post-expiration royalties requirement. But the Securit holding seems to be inconsistent with the Automatic Radio case which upheld a flat royalty for 570 patents and 200 applications on 1% of the licensee's sales, whether or not the product was covered by the patents. In fact, in Automatic Radio, the licensee used only 10 of these patents. It is difficult to discern the difference between the collection of a royalty measured in part by the sale of products which are unpatented because the patent has expired, as in Securit, and the collection of a royalty measured by the sale of products which have never been covered by a patent, as in Automatic Radio. Brulotte, too, expressly approved the payment of royalties on all patents in a licence package until the expiration of the last patent in the package, without any intimation in the opinion that there should be a gradual lowering of royalty payments as each patent expires.²³³ It is true that the Supreme Court has shown its disfavour towards the extension of a monopoly by a contract covering an expired patent,²³⁴ but in the case of package licensing plans the same justification as in Hazeltine should apply to the problem of different expiry date.

230 See also, Ar-Tik Systems, Inc. v. Dairy Queen, Inc. 133 USPQ 109 (CA 3rd Cir. 1962), *per* Forman, Circuit Judge, at 119. Note that the imposition of royalty that projects beyond the expiration date of the patent is unlawful *per se*. Proof that the patentee used coercion of its patent leverage is not necessary to establish Brulotte patent misuse - compare Zenith Radio Corp. v. Hazeltine Research, Inc., Ar-Tik etc.; and Veltman et al. v. Norton Simon, Inc., et al. 194 USPQ 168 (DC SDNY 1977), *per* Pollack, District Judge, at page 170.

231 For example, in Dansk Rekyrliffel Syndikat Aktieselskab v. Snell (1908) 25 RPC 421, the contract provided for royalties to be reduced in proportion to the importance of the right lost through invalidity.

232 American Securit Co. v. Shatterproof Glass Corp. 122 USPQ 167 (3rd Cir. 1959), cert. denied, 361 US 902, 123 USPQ 589, *per* Biggs, Chief Judge, at 174.

233 Brulotte v. Thys Co. 143 USPQ 264 (US Sup. Ct 1964), *per* Justice Douglas, for the Court, at pages 265-266. Justice Douglas, at page 266, also distinguished Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378. He said, "Automatic Radio is not in point. While some of the patents under that licence apparently had expired, the royalties claimed were not for a period when all of them had expired. That licence covered several hundred patents and the royalty was based on the licensee's sale, even when no patents were used. The Court held that the computation of royalty payments by that formula was a convenient and reasonable device. We decline the invitation to extent it so as to project the patent monopoly beyond the 17-years period." See also Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), Beckman Instruments, Inc. v. Technical Development Corp. 167 USPQ 10, at 14 (7th Cir. 1970), cert. denied 169 USPQ 65 (US Sup. Ct 1971) and GAF Corporation v. Eastman Kodak Co. 213 USPQ 356 (DC S.D. New Jersey 1981), *per* Pierce, District Judge, at page 380.

234 See, for example, Scott Paper Co. v. Marcalus Mfg Co. 326 US 249 (US Sup. Ct 1945), Brulotte

It is submitted, therefore, that the Automatic Radio principle (i.e., the charging of flat package licence rate until the last patent in the package has expired is permissible) should only apply where such an agreement is a *bona fide* convenient method of operation used to avoid troublesome question of infringement, complex bookkeeping, cost difference and similar practical considerations. If it is practically feasible to proportionately reduce the royalty rate as each patent or group of patents expires, it should be done. A quantitative test should be applied and the same "disproportion" rules followed as in the case of pricing individual patents before the licence is granted.²³⁵

The effect of the relationship between a package and the individual royalty rates, regardless of intent, may also be objectionable. This result would follow should the sum of the individual rates be so disproportionate to the package rate as to amount to economic coercion designed to force the taking of the package.²³⁶ A patentee may not, through the coercion of such disproportion in rates, discourage licensees from evaluating the individual merits of individual advances in science and the useful arts. The Supreme Court in Zenith affirmed the injunctive relief of the lower courts in restraining the patentee in that case "from continuing to coerce acceptance of its package licence through the mechanism of offering a much lower royalty rate for those licensees who take a licence on the entire package."²³⁷

The problems of establishing royalties in licensing patent package, it follows, suggest a careful selection of the patents involved, a realistic determination of an individual rate for each of the patented components, a reasonable discount off the aggregate of these individual rates in establishing the package royalty, and, if desired, a modest minimum amount to be paid regardless of the election by the licensee of an individual or package agreement. The mere fact that the sum of the "*per piece*" rates exceed the "package" rate should not of itself be objectionable so long as the former is not so disproportionate to the latter as to amount to a refusal to licence less than the package.²³⁸

6.5.3.d. Non-competition clause

Such clauses are usually inserted with the intention of imposing restrictions on obtaining patents, know-how or trademarks from other companies with regard to the manufacture or

v. Thys Co. 143 USPQ 264 (US Sup. Ct 1964).

²³⁵ For similar views, see McCarthy, J.T., "A Patent Licensing Policy for Minimising Antitrust and Misuse Risks", 46 JPOS 547 (1964), at 566.

²³⁶ Shea v. Blaw-Knox Co. 388 F.2d 761, 156 USPQ 481 (CA. 7th Cir. 1968); McCullough Tool Co. v. Well Surveys, Inc. 343 F.2d 381, 145 USPQ 6 (CA 10th Cir. 1965).

²³⁷ Zenith Radio Corp. v. Hazeltine Research, Inc. 161 USPQ 577 (US Sup. Ct 1969), at page 590, footnote 27.

²³⁸ See Report of the Attorney General's National Committee to Study the Antitrust Laws (1955), at page 240. See also Van Cise, J.G., "Antitrust Laws and Patents", 52 JPOS 776 (1970), at page 800.

sale of competing products, thus prohibiting the use of competing technology. In contrast to the tying cases, where the patentee uses the leverage of his patent to force the licensee to buy his unpatented goods, the present category involves the patentee using his patent monopoly to suppress the manufacture of possible competing goods not covered by his patent, by, for example, imposing a condition that the licensee would not manufacture any other product other than those covered by the patent licensed. However, the restriction would fall within the principle of the tying cases to the extent that the patentee is using the lawful monopoly granted by the patent as a means of suppressing the manufacture and sale of competing unpatented articles. Although the patentee is not creating for itself a monopoly for unpatented goods, it is attempting by means other than that of free competition to extend the bounds of its lawful monopoly to make, import, use and sell the patented device to the extent where such device would be the only one available to a user of such an article. This monopoly is obviously not covered by the patent. A patentee's right does not extend to the use of the patent to purge the market of competing non-patented goods except through the process of fair competition.²³⁹

Such non-competition clause in a licence agreement is also caught by the patent misuse doctrine in the United States. The leading case on this area is The National Lock Washer Co. v. George K. Garrett Co.²⁴⁰ The court found that the presence of the non-competition clause in the agreement was enough to constitute patent misuse, the clause being regarded as an attempt by the patentee to use his patent monopoly to suppress competition from goods not covered by the patent. The patentee's infringement suit was ordered dismissed. The same approach was followed by the Ninth Circuit in McCullough v. Kammerer Corp.²⁴¹ Here, the licensee had agreed "not to manufacture or use or rent any device which will be in competition with the device or devices covered by this licence agreement." The Court agreed that "there is no difference in principle between extending the monopoly of the patent by suppressing the manufacture or use of competitive devices, patented or unpatented", and other devices previously held to constitute patent misuse.²⁴² These

²³⁹ See The National Lock Washer Co. v. George K. Garrett Co. 58 USPQ 460 (CCA 3rd Cir. 1943). The clause in question provided that, "Licensee agrees that, while this agreement is in force, it will make and sell no form of non-entangling spring washers except such as are covered by said patent, and that it will not, either directly or indirectly, make or sell spring washers of the kind specifically excluded from this licence under the provisions of paragraph first (a) thereof" See Goodrich, Circuit Judge, at page 461. See also McCullough v. Kammerer Corp. 76 USPQ 503 (CCA 9th Cir. 1948).

²⁴⁰ The National Lock Washer Co. v. George K. Garrett Co. 58 USPQ 460 at 462 (CCA 3rd Cir. 1943).

²⁴¹ McCullough v. Kammerer Corp. 76 USPQ 503 (CCA 9th Cir. 1948), cert. denied, 79 USPQ 454 (1948).

²⁴² McCullough v. Kammerer Corp. 76 USPQ 503 (CCA 9th Cir. 1948), at page 505, *per* Denman, Circuit Judge. See also at page 504, "These covenants extend the monopoly of the patent by preventing competition with the patent of any other pipe cutter, patented or unpatented, manufactured, used or sold by the licensee, theretofore engaged in making pipe cutting tools. The licensor to procure such extension of the monopoly area of its patent also binds itself by a similar restrictive agreement. ... Its agreement to extend the patent monopoly is aided by its arrangement not to avail itself of the inventive genius of its employees in creating competitive devices which it

pioneer cases have been followed by numerous courts. In Berlenbach v. Anderson & Thompson Ski, Co. Inc.,²⁴³ the appellant court confirmed the dismissal of a complaint because of plaintiff's misuse of his patent. Here the offensive clause provided that "Second party shall not manufacture or distribute in the United States and Canada any other safety type or automatic releasing ski binding other than that manufactured by First Party." Another complaint, where the licence agreement provided that "For the duration of this contract, [licensee] agrees not to manufacture, sell or dispose of any other shock absorber which is competitive with the shock absorbers covered by said patents", was similarly dismissed.

Such agreements constitute patent misuse because they are contrary to public policy since they extend the scope of the patent beyond that permitted by the law. It is pertinent to note that in all the cases cited, the courts concluded that there was patent misuse because of the patentee's attempt to increase the scope of the monopoly afforded by his patent though the licence agreement. The approach relied upon is also consistent with the approach of the Act, which is to prohibit the undue extension of the patent rights beyond their legitimate scope. The proof of substantial lessening of competition is not a prerequisite to finding patent misuse in this situation.²⁴⁴ Similarly, where such a clause exists, it is immaterial that neither of the parties was harmed by the restriction, or that the clause may never have been enforced. What is important is the harm to the public.²⁴⁵ It is also not necessary for the

can 'manufacture, sell, rent, licence, use or in any way do business with.'" In Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 72 USPQ 148 (US Sup. Ct 1947), Justice Douglas, speaking for the Supreme Court, said at 152, "Protection from competition in the sale of unpatented material is not granted by either the patent law or the general law. He who uses his patent to obtain protection from competition in the sale of unpatented materials extends by contract his patent monopoly to articles as respect which the law sanctions neither monopolies nor restraint of trade."

²⁴³ Berlenbach v. Anderson & Thompson Ski, Co. Inc. 141 USPQ 84 (CA 9th Cir 1964), cert. denied, 143 USPQ 464 (1964), Jertberg, Circuit Judge, at pages 85-86.

²⁴⁴ Berlenbach v. Anderson & Thompson Ski, Co. Inc. 141 USPQ 84 (CA 9th Cir 1964). See Jertberg, Circuit Judge, at pages 85-86.

²⁴⁵ McCullough v. Kammerer Corp. 76 USPQ 503 (CCA 9th Cir. 1948), *per* Denman, Circuit Judge, at page 505, "In this situation the contention is entirely irrelevant that neither party was harmed by the agreement. The question is, 'Was the public harmed?' We think the district court erred in holding it was not and are in accord with the Third Circuit that these restrictions are against the public interest and warrant a court of equity in refusing relief here sought." The National Lock Washer Co. v. George K. Garrett Co. 58 USPQ 460 at 462 (CCA 3rd Cir. 1943) was referred to. This stress on the harm to the public means that the agreement would be impugned even if both the parties agree to it - see, for example, Stewart v. Mo-Trim, Inc. 192 USPQ 410 (S.D. Ohio 1975), *per* Kinneary, Chief Judge, at page 413, "The court does not agree with plaintiff's assertion that such a defence is not available to one who is a party to the agreement. The defence of patent misuse 'is fully available, not only to one under licence with the patentee but to all parties who are sued for infringement'. Automatic Radio v. Hazeltine. Plaintiff argues that the clause was written into the agreement by defendants, who now seek to use that clause as a shield to avoid their obligation as licensees, and that it is inequitable to allow them to do this. For the purposes of this motion the court will assume that the agreement was drafted by defendants. If the patent misuse doctrine were based solely on the equitable principle of 'unclean hands', plaintiff's argument might bear some weight. However, public policy requires the recognition of the defence. Even assuming that this clause is the creation of defendants, the defence of patent misuse is still valid."

defendant to show that he has suffered from the misuse.²⁴⁶ The fact that the prohibition against dealing in competitive goods is not absolute in nature, because of the presence of a provision permitting the licensee to get the permission of the licensor to deal with competing goods, is immaterial. Such a provision will not alter the character of an absolute prohibition against competition.²⁴⁷

In contrast to the approach in the United States, such non-competition clauses are more leniently treated in the United Kingdom under the Common Law.²⁴⁸

6.5.3.e. Grant-back clauses

Sometimes a licence agreement may contain a grant-back clause. A grant-back clause has been defined as a clause in a patent licence which provides "for licence or assignment to the licensor of any improvement patented by the licensee in the products or processes of the licensed patent."²⁴⁹ Such grant-back clauses may be of two main types. When the licensor

²⁴⁶ Noll et al. v. O.M. Scott & Sons Co. 175 USPQ 392 (CA 6th Cir. 1972), cert. denied 177 USPQ 545 (1973), Henley Equipment Co. v. Esco Corp. 155 USPQ 183, 189 (CA 5th Cir. 1967). See also, Stewart v. Mo-Trim, Inc. 192 USPQ 410 (S.D. Ohio 1975), at pages 411-412, where Kinneary, Chief Judge, reviewed the authorities dealing with non-competition clauses.

²⁴⁷ See F.C. Russell Co. v. Comfort Equipment Corp. 93 USPQ 119 (CA 7th Cir. 1952), where such a clause was held to be a patent misuse - *per* Finnegan, Circuit Judge, at pages 122-123. See also Krampe v. Ideal Industries, Inc. 175 USPQ 688 (N.D. Ill. 1972), *per* Bauer, District Judge, at page 690.

²⁴⁸ See Jones v. Lees (1856) 1 H. & N. 189, 156 ER 1171. A covenant by the defendant that he would, in return for a licence to work the patentee's invention for the whole term of the patent, undertake only to manufacture articles containing the patented invention, was upheld by the court as not being in restraint of trade, *per* Pollock C.B., Alderson B., and Bramwell B., at page 1173, Pollock C.B. noting that the restriction was only during the continuance of the licence and Bramwell B., noting that even though the restraint extended throughout the whole of England, but so did the privilege. See also Brownie Wireless Co.'s Application (1929) 46 RPC 457, *per* Luxmoore J., at pages 476-478, "The last objection is that the licence provides for the payment of royalties on non-patented articles. This again is not an unusual provision. It is to be found in a well-known book of precedents devoted to Patent Conveyancing. I refer to Morris's Patent Conveyancing, published in 1887, at page 212. The precedent in question contains a covenant by the licensee not to manufacture articles except with the application of the patented invention, and it is stated in the note to the precedent that such a covenant is of common occurrence where royalties are reserved. The note goes on to state that the covenant is occasionally extended so as to impose the prescribed royalties in articles manufactured in breach of the covenant, that is, on articles which have been made without the application of the patentee invention. Such a covenant has been held not to be in restraint of trade, for the restraint is not greater than the privilege conferred. (see Jones v. Lees) In my judgement there is nothing unreasonable in a patentee saying to the proposed licensee: 'I will grant you a licence in respect of my patent, but I want your whole-hearted support in the development of my patent. I am only prepared to grant you a licence in such terms as will ensure such support, and if you want to be free to make articles which may possibly compete with those made under the patent, you must agree to pay the same royalty in respect of them as you pay in respect of articles made under the patent.' There is ... a further ground in which such a provision may be justified, and it is this: the article which the Brownie Company is making is one which may or may not, according to the way in which it is used, constitute an infringement of the Marconi circuit patents, and as the manufacturer cannot control the use after the article is sold, it is not unreasonable to insist that the royalty shall be paid in respect of it at the only time when it can effectively be accounted for."

²⁴⁹ Report of the Attorney General's National Committee to Study the Antitrust Laws (1955), at 227. See also Bergsten, E.E., "Legality of Grant-Back Clauses," 55 Mich. L. Rev. 697 (1957). Note that in such a grant-back, the licensee must grant back either a licence or an assignment on any

acquires full patent rights to the improvement patents, the grant-back is termed an "assignment-back". Where the licensee under the clause retains the patent rights to the improvement patents and the licensor is only given the right to use the improvement patents, for example, on a non-exclusive, royalty free basis, the grant-back is called a "licence-back." There are other variations of these two main types. For example, the grant back obligation may be with reference only to improvement patents relating to the original patent or patents in the licence agreement.²⁵⁰ On its face it would seem that the practice should be condemned as an attempt to extend the scope of the patent conferred, by the insistence on the transfer of the licensee's patent in return for the right to work the licensor's patent. Such a device would lead to an accumulation of related inventions in the hands of the licensor.²⁵¹ It may be argued that if he wishes, the licensor could always purchase the improvement patents from the licensee by a separate and different transaction. This is true, but it misses the point that in this scenario, the licensee is always free to refuse to sell. On the other hand, by the inclusion of the clause in a licensing agreement, a licensee is forced to hand over the improvement patents. The patentee is thus using the leverage of his patent to "force" the sale of the improvement patents.²⁵²

Therefore, it is surprising that such practices have not been regarded as a patent misuse in the United States jurisprudence. In Transparent-Wrap Machine Corp. v. Stokes & Smith Co.,²⁵³ the agreement contained a provision under which the exclusive licensee covenanted to assign to the licensor improvement patents applicable to the patented machine and suitable for use in connection with it. The licensee argued that this provision was illegal and unenforceable. The Court upheld the legality of the said covenant, noting that it would have been different had Congress allowed patents to be assigned only for a specified consideration. The Court agreed that a person who used his patent to obtain protection from competition in the sale of unpatented materials extended by contract his patent monopoly to articles as respect which the law sanctioned neither monopolies nor restraint of trade. However, an improvement patent, like the basic patent to which it related, was a legalised

invention made as a result of operating under the licence. For a discussion of the competing considerations for and against grant-backs, see Harmon, R.L., "Antitrust and Misuse Implications of the Defined Field Licence", 45 JPOS 463, at pages 474-480.

250 For a description of the background to, and the purpose of, grant-backs, see generally, Schmalbeck, R., "The Validity of Grant-Back Clauses in Patent Licensing Agreements," 42 U. Chi. L. Rev. 733 (1975), at pages 734-735.

251 It is admitted, and the cases have shown, that the mere accumulation of patents, whether acquired by assignment or purchase rather than by original application or by reason of the fact that the patents are contained in a number of grants instead of a single grant is not illegal. See for example, Brownie Wireless Co.'s Application (1929) 46 RPC 457, *per* Luxmoore J., at page 474. In the United States, see Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Minton, at page 381.

252 To quote Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Minton, at page 380, "That which is condemned as against the public policy by the 'tie-in' cases is the extension of the monopoly of the patent to 'create another monopoly' or restraint of competition - a restraint not countenanced by the patent grant".

253 Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 72 USPQ 148 (US Sup. Ct 1947), *per* Justice Douglas, at page 152.

monopoly for a limited period. The law permitted both to be bought and sold. One who used a patent to acquire another was not extending his patent monopoly to articles governed by the general law. Whether the owner of a basic patent used a licence to obtain improvement patents or used the wealth which he accumulated by exploiting his basic patent for that purpose was immaterial. In other words, "he is ... using one legalised monopoly to acquire another legalised monopoly."²⁵⁴ It is pertinent to note that one of the reasons relied upon by the court was the fact that Congress had not made illegal the acquisition of improvement patents by the owner of a basic patent. Nor had Congress placed any limitation upon the types of consideration for which patents could be assigned. Thus the improvement patents must be viewed as simply a species of property given as consideration for the right to use the basic patent.²⁵⁵ As to the argument that such a device is illegal and would lead to a concentration of economic power, the Court held that such a possibility fell to be governed by the anti-trust laws.²⁵⁶ This approach has been followed by several lower courts.²⁵⁷

It is submitted that the approach of Judge Learned Hand, when the Transparent-Wrap case was before the Circuit Court of Appeals is the preferred one. He was of the view that the principle of the tying cases was applicable to the case at hand, and that assignment-backs, like tie-in arrangements, had the effect of broadening the scope of the lawful patent monopoly. A patentee had no right to use the patent to force others "to buy of him things

254 Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 72 USPQ 148 (US Sup. Ct 1947), *per* Justice Douglas, at page 153, "He is using his property to acquire a monopoly. But the monopoly, being a patent, is a lawful one. The general law would no more make that acquisition of a patent unlawful than it would the assignment of a patent for cash. Yet a patent is a species of property; and if the owner of an unpatented machine could exact that condition, why not the owner of a patented machine?"

255 Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 72 USPQ 148 (US Sup. Ct 1947), *per* Justice Douglas, at page 153.

256 Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 72 USPQ 148 (US Sup. Ct 1947), *per* Justice Douglas, at page 153, "It is true that for some purposes the owner of a patent is under disabilities with which owners of some other property are not burdened. Thus where the use of unpatented materials is tied to the use of a patent, a court will not lend its aid to enforce the agreement though control of the unpatented article fall short of a prohibited restraint of trade or monopoly. Morton Salt Co. v. Suppiger Co. There is a suggestion that the same course should be followed in this case since the tendency of the practice we have here would be in the direction of concentration of economic power that might run counter to the policy of the anti-trust laws. The difficulty is that Congress has not made illegal the acquisition of improvement patents by the owner of a basic patent. The assignment of patents is indeed sanctioned. And as we have said, there is no difference in the policy of the assignment statute whatever consideration may be used to purchase the improvement patents. And apart from violation of the anti-trust laws which we will shortly advert, the end result is the same whether the owner of a basic patent uses a licence to obtain improvement patents or uses the wealth which he accumulates by exploiting his basic patent for that purpose. In sum, a patent licence may not be used coercively to exact a condition contrary to public policy. But what falls within the terms of the assignment statute is plainly not *per se* against the public interest." For an attempt to rely on the alleged anti-competitive effect of a grant-back, see Santa Fe-Pomeroy, Inc. v. P & Z Co. Inc. 197 USPQ 449 (CA 9th Cir. 1978). The attempt, however, failed. See *per* Jameson, District Judge, at pages 462-464."

257 See, for example, Zajicek v. Koolvent Metal Awning Corp. of America 127 USPQ 227 (CA 9th Cir. 1960), cert. denied 128 USPQ 557 (1961), *per* Barnes, Circuit Judge, at page 230. See also, Hull v. Brunswick Corporation 218 USPQ 24 (CA 10th Cir. 1983), *per* Logan, Circuit Judge, at page 28.

outside its four corners". His reasoning assumed that there would be a period of time after the expiration of the original patent when the licensor alone would be able to exercise monopoly rights over the improvement patents. This, thereby, extended the duration of its original monopoly, and was a misuse of the patent.²⁵⁸ It is interesting to note that though the assignment-back was held to be illegal and unenforceable, he implied in dicta that licence-back would have been permissible, since the retention of the patent rights over the improvement patent by the licensee would prevent the licensor from extending the duration of its patent monopoly.²⁵⁹ It is submitted that this dictum has to be right since licence-back agreements, unlike assignment-back, involves no transfer of monopoly rights and hence there is no resultant monopoly expansion.²⁶⁰

It may be argued that the approach of the Supreme Court in the Transparent-Wrap case, if taken to its logical conclusion, would lead to the abandonment of the misuse doctrine. By analogy, if such a condition is permissible, then any every kind of consideration for the use of a patented invention should be legal. The approach fails to take into consideration the coercive effect on the prospective licensee of the need for the licence and the reality of the situation. In the case of a purchase of an improvement patent which is not tied to the grant of a licence, the two parties are acting on equal bargaining strength. In the case where a licence is eagerly sought after, or badly needed by the prospective licensee, and a licence is conditioned, in addition to other terms, on the grant of any improvement patents, it cannot be said that the parties are bargaining on equal terms. The US courts prefer to leave it to the antitrust legislation to cater for any potential anti-competitive effects. It is submitted that the proper approach should be that grant-back clauses should be regarded as invalid under the Act since they do not relate to the scope of the patent right. Seen from the point of view that the obligation to grant-back improvement patented is "forced" by the leverage of the patent in issue, it can be said that such an imposition is not derived from the rights conferred on the owner of the patent or necessary for the safeguarding of such rights.

²⁵⁸ Stokes & Smith Co. v. Transparent-Wrap Machine Corp. 69 USPQ 278 (CCA 2nd Cir. 1946), *per* Learned Hand, Circuit Judge, at page 282. Note that in the Supreme Court, Black, Rutledge and Burton JJ., would affirm the judgement for the reasons set forth in the opinion of the Circuit Court of Appeals. Mr Justice Murphy, in Transparent-Wrap Machine Corp. v. Stokes & Smith Co. 72 USPQ 148 (US Sup. Ct 1947), page 154, was of the view that the judgement below should be affirmed. He believed that the Court's decision in this case "unduly enlarges the scope of patent monopolies and is inconsistent with the philosophy enunciated in Mercoird Corp. v. Mid-Continental ... and similar cases..." It has to be noted that the United States Justice Department was unhappy with the Transparent-Wrap decision and was of the opinion that it should be modified significantly. See generally, Schmalbeck, R., "The Validity of Grant-Back Clauses in Patent Licensing Agreements," 42 U. Chi. L. Rev. 733 (1975), and Dunne, G.F., "Anti-Competitive Considerations of Patent Accumulation By Licensee Grant-Back Provisions", 57 JPOS 124 (1975).

²⁵⁹ Stokes & Smith Co. v. Transparent-Wrap Machine Corp. 69 USPQ 278 (CCA 2nd Cir. 1946), *per* Learned Hand, Circuit Judge, at page 282.

²⁶⁰ See also Schmalbeck, R., "The Validity of Grant-Back Clauses in Patent Licensing Agreements," 42 U. Chi. L. Rev. 733 (1975), at page 737.

Some support for this view may be derived from the opinion of Justice Douglas in the latter case of Brulotte v. Thys Co., where he said, "A patent empowers the owner to exact royalties for as high as he can negotiate with the leverage of that monopoly. But to use that leverage to project those royalty payments beyond the life of the patent is analogous to an effort to enlarge the monopoly of the patent by tying the sale or use of the patented articles to the purchase or use of unpatented ones."²⁶¹ Although the issue in that case was with regard to the legality of post expiration royalty payments, it is submitted that the rationale behind that statement, that projection of royalty payment beyond the life of the patent amounts to a misuse, is equally applicable to the obligation to assign-back improvement patents to the licensor. By reason of the ownership of the improvement patents, the licensor has now an extended monopoly. In the words of Bergsten, "the enforcement of the promise [to assign-back] would give the licensor control over other articles which, but for the patent, he would not possess".²⁶² The same author notes that the only legitimate purpose of the grant-back clause is to enable the licensor to have the benefit of the use of any improvement patents invented by the licensee, and to prevent his products rendered obsolete in the marketplace by an innovative licensee. A non-exclusive licence grant-back with power in the licensee to licence others would have been sufficient protection. To the extent the improvement grant-back exceeds this standard the assignments serves no legitimate ends.²⁶³ Therefore, it is submitted that assignment-back clauses should not be permitted and must be regarded as invalid under the section. However, non-exclusive licence-back clauses should not be objectionable.

6.5.3.f. Price restrictions

Such a restriction is concerned with price control exercised by a patent owner over one or more of its manufacturing or selling licensees. Such control may be exercised by fixing a minimum price at which the licensee may sell patented articles or by requiring the licensee to sell at the same price, or not less than the price, charged by the licensor in its own sales.

This is a problematic area, and the law is still in a state of flux in the United States. An early example was fixing the price at which the purchaser of the patented item could resell it. The courts reasoned that once the patent owner had given up title to the patented item his patent rights were at an end, and any further restriction on the purchaser would extend the patent

²⁶¹ Brulotte v. Thys Co. 143 USPQ 264 (US Sup. Ct 1964), *per* Justice Douglas, at page 266.

²⁶² Bergsten, E.E., "Legality of Grant-Back Clauses," 55 Mich. L. Rev. 697 (1957), at page 699.

²⁶³ See Bergsten, E.E., "Legality of Grant-Back Clauses," 55 Mich. L. Rev. 697 (1957), at page 701, and Simmons, G.F., "Antitrust Aspects of Grant Back Clauses in Licence Agreements", 41 JPOS 574 (1959). See also Report of the Attorney-General's National Committee to Study the Antitrust Laws (1955), at pages 228-229, "If the grant-back is a licence, its reasonableness may depend in some circumstances in whether the licence is exclusive or non-exclusive. A grant-back by assignment or an exclusive licence, which is in effect an assignment, should be subject to close scrutiny as a factor which may dull the grant back licensor's incentive to invent. On the other hand, grant-back of a non-exclusive licence, especially with authority to sub-licence, may diffuse the benefits to all licensees and thus tend to encourage competitive use of the innovation."

beyond its statutory bounds.²⁶⁴ However, an earlier US Supreme Court had approved the actions of a patentee in setting the price at which his licensee could sell the patented product.²⁶⁵ This holding was sustained in the leading case of United States v. General Electric Co.,²⁶⁶ where General Electric licensed Westinghouse to manufacture and sell patented lamps at prices fixed by General Electric and based on the latter's own sales. Stressing that profit was one of the valuable elements of a patentee's exclusive grant, the Supreme Court held that the price fixing provision was "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly". The court directed its attention to the effect of the price fixing provision involved and concluded that under the facts, the price restriction was both reasonable and necessary to protect the interests of the patent owner. Therefore, a patentee-manufacturer could legally license another to make and sell the patented product at fixed prices. It set down the classic test for the legality of licence restrictions:

"... the patentee may grant a licence to make, use and vend articles under the specifications of his patent for any royalty, or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of patent is entitled."²⁶⁷

Another effort by a patentee to control the retail price at which others sold his patented product was dealt with in United States v. Univis Lens Co., Inc.²⁶⁸ Univis had a patent on a new type of bifocal lens for eye glasses. It sold unfinished lens blanks to wholesalers who sold to finishing retailers and prescription retailers. The finishing retailer grinds lens blanks to prescription. Prescription retailers examine eyes, send the prescription to a finishing retailer, then fit the finished glasses to the customer's face. Univis attempted to fix prices at both the retail and wholesale level on its patented lens and lens blanks. The lower court held that Univis could not fix prices which the prescription licensees sold the glasses, since the patent monopoly was exhausted when the licensee bought a finished lens. The lower court held, however, that the patent monopoly was not exhausted when the unfinished lens was sold to the finishing retailer and that Univis could control the price charged by the finishing retailer who completed the invention. On this point the Supreme Court overruled the lower court, applying the doctrine that the first sale exhausts the monopoly. This was because, "the patent law is fulfilled with respect to any particular

²⁶⁴ See Bauer & Cie v. O'Donnell 229 US 1 (US Sup. Ct 1913). In Standard Sanitary Mfg Co. v. United States 226 US 49 (US Sup. Ct 1912), the Supreme Court had held that a trade agreement involving price fixing and the suppression of a certain type of merchandise transcended what was necessary to protect the use of the patent or the monopoly which the law conferred upon it.

²⁶⁵ Bement v. National Harrow Co. 186 US 70 (US Sup. Ct 1902).

²⁶⁶ United States v. General Electric Co. 272 US 476 (US Sup. Ct 1926).

²⁶⁷ United States v. General Electric Co. 272 US 476 (US Sup. Ct 1926), at page 489, *per* Chief Justice Taft. See also, Sola Electric Co. v. Jefferson Electric Co. 55 USPQ 379, at 380 (US Sup. Ct 1942), where tacit recognition of the rule is found.

²⁶⁸ United States v. Univis Lens Co., Inc. 53 USPQ 404 (US Sup. Ct 1942).

article when the patentee has received his reward for the use of the invention by the sale of the article, and ... once that purpose is realised the patent law affords no basis for restraining the use and enjoyment of the thing sold."²⁶⁹ This was another clear case where the patentee attempted to control prices of sellers with whom he was not competing. He was trying to control a segment of the industry for reasons not associated with his own efforts to profit from his invention. He was merely trying to protect his licensees from their own-price-cutting.²⁷⁰ Though the court was invited to reconsider the General Electric case it declined to do so, stating that there was no occasion to do so. However, the General Electric case was reconsidered in United States v. Line Material Co.,²⁷¹ where it was held that an arrangement whereby two or more competing patentees agreed that one of them or one of their licensees would fix prices for all transcended the limit of the patent monopoly and violated the Sherman Act. The Supreme Court, however, split four to four on whether the holding in General Electric should be overruled. Therefore, the latter decision still stands.²⁷² However, since the Line Material decision, the lower courts, reflecting the changing attitude in this area of the law, have repeatedly restricted the use of price fixing provisions making them illegal in all but a few situations.

6.5.3.f.(i). Qualifications to the General Electric rule

1. the licensor must vend the patent product in competition with its licensee. Price fixing is condoned in this area only on the theory that it serves to protect the sales of the licensor. Thus price control by a licensor who does not sell the licensed product at all, or who sells it but not in competition with the licensee would appear to be outside the scope of the General Electric doctrine.²⁷³

2. The price established by the licensor must apply to the patented product only. The patentee may not require the licensee to price fix a device where the licensed invention only

²⁶⁹ United States v. Univis Lens Co., Inc. 53 USPQ 404 (US Sup. Ct 1942), *per* Chief Justice Stone, at page 408. The court did not distinguish the situation where the patentee sells the completed article from that where he sells a partly completed article, leaving it to the vendee to finish the invention. The court held that the reward reasonably attaching to the patent privilege must be gained from the first sale.

²⁷⁰ Price restrictions may be imposed solely to protect the particular patentee and not licensees or other patentees - see the General Electric case. See also Stedman, "Patents and the Antitrust Laws", 31 JPOS 14, 21 (1949), and Farley, D.L. "Price Fixing and Royalty Provisions in Patent Licences", 34 JPOS 46 (1952), at pages 50-58.

²⁷¹ United States v. Line Material Co. 333 US 287 (US Sup. Ct 1948).

²⁷² In a concurring opinion written by Justice Douglas, and joined in by Justices Black, Murphy, and Rutledge, it was stated that the General Electric doctrine should be overruled, since it was a private perquisite written into the patent laws by judicial legislation, and patentees should be limited to a non-price-fixing royalty reward or to the manufacture and sale of the patented subject matter by themselves at any price they chose. The opinion of the court supported only by its writer, Justice Reed, upheld the General Electric case but limited it strictly to its facts, distinguishing the instant case on the presence of the cross-licensing. The three dissenting Justices, Justice Burton, Chief Justice Vinson and Justice Frankfurter, held that the General Electric case was binding precedent and that the instant case should not be distinguished.

²⁷³ Glen Raven Knitting Mills v. Sanson Hosiery Mills 189 F.2d 845 (CA 4th Cir. 1951).

constitutes a small part of the device. For example, a patent licence to make and sell a patented radio tube would not justify price fixing the entire radio produced by the licensee. In this context, it must be remembered that at least a substantial and material part of the item licensed must be patented in order to impose restrictions that would be illegal in the absence of patent protection.²⁷⁴ Similarly, there is no justification for a licensor's fixing of the price at which the patented product is to be serviced or repaired by the licensee.²⁷⁵

Therefore, the rule in General Electric is strictly limited; it holds that a patentee who licenses another to manufacture and sell articles made under his patent may limit the price at which they are sold, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly. As subsequent cases have shown, there is emphatic insistence that any price restriction sought to be imposed under the protection of this rule must in fact tend to secure a reward for the patentee's legitimate monopoly.²⁷⁶

From the above discussion, the general rule that can be drawn from the cases is that, according to the US law, the patentee, if he also manufactures the patented subject matter, can fix the price that his manufacturing licensee can charge, but he cannot fix the resale price of the patented product.

Under the common law, price restrictions were upheld as being part of the patentee's right to impose in return for a licence to exploit or use the patented article. This was vividly illustrated in Columbia Graphophone Co. Ltd v. Murray,²⁷⁷ where the patent owner was successful in his suit against the defendant for selling second-hand patented articles below the price fixed by the patentee. The court held that since the defendant had notice of such restriction, he was bound by it. However, such practices are now forbidden and controlled in the United Kingdom by Part II of the Restrictive Trade Practices Act 1976.²⁷⁸

²⁷⁴ For example, in an action for accounting of royalties under a licence of patents on brick setting machines and brick loading forks which fixed the prices of the bricks produced, the Seventh Circuit held that the entire licence contract was void and was not severable from the remainder of the licence contract - American Equipment Co. v. Tutbill Bldg. Material Co. 69 F.2d 406 (CA 7th Cir. 1934).

²⁷⁵ Sylvania Industrial Corp. v. Visking Corporation 132 F.2d 947 (CCA 4th Cir. 1943); Consolidated Packaging Machinery Corp. v. Kelly 253 F.2d 49 (CA 7th Cir. 1958); see also Arg Mfg Co. v. Convertible Top Replacement Co. 365 US 370 (US Sup. Ct 1961).

²⁷⁶ According to Hollabaugh, M.A., "Patents and Antitrust Laws", 25 U. Cinc. L. Rev. 43 (1956), at 64, "The present scope of the General Electric doctrine is so narrow as to be of almost no practical use to a patent owner and the dangers are too great to risk if the owner attributes any substantial value to his patents".

²⁷⁷ Columbia Graphophone Co. Ltd v. Murray (1922) 39 RPC 239 (Ch.D.), *per* Russell J., at page 241.

²⁷⁸ See generally, Raybould, D.M., Firth, A, Law of Monopolies - Competition Law and Practice in the USA, EEC, Germany and the UK, Graham & Trotman, London, 1991, at pages 454-457.

6.5.4. Permissible Restrictions - General

Express qualifications to the above restrictions are provided. These qualifications are amplification of the section, and provide listed exceptions as to the type of limitations that a patentee can properly impose as a condition for granting a right of access to a patented invention. These qualifications are expressly intended to preserve the patentee's right to impose certain terms which are designed to curtail the rights of the licensee in the exploitation of the patented invention. Even in the absence of these specific exceptions, most of these exceptions would fall within the restrictions which would be regarded as being derived from the patent rights or necessary to safeguard the rights. Hence they would be valid and enforceable.

The section specifically provides that the following clauses are not deemed to be invalid:

- a. Restrictions concerning the scope, extent or duration of exploitation of the patented invention, or the geographical area in, or the quality or quantity of the products in connection with, which the patented invention may be exploited.²⁷⁹
- b. Obligations imposed upon the licensee to abstain from all acts capable of prejudicing the validity of the patent.²⁸⁰

The exclusive rights of a patent owner may be divisible and exploited in several ways recognised by the Act. Under the Act, the patentee may separately license the right to make, import, sell or use the patented invention to different people. The Act provides that in the absence of any provision to the contrary in the licence contract, the licensee shall be entitled to do any or all of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36 within the whole geographical area of Malaysia without limitation as to time and through any application of the invention.²⁸¹ This means that the patentee can, by means of the grant of limited licence, restrict the right to exploit the patented invention in the various ways to a limited specified geographical area, and for a specific duration. The patentee is also permitted to confine exploitation of the invention to a specific application out of the various application to which it could be put to.

The following part of this section will examine and analyse this proviso in greater detail to determine whether the general statement made above is subject to any other limitations. As in the earlier part of the analysis dealing with impermissible clauses, reference will mainly be made to United States case law to determine the extent to which the US misuse doctrine is, or is not, applicable.

279 Section 45(a) of the Act.

280 Section 45(b) of the Act.

281 See Section 43(1) of the Act.

6.5.4.a. The proviso (a) exceptions

6.5.4.a.(i). Field-of-use restrictions

Field-of-use licensing is common where the patented invention may be capable of use in different applications. Where this is so, the patentee may decide to licence the different applications separately to maximise his returns from the use of the patented invention.²⁸² The Act seems to allow a condition in the licence contract which restricts the licensee to a particular technical field-of-use. This type of restraint is arguably within the term "restrictions concerning the scope and extent of the patented invention" in the section. Proviso (a) to section 45, read together with the section 45 qualification that the clauses are imposed on the licensee "in the industrial and commercial field" would seem to reinforce this argument. Further, section 43(1) of the Act provides that in the absence of any provision to the contrary in the licence contract, the licensee shall be entitled to do any or all of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36 within the whole geographical area of Malaysia without limitation as to time and through any application of the invention. Read in this light, the permissible clauses allowed under proviso (a) in section 45 would allow field-of-use restraints.

This form of restriction will be particularly important when an invention is capable of different uses or applications within several different and distinct fields of industry. For example, a particular drug may have curative effects both in human and livestock. To cater for the different scope of exploitation, the patentee may decide to license an animal feed company to make, use and sell exclusively for the animal medication field, and an ethical pharmaceutical company to make, use and sell for human consumption. This will lead to more effective exploitation of the patent, since the patentee, or a particular licensee, may not have sufficient resources to practise the invention in all fields. The licence in Farwick et al. v. Commissioner of Internal Revenue,²⁸³ for example, involved a licence for driving clutches. This right was limited, however, to the field of marine service. An exclusive field-of-use licence gives the particular licensee the right to exclude others from making, selling or using the patented invention, but only with respect to the designated "field-of-use". The defined field may be expressed either positively, enumerating the applications to which the article may be put, or negatively, enumerating the forbidden applications. A patent owner or a licensee thereof can grant licences under the patent extending to all uses of a patented product or limited to use thereof in a defined field.

²⁸² See, for example, Bowden Brake Co. Ltd v. Bowden Wire Ltd (1913) 30 RPC 561, and La Societe Anonyme Pour La Fabrication D'Appareils D'Eclairage v. The Midland Lighting Co. (1897) 14 RPC 419.

²⁸³ Farwick et al. v. Commissioner of Internal Revenue 162 USPQ 185 (US Tax Court, 1969), rev'd. 168 USPQ 324 (6th Cir. 1971).

Field-of-use and geographical restrictions are, similarly, not regarded as patent misuse in the United States. The leading case in the United States in this area is General Talking Pictures Corp. v. Western Electric Co.²⁸⁴ The respondent, American Telephone & Telegraph Co. owned several patents for inventions in vacuum tube amplifiers which had been used in wire and radio telephony, talking motion pictures, and other fields. Amplifiers having these inventions were used in different fields. One, known as the commercial field, included talking picture equipment for theatres. Another, called the private field, embraced radio reception, radio amateur reception, and radio experimental reception. There was never any argument or doubt as to the legality of the field-of-use restriction present in the agreement. The only issue in contention was the enforceability of the provision restricting the licensee to sell to certain purchasers for certain purposes only.²⁸⁵

6.5.4.a.(ii). Geographical restrictions

Just as the licence to make, use and sell a patented invention can be split up into different technical or commercial uses, so too is the right to practise a patent in any geographically specified part of the country. In the case of a patent licence with a geographical restriction, the licence grants to the licensee the right to exclude others, including even the transferor, if the licence is exclusive, from making, using or selling all forms of the patented invention within the designated geographical area.²⁸⁶ Sometimes, the licence may contain both field-of-use and geographical restrictions.²⁸⁷ The possibility of a geographical restriction, limiting the licensee to a defined territory is expressly contemplated by the Act.²⁸⁸

²⁸⁴ General Talking Pictures Corp. v. Western Electric Co. 304 US 175, 37 USPQ 357 (US Sup. Ct 1938), affirmed on rehearing, 305 US 114; 39 USPQ 329 (US Sup. Ct 1938).

²⁸⁵ See *infra*, para. 6.5.4(a)(iii) - customer restrictions.

²⁸⁶ For example, in Fuel Economy Co. Ltd v. Murray (1930) 47 RPC 346 (English Court of Appeal) the licence was limited to a specific area, i.e., the countries of Lincoln, Northumberland, Durham and part of York.

²⁸⁷ For example, in Rouverol v. Commissioner of Inland Revenue 141 USPQ 419 (US Tax Court, 1964), Rouverol invented a new type of variable speed transmission called a multiple ball transmission. Potential application of the invention was recognised in several different technologies, including vehicular propulsion, engine accessories, industrial drives and instrument drives. Rouverol obtained patents in several different countries. In order to exploit the invention more efficiently, Rouverol entered into patent licensing agreements with two corporations. The first agreement he granted to H the exclusive right to make, use and sell the invention throughout both North and South America, subject to specific exclusions. These exclusions included "main power transmissions for industrial prime movers or for propelling air, land or water vehicles". The second agreement granted to G the exclusive right to make, use and sell the invention throughout Europe in the area of flight stimulation test equipment of the "multiple-axis type or the centrifuge or rate or turn type."

²⁸⁸ The possibility of splitting up patent rights according to territory is expressly sanctioned under the US law - see USC 35, section 261. Therefore, as a matter of law a patent owner's use of geographical restrictions in a licensing agreement to divide territories constitutes a lawful application of the rights derived from the patent. Therefore, the patent misuse doctrine is inapplicable to licence agreements containing territorial restrictions - see, for example, Miller Insituforma v. Insituform of North America 225 USPQ 1232 (D.C.M.D. Tenn. 1985), *per* Wiseman, Chief Judge, at page 1235, *aff'd*, 4 USPQ2d 401 (CA 6th Cir. 1987), *per* Gilmore, District Judge, at page 1465.

6.5.4.a.(iii). Customer restrictions

The above two forms of restrictions will invariably involve customer restrictions. However, while field-of-use and geographical restrictions are permitted under the Act, this does not necessarily mean that such restrictions run with the goods produced under such a limited licence and that purchasers of such products are bound by the terms of the licence on pain of infringement actions for breach. How such goods are treated under the Act is analysed in Chapter 7.

6.5.4.a.(iv). Quantity restrictions

A quantity or quota provision in a patent licence agreement may relate either to the minimum number of articles that the licensee must make or to the maximum number of articles that the licensee may make. Such a restriction would not fall foul of the misuse doctrine in the US.²⁸⁹ In the Malaysian context, this type of restriction is specifically allowed by the Act.

6.5.4.a.(v). Temporal restrictions

A patent is given protection for a period of fifteen years from the date of the grant.²⁹⁰ Although proviso (a) allows for restrictions concerning the duration of exploitation of the patent, this does not mean that all obligations relating to the exploitation of the patented invention can be imposed for any duration of time. In this context, it is important to bear in mind the distinction between the duration of a licence and that of the agreement between the parties. Although a licence in respect of exploitation of a patent, and obligations under it, cannot endure beyond the statutory life of the patent, contractual obligations in the agreement granting the licence can run for longer.²⁹¹ Any attempted restrictions on exploitation of the patent beyond the statutory fifteen years will be invalid under the section, as will be an obligation to continue to pay for use of the patent rights after the patent has expired.²⁹²

6.5.4.a.(vi). Specific use or design

A licensor may restrict the licensee's manufacture of the patented item to a specific use or design. This will be regarded as a reasonable step to maintain individuality between manufacturers and to allow the owner or other licensee to concentrate on other use or designs and to serve different markets. However such a clause or condition is only

²⁸⁹ See, for example, American Equipment Co v. Tuthill Building Material Co. 21 USPQ 198 (CCA 7th Cir. 1934), *per* Evans, Circuit Judge, at page 200.

²⁹⁰ Section 35(1) of the Act.

²⁹¹ See, generally, Byrne, N., Licensing Technology - Drafting and Negotiating Agreements, MacMillan Press Ltd, 1994, Chapter 14, The Scope of a Licence.

²⁹² See para. 6.5.3.(c)(i), *supra*.

permissible if the restriction is limited to the manufacture of articles covered by the claims of the patent in suit.²⁹³ If this is so, then it will not be regarded as an unreasonable exercise of the patent rights or against the public interest.

6.5.4.a.(vii). Quality

Clauses relating to quality control are specifically mentioned in the proviso.²⁹⁴ It is also arguable that a clause requiring replacement parts to be purchased only from the licensor or a nominee is permitted, provided there is a valid technical reason for doing so, for example, to ensure the quality or efficient working of the patented invention.²⁹⁵

6.5.4.a.(viii). Provision of guarantee

Since the section permits any conditions concerning the quality of the product in connection with which the patented invention may be exploited, a condition in the licence agreement which serves to control the quality of the product manufactured by the licensee will not fall within the prohibition. The same result would seem to apply to a clause in the licence agreement which conditions the patentee's guarantee of efficiency, durability or fitness for a particular purpose of the patented article on use of products of the patentee's manufacture. Such a clause was found not to be a patent misuse by a United States District Court.²⁹⁶

6.5.4.a.(ix). Best endeavours

Such clauses had been held valid in decided cases and it is difficult to see how it could be argued that, in itself, it could be construed as attempts to enlarge the scope of the patent

²⁹³ Bela Seating Co. Inc. v. Poloron Products, Inc. 168 USPQ 548 (CA 7th Cir.), cert. denied, 404 US 922, 170 USPQ 65 (1971). See Kiley, Circuit Judge, at pages 552-553. See also Vulcan Mfg Co. v. Maytag Co. 23 USPQ 96 (CA 8th Cir. 1934), and Hull v. Brunswick Corporation 218 USPQ 24 (CA 10th Cir. 1983). Contrast McCullough v. Kammerer Corp. 76 USPQ 503 (CA 9th Cir. 1948), where the licensor restricted the licensee from making competitive articles which fell outside the claims of the licensed patents.

²⁹⁴ The quality control proviso to section 45 in the Act seems to reflect the US business and technological theory exception to the patent misuse by tying arrangements. - see, for example, Dehydrating Process Co. v. A.O. Smith Corp. 292 F.2d 653 (CA 1st Cir. 1961), cert. denied 368 US 931 (1961)- discussed earlier under tying arrangements.

²⁹⁵ Refer to para. 6.5.3.(a) for the exceptions to the misuse doctrine as regards tying arrangements.

²⁹⁶ See Bissell Inc. v. E.R. Wagner Mfg Co. 133 USPQ 469 (DC ED. Wisconsin, 1962), *per* Grubb, District Judge, at page 480. The patents in suit related to an apparatus for applying detergent to rugs and the like, commonly called a rug shampoo applicator. In a suit for infringement, the defendant, Wagner, alleged that Bissell had misused its patents. One of the grounds of misuse was that the plaintiff conditioned the "guarantee" of the efficiency, durability, or cleaning results of its applicators on the use of Bissell shampoo. It was held that the conditioning of guarantee of patented applicator upon use of shampoo manufactured by the patentee and known to it as possessing qualities necessary for the safe and efficient operation of the applicator was not patent misuse but a reasonably necessary practice where other available shampoos were known to have deleterious effects on applicator and surfaces to be treated.

rights.²⁹⁷ However, if the "best endeavours" clause is construed as an implied prohibition against sale of competitive products, then it will fall foul of the section. The "best endeavours" obligation could be important to protect the interest of the licensor, especially when an exclusive licence has been granted. This is to insure the licensor that the licensee will make a sincere and genuine effort to develop and exploit the invention. There may be many reasons for not promoting the invention by the licensee, such as when the exclusive licence is obtained and used purely to keep other competitors from using it.²⁹⁸

6.5.4.b. Proviso (b) exceptions

6.5.4.b.(i). No-challenge clause

Proviso (b) to section 45 permits obligations imposed upon the licensee to abstain from all acts capable of prejudicing the validity of the patent. This would mean that express restrictions requiring that the licensee not contest the validity of the patent involved, a no-challenge clause, would not be regarded as invalid. However, it is unlikely that a no-challenge clause that purports to prevent the licensee from challenging the validity of the patent even after the expiry of the licence agreement would fall under the proviso. This is because on the expiration of the licence agreement, the licensee should be placed in the position of a member of the public, or a competitor, who is free to question the validity of the relevant patents.

The provision seems to reflect the common law position.²⁹⁹ At common law, the licensee estoppel rule prevents a licensee, when sued for royalties in respect of a licensed patent, trying to show that the patent is invalid in order to avoid his contractual liabilities.³⁰⁰

²⁹⁷ For example of cases where the best endeavours clause had been upheld despite arguments that such a clause fell to be construed as a clause prohibiting sales of competitor's products, see, Tool Metal v. Tungsten Electric (1955) 72 RPC 209, Fichera v. Flogates [1984] RPC 257 (CA), and Transfield Pty. Ltd v. Arlo International Ltd (1980) 144 CLR 83; [1981] RPC 141, High Court, Australia.

²⁹⁸ See generally, Dorl, R.T., *Strategy for Patent Profits*, Noyes Development Corporation, U.S.A., 1967, at page 28.

²⁹⁹ See, for example, Lyle-Meller v. A. Lewis & Co. (Westminster) Ltd (1955) 72 RPC 307, at 313, *per* Lloyd-Jacob J., "Plainly as between these two parties 'currently valid' must mean 'subsisting', because as between themselves the licensee was not in a position to contest the validity of the specification." For a discussion of whether the licensee estoppel rule is still good law, see Robertson, A., "Is the Licensee Estoppel Rule still Good Law? Was it ever?", [1991] 10 EIPR 373.

³⁰⁰ The rule was explained by Luxmoore J., in Fuel Economy Co. Ltd v. Murray (1930) 47 RPC 346 (CA), at page 353, "There is, of course, a well recognised rule that a licensee cannot attack the validity of a patent which is the subject of licence ... The reason why a licensee cannot dispute the validity of the patent in respect of which a licence is granted arises out of the relationship of the parties, the licensor and the licensee, and estoppel arises out of the relationship. Estoppel can operate only in the same transaction as that in which it arises. In an action under a lease, the lessee cannot challenge the lessor's title to that which is included in the lease, because the title to that included in the lease is not in issue; and the case of a licensee who has a licence to work a patent is analogous to that of a lessee under a lease. A licensee cannot challenge the validity of a patent in an action under the licence, the licence being admitted by the licensee, because the title is not in

However, the licence is not a complete estoppel against the defendant alleging invalidity in all circumstances. The estoppel applies only when the action relates to the licensee's obligations under the licence. It does not apply when the action falls outside the terms of the agreement, for example, when the licensee is sued for infringement when the licence has been determined,³⁰¹ or when no licence had yet been granted under the agreement between the parties.³⁰² Further, although the licensee may not attack the validity of the licensed patent, he is free to attack or dispute its scope.³⁰³ In Fuel Economy Co. Ltd v. Murray,³⁰⁴ the plaintiffs were owners of certain patents in respect of improvements in steam boilers and had licensed the defendant to work the patents and use the trade name "Bowden-Jackson" upon boiler joints, made in accordance with the patents, within a certain specified area. The plaintiffs subsequently brought an action against the defendant for infringement and passing off, alleging that he had sold and installed boiler-joints outside the specified area and had wrongfully applied the name "Bowden-Jackson" to boiler-joints. The defendant admitted that he was a licensee within the specified area, but denied infringement and alleged that the patents were invalid. The plaintiff moved, *inter alia*, to strike out those paragraphs of the defence which alleged invalidity, on the ground that a licensee was estopped from so pleading. It was held that estoppel could only operate in the same transaction as that in which it arose. Since the action so far as the patentees were concerned was for infringement and not under the licence at all, no estoppel arose. In dismissing the appeal, the Court of Appeal held that the licence was not a complete estoppel against the defendant alleging invalidity in all circumstances, and that he was not to be prevented at this stage of the action from doing so.³⁰⁵ Further, it would seem that, though such a clause can validly be inserted in a licence contract, it could not extend beyond the period of the licence.³⁰⁶

issue."

301 See, for example, Basset v. Graydon (1897) 14 RPC 701 (HL), *per* Lord Herschell, at page 709.

302 See Henderson v. Shiels (1907) 24 RPC 108, *per* Parker J., at page 115.

303 See for example, a decision in the US, prior to the Lear v. Adkins ruling - The Plastic Contact Lens Co. v. Butterfield 151 USPQ 83 (CA 9th Cir. 1966), *per* Ely, Circuit Judge, at page 86, citing Westinghouse Elect. & Mfg Co. v. Formica Insulation Co. 266 US 342 (US Sup. Ct 1924).

304 Fuel Economy Co. Ltd v. Murray (1930) 47 RPC 346 (CA).

305 Fuel Economy Co. Ltd v. Murray (1930) 47 RPC 346 (CA), *per* Luxmoore J., at page 353, "The fact is that the action does not relate to anything which has been done under the licence, nor does the defence set up the licence as an answer to the claim for infringement. ... Estoppel can operate only in the same transaction as that in which it arises. ... But in an action for infringement a different set of circumstances arises altogether. It is not an action under the licence at all, and in such a case ... no estoppel arises. If this were an action under the licence, for example, to recover royalties in respect of articles made under the patent in the limited area, of course, the licensee defendant would be estopped from challenging the validity of the patent, the licence being admitted by him, no matter how obviously invalid the patent may be. But, in my judgement, such an estoppel cannot arise in an action for infringement." See also Lord Hanworth M.R., at pages 358-360, where after reviewing the cases, his Lordship agreed with the decision of the trial judge and stressed that the licence was not a complete estoppel against the defendant alleging invalidity in all circumstances.

306 See the doubt expressed in V.D. Ltd v. Boston Deep Sea Fishing & Ice Co. Ltd (1935) 52 RPC 303 at 331-332, *per* Clauson J., "The defendants in the infringement action did not counterclaim for revocation. Of this circumstances two explanations were given. ... The second was that the

This rule was also recognised in the United States.³⁰⁷ However, in 1969 it was overruled by the Supreme Court in Lear v. Adkins,³⁰⁸ on the basis that, because licensees have greater incentive than third parties to challenge licensed patents, provisions barring a challenge should not be enforced in the public interest.

