
Issues Related to

Third Party Service and Maintenance

of a Machine

Covered by Manufacturer's IPRs

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This Booklet is an academic exercise. It does not offer any advice or suggestion to any individual or firm or company.

Preface

This booklet has arisen out of a real life problem posed to us by one of our clients. He wanted to set up a unit to undertake repairing of large electrical machines of a particular brand, but was afraid of the brand owner going after him using expensive senior advocates.

When we started studying the matter, we realized that he was not the only one troubled by such doubts. We were also struck by the total absence of Indian case-law on the subject. Surely, in the absence of case-law, most Indian lawyers are unable to advise.

Ignorance leads to fear and when there is fear no entrepreneur can move forward. In essence, without any legal clarity dynamic Indian entrepreneurs are unable to move forward in the field of third party servicing of machines.

We, Anil Chawla Associates LLP, are convinced that third party servicing of plant, machinery and capital equipment is a global opportunity for Indian entrepreneurs. We are troubled by the fact that the opportunity is not being exploited well due to legal ignorance and confusion.

As a law firm, we are committed to adding value to business and to help Indian business go global. This booklet is intended to help Indian entrepreneurs understand the legal position across the globe in relation to third party servicing and also to allay their fears in this regard.

While the booklet is intended for entrepreneurs, the booklet is largely academic and may appear as heavy to some. We really could not avoid giving references to international case-laws without losing credibility.

Our advice to all entrepreneurs is to read only Chapter A (Problem & Approach) and then move directly to Chapter G (Conclusions). Chapters B to F are for persons with some exposure to law.

We hope that this booklet will help you either in growing your business of servicing machines or by helping you get your machines serviced from the party of your choice and convenience.

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A. Problem & Approach

A machine was sold by a manufacturer (say ABC) to PQR. The machine was covered by various intellectual property rights (IPRs) of ABC including patents, design protection and copyright. The machine was under warranty for two years. After two years, ABC approached PQR for annual maintenance contract (AMC). PQR found the terms for the AMC exorbitant. ABC refused to reduce the price of AMC. PQR decided to get maintenance and servicing of the machine from XYZ, a third party with no relation to ABC. At this, ABC cried foul and threatened to sue PQR as well as XYZ for intellectual property rights violations. ABC also cited in its support the Standard Terms and Conditions (which were accepted by PQR) wherein it was clearly stated that the machine would be serviced and maintained by ABC throughout the life of the machine.

The key issues are as follows:

1. Has PQR violated the intellectual property rights of ABC by getting the machine serviced from a third party?
2. Will XYZ be violating the IPRs of ABC by servicing the equipment sold by ABC?
3. Website of XYZ mentions that machines branded as ABC are serviced by XYZ. Does it amount to violation of trademark of ABC by XYZ?
4. Can ABC use The Indian Contract Act, 1872 to enforce the contract (between ABC and PQR) which provides that the machine has to be necessarily serviced and maintained by ABC?

We shall in this article try to get answers to the above four issues. Unfortunately, Indian case-law does not have judgments that answer the above questions. There is only judgment of Honourable High Court of Delhi which mentions a foreign court judgment without giving a clear opinion on any of the above issues. So, we shall rely on the judgments of foreign courts.

B. Doctrine of Patent Exhaustion

Doctrine of Patent Exhaustion states that as soon as a patent-owner sells a product in which the patent has been used, all rights of the patent-owner are exhausted.

B.1. Impression Products vs. Lexmark

Doctrine of Patent Exhaustion was clearly stated in the judgment of Supreme Court of The United States in the matter of Impression Products, Inc. vs. Lexmark International, Inc. (No. 15-1189, Argued 21 March 2017 – Decided 30 May 2017). Relevant extract from the judgment reads as follows:

A United States patent entitles the patent holder to “exclude others from making, using, offering for sale, or selling [its] invention throughout the United States or importing the invention into the United States.” 35 U. S. C. §154(a). Whoever engages in one of these acts “without authority” from the patentee may face liability for patent infringement. §271(a). When a patentee sells one of its products, however, the patentee can no longer control that item through the patent laws—its patent rights are said to “exhaust.”

Lexmark International, Inc. designs, manufactures, and sells toner cartridges to consumers in the United States and abroad. It owns a number of patents that cover components of those cartridges and the manner in which they are used. Lexmark gives two options to consumers when it sells toner cartridges. One option is to buy a toner cartridge at full price, without any restrictions. The other option is to buy a cartridge at a discount through Lexmark’s “Return Program”. In exchange for the lower price, customers who buy through the Return Program sign a contract agreeing to use the cartridge only once and to refrain from transferring the cartridge to anyone other than Lexmark.

Companies known as remanufacturers acquire empty Lexmark toner cartridges — including Return Program cartridges — from purchasers in the United States, refill them with toner, and then resell them. They do the same with Lexmark cartridges that they acquire from purchasers overseas and import into the United States. Lexmark sued a number of these remanufacturers, one of them being Impression Products, Inc., for patent infringement with respect to two groups of cartridges. The first group consists of Return Program cartridges that Lexmark had sold within the

United States. Lexmark argued that, because it expressly prohibited reuse and re-sale of these cartridges, Impression Products infringed the Lexmark patents when it refurbished and resold them. The second group consists of all toner cartridges that Lexmark had sold abroad and that Impression Products imported into the country. Lexmark claimed that it never gave anyone authority to import these cartridges, so Impression Products infringed its patent rights by doing just that.