6.5.4.b.(ii). Right to institute infringement suit

Another possible clause which could be permitted under this proviso is one requiring that a licensee shall not institute any proceedings for any infringement of the patent without the express consent of the licensor. Under section 61 of the Act, any licensee may request the owner of the patent to institute court proceedings for any infringement of the licensed patent. If the patent owner fails to institute infringement proceedings within three months of receiving the request, the licensee may institute the proceedings in his own name. However, this right is subject to any provision to the contrary in the licence agreement.³⁰⁹ Therefore, the Act expressly allows for provisions in a licence agreement which might negate the right of the licensee to institute infringement proceedings. This section, read together with proviso (b) to section 45, would mean that a clause requiring the exclusive licensee to inform the patentee of any infringing activity known to the licensee, but reserving the right, at the licensor's absolute discretion, to institute infringement proceedings is enforceable. Since an infringement action could prejudice the validity of the patent, a clause giving a right to the patentee, at his sole discretion, not to sue will fall

defendants had in their licence covenanted in general terms not at any time to dispute the validity of the patents. Such a provision has, no doubt, in recent years become common. It would seem, however, to be very remarkable, if a court which is bound by the provisions of the Statute of Monopolies can be called upon to give effect to a covenant between individuals, that that which may by reason of the statute turn out to be an invalid monopoly and an illegality shall be, as between the parties, held to be valid and legal. Under modern conditions the question seems to be to be so important that it is best that, as it has not been argued out before me, I should say nothing more about it."

³⁰⁷ See, for example, Automatic Radio Mfg Co. v. Hazeltine Research Co. Ltd 85 USPQ 378 (US Sup. Ct 1950), *per* Justice Minton, at page 381.

³⁰⁸ Lear v. Adkins 395 US 653; 162 USPQ 1 (US Sup. Ct 1969), at pages 7-8, *per* Justice Harlan. See also comments in Windsurfing International Inc. v. European Commission [1986] 3 CMLR 489; [1988] FSR 139, Court of Justice of the European Communities, at para. 77 of the judgement, "The Commission comments that the 'no challenge' clause is different from the clause prohibiting the use of the applicant's trademark. The acknowledgement of a trademark's validity logically implies that no attempt will be made to establish its invalidity and this is contrary to Article 85. Furthermore, an undertaking to that effect is foreign to the licensing agreement as a whole," and "On the basis of those considerations, it must be concluded that the clause requiring the licensee to acknowledge Windsurfing's international trademarks was of such a nature as to restrict the licensee's competitiveness and, therefore, satisfied the first of the conditions for the application of Article 85". See also The Rose Case [1985] OJ L3699 (13 December 1985) - paragraph 23(b) of the proceedings, "The restrictive nature of this second provision lies in the fact that it denied the licensee the opportunity open to any third party of removing an obstacle to his economic activity by means of a petition for revocation". Therefore, the ECJ had virtually ruled that a no-challenge covenant was prohibited *per se*. However, see Bayer & Hennecke v. Sullhofer [1988] 4 CMLR 881 (Court of Justice of the European Communities) - where the approach now is that an assessment must be made by the national court to see whether, having regard to the position of the parties on the relevant market, the covenant restricts or does not restrict competition.

³⁰⁹ See section 61(1)(a) of the Act.

within proviso (b), though it may result in the licence being of questionable value to the licensee, especially an exclusive licensee.

6.5.5. Observations

The statutory attempt in the section to control restrictive practices not warranted by the exclusive rights granted by a patent, while commendable, suffers from several obvious weaknesses. The section confers enormous discretion upon the judiciary in deciding what specific practices are prohibited. However, no guidance is provided, other than those in subsection (b), to assist the court in the determination of what is permissible exercise of the patent rights. Further, no strong sanction is provided if an illegal practice is found to exist, other than declaring that the impugned clause is invalid and hence unenforceable. It may be questioned to what extent this may act as a deterrent to prevent these undesirable practice. The most that could be said is that an unscrupulous patentee may decide to take his chance and still insert these illegal clauses into the contract. If the licensee, whether through ignorance, or through his unequal bargaining position, is not in a position to challenge these restrictions, and hence makes no complaints against them, the patentee is able to enjoy the fruits of the unwarranted extension of his patent rights. If there is a challenge against the clauses, the worse that could happen is that the clauses are not enforceable. In either case he is not adversely affected. He stands to gain if successful in his attempt and loses nothing if he fails. Such a provision is thus of little value as a safeguard against illegal extensions of patent rights.

It would seem, therefore, that more teeth should be put into the section. One possibility is to introduce the sanction found in the other Commonwealth patent statutes whereby a patentee who is found to have abused his patent rights by the introduction of improper restrictions in patent agreements under the relevant provisions would not be able to enforce his rights even against third party infringers until it is shown that the improper practices have been abandoned. However, there are arguments against the introduction of this form of sanction. In the first place, the penal nature of the law may deter judges from applying the spirit of the law rather than the strict letters of the law, as has been seen in the Tungsten case. Secondly, it does seem to "reward" a person who is not a party to the agreement rather than focus on relief to the party who is adversely affected by the illegal restrictions. A fairer theoretical basis should be that the law should compel a patentee to pay for any damages inflicted by him for his attempt to widen the scope of his exclusive rights, but at the same time it should not place a premium on an infringer's wrongdoing. Therefore, to provide a more effective and fairer middle path, the provision could be modified by providing that a breach of the provision is a defence in any claims for breach of the license agreement. The licensee can also counter-claim for the return of any payment made under

an invalid obligation and for any damage suffered arising from the presence of the invalid clauses.

It is also evident from the discussion on the misuse doctrine, and its application in the context of the Malaysian statutory scheme that there is no clear dividing line between misuse and lawful terms in licences. In view of the fact that all the earlier reviewed practices caught by the prohibitions against unfair extensions of the patent rights may be beneficial, it is not viable to have the inflexible and imprecise rule as presently found in the Act. To borrow the expression of Justice Posner, such a "vague formulation, taken seriously ... would put all patent rights at hazard."³¹⁰ Therefore, it is undesirable and unfair to adopt a black and white or "*per se* illegality" approach in the construction of the provisions. Some tying arrangements, for example, may be desired and willingly entered into by the licensee. The licensor may have provided a viable and fair alternative arrangement to the tying arrangement. The arrangement is not intended, nor has the effect of extending the scope of the licensor's patent rights. In such a case the terms should be deemed valid and enforceable. To hold otherwise would be unfair to the licensor.

The cases have shown that misuse occurs when there is coercion and the licensee is deprived of a viable choice. Hence, it is proposed that the section be further amended to declare certain clauses invalid only in the absence of a reasonable alternative term or terms, or in the presence of coercion. The onus of proving that the alternative terms are available and reasonable, that there is no coercion, and that they are reasonable as not tending to extend the patentee's rights beyond the scope of the patent coercion should be placed on the licensor. It might also be useful to add a non-exhaustive list of clauses which, in the absence of a reasonable alternative, would be held to violate the section. The fact that the agreement is entered into, or that the agreement is still subsisting or not terminated, is not conclusive of voluntariness or reasonableness of terms. Such an approach would be in the best public interest, and might, indeed, serve to inject a measure of certainty into this area of the law.

³¹⁰ **USM Corp. v. SPS Technologies, Inc.** 216 USPQ 959 (CA 7th Cir. 1982), *per* Posner, Circuit Judge, at pages 963-964, "The doctrine of patent misuse has been described as an equitable concept designed to prevent a patent owner from using the patent in a manner contrary to public policy, ... This is too vague a formulation to be useful; taken seriously it would put all patent rights at hazard; and in application the doctrine has largely been confined to a handful of specific practices by which the patentee seemed to be trying to 'extend' his patent grant beyond its statutory limits."

6.6. The Industrial Co-ordination Act

Another regulatory regime to control the abuse of intellectual property rights is provided by the Industrial Co-ordination Act (the ICA).³¹¹ The objective of the ICA, as set out in the preamble, is "to provide for the co-ordination and orderly development of manufacturing activities in Malaysia."³¹² Under this Act, a person who wishes to engage in any manufacturing activity needs a licence granted by the Ministry of International Trade and Industry.³¹³ A failure to comply with this requirement would result in criminal sanctions.³¹⁴ In issuing the licence, the licensing officer may impose such conditions as he may think fit in furtherance of the objectives of the ICA.³¹⁵ As a condition for the grant of the licence all draft agreements involving the licensing and transfer of technology with a foreign partner have to be submitted to the Ministry for prior written approval. The perusal of the licence agreements is made by the Malaysian Industrial Development Authority (MIDA) a Government agency under the Ministry. The aim of this policy is to ensure that such agreements do not contain provisions that "impose unfair and unjustifiable restrictions or handicaps on the licensees or that would be prejudicial to the national interest with regard to the transfer of industrial technology". When payments of fees are involved, it is the policy that such fees should be commensurate with the level or type of industrial technology to be transferred.³¹⁶ The technology transfer agreements involved may cover licence rights over specific processes, formulae or manufacturing technology, which may be patented or unpatented, as well as other knowledge and expertise necessary for the setting up of a plant or the production of a particular product. In addition, such agreements normally include the provision of various technical assistance and supporting services. The types of agreements which are involved include joint venture agreements, technical assistance agreements,

311 The Industrial Co-ordination Act, 1975, Act 156, as amended by Acts A 401 and A 462.

312 Basically, the purpose of the ICA is to make the granting of licences conditional on compliance with the National Economic Policy guidelines. For the impetus which gave rise to this Act, see, Bowie, A., *Crossing the Industrial Divide - State, Society, and the Politics of Economic Transformation in Malaysia*, Columbia University Press, New York, 1991, at pages 100-109.

313 See section 3(1), The Industrial Co-ordination Act, 1975, Act 156 (as amended by Acts A 401 and A 462). Under regulations made under the Industrial Co-ordination Act 1975, manufacturing industries employing less than 75 full-time paid employees and with shareholders' fund of less than two million and five hundred thousand ringgit are exempted from this requirement, see Industrial Co-ordination (Exemption) Order, 1976 (P.U. (A) 136, 1976), as amended by Industrial Co-ordination (Exemption) (Amendment) Order 1976 (P.U. (A) 214, 1976), Industrial Co-ordination (Exemption) (Amendment) Order, 1985 (P.U. (A) 543, 1985), and the Industrial Co-ordination (Exemption) (Amendment) Order, 1986 (P.U. (A) 456, 1986). Under the Industrial Co-ordination (Exemption)(No. 2) Order 1976 (P.U. (A) 327, 1976), manufacturing activities relating to the milling of oil palm fresh fruits into crude palm oil and activities relating to the production and processing of raw natural rubber are also exempted.

314 See section 3(2) of the Industrial Co-ordination Act 1975, which provides that any person who fails to comply with the provision of subsection (1) is guilty of an offence and is liable on conviction to a fine not exceeding two thousand ringgit or to a term of imprisonment not exceeding six months and to a further fine not exceeding one thousand ringgit for every day during which such default continues.

315 See section 4(4) of the Industrial Co-ordination Act 1975.

316 See Malaysian Industrial Development Authority - Policy and Guidelines on Transfer of Industrial Technology, Guideline 2.

know-how agreements, patent licence agreements, trade mark agreements, management agreements and turn-key contracts.³¹⁷

The screening of the agreements will involve perusal of the various terms in the agreements including those relating to the technological content and the principal features of the technology or process being acquired, remuneration for the technology acquired, duration and renewal,³¹⁸ and provisions for adequate training. In agreement involving patents whose life span extends beyond the agreement, arrangements should be made for the continued use of the patents after the agreement expires.³¹⁹ Another important clause that would be scrutinised closely is that relating to sales territory. The local company should be free to sell its products (manufactured with the licensed technology) in the whole of Malaysia and all other countries except where the foreign technology supplier is manufacturing directly or where he has given exclusive rights to others or where he is legally not empowered to allow sales based on his technology.³²⁰ However, the Patents Act is not referred to to ensure that the agreement does not contain any of the prohibitions under section 45. If the screening officer is not satisfied with the proposed terms, he will suggest changes to the terms, with the licensor suggesting counter proposals. No proposed agreement has been rejected because the parties will normally come to a compromise on the terms. Since technology transferors are now more well-informed of the MIDA Guideline, usually only minor changes are required.³²¹

This form of control, involving a special approval procedure, is thus a form of administrative control as it does not entail any legal sanctions resulting in the terms of the agreement being declared void and unenforceable. If a manufacturing licence is granted and the agreement is not submitted for approval, or if the terms of the licence are varied without the prior approval of the Ministry, this may lead to the withdrawal of the licence since the term of the manufacturing licence is that the draft agreements must be submitted to MIDA for approval. There is no monitoring system in place to assess and evaluate the progress of

³¹⁷ See Malaysian Industrial Development Authority - Policy and Guidelines on Transfer of Industrial Technology, Guidelines 3 and 4.

³¹⁸ As a rule the Ministry normally approves an initial period of 5 years and any renewal thereafter is subject to the prior written approval of the Ministry. This is to enable the Ministry to review and make an evaluation as to how the local company has acquired and benefited from the transfer of technology during the period of the agreement, whether the fees paid commensurate with the technology transferred and also whether the technology transferred during the first five years is conducive to the country's industrial development - see Guideline 5(d)(i) to (iii).

³¹⁹ See Guideline 5(f).

³²⁰ See Guideline 5(j).

³²¹ Personal communication from officials of MIDA. In fact, according to the source, the need for prior Ministerial approval of the agreements improves the bargaining position of the local party to the agreement. For an account of the types of onerous terms imposed on the licensee prior to the implementation of the regulatory scheme, and its impact on transfer of technology, see Lim, C.P., "Regulating the Transfer of Technology: An Analysis of Malaysia's Experience", *Journal of Contemporary South East Asia*, June 1985, page 13.

transfer of technology. Normally if there is a request for renewal after the first five years, the vetting office will ask the licensee about the progress of the transfer of technology.³²²

6.7. Proposals for Change

In accordance with the views expressed and observations made regarding ways whereby the various provisions discussed in this chapter could be improved, it is proposed that certain provisions of the Act need to be amended. Section 42 of the Act relating to licences of right should be revised to clarify the provisions and to make the scheme more attractive. It is proposed that section 45 be substantially revised to lay down more substantial guidelines as to what constitute restrictions which are prohibited in licensing agreements. The penalty for breach of the section should also be amended to make it a more powerful weapon to use in the control of abuses of patent rights. For the protection of the patentee, it is proposed that section 49(1) be amended by the addition of the word "interested" to qualify persons who may apply for a compulsory licence. The phrase "within the country" should also be added to section 49(1)(a) to clarify that production of the patented product should be within the country to escape being subjected to compulsory licensing. New subsections (3) and (4) need to be inserted to place the burden of showing that the patented invention is being worked in Malaysia on the patentee. A new ground for compulsory licences based on the inter-dependence of patents is proposed to be added to section 49A. It is also suggested that the scope of compulsory licences be extended to the act of importation where circumstances warrant it. Utility innovations should also be subject to compulsory licensing. This will involve amendment to section 17A. Finally, section 84, relating to Government use of a patent should be amended to clarify when the Government is entitled to rely on the section.

The proposed amendments to the Act to deal with the problems identified in this Chapter are set out in Chapter 8.

³²² For the effectiveness of this regulatory scheme, see Lim, C.P., "Regulating the Transfer of Technology: An Analysis of Malaysia's Experience", *Journal of Contemporary South East Asia*, June 1985, page 13; Tan, C.K., "Experience and Practices of Licensing and Technology Transfer in Malaysia", *Intellectual Property in Asia and the Pacific*, Dec. 1987-Feb. 1988, No. 20, page 33; Khaw, L.T., "The Effectiveness of the Legal and Regulatory Regime Regarding the Transfer of Technology", paper presented at the 7th Law and Society Seminar, 10-12 May, 1994, Kuala Lumpur, Malaysia.

CHAPTER 7: Exceptions, Limitations and Loss of Rights.

7. Introduction

This chapter discusses the various statutory exceptions and limitations to the rights of a patent owner, as well as circumstances leading to the loss of patent rights. The question of whether the doctrine of exhaustion of rights has been introduced, and if so, the scope of its application, is examined. The common law doctrine of implied licence to repair is also analysed to ascertain the extent of its application. Further limitations on the rights of a patent owner include rights derived from prior use and rights derived from use after a patent has lapsed and before it has been reinstated. These limitations are treated separately. In discussing these issues, the jurisprudence of the countries adhering to the common law principles are relied upon. The various grounds under which a patent can be invalidated are examined. With regard to the various best mode issues, special reliance will be placed on the case law of the United States since it is best developed there. Further, as the various statutory limitations are, except for minor variation, *in pari materia* with those suggested in the WIPO Model Law, reference will be made to the commentary on these provisions for guidance in the construction of these provisions.

Although the Act refers to the various categories of exceptions and limitations as limitation of rights, for ease of discussion, these statutory limitation to the rights of a patent owner will be divided into two main categories, the first category, the exceptions will be confined to the limitations laid down in section 37(1) and (3),¹ while the second category will encompass limitations provided by section 37(2) and (5), sections 38 and the newly introduced section 35A of the Malaysian Act.

7.1. Exceptions to Rights

The statutory exceptions laid down in section 37 of the Act can be divided into two classes, i.e., (i) acts of a non-commercial nature and use in scientific research, and (ii) use of the patented invention in vessels etc. temporarily in Malaysia.

¹ The other common law defences of laches, acquiescence and estoppel will not be discussed in this chapter. For a discussion of these defences, see CIPA Guide to the Patents Acts, 4th Ed., 1995, at page 515.

7.1.1. Acts of a Non-Commercial Nature, and Use in Scientific Research

The Act provides that "the rights under the patent shall extend only to acts done for industrial or commercial purposes and in particular not to acts done only for scientific research".² The term "industrial and commercial purposes" is not defined, so whether it is carried out for such a purpose depends on the facts of each case.

It is clear from this provision, however, that any use of the patented invention by a person for his private and personal purposes will not amount to an infringement of the patent owner's rights.³ Such acts will not be deemed to be acts done for industrial or commercial purposes and hence do not require the consent of the patent owner. Further, since the section emphatically states that the rights under the patent "shall extend only to acts done for industrial or commercial purposes", it is arguable that even use of the patented invention for educational purposes will be covered by the limitation, unless it is use in connection with an industrial or commercial purpose. In this respect it may be that a distinction would have to be made between a government educational institution and a private one. It is arguable that a government run-educational institution is not set up for a commercial purpose,⁴ whereas a privately-run institution could be deemed to be set up for a commercial purpose, and hence subject to the rights of the patent owner. Based on this reasoning, it would appear that a government-run school, for example, could use or provide infringing apparatuses for the purpose of experimentation by the students without fear of being involved in infringement suits. It is worth noting that in the only known reported case in the UK where reliance on the teaching exception was attempted, but rejected by the court, the defendant was carrying on a business.⁵ It has to be noted, too, that while educational uses in a non-commercial or

² Section 37(1) of the Act. This limitation is exactly the same as that suggested in the WIPO Model Law, see section 136(1) and commentary at pages 85-86. Compare this with the equivalent provision in the UK Patents Act 1977, section 60(5)(a) and (b), which is framed so as to be in conformity with the corresponding provisions of the Community Patent Convention. Section 60(5)(a) of the 1977 Act, UK, provides a defence for acts which are done privately and for purposes which are not commercial, while subsection (5)(b) exempts from infringement action acts which are done for experimental purposes relating to the subject matter of the invention. See Appendix. Note that the provisions of Alternative B of Article 19 (3)(ii) - (iv) of the proposed Patent Law Treaty are similar to the UK provisions. For further references to the Patent Law Treaty, see Introductory Chapter, footnote 11.

³ In fact, under the common law, it had been held that if the defendant had merely made the infringing article "for his own amusement, or as a model", there would not be an infringement - see Jones v. Pearce 47 ER 1049; 1 WPC 120 (1826), at page 125, per Patteson J.

⁴ Note that in relation to section 60(5)(a) of the 1977 Act of the UK (see footnote 2, *infra*), Cornish, W.R., *Intellectual Property*, 1996, at page 214, states that while activities of governmental, educational and charitable organisations may not be commercial, they are not likely to be private. Therefore, because of the use of the conjunctive "and" in the subsection, activities of such organisations will not be exempted.

⁵ See The United Telephone Co. v. Sharples (1885) 2 RPC 28 (Ch.D). In that case, the plaintiffs were the proprietors of two patents relating to telephonic apparatus. The defendant Sharples, who was carrying on the business of a chemist and electrician, admitted having imported from abroad certain infringing apparatus. There was in evidence a correspondence between Sharples and the foreign supplier of the instruments complained of, in which Sharples stated that he wanted the instruments for exportation. Sharples claimed that he actually bought the instruments for use by his pupils, so as to avoid the use by them of the patented articles, which were much more expensive. The court rejected this alternative defence and held that even if the story was true, use by

industrial context may not be regarded as infringing acts, the suppliers of the patented products to such institutions would be caught by the provisions on contributory infringement.⁶ Therefore, such educational uses are likely to be *de minimis*, and unlikely to be regarded as unreasonably prejudicing the legitimate interests of the patent owner.⁷

It is submitted that a convenient test to adopt in deciding what is a "commercial purpose" is that used for determining whether the offence of applying a false trade description "in the course of trade or business" for the purpose of the Trade Descriptions Act, 1972, has been committed.⁸ This phrase has not been judicially considered in Malaysia. However, the House of Lords, on the construction of the equivalent UK provisions,⁹ held that the words "in the course of trade or business" are intended to limit the application of s.1(1) of the UK Trade Descriptions Act to transactions which have some degree of regularity so that they form part of the normal practice of a business. The House of Lords went on to say that the need for some degree of regularity does not, however, mean that a one-off adventure in the nature of trade, carried through with a view of profit, would not fall within s.1(1), because such a transaction would itself constitute a trade.¹⁰ In this connection, the tax cases may be

the pupils would have been an infringement of the patents. Kay J., at pages 31-32, said, "The alternative story is this: ... Sharples says, 'We used them for the purpose of experiment; the cost of them was so small that we could afford to allow our pupils to pull them to pieces, or to experiment with them.' Now they had, as he says, a number of so-called royalty-paid instruments; they were more costly, and he says ... , 'We could not afford to let our pupils use those; we could not allow them to be pulled in pieces or experimented with, and therefore it was that we bought those which were very much cheaper, in order that our pupils might experiment with and use those instead of using the more expensive instruments.' And I am asked to say that that was not a user in this country. What does a pupil mean? They say that the pupils are persons who do not pay anything for being taught, but, on the contrary, that after they have been a certain while in the business they ... receive some payment; but the very word "pupils", and this evidence which is given, shows me plainly that they are young persons who are admitted into this business for the purposes of learning the business, and, whether they pay or not, it is obvious enough that they are paid very much less than an ordinary assistant would be paid who did not want to learn the business. They are admitted upon the terms that part of the remuneration they shall get for their services shall be instruction in the business. That is apparent on the very face of this statement; and to say that to buy a telephone which is an infringement of a patent in this country for the purpose of instructing your pupils who are learning the business ... for the purpose of saving the expense of using the patent telephone ... is not a user in this country, is a thing which I cannot accede to. It seems to me plainly a user. ..."

Contrast this with the US case of Ruth v. Stearns-Rogers Mfg Co. 29 USPQ 400 (DC D. Colorado, 1935), where it was held that the supply of parts for machines used in the Colorado School of Mines did not amount to contributory infringement. This was because the parts were for use in laboratory machines used for experimental purposes (the machines were all used in laboratory and were cut up and changed around from day to day), and consequently did not contribute to an infringing use - see *per* Phillips, Circuit Judge, at page 408.

⁶ See Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights, at para. 4.8.

⁷ See Part II, Section 5, Article 30 of the GATT TRIPS Agreement.

⁸ Section 3 of the Trade Descriptions Act, 1972, Act 87, Malaysia, provides that "Any person who, in the course of a trade or business - (a) applies a false trade description to any goods; or (b) supplies or offers to supply any goods to which a false trade description is applied, shall be guilty of an offence."

⁹ See section 1(1), Trade Descriptions Act 1968, UK, as amended by the Consumer Protection Act 1987, of the UK.

¹⁰ See Davis v. Sumner (1984) 1 WLR 1301, *per* Lord Keith, at page 1305.

The Commentary to the WIPO Model Law, at page 86, suggests that a charitable organisation will commit an infringement if it sells a patented product without the agreement of the owner of the patent, even if that sale is made on only one occasion and does not involve any profit. It is submitted that this may not necessarily be correct, as a single sale in this situation may not

of assistance. In Rutledge v. The Commissioner of Inland Revenue,¹¹ Clyde (Lord President), held that the question whether a particular adventure is "in the nature of trade" or not must depend on its character and circumstances. If the purchase is made for no purpose except that of a re-sale at a profit, there would be little difficulty in arriving at the conclusion that the deal is "in the nature of trade", even though it may be wholly insufficient to constitute by itself a trade.¹²

Acts done only for scientific research are specifically covered by the limitation.¹³ The import of this is not very clear. While use of the patented invention for scientific research

necessarily turn that sale into one carried out for commercial purpose, especially, as in the example, when no profit is made. In the example given in the WIPO commentary, since there is no view to profit, it is arguable that the act will not be an infringement. Take, for example, that I were to buy an infringing product in a country where there is no patent protection for the patented invention. If, after I have imported and used it for a few years, I decide to sell it to a friend, it is unlikely that my activity will be considered as an infringement of the patent rights.

¹¹ Rutledge v. The Commissioner of Inland Revenue (1928-1929) 14 Tax Cases 490. The question for decision was whether, in a one-off transaction involving the purchase, and subsequent resale of the whole consignment of a large quantity of paper at considerable profits, the profits were liable to tax. The decision of the Commissioner that the profits in question were liable to assessment to Income Tax, Schedule D, and to Excess Profits Duty as being profits of an adventure in the nature of trade within the meaning of section 237 of the Income Tax Act, 1918, was upheld on appeal. See Clyde (Lord President), at pages 496-497. Lord Shand, at pages 497-498, said, "The nature and quantity of the subject dealt with exclude the suggestion that it could have been disposed of otherwise than as a trade transaction. Neither the purchaser nor any purchaser from him was likely to require such a quantity for his private use. Accordingly, it appears to me quite a reasonable view for the Commissioner to have taken that this transaction was in the nature of trade. From beginning to end the intention was simply to buy and to re-sell. Your Lordship in the Chair has indicated that there may be cases of purchase and re-sale at a profit where the transaction cannot be said to be in the nature of trade. In particular, this may be the case where there is no definite intention of re-selling when the purchase is made. But I do not think that we can regard what was done here as other than an "adventure ... in the nature of trade" within the meaning of the Act." See also Martin v. Lowry [1927] AC 312 (HL), *per* Viscount Cave L.C., at page 315.

¹² The Commentary to the WIPO Model Law suggests that the fact that the act is committed on a large or small scale does not play any role in its qualification as an infringement. Further, the identity of the person committing the act is equally immaterial in this regard - see page 86 WIPO Model Law. It is submitted that this view has to be right.

¹³ Unlike the provisions of the United Kingdom patent statute, there is no specific mention in the Act of exemption for acts done for experimental purpose. However, it would seem that such experimental activities would fall under the scientific research exemption. In fact, under the common law, an experimental use was regarded as a permitted act which would not infringe the patentee's rights. In Frearson v. Loe (1878) 9 Ch.D. 48, Jessel M.R. at page 66, said that "if a man makes things merely by way of *bona fide* experiment, and not with the intention of selling and making use of the thing so made for the purpose of which a patent has been granted, but with the view of improving upon the invention the subject of the patent, or with the view of seeing whether an improvement can be made or not, that is not an invasion of the exclusive rights granted by the patent. Patent rights were never granted to prevent persons of ingenuity exercising their talent in a fair way. ..." Similarly, Bristowe V.C. in Proctor v. Bayley & Son (1888) 6 RPC 106, at page 109, agreed with the proposition that it was not infringement if a person took a patented article for the purpose of seeing whether he could improve upon it, not using the article in a practical sense, but testing and trying from it whether he could invent something better. Although the US patent statute does not specifically provide for an experimental use defence, such a defence has been recognised by the courts since the case of Whittemore v. Cutter 29 Fed. Cas. 1120 (CC D. Mass. 1813), see *per* Justice Story, at page 1121. For the US experimental defence, see further, Chisum, Vol. 4, at para. 16.03. See also Gilat, D., *Experimental Use and Patents*, IIC Studies Vol. 16, 1995; Bee, R.E., "Experimental Use as an Act of Patent Infringement", 39 JPOS 357 (1957); Eisenberg, R.S., "Patents and the Progress of Science: Exclusive Rights and Experimental Use", 56 U. Chi. L. Rev. 1017 (1989); Grossman, S.J., "Experimental Use or Fair Use as a Defence to Patent Infringement", 30 IDEA 243 (1988-89).

carried out by a person for his own private and personal interest is clearly covered by this limitation, if not by the first part of section 37(1), what if the scientific researches are carried out in a commercial or industrial setting? It may be that a distinction has to be made here between using the patented invention for industrial and commercial purposes and one that was merely used for research in a commercial and industrial situation.¹⁴ However, it would seem that as the section does not qualify the type of scientific research exempted from the owner's control, even researches conducted for industrial and commercial purposes will be covered. Therefore, it should cover research carried out on the patented invention to improve on the invention or to discover new uses of the product.¹⁵ A distinction, however, has to be made between research carried out on a patented invention for the above-mentioned purpose and one carried out in connection with exploitation of the patented invention in mind. This is clearly set out in Monsanto Co. v. Stauffer Chemical Co. and anor,¹⁶ where a distinction was made between researches carried out to investigate the patented invention and one carried out with the future commercial exploitation of the patented invention in mind, as for example, trials carried out in order to demonstrate to a third party that a product works or, in order to amass information to satisfy a third party, whether a customer or a regulatory body.¹⁷ In fact, the New Zealand High Court held that

¹⁴ This distinction was made by Aldous J. in considering the scope of the section 60(5)(a) exemption under the UK Act. See Smith Kline & French Laboratories Ltd v. Evans Medical Ltd [1989] 1 FSR 513, at page 517.

¹⁵ The WIPO Commentary envisages that such a situation would be covered by the limitation. See also Smith Kline & French Laboratories Ltd v. Evans Medical Ltd [1989] 1 FSR 513, where Aldous J. would have allowed such a situation under the provision of section 60(5)(b) of the UK Act. In Monsanto Co. v. Stauffer Chemical Co. and anor [1985] RPC 515, Dillon L.J., at page 538, held that the experimental purposes contemplated in section 60(5)(b) might encompass experiments on the patented invention with a commercial end in view. He cited the Canadian case of Micro-Chemical Ltd v. Smith Kline and French Inter-American Ltd (1971) 25 DLR 79, where a limited experiment to establish whether the experimenter could manufacture a quality product commercially in accordance with the specification of a patent, as being covered by the words "for experimental purposes relating to the subject matter of the invention.

¹⁶ Monsanto Co. v. Stauffer Chemical Co. and anor [1985] RPC 515.

¹⁷ Monsanto Co. v. Stauffer Chemical Co. and anor [1985] RPC 515, *per* Dillon L.J., at page 542. See also Smith Kline and French Laboratories Ltd & anor v. Douglas Pharmaceuticals Ltd [1991] FSR 522 (CA N.Z.), *per* Cooke P., at page 524. The same approach is followed in the Federal Republic of Germany. In Ethofumesat, noted in OJ EPO 3/1991, at 196, the Federal Court of Justice held that a patent was infringed if during its term a patented product was examined in field trials by plant protection agencies or their test departments at the request of a third party with a view to obtaining the evidence required for licensing a plant treatment agent containing the active substance. The court held that the patent owner may require that the interference with his rights caused by the patent's infringement be removed, the said interference consisting in the fact that the infringer can market the plant treatment agent containing the active substance as soon as the patent has expired, which he would not be able to do if he waited for the patent's expiry before carrying out the field trials needed for licensing the agent. The resulting adverse effects on the entitled party's competitive position can be removed by prohibiting the infringer, for whatever period he would need after the patent's expiry in order to obtain the test results arrived at by infringing the patent, from using those results in support of an application for the licensing of a plant treatment agent by the Federal Biological Research Centre for Agriculture and Forestry. For the approach in the US, see Poppenhusen v. New York Gutta Percha Comb Co. 19 Fed. Cas. 1059 (CC S.D.N.Y. 1858), *per* Ingersoll, District Judge, at page 1063, "The next question is: Has there been a violation or infringement? It is said, ... that there has not been, for the reason that whatever use were made of it was an experimental use - a use merely for experiment, and not with a view to profit; and when there has been no profit and no sale, it will not make a party liable, because the patentee would not be injured by it. But where ... it is done as a matter of business, where the

the field testing carried out by the defendants, being designed to obtain data necessary to obtain permission for commercial user in New Zealand, did not fall within the permitted experimental use defence.¹⁸

In the Malaysian context, it could be argued that as the subsection contains a qualification in the form of the word "only" before the words "for scientific research" and it is further qualified by the words "industrial and commercial purposes" at the beginning of the subsection, then scientific research for commercial purposes would not be allowed. If this construction is correct, then the only research covered will be non-industrial or commercial research. The problem with this construction is that it renders the second part of section 37(1) unnecessary, since non-commercial research would have been covered by the first part of section 37(1). It is submitted, therefore, that the approach shown by the case law of the various Commonwealth jurisdictions discussed earlier has to be the right approach to adopt. A contrary reading of this limitation would stifle progress since the researcher would then have to wait for the patent to expire before any commercial research could be carried out.

7.1.2. Use of the Patented Invention in Foreign Means of Transportation

Section 37(3) provides that "the rights under the patent shall not extend to the use of the patented invention on any foreign vessel, aircraft, spacecraft or land vehicle temporarily in Malaysia". This subsection is meant to implement the obligation contained in Article 5ter of the Paris Convention of which Malaysia is a member.¹⁹ The purpose of this limitation is to

product of that experiment has been thrown into the market, to compete with the products of the plaintiff although he may call it an experiment, yet, if it is a matter of business, and thrown into the market for the purpose of being sold, and is sold with his other products, why, that will be such a use as will make the party liable." See also Poppenhusen v. Falke et al. 19 Fed. Cas. 1048 (CC S.D.N.Y. 1861), *per* Shipman, District Judge, at page 1049.

¹⁸ See Monsanto Co. v. Stauffer Chemical Co. (NZ) [1984] FSR 559 (H. Ct NZ), *per* Eichelbaum J., at page 567, stressing that by this testing, the defendants had derived some advantage from the patented invention, and that it was a stepping stone towards a full commercial launch. At page 570, the Judge observed that a patent monopoly not only entitles the holder to exploit the invention without competition during the period of patent protection, it also enables him to approach the period after the monopoly ceases in a strong position in the market place. This attitude is also reflected in the opinion of Dillon L.J., in Monsanto Co. v. Stauffer Chemical Co. [1984] FSR 574, at page 586, where in granting interlocutory injunction against the defendants' activities, His Lordship said that, "if no interlocutory injunction is granted now and the defendants proceed with the marketing of Touchdown in this country, they will by October 1987 have built up a market for Touchdown in this country which will be an extremely valuable bridgehead or springboard for them if they then elect to take a licence of right." Note that Alternative B of Article 19(3)(iii) of the proposed Patent Law Treaty allows the possibility of a country exempting from infringement actions acts carried out for the purposes of seeking regulatory approval for marketing. See also Chapter 3 - The Exclusive Rights, footnote 112.

¹⁹ For a commentary of the historical development and purpose of this article, see generally, Ladas. Patents, Trademarks, and Related Rights - National and International Protection, Vol. 1, at pages 416-420. See also Bodenhausen, Guide to the Application of the Paris Convention for the Protection of Industrial Property, at pages 82-84.

prevent inconvenience in the freedom of international transportation. Its intended effect is to guarantee that an enterprise can cross borders and go back with its vehicle which is permanently stationed abroad, unhindered by patents granted in Malaysia. It has to be noted that the limitation applies only to foreign vessels etc. and not to those registered in Malaysia.²⁰ Further, the presence in Malaysia must be temporary.²¹

Compared to the provisions of Article 5ter of the Paris Convention and section 136(3) of the WIPO Model Law, there is no amplification as found in these two provisions that the limitation applies if "the patented invention is used exclusively for the needs of the vessel or in the construction or operation of the aircraft, spacecraft or land vehicle". It may be that this may not be crucial, as the Malaysian provision, bearing in mind the purpose of this limitation, may be construed as to limit the use of this provision only in cases where the patented invention is used for the purpose of the vessel etc. and not, for example, to allow sale in the ports of articles produced on board the vessel etc. as such activities cannot reasonably be considered as being for the use of the vessel etc. Further, infringing cargoes transported on board such vessels etc. will not be covered by the exemption from infringement.²²

Of greater significance is the fact that the word "accidentally" is left out in the Malaysian provision. A vessel etc. could, by accident, be in Malaysian territory for a long period of time, and hence its presence there could not be termed temporary. It would seem that in such a situation, its distress could be further compounded by possible patent infringement suits. To ensure that the Malaysian provision be in line with the obligations under the Paris Convention, it is proposed that the word "accidentally" be added to this subsection.

²⁰ Note that the Act may not be applicable to vessels merely because they are Malaysian registered - see discussion on this point in Chapter 3 - The Exclusive Rights, at para. 3.4.2. Further, unlike the obligation of Article 5ter, which extends this protection only to vessels etc. of other countries of the Union, there is no such limitation in the Malaysian provision. So any foreign vessel etc. satisfying the conditions provided in the subsection can take advantage of this limitation.

²¹ Temporary entrance will include periodic entrances - see Bodenhausen, *op. cit.* at page 83. In "Carrying Carts for plants" 21 IIC 99 (1990), Decision of the Hanseatic Court of Appeals, Hamburg, February 18, 1988 - case No. 3 U 159/87, involving the construction of section 7(4) of the German Patent Act, which is similar to the provision of Article 5ter, the Court held that the provision did not apply once the owner of the vehicle lost control of the vehicle within the jurisdiction and could no longer guarantee that it would come back, since in such a situation the vessel could not be said to have entered the country temporarily - see page 101.

²² For the discussion of this point, see, Chapter 3 - The Exclusive Rights, para. 3.4.1.

7.2. Limitations of Rights

This part of the chapter discusses the various limitations to the rights of a patent owner. The limitations are those resulting from the statutory exhaustion principle, limitations brought about by grants of compulsory licences or Government use, the acquisition of prior user rights, and those brought about by the restoration of lapsed patents.

7.2.1. Statutory Exhaustion

Under the common law, the patent owner is subject to the doctrine of implied licence.²³ According to this doctrine, when a patented article had been sold without any conditions attached to the sale, the purchaser is deemed to have an absolute and unrestricted right to deal with the article as he pleases.²⁴ However, since this doctrine is based on the implied consent of the patentee, if the restrictions on further dealings with the article are made known to the purchaser at the time of the sale, such restrictions would normally be binding on the purchaser.²⁵ This principle was applied by the Privy Council in National Phonograph Co. of Australia Ltd v. Menck,²⁶ where the position was summarised thus:

1. that it is open to the patentee, 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,

²³ For a more detailed account of the doctrine of implied licence, see Rothnie, W.A., Parallel Imports, Sweet & Maxwell, 1993, Chapter 3, para. 3.2. See also Benyamini, A., Patent Infringement in the European Community, IIC Studies Vol 13, 1993, para 12.1.3.

²⁴ Crane v. Price 1 Web. P.C. 393 ((1842), at 413; 4 HPC 107, at 127, *per* Tindal C.J. See also Betts v. Willmott LR 6 Ch. 239 (1871), *per* Lord Hatherley, at page 245, "... 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." See also, Cotton L.J., at page 9, in The Societe Anonyme des Manufactures de Glacés v. Tilghman's Patent Sand Blast Co. (1884) 25 L.R. Ch. D. 1 (CA), adopting Betts v. Willmott LR 6 Ch. 239 (1871), though the case was distinguished on its facts.

²⁵ See, for example, Incandescent Gas Co. v. Brogden (1899) 16 RPC 179; Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537, *per* Graham J., at page 547. For examples of when restrictions were made known to the purchasers and hence binding on them, see Incandescent Gas Company Ltd v. Cantelo (1895) 12 RPC 262, Dunlop Rubber Co. v. Longlife Battery Depot [1958] RPC 473, *per* Lloyd-Jacob J., at page 476, and Sterling Drug Incorporated v. C.H. Beck Ltd and anor [1972] FSR 529, *per* Graham J., at page 531. This statement is subject to the provision of the Act on invalid clauses in licence contracts - see Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, at para. 6.5, for a discussion on section 45 which deals with such invalid clauses.

²⁶ National Phonograph Co. of Australia Ltd v. Menck (1911) 28 RPC 229, *per* Lord Shaw, at pages 246-248. See also the Singapore case of Sime Darby Singapore Ltd & ors v. Beecham Group Ltd [1968] 2 MLJ 161, at pages 165-167, *per* Wee C.J. (Fed. Ct Singapore).

2. 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 is meant to be vested in the purchaser,
3. 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 the sale,
4. restrictive conditions do not run with the goods.

This doctrine of implied licence is adopted in Malaysia in Smith Kline & French v. Salim.²⁷ In that case it was held that a parallel importer of a patented drug bought from the patentee's licensee in the United Kingdom, and subject to a condition against resale outside the United Kingdom, was nevertheless not in infringement of the patent when he sold the drug in Malaysia. However, once he had been notified of the restriction, he would be liable for infringement if he were to carry on with his parallel importing activity.

The above case was decided under the pre-1986 law, before the Act came into force. Section 37(2) of the Act now provides that the rights under the patent shall not extend to acts in respect of products which have been put on the market by the owner of the patent, the person entitled to exercise a prior user right,²⁸ a licensee of the patent owner,²⁹ or the beneficiary of a compulsory licence.³⁰ The provisions of section 37 thus need to be analysed to determine whether they are meant to be a mere re-enactment of the common law rules or whether these provisions go further, and are intended to introduce the principle of "exhaustion of rights", and if so, whether domestic or international exhaustion is intended.

There is a major difference between the doctrine of implied licence and the doctrine of exhaustion. As noted by Schatz,³¹ if the purchaser's freedom to deal with the goods he purchases in any way he wishes is based on a presumed consent of the patentee, the latter can limit his consent at will, thereby retaining his ability to restrict the freedom of competition and of trade in any way he chooses, right down to the ultimate consumer. The implied licence doctrine is based on a presumed acceptance of restrictions made known to the purchaser at the time of the sale, breach of which condition amounts to a patent infringement. The doctrine of exhaustion, however, focuses on the rights derived from the

²⁷ Smith Kline & French v. Salim (1989) 2 MLJ 380; [1989] FSR 407, per V.C. George J., High Court of Malaya.

²⁸ See *infra*, para. 7.2.3, on prior user rights.

²⁹ See Chapter 3 - The Exclusive Rights, para. 3.7.

³⁰ See Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, paras. 6.2 and 6.3.

³¹ Schatz, U., "The Exhaustion of Rights in the Common Market", 2 IIC 1 (1971).

patent monopoly. As was stated by the court in Centrafarm v. Sterling Drug,³² "[i]n 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 grant of licences to third parties, as well as to oppose infringement."³³

According to the principle of exhaustion of rights, after the first distribution of a product, the rights owner will no longer be entitled to make use of his exclusive rights to prevent further distribution of the product in the domestic market. The concept of the "first sale" doctrine in the United States,³⁴ or the exhaustion of rights doctrine Europe, was developed

³² Centrafarm v. Sterling Drug [1974] ECR 1147. This is the first case in which the exhaustion of rights principle was applied to patented goods in the European Community.

³³ In the same vein, it was stated in Brandt Consolidated Inc. v. Agrimar Corp. 24 USPQ2d 1341 (C.D. Ill. 1992), at pages 1347-1348, that "An incident to the purchase of any article, whether patented or unpatented, is the right to use it and sell it. The purpose of the patent law is thus fulfilled with respect to any particular article once the patentee has received the reward for the use of his invention by selling that article. Once that purpose is realised, the patent law affords no basis for restraining the use and enjoyment of the thing sold."

³⁴ Though it has generally been believed that the "first sale" or exhaustion doctrine has long been a fixture of United States patent law, an examination of the cases does not seem to bear this out. The cases on the right of a patentee to control further dealings with the goods purchased seem to swing between the implied licence theory and the exhaustion doctrine. It was held in Bloomer v. Millinger 68 US 340 (US Sup. Ct 1864) that "when a patentee has ... constructed the machine and sold it, or authorised another to construct it and sell it, or to construct and use and operate it, and the consideration has been paid to him for the right, he has then to that extent parted with his monopoly, and ceased to have any interest whatever in the machine so sold or so authorised to be constructed and operated.". See also Bloomer v. McOuewan 55 US 539 (1852) and Wilson v. Rousseau 45 US 646 (US Sup. Ct 1846); in Adams v. Burke, 84 US 453, at 456 (US Sup. Ct 1873), it was held that "when the patentee, or the person having his rights, sells a machine or instrument whose sole value is in its use, he receives the consideration for its use and he parts with the right to restrict that use."; United States v. The Univis Lens Co. Inc. et al. 53 USPQ 405 (US Sup. Ct 1942), *per* Stone C.J., at page 408, "The full extent of the monopoly is the patentee's 'exclusive right to make, use and vend the invention or discovery'. The patentee may surrender his monopoly in whole by the sale of his patent or in part by the sale of an article embodying his invention. His monopoly remains as long as he retains the ownership of the patented article. But sale of it exhausts the monopoly in that article and the patentee may not thereafter, by virtue of his patent, control the use or disposition of the article."; cf Met-Coil Systems Corp. v. Komers Unlimited, Inc. et al. 231 USPQ 474 (CAFC 1986), *per* Nies, Circuit Judge, at page 476, "A patent owner's unrestricted sales of a machine useful only in performing the claimed process and producing the claimed product plainly indicate that the grant of a licence should be inferred. ... absent any circumstances tending to show the contrary, we see no error in the district court's holding that Met-Coil's customers enjoyed an implied licence under the patent." There was some uncertainty as to whether, in the absence of illegal tie-ins or price-fixing, the patentee could impose other conditions on the sale of his products which might restrict the use of the product. This question seems to have been settled in Mallinckrodt Inc. v. Medipart Inc. 24 USPQ2d 1173 (CAFC 1992), where Newman J., after reviewing the cases, said at pages 1178-1179, "The principle of exhaustion of the patent right did not turn a conditional sale into an unconditional sale. ... Viewing the entire group of these early cases, it appears that the Court simply applied, to a variety of factual situations, the rule of contract law that sale may be conditioned. Adams v. Burke and its kindred cases do not stand for the proposition that no restriction or condition may be placed upon the sale of a patented product. It was error for the district court to derive that proposition from the precedent. Unless the condition violates some other law or policy (in the patent field, notably by the misuse or anti-trust law, e.g., United States v. Univis Lens Co. 316 US 241 (US Sup. Ct 1942), private parties retain the freedom to contract concerning conditions of sale." Therefore, the "restriction on reuse" was held enforceable under the patent law. For a commentary on this case, see Stern, R.H., "The Unobserved Demise of the Exhaustion Doctrine in US Patent Law", [1993]

as a means of reconciling the exclusive rights of the owner of the intellectual property with the need to promote the free movement of goods. The exhaustion of rights doctrine, first developed by the German Supreme Court in 1902, was based on two foundations:

- (1) the patentee, by manufacturing and selling the protected product, or consenting to these acts, without any need to compete with third parties, has had an opportunity to avail himself of the advantage granted by the patent, and his exclusive rights in respect of that product are thereby exhausted.
- (2) exhaustion of rights ensures the public interest in the freedom of trade in products protected by patents, as it prevents the patentee from splitting the national market and obstructing the free movement of goods therein.³⁵

Hence the aim of the application of the exhaustion principle is to prevent further restrictions on the movement of the products once they have been first lawfully put on the market. The effect of the doctrine means that violation of such restrictions does not constitute patent infringement. In other words, once the goods have been lawfully put on the market, the patent owner's right of further control over such goods has been "exhausted" and the goods are freed from his exclusive control, despite any reservation at the time of sale.

7.2.1.a. Domestic exhaustion

Section 37(2) expresses in traditional language the application of the "first sale" or "exhaustion of rights" principle.³⁶ It is substantially based on the provisions of the WIPO Model Law which are intended to introduce the doctrine of exhaustion.³⁷ Further, section 37(2) is similar to the provisions of Articles 28 and 76 of the Community Patent

12 EIPR 460. See also Kobak, J.B., "Contracting Around Exhaustion: Some Thoughts About the CAFC's Mallinckrodt Decision", (1993) 75 JPTOS 550, for a critique of the decision. However, in another case after the Mallinckrodt decision, Intel Corp. v. ULSI Corp. 27 USPQ2d 1136 (CAFC 1993), at 1138, it was held that "The law is well settled that an authorised sale of a patented product places that product beyond the reach of the patent ... The patent owner's rights with respect to the product ends with its sale ... and a purchaser of such a product may use or resell the product free of the patent ... This long-standing principle applies similarly to a sale of a patented product manufactured by a licensee acting within the scope of its licence". In other words, there seems to be a swing back to an exhaustion doctrine approach. For more detailed discussions on the US "first sale" doctrine, see Rothnie, W.A., *Parallel Imports*, Sweet & Maxwell, 1993, Chapter 3, para. 3.3., and Benyamini, A., *Patent Infringement in the European Community*, IIC Studies Vol 13, 1993, para 12.1.4. See also Stern, R.H., "The Exhaustion of Patent Rights - A US Commentary", EIPR, January 1980, 5.

³⁵ See Benyamini, A., *Patent Infringement in the European Community*, IIC Studies Vol 13, 1993, Chapter 12, page 287-288.

³⁶ Note that Alternative B of Article 19(3)(i) of the proposed Patent Law Treaty allows a member State to implement the concept of national or regional exhaustion. For further references to the Patent Law Treaty, see *supra*, footnote 2.

³⁷ See section 136(2), WIPO Model Law, and the Commentary thereto, at page 85. There are two differences in the relevant provisions of the Act. The first is the absence of the words "in the country" to qualify "products which have been put on the market". The second is the omission of any reference to goods put on the market by virtue of the provisions on rights of Government.

Convention, which lay down, in legislative form, the case law of the European Community on Community exhaustion.³⁸ The exhaustion principle as applied in the European Community is based on the provision of Articles 30 and 36 of the Treaty of Rome,³⁹ the concept of free movement of goods within the countries of the European Union, therefore, the case law of the European Union on the exhaustion principle will be most helpful. From the principles enunciated in Centrafarm v. Sterling Drug, it can be said that the patentee who imposes any restriction on the use of a product after sale will not be able to institute an infringement action against the purchaser. This is so even if the purchaser is aware of and agrees to the restrictions on use imposed by patentee when he makes the sale. Under the EC exhaustion doctrine, a rights owner cannot limit his consent to the marketing of a protected product in a Member State. Thus, even if the rights owner contractually bans a party from marketing a product other than in a Member State, the ECJ will not permit him to exercise his rights against a parallel importer importing products so marketed into another Member State.⁴⁰

Since there is no mention of any conditions qualifying the application of the limitations in the section, it would appear that the intention of the legislature is to introduce the doctrine of exhaustion. The freedom from the patentee's control in relation to any acts in respect of products put on the market by the owner of the patent is not qualified in any way by the Act. Hence it would appear that even if the patent owner were to impose restrictions on further dealings with the goods at the time of the sale, such restrictions would not bind the purchaser. In this connection, it is worth noting that the exclusive rights granted by the Act are, *inter alia*, to "sell" the patented product. There is no mention in the Act of the right to control further use of a patented product after a lawful sale. Therefore, the right to control the condition of further sale or use is not part of the exclusive rights. This submission is in accord with the concept of exhaustion.⁴¹

³⁸ See generally, Tritton, G., *Intellectual Property in Europe*, 1996, chapter 7, Oliver, P., *Free Movement of Goods in the EEC*, 2nd Ed., 1988, at pages 231-252, and Joliet, R., "Patented Articles and the Free Movement of Goods Within the EEC", (1975) *Current Legal Problems* 15.

³⁹ Treaty Establishing the European Economic Community, signed March 25, 1957, and which came into force on January 1, 1958.

⁴⁰ Dansk Supermarked v. Imerco [1981] ECR 181, [1981] 3 CMLR 590.

⁴¹ For example, in relation to the application of the exhaustion principle to copyright works in Germany, the court in "Phonograph Record Rental" (Fed. Sup. Ct Germany, 1986), 18 IIC 834 (1987), at page 836, said that, "According to the exhaustion principle, the exhaustion of the distribution right under copyright law depends alone on whether or not the owner of the right consented to put the work into circulation by way of sale. There is no need for the consent to cover the manner of further utilisation - such as rental and hire: for it is by the first transfer of ownership that the owner of the right surrenders control over the copy of the work; it thereby becomes free for any further distribution. This release serves the interest of the exploiters and the general public to keep the respective works merchantable. ... If, after he has sold the work or given his consent to sell, the owner of the right could still interfere in the further distribution of the work, prohibit it, or make it subject to any conditions, this would constitute an intolerable impediment to free trade. ... The possibility of restricting the exhaustion effect - simply by a unilateral statement - would run counter to the exhaustion principle and its underlying purpose."

7.2.1.b. Applicability of the exhaustion principle to goods sold by licensees

The rest of section 37(2), i.e., subsections (2)(ii) to (iv) are intended as limitations on the application of section 37(2), and sets the parameters within which the exhaustion principle is to apply. In the context of domestic exhaustion, however, the limitations imposed by section 37(2)(ii) and (iv) are not pertinent, and is a mere restatement of what is implicit from the provisions of the Act permitting a prior user to continue use, and a compulsory licensee to exploit the patented invention under certain conditions. As long as the prior user and the compulsory licensee are acting within the scope of their statutory rights, their exploitation of the patented invention cannot be prevented by the patent owner, and logically, neither should further dealings in goods produced by them be prevented. These provisions are however, important when the question of international exhaustion is considered.

More germane, in the context of domestic exhaustion, is the provisions of section 37(2)(iii), which provides that the rights of the patent owner do not extend to goods put on the market "by a person having the right referred to in section 43". Section 43 refers to the rights of the licensee in the absence of any provision to the contrary. By the combined effects of sections 43 and 45, the patent owner can impose restrictions on the scope, extent or duration of exploitation of the patented invention, or the geographical area in connection with which the patented invention may be exploited. Therefore, it would appear that while the Act allows for market division within the territories of Malaysia, the extent to which the patentee could divide his market territorially is curtailed by the provision of section 37(2)(iii). This is because as long as the licensee has lawfully put goods on the market in accordance with the terms of the licence, the patent owner has no further right to prevent further distribution of the goods. Assuming that the patent owner gives an exclusive licence to manufacture and sell his patented products throughout the whole territory of Malaysia, then upon such a lawful putting of the goods on the market, the patent owner's rights to control further circulation of the goods would be deemed to be exhausted. On the other hand, if the owner were to grant to one licensee the right to manufacture and sell the patented goods in the states of Peninsular Malaysia, and to grant to another licensee the exclusive rights to exploit the invention in East Malaysia, sale by one of the licensees in breach of the territorial restriction will not exhaust the owner's rights over the goods. In this situation, it can be argued that any products manufactured or sold by the licensee in breach of the licensing condition will mean that the patentee has not parted with that part of his monopoly reserved, and such goods are not deemed to have been lawfully put into circulation.⁴² Since such a consent is lacking, the patentee's rights are not exhausted, and

⁴² See, for example, "Phonograph Record Rental" (Fed. Sup. Ct Germany, 1986), 18 IIC 834 (1987), at page 836, "As long as the requirements of section 17(2) Copyright Act (1965) are fulfilled, exhaustion will occur, regardless of whether the previously granted utilisation right ... was or was not subject to restrictions. Consequently, exhaustion, as a matter of principle, can be affected only by a restriction which concerns the manner in which the product is first placed into circulation; for

therefore, such a sale will amount to a patent infringement. The licensee in such a case will be guilty of patent infringement if he were directly to sell his products outside the given territory in breach of contractual territorial restrictions. Such goods are also not "freed" goods in the hands of purchasers from the licensee. To this extent, the restriction imposed by section 37(2)(iii) reflects the same approach adopted under the common law.⁴³

However, in contrast to the common law position, it would appear that as long as the licensee has lawfully put the goods on the market in his licensed territory, any purchaser of the goods in that territory could then bring it out of the licensed territory and resells it in another state of Malaysia. Such an act of the reseller will not amount to a patent infringement. In other words, licensed prohibitions against selling the goods outside a certain territory do not run with the goods if the goods were originally lawfully put on the market. This is true even if notice of the prohibition on further dealings with the goods is brought to the notice of the purchaser prior to the sale, as for example, by means of a notice attached to the goods. If such notices are allowed to be effective, it will subvert the intention of the Act.⁴⁴

7.2.1.c. International exhaustion

The next question is whether the doctrine of international exhaustion is applicable under the Act.⁴⁵ Could goods lawfully put on a foreign market by the patent owner or with his consent be parallel imported into Malaysia without the consent of the owner of the patent in Malaysia?⁴⁶ As mentioned earlier, even though section 37(2) is modelled along the

if this restriction is disregarded, the respective product was not placed into circulation with the consent of the owner of the right."