Honourable Supreme Court of the USA held as follows:

Held:

1. Lexmark exhausted its patent rights in the Return Program cartridges that it sold in the United States. A patentee's decision to sell a product exhausts all of its patent rights in that item, regardless of any restrictions the patentee purports to impose. As a result, even if the restrictions in Lexmark's contracts with its customers were clear and enforceable under contract law, they do not entitle Lexmark to retain patent rights in an item that it has elected to sell. Pp. 5–13.

The exhaustion rule marks the point where patent rights yield to the common law principle against restraints on alienation. The Patent Act promotes innovation by allowing inventors to secure the financial rewards for their inventions. Once a patentee sells an item, it has secured that reward, and the patent laws provide no basis for restraining the use and enjoyment of the product. Allowing further restrictions would run afoul of the “common law’s refusal to permit restraints on the alienation of chattels.” *Kirtsaeng v. John Wiley & Sons, Inc.*, 568 U. S. 519, 538. As Lord Coke put it in the 17th century, if an owner restricts the resale or use of an item after selling it, that restriction “is voide, because . . . it is against Trade and Traffique, and bargaining and contracting between man and man.” 1 E. Coke, *Institutes of the Laws of England* §360, p. 223 (1628). Congress enacted and has repeatedly revised the Patent Act against the backdrop of this hostility toward restraints on alienation, which is reflected in the exhaustion doctrine.

2. Lexmark also sold toner cartridges abroad, which Impression Products acquired from purchasers and imported into the United States. Lexmark cannot sue Impression Products for infringement with respect to these cartridges. An authorized sale outside the United States, just as one within the United States, exhausts all rights under the Patent Act.

Applying patent exhaustion to foreign sales is just as straightforward. Patent exhaustion, too, has its roots in the antipathy toward restraints on alienation, and nothing in the Patent Act shows that Congress intended to confine that principle to domestic sales. Differ-

Notably, in the above case it was held that **as soon as an authorized sale takes place all rights of patent-owner are exhausted and this is irrespective of (a) geographic location of the buyer and (b) any conditions that the patentee might have imposed.**

The above case was quoted (we presume approvingly) by Honourable High Court of Delhi in Koninklijke Philips Electronics N.V. vs. Rajesh Bansal and Ors. (MANU/DE/2436/2018, Decided on 12th July 2018). Relevant extract is as follows:

10.11. Defendants having failed to prove that the articles purchased by them were sold by the plaintiff or its licensees, the defence based on the doctrine of exhaustion needs to be rejected as the defendants have failed to prove that the product using the suit patent was sold to the defendants by the plaintiff or its licensee, onus to prove which fact was on the defendants. In *Impression Products, Inc. v. Lexmark International Inc.* (supra) the Supreme Court of United States held that Lexmark exhausted its patent rights in the cartridges the moment it sold them. The single-use/no-resale restriction in Lexmark's contracts with customers may have been clear and enforceable under contract law, but they do not entitle Lexmark to retain patent rights in an item that it has elected to sell. It was held:

In the case filed by Philips, the defendants had purchased some equipment from unauthorized sellers. Since the sale was not authorized by Philips, the Court held that the principle of exhaustion as propounded in *Impression Products* case did not apply.

It is important to note that for the Doctrine of Exhaustion to apply, **the sale must be authorized by the patent-owner.**

B.2. Quanta Computer vs. LG electronics

Another interesting judgment is delivered by the United States Court of Appeals for the federal circuit in the matter of *Quanta Computer, Inc., Et Al. vs. LG Electronics, Inc.* [Decided on 9 June 2008; 553 U.S. 617(2008)].

Petitioners, including Quanta Computer (collectively Quanta), are a group of computer manufacturers. Quanta purchased microprocessors and chipsets from Intel and received the notice required by Master Agreement. Nonetheless, Quanta manufactured computers using Intel parts in combination with non-Intel memory and

buses in ways that practice the LGE Patents. Quanta did not modify the Intel components and followed Intel's specifications to incorporate the parts into its own systems.

LGE filed a complaint against Quanta, asserting that the combination of the Intel Products with non-Intel memory and buses infringed the LGE Patents.

LGE argued that the exhaustion doctrine was inapplicable because it did not apply to method claims, which were contained in each of the LGE Patents. LGE reasoned that, because method patents were linked not to a tangible article but to a process, they can never be exhausted through a sale. Rather, practicing the patent--which occurs upon each use of an article embodying a method patent--was permissible only to the extent rights were transferred in an assignment contract.

Quanta, in turn, argued that there was no reason to preclude exhaustion of method claims. It argued that any other rule would allow patent holders to avoid exhaustion entirely by inserting method claims in their patent specifications.

Honourable Court of Appeals sided with Quanta and rejected LGE arguments. The Court **did not accept that the doctrine of exhaustion did not apply to methods patents**. The Court opined that eliminating exhaustion for method patents would seriously undermine the exhaustion doctrine. The Court feared that patentees seeking to avoid patent exhaustion could simply draft their patent claims to describe a method rather than an apparatus. Apparatus and method claims may approach each other so nearly that it will be difficult to distinguish the process from the function of the apparatus. By characterizing their claims as method instead of apparatus claims, or including a method claim for the machine's patented method of performing its task, a patent drafter could shield practically any patented item from exhaustion.