⁴³ See The Societe Anonyme des Manufactures de Glacés v. Tilghman's Patent Sand Blast Co. (1884) 25 L.R. Ch. D. 1, *per* Cotton L.J., at page 9. See also the High Court of Kenya's decision in Beecham Group v. International Products [1968] RPC 129, *per* Rudd J., at page 134, and Minnesota Mining & Manufacturing Co. & anor v. Geerpres Europe Ltd [1974] RPC 35, *per* Graham J., at page 40. See generally, Ladas, Patents, Trademarks, and Related Rights - National and International Protection, Vol. 1, at pages 396-402. In relation to the Common Market exhaustion doctrine, this is the approach favoured by Roudard, I., "Direct Export in Community Law", Patent World, May 1989, 34, though she admits that there is no clear solution yet.

⁴⁴ Therefore, Smith Kline & French v. Salim (1989) 2 MLJ 380; [1989] FSR 407, seems to be statutorily overruled in this respect.

⁴⁵ The application of the concept of international exhaustion is not foreign to Malaysian intellectual property law - see for example, sections 36(2) and 39(2) of the Copyright Act 1987, Malaysia, Act 332. Section 32(2) of this Act provides that the commercial importation into Malaysia of an article protected by copyright amounts to an infringement where the importer knows or ought reasonably to know that the making of the article was carried out without the consent or license of the owner of the copyright.

⁴⁶ The TRIPS Agreement fails to prescribe the concept of international exhaustion and a prohibition on restricting parallel import from one signatory state to another, preferring a compromise solution by leaving the possibility of the application of such exhaustion principle open - see footnote 6 to Article 28 TRIPS. In fact Article 6 of the TRIPS Agreement provides that the issue of exhaustion cannot be the subject of dispute settlement under the Agreement. It is arguable that the provision for the application of international exhaustion of rights will not be in conflict with the requirements of the TRIPS Agreement. For the arguments that a territorial regime of exhaustion is no longer justifiable in view of the increasing globalization of the world economy, the efforts for greater liberalisation of international trade, and the drive towards the establishment of

provisions of section 136(2) of the WIPO Model Law, unlike the WIPO provisions, the words "in the country" is absent in the Malaysian provision. According to the WIPO Commentary, the rights of the owner are not exhausted with regard to any patented product which has been put on the market in a foreign country, even if it is the owner himself or one of the other persons enumerated in the subsection who so puts it on the foreign market. In view of the absence of the words "in the country", it is submitted that the provision is intended to apply a form of the doctrine of international exhaustion in Malaysia and hence permit the parallel importation of goods protected by parallel patents.⁴⁷ This is reinforced by the provisions of section 37(2)(ii) and (iv). These two subsections would be tautologous if only domestic exhaustion is envisaged by the Act. Having provided for prior user rights and compulsory licensing in other parts of the Act, it is implicit that the patent owner's rights would be subjected to them. Hence a proper construction of section 37(2) would be to read these two subsections as cutting down the application of international exhaustion.

It is submitted, therefore, that international exhaustion applies in Malaysia, albeit in a restricted form.⁴⁸ Where the owner of the patent holds a parallel patent in the country of

internationally uniform standards of intellectual property protection and their incorporation into a GATT-based international trading system, see Yusuf, A.A., and Moncayo von Hase, A., "Intellectual Property Protection and International Trade - Exhaustion of Rights Revised", 16 World Competition, September 1992, 115, at pages 127-129. See also Soltysinski, S., "International Exhaustion of Intellectual Property Rights under the TRIPS, the EC Law and the Europe Agreements", GRUR Int. 1996, Heft 4, 316, at pages 318-320; Bronckers, M.C.E.J., "The Impact of TRIPS: Intellectual Property Protection in Developing Countries", 31 CML Rev. 1245 (1994), at pages 1266-1269; and Ullrich, H., "TRIPS: Adequate Protection, Inadequate Trade; Adequate Competition Policy", 4 Pacific Rim Law & Policy Journal, 153 (1995), at 192-193. For the argument against, see Cottier, T., "The Prospect for Intellectual Property in GATT", 28 CML Rev. 383 (1991), at pages 399-400.

It is noteworthy that in a recent case in Japan, the Tokyo High Court adopted the principle of international exhaustion and held that where a patent owner has manufactured and distributed its products in Germany under its German patent, the corresponding Japanese patent is exhausted with respect to such goods. Therefore, a parallel importer can lawfully import the products into Japan without infringing the Japanese patent. See BBS Kraftfahrzeugtechnik AG v. K.K. Racimex Japan & ors Tokyo High Court, 23rd March, 1995, noted in [1995] 9 EIPR D-255. For an analysis of this case, see Naoko, N., Takahiro, K., *et al.*, "Decisions on Parallel Imports of Patented Goods", 36 IDEA 567 (1996).

⁴⁷ Contrast sections 38(1)(a) and 58 of the Act, where the word "Malaysia" is specified, and section 49(1)(b), where the word "market" is qualified by the word "domestic". For the same view, see Wong, S.F., "The Treatment of Parallel Imports under the Malaysian Patent Law", Intellectual Property in Asia and the Pacific, July-September 1987, No. 18, page 64, at pages 77-78. Wong, however, bases his argument on the fact that the term "market" is not defined and accordingly its ordinary dictionary meaning must be given. It, therefore, must mean a foreign market as well as the domestic market in the country of registration. It is interesting to note that the Working Paper on Patent Law Revision - prepared for the Department of Consumer and Corporate Affairs, June 1976 (Canada), at page 141, recommends that, in order to prevent encouragement of the establishment of inefficient industry in Canada, and also to minimise the practice of international price discrimination to the detriment of Canadians, the patent right will permit free importation into Canada of goods originating with the patentee or persons related to him, once such goods have been marketed anywhere in the world. See also the Proposed Patent Law drafted in conjunction with the Working Paper on Patent Law Revisions, section 25 to incorporate this recommendation.

⁴⁸ In this respect, it is pertinent to note that the new Singapore Patents Act also provides for international exhaustion. Unlike the Malaysian Act, there is specific mention in the Singapore provision that the word "patent" includes a patent granted in any country outside Singapore. Further, the exhaustion doctrine applies irrespective of whether the consent to the putting of goods on the market is conditional or otherwise. See section 66(2)(g), Patents Act 1994, No. 21 of 1994, Singapore, in Appendix.

export,⁴⁹ the goods originating from the country of export are manufactured by him, and the patent owner has not granted an exclusive licence to exploit the patented invention in Malaysia,⁵⁰ the conditions for its application are satisfied. It would seem that the same conclusion is reached in the case where the Malaysian patent owner does not hold a parallel patent in the country of export. It is arguable that as long as the goods were put on the market by the him, the situation is directly covered by the section, and hence the doctrine of exhaustion will apply.

There is no guidance in the Act as to when a related entity is to be regarded as the owner of a patent.⁵¹ This may be important when there are parallel patents owned by associated subsidiary or connected companies in other countries. However, under the common law concerning parallel imports, it has been held in the trade mark case of Revlon v. Cripps that each member of a multinational group must be deemed to have consented to the marketing of products by other members.⁵² It may be that the court will apply the same rule when it has to determine whether goods put on the market in a foreign country are to be deemed to be goods originating from the owner of the patent in Malaysia to bring the exhaustion doctrine into play.

Under the above construction, however, the patent owner of the parallel patents can, by assignment, split his rights geographically. By virtue of the assignment, the owner in Malaysia is divested of any rights in the patent in the country of assignment. Hence the goods originating from the assignee cannot be regarded as goods put on the market by the owner in Malaysia.⁵³ Therefore, if the patent owner has assigned his rights for the foreign

⁴⁹ Under section 3 of the Act, "Owner of the patent" is defined as "the person for the time being recorded in the Register as the grantee of the patent".

⁵⁰ This "intermediate approach" is regarded as an acceptable compromise by Beier, F-K., "Industrial Property and the Free Movement of Goods in the Internal European Market", 21 IIC 131 (1990), at page 158. "An intermediate solution as is provided for by section 17 of the German Copyright Act, which relies on whether the protected products - whether nationally or abroad - were put into circulation by the person who holds the exploitation right for the country of importation appears to me to be an acceptable compromise solution also for patents, utility models and industrial designs, which I would prefer to the prevailing theory in German patent law which depends entirely upon the question whether the goods have been put into circulation inside or outside the country of importation. See also comments of Cohen Jehoram, H., "International Exhaustion versus Importation Rights: A Murky Area of Intellectual Property Law", GRUR Int. 1996, Heft 4, 280, at page 282 and 284.

⁵¹ Compare CPC Article 76(2), which extends the exhaustion doctrine to products put on the market by an owner of a parallel patent in another Contracting State who has economic connection with the patent owner in the first Contracting State. For this purpose, "two persons shall be deemed to have economic connection where one of them is in a position to exert a decisive influence on the other, directly or indirectly, with regard to the exploitation of a patent, or where a third party is in a position to exercise such an influence on both persons".

⁵² Revlon v. Cripps [1980] FSR 85 (CA), *per* Buckley L.J., at pages 105-106. But see Colgate-Palmolive Ltd & anor v. Markwell Finance Ltd & anor [1989] RPC 497, where Revlon was distinguished as a case based on its special factual situation.

⁵³ Tritton, in relation to Community exhaustion, argues that by virtue of the assignment, the owner could be deemed to have consented to the marketing of the products by the assignee, and hence the exhaustion principle should apply to such goods - Tritton, G., *Intellectual Property in Europe*, 1996, at pages 305-307. However, it is submitted that by virtue of the absence of the words "or with his consent" in section 37(2)(i), such a construction may not be viable.

countries to third parties, he is again deemed to be in a position, in the Malaysian market, to ban parallel imports.

Similarly, it would appear that international exhaustion will not apply to goods put on the market by a licensee in the country of export. Since section 37(2)(iii) contains a reference back to section 43, which deals with contractual licences in Malaysia, it is arguable that the exhaustion principle is not meant to be applied when the licence agreement does not relate to a Malaysian granted patent, and the licensee is a foreign licensee. However, where the licensee is not an independent undertaking, then it may be that the earlier discussion about associated subsidiary or connected companies may be relevant.

The international exhaustion principle does not apply to goods put on the market by a prior user and a compulsory licensee. In these two situations, it is important to note that the patentee's inability to exercise his rights is limited only to goods put on the market by a prior user or compulsory licensee entitled, under section 38 or Part X of the Act, respectively to exercise rights in derogation of the patentee's exclusive rights. So goods put on the market by a person claiming prior user rights against the patentee in respect of vested rights outside Malaysia are not covered by the exhaustion principle.⁵⁴ The same principle applies to goods put on the market by a compulsory licensee granted rights to exercise the patented invention by the relevant authorities by virtue of foreign laws.⁵⁵

7.2.1.d. Observations

It seems clear that the cumulative effects of section 37(2) is to introduce the doctrine of domestic exhaustion and a limited form of international exhaustion. However, because of the way the provisions have been worded, certain amendments may have to be made to exclude the possibility of misinterpretations of section 37(2). As mentioned earlier, the application of the doctrine of international exhaustion does not extend to goods put on the market by a prior user or compulsory licensee outside Malaysia. If there is no mention of goods put on the market by virtue of the exercise of the rights of the Government,⁵⁶ this omission may be construed as extending the application of international exhaustion to

⁵⁴ Compare *Boesch et al. v. Graff et al.* 133 US 697 (US Sup Ct 1890). The inventors, who were Germans, had obtained patents in Germany on the invention for an improved lamp burner. They later received a US patent for the same invention. Boesch, the defendant, denied infringement of the US patent on the basis that he had purchased the lamp burners in Germany from a party, Hecht, who had a right to sell such burners based on a prior user right recognised under German law. The US Supreme Court held that "the right which Hecht had to make and sell the burners in Germany was allowed him under the laws of that country, and purchasers from him could not be thereby authorised to sell the articles in the United States in defiance of the rights of patentees under a United States patent" - *per* Fuller C.J., at page 703.

⁵⁵ Compare the ruling of the European Court of Justice in *Pharmon v. Hoechst* [1985] ECR 2281, that the exhaustion doctrine did not apply in the case where the product was put on the market by a compulsory licensee. Note that Article 76(3) of the CPC specifically provides that "The preceding paragraphs shall not apply in the case of a product put on the market under a compulsory licence."

⁵⁶ See Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, para. 6.4.

goods put on a foreign market by virtue of the exercise of the rights of the government under foreign laws. It is unlikely that this is what is intended by the Legislature. Therefore, a new subsection 2(v) to section 37, relating to the rights of Government, should be added for the avoidance of doubt.

Ultimately how far the doctrine of international exhaustion is to be applied is a matter of policy. The present Malaysian approach is to apply a modified form, and to respect exclusive licensing arrangements. However, this principle could be circumvented, and international division of markets and differential pricing policy possible, by the device of licensing and assignment. If it turns out in practice that this results in Malaysia being turned into a "high-price island",⁵⁷ the Government may have to reconsider the compromise approach to international exhaustion.⁵⁸

7.2.2. Rights Limited by the Grant of Compulsory Licences, Government and Concurrent Use

Section 37(5) provides that "the rights under the patent shall be limited by the provisions of section 35A, the provisions on compulsory licences as provided in section 51 and 52 and by the provisions on the rights of Government or any person authorised by the Government as provided in section 84." The provisions of section 35A refers to rights acquired by a third party after a patent has lapsed and before it has been reinstated.⁵⁹ Sections 51 and 52 specify the procedure for obtaining a compulsory licence,⁶⁰ whereas section 84 provides for the right of the Government to make, use, exercise or do any act which would otherwise be an infringement of the rights of a patent owner.⁶¹ Section 37(5) does not seem to take the matter very far. It does not appear to add anything new, as, having provided for such rights in the Act, it is implicit that the patentee's rights would be limited by these provisions. However, since, they are specifically mentioned in section 37(5), it would be pertinent to allude also to section 31(2A), relating to grants of concurrent patents,⁶² and

⁵⁷ Bronckers, M.C.E.J., "The Impact of TRIPS: Intellectual Property Protection in Developing Countries", 31 CML Rev. 1245 (1994), at page 1268.

⁵⁸ For a summary of the competing claims made on behalf of both intellectual property owners and those who would promote parallel imports, see Rothnie, W.A., *Parallel Imports*, Sweet & Maxwell, 1993, at pages 562-567. See also Soltysinski, S., "International Exhaustion of Intellectual Property Rights under the TRIPS, the EC Law and the Europe Agreements", GRUR Int. 1996, Heft 4, 316, at page 321, where he argues that the dispute over international exhaustion relates to the issue of control over exclusive sales territories rather than assuring the rights owner the best conditions of "making his innovation".

⁵⁹ See *infra*, para. 7.2.4.

⁶⁰ See Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, at paras. 6.1 to 6.3.

⁶¹ See Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, at para. 6.4.

⁶² See section 31(2A) of the Act. By virtue of this section, where two or more persons have separately and independently made the same invention and each has made an application for a patent having the same priority date, a patent may be granted on each application. The inclusion of section 31(2A) in section 37(5) would cover goods put on the market by the other patentee of the

section 38, which confers on a prior user certain rights to continue use of a patented invention.

7.2.3. Prior User Rights

7.2.3.a. General

In a first-to-file system,⁶³ there could sometimes be a situation in which the applicant who files for a patent for an invention may not be the first person to conceive the invention. Prior to the filing, there could, for example, be someone who has been using the invention the subject-matter of an application, who decides either to keep the use secret, or to take advantage of the grace period provided by the Act. Such a use by the first person necessarily would not have been a public use, because if such has been the case the applicant would not have been entitled to a patent, since the knowledge would have been in the public domain and hence novelty-defeating. Provisions, therefore, need to be made to safeguard the position of the first user to allow him to continue, to some extent, his previous use of the invention, and to limit the rights of the patent owner.⁶⁴ There may also be situations where the prior user may not have been the first to conceive the invention. He may have independently conceived the invention after the applicant. Nevertheless, he has invested time, money, resources and efforts to get the product on to the market. He should also be entitled to rely on the prior user right. So, strictly, the purpose of the prior user rights provisions is to safeguard the investment so that it will not be jeopardised by the applicant who later files a patent application.

same invention, so that one concurrent owner cannot prevent further circulation of the goods legitimately put on the market by the other concurrent owner.

⁶³ In fact, even under the US first-to-invent system, a restricted form of prior user right system was present in section 7 of the Patent Act of 1839 of the US, which provided that anyone who had purchased or made any "newly invented machine, manufacture, or composition of matter before the inventor filed a patent application" had the right to use and sell them without liability to the inventor. This defence remained in the Patent Act of 1870, in section 37. However, explicit provisions for prior user rights were repealed in the Patent Act of 1952. See generally, Harriel, K., "Prior User Rights in a First-to Invent Patent System: Why Not?", 36 IDEA 543 (1996). For further references, see *infra* footnote 64.

Note that neither the TRIPS Agreement, nor the Paris Convention, addresses the issue of prior user rights. The proposed Patent Law Treaty contains provisions on prior user rights which are substantially similar in effect to the UK provisions. One alternative provides for mandatory inclusion of such provisions in national legislation, whereas the other alternative leaves it at the option of the Contracting State - see Article 20.

⁶⁴ See generally, Ladas, Patents, Trademarks, and Related Rights, National and International Protection, Vol. 1, at pages 413-416. See also the discussion on the prior user right in the work on patent law harmonisation of the World Intellectual Property Organisation in Pagenberg, J., "The WIPO Treaty", 19 AIPLA Q.J. 1 (1991). For a discussion of the proposal for a prior user right in the United States, see Quillen, C.D., "Proposal for the Simplification and Reform of the United States Patent System", 21 AIPLA Q.J. 189 (1993), at pages 200-201, Morico, P.R., "Are Prior User Rights Consistent with Federal Patent Policy?: The US Considers Legislation to Adopt Prior User Rights", 78 JPTOS 572 (1996). See also generally, Kupferschmid, K.M., "Prior User Rights: The Inventor's Lottery Ticket", 21 AIPLA Q.J. 213 (1993) for an excellent account of the pros and cons of having a prior user right system.

The absence of a prior user right would act as a disincentive or create a climate of uncertainty for manufacturing activities. Since there is no early publication under the Malaysian system, details of the patented invention being made available only after the issue of the grant for a patent,⁶⁵ a prior search would not have revealed anything to put the prior user on notice of possible impediments on his activities. Hence it would be unfair to deprive him of protection. Although the number of such instances may be very small,⁶⁶ the harm done to the person involved is real. Thus there is a need for a workable provision to cater for such an eventuality, where a proper balance can be found to protect the interest of both parties.

Section 38 of the Act provides such a limitation to the rights of the owner of the patent if certain conditions are satisfied.⁶⁷ The conditions are that, at the priority date of the patent application, the person relying on this provision is in good faith, in Malaysia, making the product or using the process which is the subject of the invention claimed in the application.⁶⁸ Alternatively, such prior user rights can be claimed if it can be shown that he has in good faith, in Malaysia, made serious preparations towards the making of the product or using the process which is the subject matter of the invention claimed in the application.⁶⁹ Since only the acts of making the product and using the process are mentioned in the provision, it is clear that the prior act of importing the product would not give the prior importer a prior user right to continue the importation after the patent has been granted.⁷⁰

7.2.3.b. Construction of the provision

In the construction of this section, several questions have to be considered. How these questions are resolved will decide the viability of the provision to achieve a workable balance between the prior user and the patent owner.

⁶⁵ See section 31(3)(a) and (b) of the Act.

⁶⁶ See Osterborg, L., "Towards a Harmonised Prior Use Right Within a Common Market Patent System", (1981) 12 IIC 447.

⁶⁷ This provision is *in pari materia* with the prior user provision in section 137 of the WIPO Model Law.

⁶⁸ Section 38(1)(a) of the Act.

⁶⁹ Section 38(1)(b) of the Act.

⁷⁰ This would normally not be a problem, since the occurrence of prior importation of the product into the country would mean that the product is part of the state of the art before the priority date. Of greater difficulty, however, would be the case of importation of a product made directly by a particular process. If the process is used secretly, it would not form part of the state of the art. Hence the applicant would be able to apply for a patent for it. On grant, he would have the right, not only to prevent anyone else from using the process, but also the right to prevent anyone exploiting a product obtained directly by means of the process. The problem of such prior importers is discussed later in para. 7.2.3.b.(iii).

7.2.3.b.(i). The source of the prior user's information

The prior user's source of the technical information involving the relevant invention could arise from several sources. He may have independently devised the invention himself, or from someone who has independently devised it. Alternatively, he could have learnt about it from sources emanating from the patent applicant. In the second situation, there are two possibilities. The first is that the information is derived from sources in the public domain caused by the voluntary acts of the patent applicant. The second arises from information obtained in breach of confidence owed to the patent applicant.

It is generally accepted that, in fairness, any exploitation of the source of information regarding the invention through, for example, breach of confidence, should not give rise to a prior user right. The unfairness of obtaining the knowledge through information derived from products put on the market by the applicant which is not from any abuse of confidentiality is, however, debatable. Take an example of an applicant who, within one year prior to his filing a patent application, has marketed a product incorporating the invention. The alleged prior user, through reverse engineering, learns about the principles involved in making the product. Using that idea, he markets similar products. If he has not infringed any copyright, registered designs or trade mark of the applicant, he cannot be said to be acting in bad faith. Since the product is not protected by any intellectual property rights, he is free to use the idea which is in the public domain. He is what is called a "legitimate appropriator". However, though he cannot be accused of acting in bad faith,⁷¹ he has not contributed any independent inventive input of his own in making the product. Neukom argues that although strictly he should not be entitled to exercise the prior user right, such rights should, however, be made available to him because of the need for a counterweight by which to prevent the grace period from becoming a system of "first-to-publish"⁷² or "first-to-disclose".⁷³ Without such a counterweight, a publication before making the patent application would be "forbidden fruit for its readers", with the consequential effective lengthening of the duration by the time between publication and filing. A more compelling argument is the fact that since the information has been put in the public domain, it is information freely available to be used. Any member of the public who has put such information into use in reliance of its "free nature" should not later be penalised by a prohibition on further use on a patent being granted. Admittedly this will, to some extent, diminish the right of the patent owner, but the potential loss suffered by the prior user also needs to be taken into account. However, it would amount to giving with

⁷¹ Section 38(1)(a) and (b) of the Act makes it a precondition that the prior act must be done in good faith.

⁷² See Neukom, J., "A Prior Use Right for the Community Patent Convention", [1990] 5 EIPR 165, at page 166 and Neukom, J., "A Prior Use Right for the Community Patent Convention: An Update", [1991] 4 EIPR 139, at pages 140-141.

⁷³ See Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25, at page 27. The writer is also of the same opinion as Neukom.

one hand and taking away with the other. Since a grace period of one year is given to the applicant, it would not seem fair that acts done within this period may eviscerate his proprietary rights later. A compromise might be to insist on a prior reservation of right, as in the German system.⁷⁴ At least, after being warned of the possibility of a patent claim in the future, the prior user will not be able to claim that he has relied on the free availability of the information. The potential user during this period will then have a choice, to go ahead and take the risk that a patent may later issue or to wait for the grace period to lapse before venturing into exploitation of the information.

The question of whether the prior user rights will arise if the knowledge of the information does not originate from the prior user, but is derived from the applicant does not arise in Malaysia.⁷⁵ It is provided by the section that reliance on the section can only be claimed if the knowledge of the invention was not derived from a disclosure arising from the circumstances laid down in section 14(3)(a) to (c).⁷⁶ The section just referred to provides a grace period of one year for novelty purposes, within which time any disclosure arising from, *inter alia*, either any acts of the applicant or any abuse of the rights of the applicant will not be novelty destroying. This means that in Malaysia, the prior user right can only be invoked if the prior user has derived his knowledge independently of the applicant.⁷⁷

7.2.3.b.(ii). Meaning of "serious preparation"

There is no precondition that the making or use, or preparation in relation to such activities must be done for commercial purposes. One consequence of this is that a prior user who had been making or using the process for non-commercial purposes may be able to later rely on the prior user right to commercialise the product or process. Construing the provision in this way is fair, since there is no reason why a prior non-commercial user should be prevented from doing what he has previously been doing just because he now decides to put his knowledge to profitable use. It is submitted that this construction should be adopted. In contrast to the phraseology of the Malaysian provision, under the prior user provision of the 1977 Act of the UK, the prior act referred to in section 64 is qualified by the words "which would constitute an infringement of the patent if it were in force". Hence,

⁷⁴ Though, according to Neukom, J., "A Prior Use Right for the Community Patent Convention: An Update", [1991] 4 EIPR 139, at page 140, a majority of the member countries in the European Union are not in favour of the German approach in discussions on the prior user right in relation to the Community patent.

⁷⁵ For a discussion as regards this problem in China, see Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25.

⁷⁶ See proviso to section 38(1) of the Act.

⁷⁷ Under Article 20 of the proposed Patent Law Treaty, it is left to national or regional law to determine whether a prior use based on information obtained from a non-prejudicial disclosure made during the grace period will constitute a use in good faith - see Notes on the Basic Proposal, WIPO Doc. PLT/DC/4.

in the UK, it may be that a prior non-commercial user may not be able to rely on the prior user right if he later decides to utilise his prior knowledge commercially.⁷⁸

The absence of the qualification in the Malaysian provision also prevents the problem mentioned by Boff from arising in the Malaysian context. According to Boff,⁷⁹ the presence of this qualification could give rise to unfairness to a prior user in certain situations. He gives the example of a company, "A", who makes a lubricant intended for low temperatures and incorporates a known antioxidant material in it. Unknown to the company, the additive has beneficial effects on low temperature performance of the lubricant. Later, Company "B" independently discovers the effect of this additive and obtains a patent for the use of the additive in lubricants for the purpose of promoting low temperature performance. Boff argues that Company "A" has no right to continue use of this additive after the grant of the patent to Company "B". This is because its prior use of the additive would not have constituted an infringement of the patent if it had been in force because it did not have the requisite knowledge or purpose. Hence its prior use cannot fall within the rights given by section 64 of the UK Act. However, once the new use is made known to Company "A", it cannot but have the required purpose when adding the additive to the lubricant. In these circumstances Company "A" will now infringe and will not have the benefit of section 64 to protect them. Since the Malaysian provision does not have this qualification, it would appear that as long as there is a prior use, whether wittingly or unwittingly, the user has the right to continue the use.

Whether a person has already been making a product or using the process the subject matter of the invention claimed can easily be determined. The same, however, cannot be said of the question of whether the person had made serious preparations towards such activities. There is no definition of what is meant by serious preparation. Before a product can be made or a process used, several preparatory steps need to be taken.⁸⁰

The key word in the phrase "having made serious preparations towards the making of the product or using the process" in the section is "preparations". It would seem that a mere wish or idea, however strong it is, and however advanced it is, would not be enough. Further, the mere possession or knowledge of the inventive concept is insufficient.⁸¹ It has been argued that even the submitting of a preliminary budget, market research and personnel allocation is not enough.⁸² More has to be shown, and it is submitted that they

⁷⁸ Similarly with Article 20 of the proposed Patent Law Treaty, which qualifies the prior use by reference to "for the purpose of his enterprise or business".

⁷⁹ See Boff, J.C. "Letter to the Editor - Section 64 - The Patents Act 1977", (1990) 19 CIPA 377.

⁸⁰ See Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25, where there is a good discussion of the various stages involved.

⁸¹ In France personal possession of the invention suffices to obtain a prior user right - see Osterborg, L., "Towards a Harmonised Prior Use Right Within a Common Market Patent System", (1981) 12 IIC 447, at page 448.

⁸² See Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks

must relate to physical and technical preparations. For example, the making or buying of the relevant equipment, developing of moulds or dies, getting the materials ready, producing the part drawings and assembly drawings etc. In The Lubrizol Corp. and anor v. Esso Petroleum Co. Ltd and ors,⁸³ it was held that "preliminary planning for the manufacture of the product", involving consideration of all that was involved, including any necessary plant modifications, but without any decision to actually manufacture, was insufficient to constitute "serious preparation". Further, the fact that two customer trials were carried out did not add anything to the judge's finding, since "they were undoubtedly serious but hardly a 'preparation'".

Further, there needs to be a causality between the preparations undertaken and the making or using of the product or process. Acts like the buying of real estate and the installing of equipment for basic utilities, which could be used for other purposes would, therefore, be insufficient.⁸⁴ If the making of the product is still at an experimental stage, it would seem that the prior user right does not attach.⁸⁵ This has to be right, since it cannot then be said that the alleged prior user had made the product or was making serious preparation to make the product.

Further, as Yin pointed out,⁸⁶ there could be great disparity in terms of the complexity and technical difficulty of the technology involved. In some situation, the preparatory steps may be very simple and relatively inexpensive, whereas in others the preparations may be very complex and expensive. Therefore, judgement should only be made after considering all relevant factors.⁸⁷

Quarterly, Vol. 4, page 25, at page 28.

⁸³ The Lubrizol Corp. and anor v. Esso Petroleum Co. Ltd and ors (Patents Court, CH 1989 L 6370, 13th Nov. 1996, as yet unreported), per Jacob J. at pages 36 and 44 of the transcript.

⁸⁴ See Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25, at page 28.

⁸⁵ See Helitune Ltd v. Stewart Hughes Ltd [1991] FSR 171, at 206, *per* Aldous J., at pages 207-208, "At the priority date of the patent, the defendant had not sold an active tracker. It had, however, produced a prototype of an active tracker using a laser with a view to its further development. The position had not been reached where the defendant had decided to sell active trackers, and by the priority date its efforts were concentrated on producing a passive tracker. I do not believe the defendant had reached the stage of making effective and serious preparations to sell an active tracker, and, therefore, section 64 does not give it a defence to the action."

⁸⁶ Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25, at page 28.

⁸⁷ In this respect, the factors listed in the Report of the United States Advisory Commission on Patent Law to Congress, 1992, (mentioned in Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25, at page 28) that should be considered may be helpful in making the determination of whether there had been serious preparation. They are:

- a. The cost incurred by the prior user as of the earliest effective filing date of the patent and the proportion of the costs in relation to the total exploitation cost of the patented technology.
- b. The amount of time spent by the prior user as of the earliest effective filing date of the patent and the proportion of the time in relation to the total amount of time necessary to exploit the patented technology.
- c. The complexity of the preparations needed to exploit the patented technology, and
- d. The diligence of the prior user in the process of making preparation.

7.2.3.b.(iii). Prior act of importation

The Act is silent on this point. If the provision is to protect any prior investment as regards the relevant invention, then it would seem fair that the right should also extend to prior act of importation, preparation to import, or even prior sale. The contrary argument is that the provision is only meant to preserve the rights of a person who has made a local industrial investment rather than to protect any investment *per se*. This is, nevertheless, a moot point, since any prior act of importation or preparation to import would presuppose that some manufacturer somewhere in the world has been manufacturing the product in question. In that case, since the standard of novelty required for a valid patent is universal novelty, the patent would not have been valid anyway. Hence in this case there is usually no need to rely on a prior user right. A difficulty that could arise is in the case of a non-public use of a process. Since the rights of a patentee of a process patent extend to product directly made by means of the process, he would be in a position to prevent any further importation of such product. Another situation is where a prior available product is allowed to be patented because information about the product is not deemed to be available to the public because the prior manufacture is a "non-informing" public use. Any such imported product already in hand and unsold, as well as any contracted for products could not be sold. This could cause hardship to the importer. Therefore, statutory provision should be made to cater for this situation to allow the importer the freedom to sell off any such product.⁸⁸

7.2.3.b.(iv). The scope and extent of the prior user rights

The section provides that where the conditions are satisfied, the prior user shall have the right, despite the grant of the patent, to exploit the patented invention. Two preliminary points will be mentioned first. One is that the right to continue to make the product or use the process is confined to activities in Malaysia.⁸⁹ Such rights are not capable of being assigned or transferred except as part of the business of the person concerned.⁹⁰

This right is potentially very wide, since the definition of exploitation of a patented invention under section 36(3)(a), in the case of a product, includes making, importing, offering for sale, selling and using the product.⁹¹ From the wording of the section, it may first appear that where the prior use is the making of a product, his right to "continue use" of the patented invention is not confined to his prior act of making the article. He has the

⁸⁸ See *infra*, para. 7.5.

⁸⁹ See proviso to section 38(1) of the Act. Nothing much turns on this proviso since the prior user could hardly expect to be able to enforce his rights under the Act outside the jurisdiction of the Malaysian courts. He has to rely on the respective provisions of the foreign patent legislation, if any, to claim his prior user rights in these countries.

⁹⁰ Section 38(2). This provision is in line with the practice generally adopted in most countries to prevent the abuse of the prior user right.

⁹¹ See section 36(3) - acts of exploitation of a patent, and Chapter 3 - The Exclusive Rights, paras. 3.1 and 3.2.

further right to sell, import and use the product.⁹² However, in view of the proviso to section 38(1) mentioned earlier, which provides that the product in question is made in Malaysia, this rules out the act of importation.⁹³

The Act is silent as to whether the prior user, in regard to exploitation of the patented invention, is restricted quantitatively or qualitatively by his prior activities. Two pertinent issues arises here:

Quantitative scope of exploitation

Assuming that the prior user has been manufacturing a certain volume of the product before the priority date. Is he restricted to manufacturing the same quantity that he has been manufacturing or making serious preparation to manufacture, or can he later expand his production capacity? If he is allowed to increase his production volume, should a ceiling be imposed? It is submitted that to limit him to the original scale that he is manufacturing would be unfair and unrealistic.⁹⁴ Since the right to exploit is not confined to the particular act, it might be possible to argue that his right is not so limited. Hence he would be free to expand production. There should, therefore, be no quota imposed.⁹⁵

Qualitative scope of exploitation

Has the prior user the right to further technically improve or modify his product or process to make it more marketable and in tune with the needs of the market demand? In relation to

⁹² Contrast section 64 of the United Kingdom Patents Act 1977, and see the comments of Aldous J. in *Helitune Ltd v. Stewart Hughes Ltd* [1991] FSR 171, at 206, "Section 64(2) confines the statutory licence to the right to continue to do or to do 'that act', namely the act which the person had done or had made effective and serious preparations to do. Thus, the right is limited to the particular act of infringement done or for which effective and serious preparation had been made. That conclusion can be illustrated by considering a person who in good faith imported an infringing product. The section enables him to continue to import the product but not to sell it unless the importation amounted to an effective and serious preparation to sell it." Similarly, Article 20 of the proposed Patent Law Treaty, by the use of the words "continue such use" and "use the invention as envisaged in such preparations", is to the same effect.

⁹³ Since a prior act of importation does not give rise to a prior user right, excluding importation from his right to exploit the patented invention would be consistent with the implied policy of the section which seems to be to protect prior local manufacturing activities. If the prior user is also allowed to import the patented product this would negate the implied policy of this section.

⁹⁴ For similar opinions, see Jones, H., "'Made Available' - The Effects of Use of an Invention on the Subsequent Rights of the User and the General Public", (1986) 15 CIPA 342, at 347 and Neukom, J., "A Prior Use Right for the Community Patent Convention", [1990] 5 EIPR 165, at 166. Contrast the view of Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25 at 29.

⁹⁵ The patent laws of a number of countries, e.g., Germany, do not impose limits on the scope of exploitation of an item of patented technology by a person enjoying the prior user right. The US Committee responsible for revising the patent law of the country has also proposed that "The prior user should be able to reasonably expand the prior use to meet reasonable market demands within the United States, rather than being restricted only to the pre-filing volume of use." - see *supra*, footnote 87.

the United Kingdom provision, it has been held in one case that he could.⁹⁶ This was, however, doubted in The Lubrizol Corp. and anor v. Esso Petroleum Co. Ltd and ors (No. 1).⁹⁷ Obviously, if the improvement is inventive it could be patented by the prior user. But what happens if it falls within the claims of the patent owner? As Neukom rightly points out, if the prior user's product has to remain unchanged it is tantamount to "extinguishing the right by creeping obsolescence with the passage of time". He lists five possible options that could be chosen.⁹⁸ They are:

- i) no more than modifications for updating in line with advances in relevant technology.
- ii) the substitution of any part by an equivalent.
- iii) any variation within claims of the patent which the prior use, had it been published, would invalidate.

⁹⁶ See Helitune Ltd v. Stewart Hughes Ltd [1991] FSR 171, at 206, *per* Aldous J., "Section 64(1) relates to acts which constitute an infringement and not to any particular product or process. As I have stated the acts are those covered by a patent as set out in section 60. Thus provided a person has carried out an infringing act before the priority date, he can continue to carry out that act even though the product or process may be different to some degree. This can be illustrated by considering a person who uses an infringing process. The fact that he alters that process after the priority date does not matter. The section states that the doing of that act, namely using an infringing process, shall not amount to an infringement."

⁹⁷ The Lubrizol Corp. and anor v. Esso Petroleum Co. Ltd and ors (No. 1) [1992] RPC 281, at page 295, *per* Hugh Laddie Q.C., "However, I think it is only right to say that I have some doubts, with great respect to Aldous J. as to whether Helitune is correct. The act which the alleged infringer is entitled to continue to conduct by virtue of section 64(2) is the act which he was committing before the priority date. It was not an infringement then. It was an act of commerce. It is that specific act of commerce which he is entitled to continue. I have difficulty in accepting that by, for example, manufacturing product A before the priority date, he was thereby given a right to manufacture any product after the priority date. In my view, section 64 is intended to safeguard the existing commercial activity of a person in the United Kingdom which is overtaken by the subsequent grant of a patent. It is not meant to be a charter allowing him to expand into other products and other processes." The opinion has, however, to be treated as *obiter*, since it was an action to set aside an order to serve out of jurisdiction. On appeal, this issue was not discussed - see The Lubrizol Corp. and anor v. Esso Petroleum Co. Ltd and ors (No. 1) [1992] RPC 467 (CA). At the trial of the action, Jacob J. agreed with the approach of Laddie J. (as he now is). See The Lubrizol Corp. and anor v. Esso Petroleum Co. Ltd and ors (Patents Court, CH 1989 L 6370, 13th Nov. 1996, as yet unreported), at page 43 of the transcript. However, Jacob J. clarified Laddie J's reference to "existing commercial activity" to mean an "activity which is substantially the same as the prior act or act for which substantial and effective preparations were made". He added that in deciding whether the activity is substantially the same, all the circumstances must be considered, and both technical and commercial matters must be taken into account. This is because if the protected act has to be exactly the same as the prior act, then the protection given by the section would be illusory. The section is intended to give a practical protection to enable a man to continue doing what in substance he was doing before.

⁹⁸ See Neukom, J., "A Prior Use Right for the Community Patent Convention", [1990] 5 EIPR 165, at 167-168 for a discussion of the possible options. See also Davis, I., Cohen, S., "Section 64 of the UK Patents Act 1977: Right to Continue Use Begun Before Priority Date", [1994] 6 EIPR 239, where at page 241, the authors are of the opinion that an inability to improve a product line with general development in the industry might well result in the protection of section 64 being lost for all practical purposes. Yin, Xintian, "On Question of Prior User's Right", (1994) China Patents & Trademarks Quarterly, Vol. 4, page 25, at page 29, while agreeing that in the interest of the prior user and the country, the prior user should be allowed to further improve the product, discusses the difficulty involved when the prior act falls within an independent claim but not a dependent claim. He suggests that in this situation, the prior user should not be allowed a free licence to make products falling within the dependent claim, as an exception to the theory of patent infringement.

- iv) free run of the whole of the invention as patented, hence effectively a free licence under the patent.
- v) the combination of the prior use right with the right to a compulsory licence for such aspects of the patent not covered by the prior use right.

Again, section 38 does not, unlike the UK provision, place any limitation on the right to exploit the patented invention. Therefore, it would seem that the provision may legitimately be construed to allow the prior user the right to further develop and improve on the product, even if it falls within specific claims of the patent. While agreeing that some rights should be given to the prior user, to allow him a free run of the invention, even to specific embodiments actually shown in the patent, would seem harsh on the patentee. Neukom suggests that option (iii) mentioned above should be adopted since a determination of how much of the patent would have been invalid, had the prior use been published "treads ground that is more familiar" and hence "legal certainty in the interpretation of the scope of the right is facilitated".⁹⁹ Therefore, the prior user right to update his product extends only to that which is obvious having regard to his prior manufacture or use. This would allow him, for example, to make continuous workshop improvements to his products or process. A fairer balance may be to allow the prior user the right to improve or modify his product by the use of equivalents and the further right to a compulsory licence for aspects of the patent not covered by the prior user right. At the very least, the owner would be compensated by the payment of some royalty.

7.2.4. Rights after Reinstatement of Lapsed Patents

Prior to the 1993 Amendment Act, there was no provision in the Act regulating what is to happen if the patent owner fails to pay the renewal fee to keep the patent in force. The only provision was the allowance of a period of grace of six months within which he can still pay the renewal fees.¹⁰⁰ In theory, therefore, the patent could still be deemed to be a valid patent despite the failure to pay the renewal fees. A new subsection (3) of section 35 now provides that a failure to pay the annual fee within the prescribed time will result in the lapse of the patent. Upon such a lapse, the Registrar shall cause a notice to be published in the Gazette.¹⁰¹ Under the newly introduced section 35A, the owner of a patent or his successor in title or anyone who would have been entitled to the patent had it not lapsed, can, within two years from the date on which the notice of the lapsing of the patent was published in the Gazette, apply to the Registrar to have the patent reinstated.¹⁰² The ground for

⁹⁹ See Neukom, J., "A Prior Use Right for the Community Patent Convention", [1990] 5 EIPR 165, at 167, and also Neukom, J., "A Prior Use Right for the Community Patent Convention: An Update", [1991] 4 EIPR 139, at 141 and Neukom, J., "Prior Use Once More", [1991] 9 EIPR 350.

¹⁰⁰ See section 35 of the Act.

¹⁰¹ See Section 35(c) which was introduced by section 23(b) of the Patents (Amendment) Act 1993.

¹⁰² This section was added by section 25 of the Patents (Amendment) Act 1993.

reinstatement that can be relied upon is that the non-payment was due to accident, mistake or other unforeseeable circumstances.¹⁰³ Upon a reinstatement, the Registrar shall cause notice of the reinstatement to be published in the Gazette.¹⁰⁴

Since there could be a significant lapse of time from the time notice of the lapsing of the patent is published in the Gazette and the time when a patent has been reinstated, interested third parties could have started exploiting the supposedly lapsed patent.¹⁰⁵ Therefore, it is specifically provided that the reinstatement of a lapsed patent shall not prejudice the rights acquired by third parties after it is notified in the Gazette that the patent has lapsed and before it is notified in the Gazette that the patent has been reinstated.¹⁰⁶ It is important to note that the right is acquired only during the specified duration. For example, if a third party has commenced his exploitation of the expired patent prior to official notification that the patent has lapsed, the section is inapplicable, and he can be sued for infringement upon reinstatement of the patent.¹⁰⁷

The rights acquired are not specified in the Act. However, section 35A(5) gives the Minister the power to make regulations to provide for the protection or compensation of persons who have exploited or taken definite steps, by contract or otherwise, to exploit a patent after it is notified in the Gazette that the patent has lapsed and before it is notified in the Gazette that the patent has been reinstated. However, the power to provide protection to third party does not extend beyond such exploitation of the lapsed patent as such persons have availed themselves of, or have taken definite steps to avail themselves of.¹⁰⁸ It is submitted that this may not be fair. What if the third party, despite knowing of the huge expenses in retooling and in the knowledge that merely working the said patent in a particular way will not bring him profit, still goes ahead with the venture for long term prospects - i.e., he has planned also to do other things with the patented invention besides the present use or planned use. To permit him only the present use could result in heavy loss of his investment. The argument about "creeping obsolescence" mentioned in the section on prior user rights comes to mind. However, be that as it may be, under regulation 33B of the Patents Amendment Regulations 1994, the affected third party may apply to the Registrar for the grant of a licence to exploit the patented invention. If such an application is

¹⁰³ See section 35A(2)(b). Compared to the United Kingdom provision, which provides that the Comptroller must be satisfied that the proprietor had "taken reasonable care" to see that the renewal fee is paid and that the fee was not so paid "because of circumstances beyond his control," the Malaysian conditions seem to be less onerous.

¹⁰⁴ See section 35A(3) of the Act.

¹⁰⁵ Note that unlike the provision of section 28(2A) of the Patents Act 1977 of the UK, there is no provision requiring the Registrar to publish any notification of the fact that there is an application to apply for a reinstatement of a lapsed patent.

¹⁰⁶ See section 35A(4) of the Act.

¹⁰⁷ This is the effect of section 35A(6) of this Act. The result is similar under section 28A of the 1977 Patents Act, UK, although under section 28A(3)(a) of the UK Act, the act of a third party would only amount to an infringement if done at a time when it is possible for the patent to be renewed.

¹⁰⁸ See section 35A(5) of the Act.

granted, a licence must be granted on such terms as the Registrar thinks reasonable. It would seem that this regulation is inconsistent with the power granted to the Registrar under section 35A(5), which allows him only to grant protection to the extent of the actual exploitation or planned exploitation. The regulation, on the other hand, by the use of the words "exploit the patented invention" seems to imply that there is no limit to the type of exploitation that could be granted a licence.

Another inconsistency arises from a comparison of section 35A(4) and (5). Section 35A(4) seems to imply that reinstatement of a lapsed patent is subject to the rights acquired by a third party. Hence the third party is free to continue his exploitation of the patent without a licence from the patent owner.¹⁰⁹ However, from the combined effect of section 35A(5) and regulation 33B, it appears that upon acquiring the rights, the third party does not have free use of the patented invention to the extent allowed by the Act, but has to apply to the Registrar for a licence to exploit the invention.

To remove this inconsistency, and to provide a better balance between the rights of the patent owner and a third party in the situation envisaged by section 35A, it is proposed that section 35A(4) be amended to clarify that a third party acquiring rights under the section shall have the right to continue with his present use free from the effects of the patent. The existing section 35A(5), with some modification, can then be used to cater for the problem of "creeping obsolescence" mentioned earlier. The amendment to this subsection will provide that if the third party wishes to further exploit the patented invention beyond what he is allowed by virtue of section 35A(4), he may apply to the Registrar for a licence to do so. In this way, the position of a person who has acquired rights to use the patent before reinstatement of a lapsed patent will then be nearer to the position of a prior user.¹¹⁰

¹⁰⁹ The position of the third party would then be similar to that provided for in the UK statute, see section 28A(4)(a) and (b) of the 1977 Act, UK.

¹¹⁰ Under the approach adopted in the United Kingdom, the rights acquired by a prior user and that of a third party before reinstatement of a lapsed patent are similar. The proposed amendments will not be in conflict with the provision of Article 5bis of the Paris Convention. Neither will it be in conflict with Article 4B of this Convention, which relates to the prohibition of giving third party rights during the priority period.

7.3. The Common Law Exception - Implied Licence to Repair

Flowing from the implied licence to use in the absence of any restriction,¹¹¹ is the implied licence to repair. Under the common law, the purchaser of a patented article has the right to use the article until it is worn out or destroyed.¹¹² He can, therefore, repair¹¹³ and maintain that article so that it will be fit for his use. He is not obliged by law to have repairs in the nature of reconditioning done by the patent owners or an agent authorised by them.¹¹⁴ In this context, it is useful to refer to Judge Ford's opinion in Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor.¹¹⁵ With regard to the right to repair, Judge Ford preferred to look at it from the question of whether it is an act which is statutorily prohibited. Since there is no prohibition against repairing a patented article in the infringement provisions of section 60 of the 1977 Patents Act of the UK, the act of repairing is not prohibited. As long as the repair does not amount to a "making" of the patented invention, there is no infringement. There is no need to rely on the doctrine of an

¹¹¹ See *supra*, para. 7.2.1.

¹¹² Lord Bridge in British Leyland Motor Corp. Ltd and ors v. Armstrong Patents Co. Ltd [1986] 1 All ER 850; [1986] RPC 279, at page 358, explained it thus, "Letters patent, on their face, always granted to the patentee the exclusive right "to make, use, exercise and vend" the invention. A literal application of this language would lead to the absurdity that a person who acquired the patented goods would infringe the patent if he used or resold them. To avoid this absurdity the courts had recourse to the doctrine of implied licence. In the field of repair it is clear that a person who acquires a patented article has an implied licence to keep it in repair, but must stop short of renewal." The seminal case on this area in the United States is Wilson v. Simpson 50 U.S. 109: 13 L. Ed. 66 (US Sup. Ct 1850). Here the defendant lawfully obtained a planing machine covered by the plaintiff's patent. Without the authority of the plaintiff, the defendant replaced cutting knives, which normally wore out after sixty to ninety days of use. The Supreme Court held that such replacement was within the category of permissible repair rather than that of impermissible reconstruction. Mr Justice Wayne said, at page 123, "[R]epairing partial injuries, whether they occur from accident or from wear and tear, is only refitting a machine for use. And it is no more than that, though it shall be a replacement of an essential part of a combination. It is the use of the whole of that which a purchaser buys, when the patentee sells to him a machine; and when he repairs the damages which may be done to it, it is no more than the exercise of that right of care which every one may use to give duration to that which he owns, or has a right to use as a whole." See also Mitchell v. Hawley 83 U.S. 544; 21 L. Ed. 322 (US Sup. Ct 1872). See generally. Chisum, Vol. 4, paras. 16.03[2] to 16.03[3].

¹¹³ A good definition of repair is given by Colt, Circuit Judge, in Goodyear Shoe Machinery Co. v. Jackson 112 F. 146 (CCA 1st Cir. 1901), at page 150, "Repair is 'restoration to a sound, good, or complete state after decay, injury, dilapidation, or partial destruction.' Reconstruction is 'the act of constructing again.' Reproduction is 'repetition,' or 'the act of reproducing.' These definitions are instructive in bringing home to the mind that repair carries with it the idea of restoration after decay, injury, or partial destruction, and that reconstruction or reproduction carries with it the idea of a complete construction or production over again."

¹¹⁴ In fact, the theory underlying this implied licence to repair was explained by Judge Wayne in Wilson v. Simpson 50 U.S. 109 at 123; 13 L. Ed. 66 (US Sup. Ct 1850), "It is the use of the whole of that which a purchaser buys, when the patentee sells to him a machine; and when he repairs the damages which may be done to it, it is no more than the exercise of that right of care which every one may use to give duration to that which he owns, or has a right to use as a whole." See also L. Hand, A. Hand, and Chase, Circuit Judges, *per curiam*, in The Electric Auto-Lite Co. v. P. & D. Manufacturing Co. Inc. 44 USPQ 377 (CCA 2nd Cir. 1940), at page 379, "The theory on which repair of a patented article is allowed at all is that the patentee intends the buyer to have a longer use of it than the life of the shortest-lived part. ..." The right to repair or replace worn out parts, however, does not apply if the parts are separately patented - see, for example, Wilson v. Simpson 50 U.S. 109 (1850), *per* Mr Justice Wayne, at 123; Lempco Products, Inc. v. Timken-Detroit Axle Co. 45 USPQ 48 (CCA 6th Cir. 1940), *per* Simons, Circuit Judge, at page 49.

¹¹⁵ Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor [1995] RPC 529.

implied licence, nor on the principle of exhaustion of rights.¹¹⁶ However, despite this seemingly "new approach", the common law authorities on repair and modifications, even though decided on the basis of an implied licence, are still useful as guidance in the determination as to what constitutes permissible repairs as contrasted with "impermissible repairs" amounting to a "making".¹¹⁷

While the principle is clear that the purchaser of a patented article has the right to repair to keep it in working order, but not the right to reconstruct or make anew the patented article, the distinction between permissible repair and impermissible reconstruction is blurred in some situations. The problems relating to this issue involve mostly or invariably combination patents, where the invention lies in the inventive combination of old parts which are unpatentable in themselves. If all the parts are made and assembled by someone without the licence of the patent owner, it is without doubt an infringement. But what if only certain parts are replaced by the purchaser?¹¹⁸

¹¹⁶ Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor [1995] RPC 529, *per* Judge Ford, at page 539. See also Benyamini, A., Patent Infringement in the European Community, IIC Studies Vol 13, 1993, at pages 103-114, which was referred to by Judge Ford.

¹¹⁷ Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor [1995] RPC 529, *per* Judge Ford, at page 540.

¹¹⁸ Though the question of permissible repair is closely allied to the issue of contributory infringement, in that both kinds of infringement relate to making a part of a patented invention, as distinguished from making the whole, there are, however, differences. This is clearly explained by Colt J. in Goodyear Shoe Machinery Co. v. Jackson 112 F. 146 (CCA 1st Cir. 1901), at pages 147-150, where he made the distinction between a direct infringement and a contributory infringement. He also made the distinction between an ordinary infringement and infringement by reconstruction. He said that, "To prove contributory infringement it is only necessary to show a partial infringement in aid of an unlawful complete infringement, while in the case of a direct infringement a substantially full and complete infringement must be established. In this sense, a purchaser stands in no different position from an ordinary infringer, except in the circumstance that he has bought a patented machine, and, consequently, his infringement does not consist in the construction of a wholly new machine, but in the reconstruction of such machine after it is worn out or substantially destroyed. The essence of the infringement is the same in both cases. In other words, the ordinary infringer makes the entire patented machine; the infringing purchaser begins with what remains of the patented machine, and rebuilds it. To show infringement in the case of an ordinary infringer, where the patented invention comprises several elements in combination, it is necessary to prove that the alleged infringing machine contains all the elements (or their equivalents) which make up the combination, although some of the elements may not be material, or of the essence of the invention. To show infringement by the purchaser in such a case, the same strictness of proof is not required, for the reason that it may not be necessary for him to make the immaterial or unessential elements of the patented combination, because they may not be worn out or destroyed in his machine when the work of reconstruction begins. A practical reconstruction of the patented machine, and not necessarily a literal reconstruction of the patented combination, is all that is required to constitute infringement by the purchaser. ... In approaching the question of infringement by the purchaser of a patented machine, it is important to bear in mind what the patentee sold and the purchaser bought. The patentee has parted with his machine and the monopoly that goes with it, and the purchaser has bought the machine with the right to use the patented invention until the machine is worn out or destroyed. When the machine is worn out, or substantially destroyed, his right to use the patented invention ceases; and when he rebuilds his machine, and thereby makes substantially a new machine, it becomes subject to the patentee's monopoly, the same as in the case of any other person who unlawfully makes the patented machine. When the patented machine has passed outside the monopoly by a sale and purchase, the patentee has no right to impose any restrictions on its use for his own benefit. He cannot forbid the further use of the machine because it is out of repair in consequence of the wearing out or breaking of some of its parts, and so oblige the purchaser to buy a new machine. The purchased machine has become the individual property of the purchaser, and is like any other piece of property which he owns. He may sell it, or he may use it so long as its usefulness lasts, and then

This part of the chapter will analyse the scope of the implied licence to repair from the decided cases from various common law jurisdictions to determine whether a satisfactory test can be arrived at to determine the boundary between repair and reconstruction. The rights of the various parties who may be involved in the repair, the purchaser, contractor, and supplier of parts required for repair, will be examined. Because of their special fact situation, production line method of repair and conversion of patented articles will be discussed under separate headings.

7.3.1. Persons Who Can Carry Out Repairs

7.3.1.a. The purchaser and the repairman

As far as repair by the purchaser himself is concerned, this is not much of a problem. The case law shows that he can carry out repairs provided it does not amount to a reconstruction.¹¹⁹ This statement, however, has to be qualified, because under the Act, acts carried out for non-industrial and commercial purposes will not amount to an infringement.¹²⁰ Therefore, it would seem that, in the case of a private purchaser, he is allowed even to make a new patented article provided it is for his own private and personal use. Flowing from this, even if his repair efforts amount to making anew the patented article, and hence, *prima facie*, an infringement, he personally is exempted from an infringement suit.

At the same time, the purchaser is allowed to contract out this right to repair to a third party contractor to carry out such repairs for him. For, as Buckley L.J. said in Solar Thomson Engineering Co. Ltd v. Barton, "the implied licence must be as transferable as the patented article and must include permission to authorise an agent or contractor to carry out whatever the owner of the article could himself do under the licence, had he the required skill and equipment."¹²¹ Therefore, to the extent that the purchaser of the article is allowed to carry out permissible repairs, the same type of repairs could be entrusted to a third party.

throw it away, or dispose of it for junk. He may prolong its life and usefulness by repairs more or less extensive, so long as its original identity is not lost. He is only prohibited from constructing a substantially new machine. He cannot, under the pretext of repairs, build another machine."

¹¹⁹ See, for example, Dunlop Pneumatic Tyre Co. Ltd v. Holborn Tyre Co. Ltd (1901) 18 RPC 222; Dunlop Pneumatic Tyre Co. Ltd v. Neal [1899] 1 Ch. 807; (1899) 16 RPC 247 and Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537. In Canada, see Rucker Co. et al. v. Gavel's Vulcanizing Ltd 7 CPR(3d) 294 (1985), following the United Kingdom cases.

¹²⁰ Section 37(1) of the Act. See *infra*, 7.1.1.

¹²¹ Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537, at 555. See also Champion Spark Plug Co. v. Jack Emener 32 USPQ 152 (DC E.D. Mich. 1936), "The right to repair is not limited to purchasers from patentee and those deriving title from such purchaser. The right to repair survives abandonment of the article and is possessed by any subsequent owner," *per Moinet*, District Judge, at page 159.

The problem of the extent of repair that could be carried out by the repairman when he is carrying out repair work for a private purchaser is slightly more problematic. Can he carry out such a substantial repair that it amounts to a reconstruction? On the principle that what a person can do lawfully, he can lawfully authorise his agent to do on his behalf, it can be argued that a repairman is not liable even for carrying out reconstruction work. An argument against this is that the repairman's activities are not regarded as acts in the non-industrial and commercial sphere. Therefore, he is liable for infringement if the repair is so extensive as to amount to a reconstruction, even though the private purchaser could, if he so wishes, carry out reconstruction on his article. It is submitted that this is the better approach, since to adopt the first approach will tantamount to emasculating the patentee's right to such an extent that his exclusive rights are practically non-existent. So the agency argument should not be allowed to be stretched so far as to allow a third party contractor to make infringing articles for private use. After all, the exemption from infringement actions for acts done privately and for non-commercial purposes is merely to save the user from infringement actions, it does not give him a positive right to make the invention.

7.3.1.b. The supplier of spare parts

The propriety of the supply of parts for the purpose of repairs was first alluded to in a United Kingdom case in Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor.¹²² In the course of the judgement, Cozens-Hardy L.J. said that "there may be a third class of cases, in which the supply by the defendants might be perfectly lawful, I mean for the purpose of repair."¹²³ Sirdar Rubber Co. Ltd v. Wallington Weston & Co.,¹²⁴ was also a supply case. The patent in issue was a combination patent consisting of a rim and tyre. The rim was the subject of a separate claim. The defendants have supplied a new rubber tyre, and inserted it into an old rim of the plaintiffs to replace the old tyre worn out. The plaintiffs contended this was an infringement of their patent. Relying on the case of Dunlop Pneumatic Tyre Co., Swinfen-Eady J. held that the supply of parts for the purpose of repair did not amount to an infringement.¹²⁵ The law in the United States follows the same line.¹²⁶

¹²² Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor (1904) 21 RPC 53 and 274, at 278-282; [1904] 1 Ch. 164 and 612. The case was argued mainly on the point that the defendants had infringed their patents by manufacturing and selling the outer tyre or cover (one of the elements of the combinations) with the intent that it should be used by the purchaser for the purpose of making one or other of the combinations.

¹²³ Dunlop Pneumatic Tyre Co. v. David Moseley & Sons Ltd and anor (1904) 21 RPC 53 and 274, at page 282.

¹²⁴ Sirdar Rubber Co. Ltd v. Wallington Weston & Co. (1905) 22 RPC 257; (1907) 24 RPC 539 (HL). It is notable that Sirdar Rubber is the first case where the House of Lord approved the doctrine of repair. In the course of counsel for the plaintiffs' submission, Lord Halsbury, at page 543, said, "The principle is quite clear 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."

¹²⁵ Sirdar Rubber Co. Ltd v. Wallington Weston & Co. (1905) 22 RPC 257, at pages 265-266. Note that by virtue of section 60(2) of the United Kingdom Patents Act, 1977, in certain situations, it may be an act of contributory infringement to supply certain component parts of a patented

7.3.2. The Test Applied

In one of the earlier cases on the extent of the implied licence to repair in the United Kingdom, Dunlop Pneumatic Tyre Co. Ltd v. Neal,¹²⁷ the patent in suit was for a combination patent relating to a rubber or elastic tyre having the form of a saddle or arch in section lined with canvas, in combination with two wires or sufficiently inelastic cores for securing the same to the rims or tyres. The defendant substituted for the old canvas and rubber new canvas and rubber, but used the old wires. It was argued that this was a mere repair and hence not infringement of the patent. In holding the defendant guilty of infringement, it was held that the only licence or authority given by the sale was that they could be used until they were worn out. Further, any simple repairs,¹²⁸ might be done by a person without any licence from the manufacturer. However, the mere fact that the wires had been used in an article made by the plaintiffs did not mean that there was a licence to use them for any article of any kind with which they could be used.¹²⁹

In Dunlop Pneumatic Tyre Co. Ltd v. Holborn Tyre Co. Ltd,¹³⁰ the defendants had bought up old patented tyres. The canvas and old rubber thread were taken off and the wires were cut and the end joined by screws. Furthermore, the canvas out of old tyres was taken, and from the parts not worn long strips of fabric were made for the purpose of being made up into tyres. This was again found to be an infringement of the patent. Kekewich J. proposed two tests that could be applied. Under the first test, the question to ask is, "In the alleged repair has the workman so employed the patent as that in doing it he has taken an essential part of the patent and infringed it?" However, he went on to propose a second and more satisfactory test, the "broad test" which asks the question "Is it substantially, in common parlance, honestly, a new article, or is it an old article repaired?"¹³¹ In view of the bad condition of the tyres, the extensive nature of the repair, the fact that the old tyres were

invention to a person not entitled to work the invention. See Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights.

¹²⁶ See, for example, Electric Auto-lite Co. v. P. & D. Manufacturing Co. Inc. 26 USPQ 284 (CCA 2nd Cir. 1935); General Motors Corp. v. Preferred Electric & Wire Corp. 27 USPQ 261 (CCA 2nd Cir. 1935); Lempco Products, Inc. v. Timken-Detroit Axle Co. 45 USPQ 48 (CCA 6th Cir. 1940); Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc. 128 USPQ 354 (US Sup. Ct 1961). See also Chapter 4 - Patent Infringement and Unauthorised Indirect Exploitation of Rights, para. 4.4.

¹²⁷ Dunlop Pneumatic Tyre Co. Ltd v. Neal (1899) 16 RPC 247.

¹²⁸ This expression was clarified by Buckley L.J. in Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537, at 555, where he said, "To say that the owner of a patented article is entitled to carry out 'simple repairs' to it ... does not in my opinion help to solve this question, unless, as possibly may have been the case, North J. meant by that expression to refer to anything which is no more than what can properly be described as a repair. An operation may, I think, in some circumstances be quite properly described as a repair notwithstanding that it is complicated."

¹²⁹ Dunlop Pneumatic Tyre Co. Ltd v. Neal (1899) 16 RPC 247, *per* North J., at page 250.

¹³⁰ Dunlop Pneumatic Tyre Co. Ltd v. Holborn Tyre Co. Ltd (1901) 18 RPC 222. See also *infra*, text accompanying footnote 155 for the discussion on "production line" situations.

¹³¹ Dunlop Pneumatic Tyre Co. Ltd v. Holborn Tyre Co. Ltd (1901) 18 RPC 222, *per* Kekewich J., at page 226.

pulled to pieces and parts from the old tyres used to make new merchantable tyres, he held that the work amounted not to repairs but infringement of the patent.¹³²

The question whether the work carried out could fairly be regarded as a repair is always a question of fact in each case. The case of Sirdar Rubber Co. Ltd v. Wallington Weston & Co.¹³³ is instructive. Swinfen-Eady J's judgement contains several factors which could be taken into consideration in deciding whether what takes place amounts to permissible repair or impermissible remaking anew. They are: the nature of the invention, the inventive concept, the perishable nature of the part replaced and the determination of what is a fair period for the use of the article as a whole.¹³⁴ Similarly, in Solar Thomson Engineering Co. Ltd v. Barton, the Court of Appeal held that whether the work carried out is permissible repair is always largely a question of degree, depending on the nature of the patented article and the character of the work carried out upon it.¹³⁵ The fact that some parts of the original article are used, does not prevent it from being a reconstruction.¹³⁶

Prior to the case of Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc.,¹³⁷ the test in the United States was substantially similar to the one in the United Kingdom. The seminal case on this area is the case of Wilson v. Simpson,¹³⁸ where the Supreme Court formulated several basic rules that could be used in the determination of whether the work carried out amounts to a permissible repair or an infringement. The main principle is that if, "as a whole, the article should happen to be broken, so that its parts could not be readjusted, or so much worn out as to be useless, then a purchaser cannot make or replace it by another, but he must buy a new one. The doing of either would be entire reconstruction."¹³⁹

¹³² Dunlop Pneumatic Tyre Co. Ltd v. Holborn Tyre Co. Ltd (1901) 18 RPC 222, *per* Kekewich J., at page 227.

¹³³ Sirdar Rubber Co. Ltd v. Wallington Weston & Co. (1905) 22 RPC 257; (1907) 24 RPC 539 (HL).

¹³⁴ Sirdar Rubber Co. Ltd v. Wallington Weston & Co. (1905) 22 RPC 257, at pages 265-266, *per* Swinfen-Eady J.

¹³⁵ Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537, *per* Buckley L.J., at pages 554-555.

¹³⁶ Sirdar Rubber Co. Ltd v. Wallington Weston & Co. (1905) 22 RPC 257, *per* Swinfen-Eady J., at page 265; Dunlop Pneumatic Tyre Co. Ltd v. Neal (1899) 16 RPC 247; Dellareed v. Delkin [1988] FSR 329, *per* Falconer J., at page 345; Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537, *per* Buckley L.J., at 554.

¹³⁷ Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc. 128 USPQ 354 (US Sup. Ct 1961).

¹³⁸ Wilson v. Simpson 50 U.S. 109 (US Sup. Ct 1850) - for the facts, see *supra*, footnote 112. See also Bloomer v. McQuewan 55 U.S. 539 (US Sup. Ct 1852); Chaffee v. Boston Belting Co. 63 U.S. 217 (US Sup. Ct 1859); Mitchell v. Hawley 83 U.S. 544 (1872); Adams v. Burke 84 U.S. 453 (US Sup. Ct 1873); Paper-Bag Machine Co. v. Nixon \ Nixon v. Paper-Bag Machine Co. 105 U.S. 766 (US Sup. Ct 1881); Morgan Envelope Co. v. Albany Paper Co. 152 U.S. 425 (US Sup. Ct 1894); Leeds & Catlin Co. v. Victor Talking Machine Co. (No. 2) 213 U.S. 325 (US Sup. Ct 1909); Heyer v. Duplicator Mfg Co. 263 U.S. 100 (US Sup. Ct 1923); United States v. Univis Lens Co. Inc. 316 U.S. 241 (US Sup. Ct 1942)

¹³⁹ Wilson v. Simpson 50 U.S. 109; 13 L. Ed. 66 (US Sup. Ct 1850), *per* Justice Wayne, at page 124.

From the judgement, several rules could be discerned:

1. the owner is allowed to replace parts which are liable to be often worn out or to become inoperative for their intended effect, which the inventor contemplates would have to be frequently replaced anew, during the time that the machine, as a whole, might last.¹⁴⁰
2. If the course of repairing partial injuries, whether they occur from accident or from wear and tear, involves the replacing of an essential part of the combination, it is still regarded to be within the ambit of permissible repair.¹⁴¹

It is interesting to note that Justice Wayne was of the opinion that the right to replace certain elements is not so much because of its perishable nature but that it was in the contemplation of the parties.¹⁴² It is submitted that though the perishable nature of the elements may not be the reason for giving the right to repair, it could be used as a useful indicator to help determine the contemplation of the parties. Therefore, the perishable nature of the parts in juxtaposition with other more durable parts could indicate that the patentee intends that such parts need to be replaced as and when required so as to maintain the use of the whole. It is,

¹⁴⁰ Wilson v. Simpson 50 U.S. 109 (US Sup. Ct 1850), *per* Justice Wayne at page 125. For examples of application of this principle, see, Electric Auto-lite Co. v. P. & D. Manufacturing Co. Inc. 26 USPQ 284 (CCA 2nd Cir. 1935); El Dorado Foundry, Machine & Supply Co. v. Fluid Packed Pump Co. 28 USPQ 436 (CCA 8th Cir. 1936), *per* Thomas, Circuit Judge, at page 439; The Harris Calorific Co. v. Marra 36 USPQ 453 (DC W.D. Penn. 1937), *per* Schoonmaker, District Judge, at page 456; General Motors Corp. v. Preferred Electric & Wire Corp. 27 USPQ 261 (CCA 2nd Cir. 1935), *per* Manton, Circuit Judge, at page 262; Gillette Safety Razor Co. v. Standard Safety Razor Co. 17 USPQ 397 (CCA 2nd Cir. 1933), *per* Manton, Circuit Judge, at page 398-299; The Bowdil Co. v. Central Mine Equipment Co. 56 USPQ 98 (DC E.D. Missouri 1942), *per* Moore, District Judge, at page 100; National-Standard Co. v. UOP, Inc. 205 USPQ 590 (CA 7th Cir. 1980), *per* Swygert J. at page 591;

¹⁴¹ Wilson v. Simpson 50 U.S. 109 (US Sup. Ct 1850), *per* Justice Wayne, at page 123. For other cases rejecting the "essential element" or "distinguishing part of the invention" test, see General Motors Corp. v. Preferred Electric & Wire Corp. 27 USPQ 261 (CCA 2nd Cir. 1935), *per* Manton, Circuit Judge, at page 262; Porter, et al. v. Farmers Supply Services, Inc. 229 USPQ 814 (CAFC 1986), *per* Markey, Chief Judge, at page 816; Dawson Chemical Co. v. Rohm & Haas Co. 448 US 176, at 217, 206 USPQ 385, at 405 (US Sup. Ct 1980); National-Standard Co. v. UOP, Inc. 205 USPQ 590 (CA 7th Cir. 1980), *per* Swygert J., at page 591.

¹⁴² Wilson v. Simpson 50 U.S. 109 (US Sup. Ct 1850), *per* Justice Wayne, at pages 125-126, "The right of the assignee to replace the cutter-knives is not because they are of perishable materials, but because the inventor of the machine has so arranged them as a part of its combination, that the machine could not be continued in use without a succession of knives at short intervals. Unless they were replaced, the invention would have been but of little use to the inventor or to others. The other constituent parts of this invention, though liable to be worn out, are not made with reference to any use of them which will require them to be replaced. These, without having a definite duration, are contemplated by the inventor to last so long as the materials of which they are formed can hold together in use in such a combination. No replacement of them at intermediate intervals is meant or is necessary. They may be repaired as the use may require. With such intentions, they are put into the structure. So it is understood by a purchaser, and beyond the duration of them a purchaser of the machine has not a longer use. But if another constituent part of the combination is meant to be only temporary in the use of the whole, and to be frequently replaced, because it will not last as long as the other parts of the combination, its inventor cannot complain, if he sells the use of his machine, that the purchaser uses it in the way the inventor meant it to be used, and in the only way in which the machine can be used."

therefore, submitted that the "perishable nature of the part replaced" is a factor to be taken into account in considering the intention of the parties.¹⁴³

Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc.,¹⁴⁴ hereinafter referred to as ARO 1, was seen by some commentators and judges as changing the rules on the repair-reconstruction doctrine.¹⁴⁵ By a majority, the Supreme Court reversed the decisions of the lower courts and held that the replacement of the fabric tops was to be treated as repairs. This case is significant because the majority seems to have rejected the "broad test" previously used in favour of a "narrow test".¹⁴⁶

Justice Whittaker, after declaring that the leading case in the Supreme Court that dealt with the distinction between repair and reconstruction was Wilson v. Simpson, then referred to the "distilled essence of the Wilson case" as stated by Judge Learned Hand in the Alcoa case,¹⁴⁷ that "The [patent] monopolist cannot prevent those to whom he sells from ...

¹⁴³ See, for example, Micromatic Hone Corp. v. Midwest Abrasive Co. 83 USPQ 409 (CA 6th Cir. 1949), *per* Miller, Circuit Judge, at page 411; General Motors Corp. v. Preferred Electric & Wire Corp. 27 USPQ 261 (CCA 2nd Cir. 1935), *per* Manton, Circuit Judge, at page 262 (although he further mentioned that the part replaced "were relatively perishable and wore out before the device as a whole was worn." Other indicators would be when the patentee sells the replacement parts or publish a suggested price list of renewable parts - as in Westinghouse Electric & Mfg Co. v. Hesser 56 USPQ 347 (CCA 6th Cir. 1942), *per* Simons, Circuit Judge, at page 350, or, as in El Dorado Foundry, Machine & Supply Co. v. Fluid Packed Pump Co. 28 USPQ 436 (CCA 8th Cir. 1936), *per* Thomas, Circuit Judge, at page 439 - That the replacement of worn tubes is regarded by the appellee as a repair only is shown by the statement in their catalogue about maintenance and replacement of parts.

¹⁴⁴ Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc. 128 USPQ 354 (US Sup. Ct 1961). The patent in suit related to a "Convertible Folding Top with Automatic Seal at Rear Quarter" for use in a car. One of the components for this combination was a piece of flexible top material or fabric cover. The components of the patented combination were usable for the lifetime of the car but the fabric cover had a much shorter life. The petitioner manufactured and sold replacement fabrics cover designed to fit the models of cars equipped with tops embodying the combination covered by the patent and was sued for contributory infringement. The liability of the petitioner depended on whether such a replacement by a purchaser of a convertible top would amount to an infringement or a permissible repair.

¹⁴⁵ See also Wilbur-Ellis Co. v. Kuthur 141 USPQ 703, at 704 (US Sup. Ct 1964), where Mr Justice Douglas seems to have some doubt about the new approach. He said, "Whatever view may be taken of the holding in the first Aro case, the majority believe that it governs the present case."

¹⁴⁶ Justice Whittaker for the Court, and Justice Black in his separate concurring judgement advocated a narrow test. Justice Brennan, although finding no infringement, agreed with the minority dissenting opinion that a broad test should be adopted. Justice Harlan, together with Justice Frankfurter and Justice Stewart, dissented and favoured the broad test.

¹⁴⁷ United States v. Aluminium Co. of America et al. 65 USPQ 6 (CCA 2nd Cir. 1945) (The Alcoa case), at page 15. However, as was rightly pointed out by Hildreth, R.B., "Contributory Infringement" 44 JPOS 512 (1962), at page 538, the Alcoa case was not concerned with the issue of reconstruction versus repair; therefore, the aforementioned statement therein, which formed the basis of the narrow test, was really *obiter*. In fact the Alcoa case was one involving a suit by the government against Alcoa for breach of the Sherman Act. The statement quoted by Justice Whittaker was made in relation to whether Alcoa had a monopoly of the relevant market. The full quotation is set out below:

per L. Hand, Circuit Judge, at page 15, "The competition of 'secondary' must, therefore, be disregarded, as soon as we consider the position of "Alcoa" over a period of years; it was as much within "Alcoa's" control as was the production of the "virgin" from which it had been derived. This can be well illustrated by the case of a lawful monopoly; e.g., a patent or a copyright. The monopolist cannot prevent those to whom he sells from reselling at whatever prices they please... Nor can he prevent their reconditioning articles worn by use, unless they in fact make a new

reconditioning articles worn by use, unless they in fact make a new article,¹⁴⁸ and concluded that "reconstruction of a patented entity, comprised of unpatented elements, is limited to such a true reconstruction of the entity as to 'in fact make a new article', after the entity, viewed as a whole, has become spent. In order to call the monopoly, conferred by the patent grant, into play for a second time, it must, indeed, be a second creation of the patented entity."¹⁴⁹ Taken at its face value, the "spentness of the entity as a whole" test is unremarkable and is in line with the Wilson approach.¹⁵⁰ However, Justice Whittaker went on to say that "mere replacement of individual unpatented parts, one at a time, whether of the same part repeatedly or different parts successively, is no more than the lawful right of the owner to repair his property."¹⁵¹

In contrast to this "simple and plain test", Justice Harlan and Justice Brennan favoured the broad test which is based upon consideration of several factors. The factors listed by Justice Brennan were:

article. Wilson v. Simpson ... At any moment his control over the market will, therefore, be limited by that part of what he has formerly sold, which the price which he now charges may bring upon the market, as second hand or reclaimed articles."

¹⁴⁸ Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc. 128 USPQ 354 (US Sup. Ct 1961), *per* Justice Whittaker, at page 358.

¹⁴⁹ Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc. 128 USPQ 354 (US Sup. Ct 1961), at page 359. Based on this "plain and practical test", the court held that the factors taken into consideration by the lower courts, like cost, durability of the part replaced, the parties' intention, and the essentialness of the element replaced, were not determinative of the question to be determined - *per* Justice Whittaker, at pages 358-359. See also Justice Black, in his separate opinion at pages 362-363, "None of this Court's case relied upon by my Brothers Harlan and Brennan justifies adoption of the supposed guides and standards referred to in their opinions. Deciding whether a patented article is 'made' does not depend on whether an unpatented element of it is perishable, or how long some of the elements last, or what the patentee's or purchaser's intentions were about them ... The holding of prior cases in this court have not actually rested on such minor and insignificant factors in determining when an article has been 'made' and when it has not. A case in which only a minimal component has been omitted from a 'making' of the combination, such as the extreme example of omission of a single bolt from a patented machine or a button from a patented garment, might call upon the Court to articulate some rather obvious refinement to this simple test of 'making'. But this is by no means such a case and it is dangerously misleading to suggest that so clear a case as this one requires the application of a Pandora's flock of insignificant standards, especially when it is recognised, as it must be upon analysis, that consistent application of the standard suggested would actually change the basic test from 'making' to something not satisfactorily but indisputably different. And surely the scope of a patent should never depend upon a psychoanalysis of the patentee's or purchaser's intentions, a test which can only confound confusion."

¹⁵⁰ See also Wilbur-Ellis Co. v. Kuthur 141 USPQ 703, at 704 (US Sup. Ct 1964), *per* Justice Douglas, "These four machine were not spent; they had years of usefulness remaining though they needed cleaning and repair."

¹⁵¹ Aro Manufacturing Co. Inc. et al. v. Convertible Top Replacement Co. Inc. 128 USPQ 354 (US Sup. Ct 1961), at page 359. Taken to its extreme, this can could be read to mean that it is only when the entire entity is rebuilt at one time that there would be impermissible reconstruction (and this was so read by Mr Justice Harlan in his dissenting judgement, at page 369). This could result in absurd result. As was rightly observed by Conti J., in EMC Corp. v. UpRight Inc. 26 USPQ2d 1173 (DC N.D. California 1993), at page 1177, after referring to the ARO 1 quotation hereinbefore mentioned, "This is not to say, however, that no amount of successive replacement of worn parts can constitute reconstruction. At some point, the overhauled head begins to resemble the apocryphal axe, of which the owner brags: 'This is my great-grandfather's original axe, although the handle has been replaced five times, and the head twice.'"

1. the life of the part replaced in relation to the useful life of the whole combination,
2. the importance of the replaced element to the inventive concept,
3. the cost of the component relative to the cost of the combination,
4. the common sense understanding and intention of the patent owner and the buyer of the combination as to its perishable components,
5. whether the purchased component replaces a worn-out part or is bought for some other purposes,¹⁵²
6. other pertinent factors.

It is submitted that the crucial question to be asked in the repair or reconstruction situation is, "Is the patentee entitled to another royalty?" The answer to this question depends on whether the purchased article as a whole has fulfilled its useful life, i.e., "spent". If it is spent, the purchaser would have to buy a new article, i.e., the patentee is entitled to payment of an additional royalty on a new sale of the article. Whether or not the article as a whole is "spent" has to be considered in relation to several factors. It is submitted that the minority test should be adopted as opposed to the narrow test of the majority.¹⁵³ The broad test is more in line with the approach in Wilson and of the United Kingdom courts. After all, there is a need to bear in mind Colt J.'s statement in Goodyear Shoe Machinery Co. v. Jackson that "It is impracticable, as well as unwise, to attempt to lay down any rule on this subject, owing to the number and infinite variety of patented inventions. Each case, as it arises, must be decided in the light of all the facts and circumstances presented, and with an intelligent comprehension of the scope, nature, and purpose of the patented invention, and the fair and reasonable intention of the parties. Having clearly in mind the specification and claims of the patent, together with the condition of decay or destruction of the patented device or machine, the question whether its restoration to a sound state was legitimate repair, or a substantial reconstruction or reproduction of the patented invention, should be determined less by definitions or technical rules than by the exercise of sound common sense and an intelligent judgement."¹⁵⁴

¹⁵² See, for example, Leeds & Catlin Co. v. Victor Talking Machine Co. (No. 2) 213 U.S. 325; 53 L. Ed. 816 (US Sup. Ct 1909) where the parts supplied were not meant to repair worn-out parts but in order to increase the repertory of tunes available to the purchasers.

¹⁵³ Further, the narrow test does not cater satisfactorily to the "one-shot" or single use situation as found in American Cotton Tie Co. v. Simmons 106 US 89 (US Sup. Ct 1882), Fromberg, Inc. v. Thornhill et al. 137 USPQ 84 (CA 5th Cir. 1963) and Fromberg Inc. v. Gross Manufacturing Co., Inc. 140 USPQ 641 (CA 9th Cir. 1964). For a critique of the ARO I decision, and the cases following the post-ARO I era, see Sease, E.J., "Patent Law: Repair-Reconstruction - A Review, Analysis, and Proposal", 20 Drake Law Review 85 (1970).

¹⁵⁴ Goodyear Shoe Machinery Co. v. Jackson 112 F. 146 (CCA 1st Cir. 901), *per* Colt, Circuit Judge, at page 150.

7.3.3. Production Line Situations

In contrast to the situations discussed earlier, where the repair was carried out either by the purchaser or by a third party contractor at his request, in a "production line" situation, there is normally no pretence that the repair work is being done on behalf of a particular customer. The worn out articles are disassembled and the component parts are cleaned and sorted. Those that can be reused are salvaged and put into separate bins. Then using a production line method, the articles are assembled, using as many parts from the bins as possible. When there are insufficient parts in the bins, new parts are used. There is no attempt to return the same parts taken from a particular article to that article. This is in contrast to the repair and return rebuilder, where the article to be repaired is disassembled and the same usable parts are used in assembling the repaired article.

The nearest, and only case in the United Kingdom resembling a production line situation is Dunlop Pneumatic Tyre Co. Ltd v. Holborn Tyre Co. Ltd.¹⁵⁵ Kekewich J., applying the "broad test" held that the work amounted not to repairs but infringement of the patent. More production line cases were litigated in the United States. In Champion Spark Plug Co. v. Jack Emener,¹⁵⁶ the defendant purchased used and discarded patented spark plugs made and sold by the plaintiff, repaired them and sold them as "used". It was held that this was not an infringement of the plaintiff's rights but a mere repair. The right to repair is not limited to purchasers from patentee and those deriving title from such purchaser. The right to repair survives abandonment of the article and is possessed by any subsequent owner.¹⁵⁷ However, it has to be noted that the spark plugs involved were not totally or substantially totally, destroyed or were considered unfit for reconditioning. No additions were made to the spark plugs. The defendant merely cleaned and reconditioned them.

Monroe Auto Equipment Co. v. Precision Rebuilders, Inc.¹⁵⁸ involved patented shock absorbers. The defendant bought up used shock absorbers, processed them and sold them in the replacement market. The used shock absorbers so purchased had been discarded and abandoned by the owner of the car from which they had been removed and were considered as being useless as shock absorbers, to be thrown away or sold as junk or scrap. The defendant's normal processing of these absorbers involved cleaning and degreasing the outside of the core, cutting one end off, removing and cleaning all parts, replacing any defective parts, including the valves, replacing the seal, reassembling, refilling, rewelding and repainting of the absorbers. The court agreed with the plaintiff that this amounted to a rebuilding of the article, and hence an infringement of the combination patent. In coming to

¹⁵⁵ Dunlop Pneumatic Tyre Co. Ltd v. Holborn Tyre Co. Ltd (1901) 18 RPC 222. See *supra*, footnote 130 and accompanying text.

¹⁵⁶ Champion Spark Plug Co. v. Jack Emener 32 USPQ 152 (DC E.D. Mich. 1936).

¹⁵⁷ Champion Spark Plug Co. v. Jack Emener 32 USPQ 152 (DC E.D. Mich. 1936), *per Moinet, District Judge*, at page 159.

¹⁵⁸ Monroe Auto Equipment Co. v. Precision Rebuilders, Inc. 141 USPQ 626 (DC D. Kansas, 1964).

its decision, the court took into consideration several factors, including the fact that Monroe did not intend that its shock absorbers be repaired,¹⁵⁹ that the construction of the absorber permitted no access to or severance of the working elements by any ordinary method of detachment, that the defendant's processing of used absorbers was effected only by cutting and later rejoining of the absorber in a manner violative of and unintended by the shock absorbers' construction and design, that the seal which was replaced in all cases, was intended to last the life of the shock absorber and normally did so, and was not a temporary part, and that at the time the shock absorbers were processed, they had fulfilled their intended purpose and had been substantially destroyed as intended and were considered junk.¹⁶⁰

In Hydril Co. et al. v. Crossman Engineering, Inc. et al.,¹⁶¹ the patent in suit related to an annular packer or closure element for use in a blowout preventer. The packer consisted of a massive annulus of rubber in which was embedded a number of steel inserts or ribs. Each steel insert included a steel flange or plate at its upper and lower ends. The defendants obtained worn out Hydril packers, not only as trade-ins on packers they sold, but also by purchase from junk dealers and others. All of these packers were worn out and incapable of further use for their intended purpose. The defendants then burned away all of the rubber material, leaving only the set of steel inserts. The inserts were then cleaned and sandblasted. Any inserts which might be broken or unfit for use were replaced with steel inserts taken from other worn out packers of the same size. The inserts were then arranged in a mould in a circular pattern called for in the patent claims in suit, and the rubber annulus shaped as defined in the claims, was moulded around them to form a rebuilt packer. The packer was a new product in all respect, except that salvaged metal parts instead of newly cast metal parts were used. The court held that the defendants did not repair the packers but rather reconstructed or rebuilt them, utilising worn out Hydril packers simply as a source of supply of the salvaged steel inserts. The accused packers made by the defendants were, in fact, new articles and not merely repaired packers.¹⁶²

¹⁵⁹ Monroe Auto Equipment Co. v. Precision Rebuilders, Inc. 141 USPQ 626 (DC D. Kansas, 1964), *per* Brown, District Judge, at page 631, "In the present case, when the automobile owner abandoned his used Monroe shock absorbers, the garage or whomever thereafter first appropriated them, took the owner's right to whatever usefulness as shock absorbers they had remaining ... Like the owner, the garage then had the licence to repair; also, it could convey the used shock absorbers and the right to their use, and the licence to repair to third persons. But, again like the owner, the garage neither had nor could it convey to others, a right to reconstruct the shock absorber. ... Lastly, though Precision could acquire from its supplier of cores the title which, by appropriation of the abandoned shock absorbers, they had therein, if the parties so intended, it is clear and we have so found that the parties intended merely to sell the cores as junk. As a result Precision acquired only the right to destroy the cores, not to use them."

¹⁶⁰ Monroe Auto Equipment Co. v. Precision Rebuilders, Inc. 141 USPQ 626 (DC D. Kansas, 1964), *per* Brown, District Judge, at page 630. He went on to say, "On all the facts of the case, the conclusion is inescapable that, far more than maintaining the "use of the whole" of the used Monroe shock absorbers which it processes, Precision resurrects them from the limbo of useless junk and accomplishes a second creation of the patented entity."

¹⁶¹ Hydril Co. et al. v. Crossman Engineering, Inc. et al. 152 USPQ 171 (DC E.D. Texas, 1966).

¹⁶² Hydril Co. et al. v. Crossman Engineering, Inc. et al. 152 USPQ 171 (DC E.D. Texas, 1966), at page 174, *per* Sheehy, Chief Judge. See also the Canadian case of Rucker Co. et al. v. Gavel's

However, the Court of Appeal in TSC Industries, Inc. v. International Harvester Co.,¹⁶³ relying on Aro 1 came to a different decision. Here the patent related to a doffer construction used in cotton picking machines. The doffer consisted of a metal carrier plate to which a rubber annulus had been moulded. The improved doffer had a useful life of one full season of use. The plaintiff purchased worn out doffers for a nominal sum. After reclaiming the plate from the worn out assembly by removing the moulded rubber parts, the plaintiff carried out additional steps which were identical with those performed by the defendant patentee. The plaintiff claimed that this "rerubbing" process was merely a permissible repair and, therefore, not any infringement. Applying Aro 1, the court agreed and held that there was no infringement.¹⁶⁴

In General Electric Co. v. United States,¹⁶⁵ the patent in suit related to a weapon control system. The Navy instituted a programme for maintenance of their weapon system called the Ordnance Replacement Programme at the Naval Ordnance Station in Louisville. Under this system the Navy overhauled their patented gun mount by employing a production line method. When the gun mounts were sent to the station, they were dismantled, the major components were separated and sent to different areas. There the components would be reduced to their smallest readily separable parts and placed in a spare parts pool. All the parts would be cleaned and inspected. Parts which were worn, scored, broken or corroded beyond reasonable use would be replaced. The major components were then reassembled. However, in carrying out these operations, no attempts were made to see that the original major components were reassembled. The plaintiffs alleged that this amounted to infringement of their patent. The Court of Claims held that there was no infringement; what the navy had done was regarded as permissible. The Court took into consideration the following significant facts - most of the elements of the patented combination used for replacement of worn out parts were supplied by General Electric, General Electric had also sold to the defendant a large number of new components which were stockpiled and used as possible spare parts in overhauling the gun mounts, approximately 60% of the gun mounts forwarded to the station were in condition to be overhauled, while about 40% were scrapped with the components, whenever possible, going to a spare parts pool. There was no evidence that during the overhauling process, any new elements not manufactured by

Vulcanizing Ltd 7 CPR(3d) 294 (1985), which involved the same patent. The court there also held that the defendants' activities amounted to impermissible reconstruction.

¹⁶³ TSC Industries, Inc. v. International Harvester Co. 160 USPQ 34 (CA 7th Cir. 1968).

¹⁶⁴ TSC Industries, Inc. v. International Harvester Co. 160 USPQ 34 (CA 7th Cir. 1968), *per* Duffy, Senior Circuit Judge, at pages 36-37. This is a surprising conclusion in view of the fact that the judge had described the doffers bought by the plaintiff as "worn and spent". Further the judge went on to describe the plaintiffs initial activity as "destroying what was left of the patented doffer". It is submitted that the court was too overly influenced by the ARO 1 test, holding that reconstruction occurs only when the entire entity was rebuilt at one time. This could be evidenced by the judge's statement that, "In view of the Supreme Court's decision in Aro, we find no alternative except to hold that the plaintiff's so-called infringing reconstruction of the doffer was, in fact, a permissible repair." (at page 37).

¹⁶⁵ General Electric Co. v. United States 198 USPQ 65 (US Ct Cls 1978).

General Electric were used. In fact the last factor was held by the court to be crucial to its decision. The Court held that in paying the plaintiff for those components, the defendant impliedly obtained a licence to use the combination and further, it was unlikely that General Electric would have sold 15 out of the 17 elements in the combination without implicitly authorising the latter to use the combination so long as the General Electric-supplied elements were able to be used and were in fact used.¹⁶⁶

Finally, in Dana Corp. v. American Precision Co. Inc.,¹⁶⁷ the defendant used the production line method to rebuild worn out clutch made under the plaintiff's patent and sold them as rebuilt clutches in competition with the plaintiff's new, unused clutches. Dana did not contend that replacement of the parts in the repair clutches constituted a reconstruction. On the contrary Dana conceded that if a repair and return rebuilder individually rebuilt clutches using the same new parts used in the production line method, there would be no direct infringement. It was also not in dispute that Dana intended that its clutches be repairable. It sold repair parts and published a repair manual. Therefore, Dana's argument hinged upon its attempted distinction between the two processes for rebuilding clutches and the determination that the production method entails a voluntary and complete destruction of the patented clutches. However, the CAFC agreed with the District Court that use of a production line method cannot convert what Dana conceded to be permissible repair to impermissible reconstruction.¹⁶⁸

Should a production line situation be allowed as a fair repair or should it amount to infringement? Such production line methods are simply speedier, less expensive, more efficient and more effective means of refurbishing old articles. This reason alone should not in itself make it an infringement. Therefore, what is paramount in this situation is the condition of the article to be dealt with. If the article as a whole is still capable of use as a unit, then repair by production line method should still be considered permissible repairs. However, if the articles used are considered as only fit for scrap, then any work carried out on them should be deemed an infringement or else it will amount to a non-patentee being allowed to manufacture the patented articles without the permission of the patent owner, under the guise of repair.

¹⁶⁶ General Electric Co. v. United States 198 USPQ 65 (US Ct Cls 1978), at page 98.

¹⁶⁷ Dana Corp. v. American Precision Co. Inc. 3 USPQ2d 1852 (CAFC 1987).

¹⁶⁸ Dana Corp. v. American Precision Co. Inc. 3 USPQ2d 1852 (CAFC 1987), *per* Markey, Chief Judge, at page 1855, citing General Electric Co. v. United States 198 USPQ 65 (US Ct Cls 1978). See also the South African case of Dana Corp. v. Rhobrake (13 November 1992, Commissioner of Patents) noted in [1993] 5 EIPR D-111, where the court, after reviewing the decisions on repair of patented articles under the United Kingdom and United States law, concluded that there is no real difference in the approach, and concluded that the defendants production line method of reconditioning used clutch plate assemblies was not an infringement.

7.3.4. Conversion Cases

7.3.4.a. The United Kingdom jurisprudence

The first reported conversion case in the United Kingdom is Dellareed v. Delkin.¹⁶⁹ The plaintiffs' patent related to a bite indicator for fishing lines. In the products sold, the sensor comprised a light-emitting diode and a photoelectric cell and the beam of emitted light was intersected by a shutter disc mounted on the axle of the pulley wheel so as to indicate that the line had moved and the speed at which it was moving. The defendants modified the bite indicators purchased from the plaintiffs by changing the method of sensing of line movement. In the modified product, the defendants had completely replaced the original circuit board by a new board on which only the light-emitting diode and the photoelectric cell from the plaintiffs' board were used. The defendant also introduced a magnet mounted on the axle of the pulley wheel which co-acted with a metal reed to form a switching device. Movement of the line on the pulley wheel caused this device to switch on the photoelectric circuit, after which the sensor operated essentially as in the unmodified product. In the absence of the magnet, however, the modified product would not have worked. They also advertised that they were willing to carry out such modifications.

On the issue of whether the modification amounted to a repair or infringement of the plaintiffs' patent, it was argued that under the general law, the implied licence to purchasers of the plaintiffs' patented indicator gave to the purchaser the right, if he so wished, to sell the article or repair or modify it, and if so minded, sell it after modification. Falconer J., however, agreed with the plaintiffs' submission that in converting the plaintiffs' bite indicators, the defendant was essentially building a new bite indicator falling within the scope of the plaintiffs' claims. The fact that a few of the original components were retained in the rebuilt indicator did not make it any less an infringement. He further held that under the implied licence acquired by the purchaser of a patented article, the position as to modification of that patented article is analogous to that of repair of the article. In other words, a "modifier should not be allowed to do more than a repairer may do under the general law as to the ambit of the implied licence." Since the fundamental principle underlying the repair cases is that the purchaser may not, under the guise of repair, make what is essentially a new product falling within the claim or claims of the patent, the same fundamental principle should apply to modification of a patented article.¹⁷⁰ On the facts, he held that what the defendant had done was to build substantially a new article which fell within the claims of the patent, and since it was done for commercial purposes, there was infringement of the patent.¹⁷¹

¹⁶⁹ Dellareed v. Delkin [1988] FSR 329.

¹⁷⁰ Dellareed v. Delkin [1988] FSR 329, *per* Falconer J., at page 346.

¹⁷¹ Dellareed v. Delkin [1988] FSR 329, *per* Falconer J., at page 347. Note that the judge had already held that the defendant had broken a previous undertaking not to modify the patented product.

Judge Ford in Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor,¹⁷² also had to deal with a conversion or modification case. On the question of whether a modification carried out on a patented device, in this case, a pool table, amounted to an infringement, Judge Ford, while in agreement with the correctness of the decision of Falconer J. in the Dellareed case, preferred to refer to German authorities on the point due to the paucity of English cases. From the German cases, he concluded that if the inventive concept is still being used in the modification, there would be an infringement by "making". Since the modifications in the case at hand involved the use of certain new parts which fell within the claims of the patent in suit, and since the parts "cooperated functionally" with the other structures in the patented pool table, Judge Ford held that the defendants had made a new patented product and had thus infringed the patent.¹⁷³

7.3.4.b. The United States jurisprudence

7.3.4.b.(i). Cases where conversions were allowed

In Thomson-Houston Electric Co. v. Kelsey Electric Railway Specialty Co. et al.,¹⁷⁴ the combination covered by the claims of the patent in suit consisted in an electric railway having an overhead conductor. One key element in the combination was the "trolley stand" which provided the means by which the trailing arm was hinged and pivoted to the car with a capacity for lateral and vertical movement, and was pressed upward by some suitable spring. No particular form of stand was included in the invention, for any one of a number of forms would answer the purpose. The defendant manufactured a particular form of the trolley stand, which it had advertised for sale, and had also, in its advertisements, represented itself as a dealer in trolley poles and overhead trolley equipment. The District Court issued an injunction against them. On appeal, the defendant admitted that it had sold trolley stands, directly or indirectly, to electric companies which purchased their equipment originally from the complainant's licensees, either by way of repair, or because the purchasers wanted an improved stand. It was argued, however, that the order which was granted was capable of too sweeping an interpretation, because it had a right to supply purchasers, who have acquired the right to use the patented combination, with its trolley stands, either by way of repair, or because the stands which were furnished to them were not adapted to the needs of the cars upon which they were placed.¹⁷⁵

¹⁷² Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor [1995] RPC 529.

¹⁷³ Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor [1995] RPC 529, *per* Judge Ford, at pages 541-542.

¹⁷⁴ Thomson-Houston Electric Co. v. Kelsey Electric Railway Specialty Co. et al. 75 F. 1005 (CCA 2nd Cir. 1896).

¹⁷⁵ The defendants invoked the principle enunciated in Chaffee v. Belting Co. 63 US 217 (US Sup. Ct 1859), which stated that "Where a person legally acquires a title to that which is the subject of letters patent, he may continue to use it until it is worn out, or he may repair it or improve upon it as he pleases, in the same manner as if dealing with property of any other kind."

In modifying the injunction,¹⁷⁶ Shipman, Circuit Judge said,

"The defendant also says that, in order to obtain the use of an improved trolley stand, purchasers from the complainant are sometimes willing to discard its stands, and substitute another form, which had its own advantages. For example, the trolley stand which is sold by the defendant is said to be less elevated above the top of the car than the stand of the complainant, and therefore it is said that the Norwalk Street-Railway Company found it necessary to change the stands which were furnished by the complainants, because of the low bridges recently constructed by a steam railroad over the tracks of the street electric road. A refusal to permit such a substitution is equivalent to a declaration that the street-railway company cannot be permitted to improve its stands, except by the consent of the complainant. If a purchaser from the complainant chooses, the day after his purchase, to substitute a stand which is better made, and better adapted to his peculiar needs, he has the right to do so."¹⁷⁷

Although the ratio expressed in the opinion was based on the right of the purchaser to substitute a different element from the one originally bought from the patentee, it seems implicitly from the judgement that a purchaser has the right to modify a patented article for his particular needs.

The first and only conversion case heard by the US Supreme Court was in Wilbur-Ellis Co. v. Kuthur.¹⁷⁸ The respondent, who owned a combination patent covering a canning machine, authorised the sale of machines made thereunder designed to pack fish into "1-pound" cans. The petitioner company bought four of these machines second-hand, three of them rusted, corroded and inoperable, and all four requiring cleaning and sandblasting to become usable. The machines were reconditioned and six of the 35 elements of the patent combination were resized to enable the machines to pack "5-ounce" cans. The Supreme Court reversed the lower courts finding of infringement, holding that those four machines were not spent since they had years of usefulness remaining though they needed cleaning and repair. Adapting the machine for use on a different-sized commodity was within the patent rights purchased and was not an infringement. The court also held that in adapting the machines to a related use and lengthening the useful capacity of the old combination on which royalties were paid, the petitioners were closer to permissible "repairing" than

¹⁷⁶ The order was modified by adding the words: "It is not intended to enjoin the defendant against the sale of trolley stands by way of replacement of broken stands, or stands worn by use, or substitution for trolley stands previously sold by the complainant to purchasers from it, but this permission does not give authority to reconstruct or rebuild a combination which has been sold by the complainant."

¹⁷⁷ Thomson-Houston Electric Co. v. Kelsey Electric Railway Specialty Co. et al. 75 F. 1005 (CCA 2nd Cir. 1896), at page 1010

¹⁷⁸ Wilbur-Ellis Co. v. Kuthur 377 U.S. 422; 141 USPQ 703 (US Sup. Ct 1964).

infringing "reconstructing." The fact that the adaptation made the machines more useful did not make it a "reconstruction." Finally, the petitioner's license to use the machines was not for "1-pound" cans only, as they were sold outright and with no restrictions.¹⁷⁹

7.3.4.b.(ii). Cases where the conversions were not allowed

However, in three other cases, the court held against the modifications carried out by the purchasers. In George Close Co. v. Ideal Wrapping Machine Co.,¹⁸⁰ the appellant was the owner by purchase of several patented machines for wrapping caramels of a certain size. After a time the trade favoured caramels of a larger size. The appellant requested the owner of the patent to change over the machines so that they would wrap caramels of a larger size. This was refused. It appeared that machines to wrap the larger size caramels were in use under an exclusive licence from the owner to a third party. The appellant thereupon had the necessary changes made in his machines by a machinist. The Court of Appeals affirmed the decision of the trial court in holding that the reconstruction of the machines amounted to an infringement. The court held that "such sale carries the right to use the machine sold; but the right does not ... give to the purchaser the right to rebuild the purchased machines into other machines embodying the patent invention."

Similarly, in Miller Hatcheries et al. v. Buckeye Incubator Co. et al.,¹⁸¹ the patents in suit related to incubators and improvements in trays used in the incubators. The defendants took the incubators which they had bought from the plaintiff and rearranged the interior, inserting 12 trays in the space where 9 had been in the incubators as purchased. To carry out the alteration, numerous alterations had to be made, including making or purchasing additional tray rails and trays and enlarging the ventilators. The defendants not only used the incubators so modified but advertised them to the trade and had sold at least one before the present suit. The purpose of the alteration was to increase the capacity of each incubator and thereby reduce the number necessary to be bought. It was held that the defendants' act amounted to an infringement since the reconstruction was such as to destroy the identity of the incubators as they were received from the hands of the original vendor. By reason of the reconstruction they had become incubators of greatly increased capacity, but which embodied all the elements of the two patents.¹⁸²

¹⁷⁹ Wilbur-Ellis Co. v. Kuthur 377 U.S. 422 (US Sup. Ct 1964), at pages 424-425. Note the above case was heard in the Court of Appeals and reported as Leuschner et al. v. Kuthur 136 USPQ 332 (CCA 9th Cir. 1963), where the majority held that there was impermissible reconstruction.

¹⁸⁰ George Close Co. v. Ideal Wrapping Machine Co. 29 F. (2d) 533 (CCA 1st Cir. 1928).

¹⁸¹ Miller Hatcheries et al. v. Buckeye Incubator Co. et al. 5 USPQ 489 (CCA 8th Cir. 1930).

¹⁸² Miller Hatcheries et al. v. Buckeye Incubator Co. et al. 5 USPQ 489 (CCA 8th Cir. 1930), *per* Booth, Circuit Judge, at page 493, "Applying the principles announced in the foregoing authorities to the case at bar, it is clear that the changes made in the incubators were not justified as repairs or replacements, for repairs or replacements were not necessary. The incubators were new. Nor were the changes made in order to make the incubators adaptable to a special use of defendants. No such special use existed. Nor did the changes consist in merely making use of a staple article of commerce in connection with the incubators; the new tray rails and the new trays were not staple

Finally, In re certain Steel Rod Treating Apparatus and Components Thereof, the U.S. International Trade Commission also held that the conversions that were carried out amounted to impermissible reconstruction rather than permissible repair. The complainant, Morgan Construction Company was the holder of the '871 patent, the patent in suit. The respondents were a group of interrelated corporations and individuals, located in the United States, England and Germany, who were engaged in various enterprises related to the steel industries. The respondent Ashlow Limited was the manufacturer of the accused apparatus. One of the respondents, Georgetown Steel Corporation (GSC), was the purchaser of the that apparatus.

The complainant initiated the investigation, filing a complaint seeking relief under section 337, alleging that the respondents were engaged in the importation or sale of steel rod treating apparatus covered by the claims of the '871 patent.

The GSC controlled cooling line in controversy was originally built in 1971 pursuant to a licence granted by the plaintiffs. The GSC ordered what is known in the trade as a "revamp". It modernised GSC's two existing production lines so that they could handle larger rod coils at increased mill speed. The respondents argued that the revamp was a mere "repair" of an existing machine rather than a new apparatus.

In holding that the revamp was a reconstruction rather than a repair, the Commission noted that the elements being replaced were not worn out and had to be replaced in the ordinary course of business to preserve the fitness of the apparatus. In fact, the apparatus was described as obsolete. The revamp involved extensive replacement of existing parts with new part which formed the components of the patented apparatus, although some parts were cannibalised parts from the old apparatus. Wholly new component parts were also added and some existing components were rearranged and placed in other locations in the apparatus. All these parts were specially designed and built to order by Ashlow. The total cost of this work amounted to several million dollars or approximately four times the cost of the original apparatus. The modification involved more engineering and more sophisticated machinery than the standard revamp. Further, the changes would significantly alter the capacity of the system and improve the tensile strength and ductibility of the rod produced. Applying Argo 1, therefore, the Commission held that since the original apparatus would cease to exist upon disassembly of the existing system, this indicated that an "apparatus rendered obsolete would be dissolved and a new entity resurrected in its place."

articles of commerce, but were made specially for use in these patented incubators. Moreover the reconstruction was extensive and consisted in rebuilding the tilting racks to receive more egg trays. These egg tray racks were a vital element in the patented combination of patent 1262860, and were specifically covered by the patent 1263138. The reconstruction was, in our opinion, such as to destroy the identity of the incubator as they were received from the hands of the original vendor. By reasons of the reconstruction they had become incubators of greatly increased capacity, but which embodied all the embodiments of the two Smith patents. We think the reconstruction clearly constituted infringement."

This case could, therefore, be distinguished from Aro 1 and Wilson on the ground that the alleged infringement involved far more than the replacement of a single worn out, short-lived element. Nor was this case the mere readjustment of a machine to handle a different size of product as was the case in Wilbur-Ellis Co. v. Kuther.¹⁸³

7.3.4.b.(iii). Analysis of the decisions

In deciding whether conversion amounts to an infringement, three basic principles need to be taken into consideration and reconciled if necessary. They are:

1. The patent owner has the exclusive right to make and use his invention.
2. The purchaser of a patented article sold unconditionally, acquires an unrestricted right to use the article purchased. This right includes the right to carry out repairs and also to modify it according to his special needs.
3. The patentee is only entitled to one royalty for each sale of a patented article.

The general tendency of the courts seems to be to treat conversion cases the same way as repair cases. In principle this has to be right, although repairs and conversions are conceptually different. In the case of repairs, the aim is to restore a damaged article to working condition. In the case of conversion *simpliciter*, the article converted is normally in good working order, and the purpose of the modifier is not to restore it to its original condition. For various reasons the owner of the article decides to modify or adapt it to serve a different purpose or function. Admittedly, certain conversions result from modifications which have to be made to damaged articles to enable the articles to be put to some use instead of having to be discarded.

Some other instances of conversion *simpliciter* may obviously result in an infringement. The obvious case would be the case of an infringer taking the inventive concept of the patentee and modifying the concept to produce a competing product. He does not work with the patentee's original product, but originates the product from his own manufacture. The modification may involve the substitution of equivalents. On the other hand, the modification could also involve the input of some inventive addition to the original concept. In both cases, there would still be infringement, since the patented inventive concept had been taken.

However, in the case where the original article is lawfully purchased from the patentee, the rule that the purchaser, in the absence of any enforceable restrictions imposed upon him at the time of sale, has absolute freedom to deal with the article in any way he pleases, should

¹⁸³ In re certain Steel Rod Treating Apparatus and Components Thereof 215 USPQ 237 (U.S. International Trade Commission, 1981), at pages 259-260.

also allow him to modify the article. On sale of the article, the exclusive privilege in respect of that particular article is at an end. Therefore, the purchaser may "use it or improve upon it in whatever manner he pleases; in the same manner as if dealing with property of any other kind."¹⁸⁴ His dealing with this particular physical manifestation of the patented inventive concept does not make him an infringer. Since a royalty had already been paid on the first sale, no harm had been occasioned to him. It will be different if, as a result of the modification, the plaintiff may lose a potential sale, as for example, when originally two articles would have been bought, because of the modification, only one is purchased. In this situation, the plaintiff could rightly complain because of the harm done to him for the lost sale. This rule is based on the principle that if the modification results in the use of another inventive concept which is not already physically manifested in the purchased product, then his modification would amount to a "making" of the another patented product. In other words, in modifying the article, the purchaser can not infringe another claim of the patent which is not incorporated in the article.¹⁸⁵

So it is submitted that while conversion cases may be conceptually different from repair cases in most situations, the test should remain the same, i.e., the key question always is whether there has been a "making" of a patented product, and hence a violation of one of the exclusive rights. In other words, the test should be on a "lost sale or not" basis. Therefore, in the inquiry as to whether the conversion can be considered as a remaking of the article in competition with the patentee, i.e., whether it amounts to impermissible conversion, the questions should be - "Has any harm been done to the patent owner by the conversion?"¹⁸⁶ Is the situation such that the patent owner should be entitled to a new royalty?" The question of whether it is a repair or a reconstruction is irrelevant. As was stated by Douglas J. in Wilbur-Ellis Co. v. Kuthur,¹⁸⁷ "The idea of "reconstruction" in this context has the special connotation of those acts which would impinge on the patentee's right "to exclude others from making ... the article." If this test of harm to the patent owner, or "lost sale or not" is adopted, then conversions involving the resizing of article bought so that they have increased capacity may be an infringement of the patent, like the George Close and Miller Hatcheries situations.

¹⁸⁴ Crane v. Price 1 Web. P.C. 393, at 413; 4 HPC 107, at 127 ((1842), *per* Tindal C.J.

¹⁸⁵ This is fact was the reasoning adopt by the German Supreme Court in Spielautomat II (reported in Annual of Industrial Property Law, 1975, at page 170). The court stated that the patent holder can govern in which embodiment the patented article shall be commercialised and used. If this embodiment is remodelled by a third party without permission, then the third party encroaches upon the manufacturing right left with the patent owner. If the modified embodiment is no longer identified to that initially commercialised by the patent owner, although achieving the object upon which the patent was based in an equivalent manner, then this amounts to an infringement. There is no mention in Dellareed v. Delkin [1988] FSR 329 as to whether the converted bite indicator fell within any claim of the plaintiff's patent. It if did, the decision would have been correctly decided - see *supra*, text accompanying footnote 169.

¹⁸⁶ Wilson v. Simpson 50 U.S. 109; 13 L. Ed. 66 (US Sup. Ct 1850), *per* Mr Justice Wayne, at page 123, "And what harm is done to the patentee in the use of his right of invention, when the repair and replacement of a partial injury are confined to the machine which the purchaser has bought?"

¹⁸⁷ Wilbur-Ellis Co. v. Kuthur 377 U.S. 422, at 424; 141 USPQ 703 (US Sup. Ct 1964).

7.3.5. Application of the Repair Doctrine in the Malaysian Context

The court's adoption of the principle of implied licence in the case of Smith Kline & French v. Salim¹⁸⁸ would seem to indicate that the doctrine of the implied licence to repair under the common law could be a part of Malaysian jurisprudence. However, even accepting that this doctrine is part of Malaysian law,¹⁸⁹ there would be problems in its implementation.

The replacement of parts of a patented article for the purpose of repair would involve artistic works which would attract copyright protection under the Malaysian Copyright Act 1987.¹⁹⁰ To what extent would the implied licence to repair also extend to an implied licence to copy drawings of parts protected by copyright?

The question of copyright in engineering drawings in relation to repair was considered in Solar Thomson Engineering Co. Ltd v. Barton,¹⁹¹ where infringements of both patent and copyright were alleged. The Court of Appeal rejected both claims, holding that what was done amounted to no more than repair of the patented machinery and that the manufacture of a replacement part which *prima facie* infringed the copyright in one of the patentees' working drawings, having been ordered from the defendant by the owner of the machinery, was protected by the owner's implied licence. Buckley L.J. said:

"If I am right in the view I have expressed about the existence here of an implied licence under the patent to repair pulleys by replacing worn rubber rings, it must ... follow that purchasers of Polyrin pulleys are also impliedly licensed to infringe the plaintiffs' copyright in their drawings to the extent necessary to enable such repairs to be carried out. To hold otherwise would be to allow the copyright to stultify the implied licence under the patent. It seems to me that consideration 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 purchase."¹⁹²

¹⁸⁸ Smith Kline & French v. Salim [1989] FSR 407; [1989] 2 MLJ 380, *per* George J., at pages 383-384 - *see supra*, footnote 27.

¹⁸⁹ Or even if the Malaysian courts were to follow the lead of Judge Ford in Hazel Grove (Superleague) Ltd v. Euro-League Leisure Products Ltd & anor [1995] RPC 529, that on the question of repairs, there is no necessity to rely on the doctrine of implied licence - *see* footnote 115 and accompanying text.