Quanta has the better of this argument. Nothing in this Court's approach to patent exhaustion supports LGE's argument that method patents cannot be exhausted. It is true that a patented method may not be sold in the same way as an article or device, but methods nonetheless may be "embodied" in a product, the sale of which exhausts patent rights. Our precedents do not differentiate transactions involving embodiments of patented methods or processes from those involving patented apparatuses or materials. To the contrary, this Court has repeatedly held that method patents were exhausted by the sale of an item that embodied the method. In *Ethyl Gasoline Corp. v. United States*, 309 U. S. 436, 446, 457 (1940), for example, the Court held that the sale of a motor fuel produced under one patent also exhausted the patent for a method of using the fuel in combustion motors.⁴ Similarly, as previously described, *Univis* held that the sale of optical lens blanks that partially practiced a patent exhausted the method patents that were not completely practiced until the blanks were ground into lenses. 316 U. S., at 248-251.

This case illustrates the danger of allowing such an end-run around exhaustion. On LGE's theory, although Intel is authorized to sell a completed computer system that practices the LGE Patents, any downstream purchasers of the system could nonetheless be liable for patent infringement. Such a result would violate the longstanding principle that, when a patented item is "once lawfully made and sold, there is no restriction on [its] use to be implied for the benefit of the patentee." *Adams*, 17 Wall., at 457. We therefore reject LGE's argument that method claims, as a category, are never exhaustible.

The judgment in *Quanta vs. LGE* discusses at great length *Univis*, 316 U. S. 241. Univis Lens Company, the holder of patents on eyeglass lenses, licensed a purchaser to manufacture lens blanks by fusing together different lens segments to create bi- and tri-focal lenses and to sell them to other Univis licensees at agreed-upon rates. Wholesalers were licensed to grind the blanks into the patented finished lenses, which they would then sell to Univis-licensed prescription retailers for resale at a fixed rate. Finishing retailers, after grinding the blanks into patented lenses, would sell the finished lenses to consumers at the same fixed rate. The United States sued Univis, alleging unlawful restraints on trade. Univis asserted its patent monopoly rights as a defence to the antitrust suit.

The Court assumed that the Univis patents containing claims for finished lenses were practiced in part by the wholesalers and finishing retailers who ground the blanks into lenses, and held that the sale of the lens blanks exhausted the patents on the finished lenses. The Court explained that the lens blanks embodied essential features of the patented device and were without utility until ground and polished as the finished lens of the patent. The Court noted that:

"where one has sold an uncompleted article which, because it embodies essential features of his patented invention, is within the protection of his patent, and has destined the article to be finished by the purchaser in conformity to the patent, he has sold his invention so far as it is or may be embodied in that particular article."

In sum, the Court concluded that the traditional bar on patent restrictions following the sale of an item applies when the item sufficiently embodies the patent -- even if it does not completely practice the patent -- such that its only and intended use is to be finished under the terms of the patent.

The Court of Appeal in *Quanta vs. LGE* compared the lens blanks to microprocessors and chipsets. The issue before the Honourable Court was to determine "the extent to which a product must embody a patent in order to trigger exhaustion". Honourable Court held as follows:

We agree with Quanta that *Univis* governs this case. As the Court there explained, exhaustion was triggered by the sale of the lens blanks because their only reasonable and intended use was to practice the patent and because they "embodie[d] essential features of [the] patented invention." 316 U. S., at 249-251. Each of those attributes is shared by the microprocessors and chipsets Intel sold to Quanta under the License Agreement.

First, *Univis* held that "the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold." *Id.*, at 249. The lens blanks in *Univis* met this standard because they were "without utility until [they were] ground and polished as the finished lens of the patent." *Ibid.* Accordingly, "the only object of the sale [was] to enable the [finishing retailer] to grind and polish it for use as a lens by the prospective wearer." *Ibid.* Here, LGE has suggested no reasonable use for the Intel Products other than incorporating them into computer systems that practice the LGE Patents.⁶ Nor can we discern one: A microprocessor or chipset cannot function until it is connected to buses and memory. And here, as in *Univis*, the only apparent object of Intel's sales to Quanta was to permit Quanta to incorporate the Intel Products into computers that would practice the patents.

The key point of the above part of the judgment is to look for use of essential or inventive feature of the invention. **If the essential or inventive feature has been incorporated in the patented product, the doctrine of exhaustion will apply.**

Concluding paragraph of the judgment in Quanta vs. LGE sums up the legal position extremely precisely. We reproduce the same here:

The authorized sale of an article that substantially embodies a patent exhausts the patent holder's rights and prevents the patent holder from invoking patent law to control postsale use of the article. Here, LGE licensed Intel to practice any of its patents and to sell products practicing those patents. Intel's microprocessors and chipsets substantially embodied the LGE Patents because they had no reasonable noninfringing use and included all the inventive aspects of the patented methods. Nothing in the License Agreement limited Intel's ability to sell its products practicing the LGE Patents. Intel's authorized sale to Quanta thus took its products outside the scope of the patent monopoly, and as a result, LGE can no longer assert its patent rights against Quanta. Accordingly, the judgment of the Court of Appeals is reversed.