¹⁹⁰ For a discussion of the extent of protection given to drawings of spare parts, *see* Lim, H.G., "Copyright in Functional Drawings? The Linatex case and British Leyland revisited" [1994] 1 MLJ xc, and Ida, M.A. "Slurry Pumps and the Obscurity of Artistic Copyright Works - Peko Wallsend Operations Ltd v. Linatex Process Rubber Bhd", [1994] 3 EIPR 123.

¹⁹¹ Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537.

¹⁹² Solar Thomson Engineering Co. Ltd v. Barton [1977] RPC 537, at pages 560-561. This principle was followed in Gardner & Sons Ltd v. Paul Sykes Organisation Ltd [1981] FSR 281, *see* page 283-284 *per* Foster J., and Weir Pumps Ltd & ors v. CML Pumps Ltd and ors [1984] FSR 33, *see per* Whitford J., at pages 53-56.

This, however, does not solve the problem since it has been held that this implied licence to breach copyright for repair purposes does not extend to third party supplier of spares so as to enable them to make parts ready for sale.¹⁹³ This problem was solved in the United Kingdom by the introduction of the doctrine of non-derogation from grant.¹⁹⁴ The Malaysian courts have, however, declined to accept the doctrine of non-derogation from grant.¹⁹⁵

The only other solution is if the Catnic defence as propounded by Whitford J. in Catnic Components Ltd and anor v. Hill & Smith Ltd¹⁹⁶ applies. According to this defence, "by applying for patent and accepting the statutory obligation to describe and if necessary illustrate embodiments of his invention, a patentee necessarily makes an election accepting that, in return for a potential monopoly, upon publication, the material disclosed by him in the specification must be deemed to be open to be used by the public, subject only to such monopoly rights as he may acquire on his application for the patent and during the period for which his monopoly remains in force, whatever be the reason for the determination of the monopoly rights. If this is correct, ... upon publication, the plaintiffs must be deemed to have abandoned their copyright in drawings the equivalent of the patent drawings."¹⁹⁷ What are the chances that the Malaysian courts will adopt this defence? It is submitted that in view of the unsettled status of this defence, it is indeed very unlikely that the courts will accept such a controversial doctrine.¹⁹⁸ Therefore, to give effect to the implied licence to repair, the relevant provisions in the Copyright Act 1987 need to be amended.

¹⁹³ Hoover plc v. George Hulme (Stockport) Ltd [1982] FSR 565, *per* Whitford J., at page 588. See also British Leyland Motor Corp. Ltd and ors v. Armstrong Patents Co. Ltd [1984] FSR 591, at pages 611-612, *per* Oliver L.J., in the Court of Appeal.

¹⁹⁴ See British Leyland Motor Corp. Ltd and ors v. Armstrong Patents Co. Ltd [1986] RPC 279.

¹⁹⁵ See Peko Wallsend Operations Ltd & ors v. Linatex Process Rubber & another action [1993] 1 MLJ 225, the reasoning being that it was a concept of English law land which had not been imported into Malaysian law. On appeal to the Supreme Court, the trial court's decision was held to be correct - Unreported, June 1994.

¹⁹⁶ Catnic Components Ltd and anor v. Hill & Smith Ltd [1978] FSR 405.

¹⁹⁷ Catnic Components Ltd and anor v. Hill & Smith Ltd [1978] FSR 405, at pages 427-428. This opinion was neither affirmed nor reversed in appeals from this decision since it was not necessary to do so. See Buckley L.J., at page 628 in Catnic Components Ltd v. Hill & Smith Ltd [1979] FSR 619 (CA). See also Rose Plastics GmbH v. William Beckett & Co. (Plastics) Ltd & anor [1989] FSR 113, at page 123, where Whitford J. again reiterated the proposition.

¹⁹⁸ See, for example, Wham-O Manufacturing Co. et al. v. Lincoln Industries Ltd [1982] RPC 281, at 298, Justice Moller, after referring to, *inter alia*, Werner Motors Ltd v. A.G. Gamage Ltd (1904) 21 RPC 621 and William Edge & Sons Ltd v. William Nicholls & Sons Ltd (1911) 28 RPC 582, said, "I have come to the decision that the Catnic defence, is, as a matter of law, not available in cases such as this." See also Gardex Ltd v. Sorata Ltd [1986] RPC 623, at pages 641-645, where Falconer J. declined to decide on the correctness or otherwise of Whitford J.'s conclusion in the Catnic case, on the ground that in the case at hand, the drawings in the patent specification could not be regarded as being equivalent to the drawing relied on in support of the action for infringement of copyright. For a view of this defence in the other Commonwealth jurisdictions, see: Ogden Industries Pty. Ltd v. KIS (Australia) Ltd [1983] FSR 619, at 635, Kearney J., after reviewing the cases, concluded, "On this basis I would have to conclude that something more than the existence of the patent would be required to deprive a patentee of his concurrent copyrights. Moreover, to extend the patentee's abandonment of copyright to subsequent detailed drawings not incorporated in the patent specification seems to me to run counter to accepted notions of copyright entitlement." Dennison Manufacturing Co. & anor v. Prestige Co. & ors. (1980, H. Ct.,

7.4. Loss of Rights

7.4.1. General

Under the Act, any aggrieved person may institute court proceedings against the owner of a patent for invalidation of the patent.¹⁹⁹ The grounds for invalidation can be grouped into four main heads:

7.4.1.a. Substantive grounds

The substantive objections under this head are that what is claimed as an invention in the patent is not an invention within the meaning of section 12, or is excluded from protection under section 13 (non-patentable inventions), or subsection (1) of section 31 (the performance of any act in respect of the claimed invention would be contrary to public order), or is not patentable because it does not comply with the requirements of sections 11

Auckland, noted [1981] 3 EIPR D-62. In rejecting the Catnic defence, Speight J. said, "I find this proposition difficult to understand, especially in the absence of any quoted authority, and I note that in the Court of Appeal the proposition was but briefly referred to as 'interesting'. ... "; Haliburton Co. et al. v. Northern Drillstem Testers Ltd et al. (1982) 63 CPR(2d) 187, at 188, *per* Addy J., "There appears, however, to be an arguable case that the copyright might have been given up in applying for the patent. This is the sort of question which should be decided at trial after all the facts have been determined ... "; Burnaby Machine & Mill Equipment Ltd v. Berglund Industrial Supply Co. Ltd et al. (1984) 81 CPR(2d) 251, *per* Walsh J., at pages 253-254, after reviewing the cases, and after referring to the statement of Addy J. in Haliburton ... said, "I fully agree with this conclusion. The appropriate time to decide such an important legal question is not on a motion seeking further answers on discovery. ..."; Rucker Co. et al. v. Gavel's Vulcanizing Ltd 7 CPR(3d) 294 (1985) (Canada), where Walsh J., at pages 310- 313, discussed this defence and the applicability of this defence in various Commonwealth countries. He then concluded, at pages 312-313, "In the present case it would appear from the evidence that the drawings registered for copyright are not even identical with those in the patent. However, to give the wide interpretation sought by the plaintiffs to copyright protection for the drawings would defeat the time limitation provided for by the Patent Act. Most mechanical patents have drawings in connection therewith and the drawings are readily copyrighted, but when the patent infringement protection is no longer available to the owner of the patent it is not desirable that he should be able to extent this protection by application of the Copyright Act to the drawings from which the physical object covered by the patent was constructed, and thereby prevent anyone else from manufacturing the same device, even without the use of the drawings. I strongly believe that it was not the intention of Parliament nor from a practical view is it desirable that the Patent Act, the Copyright Act, and the Industrial Design Act should be interpreted so as to give overlapping protection. Something suitable for industrial design cannot be registered for copyright, as that statute states, and something for which a patent is granted should not also be given double protection for an extended period of time by registering for copyright drawings from which the patented object was made. Moreover, in the present case the patent has not yet expired. ... I, therefore, conclude in the unsettled state of Canadian jurisprudence on the issue that, while plaintiffs may have valid copyrights they should not on the facts of the present case be allowed to rely on copyright protection, and their claim for copyright infringement is, therefore, dismissed, since the copyright can be extended to cover the physical object made from it as in the Bayliner case and other decisions to the same effect, it should not be extended to cover objects protected by patents." From the above, it appears that only the Canadian courts seem to have some sympathy for the defence.

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See section 56 of the Act, as amended by section 32 of the Patents (Amendment) Act 1993. Note that Section 60(3) provides that "The defendant in any proceedings referred to in this section may request in the same proceedings the invalidation of the patent, in which case the provisions of subsection (2) and (3) of section 56 shall apply". So section 56(2) and (3) can be used as a defence as well as an attack.

(definition of a patentable invention), 14 (novelty), 15 (inventive step) and 16 (industrial application).²⁰⁰

7.4.1.b. Procedural objections

The ground under this head is that the description or the claim does not comply with the requirements of section 23 or that any drawing which are necessary for the understanding of the claimed invention have not been furnished.²⁰¹ This ground is discussed in greater detail in para. 7.4.2.

7.4.1.c. Wrongful claim to ownership

A person who can prove that he has a better right to the patent apply to invalidate the patent on the ground that the right to the patent does not belong to the person to whom the patent was granted.²⁰² This ground is subject, however, to the proviso that the court will not have the power to invalidate the patent if the patent has been assigned to the person to whom the right to the patent belongs.²⁰³

7.4.1.d. Fraud on the Patent Office

The fourth ground applies when there is a fraud on the Patent Office. Under this head if incomplete or incorrect information has been deliberately provided or caused to be provided to the Registrar under subsection (4) of section 29A by the person to whom the patent was granted or by his agent, the patent shall be invalidated. Section 29A(4) refers to the documents that need to be submitted when requesting for a substantive examination. These include, *inter alia*, supporting documents concerning prior filing of an application for a patent with a national, regional or international property office, and the result of any search or examination carried out by an International Searching Authority.²⁰⁴ There is no corresponding provision in the WIPO Model Law. It would appear that this ground is based on the need for good faith on the part of the applicant when applying for patent rights.²⁰⁵

²⁰⁰ Section 56(2)(a) of the Act.

²⁰¹ Section 56(2)(b) and (c) of the Act.

²⁰² Section 56(2)(d) of the Act. See Chapter 2 - Ownership of Patent Rights *Inter Se*, paras. 2.1 and 2.3.

²⁰³ See section 56(2A) of the Act.

²⁰⁴ See section 56(2)(e) of the Act. See Chapter 1 - Historical Development of the Malaysian Patent System, para. 1.5.4.

²⁰⁵ This ground of invalidity appears to be based on the US defence of fraudulent procurement. Under this doctrine, an applicant for a patent is under a duty of candour in dealing with the Patent Office. A breach of this duty constitutes "inequitable conduct" or "fraud", and may lead to invalidation of a patent. See generally, Chisum, Vol. 5, para. 19.03.

7.4.2. Procedural Deficiencies - General

Section 56(2)(b) states that one of the grounds for invalidation is "that the description or the claim does not comply with the requirements of section 23", which in turn provides that every application for the grant of a patent shall comply with the regulations as may be prescribed by the Minister under the Act.

The regulations that are related to the description and the claims are contained in regulations 12, 13 and 14. Under regulation 12, several matters must be complied with: from specifying the technical field to which the invention relates, indicating the background art which can be regarded as useful for the understanding, searching and examination of the invention, giving a brief description of figures in the drawings, if any, indicating explicitly, when it is not obvious from the description or nature of the invention, the way in which the invention is industrially applicable, to sufficiency of description and the duty to provide the best mode.²⁰⁶ Similarly, the regulations relating to the claims concern guidelines on the way in which the claims should be formulated, including the use of Arabic numerals in the numbering of claims and the use of characterising portion in claims. A strict reading of Section 56(2)(b) would mean that non-compliance with any of these matters, however, trifling, could lead to invalidation of a patent. It is unlikely that the legislature intended that non-compliance with these should invariably lead to invalidation of an otherwise valid patent.²⁰⁷

This part of the chapter will address two areas of procedural objections which could cause problems of interpretation, the grounds of insufficiency and that of best mode disclosure. In discussing how the two requirements could be construed by the Malaysian courts, guidance will be sought from jurisdictions having similar provisions, in particular to the United Kingdom best mode case law, and especially to the United States where the question of the best mode disclosure requirement has been most adjudicated upon.²⁰⁸

²⁰⁶ This sufficiency requirement was present in various pre-1983 statutes in Malaysia. See the Straits Settlements Inventions Ordinance, 1871, sections 4, 11 and 30; sections 5 and 28 respectively of the Inventions Regulation, 1896, Selangor, Inventions Order in Council, No. 2 of 1896, Perak, Inventions Order in Council, 1896, Negri Sembilan, and Invention Enactment No. 5 of 1897, Pahang; Inventions Enactment 1911, Johore, sections 5 and 29; and The Inventions Enactment, 1914, Federated Malay States, sections 4, 11 and 26. All these statutes provided that insufficiency of a description was a ground for revocation. Although a description of the best mode was not specifically mentioned, it is likely that, in view of the case law of that period in the United Kingdom, such a disclosure would have been held to be necessary if such a question was adjudicated upon in the courts of the various States.

²⁰⁷ See later, para. 7.5, *infra*, for recommendations. Section 56 of the Act is modelled on section 95 of the Sri Lankan Act. However, in the Sri Lankan Act, the duties in relation to sufficiency of description and best mode are spelled out in section 68(3) and (4) of that Act, and one of the grounds for invalidation is non compliance with the requirements of section 69(3) and (4).

²⁰⁸ In the United States, the history of the best mode requirement began in 1790 by virtue of section 2 of the 1790 Patent Act, although it was only by the Patent Act of 1870 when the requirement of disclosing the inventor's best mode was enacted. The 1952 Patent Act extends the best mode requirement from just mechanical inventions to all inventions. For discussions of the development of the best mode requirement in the USA, see generally, McDougall, D.S., "The Courts are

7.4.3. Sufficiency and Best Mode - General

The early patents in the United Kingdom were granted to encourage inventors to establish new industries and also to teach the invention to craftsmen and apprentices.²⁰⁹ It was only later, in the reign of Anne (A.D. 1712) that the filing of a specification was made mandatory. This requirement was originally not based on any legislative enactment but on the authority of the law officer of the Crown. It is probable that it was in Brand's Patent of 1771,²¹⁰ that Lord Mansfield first applied his doctrine of the patent specification, that the main consideration for the validity of a patent is not, as it had previously been, the actual working of the invention, but is the sufficiency of the description of it given in the specification. This represents a shift of the consideration of the patent grant from practice to disclosure.²¹¹ Since 1712, there has been no requirement on a patentee to perform any act, the only requirement has been the preparation of a specification.²¹² However, it was only in 1852, by the Patent Law Amendment Act, that this requirement was made statutory. By that Act, the applicant had to "particularly describe and ascertain the nature of the invention, and in what manner the same is to be performed."²¹³

Based on the doctrine of the specification, several theories have been put forward to justify invalidating the patent grant on failure to meet the mandated disclosure requirement. The inventor's disclosure of the invention is the consideration given by the inventor in exchange for his reward to a limited monopoly. The disclosure requirements assure that the public receives a *quid pro quo*. The *quid pro quo* is that the invention will be available to the public once the statutory period of the monopoly expires. In return, he has the duty to teach the public so that they are able to work the invention.²¹⁴ Another theory is that since a

Telling Us: 'Your Client's Best Mode Must be Disclosed', 59 JPOS 321 (1977); Herbert, W.F., "Failure to Disclose the 'Best Mode': What the Public Doesn't Know Will Hurt them", 64 JPOS 12 (1982), at pages 14-15, and Carlson, D.L., "The Best Mode Disclosure Requirement in Patent Practice", 60 JPOS 171 (1978), at page 172. See also In re Honn 364 F.2d 454 n.7; 150 USPQ 652 n.7 (CCPA 1966), where the legislative history and explanation provision of 35 USC 112 was set forth by Kirkpatrick J.

²⁰⁹ See for example, Buck's Invention (A.D. 1651, c. 2) 1 WPC 35.

²¹⁰ Brand's Patent of 1771 (Noted in HPC Vol. 11, at page 626).

²¹¹ See also Liardet v. Johnson (1778) 1 CPC 35, at 37, *per* Lord Mansfield, and Hulme, E.W., "On the History of Patent Law in the Seventeenth and Eighteenth Centuries" 18 LQR 280 (1902). Note that non-use may, however, lead to revocation of the patent or cause it to be subject to a compulsory licence - see Chapter 6 - Statutory Control of the Patentee's Exercise of His Exclusive Rights, para. 6.1.

²¹² See American Cyanamid Company (Dann's) Patent [1971] RPC 425 (HL), at page 428.

²¹³ See generally, Davenport, N., The United Kingdom Patent System - A Brief History, Kenneth Mason, Hampshire, 1979, at pages 29-30, and Robinson, W.C., The Law of Patents, Vol. 1, 1890, at pages 62-63.

²¹⁴ See, for example, R. v. Arkwright (1785) 1 WPC 64, at page 66, *per* Buller J.. See also In re Nelson 280 F.2d 172; 126 USPQ 242 (CCPA, 1960), at pages 181-182 and 184; Standard Oil Co. v. Montedison, S.p.A. 212 USPQ 327 (CA 3rd Cir. 1981), at page 363 - compliance with the full disclosure requirement of 35 U.S.C. @ 112, which facilitates subsequent free public use of the invention, is the *quid pro quo* for the grant of a limited patent monopoly on a patentable invention. This is also reflected in Universal Oil Products Co. v. Globe Oil and Refining Co. 322 US 471, 484, 61 USPQ 382, 388 (US Sup. Ct 1944), *per* Reed J., "As a reward for inventions and to encourage their disclosure, the United States offers a seventeen-year monopoly to an inventor who

patent gives a monopoly to the patentee, it is *prima facie* against the public interest. To offset this, the public should be able to derive an advantage from it by the disclosure of the invention so that it can be practised on expiration of the patent.²¹⁵

In relation to sufficiency, it was said that the purpose of the specification is to teach the art to the public so that on expiration of the patent monopoly, the public is "put in possession of the secret" in return for the reward of a grant of the patent.²¹⁶ Sufficient disclosure of the invention would also contribute to the general wealth of technical knowledge²¹⁷ which is of particular importance to a developing country.²¹⁸

The best mode requirement²¹⁹ aims to prevent the applicant from deliberately keeping back something known to himself with the intention that he gets a monopoly without giving the full consideration in terms of his knowledge,²²⁰ or to keep something of which he knows back so that the public will not get the full benefit of the invention which he has and for which he was granted a monopoly.²²¹ In the words of Rich J., it is to prevent a "selfish

refrains from keeping his invention a trade secret. But the *quid pro quo* is disclosure of a process or device in sufficient detail to enable one skilled in the art to practise the invention once the period of the monopoly has expired; and the same precision of disclosure is likewise essential to warn the industry concerned of the precise scope of the monopoly asserted."

²¹⁵ See Turner v. Winter (1787) 1 WPC 77, *per* Ashurst J., at page 80.

²¹⁶ See, for example, R. v. Arkwright (1785) 1 WPC 64, at page 66, *per* Buller J., and Turner v. Winter (1787) 1 WPC 77, *per* Ashurst J., at page 80.

²¹⁷ See In re Nelson 280 F.2d 172; 126 USPQ 242 (CCPA, 1960), page 181, *per* Rich J.

²¹⁸ See WIPO Model Law, page 71.

²¹⁹ Although it was only in 1932 that there was a statutory requirement for a best mode disclosure in the United Kingdom Patents statute, such a requirement has long been mandated by case law. The idea that a patentee was obliged to describe the best way he knew of performing his invention had already formed the basis of a decision by Lord Mansfield when he had invalidated Brand's Patent of 1771 (Noted in HPC Vol. 11, at page 626) on the ground that certain material information was withheld from the specification by the patentee. See also, R. v. Arkwright (1785) 1 WPC 64, at 66, *per* Buller J.; Turner v. Winter (1787) 1 WPC 77, at 80, *per* Ashurst J.; Bovil v. Moore 1 CPC 320 at 339, 1 Haywood's Patent Cases 618, at 637, *per* Gibbs C.J.; Wood v. Zimmer (1815) 1 CPC 290, at 294, *per* Gibbs C.J.; Savory v. Price (1823) 1 CPC 431, at 432, *per* Abbott C.J.; Crossley v. Beverley (1830) 1 WPC 106, at 117, *per* Bayley, J.; British Dynamite Co. v. Krebs (1896) 13 RPC 190, at 195, *per* Lord Hatherley and Pneumatic Tyre Co. Ltd v. Leicester Pneumatic Tyre and Automatic Valve Co. (1899) 16 RPC 531, at 541, *per* Lord Macnaghten. Therefore, the statutory provision of 1932 was merely a restatement of the common law position. However, this requirement was removed by the Patents Act 1977, United Kingdom. Note that the requirement to disclose the best mode is allowed by Article 29(1) of the GATT TRIPS Agreement. However, the Draft Patent Law Treaty only allows the imposition of a sufficiency requirement - see Article 3.

²²⁰ See, for example, Graham J., in American Cyanamid v. Ethicon [1979] RPC 215, at page 269. "The Act is intending to protect the public against a patentee who deliberately keeps to himself something novel and not previously published which he knows of or has found out gives the best results, with a view to getting the benefit of a monopoly without giving to the public the corresponding consideration of knowledge of the best method of performing the invention."; Wahl Instruments Inc. v. Acvious Inc. 21 USPQ2d 1123 (CAFC 1991), *per* Nies J., at page 1126. See also Monsanto Co. v. Maxwell Hart (London) Ltd & anor [1981] RPC 201, *per* Graham J., at page 242, "Further I emphasise that the word in the section is "known" and not "guessed" or "suspected" or "anticipated". In the case of a defence such as this which is basically directed against dishonest conduct in withholding of information by a patentee from the public, the meaning of such a word must not be construed in such a way as to be adverse to or oppressive upon a patentee."

²²¹ Turner v. Winter (1787) 1 WPC 77, *per* Buller J., at pages 81-82; see also Savory v. Price (1823)

desire on the part of some people to obtain patent protection without making full disclosure."²²² It is "the price which the patentee pays for his patent, so that the public would be in a position to make it in the same way and with the same advantages as the patentee".²²³ The idea of fairness is also prominent. Therefore, he has to "play fair and square" by disclosing the best mode.²²⁴ Alternatively, it has also been said that the patentee must act towards the public *uberrima fide* and, therefore, must give the best information in his power as to how to carry out the invention.²²⁵ Another basis is that non-disclosure of the best mode amounts to fraudulent concealment from the public and thus the patent is void.²²⁶ An alternative rationale is that the best mode requirement is intended to allow the public to compete fairly with the patentee following expiration of the patent.²²⁷

Once a specification is required in return for the grant, the question of whether the specification sufficiently describes the invention becomes important. The *sine qua non* of a valid patent being a full, clear, enabling description of the invention,²²⁸ failure of sufficiency and best mode disclosure, therefore, means that there is a failure of consideration. The result is invalidation of the patent granted.²²⁹

The classic statement by Judge Rich in In re Gay,²³⁰ best explains the relationship and differences between the two requirements. He said:

"[A] The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact

1 CPC 431, *per* Abbott C.J., at page 432.

²²² In re Nelson 280 F.2d 172 at page 184; 126 USPQ 242 at 253 (CCPA 1960), *per* Rich J.

²²³ Wood v. Zimmer (1815) 1 CPC 290, *per* Gibbs C.J., at page 294.

²²⁴ Amgen, Inc. v. Chugai Pharmaceutical Co., Ltd. and Genetics Institute, inc., 927 F.2d 1200; 18 USPQ2d 1016 (CAFC 1991), *per* Lourie J., at pages 1209-1210.

²²⁵ See Minerals Separation North American Corp. v. Noranda Mines Ltd [1947] Ex. C.R. 306, at 317, 6 Fox Pat. C. 130, at 145, *per* Thorson J. See also Lido Industrial Products Ltd v. Teletyne Industries Inc. (1981) 57 CPR (2d) 29, leave to appeal to S.C.C. refused, 59 CPR (2d) 183, *per* Thurlow C.J., at pages 44-45; Vidal Dyes Syndicate Ltd v. Levinstein Ltd (1912) 29 RPC 245, *per* Fletcher Moulton L.J., at 269; Sturtz v De La Rue (1828) 1 CPC 463, at 469; 38 ER 1048, at 1050, *per* Lyndhurst, L.C.; Coles v. Baylis, Lewis & Co. (1886) 3 RPC 178, at 180, *per* Bacon V.C.; Natural Colour Kinematograph Co. Ltd v. Biochems. Ltd (1915) 32 RPC 256, at 268, *per* Lord Parker Franc-Strohmeier & Cowan Inc. v. Peter Robinson Ltd (1930) 47 RPC 493, at 501, *per* Maugham J.

²²⁶ Bovill v. Moore 1 CPC 320, at 340; (1816) 1 Hayward's Patent Cases 618, at page 638, *per* Gibbs L.C.J.

²²⁷ Christianson v. Colt Industries Operating Corp. 10 USPQ2d 1352 (CA 7th Cir. 1989), *per* Flaum J., at page 1360, footnote 8.

²²⁸ Kewanee Oil Co. v. Bicron Corp. 181 USPQ 673, at 678 (US Sup. Ct 1974); White Consolidated Industries v. Vega Servo-Control 218 USPQ 961, at 963 (CAFC 1983), *per* Markey, Chief Judge.

²²⁹ See American Cyanamid Co. v. Ethicon Ltd [1979] RPC 215, *per* Graham J., at page 269.

²³⁰ In re Gay 309 F.2d 769, at 772, 135 USPQ 311, at 315 (CCPA 1962), *per* Rich J. Quoted in Spectra-Physics, Inc. v. Coherent, Inc. 827 F.2d 1524, 1532, 3 USPQ2d 1737, 1742 (CAFC 1987); Dana Corp. v. IPC Limited Partnership 860 F.2d 415, 419, 8 USPQ2d 1692, 1696 (CAFC 1988); and Wahl Instruments Inc. v. Acvious Inc. 21 USPQ2d 1123 (CAFC 1991), *per* Nies J., at page 1126.

terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and [B] shall set forth the best mode contemplated by the inventor of carrying out his invention.

The essence of portion [A] is that a specification shall disclose an invention in such a manner as will enable one skilled in the art to make and utilise it. Separate and distinct from portion [A] is portion [B], the essence of which requires an inventor to disclose the best mode contemplated by him, as of the time he executes the application, of carrying out his invention. Manifestly, the sole purpose of this latter requirement is to restrain inventors from applying for patents while at the same time concealing from the public preferred embodiments of their inventions which they have in fact conceived. (emphasis added).

It is thus important to note that the two requirements are separate and distinct requirements. It is, therefore, possible to satisfy the enablement requirement without satisfying the best mode requirement.²³¹

Although sufficiency or the need for an enabling disclosure applies to the question of compliance with the description in the specification, it is also closely related to the question of whether the invention has been anticipated by a prior publication. Both require the answer as to whether the description will teach the person skilled in the art the subject matter of the claim, therefore, the assessment in both situations is the same.²³² However, while the sufficiency requirement is based on an objective assessment, the best mode requirement is based on a subjective assessment dependant on the contemporaneous state of knowledge of the patentee.

7.4.4. Sufficiency of Description

7.4.4.a. The Test as to whether the requirement is satisfied

Compliance with the requirement of sufficiency is assessed from the state of knowledge of the person skilled in the art to which the invention pertains or with which it is most nearly connected.²³³ Similar to the corresponding provisions in the statutes of the other

²³¹ See, for example, Chemcast Corp. v. Arco Industries Corp. 913 F.2d 923, at 927-928; 16 USPQ2d 1033, at 1037 (CAFC, 1990), *per* Mayer J., and Spectra-Physics, Inc. v. Coherent, Inc., 3 USPQ2d 1737 at 1746 (CAFC 1987), cert. denied, 108 S. Ct 346 (1987).

²³² See ICI/Pyridine Herbicides T206/83 [1986] 5 EPOR 232, at 236. Hence the person skilled in the art is deemed to be the same for both purposes. Similarly, in Genentech Inc.'s Patent [1989] RPC 147 (CA), it was held that there is no mandate for applying a different meaning to the words "skilled in the art" in section 72(1)(c) (sufficiency of description) from that in section 3 (inventive step) of the 1977 Act, UK - *per* Purchas L.J. at page 216. But see the contrary opinion of Mustill L.J., at pages 278-279.

²³³ British Thomson Houston Co. Ltd v. Corona Lamp Works Ltd (1922) 39 RPC 49, at 92 (HL) - the specification must contain instructions which are sufficient to enable the skilled person to carry

jurisdiction referred to, there is no definition of a person skilled in the art. However, from the case law, the following attributes of such a person can be formulated. The addressee of the description is deemed to be the person skilled in the relevant art. He is only deemed to have common general knowledge at his disposal and not an awareness of the content of the whole state of the art.²³⁴ Whether the requirement is satisfied is always a question of fact. There may be gaps in the information provided, but if a person skilled in the relevant art is able, by following the instructions and using the common general knowledge which he is deemed to possess, and without the exercise of inventive skill, to work the invention, the requirement is satisfied.²³⁵ Therefore, the disclosure is not insufficient merely because some trial or experimentation not amounting to, or requiring invention would be required by a person skilled in the art.²³⁶

out the invention without the exercise of inventive ingenuity, and the fact that knowledge and skill, and even some experimental tests, are necessary in putting an invention into practice is not sufficient to substantiate a charge of insufficiency. Samuel Taylor Pty Ltd v. SA Brush Co. Ltd (1950) 83 CLR 617, *per* McTiernan J., at 625, "In complying with the first condition, i.e., in describing the nature of his invention, the patentee does all that is necessary, if he makes the nature of his invention plain to persons having a reasonably competent knowledge of the subject, although for want of skill they could not themselves practically carry out the invention. In complying with the second condition i.e., in describing in what manner the invention is to be performed, the patentee does all that is necessary, if he makes it plain to persons having reasonable skill in doing such things as have to be done in order to work the patent, what they are to do in order to perform his invention. If, as may happen, they are to do something the like of which has never been done before, he must tell them how to do it, if a reasonably competent workman would not himself see how to do it on reading the specification, or on having it read to him." See also White Consolidated Industries v. Vega Servo-Control, Inc. 218 USPQ 961 (CAFC 1983), at 963, *per* Markey, Chief Judge; In re Lundak 227 USPQ 90 (CAFC 1985), at 93, *per* Newman J.; W.L. Gore & Assocs., Inc. v. Garlock, Inc. 721 F.2d 1540, 1556-57, 220 USPQ 303, 316 (CAFC 1983), cert. denied, 469 U.S. 851, 83 L. Ed. 2d 107 (1984), "This disclosure requirement is directed to persons 'of ordinary skill in the art at the time the application was filed.'" See also Randomex, Inc. v. Scopus Corp. and Dennis Haskamp 849 F.2d 585; 7 USPQ2d 1050 (CAFC 1988), *per* Bissell J.

In relation to the best mode requirement, though there is no mention of "a person skilled in the art", courts have enlisted his help in assessing whether there was such a disclosure - see, for example, In re Nelson 280 F.2d 172 at 182; 126 USPQ 242 (CCPA, 1960), *per* Rich J.; Illinois Tool Works, Inc. v. Foster Grant Co. Inc. 192 USPQ 365 (CA 7th Cir. 1976), *per* Fairchild, Chief Judge, at page 372. See also American Cyanamid Company (Dann's) Patent [1971] RPC 425 (HL), *per* Lord Reid, at page 437, and *per* Lord Morris, at page 438. The level of skill of the person skilled in the art for inventive step and insufficiency is the same - see Harvard/Fusion Proteins T60/89 [1992] EPOR 320 - Reason for the decision - para. 3.2.5.

²³⁴ See, for example, Molnlycke v. Procter & Gamble [1992] FSR 549, at 600, *per* Morritt J. The common general knowledge is normally represented by basic handbooks and textbooks on the subject in question - see ICI/Pyridine Herbicides T206/83 [1986] 5 EPOR 232, at 237; Exxon/Fuel Oils T409/91, [1994] EPOR 149, at 152. Normally patent specifications are not part of common general knowledge and cannot, therefore, cure insufficiency - see ICI/Pyridine Herbicides T206/83 [1986] 5 EPOR 232, at 237.

²³⁵ R v. Arkwright (1785) 1 WPC 64, at page 66, *per* Buller J., "It has been truly said by the counsel, that if the specification be such that mechanical men of common understanding can comprehend it, to make a machine by it, it is sufficient; but then it must be such that the mechanics may be able to make the machine by following the directions of the specification, without any new inventions or additions of their own." Note: The principle and limitation here laid down were acted on by the Court of Exchequer in the case of Neilson v. Harford (1841) 1 WPC 295, *per* Parke, B., at page 314. See also No Fume v. Pitchford (1935) 52 RPC 29 and 231 (CA), *per* Lord Hanworth, MR, at page 238, *per* Romer L.J., at page 245, and *per* Maugham L.J., at page 248.

²³⁶ Genentech Inc.'s Patent [1989] RPC 147 (CA), *per* Mustill L.J. at page 279. Wandachter v. Sican [1948] SCR 1, 8 CPR 35; Procter & Gamble Co. v. Bristol-Myers Canada Ltd (1979) 39 CPR (2d) 145, *affd.* 42 CPR (2d) 33. However, if too much experimentation is required to sort out what

7.4.4.b. How many embodiments should be disclosed?

The question as to whether all possible embodiments of the invention must be described is answered in the Court of Appeal case of Biogen Inc. v. Medeva Plc.²³⁷ From the case it is clear that it is not necessary that all possible variants of the invention be described.²³⁸ Similarly, it is also not true that in all cases only a single embodiment is required. Regard has to be had to the "width and character of the invention claimed."²³⁹ Hence in order to fulfil the requirement of sufficiency in the description, the application as filed must "contain sufficient information to allow a person skilled in the art, using his common general knowledge, to carry out the whole area that is claimed."²⁴⁰ A similar approach is also applied in the USA.²⁴¹

7.4.4.c. Date at which sufficiency is to be assessed

Biogen Inc. v. Medeva Plc.²⁴² also settles the question as to the date on which sufficiency is to be assessed. The question of the sufficiency of the specification of a patent under section 72 of the 1972 UK Patents Act falls to be assessed by reference to the state of the art at the date of the application. Where priority is claimed, then assessment will have to be

will work and what will not, the patent is invalid - Ductmate Industries Ltd v. Exanno Products Ltd 2 CPR (3d) 289, 4 CIPR 51 (1984). Note that where the art to which the invention relates is in a complex area of technology, the person skilled in the art may be represented by a team - see for example, Genentech Inc.'s Patent. [1989] RPC 147 (CA), *per* Purchas L.J. at page 215, Boehringer Mannheim v. Genzyme [1993] FSR 716, *per* Aldous J. at page 727.

²³⁷ Biogen Inc. v. Medeva Plc. [1995] FSR 4.

²³⁸ See Biogen Inc. v. Medeva Plc. [1995] FSR 4, *per* Hobhouse L.J., at page 339.

²³⁹ Biogen Inc. v. Medeva Plc. [1995] FSR 4, *per* Hobhouse L.J., at page 39, referring to Pottier's Application [1967] RPC 170, at 172, *per* Lloyd-Jacob J.; Eastman Kodak's Application [1970] RPC 548, *per* Whitford J.; Genentech 1 (Polypeptide expression) (T292/85) [1989] OJ EPO 275, at 282, [1989] 1 EPOR 1, at 7.

²⁴⁰ Exxon/Fuel Oils T409/91, [1994] EPOR 149, at 152, quoted with approval by Hobhouse L.J., in Biogen Inc. v. Medeva Plc. [1995] FSR 4, at page 41.

Note that under the amendments made to the Patents Regulations, 1986, if the description discloses an invention which requires for its evaluation and carrying out the use of a micro-organism which is not available to the public at its filing date, then a culture of the micro-organism has to be deposited in an internationally recognised culture collection not later than the filing date - Patents (Amendment) Regulations 1994, Regulation 12A, Malaysia.

²⁴¹ See, for example, Christianson v. Colt Industries Operating Corp. 870 F.2d 1292; 10 USPQ2d 1352 (CAFC 1989), *per* Flaum J., at pages 1357-58; Spectra-Physics, Inc. v. Coherent, Inc., 3 USPQ2d 1737, at 1742 (CAFC 1987), "To determine whether the disclosure is enabling, a two-part analysis is employed. First we must delimit the scope of the claimed invention. ... Second, we must look to the disclosures made in the patent to ascertain whether, given that level of disclosure, a person skilled in the art could successfully reproduce the claimed invention in its entire scope. ... Because only the claimed invention receives patent law protection, the disclosures need generally be no greater than the claim. ... If the invention can be reproduced in its entire scope, then the patent specifications are enabling" (citations omitted). Illinois Tool Works, Inc. v. Foster Grant Co. Inc. 192 USPQ 365 (Fed. Cir. 1976), *per* Fairchild, Chief Judge, at page 372, "The relevant inquiry under the "how to" requirement ... is whether the scope of enablement provided to one of ordinary skill in the art by the disclosure is commensurate in scope with the protection sought by the claims."

²⁴² Biogen Inc. v. Medeva Plc. [1995] FSR 4.

based on the state of the art at the date of filing the priority application.²⁴³ Since the Malaysian provision is *in pari materia*, there is no compelling reason why the same approach should not be followed.

7.4.5. The Best Mode Requirement

The inquiry as to the requisite disclosure required focuses on two main questions. The first is whether, at the relevant time, the applicant knows of a mode for practising the invention that he considers to be better than any other.²⁴⁴ This is a subjective inquiry. If the first inquiry is satisfied, then the second inquiry is whether there is an adequate disclosure of such a method. The second stage is an objective inquiry which depends upon the scope of the invention claimed and the level of skill in the art.²⁴⁵ In deciding whether there is compliance with the best mode requirement, several matters need to be considered.

7.4.5.a. Meaning of "best"

"Best" in this context means best in practice and not in theory.²⁴⁶ In this connection, it has to be noted that the operative words here are "contemplated by the applicant". It would seem, therefore, that this aspect of the question of adequate disclosure has to be based on a subjective assessment. The test is whether the applicant has revealed the best mode of what he actually knows and not disclosure of what is objectively the best mode. This is borne out by the approach of the court in all the jurisdictions compared. In C. Van der Lely NV. v. Ruston's Engineering Co. Ltd, the court stressed that "In this context, the best method of performing the invention within section 4(3)(b) is the best example of the implement known to the applicant at the relevant time."²⁴⁷ Similarly, in the US case of In re Gay,²⁴⁸ it was

²⁴³ Biogen Inc. v. Medeva Plc. [1995] FSR 4, *per* Hobhouse L.J., at pages 44-45.

²⁴⁴ As to what is the "relevant time", see *infra*, para. 7.4.5.f.

²⁴⁵ See Chemcast Corp. v. Arco Industries Corp. 16 USPQ2d 1033, at 1036-37 (CAFC, 1990), *per* Mayer J., and E.I. Du Pont de Nemours v. Enka BV [1988] FSR 69, at pages 87-88, *per* Falconer J. See also Transco Products Inc. v. Performance Contracting, Inc. and Performance Contracting Group, Inc. 32 USPQ2d 1077, at 1084 (CAFC 1994), *per* Rich J.; Applied Materials Inc. v. Advanced Semiconductor Materials America Inc 32 USPQ2d 1865 (DC ND California 1994), *per* Ingram J., at page 1880. Note that in Dana Corp. v. IPC Ltd Partnership 8 USPQ2d 1692 (CAFC 1988), the court held that "the best mode requirement is not satisfied by reference to the level of skill in the art." The court in Chemcast, at pages 926-927 harmonised Dana with prior case law and indicated that while the best mode requirement may not be met solely by reference to the prior art, a high degree of skill in the art combined with implicit disclosure of the best mode by the terms of the patent is sufficient.

²⁴⁶ C. Van der Lely NV. v. Ruston's Engineering Co. Ltd [1993] RPC 45 (CA), *per* Nicholls L.J., at page 56.

²⁴⁷ C. Van der Lely NV. v. Ruston's Engineering Co. Ltd [1993] RPC 45 (CA), *per* Nicholls L.J., at page 56.

²⁴⁸ In re Gay 309 F.2d 769, 772, 135 USPQ 311, 315 (CCPA 1962), *per* Rich J.

held that there is no statutory basis for requiring that the mode disclosed be in fact "the optimum mode of carrying out the invention."²⁴⁹

7.4.5.b. Meaning of "known"

As the consequence of a holding that there is a failure of disclosure of the best mode is serious, it has to be shown that such a mode was actually known to the applicant. It is insufficient if it is merely shown that the applicant has "guessed" or "suspected" or "anticipated" that there could be a better mode.²⁵⁰

Where the applicant is a company, it has been held that the knowledge of the company at the relevant date must be the knowledge of the person who gives instructions for and controlled the application on the company's behalf. It would also seem that "in testing his knowledge it must be assumed he was in possession of the relevant information, whether he was in fact or not." This test assumes that such an agent had been properly instructed.²⁵¹

7.4.5.c. What must the disclosure relate to?

The extent of the duty to disclose the best method of performing the invention depends on whether the invention relates to a product or a process. Where the invention is a product invention, the applicant has to disclose the best method of performing the invention, which means that the best example of the product known at the relevant date. Therefore, the best method of making that particular embodiment should be revealed.²⁵² In the case of a process patent, the best way of carrying out the process has to be disclosed. However, in certain cases, "the distinction is without a meaningful difference, insofar as the best way to use the invention would have a significant bearing on what is the best exemplification of the invention: the best way to use the invention would affect the manner in which the implement which is the subject of the invention would be constructed."²⁵³

²⁴⁹ See also Carter-Wallace, Inc. v. Riverton Labs., Inc. 304 F. Supp. 357, at 373; 164 USPQ 73 (SDNY 1969), *per* Cannella J., "Furthermore, the inventor is not required to correctly designate the objectively best method of use, for even if there be a better method than that which he states, [it] is enough that he act in good faith in his patent disclosure."; Christianson v. Colt Industries Operating Corp. 10 USPQ2d 1352 (CAFC 1989), *per* Flaum J., at page 1360, "The requirement contains a subjective standard; we will find non compliance only if the patentee has concealed, whether knowingly or unwittingly, his or her preferred embodiment of the claimed invention."

²⁵⁰ See Monsanto Co. v. Maxwell Hart (London) Ltd & anor [1981] RPC 201, *per* Graham J., at page 242.

²⁵¹ Monsanto Co. v. Maxwell Hart (London) Ltd & anor [1981] RPC 201, *per* Graham J., at page 242, referring to Tesco Ltd v. Natrass [1972] A.C. 153. See also Falconer J., in E.I. Du Pont de Nemours v Enka BV [1988] FSR 69, at page 89, following Monsanto.

²⁵² E.I. Du Pont de Nemours v Enka BV [1988] FSR 69, at page 88, *per* Falconer J., "As to (i): Mr Aldous submitted, and I agree, that where the invention claimed is a product the wording "the best method of performing it" (the invention) includes the best product and how to make it."

²⁵³ See C. Van der Lely NV. v. Ruston's Engineering Co. Ltd [1993] RPC 45, Court of Appeal, *per* Nicholls L.J., at page 56.

Therefore, in considering the extent of disclosure that is required, reference has to be made to the scope of the claim or claims.²⁵⁴ However, discussion on the extent of disclosure in the UK has been clouded by the statutory phrase "and for which he is entitled to claim protection" in the best mode provision, hence it would be more instructive to consider the approach in the United States.²⁵⁵ The US approach, as stated in Benger Laboratories Ltd v. R.K. Laros Co., is that "if he knows at the time the application is filed, of a better method to practice the invention and knows it for the best, it would make no difference whether or not he was the discoverer of that method."²⁵⁶ As was noted by the court in Chemcast Corp. v. Arco Indus. Corp., most of the cases in which the court have held that the best mode requirement was violated addressed situations where an inventor failed to disclose non-claimed elements that were nevertheless necessary to practice the best mode of carrying out the claimed invention.²⁵⁷ In the case where the applicant's trade secret is required to enable the invention to be made or used, such trade secret has to be revealed. This is justified by

²⁵⁴ Christianson v. Colt Industries Operating Corp. 10 USPQ2d 1352; (CAFC 1989), *per* Flaum J., at page 1360, "... the focus of the best mode requirement, as it was with the enablement requirement, is on the claimed invention. ... Thus before determining whether there was evidence of concealment, the scope of the invention must be delimited."

²⁵⁵ In section 4(3)(b) of the 1949 United Kingdom Patents Act, it is provided that every specification shall disclose the best method of performing the invention which is known to the applicant and for which he is entitled to claim protection. The effect of this phrase is difficult to determine (See comments of Nicholls L.J., in the Court of Appeal in C. Van Der Lely NV. v. Ruston's Engineering Co. Ltd [1993] RPC 45, at page 57). In E.I. Du Pont de Nemours v Enka BV [1988] FSR 69, it was argued that the omission of the best method could only be detrimental to the applicant if it was a method for which the applicant was entitled to claim protection. In other words, question of inventorship was fundamental and the omitted matter must be something which was part of the inventive idea of the inventor named in the patent, not that of a different inventor. There had to be a nexus between the particular subject matter and the inventor. This submission was accepted by the court. The defendants could only succeed on this objection if the method of performing the invention claimed was the work of the inventor so that it could properly have been disclosed in the specification of the particular patent as a method of performing the invention of which the inventors are the named inventors - [1988] FSR 69, at pages 89-93. See also the various contentions in American Cyanamid Co v Ethicon Ltd [1979] RPC 215, at pages 269-270, where the alleged non-disclosed best method of performing the invention involved the use of a particular apparatus which was not novel having been disclosed in cited prior art and, therefore, something for which protection could not have been claimed, apart from the fact that it was not devised by the inventor of the patented invention and Monsanto Co. v. Maxwell Hart (London) Ltd & anor [1981] RPC 201. See also C. Van der Lely NV. v. Ruston's Engineering Co. Ltd [1993] RPC 45, Court of Appeal, *per* Nicholls L.J., at page 58.

From the cases, it is evident that this phrase has caused confusion as to the purpose for which the best mode requirement is imposed, which is to teach the public the best way of carrying out the invention. So it should be irrelevant to the disclosure whether the method which was found to be the best was not discovered by the inventor or that it was not new or that it related to a method which was discovered and patented by another person. So it is just as well that this phrase is absent in the Malaysian, as well as that of the United States, Canadian or Australian provisions.

²⁵⁶ Benger Laboratories Ltd v. R.K. Laros Co. 135 USPQ 11 (E.D. Pa. 1962); 137 USPQ 693, *per* Kirkpatrick J., at page 15 (CA 3rd Cir. 1963). See also Checkpoint System, Inc. v. Knogo Corporation 207 USPQ 257 (DC EDNY 1980), *per* Sifton, District Judge, at page 263 (unless it is not within the scope of the claim).

²⁵⁷ Chemcast Corp. v. Arco Indus. Corp. 16 USPQ2d 1033 (CAFC 1990), *per* Mayer J., at page 1037. See, for example, Dana Corp. v. IPC Ltd Partnership 8 USPQ2d 1692, at 1695 (CAFC 1988), and Spectra-Physics, Inc. v. Coherent, Inc., 3 USPQ2d 1737, at 1745 (CAFC 1987). See also Reynolds Metal Co. v. Acorn Building Components, Inc. 192 USPQ 737 (CA 6th Cir. 1977), *per* Weick, Circuit Judge, at page 744, and White Consolidated Industries v. Vega Servo-Control, Inc. 218 USPQ 961 (CAFC 1983), at page 963.

the theoretical possibility that the applicant may extend the exclusionary rights beyond the statutory period.²⁵⁸ Where performance of the best mode involves the use of a composition, formula or method of manufacture protected by the trade secrets of a third party, the best mode duty requires disclosure of the specific supplier and trade name of the preferred material.²⁵⁹

7.4.5.d. Commercial form

Despite what is said above regarding the extent of disclosure, a distinction has to be made between modes which will enable the invention to perform better and modes which are implemented merely for manufacturing considerations. In other words, the commercial form of an invention needs to be distinguished from the invention claimed. Controversy surrounding this issue centres on whether production details involved in getting a patented product into commercial form should be included in the specification. For example, if a commercial operation is known by the applicant before the date of his application, does he have to disclose it on pain of invalidation of his patent for non-compliance with the best mode requirement? The general rule in the United States is that the provision requires a disclosure that allows one skilled in the art to practise the invention and does not require a patentee to disclose every detail of his commercial operation.²⁶⁰ Applying a similar approach, the Canadian court in Lido Industrial Products Ltd v. Teledyne Industries Inc.²⁶¹ rejected the best mode attack on the ground that the undisclosed features, though known prior to the priority date, were not improvements in the invention itself but merely "modifications devised to save manufacturing costs".

Therefore, whether non-disclosure of particular materials or sources or of a particular method or technique selected for manufacture may or may not lead to failure to disclose the

²⁵⁸ See White Consolidated Industries v. Vega Servo-Control, Inc. 218 USPQ 961, at 963, *per* Markey, Chief Judge (CAFC 1983).

²⁵⁹ Chemcast Corp. v. Arco Indus. Corp. 16 USPQ2d 1033 (CAFC 1990), *per* Mayer J., at page 1038.

²⁶⁰ It has been explained that a patent disclosure is not a "production specification", In re Gay 135 USPQ 311, 316 (CCPA 1962), *per* Rich J.; Christianson v. Colt Industries Operating Corp. 10 USPQ2d 1352 (CAFC 1989), *per* Flaum J., at page 1360, "The best mode requirement assures that inventors do not conceal the best mode known to them when they file a patent application, but the 'best mode' is that of practising the claimed invention. It has nothing to do with the mass production or sales to customers having particular requirements. (original emphasis)."; Spectra-Physics, Inc. v. Coherent, Inc. 3 USPQ2d 1737, *per* Rich, Circuit Judge, at 1744-46; Engel Industries Inc. v. The Lockformer Co. 20 USPQ2d 1300 CAFC 1991, *per* Newman J., at pages 1302-1303. As explained by Nies J. in Wahl Instruments Inc. v. Acvious Inc. 21 USPQ2d 1123 (CAFC 1991), at page 1128, "A step or material or source or technique considered 'best' in a manufacturing circumstance may have been selected for a non 'best mode' reason, such as the manufacturing equipment was on hand, certain materials were available, prior relationship with suppliers was satisfactory, or other reasons having nothing to do with development of the invention."

²⁶¹ Lido Industrial Products Ltd v. Teledyne Industries Inc. (1981) 57 CPR (2d) 29, *per* Thurlow C.J., at page 47 - Where there were improvements known as of such filing date which were not disclosed, but such improvements were merely to make a device easier to manufacture, rather than to serve its purpose better, there is no failure to disclose the best mode.

best mode depends on whether the undisclosed manufacturing details substantially improve the operation or effectiveness of the invention. If they do, "failure to disclose such peripheral development may well lead to invalidation".²⁶² However, it must be remembered that from the above, the important point is that such production details, to be excused from non-disclosure, must not be such as relate to the proper working of the invention as such.²⁶³

7.4.5.e. Any duty to specifically point out it is the best?

From the cases it would appear that there is no duty to specifically point out in the description that a particular method that is described is the best mode contemplated by the applicant for carrying out the invention. The duty is satisfied if description of the best mode is disclosed in the specification.²⁶⁴ This rule of reason approach is also followed in the USA, where it was held that it did not follow that there was a proper basis for a best mode rejection under 35 USC 112 merely because the applicant did not "pinpoint within the specification some portion that represented a best mode,"²⁶⁵ or that it was not "labelled as such"²⁶⁶ It had been emphasised that "the touchstone is the content, not its form."²⁶⁷ In

²⁶² Wahl Instruments Inc. v. Acvious Inc. 21 USPQ2d 1123 (CAFC 1991), *per* Nies J., at page 1127, citing Spectra-Physics, Inc. v. Coherent, Inc. 3 USPQ2d 1737, at pages 1744-46.

²⁶³ See Transco Products Inc., v. Performance Contracting, Inc. and Performance Contracting Group, Inc. 32 USPQ2d 1077 (CAFC 1994), at 1084, *per* Rich J., "However, the best mode requirement does not require an inventor to disclose production details so long as the means to carry out the invention are disclosed. ... This includes providing supplier/trade name information where it is not needed... Such supplier/trade name information must be provided only when a skilled artisan could not practice the best mode of the claimed invention absent this information. See Chemcast Corp. v. Arco Industries Corp. 913 F.2d 923, at 927; 16 USPQ2d 1033 (CAFC 1990), *per* Mayer J. (patentee failed to disclose specific composition of preferred material or fact that it possessed a specific hardness, instead merely supplying a very general description of the material and a broad hardness range, thus effectively concealing the best mode)...." See also Wahl Instruments Inc. v. Acvious Inc. 21 USPQ2d 1123 (CAFC 1991), *per* Nies J., at page 1128.

²⁶⁴ C. Van der Lely NV, v. Ruston's Engineering Co. Ltd [1993] RPC 45 (CA), *per* Nicholls L.J., at page 56, "Before us it was common ground that the applicant's obligation to disclose the best method of performing the invention known to him is satisfied by his disclosing that method as a method. He is not required to state that it is the best method, so long as he fairly discloses it as a method." See also Garlock's Application [1979] FSR 604, where Whitford J. held that, in addition to the mere language of the patent specification, it was possible to allow evidence to support the conclusion that the disclosure, in whatever terms it was made, was a disclosure of the best method.

²⁶⁵ In re Bosy 360 F.2d 972; 149 USPQ 789 (CCPA 1966), *per* Martin J., at page 976. Randomex, Inc. v. Scopus Corp. and Dennis Haskamp 849 F.2d 585; 7 USPQ2d 1050 (CAFC 1988) - The requirement is satisfied by a disclosure that includes the best mode contemplated by the applicant for each making and using the invention even though the disclosure does not specify which embodiment is considered to be the best.

²⁶⁶ In re Honn 364 F.2d 454 (CCPA 1966), *per* Kirkpatrick J., delivering the opinion of the court, at page 462.

²⁶⁷ In re Sherwood 613 F.2d 809, at 817 (CCPA 1980). But see Randomex, Inc. v. Scopus Corp. and Dennis Haskamp 849 F.2d 585, at 591-592 (CAFC 1988), *per* Mayer J. dissenting, "This is the antithesis of the good-faith full disclosure that is mandated by section 112's best mode requirement ... he buried his best mode in a list of less satisfactory ones ... if there is a best mode known to the inventor he must say so; he cannot require the public to hunt for it."

this context, it is also relevant to note that a patent specification may sufficiently disclose the best mode by implication.²⁶⁸

7.4.5.f. Date of knowledge, priority applications and the best mode requirement

As the Malaysian system does not provide for a provisional specification the problem of whether the applicant has to describe the best mode known to him at the initial filing of the provisional specification or the filing of the complete specification does not arise. Therefore, it is clear that at the time of filing the application, there has to be compliance with the best mode disclosure.²⁶⁹ In the US, where the situation is the same, the courts have consistently stressed that the cut-off date for compliance is at the date of filing the application.²⁷⁰

However, a question arises as to whether, when relying on a convention priority date, the applicant is under a duty to disclose further improvements leading to a better mode of carrying out the invention discovered by him in the period between the first filing date in another country and the actual filing in Malaysia. It may happen that after the first filing in a Convention country and before the Malaysian filing, there is continuing research on the subject matter which gives rise to a better mode of carrying out the invention. Has the applicant to update his disclosure when filing in Malaysia on pain of invalidation for failure to do so? Until the Court of Appeal case in C. Van der Lely NV. v. Ruston's Engineering Co. Ltd, this issue was not addressed in the UK. In Ruston's, counsel submitted that the relevant date was the priority date for the invention in question. This was, however, rejected by the court who held that the relevant date was the date of filing the complete specification.²⁷¹

²⁶⁸ See Chemcast Corp. v. Arco Industries Corp. 913 F.2d 923, at page 927, *per* Mayer J. who observed that the level of skill in the art is a "relevant and necessary" consideration in assessing the adequacy of disclosure. "If the patent is sufficiently descriptive that one skilled in the art would be able to practice the best mode, then the second prong of the test is met," citing, *inter alia*, W.L. Gore & Associates Inc. v. Garlock, Inc. 220 USPQ 303 (CAFC 1983) and In re Sherwood 204 USPQ 537 (CCPA 1980). See also Wang Laboratories Inc. v. Mitsubishi Electronics America Inc. 32 USPQ2d 1641 (DC CD California 1994), *per* Davis J., at page 1645.

²⁶⁹ See section 28 of the Act - to be entitled to a filing date, the application should contain, *inter alia*, a description. Section 29(2) and Regulation 26(2) specify that there has to be compliance with these formal requirements.

²⁷⁰ See, for example, Texas Instruments Inc. v. U.S. International Trade Commission 10 USPQ2d 1257 (CAFC 1989), *per* Friedman J., at page 1262; Hybritech, Inc. v. Monoclonal Antibodies, Inc. 231 USPQ 81, 94 (CAFC 1986).