B.3. United Wire Ltd vs. Screen Repair Services (Scotland) Ltd. and Anr.

Doctrine of Exhaustion was discussed by House of Lords (UK) in the case United Wire Limited (Respondents) v. Screen Repair Services (Scotland) Limited and Another (Appellants) [Decided on 20 July 2000; MANU/UKHL/0087/2000; (2000) UKHL 42]. The key issue before the Lords was repair versus reconstruction of a patented product.

The case relates to infringement of two United Kingdom patents for improvements to sifting screens used to recycle drilling fluid in the offshore oil-drilling industry. The fluid is an expensive mixture of chemicals which is pumped down the shaft for various purposes including lubrication and cooling of the drilling bit. It is brought back to the surface together with quantities of foreign solids which must be removed before the fluid can be used again. For this purpose it is filtered by being passed through mesh screens vibrating at high speed in a vibrating sifting machine. Key problem in the operation of sifting machines is the clogging of the meshes by small particles or viscous liquid.

The patents were designed to solve this problem. The patents are for a screen consisting of a frame or "support member" to which two meshes of different mesh sizes are "bonded" or adhesively secured at the periphery so as to be at different tensions.

The meshes of the screens made according to the patents quickly become torn in use. To some extent they can be patched but this reduces their efficiency because the patches are impermeable or "blind." The plaintiffs, who are the market leaders in selling the complete vibratory sifting machines, therefore also enjoy a captive and profitable aftermarket in selling replacement screens made in accordance with their inventions.

The defendants attempted to penetrate this market by selling reconditioned screens made from the plaintiffs' own frames. The frames, which the plaintiffs make from metal, weigh about 10 kg. They are durable in relation to the rest of the materials of the screen. The defendants acquire the frames from the plaintiffs' customers and strip them down to the bare metal by sandblasting. They recoat them with adhesive polyethylene and attach the two layers of mesh. Heat is then used to bond the meshes to the polyethylene coating of the frame. The screens are then sold to the customers. The customers received credit for supplying the frames but a given customer will not necessarily get back the same frame.

The defendants' argument ran as follows: - Although the product which they sell is a screen in accordance with the invention, they do not infringe because they do no more than repair screens which have been marketed with the consent of the plaintiffs. In marketing the screens, the plaintiffs had impliedly licensed anyone who acquired a screen to prolong its life by repair. Secondly, marketing of the screens constitutes an exhaustion of any rights which a repair might infringe. Thirdly, a

person who repairs a screen does not "make" that screen within the meaning of the definition of an infringement in section 60(1)(a) of the Patents Act 1977.

The Lords did not agree with the arguments advanced by the defendants. The Lords opined that the defendants had made a new product and had not merely repaired the patented product. Distinction between "repairing" and "making" was emphasised by the Lords.

Where however it is alleged that the defendant has infringed by *making* the patented product, the concepts of an implied licence or exhaustion of rights can have no part to play. The sale of a patented article cannot confer an implied licence to make another or exhaust the right of the patentee to prevent others from being made. A repair of the patented product is by definition an act which does not amount to making it: as Lord Halsbury L.C. said of the old law in *Sirdar Rubber Co. Ltd. v. Wallington, Weston & Co.* (1907) 24 R.P.C. 539, 543:

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

Repair is one of the concepts (like modifying or adapting) which shares a boundary with "making" but does not trespass upon its territory. I therefore agree with the Court of Appeal that in an action for infringement by making, the notion of an implied licence to repair is superfluous and possibly even confusing. It distracts attention from the question raised by section 60(1)(a), which is whether the defendant has made the patented product. As a matter of ordinary language, the notions of making and repair may well overlap. But for the purposes of the statute, they are mutually exclusive. **The owner's right to repair is not an independent right conferred upon him by licence, express or implied. It is a residual right, forming part of the right to do whatever does not amount to making the product.**

In *Solar Thomson Engineering Co. Ltd v. Barton* [1977] R.P.C. 537 the Court of Appeal held that there was an implied licence to repair. But the juridical nature of the right to repair was not in issue. The debate was over whether or not the defendants had, as the plaintiff's counsel contended (at p. 544) made a "new merchantable article." So the real issue was whether the defendants had made the patented product. Buckley L.J. quoted the remark of Lord Halsbury L.C. which I have already cited. He said that the question was one of fact and degree and said (at p. 555) that the "cardinal question" was whether "what has been done can fairly be termed a repair, having regard to the nature of the patented article." The context shows that Buckley L.J. saw no difference between this question and the question of whether, having regard to the nature of the patented article, the defendant could be said to have made it. Speaking for myself, I prefer the latter formulation.

I think, with great respect to the judge, that he did not correctly identify the patented product. He said that the frame was an important part of the assembly and that the defendants had prolonged "the screen's useful life." It is quite true that the defendants prolonged the useful life of the frame. It would otherwise presumably have been scrapped. But the screen was the combination of frame and meshes pre-tensioned by attachment with adhesive according to the invention. That product ceased to exist when the meshes were removed and the frame stripped down to the bare metal. What remained at that stage was merely an important component, a skeleton or chassis, from which a new screen could be made.

In the case under consideration, the Lords defined boundaries of what constitutes repair. Clearly, the issue of whether a new product is being made or an old one is being repaired is a matter of fact and degree.

B.4. ARO MFG. CO. v. CONVERTIBLE TOP CO. (1961)

This is an old classic case which is relevant even today - Aro Mfg. Co. v. Convertible Top Co., United States Supreme Court, No. 21, [Argued: Decided: 27 February 1961; MANU/USSC/0189/1961; 365 U.S. 336(1961)].

The owner of Patent No. 2,569,724, covering the combination, in an automobile body, of a flexible top fabric, supporting structures, and a mechanism for sealing the fabric against the side of the automobile body to keep out the rain, brought this infringement suit against petitioners. The petitioners manufactured and sold replacement fabrics designed to fit the models of convertible automobiles equipped with tops embodying the combination covered by the patent. The patent covered only the combination of certain unpatented components and made no claim to invention based on the fabric or on its shape, pattern or design.

Honourable Supreme Court of the USA held as follows:

- (a) *Since the fabric was no more than an unpatented element of the combination which was claimed as the invention, and the patent did not confer a monopoly over the fabric or its shape, petitioners' manufacture and sale of the fabric did not constitute a direct infringement.*
- (b) *Even though petitioners knew that the purchasers intended to use the fabric for replacement purposes on automobile convertible tops covered by the claims on respondent's combination patent, petitioners' manufacture and sale would constitute contributory infringement only if such a replacement by the purchaser himself would in itself constitute a direct infringement.*
- (c) *A car owner would not infringe the combination patent by replacing the worn-out fabric of the patented convertible top on his car, since such a replacement by the car owner is a permissible "repair" and not an infringing "reconstruction."*

- (d) *No element, not itself separately patented, that constitutes one of the elements of a combination patent is entitled to patent monopoly, however essential it may be to the patented combination and no matter how costly or difficult the replacement may be.*

The decisions of this Court require the conclusion 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." *United States v. Aluminum Co. of America*, supra, at 425, 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, as, for example, in *Cotton-Tie Co. v. Simmons*, supra. 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. Measured by this test, the replacement of the fabric involved in this case must be characterized as permissible "repair," not "reconstruction."

C. Trademark Exhaustion – International vs. Domestic

While it is clear that any authorized sale leads to exhaustion of all rights of the patentee, the picture in case of trademarks is more complex. In case of trademarks, rights of trademark may be exhausted nationally or internationally.

The matter came up before Honourable High Court of Delhi first before a single bench and subsequently in the double bench [Kapil Wadhwa and Ors. vs. Samsung Electronics Company Ltd. and Ors., Delhi High Court (Decided on 3rd October 2012; MANU/DE/4894/2012)]. Samsung had petitioned the court that Kapil Wadhwa was importing printers from different countries without any authorization from Samsung and was selling in India market. Samsung alleged trademark infringement on the basis of national exhaustion of trademark. Single Bench ruled in favour of Samsung. However, the Double Bench ruled in favour of international exhaustion of trademarks. Relevant portion of the judgment reads as follows:

70. We accordingly conclude that 'the market' contemplated by Section 30(3) of the Trade Marks Act 1999 is the international market i.e. that the legislation in India adopts the Principle of International Exhaustion of Rights.

It may be noted that the law on the subject cannot be said to be settled since an appeal against the order of the Double Bench is pending before Honourable Supreme Court of India (Case no. C.A. No. 008600 / 2013 and SLP(C) No. 039314 / 2012; Registered on 20 September 2013).

Irrespective of what the Honourable Supreme Court may decide, the key point for our discussion is that the Principle of International Exhaustion of Rights of trademarks has no relevance to the issues being discussed in this article. There is no intention by the hypothetical parties PQR or XYZ to sell the equipment sold by ABC. Hence, the judgment has no direct relevance.

However, some comments made by the Double Bench have relevance to the issues related to third party servicing of equipment. Relevant paragraph reads as follows:

services of its goods which are imported by the appellants and sold in India. Now, the Principle of International Exhaustion of Rights itself takes away the right of the respondents to control the further sale and further distribution of the goods. With respect to after sales services, since the respondents do not warranty anything regarding their goods sold abroad, but imported into India and further sold, they not being responsible for the warranty of those goods, nothing turns thereon, as regards said plea. There may be some merit that the ordinary consumer, who is provided with warranties and after sales by the appellants, on not receiving satisfactory after sales service, may form a bad impression of the product of the respondents and thus to said extent one may recognize a possible damage to the reputation of the respondents pertaining to Samsung/SAMSUNG printers and Samsung/SAMSUNG products sold in India after importation. But, this can be taken care of by passing suitable directions requiring the appellants to prominently display in their shop that the Samsung/SAMSUNG printers sold by them are imported by the appellants and that after sales services and warranties are not guaranteed nor are they provided under the authority and control of the respondents and that the appellants do so at their own end and with their own efforts. This would obviate any consumer dissatisfaction adversely affecting the reputation of the respondents, and thus if this is done, the respondents can claim no legitimate reasons to oppose further dealing in Samsung/SAMSUNG products in India.

The above comments by the Double Bench recognize and uphold the right of a third party to provide after sales service to a customer as long as the customer is made fully aware of the fact that the third party service provider is not related to / authorized by the original manufacturer.