²⁷¹ C. Van der Lely NV. v. Ruston's Engineering Co. Ltd [1993] RPC 45, at page 57, *per* Nicholls L.J. Prior to Ruston's, this issue was confused and led to differing comments by various judges. See for example, American Cyanamid Co. v. Berk [1976] RPC 231 at 269, *per* Whitford J., and American Cyanamid v. Ethicon [1979] RPC 215, *per* Graham J., at page 268; Monsanto Co. v. Maxwell Hart (London) Ltd & anor [1981] RPC 201, *per* Graham J., at page 242; American Cyanamid's (Dann's) Patent [1971] RPC 425 (HL); Anxionnaz v. Rolls Royce Ltd [1967] RPC 419, at 471, *per* Lloyd-Jacob J.; Illinois Tool Works Inc. v. Autobars Co (Services) Ltd [1974] RPC 337, at 369, *per* Graham J. See generally, Linneker, J., "Best Method Revocation under the Patents Act 1949: C. van der Lely NV v. Ruston's Engineering Co. Ltd", [1991] 11 EIPR 423 - Comment at pages 423-424.

This duty is not expressly provided for in the section. How is the Malaysian court to decide this issue? It is suggested that the UK approach should be followed since that would also be the natural reading of the language of the relevant section. It has to be noted that while section 27 of the Act gives a right to claim the filing date of an earlier filed application in a Convention country as the priority date, this has to be read subject to section 29, which provides that an application which has a filing date shall be examined for compliance with the formal requirements as designated by the Act. If such formal requirements are not complied with, the application may be refused. Regulation 26(2) in turn provides, inter alia, that regulation 12 (which includes the best mode disclosure) shall be considered formal requirements for the purposes of the Act in accordance with section 29(2) of the Act.²⁷²

This clearly shows that a convention application has to comply with the best mode requirement under the Act. Due to the rather different statutory provisions regarding priority applications in the United States and Canada,²⁷³ the position as regards the date of knowledge had been decided differently when compared with the United Kingdom.²⁷⁴ As

²⁷² See provisions of section 29 of the Act.

²⁷³ See 35 USC, Section 119 in Appendix. The corresponding provision in Canada under section 28 is almost *in pari materia*.

²⁷⁴ In Re Hilmer 149 USPQ 480 (CCPA 1966) is relevant to the present discussion. Though not on the issue of the best mode requirement but on the relationship between 35 USC 102(e) [Section 102(e) provides that a patent may not be obtained if the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant] and 119, the court's comments on the purpose of section 119 is helpful. The Court specifically stated that 35 USC 119 does not operate to give to a first foreign filed convention application the same effect as filing of a US application for all purposes, but that the effect of that section is to have the foreign application treated as a prior reduction to practice in the US in relation to any intervening acts which would affect the novelty of the invention in the country. In other words the CCPA determined that section 119 effects a legal defence against acts which would otherwise affect the novelty of the subject matter of a US application claiming convention priority, when those acts occur in the allowed interval between the first foreign filing and the US filing. No other effects or benefits are to be found in the operation of section 119. Based on an analysis of this case, Litman, in his article "Problems with the Best Mode Requirement of 35 USC 112 in Applications Claiming Priority under 35 USC 119 and 35 USC 120", 61 JPOS 431 (1979), argues that under 35 USC Section 119, the benefit of priority rights to a US application, obtained by reliance upon earlier filed applications under US patent laws, does not remove the necessity for compliance with substantive US laws for the later filed US applications. Hence the best mode requirement must be observed and updated at the time of filing the US application. However, in several cases where this issue has arisen, the court has held otherwise. See Standard Oil Co. (Indiana) et al. v. Montedison S.p.A. 206 USPQ 676, at 696 (D.C. Del. 1980), *affd.* 212 USPQ 327 (CA 3d Cir. 1981), *per* Wright, Senior Judge, at page 696, "Phillips's argument nevertheless ignores the clear language of the statute, which provides that the effective date of the subsequent American application is the date of Montedison's Italian filing. It is not contested that as of that date ... Montedison honestly believed that its best catalyst was TiC. Since Montedison's subsequent American application accurately disclosed what Montedison honestly believed as of that application's effective date, this court finds that Montedison's application satisfied the best mode requirements of section 112."; Tyler Refrigeration Corp. v. Kysor Industrial Corp. 225 USPQ 492, at 504 (D.C. Del. 1985), *affd.* 227 USPQ 845 (Fed. Cir. 1985), where the Court, following Standard Oil held that the best mode disclosure need not be updated when filing a Convention application in the United States based on an earlier Japanese filing - *per* Latchum, Senior District Judge, at pages 503-4. However, it would seem that the earlier filed foreign application must comply as of its filing date with the best mode requirement if the later US application is to be entitled to the benefit of 35 USC 119 - Taylor et al. v. Brackman 208 USPQ 275, at 277 (Bd. Pat. Int'l 1979), at page 277. Although the issue was directed towards the relationship between section 112 and section 120 (continuation applications), Standard Oil and Tyler were referred to without adverse comments by Rich J., in Transco Products Inc. v. Performance Contracting, Inc. and

to the relevant date of knowledge, it is submitted that since the Act does not contain an equivalent provision to section 119 of the US Patents statute, the correct approach would be that of the UK court in Ruston's. Therefore, when a priority application is filed in Malaysia, the best mode disclosure needs to be updated if there is a better mode discovered between the original and priority filing.

7.4.5.g. Is an "intent to conceal" required?

Like the provisions present in statutes of the countries under discussion, the statutory provision in the Act is silent on whether violation of the best mode requirement is committed only on proof of an intention to conceal. In other words, must the element of wilful non-disclosure or fraud or dishonest conduct be proved? Graham J., in relation to this requirement in the 1949 UK Act, said that it was intended to protect the public against a patentee who deliberately did not disclose the best mode known to him.²⁷⁵ Two years later, he again emphasised that the section was basically directed against the "dishonest conduct" of a patentee in withholding information from the public, and that in the absence of improper conduct on the part of the patentee, the defence should not be used against him.²⁷⁶ Commenting on this statement, Falconer J. however, disagreed with this opinion, and held that the material wording of the objection in paragraph (h) of section 32(1) "is apt to cover any case in which the applicant has not disclosed in his complete specification the best method known to him of performing the invention, whatever the reason for the omission."²⁷⁷

The US courts seems to have adopted the same approach propounded by Falconer J. on this issue.²⁷⁸ In Dale Electronics, Inc. v. R.C.L. Electronics the Court held that

Performance Contracting Group, Inc. 32 USPQ2d 1077, at 1082 (CAFC 1994).

The same approach is followed in Canada where it was held that the relevant date for testing as to what the best mode was as known to the patentee is the filing date of the application or the Convention priority date - Lido Industrial Products Ltd v. Teledyne Industries Inc. (1981) 57 CPR (2d) 29, *per* Thurlow C.J., at 45-46; AT & T Technologies Inc. v. Mitel Corp. (1989) 26 CPR (3d) 238, *per* Reed J., at 258-61.

²⁷⁵ American Cyanamid v. Ethicon [1979] RPC 215, at 269.

²⁷⁶ Monsanto Co v Maxwell Hart (London) Ltd [1981] RPC 201, at page 242.

²⁷⁷ In E.I. Du Pont de Nemours v Enka BV [1988] FSR 69, at pages 88-9. See also Bovill v. Moore (1816) 1 CPC 320, at 348, 1 Hayward's Patent Cases 618, at 648 - In reply to a question from a member of the jury that the failure to disclose the improved method might be inadvertent and not fraudulent, Gibbs, LCJ said "Certainly; and if it was inadvertent, if he actually knew, and meant to practise that mode, and inadvertently did not state the whole in his specification, he must answer for his inadvertence."

²⁷⁸ Writing in 1982, Herbert is of the opinion that the US courts are still confused as to whether a showing of "intent" to conceal the best mode is required to denial or invalidation of a patent. He says that the United States Courts of Appeals have been applying two different approaches to this question. On the one hand, the best mode issue is approached with a strict standard. The line of cases following this approach only requires a showing that the inventor has knowledge of the best mode at the time of the application and has failed to disclose it. The reason for such a failure or the intention, if any, behind it, is irrelevant. The more liberal second approach applies the "good faith" standard. As illustration of the liberal approach, he cites Carter-Wallace, Inc. v. Riverton Labs., Inc. 167 USPQ 656 (2nd Cir. 1970) and Benger Laboratories, Ltd v. R.K. Laros Co. and Cutter

"[u]nintentional obtuseness or obfuscation might be a reason not to penalise someone; we do not see it as a reason for granting a seventeen year monopoly."²⁷⁹ The Dale reasoning was followed by Miller J. in Union Carbide Corp. v. Borg-Warner Corp. Citing Dale, he said that "we are not persuaded that the failure to set forth the best mode contemplated by an inventor of carrying out his invention must rise to the level of active concealment or grossly inequitable conduct in order to warrant invalidation of a patent."²⁸⁰

Baldwin J. in In re Sherwood,²⁸¹ while acknowledging that there is no objective standard by which to judge the adequacy of the best mode disclosure, held that only evidence of concealment, whether accidental or intentional, is to be considered. The quotation in Sherwood has been consistently relied upon by the Court of Appeals for the Federal Circuit.²⁸² Flaum J. stressed that non-compliance will be found if the patentee has concealed, "whether knowingly or unwittingly", his preferred embodiment of the claimed invention.²⁸³

Up to now, the US Supreme Court has not addressed this issue; and in several cases where the issue could have been addressed, the Court has denied certiorari.²⁸⁴ It is submitted that in Malaysia, as the Act does not qualify the provision with the word "fraudulently etc.", it must be assumed that it applies in every situations.

7.5. Proposals for Change

On the whole, the relevant provisions discussed earlier in the chapter provide a proper balance between the rights of a patent owner and the public. However, there are areas

Laboratories: Armour and Co. 135 USPQ 11 (E.D. Pa. 1962); 317 F.2d 455; 137 USPQ 693 (1963). It has to be noted, however, that the Benger decision that was relied upon was the one decided by a District court. Further, since there was a finding that the inventor had not failed to disclose the best mode because the best mode was not definitely known, the statement made by the court that there had to be evidence of an actual intent to conceal was made *obiter*. The Third Circuit upheld this finding as there was a real question as to which was the best mode in the mind of the inventor. In Carter-Wallace, there was again a finding that the inventor was not in possession of the best mode at the time of filing the application and hence was not in breach of his obligation. The court observed, *obiter*, that it would have been different "had the inventor intentionally concealed the facts". See Herbert, W.F., "Failure to Disclose the "Best Mode": What the Public Doesn't Know Will Hurt them", 64 JPOS 12 (1982), at pages 21-27.

²⁷⁹ Dale Electronics, Inc. v. R.C.L. Electronics 180 USPQ 225 (CA 1st Cir. 1973), at page 230.

²⁸⁰ Union Carbide Corp. v. Borg-Warner Corp. 193 USPQ 1, at 7 (CA 6th Cir. 1976).

²⁸¹ In re Sherwood 613 F.2d 809, at 816; 204 USPQ 537 (CCPA 1980).

²⁸² See, for example, DeGeorge v. Bernier 768 F.2d 1318 (CAFC 1985), *per* Baldwin J., at 1324, Spectra-Physics, Inc. v. Coherent, Inc. 3 USPQ2d 1737, at 1745 (CAFC 1987), *per* Rich J.; Dana Corporation v. IPC Limited Partnership and International Packing Corporation 860 F.2d 415; 8 USPQ2d 1692 (CAFC 1988), *per* Archer J., at page 418, Chemcast Corp. v. Arco Industries Corp. 913 F.2d 923 (CAFC 1990), Mayer J., at page 926.

²⁸³ Christianson v. Colt Industries Operating Corp. 10 USPQ2d 1352 (CAFC 1989), *per* Flaum J., at page 1359.

²⁸⁴ For a list of cases when this situation had occurred, see Herbert, W.F., "Failure to Disclose the 'Best Mode': What the Public Doesn't Know Will Hurt them", 64 JPOS 12 (1982), in footnote 13.

where the Act can be improved upon. An important arbiter of this balance is the court. It is hoped that the discussion herein will provide some form of assistance for the courts to achieve this. Based on the earlier analysis of the various grounds for the limitation and loss of rights, several recommendations can be made.

The limitation with regard to foreign transportation in section 37(3) should be amended to include the word "accidentally" so as to be in compliance with the obligations under the Paris Convention. In the event that the present restricted version of international exhaustion is unsatisfactory and needs to be extended, two possible alternatives are proposed. This could be done by means of a new subsection (2A) to section 37.²⁸⁵ Another alternative is to adopt the CPC provisions relating to common ownership. The provisions of section 37(5) should be extended to include goods put on the market by concurrent patent owners under section 31(2A). The limitations should also apply to rights derived in the interval between a lapsed patent and its reinstatement.

The prior use provision of section 38 is useful to prevent economic harm to an innocent prior user who has exploited the invention the subject of a patent application or patent. More importantly, it gives protection to domestic industry. To ensure that only deserving cases are granted such rights, the various factors mentioned in the earlier discussion need to be taken into consideration in deciding whether there are any "serious preparations". Further, some form of temporary protection should be given to persons who have been importing goods the subject matter of a later grant. To make it fairer to a prior importer, it is suggested that a new section 38A should be introduced. The proposed section would provide protection against infringement actions for any dealings with a patented product which has been acquired or contracted for before the grant of the relevant patent.²⁸⁶ The rights of a person derived from dealing with a lapsed patent should be more on par with that of a prior user. Without such extended rights, such a person may be seriously prejudiced in terms of his industrial investment.

There should be a paradigm shift in the treatment of conversion cases so that the focus is on the extent to which the patentee is adversely affected, as contrasted with the present approach of focusing on whether there is a loss of identity or destruction of the original article. Such a shift in approach will do better justice between the parties involved. Further, as mentioned earlier, the implied licence to repair is meaningless in the Malaysian context unless there is change in the law of copyright with regard to functional drawings.

²⁸⁵ It is suggested that the phraseology employed in the Patents Act 1994, Singapore could usefully be adopted.

²⁸⁶ The inclusion of the word "contracted to purchase" in the proposed section would solve the problem which arose in Lido Industrial Products v. Teledyne Industries 57 CPR(2d) 29 (1981), where the court construed the prior user provision in section 58 of the Canadian Patent Act to exclude goods ordered, but not shown to be in existence yet at the relevant date - see page 54. See, however, the dissenting judgement of Thurlow C.J., at pages 33-40.

As regards compliance with the best mode requirement, intention is very difficult to prove. It is a matter of the applicant's words against the another person. Even if there is proof of knowledge of the undisclosed best mode, it can be brushed aside by a mere assertion of an accidental lack of disclosure. There is a further difficulty if intention is made an element in the question of invalidation for lack of disclosure of the best mode. What test is to be applied to determine whether there was an intentional decision not to disclose? Will it be a subjective or an objective test? If it is objective, it will defeat the purpose of requiring actual intent. So on balance the easier test to apply is not to require proof of intent. Mere proof of knowledge and non-disclosure, whether intentional or accidental, should be enough. Further, patents are valuable rights and they should be earned by those seeking patent monopolies. Insistence on a strict standard will act as an inducement to other applicants to observe the utmost good faith in complying with the requirement.²⁸⁷ However, to put the applicant on notice of the serious consequence of a non-disclosure, the suggestion by Carlson,²⁸⁸ that the applicant should be asked to file an oath or declaration that he is aware of his duty to disclose the best mode contemplated by him of carrying out the invention at the time of the filing of his application, and that he has in fact disclosed that best mode, would appear to be a workable solution and should be implemented.

In relation to the grounds for invalidation of a patent, it is suggested that the more relevant grounds should be set out in section 56(b) of the Act instead of a general provision that any non-compliance with the regulation would result in invalidation of a patent. This is more elegant and will cause less confusion as to the exact boundary of these grounds.

The proposed amendments to the Act to deal with the problems identified in this Chapter are set out in Chapter 8.

²⁸⁷ **R. v. Arkwright** (1785) 1 WPC 64, at page 66, *per* Buller J., "It seems to me the last is the question of the greatest importance; because, if you should be of opinion upon that question that the specification is not certain enough, it may have the effect of inducing people who apply for patents in future times to be more explicit in their specifications, and, consequently, the public will derive a great benefit from it."

²⁸⁸ See Carlson, D.L., "The Best Mode Disclosure Requirement in Patent Practice", 60 JPOS 171 (1978), at page 197.

CHAPTER 8: Conclusions and Proposed Amendments

8.1. Conclusions

From Chapter 1, it has been seen that though Malaysia has a comparatively long history where statutory protection for invention is concerned, there was a lack of awareness and interest in the patent system until the Patents Act 1983 came into force in 1986. The former statutory schemes in the various states were brought into existence as market protection measures. There were no attempts to educate the indigenous population on the working of the system and to encourage more local use. This state of affairs has to a certain extent been changed, and there is more local awareness and use of the patent system. The reintroduction of an indigenous patent system is, therefore, to be welcomed. Although the Act seeks to promote the interests of the patent owner while at the same time safeguards the rights of the public, a study of the Act reveals several weaknesses which could be rectified to strike a better balance between the patent owner and the public.

In Chapter 2, the analyses of the relevant provisions of the Act regarding joint invention, joint ownership and employees' invention, show that there are problems with the present provisions. To rectify these weaknesses, several proposed amendments are suggested. To reflect the intention of the Act, proposals are made to clarify the provision on the right to a patent. This provision is amended to specify that the basic rule that the initial right to a patent belongs to the inventor is subject to the provisions on employee's invention. Where, however, there has been an assignment or transfer of this right, then the right to the patent shall belong to the assignee or transferee. As it is deemed useful to have a working definition of joint inventorship, a definition has been proposed which, it is hoped, will be of some assistance in the determination of joint inventorship. Provisions are also suggested to provide a mechanism for the resolution of inventorship disputes, and to give express powers to the court to deal with them, and to make suitable orders in settlement of the disputes. A new provision is added to define the attributes of a patent or patent application. This clarifies the types of dealing which could be carried out in relation to them. To ensure a clearer and fairer allocation of rights between joint owners, formulations regarding the rights of joint owners are laid down in the proposed amendments. As the statutory scheme for employee inventions appears to be structured too much in favour of the employer, suggestions are offered to provide an alternative scheme in relation to dependent inventions.

In Chapter 3 the various exclusive rights granted under the Act are analysed. These rights are in accord with the required level under international obligations. Suggestions are offered as regards ways in which the provisions could be construed to provide satisfactory scope of

protection to the patent owner. However, several provisions are identified in the analysis which could be strengthened in favour of the patent owner only by means of statutory intervention. Two new definitions, relating to "offer" and "use", are suggested. In accordance with the obligations under the TRIPS Agreement, there is a proposal to increase the duration of patent protection, and to provide protection for the interim period between the filing date and the issue of the grant. The discussion on process patents reveals the difficulties of providing a viable scheme to protect the interests of the patent owner and at the same time protect the public against undue interference from the exercise of the rights under the patent. The compromise proposal aims to provide a scheme whereby the patent owner is able to recoup the value which a patented process has imparted to imported goods which have benefited from the use of the process, but which are not deemed to be products directly obtained by means of a patented process. In view of the fact that Malaysian entrepreneurs are less "patent-conscious" as compared with their counterparts in the developed countries, and may not be in a position easily to determine whether the products they are dealing in are prohibited by the existence of a patent, it is proposed that a provision to restrict the award of damages in the case of innocent infringement be introduced. Several proposals are also made to encourage the recordation of transactions involving patents. Since it is felt that the present provision relating to the right of a licensee to institute proceedings is too cumbersome, proposals are made to improve the procedure. Finally, the licence of right provisions are clarified and amended to make them more attractive to the patent owner.

In Chapter 4, it has been shown that it is not feasible to rely wholly on the common law approach to solve the problems of unauthorised indirect exploitation of a patented invention. Several weaknesses of the common law have been revealed. To overcome these weaknesses, express provisions to cater for indirect exploitation of a patent without the need to show a nexus with a direct infringement are proposed. The United Kingdom model, with modifications, could be adopted. To cater for the problem of the supply of unassembled parts of patented combinations, proposal is made to adopt the strategy used in the US statute relating to export trade. The proposed amendments are set out in a new section 58B, to reinforce the direct infringement section of section 58.

Chapter 5 demonstrates the harmful effects of unjustified threats of patent infringement proceedings against the receiver of such threats. The common law remedies have been found wanting and are too biased in favour of the patent owner. To achieve a proper balance between the right of the patentee to notify the public of his patent rights and to issue general warnings against infringement of his rights, and the need to ensure that such warnings do not exceed the boundary of fair practices to the detriment of his rivals, a threats provision has been proposed. The provision will go far towards deterring patent owners from engaging in such unfair practices.

The evaluation in Chapter 6 of the various provisions to control the abuse of patent rights highlights several areas which could be improved upon to make the provisions more effective. The main proposals concern the revision of section 45 with the provision of more substantial guidelines as to what constitute restrictions which are prohibited in licensing agreements. It has also been proposed that the penalty for breach of the section should be amended to make it a more powerful weapon in the control of abuses of patent rights. In relation to compulsory licensing, several minor amendments are made for the purpose of clarification. A departure from the present practice is proposed to place the burden of showing that the patented invention is being worked in Malaysia on the patentee. A new ground for compulsory licence based on the inter-dependence of patents is also proposed. It is also suggested a compulsory licensee should be allowed, in specified situations, to import patented articles. It is further proposed that the compulsory licensing provisions be extended to utility innovations. Finally, the provision relating to Government use of a patent is amended to clarify when the Government is entitled to rely on the section.

One of the major problems revealed in Chapter 7 is that relating to the statutory exhaustion of rights provisions, which are admittedly unclear. Interpretations are offered which would allow for the application of a restricted form of the doctrine of international exhaustion to Malaysia, as well as proposals for amending the statute to clarify the present ambiguities. With regard to the prior user provisions, several suggestions are made as to the way the provisions could be construed to protect the investments of the prior user, and to ensure that the protection offered is meaningful. Some form of temporary protection has been suggested which would provide a measure of protection to persons who have been importing goods the subject matter of a later grant. It has also been proposed that the rights of a person derived from dealing with a lapsed patent should be more on par with that of a prior user. No proposed amendment has been made with reference to the issues of repairs and conversions. However, suggestions on how the issues should be dealt with are made. Similarly, suggestions are made regarding the approach to take with respect to the question of sufficiency and best mode. However, to put the applicant on notice of the serious consequence of a non-disclosure of the best mode, it is proposed that the applicant should be asked to file an oath or declaration that he is aware of his duty to disclose the best mode contemplated by him of carrying out the invention at the time of the filing of his application and that he has in fact disclosed that best mode. In relation to the grounds for invalidation of a patent, it is suggested that the more relevant grounds should be set out in the Act instead of a general provision that any non-compliance with the regulation would result in invalidation of a patent.

The proposed amendments to the Act to deal with the problems identified in this Chapter are set out in para. 8.2. of this Chapter.

8.2. Proposed Amendments

In accordance with the views expressed and observations made regarding ways whereby the various provisions discussed in this thesis could be improved, it is proposed that the relevant provisions be amended as shown below. The words and phrases in italics and enclosed in square brackets denote the original versions which are to be deleted under the proposed amendments. Words and phrases in bold type denote the proposed additions to the Act.

Patents Act 1983 Malaysia

Part 1

Preliminary

Section 3. Interpretation.

"employee" means a person who works or has worked under a contract of employment, or who is in employment under, or for the purposes of, any individual or organisation;

"employer" in relation to an employee, means the person by whom the employee is or was employed;

"offer" includes advertisement for supply;

"owner of the patent" or "owner of a patent" means the person for the time being recorded in the Register as the grantee of a patent;

"patented invention" means an invention for which a patented is granted and "patented process" shall be construed accordingly;

"patented product" means a product which is a patented invention or, in relation to a patented process, a product obtained directly by means of the process or to which the process has been applied;

"process" includes an art or a method;

"product" means any thing which appears in tangible form, and includes any apparatus, article, device, equipment, handicraft, implement, machine, substance and composition;

"staple commercial product" means a product generally available in commerce and commonly used in other non-patented products or processes;

"use" includes hire, lease or any other use of the patented product for the purpose of, or in relation to, trading in that product, but does not include the activity of a mere carrier, warehousemen, customs agent, or others in similar capacity.

Part IV Patentability

Section 11. Patentable Invention.

An invention is patentable if it is new, involves an inventive step and is industrially applicable.

Section 12. Meaning of "Invention".

- (1) An invention means an idea of an inventor which permits in practice the solution to a specific problem in the field of technology.
- (2) An invention may be or may relate to a product or process.

Section 13. Non-patentable subject matter.

- (1) Notwithstanding the fact that they may be inventions within the meaning of section 12, the following shall not be patentable:
 - (a) discoveries, scientific theories and mathematical methods;
 - (b) plant or animal varieties or essentially biological processes for the production of plants or animals, other than man-made living micro-organisms, micro-biological processes and the products of such micro-organism processes;
 - (c) schemes, rules or methods for doing business, performing purely mental acts or playing games;
 - (d) methods for the treatment of human or animal body by surgery or therapy, and diagnostic methods practised on the human or animal body;

Provided that this paragraph shall not apply to products used in any such methods.

- (2) For the purpose of subsection (1), in the event of uncertainty as to whether the items specified therein shall be patentable or not, the Registrar may refer the matter to the Examiner for an opinion and the Registrar shall thereafter give a decision as to whether to include or exclude such items as being patentable, as the case may be.

Section 14. Novelty.

- (1) An invention is new if it is not anticipated by prior art.
- (2) Prior art shall consist of -
 - (a) everything disclosed to the public anywhere in the world, by written publication, by oral disclosure, by use or in any other way, prior to the priority date of the patent application claiming the invention;
 - (b) the contents of a domestic patent application having an earlier priority date than the patent application referred to in paragraph (a) to the extent that such contents are included in the patent granted on the basis of the said domestic patent application.
- (3) A disclosure made under paragraph (a) of subsection (2) shall be disregarded-
 - (a) if such disclosure occurred within one year preceding the date of the patent application and if such disclosure was by reason or in consequence of acts committed by the applicant or his predecessor in title;
 - (b) if such disclosure occurred within one year preceding the date of the patent application and if such disclosure was by reason or in consequence of any abuse of the rights of the applicant or his predecessor in title;
 - (c) if such disclosure is by way of a pending application to register the patent in the United Kingdom Patent Office as at the date of coming into force of this Act.
- (4) The provisions of subsection (2) shall not exclude the patentability of any substance or composition, comprised in the prior art, for use in a method referred

to in paragraph (d) of subsection (1) of section 13, if its use in any such method is not comprised in the prior art.

Section 15. Inventive Step.

An invention shall be considered as involving an inventive step if, having regard to any matter which forms part of the prior art under paragraph (a) of subsection (2) of section 14, such inventive step would not have been obvious to a person having ordinary skill in the art.

Section 16. Industrial application.

An invention shall be considered industrially applicable if it can be made or used in any kind of industry.

Part IVA
Utility Innovations

Section 17. Definition.

For the purposes of this Part and any regulations made under this Act in relation to this Part, "utility innovation" means any innovation which creates a new product or process, or any new improvement of a known product or process, which can be made or used in any kind of industry, and includes an invention.

Section 17A. Application.

- (1) Except as otherwise provided in this Part, the provisions of this Act, subject to the modifications in the Second Schedule, shall apply to utility innovations in the same manner as they apply to inventions.
- (2) Sections 11, 12, 15, 16, 26, [Part X], and sections 89 and 90 shall not apply to utility innovations.

Section 17B. Conversions from an Application for a Patent into an Application for a Certificate for a Utility Innovation and vice versa.

Section 17C. Patent and Certificate for a Utility Innovation Cannot Both be Granted for the Same Invention.

Part V
Rights to a Patent

Section 18. Right to a patent.

- (1) Any person may make an application for a patent either alone or jointly with another.

- (1A) A patent or an application for a patent is personal property, capable, *inter alia*, of being:**
 - a. assigned or transmitted,**
 - b. licensed, mortgaged or subject of a charge,**
 - c. used in satisfaction of the execution of a judgement debt.**

- (2) Subject to section [19] 20, the rights to a patent shall belong to the inventor.

- (2A) Where the right to a patent has been assigned or transferred by succession, the right to the patent shall belong to the assignee or the successor in title.**

- (3) Where two or more persons have jointly made an invention, the rights to a patent shall belong to them jointly.

- (3A) An invention shall be deemed to be jointly invented when two or more persons collaborate, either expressly or impliedly, to devise the patented invention, and through their mutual consultation and suggestions, contribute towards the complete inventive concept. An invention shall still be deemed to be a joint invention even though (1) the persons involved do not physically work together or at the same time, (2) each does not make the same type or amount of contribution, or (3) each does not make a contribution to the subject matter of every claim of the patent.**

- (4) If two or more persons have separately and independently made the same invention, and each of them has made an application for a patent, the right to a patent for that invention shall belong to the person whose application has the earliest priority date.

(5) (a) The inventor or joint inventors shall have the right to be mentioned as such in any application for a patent or patent granted for the invention.

(b) An inventor or joint inventor who alleges that he ought to have been mentioned in any application for a patent or patent granted may, at any time, apply to the court for a declaration to that effect.

(c) Where a person has been mentioned as sole or joint inventor in pursuance of this section, any other person who alleges that the former ought not to have been so mentioned may, at any time, apply to the Court for a declaration to that effect.

Section 19. Judicial assignment of patent application or patent.

(1) Where the essential elements of the invention claimed in a patent application or patent have been unlawfully derived from an invention for which the right to the patent belongs to another person, such other person may apply to the Court for an order that the said patent application or patent shall be assigned to him:

[Provided also that the Court shall not entertain an application for the assignment of a patent after five years from the date of the grant of the patent.]

(2) A person who claims that he is entitled to be considered as a joint owner may apply to the court for a declaration to that effect. If the court is satisfied that such a declaration should be made, the court may also make such orders as it deems fit to do justice to the parties.

(3) The Court shall not entertain an application under this section after five years from the date of the grant of the patent.

Section 20. Inventions made by an employee or pursuant to a commission.

s.20(1) In the absence of any provisions to the contrary in any contract of employment or for the execution of work, the rights to a patent for an invention made in the performance of such contract of employment or in the execution of such work shall be deemed to accrue to the employer, or the person who commissioned the work, as the case may be:

Provided that where the invention acquires an economic value much greater than the parties could reasonably have foreseen at the time of concluding the contract of employment or for the execution of work, as the case may be, the inventor shall be entitled to equitable remuneration which may be fixed by the Court in the absence of agreement between the parties.

[s.20(2) *Where an employee whose contract of employment does not require him to engage in any inventive activity makes, in the field of activities of his employer, an invention using data or means placed at his disposal by his employer, the right to the patent for such invention shall be deemed to accrue to the employer, in the absence or any provision to the contrary in the contract of employment:*

Provided that the employee shall be entitled to equitable remuneration which, in the absence of agreement between the parties, may be fixed by the Court taking into account his emoluments, the economic value of the invention and any benefit derived from it by the employer.]

s. 20(2) (a) Where an employee whose contract of employment does not require him to engage in any inventive activity makes, in the field of activities of his employer, an invention using data or means placed at his disposal by his employer, the right to the patent for such invention shall be deemed to accrue to the employee.

(b) Notwithstanding subsection (2)(a), the employer shall have an exclusive licence to exploit the invention in his field of activities, subject to payment of royalty to be agreed between the parties. In the absence of an agreement, either party may apply to the court to determine the proper rate.

(c) The employee under this subsection shall, without delay, notify his employer in writing about any invention created under this subsection to enable his employer to exercise his right under subsection (2)(b). Where the employer does not signify his intention to exercise the aforesaid right within a period of four months of the notification, such right shall lapse.

s. 20(3) The rights conferred on the inventor [under subsection (1) and (2)] under this Act shall not be restricted by contract. However, the foregoing subsections shall not be construed as derogating from any duty of confidentiality owed to his employer by an employee or a person commissioned to execute a work.

s. 20(4) Where any person is entitled under this section to apply for equitable remuneration, the application may be made at any time within a period of twenty years from the time when the invention is created.

s. 20(5) An order for equitable remuneration made under this section may be varied, discharged or suspended, and any order so suspended may be revived, by the court on the application of any person interested under this section.

Section 21. Inventions by Government employee.

Notwithstanding the provisions of subsection (3) of section 20, the provisions of that section shall apply to a Government employee or an employee of a Government organisation or enterprise unless otherwise provided by rules or regulations of such Government organisation or enterprise.

Section 22. Joint owners.

Where the right to obtain a patent is owned jointly, the patent may only be applied for jointly by all the joint owners.

Part VI

Application, Procedure for Grant and Duration

Section 23. Requirements of application.

Every application for the grant of a patent shall comply with the regulations as may be prescribed by the Minister under this Act.

Section 23A. Application by residents to be filed in Malaysia first.

(1) No person resident in Malaysia shall, without written authority granted by the Registrar, file or cause to be filed outside Malaysia an application for a patent for an invention unless-

- (a) an application for a patent for the same invention has been filed in the Patent Registration Office not less than two months before the application outside Malaysia; and

- (b) either no direction have been issued by the Registrar under section 30A in relation to the application or all such directions have been revoked.

Section 24. Application fee.

Section 25. Withdrawal of application.

Section 26. Unity of invention.

Section 26A. Amendment of application.

Section 26B. Division of application.

Section 27. Right of priority.

- (1) An application may contain a declaration claiming the priority, pursuant to any international treaty or Convention, of one or more earlier national, regional or international application filed during the period of twelve months immediately preceding the filing date of the application containing the declaration by the applicant or his predecessor in title in or for any party to the said international treaty or Convention.
- (1A) The period of twelve months mentioned in subsection (1) may not be extended under the provisions of section 82.
- (2) Where the application contains a declaration under subsection (1), the Registrar may require that the applicant furnish, within the prescribed time, a copy of the earlier application, certified as correct by the office with which it was filed or where the earlier application is an international application filed under any international treaty, by the International Bureau of the World International Property Organisation.
- (3) The effect of the declaration referred to in subsection (1) shall be as provided in the treaty or Convention referred to therein.
- (4) Where any of the requirements of this section or any regulations pertaining thereto have not been complied with, the declaration referred to in subsection (1) shall be deemed to be invalid.

Section 27A. Priority Date.

- (1) Subject to subsection (2), the priority date of an application for a patent is the filing date of the application.

- (2) Where an application contains the declaration mentioned in section 27, the priority date of the application shall be the filing date of the earliest application whose priority is claimed in that declaration.

Section 30A. Prohibition of publication of information which might be prejudicial to the interest or security of the nation.

Section 31. Grant of Patent.

- (1) The grant of a patent shall not be refused and a patent shall not be invalidated on the ground that the performance of any act in respect of the claimed invention is prohibited by any law of regulation, except where the performance of that act would be contrary to public order.
- (2) Where the Registrar is satisfied that the application complies with sections 23, 29 and 30, he shall grant the patent and shall forthwith-
- (a) issue to the applicant a certificate of grant of the patent and a copy of the patent together with a copy of the Examiner's final report; and
 - (b) record the patent in the Register.
- (2A) Where two or more persons have separately and independently made the same invention and each of them has made an application for a patent having the same priority date, a patent may be granted on each application.
- (3) As soon as possible thereafter the Registrar shall -
- (a) cause to be published in the Gazette a reference to the grant of the patent; and
 - (b) make available to the public on payment of the prescribed fee, copies of the patent.
- (4) The patent shall be deemed to be granted on the date that the Registrar performs the acts referred to in subsection (2).

Section 35. Duration of patent.

- (1) Subject and without prejudice to the other provisions of this Act, a patent grant shall take effect on the date on which the patent issues and shall

expire [*fifteen years after the date of its grant*] **twenty years from the filing date of the application.**

- (1A) Notwithstanding subsection (1) of section 35, the owner of a patent may institute proceedings after the grant of the patent in respect of acts committed before the grant of the patent against a person proved to have actual knowledge that his acts would amount to an infringement of the patent had the patent been granted on that date.**
- (2) Where a patentee intends at the expiration of the second year from the date of the grant of the patent to keep the same in force he shall, twelve months before the date of expiration of the second and each succeeding year during the term of the patent, pay the prescribed annual fees.**
- Provided, however, that a period of grace of six months shall be allowed after the date of such expiration, upon payment of such surcharge as may be prescribed.
- (3) If the prescribed annual fee is not paid in accordance with subsection (2), the patent shall lapse, and a notice of the lapsing of the patent for non-payment of any annual fee shall be published in the Gazette.**

Section 35A. Reinstatement of a lapsed patent.

- (1) Within two years from the date on which a notice of the lapsing of a patent is published in the Gazette -**
- (a) the owner of a patent or his successor in title; or**
 - (b) any other person who would, if the patent had not lapsed, have been entitled to the patent,**
- may apply to the Registrar in the prescribed form to have the patent reinstated.**
- (2) The Registrar may reinstate a patent on an application made under subsection (1) -**
- (a) upon payment of all annual fees due and of a prescribed surcharge for reinstatement; and**
 - (b) upon being satisfied that the non-payment of annual fees was due to accident, mistake or other unforeseeable circumstances.**

- (3) Where the Registrar reinstates a lapsed patent, he shall cause notice of the reinstatement to be published in the Gazette.
- (4) The reinstatement of a lapsed patent shall not prejudice the rights acquired by third parties after it is notified in the Gazette that the patent has lapsed and before it is notified in the Gazette that the patent has been reinstated. **Such persons shall have the right to continue to exploit the patent, but such right shall not extend beyond such exploitation of the lapsed patent as such persons have availed themselves of or have taken definite steps to avail themselves of.**
- (5) The Minister may make regulations to provide for [*the protection or compensation of persons who have exploited or taken definite steps, by contract or otherwise, to exploit a patent after it is notified in the Gazette that the patent has lapsed and before it is notified in the Gazette that the patent has been reinstated, but any such protection shall not extend beyond such exploitation of the lapsed patent as such persons have availed themselves of or have taken definite steps to avail themselves of*] **the application of licences to exploit the patented invention beyond what is permitted under subsection (4) of this section.**
- (6) No proceedings shall be taken in respect of an infringement of a patent committed after it is notified in the Gazette that the patent has lapsed and before it is notified in the gazette that the patent has been reinstated.

Part VII

Rights of owner of patent

Section 36. Rights of owner of patent.

- (1) Subject and without prejudice to the other provisions of this Part, the owner of a patent shall have the following exclusive rights in relation to the patent:
- (a) to exploit the patented invention;
 - (b) to assign or transmit the patent;
 - (c) to conclude licence contracts.

- (2) No person shall do any of the acts referred to in subsection (1) without the consent of the owner of the patent.
- (3) For the purposes of this part, "exploitation" of a patented invention means any of the following acts in relation to a patent;
- (a) when the patent has been granted in respect of a product;
 - (i) making, importing, offering for sale **or use**, selling or using the product;
 - (ii) stocking such product for the purpose of offering for sale, selling or using;
 - (b) when the patent has been granted in respect of a process;
 - (i) using the process;
 - (ii) doing any of the acts referred to in paragraph (a), in respect of a product obtained directly by means of the process[.];
 - (iii) **in all other cases where the process has been used at any stage in relation to the manufacture of a product, the right only to recover from the importer, wholesaler, or retailer the value which the use of the patented process has imparted to any such product as a whole.**
- (4) For the purposes of this section, if the patent has been granted in respect of a process for obtaining a **new** product, the same product produced by a person other than the owner of the patent or his licensee shall, unless the contrary is proved, be taken in any proceedings to have been obtained by that process.
- (5) **In considering whether a party has discharged the burden imposed upon him by this section, the court shall not require him to disclose any manufacturing or business secrets if it appears to the court that it would be unreasonable to do so, or unless the legitimate interest of the defendant in protecting his manufacturing and business secrets shall be taken into account, for example, by disclosure to an independent expert alone.**

Section 37. Limitation of rights.

- (1) The rights under the patent shall extend only to acts done for industrial or commercial purposes and in particular not to acts done only for scientific research.
- (2) The rights under the patent shall not extend to acts in respect of products which have been put on the market -
 - (i) by the owner of the patent;
 - (ii) by a person having the right referred to in section 38;
 - (iii) by a person having the right referred to in section 43;
 - (iv) by the beneficiary of a compulsory licence within the meaning of section 48;
 - (v) **by any person exercising the right referred to in section 84.**

(Possible addition to section 37(2))

- (2A) **Subsection 2(i) above shall also apply with regard to a product put on the market by the owner of a patent, granted for the same invention in another country, who has economic connections with the owner of the patent referred to in subsection (2)(i). For the purpose of this subsection, two persons shall be deemed to have economic connection where one of them is in a position to exert a decisive influence on the other, directly or indirectly, with regard to the exploitation of a patent, or where a third party is in a position to exercise such an influence on both persons.**

(Alternative to Section 37(2))

- (2) **An act which, apart from this subsection, would constitute an infringement of a patent for an invention shall not do so if it consists of the import, use, offering for sale or use or selling of any patented product, or of any product obtained by means of a patented process or to which a patented process has been applied, which is produced by or with the consent of the owner of the patent or any person licensed by him, and for this purpose "patent" includes a patent granted in any country outside Malaysia in respect of the same or substantially the same invention as that for which a**

patent is granted under this Act and "patented product", "patented process" and "licensed" shall be construed accordingly. This subsection shall operate notwithstanding conditions or limitations with respect to the sale of goods imposed upon a person by the owner of the patent or by any person licensed by him on introducing goods into the market or thereafter.

- (3) The rights under the patent shall not extend to the use of the patented invention on any foreign vessel, aircraft, spacecraft or land vehicle temporarily or **accidentally** in Malaysia.
- (4) The right to the patent shall be limited in duration as provided for in section 35.
- (5) The rights under the patent shall be limited by the provisions of **section 31(2A)**, section 35A, **section 38**, the provisions on compulsory licences as provided in section 51 and 52 and by the provisions on the rights of Government or any person authorised by the Government as provided in section 84.

Section 38. Rights derived from prior manufacture or use.

- (1) Where a person at the priority date of the patent application -
 - (a) was in good faith in Malaysia making the product or using the process which is the subject of the invention claimed in the application;
 - (b) had in good faith in Malaysia made serious preparations towards the making of the product or using the process referred to in paragraph (a),

he shall have the right, despite the grant of the patent, to exploit the patented invention:

Provided that the product in question is made, or the process in question is used, by the said person in Malaysia:

Provided further that he can prove, if the invention was disclosed under the circumstances referred to in paragraphs (a), (b) or (c) of subsection (3) of section 14 that his knowledge of the invention was not a result of such disclosure.

- (2) The right referred to in subsection (1) shall not be assigned or transferred except as part of the business of the person concerned.

Section 38A. Rights of previous purchasers.

Every person who, before the grant of a patent, has purchased, contracted to purchase, or acquired any product or process for which a patent is afterwards obtained under this Act has the right to use and to sell to others the specific product or process so purchased, contracted for, or acquired before the grant of the patent therefor, without being liable to the patentee for so doing.

Part VIII

Assignment and Transmission of Patent Applications and Patents

Section 39. Assignment and transmission of patent applications and patents.

- (1) A patent application or patent may be assigned or transmitted.
- (2) Any person becoming entitled by assignment or transmission of a patent application or patent may apply to the Registrar in the prescribed manner to have such assignment or transmission recorded in the Register.
- (3) No such assignment or transmission shall be recorded in the Register unless-
 - (a) the prescribed fee has been paid to the Registrar;
 - (b) in the case of an assignment, it is in writing signed by or on behalf of the contracting parties.
- (4) No such assignment or transmission shall have effect against third parties **who have no knowledge or notice, actual or constructive, of such transaction**, unless so recorded in the Register.

Section 40. Joint ownership of patent applications or patents.

[In the absence of any agreement to the contrary between the parties, joint owners of a patent application or patent may, separately, assign or transmit their rights in the patent application or patent, exploit the patented invention and take action against any person exploiting the patented invention without their consent, but may only jointly withdraw the patent application, surrender the patent or conclude a licence contract.]

- (1) In the absence of any agreement to the contrary between the parties, joint owners of a patent application or patent, shall hold the patent in equal undivided shares, and each may,

 - (a) separately exploit the patent for his or her own benefit without accounting to the others,
 - (b) without the concurrence of the others bring proceedings in respect of an act alleged to infringe the patent, but shall not do so unless the others are made parties to the proceedings; but any of the others made a defendant shall not be liable for any costs or expenses unless he enters in appearance and takes part in the proceedings.
- (2) In the absence of any agreement to the contrary between the parties, joint owners of a patent application or patent may not:

 - (a) separately assign their shares without first giving the other owners a right of first refusal on the same terms as is offered to the proposed buyer, or, if the right is not exercised by the other owners, after they have failed to nominate a person who is willing to purchase the share on the same terms;
 - (b) withdraw the patent application, surrender the patent or conclude a licence contract without the consent of the other co-owners.
- (3) Any transaction in breach of section 40(2)(a) and (b) above shall have no effect whatsoever against the other co-owners.

Section 40A. Directions to co-owners.

- 40A(1) Where there are two or more patentees, the Court may, on the application of any of them, give such directions in accordance with the application as the Court thinks fit, being directions about:**
- (a) a dealing with the patent or an interest in it; or
 - (b) the grant of licences under the patent; or
 - (c) the exercise of a right under section 40 in relation to the patent.

- 40A(2) If a patentee fails to do anything necessary to carry out a direction under subsection (1) within 14 days after being asked in writing to do so by any one of the other patentees, the Court may, on the application of one of those other patentees, direct a person to do it in the name and on behalf of the defaulting patentee.**
- (3) Before giving a direction, the Court must give an opportunity to be heard:**
- (a) in the case of an application by a patentee or patentees under subsection (1), to the other patentee or patentees; and**
 - (b) in the case of an application under subsection (2), to the defaulting patentee.**
- (4) The Court in giving a direction must have regard to:**
- (a) the existence of any rights or obligations of a trustee or of the legal representatives of a deceased person, or rights or obligations arising out of either of those relationships; and**
 - (b) give effect to the terms of any valid agreement between the parties.**

Part IX

Licence Contracts

Section 41. Meaning of licence contract.

- (1) For the purposes of this Part, a "licence contract" means any contract by which the owner of a patent (the "licensor") grants to another person or enterprise (the "licensee") a licence to do any or all of the acts referred to in paragraphs (a) of subsection (1), and subsection (3), of section 36.**
- (2) A licence contract shall be in writing signed by or on behalf of the contracting parties.**
- (3) The fact that a licence contract has been concluded may be recorded in accordance with the regulations and on payment of the prescribed fee.**

- (4) **Until an application has been made for recordation of the prescribed particulars of a licence contract:**
- (a) **the transaction is ineffective as against a person acquiring a conflicting interest in or under the patent without actual or constructive knowledge of it, and**
 - (b) **the court shall not award the licensee damages or order that he be given an account of profits in respect of any infringement occurring before the transaction is recorded unless:-**
 - (i) **an application to record the transaction is made within the period of six months beginning with its date; or**
 - (ii) **the court is satisfied that it was not practicable for such an application to be made before the end of that period and that an application was made as soon as practicable thereafter.**

Section 42. [Entry in the Register] Licences of Right.

- (1) A licensor may in accordance with the regulations as prescribed by the Minister apply to the Registrar for an entry to be made in the Register to the effect [*that any person may obtain a licence*] **that licences under the patent are to be available as of right.**
- (1A) **When the Registrar is satisfied that the licensor is not precluded by any contract from granting licences under the patent, he shall cause such an entry to be made.**
- (2) At any time after an entry has been made in the Register any person may apply to the licensor through the Registrar for a licence.
- (2A) **Where such an entry is made in respect of a patent -**
 - (a) **any person shall, at any time after the entry is made, be entitled as of right to a licence under the patent on such terms as may be settled by agreement or, in default of agreement, by the Registrar on the application of the owner of the patent or the person requiring the licence;**

- (b) **the Registrar may, on the application of the holder of any licence granted under the patent before the entry was made, order the licence to be exchanged for a licence of right on terms so settled.**
- (3) Where a licence contract is concluded between the parties, the contracting parties shall inform the Registrar accordingly and the Registrar shall record such fact in the Register.
- (4) Upon a request in writing signed by or on behalf of the contracting parties, the Registrar shall, on payment of the prescribed fee, record in the Register such particulars relating to the contract as the parties thereto might wish to have recorded:

Provided that the parties shall not be required to disclose or have recorded any other particulars relating to the said contract.

- (5) Where a licence contract is terminated, the contracting parties shall inform the Registrar of the termination and the Registrar shall record such termination in the Register.
- (5A) The renewal fee payable in respect of the patent after the date of the entry shall be half the fee which would be payable if the entry had not been made.**
- (6) The licensor may in accordance with the regulations as prescribed by the Minister apply to the Registrar for the cancellation of the entry made under subsection (1).
- (7) Where such an application is made and the balance of all renewal fees which would have been payable if the entry had not been made has been paid, the Registrar may cancel the entry.**
- (8) The cancellation of the entry shall be without prejudice to any licence contracts entered into while the entry was in force.**

Section 43. Rights of the Licensee.

- (1) In the absence of any provision to the contrary in the licence contract, the licensee shall be entitled to do any or all of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36 within the whole geographical

area of Malaysia without limitation as to time and through any application of the invention.

- (2) In the absence of any provision to the contrary in the licence contract, the licensee may not give to a third person his agreement to perform in Malaysia in respect of the invention any of the acts referred to in paragraph (a) of subsection (1), and subsection (3) of section 36.

Section 44. Right of the Licensor.

- (1) In the absence of any provision to the contrary in the licence contract, the licensor may grant a further licence to a third person in respect of the same patent or himself do any or all of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36.
- (2) Where the licence contract provides that the licence is exclusive and unless it is expressly provided otherwise in such contract, the licensor shall not grant a further licence to a third person in respect of the same patent or himself do any of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36.

Section 45. Invalid clauses in licence contracts.

- (1) Any clause or condition in a licence contract shall be invalid in so far as [*it imposes*] **the practical effect of it is to impose** upon the licensee, lessee, or purchaser, in the industrial or commercial field, restrictions not derived from the rights conferred by this part on the owner of the patent, or unnecessary for the safeguarding of such rights:

Provided that-

- (a) restrictions concerning the scope, extent or duration of exploitation of the patented invention, or the geographical area in, or the quality or quantity of the products in connection with, which the patented invention may be exploited; and
- (b) obligations imposed upon the licensee to abstain from all acts capable of prejudicing the validity of the patent.

shall not be deemed to constitute such restrictions.

- (2) Subject to subsection (3), the following clauses or conditions, among others, are deemed to be invalid under the section, that is to say, those that:
- (a) make the purchase, hire or use of a patented article or invention conditional upon the purchase or use of other goods from the patentee or his nominee; or
 - (b) prevent the hirer or licensee from using certain goods, materials or processes not supplied by the patentee or his nominee; or
 - (c) make the grant of a licence under one or more patents conditional upon the acceptance and payment for additional patents not required by the licensee; or
 - (d) impose upon the licensee the obligation to pay royalties for patents which have expired; or
 - (e) prevent the purchaser, lessee, or licensee from buying, using, manufacturing, or otherwise dealing in, other products which are not covered by the licensor's patent; or
 - (f) require the licensee to assign or to grant an exclusive licence to the licensor any improvement patented by the licensee in the products or processes of the licensed patent; or
 - (g) attempt to impose upon the purchaser or licensee the price at which the patented product may be sold.
- (3) Clauses and conditions in a licence contract will not be invalid under this section if it is shown by the licensor that:
- (a) they were negotiated for and freely entered into by the licensee without coercion, and
 - (b) at the time of the making of the contract, the licensor was willing to grant a licence to exploit the invention to the licensee on reasonable terms specified in the licence and without any such clauses or conditions as are mentioned in subsections (1) and (2) above, and

- (c) **in all the circumstances it is not an unreasonable exercise of the licensor's rights.**
- (4) **The fact that the agreement has been entered into, or that the agreement is still subsisting or has not been terminated, is not conclusive of voluntariness or reasonableness of terms.**
- (5) **In any proceedings to enforce an obligation under the licence contract, it shall be a defence for the licensee to prove that at the time of the breach there was in force a contract relating to the patent made by or with the consent of the licensor containing a clause or condition deemed invalid by virtue of this section.**
- (6) **The licensee, in an action under subsection (5), or in any other action, may also claim for the return of any payment made by virtue of an invalid clause or condition, and may also claim for any damage directly caused by the presence of the invalid clause or condition.**

Part X
Compulsory licences

Section 48. Definition.

"beneficiary of the compulsory licence" means the person to whom a compulsory licence has been granted in accordance with this Part; and

"compulsory licence" means the authorisation to perform in Malaysia without the agreement of the owner of the patent in respect of the patented invention any of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36.

Section 49. Application for compulsory licence.

- (1) At any time after the expiration of three years from the grant of a patent, any person **interested** may apply to the Registrar for a compulsory licence if it appears at the time when such application is filed -
- (a) that there is no production of the patented product or application of the patented process **within the country** without any legitimate reason; **or**

- (b) that there is no product produced under the patent for sale in any domestic market, or there are some but they are sold at unreasonably high prices or do not meet the public demand without any legitimate reason.
- (2) The application for a compulsory licence shall be in compliance with the regulations as may be prescribed by the Minister.
- (3) **Where an application has been made under this section, the Registrar shall, by notice in writing addressed to the patentee of any patent specified by him, or to his registered representative in Malaysia, and to any person who has a registered interest in the patent, require the patentee and every such person to transmit and deliver to the Registrar within sixty days from the date of the notice, a return stating:**
- (a) **whether the patented invention is being worked on a commercial scale in Malaysia, and the place where, and the name and address of the person by whom, the patented invention is being so worked; and**
- (b) **the reasons, if any, why the patented invention is not being worked on a commercial scale in Malaysia.**
- (4) **The failure of the patentee or his registered representative in Malaysia or that of any person having a registered interest in the patent to comply with the terms of the notice mentioned in subsection (3) shall be deemed to be an admission on the part of the patentee or the person, as the case may be, so failing, that the patented invention is not being worked on a commercial scale in Malaysia.**

Section 49A. Application for compulsory licence based on inter-dependence of patents.

- (1) If an invention claimed in a patent ("later patent") cannot be worked in Malaysia without infringing a patent granted on the basis of an application benefiting from an earlier priority date ("earlier patent"), [*and if the invention claimed in the later patent constitutes, in the opinion of the Board, an important technical advance in relation to the invention claimed in the earlier patent,*] the Board, upon the request of the owner of the later patent, the licensee of a licence contract under the later patent or the beneficiary of a compulsory licence under the later patent, may grant a compulsory licence to the extent necessary [*to avoid infringement of the earlier*

patent.] for the working of his invention if the invention claimed in the later patent:

- (a) **constitutes an important technical advance in relation to the invention claimed in the earlier patent; or**
 - (b) **serves industrial purposes different from those served by the invention which is the subject of the earlier patent.**
- (2) If a compulsory licence is granted under subsection (1)(a), the Board, upon the request of the owner of the earlier patent, the licensee of a licence contract under the earlier patent or the beneficiary of a compulsory licence under the earlier patent, may grant a compulsory licence under the later patent.

Section 50. Request for grant of compulsory licence.

- (1) In an application for a compulsory licence under section 49 or section 49A, the applicant shall set forth the amount of royalty, the conditions of the exploitation of the patent and the restrictions of the rights of the licensor or the licensee, as the case may be, and a request for the said licence.
- (2) Where an application for a compulsory licence is filed pursuant to section 49 or section 49A, and this section, the Registrar shall notify the applicant, the licensor or the licensee, as the case may be, of the date the application shall be considered by the Board.
- (3) The licensor or the licensee, as the case may be, shall be furnished with a copy of the application as mentioned in subsection (1).

Section 51. Decision by the Board.

- (1) In considering the application for a compulsory licence under section 49 or section 49A, the Board may require the applicant, the licensor or the licensee, as the case may be, to appear before the Board to give a statement or to hand to the Board any document or any other item.
- (2) When the application has been considered by the Board and a decision has been made, the applicant, the licensor or the licensee, as the case may be, shall be notified of the decision.

- (3) **Where any of the grounds under section 49(1)(a) and (b) has been shown to exist, the Board may order a compulsory licence despite the fact that the patentee is precluded by contract from granting any further licences. The exercise of such power by the Board shall not give rise to an action for breach of contract by any existing exclusive licensee against the patentee.**

Section 52. Scope of compulsory licence.

- (1) Upon the granting of the compulsory licence to the applicant the Board shall fix-
- (a) the scope of the licence specifying in particular for what period the licence is granted and to which of the acts referred to in paragraph (a) of subsection (1), and subsection (3), of section 36 the licence extends except that, **subject to subsection (2) below**, it may not extend to the act of importation;
 - (b) the time limit within which the beneficiary of the compulsory licence shall begin to work the patented invention in Malaysia; and
 - (c) the amount and conditions of the royalty due from the beneficiary of the compulsory licence to the owner of the patent.
- (2) **Upon a request by an existing compulsory licensee for a variation in the terms of the existing licence, the Board, where it is of the opinion that any of the objectives of section 49 could not be achieved without so extending the scope of the licence, may extend it to the act of importation.**

Section 53. Limitation of compulsory licence.

The beneficiary of the compulsory licence shall not conclude licence contracts with third persons under the patent in respect of which the compulsory licence was granted.

Section 54. Amendment, cancellation and surrender of compulsory licence.

- (1) Upon the request of the owner of the patent or of the beneficiary of the compulsory licence, the Board may amend the decision granting the compulsory licence to the extent that new facts justify such amendment.