D. Fair Use of Trademark

When a person uses someone else's trademark without the trademark owner's permission or consent, generally speaking, it is a case of infringement. However, if the intention is not dishonest or malicious, it may be considered as a fair use depending on the circumstances of the case. For example, let us consider the case of a car repair garage who puts up a sign saying "Maruti cars repaired here". Notably, there is no claim that the garage is authorized by Maruti to do repair of cars manufactured by Maruti. Will such a use be considered as fair use or will it be considered as infringement of the trademark "Maruti"?

D1. Nitro Leisure Products vs. Acushnet

The case discusses branding of repaired products - Nitro Leisure Products, L.L.C. v. Acushnet, United States Court of Appeals, Federal Circuit [Decided on 26 August 2003; 341 F.3d 1356 (Fed. Cir. 2003)]

Acushnet manufactures and sells golfing equipment, and in particular, golf balls. Acushnet owns and has federally registered the trademarks TITLEIST, ACUSHNET, PINNACLE, and PRO V1. Of particular interest in this case, Acushnet manufactures and markets new golf balls under the TITLEIST name and trademark, including the TITLEIST PRO V1.

Nitro obtains and sells two categories of used golf balls at a discounted rate. The first category of balls is "*recycled*" balls. The recycled balls are those found in relatively good condition, needing little more than washing, and are repackaged for resale. Recycled balls represent approximately 30% of Nitro's sales.

The second category includes balls that are found with stains, scuffs or blemishes, requiring "*refurbishing*". Nitro's refurbishing process includes cosmetically treating the balls by removing the base coat of paint, the clear coat layer, and the trademark and model markings without damaging the covers of the balls, and then repainting the balls, adding a clear coat, and reaffixing the original manufacturer's trademark. Nitro also applies directly to each "*refurbished*" ball the legend "*USED REFURBISHED BY SECOND CHANCE*" or "*USED AND REFURBISHED BY GOLFBALLSDIRECT.COM*." In these statements, the terms "Second Chance" and "Golfballsdirect.com" refer to businesses of Nitro. Some, but not all, of the

refurbished balls also bear a Nitro trademark. Nitro's refurbished balls are packaged in containers displaying the following disclaimer:

ATTENTION USED / REFURBISHED GOLF BALLS: The enclosed contents of used / refurbished golf balls are USED GOLF BALLS. Used / Refurbished golf balls are subject to performance variations from new ones. These used / refurbished balls were processed via one or more of the following steps: stripping, painting, stamping and/or clear coating in our factory. This product has NOT been endorsed or approved by the original manufacturer and the balls DO NOT fall under the original manufacturer's warranty.

Nitro originally filed suit against Acushnet in the United States District Court for the Southern District of Florida, alleging, *inter alia*, unfair competition. Shortly thereafter, Acushnet filed suit in the United States District Court for the Central District of California, alleging that Nitro infringed a number of Acushnet's patents and violated federal and state trademark laws. Nitro amended its complaint in the Florida case to seek a declaratory judgment that it did not infringe Acushnet's patents.

As to the trademark claims, Acushnet conceded that it had no trademark claim with respect to "*recycled*" balls and did not object to those sales. As to the "*refurbished*" balls, however, Acushnet asserted that "Nitro's refurbishing process produced a golf ball that bears no resemblance to a genuine Acushnet product in performance, quality or appearance" and that "Nitro's refurbishing process so altered the basic composition of Acushnet's golf balls that `it would be a misnomer to call the article by its original name."

Specifically, the question presented was the propriety of the re-application by Nitro of the Acushnet trademark, without Acushnet's consent, to genuine Acushnet golf balls that have been used, subjected to Nitro's refurbishing process, and then re-sold by Nitro as refurbished balls. The Court of Appeals held as follows:

Under [15 U.S.C. §§ 1114\(1\)](#) and [1125\(a\)\(1\)](#), any person who uses the trademark of another, without consent, in a manner that is likely to cause confusion, mistake, or to deceive may be liable in a civil action for trademark infringement. *McDonald's Corp.*, [147 F.3d at 1307](#). In the *Champion* case, a seminal opinion on the use of trademarks on used goods, the accused infringer collected genuine used Champion spark plugs, repaired and reconditioned the spark plugs, painted the spark plugs for aesthetic reasons, and resold the spark plugs, each labeled "Renewed." [331 U.S. at 126](#), [67 S.Ct. 1136](#). The issue before the Supreme Court was simply whether the lower courts erred in not requiring the accused infringer to remove Champion's trademark name from the repaired and reconditioned spark plugs. *Id.* at 128, [67 S.Ct. 1136](#). The Supreme Court acknowledged that, in some cases, used and repaired goods can be sold under the trademark of the original manufacturer, without "deceiv[ing] the public," so long as the accused infringer had attempted to restore "so far as possible" the original condition of the goods and full disclosure is made about the true nature of the goods, for example, as "used" or "repaired." *Id.* at 129-30, [67 S.Ct. 1136](#). In *Champion*, the Supreme Court stated that "[w]hen the mark is used in a way that does not deceive the public we see no such sanctity in the word as to prevent its being used to tell the truth." *Id.* at 129, [67 S.Ct. 1136](#).