- (2) Upon the request of the owner of the patent, the Board shall cancel the compulsory licence-
- (a) if the ground for the grant of the compulsory licence no longer exists;
 - (b) if the beneficiary of the compulsory licence has, within the time limit fixed in the decision granting the licence, neither begun the working of the patented invention in Malaysia nor made serious preparation towards such working;
 - (c) if the beneficiary of the compulsory licence does not respect the scope of the licence as fixed in the decision granting the licence;
 - (d) if the beneficiary of the compulsory licence is in arrears of the payment due, according to the decision granting the licence.
- (3) The beneficiary of the compulsory licence may surrender the licence by written declaration submitted to the Registrar who shall record the surrender in the Register, publish it, and notify the owner of the patent.
- (3A) Where a compulsory licence has been granted in respect of a patent, the Registrar shall not accept or record the said surrender except upon receipt of a signed declaration by which the beneficiary of the compulsory licence consents to the said surrender.
- (4) The surrender shall take effect from the date the Patent Registration Office receives the declaration of the surrender.

Part XI

Surrender and Invalidation of Patent

Section 56. Invalidation of patent.

- (1) Any aggrieved person may institute Court proceedings against the owner of the patent for the invalidation of the patent.
- (2) The Court shall invalidate the patent if the person requesting the invalidation proves-

- (a) that what is claimed as an invention in the patent is not an invention within the meaning of section 12 or is excluded from protection under section 13 or subsection (1) of section 31 or is not patentable because it does not comply with the requirements of sections 11, 14, 15 and 16;
 - (b) that the description [*or the claim does not comply with the requirements of section 23;*] **does not disclose the invention in such terms that it can be understood and in a manner sufficiently clear and complete for the invention to be evaluated and to be carried out by a person having ordinary skill in the art, or describe the best mode contemplated by the applicant for carrying out the invention;**
 - (c) that any drawing which are necessary for the understanding of the claimed invention have not been furnished;
 - (d) that the right to the patent does not belong to the person to whom the patent was granted; or
 - (e) that incomplete or incorrect information has been deliberately provided or caused to be provided to the Registrar under subsection (4) of section 29A by the person to whom the patent was granted or by his agent.
- (2A) Notwithstanding subsection (2), the Court shall not invalidate the patent on the ground mentioned in paragraph (d) of subsection (2) if the patent has been assigned to the person to whom the right to the patent belongs.
- (2B) Notwithstanding subsection (2), in the case of joint inventorship, the Court shall not invalidate the patent on the ground mentioned in paragraph (d) of subsection (2). The said ground shall only be relied upon by a non-joined inventor in an entitlement proceedings under section 19.**
- (3) Where the provisions of subsection (1) apply on only some of the claims or some parts of a claim, such claims or parts of a claim may be declared invalid by the Court and the invalidity of part of a claim shall be declared in the form of a corresponding limitation of the claim in question.

Section 57. Date and effect of invalidation.

- (1) Any invalidated patent or claim or part of a claim shall be regarded as null and void from the date of the grant of the patent.
- (2) When the decision of the Court becomes final, the Registrar of the Court shall notify the Registrar who shall record the said declaration in the Register and cause it to be published in the Gazette.

Part XII
Infringement

Section 58. Acts deemed to be infringement.

Subject to subsection (1), (2) and (3) of section 37 and section 38, an infringement of a patent shall consist of the performance of any act referred to in subsection (3) of section 36 in Malaysia by a person other than the owner of the patent and without the agreement of the latter in relation to a product or a process falling within the scope of protection of the patent.

Section 58A. Scope of protection of the patent.

The claim or claims shall determine the scope of the protection. The description and the drawings may be used to interpret the claims.

Section 58B. Prohibition on indirect exploitation.

- (1) **Subject to the following provisions of this section, a person (other than the owner of the patent) also infringes a patent for an invention if, while the patent is in force and without the consent of the owner, he supplies or offers to supply in Malaysia a person other than a licensee or other person entitled to work the invention with any of the means, relating to an essential element of the invention, for putting the invention into effect when he knows, or it is obvious to a reasonable person in the circumstances, that those means are suitable for putting, and are intended to put, the invention into effect in Malaysia.**
- (2) **Subsection (1) above shall not apply to the supply or offer of a staple commercial product unless the supply or the offer is made for the purpose of inducing the person supplied or, as the case may be,**

the person to whom the offer is made to do an act which constitutes an infringement of the patent by virtue of section 58 above, or which apart from section 37(1), would constitute an infringement.

(3) Subject to the provisions of this subsection, for the purposes of subsections (1) and (2) above a person who does an act in relation to an invention which is prevented only by virtue of subsection (1) of section 37 above from constituting an infringement of a patent for an invention shall not be treated as a person entitled to work the invention, but the reference in subsections (1) and (2) above to a person entitled to work an invention includes a reference to -

(a) a person involved in acts done only for scientific research,

(b) a person entitled by virtue of section 31(2A) above,

(c) a person who by virtue of section 35A or section 38 above is entitled to do an act in relation to the invention without it constituting such an infringement, so far as concerns that act,

(d) a person entitled by virtue of Part X above, and

(e) a person so entitled by virtue of section 84 below.

(4) (a) Whoever without authority supplies or causes to be supplied in or from Malaysia all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of Malaysia in a manner that would infringe the patent if such combination occurred within Malaysia, shall be liable as an infringer.

(b) Whoever without authority supplies or causes to be supplied in or from Malaysia any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple commercial product, where such component is uncombined in whole or in part knowing that such component is so made or adapted and intending that such component will be combined outside of Malaysia in a manner that would infringe the patent if such combination occurred within Malaysia, shall be liable as an infringer.

Section 59. Infringement Proceedings.

- (1) The owner of the patent shall have the right to institute Court proceedings against any person who has infringed or is infringing the patent.
- (2) The owner of the patent shall have the same right against any person who has performed acts which makes it likely that an infringement will occur, which in this part is referred to as an "imminent infringement".
- (3) The proceedings in subsections (1) and (2) may not be instituted after five year from the act of infringement.

Section 60. Injunction and award of damages.

- (1) If the owner of the patent proves that an infringement has been committed or is being committed, the Court shall award damages and shall grant an injunction to prevent further infringement and any other legal remedy.
- (2) If the owner of the patent proves imminent infringement the Court shall grant an injunction to prevent infringement and any other legal remedy.
- (3) The defendant in any proceedings referred to in this section may request in the same proceedings the invalidation of the patent, in which case the provisions of subsection (2) and (3) of section 56 shall apply.

Section 60A. Innocent Infringement.

- (1) **A court shall refuse to award damages, or to make an order for an account of profits, in respect of an infringement of a patent if the defendant satisfies the court that the defendant was not aware, and had no reason to believe, that a patent for the invention existed during such period.**
- (2) **If patented products, marked so as to indicate that they are patented in Malaysia, and accompanied by the number of the patent, were sold or used in Malaysia to a substantial extent before the date of the infringement, the defendant is to be taken to have been aware of the existence of the patent unless the contrary is established.**
- (3) **Nothing in this section affects a court's power to grant relief by way of an injunction.**

(4) For the purposes of this section, the mere fact that the patent has been recorded in the Patent Register shall not constitute constructive knowledge of the existence of the patent.

Section 61. Infringement proceedings by licensee and beneficiary of compulsory licence.

- (1) For the purposes of this section, "beneficiary" means-
 - (a) any licensee unless the licence contract provides that the provisions of this subsection do not apply or provide different provisions;
 - (b) the beneficiary of a compulsory licence granted under section 51.
- (2) Any beneficiary may request the owner of the patent to institute Court proceedings for any infringement indicated by the beneficiary, who shall specify the relief desired.
- (3) The beneficiary may, if he proves that the owner of the patent received the request but refuses or fails to institute the proceedings within three months from the receipt of the request, institute the proceedings in his own name, after notifying the owner of the patent of his intention but the owner shall have the right to join in the proceedings.
- (4) Notwithstanding that the three month period referred to in subsection (3) has not been satisfied, the Court shall, on the request of the beneficiary, grant an appropriate injunction to prevent infringement or to prohibit its continuation if the beneficiary proves that immediate action is necessary to avoid substantial damage.
- (5) **Notwithstanding the above, any licensee shall have the right to institute proceedings at any time on being given written authorisation to do so by the owner of the patent.**
- (6) **Where proceedings are instituted by a licensee, the owner of the patent shall be made a party to the proceedings, but if made a defendant shall not be liable for any costs or expenses unless he enters an appearance and takes part in the proceedings.**

Section 61A. Remedy for groundless threats of infringement proceedings.

- s. 61A(1) Where a person (whether or not the proprietor of, or entitled to any right in, a patent) by circulars, advertisements or in any other way (whether in oral or written form) threatens (or expresses a threat in relation to) any person with proceedings for any infringement of a patent, a person aggrieved by the threats (whether or not he is the person to whom the threats are made) may, subject to subsection (3) below, apply to the court for:
- (a) a declaration that the threats are unjustifiable; and
 - (b) an injunction against the continuance of the threats; and
 - (c) the recovery of any damage sustained by the applicant as a result of the threats.
- (2) Subsection (1) shall apply whether or not the person who made the threats is entitled to, or interested in, a patent or a patent application.
- (3) The court may, in its discretion, grant a plaintiff under this section the relief applied for unless:
- (a) the defendant proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of a patent; and
 - (b) the patent alleged to be infringed is not shown by the plaintiff to be invalid in a relevant respect.
- (4) a) Subject to subsection 4(b), proceedings may not be brought under this section for a threat to bring proceedings for an infringement alleged to consist of making or importing a product for disposal, or of using a process, or of the supplying of such aforesaid products by such manufacturer or importer and of supplying parts used to make infringing products.
- b) i) For a threat to fall within this subsection, it must have been issued directly to the person mentioned in subsection (4)(a) and not to any other person.

ii) Subsection 4(a) applies only to threats by the patent owner or the "beneficiary" under section 61 of the Act.

- (5) It is hereby declared that a mere notification of the existence of a patent does not constitute a threat of proceedings within the meaning of this section.
- (6) A legal practitioner or a registered patent attorney is not liable to proceedings under this section in respect of an act done in his or her professional capacity on behalf of a client.
- (7) a) The defendant in proceedings under this section may apply, by way of counter-claim, for relief to which the defendant would be entitled in separate proceedings for an infringement of the patent to which the threats relate.
- b) Where the defendant applies by way of counter-claim, the plaintiff may, without making a separate application, apply in the proceedings for the invalidation of the patent.

Section 62. Declaration of non-infringement.

Part XIII

Offences

Section 63. Falsification of Register, etc.

Section 64. Unauthorised claim or patent.

- (1) Any person who falsely represents that anything disposed of by him for value is a patented product or process commits an offence and, subject to the following provisions of this section, is liable on conviction to a fine not exceeding fifteen thousand ringgit or to imprisonment for a term not exceeding two years or to both.
- (2) For the purposes of subsection (1), a person who for value disposes of an article having stamped, engraved or impressed on it or otherwise applied to it the word "patent" or "patented" or anything expressing or implying that the article is a patented product, shall be taken to represent that the article is a patented product.

- (3) Subsection (1) does not apply where the representation is made in respect of a product after the patent for that product or, as the case may be, the process in question has, expired or been invalidated and before the end of a period which is reasonably sufficient to enable that person to take steps to ensure that the representation is not made or does not continue to be made.
- (4) In proceedings for an offence under this section, it shall be a defence for any person to prove that he used due diligence to prevent the commission of the offence.

Section 84. Rights of Government.

"Notwithstanding anything contained in this Act, when it is vital to the defence, economic or public health interests of Malaysia, or when action under Part X is ineffective to achieve the objectives of section 49 -

- (a) the Government of the Federation or of any State, a Ministry or Government department or any person authorised by such Government, Ministry or Government department may make, use and exercise any invention registered or in respect of which exclusive privileges have been granted in accordance with the provisions of this Act or do any act which would otherwise be an infringement of the privileges or rights mentioned in this Act.
- (b) the Government of the Federation or of any State, Ministry or Government department or person authorised by such Government, Ministry or Government department shall pay reasonable compensation for making, using or exercising the said invention or arising out of any act which would otherwise be an infringement of the privileges or rights mentioned in this Act.

Appendix

Malaysia

Civil Law Act, 1956 (Revised 1972) Act 67

Section 3 Application of English law.

- (1) Save so far as other provision has been made or may hereafter be made by any written law in force in Malaysia the Court shall-
 - (a) in West Malaysia or any part thereof, apply the common law of England and the rules of equity as administered in England on the 7th day of April, 1956;
 - (b) in Sabah, apply the common law of England and the rules of equity, together with statutes of general application, as administered or in force in England on the first day of December, 1951;
 - (c) in Sarawak, apply the common law of England and the rules of equity, together with statutes of general application, as administered or in force in England on the 12th day of December, 1949, subject however to subsection (3)(ii);

Provided always that the said common law, rules of equity and statutes of general application shall be applied so far only as the circumstances of the States of Malaysia and their respective inhabitants permit and subject to such qualifications as local circumstances render necessary.

- (2) Subject to the express provisions of this Act or any other written law in force in Malaysia or any part thereof, in the event of conflict or variance between the common law and the rules of equity with reference to the same matter, the rules of equity shall prevail.

Section 5 Application of English law in commercial matters.

- (1) In all questions or issues which rise or which have to be decided in the States of West Malaysia other than Malacca and Penang with respect to the law of partnership, corporations, banks and banking, principals and agents, carriers by air, land and sea, marine insurance, average, life and fire insurance, and with respect to mercantile law generally, the law to be administered shall be the same as would be administered in England in the like case at the date of coming into force of this Act, if such question or issue had arisen or had to be decided in England, unless in any case other provision is or shall be made by any written law.
- (2) In all questions or issues which rise or which have to be decided in the States of Malacca, Penang, Sabah and Sarawak with respect to the law concerning any of the matters referred to in subsection (1), the law to be administered shall be the same as would be administered in England, in the like case at the corresponding period, if such question or issue had arisen or had to be decided in England, unless in any case other provision is or shall be made by any written law.

Contracts Act, 1950 (Revised 1974) Act 136

Section 28

Every agreement by which anyone is restrained from exercising a lawful profession, trade, or business of any kind, is that extent void.

Exception 1 - One who sells the goodwill of a business may agree with the buyer to refrain from carrying on a similar business, within specified local limits, so long as the buyer, or any person deriving title to the goodwill from him, carries on a like business therein: Provided that such limits appear to the Court reasonable, regard being had to the nature of the business.

Exception 2 - Partners may, upon or in anticipation of a dissolution of the partnership, agree that some or all of them will not carry on a business similar to that of the partnership within such local limits as are referred to in the last preceding paragraph.

Industrial Co-ordination Act 1975, Act 156 (As amended by Acts A 401 and A 462)

Section 2 Interpretation

In this Act, unless the context otherwise requires-

"Council" means the Industrial Advisory Council established under section 11A;

"licence" means a licence issued under this Act to engage in any manufacturing activity;

"licensing officer" means any public officer appointed to be a licensing officer under section 3A;

"manufacturer" means a person who is engaged in any manufacturing activity;

"manufacturing activity" with its grammatical variations and cognate expressions means the making, altering, blending, ornamenting, finishing or otherwise treating or adapting any article or substance with a view to its use, sale, transport, delivery or disposal and includes the assembly of parts and ship repairing but shall not include any activity normally associated with retail or wholesale trade.

"Minister" means the Minister charged with the responsibility for industrial development;

"product" means any article, thing, substance or service produced as a result of any manufacturing activity and includes a range of products.

Section 3 Licence required for manufacturing activity.

- (1) No person shall engage in any manufacturing activity unless he is issued a licence in respect of such manufacturing activity.
- (2) Any person who fails to comply with the provision of subsection (1) is guilty of an offence and is liable on conviction to a fine not exceeding two thousand ringgit or to a term of imprisonment not exceeding six months and to a further fine not exceeding one thousand ringgit for every day during which such default continues.

Section 4 Application for and issue and conditions for licence.

- (1) An application for a licence shall be made in the prescribed form to the licensing officer.
- (2) One application may be made for one or more products manufactured in one or more places of manufacturing activity but a separate licence shall be issued for each place of manufacturing activity.
- (3) The licensing officer shall, in deciding whether an application for a licence should be approved or refused, consider whether the issue of a licence is consistent with national economic and social objectives and would promote the orderly development of manufacturing activities in Malaysia.
- (4) The licensing officer in issuing the licence, may, in furtherance of the aforesaid objectives impose such conditions as he may think fit and such conditions may be varied on the application of the manufacturer or on the licensing officer's own motion after consultation with the manufacturer in respect of whom the conditions in the licence are to be varied.
- (5) Every licence issued shall be in the prescribed form and shall be subject to such fee as may be prescribed.

Section 5 Existing manufacturers.

Every person who on the commencement of this Act is engaged in any manufacturing activity may continue to do so but shall not later than one year from the date of the commencement of this Act apply for a licence in the prescribed form to the licensing officer.

Section 8 Compliance with other laws.

The issue of a licence shall not be deemed to relieve the manufacturer to whom a licence is issued from compliance with any other written law relating to the manufacturing activity for which the licence is issued.

Section 11

The Minister may by order exempt any manufacturing activity from all or any of the provisions of this Act.

Trade Descriptions Act, 1972, Act 87

Section 2

"advertisement" includes a catalogue, a circular and a price list;

Section 3

Any person who, in the course of a trade or business -

- (a) applies a false trade description to any goods; or
- (b) supplies or offers to supply any goods to which a false trade description is applied, shall be guilty of an offence.

Section 8

A person exposing goods for supply or having goods in his possession for supply shall be deemed to offer or supply them.

Australia

Patents Act 1990 - Australia

Chapter 2 Patent rights, Ownership and Validity

Section 13 Exclusive rights given by patent

- (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.
- (2) The exclusive rights are personal property and are capable of assignment and devolution by law.
- (3) A patent has effect throughout the patent area.

Section 14 Assignment of patent

- (1) An assignment of a patent must be in writing signed by or on behalf of the assignor and assignee.
- (2) A patent may be assigned for a place in, or part of, the patent area.

Section 15 Who may be granted a patent.

- (1) Subject to this Act, a patent for an invention may only be granted to a person who:
 - (a) is the inventor; or
 - (b) would, on the grant of a patent for the invention, be entitled to have the patent assigned to the person; or
 - (c) derives title to the invention from the inventor or a person mentioned in paragraph (b); or
 - (d) is the legal representative of a deceased person mentioned in paragraph (a), (b) or (c).
- (2) A patent may be granted to a person whether or not he or she is an Australian citizen.

Section 16 Co-ownership of patents

- (1) Subject to any agreement to the contrary, where there are two or more patentees:
 - (a) each of them is entitled to an equal undivided share in the patent; and

- (b) each of them is entitled to exercise the exclusive rights given by the patent for his or her own benefit without accounting to the others; and
 - (c) none of them can grant a licence under the patent, or assign an interest in it, without the consent of the others.
- (2) Where a patented product, or a product of a patented method or process, is sold by any of two or more patentees, the buyer, and a person claiming through the buyer, may deal with the product as if it had been sold by all the patentees.
 - (3) This section does not affect the rights or obligations of a trustee or of the legal representatives of a deceased person, or rights or obligations arising out of either of those relationships.

Section 17 Directions to co-owners

- (1) Where there are two or more patentees, the Commissioner may, on the application of any of them, give such directions in accordance with the application as the Commissioner thinks fit, being directions about:
 - (a) a dealing with the patent or an interest in it; or
 - (b) the grant of licences under the patent; or
 - (c) the exercise of a right under section 16 in relation to the patent.
- (2) If a patentee fails to do anything necessary to carry out a direction under subsection (1) within 14 days after being asked in writing to do so by any one of the other patentees, the Commissioner may, on the application of one of those other patentees, direct a person to do it in the name and on behalf of the defaulting patentee.
- (3) Before giving a direction, the Commissioner must give an opportunity to be heard:
 - (a) in the case of an application by a patentee or patentees under subsection (1) - to the other patentee or patentees; and
 - (b) in the case of an application under subsection (2) - to the defaulting patentee.
- (4) The Commissioner must not give a direction that:
 - (a) affects the rights or obligations of a trustee or of the legal representatives of a deceased person, or rights or obligations arising out of either of those relationships; or
 - (b) is inconsistent with the terms of an agreement between the parties.

Section 40 Specifications

- (1) A provisional specification must describe the invention.
- (2) A complete specification must:
 - (a) describe the invention fully, including the best method known to the applicant of performing the invention; and
 - (b) where it relates to an application for a standard patent - end with a claim or claims defining the invention; and
 - (c) where it relates to an application for a petty patent - ends with a single claim, or a single independent claim and not more than two dependent claims, defining the invention.
- (3) The claim or claims must be clear and succinct and fairly based on the matter described in the specification.
- (4) The claim or claims must relate to one invention.

Section 63 Joint patentees

A patent may be granted to two or more nominated persons jointly.

Chapter 11 - Infringement

Section 117 Infringement by supply of products

- (1) If the use of a product by a person would infringe a patent, the supply of that product by one person to another is an infringement of the patent by the supplier unless the supplier is the patentee or licensee of the patent.
- (2) A reference in subsection (1) to the use of a product by a person is a reference to:
 - (a) if the product is capable of only one reasonable use, having regard to its nature or design - that use; or
 - (b) if the product is not a staple commercial product - any use of the product, if the supplier had reason to believe that the person would put it to that use; or
 - (c) in any case - the use of the product in accordance with any instruction for the use of the product, or any inducement to use the product, given to the person by the supplier or contained in an advertisement published by or with the authority of the supplier.

Section 118 Infringement exemptions: use in or on foreign vessel, aircraft or vehicles

s.118 The rights of a patentee are not infringed:

- (a) by using the patented invention on board a foreign vessel, in the body of the vessel, or in the machinery, tackle, apparatus or other accessories of the vessel, if the vessel comes into the patent area only temporarily or accidentally and the invention is used exclusively for the needs of the vessel; or
- (b) by using the patented invention in the construction or working of a foreign aircraft or foreign land vehicle, or in the accessories of the aircraft or vehicle, if the aircraft or vehicle comes into the patent area only temporarily or accidentally.

Section 123 Innocent infringement

- (1) A court may refuse to award damages, or to make an order for an account of profits, in respect of an infringement of a patent if the defendant satisfies the court that, at the date of the infringement, the defendant was not aware, and had no reason to believe, that a patent for the invention existed.
- (2) If patented products, marked so as to indicate that they are patented in Australia, were sold or used in the patent area to a substantial extent before the date of the infringement, the defendant is to be taken to have been aware of the existence of the patent unless the contrary is established.
- (3) Nothing in this section affects a court's power to grant relief by way of an injunction.

Part 3 - Unjustified threats of infringement proceedings

Section 128 Application for relief from unjustified threats

- (1) Where a person, by means of circulars, advertisements or otherwise, threatens a person with infringement proceedings, or other similar proceedings, a person aggrieved may apply to a prescribed court, or to another court having jurisdiction to hear and determine the application, for:
 - (a) a declaration that the threats are unjustifiable; and
 - (b) an injunction against the continuance of the threats; and
 - (c) the recovery of any damage sustained by the applicant as a result of the threats.
- (2) Subsection (1) applies whether or not the person who made the threats is entitled to, or interested in, the patent or a patent application

Section 129 Court's power to grant relief

The court may grant an applicant under section 128 the relief applied for unless the respondent satisfies the court that the acts about which the threats were made infringed, or would infringe:

- (a) a claim that is not shown by the applicant to be invalid; or

- (b) rights under section 57 in respect of a claim that is not shown by the applicant to be a claim that would be invalid if a patent had been granted.

Section 130 Counterclaim for infringement

- (1) The respondent in proceedings under section 128 may apply, by way of counter-claim, for relief to which the respondent would be entitled in separate proceedings for an infringement by the applicant of the patent to which the threats relate.
- 2) Where the respondent applies by way of counter-claim, the applicant may, without making a separate application under Chapter 12, apply in the proceedings for the revocation of the patent.
- (3) The provisions of this Act relating to infringement proceedings apply, with the necessary changes, to a counter-claim.
- (4) The provisions of this Act relating to proceedings for the revocation of a patent apply, with the necessary changes, to an application under subsection (2).

Section 131 Notification of a patent not a threat

The mere notification of the existence of a patent, or an application for a patent, does not constitute a threat of proceedings for the purposes of section 128.

Section 132 Liability of legal practitioner or patent attorney

A legal practitioner or a registered patent attorney is not liable to proceedings under section 128 in respect of an act done in his or her professional capacity on behalf of a client.

Chapter 12 - Compulsory Licences and Revocation of Patents

Section 138 Revocation in other circumstances

- (1) The Minister or any other person may apply to a prescribed court for an order revoking a patent.
...
- (3) After hearing the application, the court may, by order, revoke the patent, either wholly or so far as it relates to a claim, on one or more of the following grounds, but on no other ground:
- (a) that the patentee is not entitled to the patent;
 - (b) that the invention is not a patentable invention;
 - (c) that the patentee has contravened a condition in the patent;
 - (d) that the patent was obtained by fraud, false suggestion or misrepresentation.
 - (e) that an amendment of the patent request or the complete specification was made or obtained by fraud, false suggestion or misrepresentation;
 - (f) that the specification does not comply with subsection 40(2) or (3).

Schedule 1 **Dictionary**

"exploit", in relation to an invention includes:

- (a) where the invention is a product - 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 those things; or
- (b) where the invention is a method or process - use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use;

"Supply" includes supply by way of sale, exchange, lease, hire or hire-purchase;

"work", in relation to a patented invention, means:

- (a) where the invention is a product - make or import the product; or

- (b) where the invention is a method or process use the method or process or do any act mentioned in paragraph (a) in respect of a product resulting from such use;

Canada

Patent Act R.S.C. 1985, c.P-4

Section 23

No patent shall extend to prevent the use of any invention in any ship, vessel, aircraft or land vehicle of any other country, entering Canada temporarily or accidentally, if such invention is employed exclusively for the needs of the ship, vessel, aircraft or land vehicle, and not so used for the manufacture of any goods to be sold within or exported from Canada.

Section 56

Every person who, before an application for a patent becomes open to the inspection of the public under section 10, has purchased, constructed or acquired the invention for which a patent is afterwards obtained under this Act, has the right to use and to sell to others the specific article, machine, manufacture or composition of matter patented and so purchased, constructed or acquired without being liable to the patentee or the legal representatives of the patentee for so doing, but the patent shall not, with respect to other persons, be held invalid by reason of that purchase, construction or acquisition or use of the invention by the person first mentioned, or by those to whom that person has sold it, unless it was purchased, constructed, acquired or used before the date of filing of the application or, in the case of an application to which section 28 applies, before the priority date of the application, and in consequence whereof the invention was disclosed in such a manner that it became available to the public in Canada or elsewhere.

Convention for the European Patent for the Common Market (Community Patent Convention)

Chapter II - Effects of the Community Patent and the European Patent application

Article 25 Prohibition of direct use of the invention

A Community patent shall confer on its proprietor the right to prevent all third parties not having his consent:

- (a) from making, offering, putting on the market or using a product which is the subject-matter of the patent, or importing or stocking the product for these purposes;
- (b) from using a process which is the subject-matter of the patent or, when the third party knows, or it is obvious in the circumstances, that the use of the process is prohibited without the consent of the proprietor of the patent, from offering the process for use within the territories of the Contracting States;
- (c) from offering, putting on the market, using, or importing or stocking for these purposes the product obtained directly by a process which is the subject-matter of the patent.

Article 26 Prohibition of indirect use of the invention

1. A Community patent shall also confer on its proprietor the right to prevent all third parties not having his consent from supplying or offering to supply within the territories of the Contracting States a person, other than a party entitled to exploit the patented invention, with means, relating to an essential element of that invention, for putting it into effect therein, when the third party knows, or it is obvious in the circumstances, that these means are suitable and intended for putting that invention into effect.
2. Paragraph 1 shall not apply when that means are staple commercial products, except when the third party induces the person supplied to commit acts prohibited by Article 25.
3. Persons performing the acts referred to in Article 27 (a) to (c) shall not be considered to be parties entitled to exploit the invention within the meaning of paragraph 1.

Article 27 **Limitation of the effects of the Community Patent**

The rights conferred by a Community patent shall not extend to:

- (a) acts done privately and for non-commercial purposes;
- (b) acts done for experimental purposes relating to the subject-matter of the patented invention;
- (c) the extemporaneous preparation for individual cases in a pharmacy of a medicine in accordance with a medical preparation or acts concerning the medicine so prepared;
- (d) the use on board vessels of the countries of the Union of Paris for the Protection of Industrial Property, other than the Contracting States, of the patented invention, in the body of the vessel, in the machinery, tackle, gear and other accessories, when such vessels temporarily or accidentally enter the waters of Contracting States, provided that the invention is used there exclusively for the needs of the vessel;
- (e) the use of the patented invention in the construction or operation of aircraft or land vehicles of countries of the Union of Paris for the Protection of Industrial property, other than the Contracting States, or of accessories to such aircraft or land vehicles, when these temporarily or accidentally enter the territory of Contracting States;
- (f) the acts specified in Article 27 of the Convention on International Civil Aviation of December 7, 1944, where these acts concern the aircraft of a State, other than the Contracting States, benefiting from the provisions of that Article.

Article 28 **Exhaustion of the rights conferred by the Community patent**

The right conferred by a Community patent shall not extend to acts concerning a product covered by that patent which are done within the territories of the Contracting States after that product has been put on the market in one of these States by the proprietor of the patent or with his express consent, unless there are grounds which, under Community law, would justify the extension to such acts of the rights conferred by the patent.

Article 35 **Burden of Proof**

1. If the subject matter of a Community patent is a process for obtaining a new product, the same product when produced by any other party shall, in the absence of proof to the contrary, be deemed to have been obtained by the patented process.
2. In the adduction of proof to the contrary, the legitimate interests of the defendant in protecting his manufacturing and business secrets shall be taken into account.

Chapter III **National rights**

Article 37 **Rights based on prior use and right of personal possession**

1. Any person, who, if a national patent has been granted in respect of an invention, would have had, in one of the Contracting States, a right based on prior use of that invention or a right of personal possession of that invention, shall enjoy, in that State, the same rights in respect of a Community patent for the same invention.
2. The rights conferred by a Community patent shall not extend to acts concerning a product covered by that patent which are done within the territory of the State concerned after that product has been put on the market in that State by the person referred to in paragraph 1, in so far as the national law of that State makes provision to the same effect in respect of national patents.

Chapter V **Compulsory Licences in respect of a Community patent**

Article 45 **Compulsory licences**

1. Any provision in the law of a Contracting State for the grant of compulsory licences in respect of national patents shall be applicable to Community patents. The extent and effect of compulsory licences granted in respect of Community patents shall be restricted to the territory of the State concerned. Article 28 shall not apply.
2. Each Contracting State shall, at least in respect of compensation under a compulsory licence, provide for a final appeal to a court of law.

3. As far as practicable national authorities shall notify the European Patent Office of the grant of any compulsory licence in respect of a Community patent.
4. For the purposes of this Convention, the term "compulsory licences" shall be construed as including official licences and any right to use patented inventions in the public interest.

Article 46 Compulsory licences for lack of insufficiency of exploitation.

A compulsory licence may not be granted in respect of a Community patent on the ground of lack or insufficiency of exploitation if the product covered by the patent, which is manufactured in a Contracting State, is put on the market in the territory of any other Contracting State, for which such a licence has been requested, in sufficient quantity to satisfy needs in the territory of that other Contracting State. This provision shall not apply to compulsory licences granted in the public interest.

Article 47 Compulsory licences in respect of dependent patents.

Any provisions in the law of the Contracting States for the grant of compulsory licences in respect of earlier patents in favour of subsequent dependent patents shall be applicable to the relationship between Community patents and national patents and to the relationship between Community patents themselves.

Part VII Impact on National law

Article 76 Exhaustion of rights conferred by a national patent

1. The right conferred by a national patent in a Contracting State shall not extend to acts concerning a product covered by that patent which are done within the territory of that Contracting State after that product has been put on the market in any Contracting State by the proprietor of the patent or with his express consent, unless there are grounds which, under Community law, would justify the extension to such acts of the rights conferred by the patent.
2. Paragraph 1 shall also apply with regard to a product put on the market by the proprietor of a national patent, granted for the same invention in another Contracting State, who has economic connections with the proprietor of the patent referred to in paragraph 1. For the purpose of this paragraph, two persons shall be deemed to have economic connection where one of them is in a position to exert a decisive influence on the other, directly or indirectly, with regard to the exploitation of a patent, or where a third party is in a position to exercise such an influence on both persons.
3. The preceding paragraph shall not apply in the case of a product put on the market under a compulsory licence.

Article 77 Compulsory licences in respect of national patents

Article 46 shall apply *mutatis mutandis* to the grant of compulsory licences for lack or insufficiency of exploitation of a national patent.

European Patent Convention

Article 64 Rights conferred by a European patent

- (1) A European patent shall, subject to the provisions of paragraph 2, confer on its proprietor from the date of publication of the mention of its grant, in each Contracting State in respect of which it is granted, the same rights as would be conferred by a national patent granted in that State.
- (2) If the subject matter of the European patent is a process, the protection conferred by the patent shall extend to the products directly obtained by such process.

Article 69 Extent of protection

- (1) The extent of the protection conferred by a European patent or a European patent application shall be determined by the terms of the claims. Nevertheless, the description and drawings shall be used to interpret the claims.

Protocol on the Interpretation of Article 69 of the Convention

Article 69 should not be interpreted in the sense that the extent of the protection conferred by a European patent is to be understood as that defined by the strict, literal meaning of the wordings used in the claims, the description and the drawings being employed only for the purpose of resolving an ambiguity found in the claims. Neither should it be interpreted in the sense that the claims serve only as a guideline and that the actual protection conferred may extend to what, from a consideration of the description and drawings by a person skilled in the art, the patentee has contemplated. On the contrary, it is to be interpreted as defining a position between these two extremes which combines a fair protection for the patentee with a reasonable degree of certainty for third parties.

Ghana

The Patent Law 1992, of Ghana

Section 46 Compulsory licences based on the interdependence of patents.

- (1) Where a patented invention cannot be worked without infringing rights derived from an earlier patent, the owner of the later patent may, in proceedings instituted by him against the owner of the earlier patent or in proceedings instituted against him, request the Tribunal at any time to grant a compulsory licence with respect to the earlier patent to the extent necessary for the working of his invention if the invention -
 - (a) serves industrial purposes different from those served by the invention which is the subject of the earlier patent; or
 - (b) constitutes substantial technical progress in relation to the later invention.
- (2) Where the two inventions mentioned in subsection (1) serve the same industrial purpose, a compulsory licence may be granted under that subsection only on condition that a compulsory licence shall also be granted in respect of the later patent to the owner of the earlier patent if he so requests.
- (3) In this section, "earlier patent" means a patent granted on an earlier application or benefiting from an earlier validly claimed priority date, and "later patent" shall be construed accordingly.

Korea (Republic of)

Patent Law (No. 950 of 1961, wholly amended by Law No. 4207 of 1990)

Section 33 Persons Entitled to Obtain a Patent

- (1) Any person who makes a new invention or his successor in title shall be entitled to obtain a patent in accordance with this Law; however, employees of the Korea Industrial Property Office shall not be entitled to obtain patents during their employment at the Office except in the case of inheritance or bequest.
- (2) If two or more persons jointly make an invention, the right to obtain a patent shall be jointly owned.

Section 39 Employee's Inventions

- (1) An employer, a legal entity, or the Government or a local public entity (hereinafter referred to as the "employer") shall have a non-exclusive licence to the patent right concerned, where an employee, an executive officer of such a legal entity, or a public official (hereinafter referred to as "employee") or successor in title has obtained a patent for an invention which, by reason of its nature, falls within the scope of the business of the employer and an act or acts resulting in the invention were part of the present or past duties of the employee (hereinafter referred to as "employee's invention").
- (2) An employee's invention made by a public official shall pass to the State and the patent right shall thereby revert to the State.

- (3) In the case of an invention made by an employee which is not an employee's invention, any contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent or the patent right shall pass to the employer or that he shall have an exclusive licence on such invention, shall be null and void.
- (4) The disposal and management of a patent right which has reverted to the State, in accordance with paragraph (2), shall be governed by the Commissioner of the Korea Industrial Property Office, notwithstanding the provisions of the National Property Law.
- (5) The disposal and management of a patent right under paragraph (4) which has reverted to the State, shall be prescribed by Presidential Decree.

Section 40 Remuneration for Employee's Invention

- (1) The employee shall have the right to obtain reasonable remuneration when he has transferred to the employer the right to obtain a patent or the patent right, with respect to an employee's invention, or has given the employer the right to obtain a patent or the patent right, with respect to an employee's invention, or has given the employer an exclusive licence in accordance with a contract or service regulation.
- (2) The amount of the remuneration provided for in paragraph (1) shall be calculated in accordance with the profits realised by the employer from the invention and in accordance with the amount of the employer's contribution to the creation of the invention; any suggestion made by the employee as to the method of settlement shall also be taken into account.
- (3) If the State succeeds to the employee's invention made by a public official, the State shall provide reasonable remuneration to the employee for it. Matters relating to the payment of remuneration, etc., shall be prescribed by a Presidential Decree.
- (4) Employers may set up a committee to review matters relating to the employee's invention made by their employees.

Singapore

The Patents Act 1994, No. 21 of 1994, Singapore.

Section 66

- (1) Subject to the provisions of this Act, 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 Singapore in relation to the invention without the consent of the proprietor of the patent.
 - (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 Singapore when he knows, or it is obvious to a reasonable person in the circumstances, that its use 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.
- (2) An act which, apart from this subsection, would constitute an infringement of a patent for an invention shall not do so if -
 - (a) it is done privately and for purposes which are not commercial;
 - (b) it is done for experimental purposes relating to the subject-matter of the invention;
 - (c) it consists of the extemporaneous preparation of a medicine for an individual in accordance with a prescription give by a registered medical or dental practitioner or consists of dealing with a medicine so prepared;
 - (d) it consists of the use of a product or process in the body or operation of a relevant aircraft ...
 - (e) it consists of the use, exclusively for the needs of a relevant ship, of a product or process in the body of the ship or in its machinery ...

- (f) it consists of the use of an exempted aircraft which has lawfully entered or is lawfully crossing Singapore ...
- (g) it consists of the import, use, disposal or offer to dispose of, of any patented product, or of any product obtained by means of a patented process or to which a patented process has been applied, which is produced by or with the consent (conditional or otherwise) of the proprietor of the patent or any person licensed by him, and for this purpose "patent" includes a patent granted in any country outside Singapore in respect of the same or substantially the same invention as that for which a patent is granted under this Act and "patented product", "patented process" and "licensed" shall be construed accordingly.

Switzerland

Federal Law on Patents for Invention (Patent Law, LBI) of 1954, as last amended on February 3, 1995).

Article 36 Dependent Inventions

- (1) If a patented invention cannot be used without infringing a prior patent, the owner of the more recent patent shall have the right to the grant of a non-exclusive licence to the extent required for such use of his invention, provided that the invention represents an important technical advance of considerable economic interest in relation to the invention that is the subject of the first patent.
- (2) A licence to use the invention that is the subject matter of the first patent may only be assigned jointly with the second patent.
- (3) The owner of the first patent may make the grant of a licence conditional on the fact that the holder of the second patent afford to him in turn a licence to use his invention.

United Kingdom

Patents, Designs and Trade Marks Act, 1883

Section 32

Where any person claiming to be the patentee of an invention, by circulars, advertisements, or otherwise, threatens any person with any legal proceedings or liability in respect of any alleged manufacture, use, sale, or purchase of the invention, any person or persons aggrieved thereby may bring an action against him, and may obtain an injunction against the continuance of such threats, and may recover such damage (if any) as may have been sustained thereby, if the alleged manufacture, use, sale, or purchase, to which the threats related, was not in fact an infringement of any legal rights of the person making such threats: provided that this section shall not apply if the person making such threats with due diligence commences and prosecutes an action for infringement of his patent.

United Kingdom Patents Act 1977 (Chapter 37)

Section 7 Right to apply for and obtain a patent

- (1) Any person may make an application for a patent either alone or jointly with another.
- (2) A patent for an invention may be granted-
 - (a) primarily to the inventor or joint inventors;
 - (b) in preference to the foregoing, to any person or persons who, by virtue of any enactment or rule of law, or any foreign law or treaty or international convention, or by virtue of an enforceable term of any agreement entered into with the inventor before the making of the invention, was or were at the time of the making of the invention entitled to the whole of the property in it (other than equitable interests) in the United Kingdom.
 - (c) in any event, to the successor or successors in title of any person or persons mentioned in paragraph (a) or (b) above or any person so mentioned and the successor or successors in title of another person so mentioned;

and to no other person.

- (3) In this Act "inventor" in relation to an invention means the actual deviser of the invention and "joint inventor" shall be construed accordingly.
- (4) Except so far as the contrary is established, a person who makes an application for a patent shall be taken to be the person who is entitled under subsection (2) above to be granted a patent and two or more persons who made an application jointly shall be taken to be the persons so entitled.

Section 30 Nature of, and transactions in, patents and applications for patents

- (1) Any patent or application for a patent is personal property (without being a thing in action), and any patent or any such application and rights in or under it may be transferred, created or granted in accordance with subsection (2) to (7) below.
- (2) Subject to section 39(3) below, any patent or any such application, or any right in it, may be assigned or mortgaged.
- (3) Any patent or any such application or right shall vest by operation of law in the same way as any other personal property and may be vested by an assent of personal representatives.
- (4) ...

Section 36 Co-ownership of patents and applications for patents

- (1) Where a patent is granted to two or more persons, each of them shall, subject to any agreement to the contrary, be entitled to an equal undivided share in the patent
- (2) Where two or more persons are proprietors of a patent, then subject to the provisions of this section and subject to any agreement to the contrary-
 - (a) each of them shall be entitled, by himself or his agents, to do in respect of the invention concerned, for his own benefit and without the consent of or the need to account to the other or others, any act which apart from this subsection and section 55 below, amount to an infringement of the patent concerned; and
 - (b) any such act shall not amount to an infringement of the patent concerned.
- (3) Subject to the provisions of section 8 and 12 above and section 37 below and to any agreement for the time being in force, where two or more persons are proprietors of a patent one of them shall not without the consent of the other or others grant a licence under the patent or assign or mortgage a share in the patent or in Scotland cause or permit security to be granted over it.
- (4) Subject to the provisions of those sections, where two or more persons are proprietors of a patent, anyone else may supply one of those persons with the means, relating to an essential element of the invention, for putting the invention into effect, and the supply of those means by virtue of this subsection shall not amount to an infringement of the patent.
- (5) Where a patented product is disposed of by any of two or more proprietors to any persons, that person and any other person claiming through him shall be entitled to deal with the product in the same way as if it had been disposed of by a sole registered proprietor.
- (6) Nothing in subsection (1) and (2) above shall affect the mutual rights or obligations of trustees or the personal representative of a deceased person, or their rights or obligations as such.
- (7) The foregoing provisions of this section shall have effect in relation to an application for a patent which is filed as they have in effect in relation to a patent and -
 - (a) references to a patent and a patent being granted shall accordingly include references respectively to any such application and to the application being filed; and
 - (b) the reference in subsection (5) above to a patented product shall be construed accordingly

Section 39 Right to employee's invention

- (1) Notwithstanding anything in any rule of law, an invention made by an employee shall, as between him and his employer, be taken to belong to his employer for the purpose of this Act and all other purposes if-

- (a) it was made in the course of the normal duties of the employee or in the course of duties falling outside his normal duties, but specifically assigned to him, and the circumstances in either case were such that an invention might reasonably be expected to result from the carrying out of his duties; or
 - (b) the invention was made in the course of the duties of the employee and, at the time of making the invention, because of the nature of his duties and the particular responsibilities arising from the nature of his duties he had a special obligation to further the interests of the employer's undertaking.
- (2) Any other invention made by an employee shall, as between him and his employer, be taken for those purposes to belong to the employee.
- (3) Where by virtue of this section an invention belongs, as between him and his employer, to an employee, nothing done-
- (a) by or on behalf of the employee or any person claiming under him for the purposes of pursuing an application for a patent, or
 - (b) by any person for the purpose of performing or working the invention,
- shall be taken to infringe any copyright or design right to which, as between him and his employer, his employer is entitled in any model or document relating to the invention.

Section 40 Compensation of employees for certain inventions

- (1) Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that the employee has made an invention belonging to the employer for which a patent has been granted, that the patent (having regard among other things to the size and nature of the employer's undertaking) of outstanding benefit to the employer and that by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer, the court or the comptroller may award him such compensation of an amount determined under section 41 below.
- (2) Where it appears to the court or the comptroller on an application made by an employee within the prescribed period that -
- (a) a patent has been granted for an invention made by and belonging to the employee;
 - (b) his rights in the invention, or in any patent or application for a patent for the invention, have since the appointed day been assigned to the employee or an exclusive licence under the patent or application has since the appointed date been granted to the employee;
 - (c) the benefit derived by the employee from the contract of assignment, assignation or grant or any ancillary contract ("the relevant contract") is inadequate in relation to the benefit derived by the employer from the patent; and
 - (d) by reason of those facts it is just that the employee should be awarded compensation to be paid by the employer in addition to the benefit derived from the relevant contract:

the court or the comptroller may award him such compensation of an amount determined under section 41 below.

...

Section 41 Amount of compensation

- (1) An award of compensation to an employee under section 40(1) or (2) above in relation to a patent for an invention shall be such as will secure for the employee a fair share (having regard to all the circumstances) of the benefit which the employer has derived, or may reasonably be expected to derive, from the patent or from the assignment, assignation or grant to a person connected with the employer of the property or any right in the invention or the property in, or any right in or under, an application for that patent.
- (2) For the purposes of subsection (1) above the amount of any benefit derived or expected to be derived by an employer from the assignment, assignation or grant of -
- (a) the property in, or any right in or under, a patent for an invention or an application for such a patent; or
 - (b) the property or any right in the invention;

to a person connected with him shall be taken to be the amount which could reasonably be expected to be so derived by the employer if that person had not been connected with him.

...

- (4) In determining the fair share of the benefit to be secured for an employee in respect of a patent for an invention which has always belonged to an employer, the court or the comptroller shall, among other things, take the following matters into account, that is to say-
- (a) the nature of the employee's duties, his remuneration and the other advantages he derives or has derived from his employment or has derived in relation to the invention under this Act;
 - (b) the effort and skill which the employee has devoted to making the invention;
 - (c) the effort and skill which other person has devoted to making the invention jointly with the employee concerned, and the advice and other assistance contributed by any other employee who is not a joint inventor of the invention; and
 - (d) the contribution made by the employer to the making, developing and working of the invention by the provision of advice, facilities and other assistance, by the provision of opportunities and by his managerial and commercial skill and activities.
- (5) In determining the fair share of the benefit to be secured for an employee in respect of a patent for an invention which originally belonged to him, the court or the comptroller shall, among other things, take the following matters into account, that is to say-
- (a) any conditions in a licence or licences granted under this Act or otherwise in respect of the invention or the patent;
 - (b) the extent to which the invention was made jointly by the employee with any other person; and
 - (c) the contribution made by the employer to the making, developing and working of the invention as mentioned in subsection (4)(d) above.

Section of 42 Enforceability of contracts relating to employee's inventions

...

- (2) Any term in a contract to which this section applies which diminishes the employee's rights in inventions of any description made by him after the appointed date and the date of the contract, or in or under patents for those inventions or applications for such patents, shall be unenforceable against him to the extent that it diminishes his rights in an invention of that description so made, or in or under a patent for such an invention or an application for any such patent.
- (3) Subsection (2) shall not be construed as derogating from any duty of confidentiality owed to his employer by an employee by virtue of any rule of law or otherwise.

Section 43 Supplementary

...

- (2) Section 39 to 42 above shall not apply to an invention made by an employee unless at the time he made the invention one of the following conditions was satisfied in his case, that is to say-
- (a) he was mainly employed in the United Kingdom; or
 - (b) he was not mainly employed anywhere or his place of employment could not be determined, but his employer had a place of business in the United Kingdom to which the employee was attached, whether or not he was also attached elsewhere.
- (3) In section 39 to 42 above and this section, except in so far as the context otherwise requires, references to the making of an invention by an employee are references to his making it alone or jointly with any other person, but do not include references to his merely contributing advice or other assistance in the making of an invention by another employee.

Section 44 Avoidance of certain restrictive conditions

- (1) Subject to the provisions of this section, any condition or term of a contract for the supply of a patented product or of a licence to work a patented invention, or of a contract relating to any such supply or licence, shall be void in so far as it purports -

- (a) in the case of a contract for supply, to require the person supplied to acquire from the supplier, or his nominee, or prohibit him from acquiring from any specified person, or from acquiring except from the supplier or his nominee, anything other than the patented product;
 - (b) in the case of a licence to work a patented invention, to require the licensee to acquire from the licensor or his nominee, or prohibit him from acquiring from any specified person, or from acquiring except from the licensor or his nominee, anything other than the product which is the patented invention or (if it is a process) other than any product obtained directly by means of the process or to which the process has been applied;
 - (c) in either case, to prohibit the person supplied or licensee from using articles (whether patented product or not) which are not supplied by, or any patented process which does not belong to, the supplier or licensor, or his nominee, or to restrict the right of the person supplied or licensee to use any such articles or process.
- (2) Subsection (1) above applies to contracts and licences whether made or granted before or after the appointed day, but not to those made or granted before 1st January 1950.
- (3) In proceedings against any person for infringement of a patent it shall be a defence to prove that at the time of the infringement there was in force a contract relating to the patent made by or with the consent of the plaintiff or pursuer or a licence under the patent granted by him or with his consent and containing in either case a condition or term void by virtue of this section.
- (4) A condition or term of a contract or licence shall not be void by virtue of this section if -
- (a) at the time of the making of the contract or granting of the licence the supplier or licensor was willing to supply the product, or grant a licence to work the invention, as the case may be, to the person supplied or licensee, on reasonable terms specified in the contract or licence and without any such condition or term as in mentioned in subsection (1) above; and
 - (b) the person supplied or licence is entitled under the contract or licence to relieve himself of his liability to observe the condition or term on giving to the other party three month's notice in writing and subject to payment to that other party of such compensation (being in the case of a contract to supply, a lump sum or rent for the residue of the term of the contract and, in the case of a licence, a royalty for the residue of the term of the licence) as may be determined by an arbitrator or arbiter appointed by the Secretary of State.
- (5) If in any proceeding it is alleged that any condition or term of a contract or licence is void by virtue of this section it shall lie on the supplier or licensor to prove the matters set out in paragraph (a) of subsection (4) above.
- (6) A condition or term of a contract or licence shall not be void by virtue of this section by reason that it prohibits any person from selling goods other than those supplied by a specified person or, in the case of a contract for the hiring of or licence to use a patented product, that it reserves to the bailor (or, in Scotland, hirer) or licensor, or his nominee, the right to supply such new parts of the patented product as may be required to put or keep it in repair.

Section 60 Meaning of infringement

- (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 a 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.
- (2) Subject to the following provisions of this section, a person (other than the proprietor of the patent) also infringes a patent for an invention if, while the patent is in force and without the consent of the proprietor, he supplies or offers to supply in the United Kingdom a person other than a licensee or other person entitled to work the invention with any of the means, relating to

an essential element of the invention, for putting the invention into effect when he knows, or it is obvious to a reasonable person in the circumstances, that those means are suitable for putting, and are intended to put, the invention into effect in the United Kingdom.

- (3) Subsection (2) above shall not apply to the supply or offer of a staple commercial product unless the supply or the offer is made for the purpose of inducing the person supplied or, as the case may be, the person to whom the offer is made to do an act which constitutes an infringement of the patent by virtue of subsection (1) above.
- (4) Without prejudice to section 86 below, subsections (1) and (2) above 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.
- (5) An act which apart from this subsection, would constitute an infringement of a patent for an invention shall not do so if -
 - (a) it is done privately and for purposes which are not commercial;
 - (b) it is done for experimental purposes relating to the subject-matter of the invention;
 - (c) it consists of the extemporaneous preparation in a pharmacy of a medicine for an individual in accordance with a prescription given by a registered medical or dental practitioner or consists of dealing with a medicine so prepared;
 - (d) it consists of the use, exclusively for the needs of a relevant ship, or a product or process in the body of such a ship or in its machinery, tackle, apparatus or other accessories, in a case where the ship has temporarily or accidentally entered the internal or territorial waters of the United Kingdom;
 - (e) it consists of the use of a product or process in the body or operation of a relevant aircraft, hovercraft or vehicle which has temporarily or accidentally entered or is crossing the United Kingdom (including the air space above it and its territorial waters) or the use of accessories for such a relevant aircraft, hovercraft or vehicle;
 - (f) it consists of the use of an exempted aircraft which has lawfully entered or is lawfully crossing the United Kingdom as aforesaid or of the importation into the United Kingdom, or the use or storage there, of any part or accessory for such an aircraft.
- (6) For the purposes of subsection (2) above a person who does an act in relation to an invention which is prevented only by virtue of paragraph (a), (b) or (c) of subsection (5) above from constituting an infringement of a patent for an invention shall not be treated as a person entitled to work the invention, but-
 - (a) the reference in that subsection to a person entitled to work an invention includes a reference to a person so entitled by virtue of section 55 above, and
 - (b) a person who by virtue of section 28A(4) or (5) above or section 64 below is entitled to do an act in relation to the invention without it constituting such an infringement shall, so far as concerns that act, be treated as a person entitled to work the invention.

Section 62 Restrictions on recovery of damages for infringement

- (1) In proceedings for infringement of a patent damages shall not be awarded, and no order shall be made for an account of profits, against a defendant or defender who proves that at the date of the infringement he was not aware, and had no reasonable grounds for supposing, that the patent existed; and a person shall not be taken to have been aware or to have had reasonable grounds for so supposing by reason only of the application to a product of the word "patent" or "patented", or by any word or words expressing or implying that a patent has been obtained for the product, unless the number of the patent accompanied the word or words in question.

Section 66 Proceedings for infringement by co-owners

- (1) In the application of section 60 above to a patent to which there are two or more joint proprietors the reference to the proprietor shall be construed-
 - (a) in relation to any act, as a reference to that proprietor or those proprietors who, by virtue of section 36 above or any agreement referred to in that section, is or are entitled to do that act without it amounting to an infringement; and
 - (b) in relation to any consent, as a reference to that proprietor or those proprietors who, by virtue of section 60 above or any such agreement, is or are the proper person or persons to give the requisite consent.

- (2) One of two or more joint proprietors of a patent may without the concurrence of the others bring proceedings in respect of an act alleged to infringe the patent, but shall not do so unless the others are made parties to the proceedings; but any of the others made a defendant or defender shall not be liable for any costs or expenses unless he enters in appearance and takes part in the proceedings.

Section 64 Right to continue use begun before priority date

- (1) Where a patent is granted for an invention, a person who in the United Kingdom before the priority date of the invention-
- (a) does in good faith an act which would constitute an infringement of the patent if it were in force, or
 - (b) makes in good faith effective and serious preparations to do such an act,
- has the right to continue to do the act or, as the case may be, to do the act, notwithstanding the grant of the patent; but this right does not extend to granting a licence to another person to do the act.
- (2) If the act was done, or the preparations were made, in the course of a business, the person entitled to the right conferred by subsection (1) may-
- a) authorise the doing of that act by any partners of his for the time being in that business, and
 - b) assign that right or transmit it on death (or in the case of a body corporate on its dissolution) to any person who acquires that part of the business in the course of which the act was done or preparations were made.
- (3) Where a product is disposed of by any person to another in exercise of the rights conferred by subsection (1) or (2), that other and any person claiming through him may deal with the product in the same way as if it had been disposed of by the registered proprietor of the patent.

Section 70 Remedy for groundless threats of infringement proceedings

- (1) Where a person (whether or not the proprietor of, or entitled to any right in, a patent) by circulars, advertisements or otherwise threatens another person with proceedings for any infringement of a patent, a person aggrieved by the threats (whether or not he is the person to whom the threats are made) may, subject to subsection (4) below, bring proceedings in the court against the person making the threats, claiming any relief mentioned in subsection (3) below.
- (2) In any such proceedings the plaintiff or pursuer shall, if he proves that the threats were so made and satisfies the court that he is a person aggrieved by them, be entitled to the relief claimed unless:-
- (a) the defendant or defender proves that the acts in respect of which proceedings were threatened constitute or, if done, would constitute an infringement of a patent; and
 - (b) the patent alleged to be infringed is not shown by the plaintiff or pursuer to be invalid in a relevant respect.
- (3) The said relief is -
- (a) a declaration or declarator to the effect that the threats are unjustifiable;
 - (b) an injunction or interdict against the continuance of the threats; and
 - (c) damages in respect of any loss which the plaintiff or pursuer has sustained by the threats.
- (4) Proceedings may not be brought under this section for a threat to bring proceedings for an infringement alleged to consist of making or importing a product for disposal or of using a process.
- (5) It is hereby declared that a mere notification of the existence of a patent does not constitute a threat of proceedings within the meaning of this section.