The Supreme Court recognized that this standard results in the second-hand dealer getting some advantage from the trademark; however, this windfall is "wholly permissible so long as the manufacturer is not identified with the inferior qualities of the product." *Id.* at 130, [67 S.Ct. 1136](#) (citing *Prestonettes, Inc. v. Coty*, [264 U.S. 359](#), [44 S.Ct. 350](#), [68 L.Ed. 731](#)).

The *Champion* court, while concluding that the facts of that case did not establish a likelihood of confusion, cautioned that there are limits on the use of a trademark by another on a used or repaired item. The Supreme Court explained that "[c]ases may be imagined where the reconditioning or repair would be so extensive or so basic that it would be a misnomer to call the article by its original name, even though the words 'used' or 'repaired' were added." [331 U.S. at 129](#), [67 S.Ct. 1136](#). In *Champion*, the repair was such that it "[did] not give [the product] a new design," and the accused infringers had sought to restore the product "so far as possible, [to its] original condition," *id.* Thus, no infringement was found.

The district court in this case properly assessed likelihood of confusion in concluding: (1) that on the evidence before it, the differences in the goods were nothing more than what would be expected for used golf balls; (2) that it was therefore not a misnomer to apply the Acushnet mark to the used Acushnet balls; and (3) that Acushnet had not established a likelihood of success on the merits of its trademark "likelihood of confusion" case. This is all that was required, and there is no basis to conclude that the district court applied the wrong test or otherwise abused its discretion. This court need not predict whether the Eleventh Circuit

It is interesting to read the arguments of Acushnet to differentiate from *Champion* case and also the Honourable Court's rebuttal of the said arguments:

Alternatively, Acushnet argues that the district court's reliance on *Champion* is misplaced. Acushnet attempts to distinguish *Champion*, arguing first that Nitro does not restore "so far as possible" the used balls to their original condition, but rather masks the balls' condition, and second, that by masking rather than restoring, Nitro makes it more likely that customers will associate inferior performance with Acushnet. Acushnet argues that, although there was repainting of the spark plugs in *Champion*, such painting was merely cosmetic. Acushnet contends that the district court failed to recognize that Nitro's process of stripping and repainting was more than cosmetic and changed the fundamental attributes of the reprocessed balls. Moreover, Acushnet argues that it is Nitro's refurbishing process, not normal wear and tear, that degraded the quality of Nitro's used golf balls. Acushnet thus asserts that *Champion* is distinguishable on its facts and should not apply. We disagree with Acushnet's distinctions.

The dissent also attempts to distinguish *Champion* based on the notion of simply reselling versus reapplication of trademarks. See Dissent, *infra* at 1369 (stating that the *Champion* Court "ratified the resale of used spark plugs still bearing the Champion name"). However, this distinction overlooks the fact that the refurbisher in *Champion*, at the very least, applied or reapplied *Champion*'s trademark to its cartons and packaging. *Champion*, [331 U.S. at 126](#), [67 S.Ct. 1136](#).

First, while it is true that the spark plugs were repainted in *Champion*, the reconditioning also involved removing burned and pitted portions of the center electrodes, welding new metal to the side electrodes, wearing away the plug's porcelain insulators through sandblasting, and then cleaning and painting the spark plug. *Champion Spark Plug Co. v. Sanders*, [156 F.2d 488, 489](#) (2d Cir. 1946). The refurbishing process in *Champion*, then, was not merely cosmetic, and cannot be distinguished from the present case on that basis. Second, *Champion* also held that the source of any inferiority, whether the reconditioning or the refurbishing, is irrelevant, stating that inferiority is immaterial as long as the original manufacturer "is not identified with the inferior qualities of the product *resulting from wear and tear or the reconditioning*." *Champion*, [331 U.S. at 130](#), [67 S.Ct. 1136](#) (emphasis added). In the *Champion* case, the district court noted that there was no proof whether the inferior qualities stemmed from either "wear and tear prior to the discarding of the plug by the original user, or to the process of repair as conducted by the defendants." *Champion Spark Plug Co. v. Sanders*, [61 F.Supp. 247, 248-49](#) (E.D.N.Y. 1945). Acushnet's distinction on this point is similarly untenable.

In the above case, Justice Pauline Newman dissented. In the dissenting view, she did not object to the right of Nitro to repair and refurbish golf balls. Her views on the subject are as follows:

This case does not relate to the resale of used golf balls, washed and buffed and repackaged, bearing the original trademark. Acushnet is not objecting to that part of Nitro's activities. However, when the balls are so badly scarred or cut that they must be repainted and the damage concealed, the repainting also obscuring the original trademark, surely the trademark owner has the right to prevent re-application of its trademark (in identical script) to damaged goods covered with shiny new paint, goods of unsupervised quality but bearing the famous original trademark.

J. Pauline Newman objected to the use of trademark of Acushnet on balls that had little in common with the original balls made by Acushnet.

When goods have lost their identity and their quality, the trademark owner can not be forced to permit re-application of the original trademark to the doctored product. That is a reproach to the most fundamental principles of trademark law. See *Bulova Watch Co. v. Allerton Co.*, [328 F.2d 20, 24](#) (7th Cir. 1964) ("substitution of a different crown and case by defendants results in a different product," enjoining use of the trademark "Bulova" on the re-cased watches).