Section 72 Power to revoke patents on application

- (1) Subject to the following provisions of this Act, the court or the comptroller may on the application of any person by order revoke a patent for an invention on (but only on) any of the following grounds, that is to say-
- (a) the invention is not a patentable invention;
 - (b) that the patent was granted to a person who was not entitled to be granted that patent;
 - (c) the specification of the patent does not disclose the invention clearly enough and completely enough for it to be performed by a person skilled in the art;
 - (d) the matter disclosed in the specification of the patent extends beyond that disclosed in the application for the patent, as filed, or, if the patent was granted on a new application filed under section 8(3), 12 or 37(4) above or as mentioned in section 15(4) above, in the earlier application, as filed.
 - (e) the protection conferred by the patent has been extended by an amendment which should not have been allowed.
- (2) An application for the revocation of a patent on the ground mentioned in subsection (1)(b) above -
- (a) may only be made by a person found by the court in an action for a declaration or declarator, or found by the court or the comptroller on a reference under section 37 above, to be entitled to be granted that patent or to be granted a patent for part of the matter comprised in the specification of the patent sought to be revoked.
 - (b) may not be made if that action was commenced or that reference was made after the end of the period of two years beginning with the date of the grant of the patent sought to be revoked, unless it is shown that any person registered as a proprietor of the patent knew at the time of the grant or of the transfer of the patent to him that he was not entitled to the patent.

...

Section 100 Burden of proof in certain cases

- (1) If the invention for which a patent is granted is a process for obtaining a new product, the same product produced by a person other than the proprietor of the patent or a licensee of his shall, unless the contrary is proved, be taken in any proceedings to have been obtained by that process.
- (2) In considering whether a party has discharged the burden imposed upon him by this section, the court shall not require him to disclose any manufacturing or commercial secrets if it appears to the court that it would be unreasonable to do so.

Section 125 Extent of Invention

- (1) For the purposes of this Act an invention for a patent for which an application has been made or for which a patent has been granted shall, unless the context otherwise requires, be taken to be that specified in a claim of the specification of the application or patent, as the case may be, as interpreted by the description and any drawings contained in that specification, and the extent of the protection conferred by a patent or application for a patent shall be construed accordingly.

Section 130 Interpretation

"employee" means a person who works or (where the employment has ceased) worked under a contract of employment or in employment under or for the purposes of a government department or a person who serves (or served) in the naval, military or air forces of the Crown

"employer", in relation to an employee, means the person by whom the employee is or was employed

United States

United States Code, Title 35 - Patents

Section 100 Definition

- (a) The term "invention" means invention or discovery.

Section 101 Inventions patentable

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent thereof, subject to the conditions and requirements of this title.

Section 102 Conditions for patentability; novelty and loss of right to patent

A person shall be entitled to a patent unless-

- (a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or
- (b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or
- (c) he has abandoned the invention, or
- (d) the invention was first patented or caused to be patented, or was the subject matter of an inventor's certificate, by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application for patent or inventor's certificate filed more than 12 months before the filing of the application in the United States, or
- (e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or on an international application by another who has fulfilled the requirements of paragraphs (1), (2), and (4) of section 371(c) of this title before the invention thereof by the applicant for patent, or
- (f) he did not himself invent the subject matter sought to be patented, or
- (g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective date of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other.

Section 111 Application

(a) General

- (1) Written application. - An application for patent shall be made, or authorised to be made, by the inventor, except as otherwise provided in this title, in writing to the Commissioner.

(2) Contents - Such application shall include -

- (A) a specification as prescribed by section 112 of this title;
- (B) a drawing as prescribed by section 113 of this title;
- (C) an oath by the applicant as prescribed by section 115 of this title.

- (3) Fee and oath - The application must be accompanied by the fee required by law. The fee and oath may be submitted after the specification and any required drawing are submitted, within such period and under such conditions, including the payment of a surcharge, as may be prescribed by the Commissioner.

- (4) Failure to submit - Upon failure to submit the fee and oath within such prescribed period, the application shall be regarded as abandoned, unless it is shown to the satisfaction of the Commissioner that the delay in submitting the fee and oath was unavoidable or unintentional. The filing date of an application shall be the date on which the specification and any required drawing are received in the Patent and Trademark Office.

...

Section 112 Specification

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

...

Section 115 Oath of applicant

The applicant shall make oath that he believes himself to be the original and first inventor of the process, machine, manufacture, or composition of matter, or improvement thereof, for which he solicits a patent; and shall state of what country he is a citizen. Such oath may be made before any person within the United States authorised by law to administer oaths, or, when made in a foreign country, before any diplomatic or consular officer of the United States authorised to administer oaths, or before any officer having an official seal and authorised to administer oaths in the foreign country in which the applicant may be, whose authority is proved by certificate of a diplomatic or consular officer of the United States, or apostille of an official designated by a foreign country which, by treaty or convention, accords like effect to apostilles of designated officials in the United States. Such oath is valid if it complies with the laws of the state or country where made. When the application is made as provided in this title by a person other than the inventor, the oath may be so varied in form that it can be made by him.

Section 116 Inventors

When an invention is made by two or more persons jointly, they shall apply for patent jointly and each make the required oath, except as otherwise provided in this title. Inventors may apply for a patent jointly even though (1) they did not physically work together or at the same time, (2) each did not make the same type or amount of contribution, or (3) each did not make a contribution to the subject matter of every claim of the patent.

If a joint inventor refuses to join in an application for patent or cannot be found or reached after diligent effort, the application may be made by the other inventor on behalf of himself and the omitted inventor. The Commissioner, on proof of the pertinent facts and after such notice to the omitted inventor as he prescribes, may grant a patent to the inventor making the application, subject to the same rights which the omitted inventor would have had if he had been joined. The omitted inventor may subsequently join in the application.

Whenever through error a person is named in an application for patent as the inventor, or through an error an inventor is not named in an application and such error arose without any deceptive intention on his part, the Commissioner may permit the application to be amended accordingly, under such terms as he prescribes.

Section 117 Death or incapacity of inventor

Legal representatives of deceased inventors and of those under legal incapacity may make application for patent upon compliance with the requirements and on the same terms and conditions applicable to the inventor.

Section 118 Filing by other than inventor.

Whenever an inventor refuses to execute an application for patent, or cannot be found or reached after diligent effort, a person to whom the inventor has assigned or agreed in writing to assign the invention or who otherwise shows sufficient proprietary interest in the matter justifying such action, may make application for patent on behalf of and as agent for the inventor on proof of the pertinent facts and a showing that such action is necessary to reserve the rights of the parties or to prevent irreparable damages; and the Commissioner may grant a patent to such inventor upon such notice to him to as the Commissioner deem sufficient, and on compliance with such regulations as he prescribes.

Section 256 Correction of named inventor

Whenever through error a person is named in an issued patent as the inventor, or through error an inventor is not named in an issued patent and such error arose without any deceptive intention on his part, the

Commissioner may, on application of all the parties and assignees, with proof of the facts and such other requirements as may be imposed, issue a certificate correcting such error.

The error of omitting inventors or naming persons who are not inventors shall not invalidate the patent in which such error occurred if it can be corrected as provided in this section. The court before which such matter is called in question may order correction of the patent on notice and hearing of all parties concerned and the Commissioner shall issue a certificate accordingly.

Section 261 Ownership; assignment

Subject to the provisions of this title, patents shall have the attributes of personal property.

Applications for patent, patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States.

...

An assignment, grant or conveyance shall be void as against any subsequent purchaser or mortgagee for a valuable consideration, without notice, unless it is recorded in the Patent and Trademark Office within three months from its date or prior to the date of such subsequent purchase or mortgage.

Section 262 Joint owners

In the absence of any agreement to the contrary, each of the joint owners of a patent may make, use, offer to sell, or sell the patented invention within the United States, or import the patented invention into the United States without the consent of and without accounting to the other owners.

Section 271 Infringement of Patent

- (a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.
- (b) Whoever actively induces infringement of a patent shall be liable as an infringer.
- (c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial non-infringing use, shall be liable as a contributory infringer.
- (d) No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:
- (1) derive revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent;
 - (2) licensed or authorized another to perform acts which if performed without his consent would constitute contributory infringement of the patent;
 - (3) sought to enforce his patent rights against infringement or contributory infringement;
 - (4) refused to license or use any rights to the patents; or
 - (5) conditioned the licence of any rights to the patent or the sale of the patented product on the acquisition of a licence to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the licence or sale is conditioned.
- (e)(1) It shall not be an act of infringement to make, use, offer to sell, or sell within the United States or import into the United States a patented invention (other than a new animal drug or veterinary biological product (as those terms are used in the Federal Food, Drug, and Cosmetic Act and the Act of March 4, 1913) which is primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques) solely for uses reasonably related to the development and submission of information

under a Federal law which regulates the manufacture, use, or sale of drugs or veterinary biological products.

(2) It shall be an act of infringement to submit -

(A) an application under section 505(j) of the Federal Food, Drug, and Cosmetic Act or described in section 505(b)(2) of such Act for a drug claimed in a patent or the use of which is claimed in a patent, or

(B) an application under section 512 of such Act or under the Act of March 4, 1913 (21 USC 151-158) for a drug or veterinary biological product which is not primarily manufactured using recombinant DNA, recombinant RNA, hybridoma technology, or other processes involving site specific genetic manipulation techniques and which is claimed in a patent or the use of which is claimed in a patent,

if the purpose of such submission is to obtain approval under such Act to engage in the commercial manufacture, use, or sale of a drug or veterinary biological product claimed in a patent or the use of which is claimed in a patent before the expiration of such patent.

(3) In any action for patent infringement brought under this section, no injunctive or other relief may be granted which would prohibit the making, using, offering to sell or selling within the United States or importing into the United States of a patented invention under paragraph (1).

(4) For an act of infringement described in paragraph (2) -

(A) the court shall order the effective date of any approval of the drug or veterinary biological product involved in the infringement to be a date which is not earlier than the date of the expiration of the patent which has been infringed.

(B) injunctive relief may be granted against an infringer to prevent the commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug or veterinary biological product, and

(C) damages or other monetary relief may be awarded against an infringer only if there has been commercial manufacture, use, offer to sell, or sale within the United States or importation into the United States of an approved drug or veterinary biological product.

The remedies prescribed by subparagraphs (A), (B), and (C) are the only remedies which may be granted by a court for an act of infringement described in paragraph (2), except that a court may award attorney fee under section 285.

(f)(1) Whoever without authority supplies or causes to be supplied in or from the United States all or a substantial portion of the components of a patented invention, where such components are uncombined in whole or in part, in such manner as to actively induce the combination of such components outside of the United State in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(2) Whoever without authority supplies or causes to be supplied in or from the United States any component of a patented invention that is especially made or especially adapted for use in the invention and not a staple article or commodity of commerce suitable for substantial non infringing use, where such component is uncombined in whole or in part, knowing that such component is so made or adapted and intending that such component will be combined outside of the United States in a manner that would infringe the patent if such combination occurred within the United States, shall be liable as an infringer.

(g) Whoever without authority imports into the United States or offers to sell, sells or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after -

(1) it is materially changed by subsequent processes; or

(2) it becomes a trivial and nonessential component of another product

- (h) As used in this section, the term "whoever" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any non governmental entity.
- (i) As used in this section, an "offer for sale" or an "offer to sell" by a person other than the patentee, or any assignee of the patentee, is that in which the sale will occur before the expiration of the term of the patent.

Section 283 Injunction

The several courts having jurisdiction of cases under this title may grant injunction in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.

Section 284 Damages

Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.

Where the damages are not found by the jury, the court shall assess them. In either event the court may increase the damages up to three times the amount found or assessed.

The court may receive expert testimony as an aid to the determination of damages or of what royalty would be reasonable under the circumstances.

Section 287 Limitation on damages and other remedies; marking and notice

(a) Patentees, and persons making, offering for sale, or selling within the United States any patented article for or under them or importing any patented article into the United States, may give notice to the public that the same is patented, either by fixing thereon the word "patent" or the abbreviation "pat.", together with the number of the patent, or when, from the character of the article, this can not be done, by fixing to it, or to the package wherein one or more of them is contained, a label containing a like notice. In the event of failure so to mark, no damages shall be recovered by the patentee in any action for infringement, except on proof that the infringer was notified of the infringement and continued to infringe thereafter, in which event damages may be recovered only for infringement occurring after such notice. Filing of an action for infringement shall constitute such notice.

(b)(1) An infringer under section 271(g) shall be subject to all the provisions of this title relating to damages and injunctions except to the extent those remedies are modified by this subsection or section 9006 of the Process Patent Amendments Act of 1988. The modifications of remedies provided in this subsection shall not be available to any person who -

- (A) practised the patented process;
- (B) owns or controls, or is owned or controlled by, the person who practised the patented process; or
- (C) had knowledge before the infringement that a patented process was used to make the product the importation, use, offer for sale, or sale of which constitutes the infringement.

(2) No remedies for infringement under section 271(g) of this title shall be available with respect to any product in the possession of, or in transit to, the person subject to liability under such section before that person had notice of infringement with respect to that product. The person subject to liability shall bear the burden of proving any such possession or transit.

(3) (A) In making a determination with respect to the remedy in an action brought for infringement under section 271(g), the court shall consider-

- (i) the good faith demonstrated by the defendant with respect to a request for disclosure,
 - (ii) the good faith demonstrated by the plaintiff with respect to a request for disclosure, and
 - (iii) the need to restore the exclusive rights secured by the patent.
- (B) For purposes of subparagraph (A), the following are evidence of good faith:
- (i) a request for disclosure made by the defendant;
 - (ii) a response within a reasonable time by the person receiving the request for disclosure; and

- (iii) the submission of the response by the defendant to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the defendant, together with a request for a written statement that the process claimed in any patent disclosed in the response is not used to produce such product.

The failure to perform any acts described in the preceding sentence is evidence of absence of good faith unless there are mitigating circumstances. Mitigating circumstances include the case in which, due to the nature of the product, the number of sources for the product, or the commercial circumstances, a request for disclosure is not necessary or practicable to avoid infringement.

(4)(A) For the purpose of this subsection, a "request for disclosure" means a written request made to a person then engaged in the manufacture of a product to identify all process patents owned by or licensed to that person, as of the time of the request, that the person then reasonably believes could be asserted to be infringed under section 271(g) if that product were imported into, or sold, offered for sale, or used in, the United States by an unauthorised person. A request for disclosure is further limited to a request-

- (i) which is made by a person regularly engaged in the United States in the sale of the same type of products as those manufactured by the person to whom the request is directed, or which includes facts showing that the person making the request plans to engage in the sale of such products in the United States;
- (ii) which is made by such person before the person's first importation, use, offer for sale, or sale of units of the product produced by an infringing process and before the person had notice of infringement with respect to the product; and
- (iii) which includes a representation by the person making the request that such person will promptly submit the patents identified pursuant to the request to the manufacturer, or if the manufacturer is not known, to the supplier, of the product to be purchased by the person making the request, and will request from that manufacturer or supplier a written statement that none of the process claimed in those patents is used in the manufacture of the product.

4(B) In the case of a request for disclosure received by a person to whom a patent is licensed, that person shall either identify the patent or promptly notify the licensor of the request for disclosure.

4(C) A person who has marked, in the manner prescribed by subsection (a), the number of the process patent on all products made by the patented process which have been offered for sale or sold by that person in the United States, or imported by the person into the United States, before a request for disclosure is received is not required to respond to the request for disclosure. For the purposes of the preceding sentence, the term "all products" does not include products made before the effective date of the Process patent Amendments Act of 1988.

5(A) For purposes of this subsection, notice of infringement means actual knowledge, or receipt by a person of a written notification, or a combination thereof, of information sufficient to persuade a reasonable person that it is likely that a product was made by a process patented in the United States.

5(B) A written notification from the patent holder charging a person with infringement shall specify the patented process alleged to have been used and the reasons for a good faith belief that such process was used. The patent holder shall include in the notification such information as is reasonably necessary to explain fairly the patent holder's belief, except that the patent holder is not required to disclose any trade secret information.

5(C) A person who receives a written notification described in subparagraph (B) or a written response to a request for disclosure described in paragraph (4) shall be deemed to have notice of infringement with respect to any patent referred to in such written notification or response unless that person, absent mitigating circumstances-

- (i) promptly transmits the written notification or response to the manufacturer or, if the manufacturer is not known, to the supplier, of the product purchased or to be purchased by that person; and
- (ii) receives a written statement from the manufacturer or supplier which on its face sets forth a well grounded factual basis for a belief that the identified patents are not infringed

5(D) For purposes of this subsection, a person who obtains a product made by a process patented in the United States in a quantity which is abnormally large in relation to the volume of business of such person or an efficient inventory level shall be rebuttably presumed to have actual knowledge that the product was made by such patented process.

(6) A person who receives a response to a request for disclosure under this subsection shall pay to the person to whom the request was made a reasonable fee to cover actual costs incurred in complying with the request, which may not exceed the cost of a commercially available automated patent search of the matter involved, but in no case more than \$500.

Section 295 Presumption: Product made by patented process

In actions alleging infringement of a process patent based on the importation, sale, offer for sale, or use of a product which is made from a process patented in the United States, if the court finds-

- (1) that a substantial likelihood exists that the product was made by that patented process, and
- (2) that the plaintiff has made a reasonable effort to determine the process actually used in the production of the product and was unable to so determine,

the product shall be presumed to have been so made, and the burden of establishing that the product was not made by the process shall be on the party asserting that it was not so made.

WIPO Model Law on Inventions

WIPO Model Law for Developing Countries on Inventions Volume 1 Patents

Chapter III: Right to Patent: Naming of Inventor

Section 119: Right to Patent

- (1) The right to the patent shall belong to the inventor.
- (2) If two or more persons have jointly made an invention, the right to the patent shall belong to them jointly.
- (3) The right to the patent may be assigned, and it may be transferred by succession.

Section 120: Inventions Made in Execution of Commission or by Employee

- (1) (a) Notwithstanding Section 119, when an invention is made in execution of a commission or an employment contract, the right to the patent for the invention shall belong, in the absence of contractual provisions to the contrary, to the person having commissioned the work or to the employer.

(b) When the invention has an economic value much greater than the parties could have reasonably foreseen at the time of concluding the contract, the inventor shall have a right to special remuneration, which shall be fixed by the court in the absence of agreement between the parties.

(2) Alternative A: (a) Notwithstanding Section 119, when an employee whose employment contract does not require him to engage in inventive activity makes, in the field of activities of his employer, an invention by using data or means available to him through his employment, the right to the patent for that invention shall belong, in the absence of contractual provisions to the contrary, to the employer.

(b) The employee shall have a right to equitable remuneration taking into account his salary, the economic value of the invention and any benefit derived from the invention by the employer. In the absence of agreement between the parties, the remuneration shall be fixed by the court.

Alternative B: (a) When the employee whose employment contract does not require him to engage in inventive activity makes, in the field of activities of his employer, an invention by using data or means available to him through his employment, the right to the patent for that invention shall belong to the employee, except if, within a period of four months from the date at which the employer received the report referred to in paragraph (b) or the date at which the invention became otherwise known to the employer, whichever date is earlier, the employer notifies the employee by a written declaration of his interest in the invention.

(b) The employee who makes an invention of the kind referred to in paragraph (a) shall immediately submit it to his employer in a written report.

(c) Notwithstanding Section 119, if, within the period referred to in paragraph (a), the employer makes the declaration of interest, the right to the patent shall be considered as having

belonged to him from the beginning. The employee shall have a right to equitable remuneration taking into account his salary, the economic value of the invention and any benefit derived from the invention by the employer. In the absence of agreement between the parties, the remuneration shall be fixed by the court.

- (3) Any contractual provisions which is less favourable to the inventor than the provisions of this Section shall be null and void.

Section 121: **Judicial Assignment of Patent Application or Patent**

Where the essential elements of the invention claimed in a patent application or patent were derived from an invention for which the right to the patent belongs under section 119 or 120 to a person other than the applicant or owner of the patent, that person may request the court to order the assignment to him of the patent application or patent. The request for assignment may not be made after five years from the date of the grant of the patent.

Section 122: **Naming of Inventor**

The inventor shall be named as such in the patent, unless in a special written declaration addressed to the Patent Office he indicates that he wishes not to be named. Any promise or undertaking by the inventor made to any person to the effect that he will make such a declaration shall be without legal effect.

Chapter IV: **Patent Application; Examination of Application; Grant of Patent**

section 123: **Application**

- (1) (a) The application for a patent ("the application") shall be filed with the Patent Office and shall contain a request, a description, one or more claims, one or more drawings (where required), and an abstract.
(b) Where the applicant's normal residence or principal place of business is outside the country, he shall be represented by an agent admitted to practise before the Patent Office.
- (2) (a) The request shall contain a petition to the effect that a patent be granted, the name of and other prescribed data concerning the applicant, the inventor and the agent, if any, and the title of the invention.
(b) Where the applicant is not the inventor, the request shall be accompanied by a statement justifying the applicant's right to the patent.
- (3) The description shall disclose the invention in a manner sufficiently clear and complete for the invention to be evaluated, and to be carried out by a person having ordinary skill in the art, and shall, in particular, indicate the best mode known to the applicant for carrying out the invention.
- (4) (a) The terms of the claim or claims shall determine the scope of the protection. The description and the drawings may be used to interpret the claims.
(b) Claims shall be clear and concise. They shall be fully supported by the description.
- (5) Drawings shall be required when they are necessary for the understanding of the invention.
- (6) The abstract shall merely serve the purpose of technical information; in particular, it shall not be taken into account for the purpose of interpreting the scope of the protection.

Rule 123quater: **Description**

123quater.1 **Manner of description**

- (a) The description shall state the title of the invention as appearing in the request and shall:
- (i) specify the technical field to which the invention relates;
 - (ii) indicate the background art which, as far as is known to the applicant, can be regarded as useful for the understanding, searching and examination of the invention, and, preferably, cite the documents reflecting such art;
 - (iii) disclose the invention in such terms that it can be understood, and state its advantageous effects, if any, with reference to the background art;
 - (iv) briefly describe the figures in the drawing, if any;
 - (v) set forth at least the best mode contemplated by the applicant for carrying out the invention; this shall be done in terms of examples, where appropriate, and with reference to the drawings, if any;

- (vi) indicate explicitly, when it is not obvious from the description or nature of the invention, the way in which the invention is industrially applicable and the way in which it can be made or used, or, if it can only be used, the way in which it can be used.
- (b) The manner and order specified in paragraph (a) shall be followed except when, because of the nature of the invention, a different manner or a different order would result in a better understanding and a more economic presentation.

Section 131: Examination as to Substance

- (1) The patent office shall examine whether the following conditions are fulfilled:
- (i) that which is claimed is an invention within the meaning of section 112(1) and is not excluded from patent protection under section 112(3);
 - (ii) the claimed invention is patentable within the meaning of sections 113 to 116;
 - (iii) the claimed invention is not excluded from patent protection under section 117 or 118;
 - (iv) the description and the claims comply with the requirements of section 123(3) and (4) and the regulations pertaining thereto;
 - (v) any drawing which is necessary for the understanding of the claimed invention has been furnished in accordance with section 123(5);
 - (vi) the application complies with the requirement of unity of invention prescribed by section 125 and the regulation pertaining thereto;
 - (vii) where applicable, the amendment or the divisional application does not go beyond the disclosure in the initial application, as provided in section 126;
 - (viii) the applicant has complied with any request of the Patent Office under section 128.
- (2) Where the Patent Office is of the opinion that the conditions referred to in subsection (1) are not fulfilled, it shall notify the applicant accordingly and invite him, several times if it deems it necessary, to submit his observation and, where applicable, to amend or divide his application.
- (3) Where, despite any observation, amendment or division submitted by the applicant, the Patent Office finds that the conditions referred to in subsection (1) are not fulfilled, it shall refuse the grant of a patent. Any decision refusing the grant of a patent shall be in writing and state the reasons for the refusal. The Patent Office shall notify the applicant of the decision.

Chapter V: Rights and obligations of applicant or owner of patent

Section 134: Rights and obligations; Definition of "working"

- (1) The applicant or the owner of the patent shall have the following rights:
- (i) to be granted the patent, as provided for in Chapter IV, where the requirements of this Part are fulfilled;
 - (ii) once the patent has been granted, the right, subject to Section 136(1) to (3), 137, 153(1) and 156(1), to take action against any person exploiting the patented invention in the country, within the meaning of section 135(2), without his agreement.
 - (iii) to assign or transfer by succession the patent application or patent, as provided for in section 140, and to conclude licence contracts, as provided for in Chapter VIII.
- (2) The applicant or owner of the patent shall have the following obligations:
- (i) to disclose the invention in a clear and complete manner and in particular to indicate the best mode for carrying out the invention, as prescribed in section 123, subject to the sanctions provided for in Section 131 and 158;
 - (ii) to give information concerning corresponding foreign applications and patents or other titles of protection, as prescribed in Section 128, subject to the sanction provided for in Section 131;
 - (iii) to work the patented invention in the country within the time limits and subject to the sanctions provided for in Chapters VI and IX;
 - (iv) to pay fees to the Patent Office, as prescribed in this Part, subject to the sanctions provided for therein.
- (3) For the purposes of this Law, "working" of a patented invention means,
- (i) where the patent has been granted in respect of a product, the making of the product;
 - (ii) where the patent has been granted in respect of a process, the use of the process.

Section 135: Effects of Grant of Patent: Definition of "Exploitation"

- (1) Once the patent has been granted, the exploitation of the patented invention in the country by persons other than the owner of the patent shall require the latter's agreement.
- (2) For the purposes of this law, "exploitation" of a patented invention means any of the following acts:
 - (a) when the patent has been granted in respect of a product:
 - (i) making, importing, offering for sale, selling and using the product;
 - (ii) stocking such product for the purposes of offering for sale, selling or using;
 - (b) when the patent has been granted in respect of a process:
 - (i) using the process;
 - (ii) doing any of the acts referred to in paragraph (a), in respect of a product obtained directly by means of the process.

Section 136: Limitation of Rights

- (1) The rights under the patent shall extend only to acts done for industrial or commercial purposes and in particular not to acts done for scientific research.
- (2) The rights under the patent shall not extend to acts in respect of products which have been put on the market in the country:
 - (i) by the owner of the patent;
 - (ii) by a person having the right referred to in section 137;
 - (iii) by a licensee within the meaning of section 142(1);
 - (iv) by a beneficiary of a non-voluntary licence within the meaning of section 147(ii); or
 - (v) by a person exploiting the patented invention under section 156.
- (3) The rights under the patent shall not extend to the use of the patented invention on any foreign vessel, aircraft, spacecraft or land vehicle which temporarily or accidentally enters the water, airspace or land of the country, provided that the patented invention is used exclusively for the needs of the vessel or in the construction or operation of the aircraft, spacecraft or land vehicle.
- (4) The rights under the patent shall be limited in duration as provided for in Chapter VI.
- (5) The rights under the patent shall be limited by the provisions on non-voluntary licences, as provided for in Chapter IX, and by the provisions on exploitation by the government or third persons authorised by the government, as provided for in section 156.

Section 137: Rights derived from prior manufacture or use

Where a person, at the filing date or, where appropriate, priority date of the patent application and in the country,

- (i) was making the product or using the process which is the subject of the invention claimed in the application, or
- (ii) had made serious preparations toward the making or using referred to in item (i),

that person shall have the right, despite the grant of the patent, to exploit the patented invention, provided that the product in question is made, or the process in question is used, in the country by the said person, and provided that he can prove that his knowledge of the invention was not by reason or in consequence of acts committed by the owner of the patent or his predecessor in title or of an abuse committed with regard to the owner of the patent or his predecessor in title. Such right cannot be assigned or transferred by succession except as part of the establishment of the said person.

Chapter VII: Change in Ownership and Joint Ownership of Patent Application or Patent

Section 140: Change in Ownership of Patent Application or Patent

Section 141: Joint Ownership of patent application or patent

- (1) Where there are joint applicants of a patent application, each of the joint applicants may separately assign or transfer by succession his share of the application, but the joint applicants may only jointly withdraw the application or conclude licence contracts with third parties under the application.
- (2) Where there are joint owners of a patent, each of the joint owners may separately assign or transfer by succession his share of the patent or institute court proceedings for an infringement of the patent against any person exploiting the patented invention in the country without the agreement of the joint owners, and the exploitation of the patented invention in the country by one of the joint owners shall not require the agreement of the other joint owners, but the joint owners may only jointly surrender the patent or conclude licence contracts with third parties under the patent.
- (3) The provisions of this section shall be applicable only in the absence of an agreement to the contrary between the joint applicants or owners.

Chapter IX: Non-Voluntary Licences

Section 147: Definitions

- (i) "non-voluntary license" means the authorisation to perform in the country without the agreement of the owner of the patent, in respect of the patented invention, any of the acts referred to in section 135(2), with the exception of importation;
- (ii) "beneficiary of the non-voluntary license" means the person to whom a non-voluntary license has been granted in accordance with this Chapter.

Section 148: Non-Voluntary license for non-working or insufficient working

- (1) On the request of any person who proves his ability to work the patented invention in the country, made after the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last, the Patent Office may grant a non-voluntary license if the patented invention is not worked or is insufficiently worked in the country.
- (2) Notwithstanding subsection (1), a non-voluntary licence shall not be granted if the Patent Office is convinced that circumstances exist which justify the non-working or insufficient working of the patented invention in the country. Importation shall not constitute such a circumstance.

Section 149: Non-voluntary license based upon interdependence of patents

- (1) If the invention claimed in a patent ("later patent") cannot be worked in the country without infringing a patent granted on the basis of an application benefiting from an earlier filing or, where appropriate, priority date ("earlier patent"), and provided that the invention claimed in the later patent constitutes an important technical advance in relation to the invention claimed in the earlier patent, the Patent Office, upon the request of the owner of the latter patent, the licensee of a license contract under the later patent or the beneficiary of a non-voluntary license under the later patent, may grant a non-voluntary license to the extent necessary to avoid infringement of the earlier patent.
- (2) If a non-voluntary license is granted under subsection (1), the Patent Office, upon the request of the owner of the earlier patent, the licensee of a license contract under the earlier patent or the beneficiary of a non-voluntary license under the earlier patent, may grant a non-voluntary license under the later patent.

Section 150: Request for grant of non-voluntary license

- (1) The request for the grant of a non-voluntary license ("the request") shall be made to the Patent Office and shall contain:
 - (i) the name of and other prescribed data concerning the requesting person;
 - (ii) the number of the patent in respect of which the non-voluntary license is requested;
 - (iii) a statement of the ground on which the request is based.

- (2) If the request is made under section 149, it shall also contain the number of the patent owned by the requesting person.
- (3) The request shall be accompanied by evidence that the owner of the patent has received a request from the requesting person to obtain a contractual license, but that he has been unable to obtain such a license on reasonable terms and within a reasonable time.
- (4) The request shall be subject to the payment of the prescribed fee.

Section 151: Procedure for Grant of Non-Voluntary Licence

- (1) The Patent Office shall examine whether the requirements of section 150 and the Regulation pertaining thereto are satisfied. Where the said requirements are not satisfied, the Patent office shall reject the request. Any decision rejecting the request shall be in writing and shall state the grounds upon which it is based. Before rejecting the request, the Patent Office may inform the requesting person of the defect and allow him to make the necessary correction.
- (2)
 - (a) Where the requirements of section 150 and the Regulations pertaining thereto are satisfied, the Patent Office shall notify the owner of the patent with respect to which the non-voluntary licence is requested and the evidence accompanying it, and shall invite him to make his observation.
 - (b) The owner of the patent shall have the obligation to notify licensees of the request and the evidence accompanying it. The licensees shall have the right to make their observations to the Patent Office.
 - (c) The Patent Office shall notify the beneficiaries of non-voluntary licences and the person exploiting the invention under section 156 of the request and the evidence accompanying it. The said beneficiaries and the persons shall have the right to make their observations to the Patent Office.
 - (d) The Patent Office shall notify the requesting person of the observations made under paragraphs (a), (b) and (c).
 - (e) The Patent Office shall hold a hearing, to which shall be invited the requesting person, the owner of the patent and the persons who made the observations under paragraphs (b) or (c).
 - (f) If the Patent Office finds that the conditions for the grant of the non-voluntary licence are fulfilled, it shall make the decision to grant the non-voluntary licence. Otherwise, it shall make the decision to refuse the non-voluntary licence.
- (3) The decision granting the non-voluntary licence shall fix:
 - (a) the scope of the licence, specifying in particular:
 - (i) for what period the licence is granted; and
 - (ii) to which of the acts referred to in section 135(2) the licence extends, provided that it may not extend to the act of importation.
 - (b) the time limit within which the beneficiary of the non-voluntary licence must begin to work the patented invention in the country; and
 - (c) the amount and conditions of the payment due by the beneficiary of the non-voluntary licence to the owner of the patent and to any person whose rights are affected under section 153(3)(iii), such payments being determined on the basis of the extent to which the patented invention is worked.
- (4) The decisions shall be in writing and shall state the grounds upon which it is based. The Patent Office shall record the decision, publish it and notify the requesting person, the owner of the patent and the other persons invited to the hearing referred to in subsection (2)(e) of the decision.
- (5) The Regulations shall fix the time limits for the acts to be performed by the Patent Office under this section.

Section 152: Appeals

Section 153: Rights and Obligations of Beneficiary of Non-Voluntary Licence; Other Effects of Non-Voluntary Licence

- (1) The beneficiary of the non-voluntary licence shall have the right to exploit the patented invention in the country according to the decision granting the licence.
- (2) The beneficiary of the non-voluntary licence shall have the following obligations:
 - (i) to begin the working of the patented invention in the country within the time limit fixed in the decision granting the licence and thereafter, in the case of a non-voluntary licence granted on the basis of section 148, to work the patented invention sufficiently in the country;
 - (ii) to respect the scope of the licence as fixed in the decision granting the licence;
 - (iii) to make payment when due, according to the decision granting the licence.
- (3) The grant of the non-voluntary licence:
 - (i) shall exclude neither the conclusion of licence contracts nor the grant of other non-voluntary licences;
 - (ii) shall not affect non-exclusive contractual licences in force;
 - (iii) shall deprive exclusive contractual licences in force of their exclusivity, but only with regard to the non-voluntary licences in force;
 - (iv) shall not affect non-voluntary licences in force
 - (v) shall not exclude the exploitation of the patented invention under section 156.

Section 154: Sublicence Prohibited; Transfer of Non-Voluntary Licence.

- (1) The beneficiary of the non-voluntary licence may not conclude licence contracts with third persons under the patent in respect of which the non-voluntary licence is granted.
- (2)
 - (a) The non-voluntary licence may only be transferred with the establishment of the beneficiary of the licence or with the part of the establishment within which the patented invention is being worked. Such transfer shall not be laid without a decision of the Patent Office authorising the transfer.
 - (b) The authorisation of the Patent Office may be requested wither by the beneficiary of the non-voluntary licence whose name appears as such in the Patent register, or by the person to whom the non-voluntary licence is to be transferred, or jointly by both.
 - (c) Before making its decision, the Patent Office shall give the owner of the patent and the other persons referred to in section 151(4) an opportunity to make their observations.
 - (d) The decision of the Patent Office shall be in writing and state the grounds upon which it is based. The Patent Office shall record the decision, publish it and notify all the persons referred to in paragraphs (b) and (c) of the decision.
 - (e) Any person referred to in paragraph (d) may, within one month from the publication referred to in that paragraph, appeal to the Minister [...] against there decision of the Patent Office. The appeal shall have suspensive effect.
 - (f) The decision made by the Minister on there appeal referred to in paragraph (e) shall be in writing and state the grounds upon which it is based. The Patent Office shall record the decision, publish it and notify all the persons referred to in paragraph (d) of the decision. The decision of the Minister shall not be the subject of an appeal.
 - (g) Once the transfer is authorised, the new beneficiary of the non voluntary licence shall assume the obligations that were incumbent on the former beneficiary.

Section 155: Amendment and cancellation of Non-Voluntary Licence: Surrender of Non-Voluntary Licence

Chapter X: Exploitation by Government or by Third Persons Authorised by Government

Section 156: Exploitation by Government or by Third Persons Authorised by Government.

- (1) Where the public interest, in particular, national security, nutrition, health or the development of other vital sectors of the national economy, so requires, the Minister concerned may decide that, even without the agreement of the owner of the patent, a government agency or a third person designated by the Minister may exploit the patented invention in the country by performing any of the acts referred to in section 135(2), including importation if necessary, subject to payment therefor.
- (2)
 - (a) When the Minister intends to make a decision under subsection (1), he shall consult the Patent Office, notify the owner of the patent and the beneficiaries of non-voluntary licences of his intention and invite them, as well as other persons whose participation he considers useful, to a hearing.
 - (b) The owner of the patent shall have the obligation to notify the licensees of the hearing referred to in paragraph (a). The licensees shall have the right to participate in that hearing.
- (3)
 - (a) Once the hearing referred to in subsection (2) has been held, the Minister shall make his decision. The decision shall be written and state the ground upon which it is based.
 - (b) If the decision of the Minister authorises the exploitation under subsection (1), the Patent Office shall fix the amount and conditions of the payment due by the State to the owner of the patent and to any exclusive licensee whose rights are affected by the decision of the Minister, such payment being determined on the basis of the extent to which the patented invention is exploited.
 - (c) The Patent Office shall record the decision of the Minister and the decision of the Patent Office fixing the amount and conditions of the payment, publish the decisions and notify the owner of the patent and the other participants in the hearing referred to in subsection (2) of the decisions.
- (4)
 - (a) The decision of the Minister may not be the subject of an appeal.
 - (b) The decision of the Patent Office fixing the amount and conditions of the payment may be the subject of an appeal to the court by the owner of the patent or any licensee referred to in subsection (3)(b). Such an appeal shall not preclude the exploitation of the patented invention according to the decision of the Minister.
 - (c) When the decision of the court on the appeal referred to in paragraph (b) becomes final, the Registrar of the court shall notify the Patent Office of the decision, which shall record the decision and publish it.

Chapter XI: Surrender and Invalidation

Section 157: Surrender of Patent

Section 158: Invalidation of Patent

- (1) Any interested person may institute court proceedings against the owner of the patent for the invalidation of the patent.
- (2) The court shall invalidate the patent if the person requesting the invalidation proves that:
 - (i) any of the conditions referred to in section 131(1)(i) to (v) were not fulfilled at the time the patent was granted; or
 - (ii) the right to the patent does not belong to the person to whom the patent was granted, provided that the patent has not been assigned to the person to whom the right to the patent belongs.
- (3)
 - (a) Where the provisions of subsection (2) apply only to some of the claims or some parts of a claim, such claims or parts of a claim shall be invalidated by the court.
 - (b) The invalidity of part of a claim shall be declared in the form of a corresponding limitation of the claim in question.

- (4) The court may require the owner of the patent to submit to it for the purpose of examination publications and other documents showing the prior art which has been referred to either in connection with an application for a patent or other title of protection filed, for the same or essentially the same invention, by the owner of the patent, with any other national or regional industrial property office, or in connection with any proceedings relating to the patent or other title of protection granted under such application.
- (5) (a) The owner of the patent shall have the obligation to notify the licensees of the proceedings. The licensees shall have the right to join in the proceedings in the absence of any provision to the contrary in the licence contract.
- (b) The person requesting invalidation shall have the obligation to notify the beneficiaries of non-voluntary licences granted under section 148 of the proceedings. The said beneficiaries shall have the right to join in the proceedings.
- (c) where the ground for invalidity referred to in subsection (2)(ii) is invoked, the person requesting invalidation shall have the obligation to notify the person alleged to have the right to the patent of that fact.

Section 159: Effect of invalidation

- (1) Any invalidated patent, or claim or part of a claim shall be regarded as null and void from the date of the grant of the patent.
- (2) When the decision of the court becomes final, the registrar of the court shall notify the Patent office of the decision, which shall record the decision and publish it as soon as possible.

Chapter XII: **Infringement**

Section 160: Acts of infringement

Subject to Sections 136(1) to (3), 127, 153(1) and 156(1), an infringement of the patent shall consist of the performance of any act referred to in section 135(2) in the country by a person other than the owner of the patent and without the agreement of the latter, in relation to a product or a process falling within the scope of protection of the patent.

Section 161: Infringement Proceedings

- (1) The owner of the patent shall have the right to institute court proceedings against any person who has infringed or is infringing the patent. The owner of the patent shall have the same right against any person who has performed acts or is performing acts which make it likely that infringement will occur ("imminent infringement"). The proceedings may not be instituted after five years from the act of infringement.
- (2) (a) If the owner of the patent proves that an infringement has been committed or is being committed, the court shall award damages and shall grant an injunction to prevent further infringement and any other remedy provided in the general law.
- (b) If the owner of the patent proves imminent infringement, the court shall grant an injunction to prevent infringement and any other remedy provided in the general law.
- (3) The defendant in any proceedings referred to in this Section may request in the same proceedings the invalidation of the patent. In that case, the provisions of section 158(2) to (5) shall apply.
- (4) (a) For the purposes of this subsection, "beneficiary" means:
- (i) any licensee, unless the licence contract provides that the provisions of this subsection do not apply or provides different provisions;
- (ii) the beneficiary of a non-voluntary licence granted under section 148.
- (b) Any beneficiary may request the owner of the patent to institute court proceedings for any infringement indicated by the beneficiary, who must specify the relief desired.
- (c) The beneficiary may, if he proves that the owner of the patent received the request but refuses or fails to institute the proceedings within three months from the receipt of the

request, institute the proceedings in his own name, after notifying the owner of the patent of his intention. The owner shall have the right to join in the proceedings.

- (d) Even before the end of the three-month period referred to in paragraph (c), the court shall, on the request of the beneficiary, grant an appropriate injunction to prevent infringement or to prohibit its continuation, if the beneficiary proves that immediate action is necessary to avoid substantial damage.

Section 163: Threats if Infringement Proceedings

- (1) Any person threatened with infringement proceedings shall have the right to institute court proceedings against the person making the threats. The proceedings may not be instituted after five years from the making of the threats.
- (2) If the person instituting the proceedings proves that the acts he has performed, is performing or is going to perform do not constitute a patent infringement, the court shall award damages for financial loss resulting from the threats and shall grant an injunction to prohibit such threats.
- (3) The notification of the existence of the patent and the calling to the attention of the legal consequences of a patent infringement shall not in themselves constitute threats for the purposes of this section.

GATT-TRIPS Agreement

Document MTN/FA II-A1C - Agreement on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods

Part I: General Provisions and Basic Principles

Article 1 Nature and Scope of Obligations

1. Members shall give effect to the provisions of this Agreement. Members may, but shall not be obliged to, implement in their domestic law more extensive protection than is required by this Agreement, provided that such protection does not contravene the provisions of this Agreement. Members shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice.

Article 2 Intellectual Property Conventions

1. In respect of Parts II, III and IV of this Agreement, Members shall comply with Articles 1 to 12 and 19 of the Paris Convention (1967).
2. Nothing in Parts 1 to IV of this Agreement shall derogate from existing obligations that Members may have to each other under the Paris Convention, the Berne Convention, the Rome Convention and the Treaty on Intellectual Property in Respect of Integrated Circuits.

Article 6 Exhaustion

For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 above nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

Part II: Standards Concerning the Availability, Scope and
Use of Intellectual Property Rights

Section 5: Patents

Article 27 Patentable Subject Matter

1. Subject to the provisions of paragraph 2 and 3 below, patents shall be available for any new inventions, whether products or process, in all field of technology, provided that they are new, involve an inventive step and are capable of industrial application. [fn - For this purpose of this Article, the term "inventive step" and "capable of industrial application" may be deemed by a Member to be synonymous with the terms "non-obvious" and "useful" respectively] Subject to paragraph 4 of Article 65, (transitional provisions - period of grace for developing countries etc.) paragraph 8 of Article 70 (special provisions for pharmaceutical and agricultural chemical products) and paragraph 3 of this Article, patents shall be available and patent rights enjoyable without discrimination as to the place of the invention, the field of technology and whether products are imported or locally produced.

Article 28 Rights Conferred

1. A patent shall confer on its owner the following exclusive rights:
 - (a) where the subject matter of a patent is a product, to prevent third parties not having his consent from the acts of: making, using, offering for sale, selling, or importing [fn - This right, like all other rights conferred under this Agreement in respect of the use, sale, importation or other distribution of goods, is subject to the provisions of Article 6 (exhaustion) above] for these purposes that product;
 - (b) where the subject matter of a patent is a process, to prevent third parties not having his consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process.
2. Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.

Article 29 Conditions on Patent Application

1. Members shall require that an applicant for a patent shall disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art and may require the applicant to indicate the best mode for carrying out the invention known to the inventor at the filing date or, where priority date is claimed, at the priority date of the application.
2. Members may require an applicant for a patent to provide information concerning his corresponding foreign applications and grants.

Article 30 Exceptions to rights conferred

Members may provide limited exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties.

Article 31 Other use without authorisation of the right holder

Where the law of a Member allows for other use [fn - "other use" refers to use other than that allowed under Article 30] of the subject matter of a patent without the authorisation of the right holder, including use by the government or third parties authorised by the government, the following provisions shall be respected:

- (a) authorisation of such use shall be considered on its individual merits;
- (b) such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorisation from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time. This requirement may be waived by a Member in the case of a national emergency or other circumstances of extreme urgency or in case of public non-commercial use. In situations of national emergency or other

- circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;
- (c) the scope and duration of such use shall be limited to the purpose for which it was authorised, and in the case of semi-conductor technology shall only be for public non-commercial use or to remedy a practice determined after judicial or administrative process to be anti-competitive;
 - (d) such use shall be non-exclusive;
 - (e) such use shall be non-assignable, except with that part of the enterprise or goodwill which enjoys such use;
 - (f) any such use shall be authorised predominantly for the supply of the domestic market of the Member authorising such use.
 - (g) authorisation for such use shall be liable, subject to adequate protection of the legitimate interests of the person so authorised, to be terminated if and when the circumstance which led to it cease to exist and are unlikely to recur. The competent authority shall have the authority to review, upon motivated request, the continued existence of these circumstances;
 - (h) the right holder shall be paid adequate remuneration in the circumstances of each case, taking into account the economic value of the authorisation;
 - (i) the legal validity of any decision relating to the authorisation of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
 - (j) any decision relating to the remuneration provided in respect of such use shall be subject to judicial review or other independent review by a distinct higher authority in that Member;
 - (k) Members are not obliged to apply the conditions set forth in sub-paragraph (b) and (f) above where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorisation if and when the conditions which led to such authorisation are likely to recur;
 - (l) where such use is authorised to permit the exploitation of a patent ("the second patent") which cannot be exploited without infringing another patent ("the first patent"), the following additional conditions shall apply:
 - (i) the invention claimed in the second patent shall involve an important technical advance of considerable economic significance in relation to the invention claimed in the first patent;
 - (ii) the owner of the first patent shall be entitled to a cross-licence on reasonable terms to use the invention claimed in the second patent; and
 - (iii) the use authorised in respect of the first patent shall be non-assignable except with the assignment of the second patent.

Article 32 Revocation/forfeiture

An opportunity for judicial review of any decision to revoke or forfeit a patent shall be available.

Article 33 Term of protection

The term of protection available shall not end before the expiration of a period of twenty years counted from the filing date. [fn - It is understood that those Members which do not have a system of original grant may provide that the term of protection shall be computed from the filing date in the system of original grant.]

Article 34 Process patents: Burden of proof

1. For the purposes of civil proceedings in respect of infringement of the rights of the owner referred to in paragraph 1(b) of Article 28 above, if the subject matter of a patent is a process for obtaining a product, the judicial authorities shall have the authority to order the defendant to prove that the process to obtain an identical product is different from the patented process. Therefore, Members shall provide, in at least one of the following circumstances, that any identical product when produced without the consent of the patent owner shall, in the absence of proof to the contrary, be deemed to have been obtained by the patented process:
 - (a) if the product obtained by the patented process is new;
 - (b) if there is substantial likelihood that the identical product was made by the process and the owner of the patent has been unable through reasonable efforts to determine the process actually used.

2. Any member shall be free to provide that the burden of proof indicated in paragraph 1 shall be on the alleged infringer only if the condition referred to in sub-paragraph (a) is fulfilled or only if the condition referred to in sub-paragraph (b) is fulfilled.
3. In the adduction of proof to the contrary, the legitimate interest of the defendant in protecting his manufacturing and business secrets shall be taken into account.

Article 65 Transitional arrangements

paragraph 1

Subject to the provisions of paragraph 2, 3 and 4 below no Members shall be obliged to apply the provisions of this Agreement before the expiry of a general period of one year following the date of entry into force of the Agreement Establishing the WTO.

paragraph 2

Any developing country Member is entitled to delay for a further period of four years the date of application, as defined in paragraph 1 above, of the provisions of this agreement other than Articles 3, 4 and 5 of Part 1.

...

paragraph 4

To the extent that a developing country member is obliged by this Agreement to extend product patent protection to areas of technology not so protectable in its territory on the general date of application of this Agreement for that Member, as defined in paragraph 2 above, it may delay the application of the provisions on product patents of section 5 of Part II of this Agreement to such areas of technology for an additional period of 5 years.

Article 70 Protection of existing subject matter

paragraph 8

Where a Member does not make available as of the date of the entry into force of the agreement Establishing the WTO patent protection for pharmaceutical and agricultural chemical products commensurate with its obligations under Article 27, that Member shall:

- (i) notwithstanding the provisions of Part VI above, provide as from the date of entry into force of the Agreement Establishing the WTO a means by which applications for patents for such invention can be filed;
 - (ii) apply to these applications, as of the date of application of this Agreement, the criteria for patentability as laid down in this Agreement as if those criteria were being applied on the date of filing in that Member or, where priority is available and claimed, the priority date of the application.
 - (iii) provide patent protection in accordance with this Agreement as from the grant of the patent and for the remainder of the patent term, counted from the filing date in accordance with Article 33 of this Agreement, for those of these applications that meet the criteria for protection referred to in sub-paragraph (ii) above.
2. Members may exclude from patentability inventions, the prevention within their territory of the commercial exploitation of which is necessary to protect ordre public or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment, provided that such exclusion is not made merely because the exploitation is prohibited by domestic law.
 3. Members may also exclude from patentability:
 - (a) diagnostic, therapeutic and surgical methods for the treatment of human or animals;
 - (b) plants and animals other than microorganisms, and essentially biological processes for the production of plants and animals other than non-biological and microbiological processes. However, Members shall provide for the protection of plant varieties either by patents or by an effective sui generis system or by any combination thereof. The provisions of this sub-paragraph shall be reviewed four years after the entry into force of the Agreement Establishing the WTO.

Draft Treaty Supplementing the Paris Convention for the Protection of Industrial Property as far as Patents are Concerned (Patent Law Treaty)

The "Basic Proposal" for the Treaty and the Regulations Submitted, under Rule 29(1) of the Draft Rules of Procedure, by the Director-General of WIPO (PLT/DC/3)

Article 19 **Rights conferred by the Patent**

Alternative A:

Note: No article on the rights conferred by the patent.

Alternative B:

(1) Products

...

(2) Process

...

(3) Exceptions to Paragraphs (1) and (2)

(a) Notwithstanding paragraphs (1) and (2), any Contracting Party may provide that the owner of a patent has no right to prevent third parties from performing, without his authorisation, the acts referred to in paragraphs (1) and (2) in the following circumstances.

(i) where the act concerns a product which has been put on the market by the owner of the patent, or with his express consent, insofar as such act is performed after that product has been so put on the market in the territory of that Contracting Party, or, where the Contracting Party is a member of a group of States constituting a regional market, in the territory of one of the member States of such group.

(ii) where the act is done privately and on a non-commercial scale or for a non-commercial purpose, provided that it does not significantly prejudice the economic interests of the owner of the patent;

(iii) where the act consists of making or using exclusively for the purpose of experiments that relate to the subject matter of the patented invention [or for the purpose of seeking regulatory approval for marketing];

(iv) where the act consists of the preparation for individual cases, in a pharmacy or by a medical doctor, or a medicine in accordance with a medical prescription or acts concerning the medicine so prepared.

(b) ...

(4) Contributory Infringement

(a) Subject to subparagraph (b), a patent shall also confer on its owner [at least] the right to prevent a third party from supplying or offering to supply a person, other than a party entitled to exploit the patented invention, with means, relating to an essential element of that invention, for carrying out the invention, when the third party knows, or it is obvious in the circumstances, that those means are suitable and intended for carrying out that invention. This provision shall not apply when the means are staple commercial products and the circumstances of the supply of such products do not constitute inducement to infringe the patent.

(b) Persons performing the acts referred to in paragraph (3)(a)(ii), (iii) and (iv) shall not be considered to be parties entitled to exploit the invention within the meaning of subparagraph (a).

Alternative C: ...

Article 20 **Prior User**

(1) Right of Prior User

Alternative A:

Any Contracting Party may provide that, notwithstanding Article 19,

Alternative B:

Notwithstanding Article 19, a patent shall have no effect against any person (hereinafter referred to as "the prior user" who, in good faith, for the purposes of his enterprise or business before the filing date or, where priority is claimed, the priority date of the application on which the patent is granted, and within the territory where the patent produces its effect, was using the invention or was making effective and serious preparations for such use; any such person shall have the right, for the purposes of his enterprise or business, to continue such use or to use the invention as envisaged in such preparations.

(2) Successor in Title of the Prior User

The right of the prior user may only be transferred or devolved together with his enterprise or business, or with that part of his enterprise or business in which the use or preparations for use have been made.

Article 21 Extent of Protection and Interpretation of Claims

1. Determination of the Extent of Protection

- (a) The extent of protection conferred by the patent shall be determined by the claims, which are to be interpreted in the light of the description and drawings.
- (b) For the purposes of subparagraph (a), the claims shall be so interpreted as to combine fair protection for the owner of the patent with a reasonable degree of certainty for third parties. In particular, the claims shall not be interpreted as being confined to their strict literal wording. Neither shall the claims be considered as mere guidelines allowing that the protection conferred by the patent extends to what, from a consideration of the description and drawings by a person skilled in the art, the owner has contemplated, but has not claimed.

(2) Equivalents

- (a) Notwithstanding paragraph (1)(b), a claim shall be considered to cover not only all the elements as expressed in the claim but also equivalents.
- (b) An element ("the equivalent element") shall generally be considered as being equivalent to an element as expressed in a claim if, at the time of any alleged infringement, either of the following condition is fulfilled in regard to the invention as claimed:
 - (i) the equivalent element performs substantially the same function in substantially the same way and produces substantially the same result as the element as expressed in the claim, or
 - (ii) it is obvious to a person skilled in the art that the same result as that achieved by means of the element as expressed in the claim can be achieved by means of the equivalent element.
- (c) Any Contracting party shall be free to determine whether an element is equivalent to an element as expressed in a claim by reference to only the condition referred to in subparagraph (b)(i) or to only the condition referred to in subparagraph (b)(ii), provided that, at the time of depositing its instrument of ratification of or accession to this Treaty, it so notifies the Director General.

(3) Prior Statement

In determining the extent of protection, due account shall be taken of any statement limiting the scope of the claims made by the applicant or the owner of the patent during procedures concerning the grant or the validity of the patent.

(4) Examples

If the patent contains examples of the embodiment of the invention or examples of the functions or results of the invention, the claims shall not be interpreted as limited to those examples; in particular, the mere fact that a product or process includes additional features not found in the examples disclosed in the patent, lacks features found in such examples or does not achieve every objectives or possess every advantage cited or inherent in such examples shall not remove the product or process from the extent of protection conferred by the claims.

(5) Abstract

The abstract of a patent shall not be taken into account for the purpose of determining the protection conferred by the patent.

Article 25 Obligations of the Right Holder

Alternative A:

Note: No article on obligations of the right holder

Alternative B:

- (1) The owner of a patent shall have at least the following obligations in addition to any other provided for in this Treaty:**
 - (i) to disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art; the description shall set forth at least one mode for carrying out the invention claimed; this shall be done in terms of examples, where appropriate, and with reference to the drawings, if any; however, any Contracting Party may provide that the description set forth the best mode for carrying out the invention known to the inventor at the filing date or, where priority is claimed, priority date of the application.**
 - (ii) to provide such information and supporting documents in his possession as is requested by the competent Office concerning corresponding foreign applications and grants;**
 - (iii) to work the patented invention in the territory of the Contracting State for which it is granted within the time limits as provided by national law;**
 - (iv) to pay, or cause to be paid, such fees as prescribed by national law in relation to the application and the maintenance of the patent granted on it;**
 - (v) in respect of licence contracts and contracts assigning patents, to refrain from engaging in abusive, restrictive or anti-competitive practices adversely affecting the transfer of technology.**
- (2) The applicant or holder of a patent shall comply with any other obligations established in the national law of the State in which the patent granted in connection with the acquisition and the exercise of the rights conferred by the patent and with the exploitation of the patented invention.**

Article 26 Remedial Measures Under National Legislation

Alternative A:

Note: No article on remedial measures under national legislation.

Alternative B:

- (1) Any Contracting State is free to provide appropriate measures to ensure compliance with the obligations referred to in the Article entitled "Obligations of the Right Holder," and for measures to remedy non-compliance with such obligations, including the grant of non-voluntary licences and the revocation or forfeiture of the patent.**
- (2) A non-voluntary licence under paragraph (1) shall be refused if the owner of the patent proves, to the satisfaction of the national authorities competent to grant non-voluntary licences, that there are circumstances which justify the non-working or insufficient working of the patented invention.**
- (3) Any Contracting State is free to provide, at any time, on grounds of public interest, national security, nutrition, health, or the development of other vital sectors of national economy, for the grant of non-voluntary licences or for the exploitation of the patented invention by the Government of that country or by third persons authorised by it.**

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