While there is no denying that the dissenting judge's opinion is not without merit, we can for the moment ignore it.

D2. Century 21 Real Estate vs. Lendingtree

This is a classic case that elaborates the concept of "*nominative fair use*" – Century 21 Real Estate Corporation; Coldwell Banker Real Estate Corporation; Era Franchise Systems, Inc. vs. Lendingtree, Inc. (Appellant), United States Court of Appeals for the Third Circuit [Argued 6 December 2004; Filed 11 October 2005; No. 03-4700].

Honourable Court of Appeals defined "*nominative fair use*" of a trademark as follows:

“Nominative” fair use is said to occur “when the alleged infringer uses the [trademark holder’s] product, *even if the alleged infringer’s ultimate goal is to describe his own product*. Nominative fair use also occurs if the only practical way to refer to something is to use the trademarked term.” KP Permanent Make-Up, Inc. v. Lasting Impression I, Inc., 328 F.3d 1061, 1072 (9th Cir. 2003) (rev’d. on other grounds) (quotations omitted). By contrast, “classic” fair use occurs where the defendant uses the plaintiff’s mark to describe the defendant’s *own* product. New Kids on the Block v. News America Pub., Inc., 971 F.2d 302, 308 (9th Cir. 1992).

The use of the term “Volkswagen” by a car mechanic in an ad describing the types of cars he repairs has been held to constitute a nominative fair use. See id. at 307 (citing Volkswagenwerk Aktiengesellschaft v. Church, 411 F.2d 350 (1969)). Clearly, the mechanic is referring to another’s product, but does so in order to describe what he does. On the other

Honourable Court referred to the judgment in case of New Kinds On The Block, 971 F.2d at 307 which laid down the standard for determining “nominative fair use”:

The Court distinguished “nominative” fair use from “classic” fair use, noting that if defendant’s use of the trademark referred to something other than the plaintiff’s product, traditional fair use inquiry would continue to govern.

The court then articulated its own test for nominative fair use:

[W]here the defendant uses a trademark to describe the plaintiff’s product, rather than its own, we hold that a commercial user is entitled to a nominative fair use defense provided he meets the

following three requirements: First, the product or service in question must be one not readily identifiable without use of the trademark; second, only so much of the mark or marks may be used as is reasonably necessary to identify the product or service; and third, the user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder.

Three requirements laid down for determining “nominative free use” are extremely relevant for our discussion in this article. Hence, we reproduce the same here as follows:

1. The product or service in question must be one not readily identifiable without use of the trademark;
2. Only so much of the mark or marks may be used as is reasonably necessary to identify the product or service;
3. The user must do nothing that would, in conjunction with the mark, suggest sponsorship or endorsement by the trademark holder

In announcing this new test, New Kids On The Block rejected traditional trademark infringement analysis. It held that this test replaces the “likelihood of confusion” test for trademark cases where nominative fair use is asserted.

Honourable Court of Appeals in the present case went a step beyond the above test laid down in New Kids On The Block and prescribed a bifurcated approach of two tests – (a) likelihood of confusion test and (b) fairness test. Honourable Court opined that *“Because confusion and fairness are separate and distinct concepts that can co-*

exist, blending them together into one test is, to our mind, a much less manageable approach”.

Honourable Court laid down the following three tests for determining if the use of trademark is within “nominative fair use”

1. Is the use of plaintiff’s mark necessary to describe (1) plaintiff’s product or service and (2) defendant’s product or service?

2. Is only so much of the plaintiff’s mark used as is necessary to describe plaintiff’s products or services?

3. Does the defendant’s conduct or language reflect the true and accurate relationship between plaintiff and defendant’s products or services?

The above three-pronged test sums up the legal position on the subject very well and we can use the same test for the issues at hand.

E. Copyright Protection

In addition to patent and trademark protection, a product may be claimed to be covered by copyright protection. The manufacturer may claim that since the drawings prepared for the product are under copyright protection, the product made by indirect copying of the drawings violates copyright of the manufacturer. Here is a case that examines this issue.

E1. British Leyland vs. Armstrong Patents

This case relates to the use of Copyrights Act to prevent copying of spare parts – British Leyland Motor Corp & Ors vs. Armstrong Patents Company Ltd. & Ors (Appellant), United Kingdom House of Lords [Decided on 27 February 1986; (1986)UKHL 7, (1986) 2 WLR 400, MANU/UKHL/0017/1986]

Background

British Leyland (BL) manufactures the Marina car. The component parts of the Marina include two lengths of exhaust pipe, one length connecting the engine to the silencer and the other length running from the silencer to the rear of the car. The exhaust pipes need replacement at intervals which vary from six months to two years. Armstrong manufacture replacement exhaust pipes for the Marina and in order to do so copy the shape and dimensions of the original. BL claimed that the tentacles of copyright must reach out to prevent Armstrong from manufacturing exhaust pipes for the Marina unless Armstrong pay such royalty as BL think fit to require. Armstrong decline to pay a royalty. BL obtained an injunction which effectively prevented Armstrong from manufacturing replacement exhaust pipes for the Marina. If this injunction was upheld it would follow that any motorist driving a BL car must buy his spare parts from BL at the prices fixed by BL or bear the burden of a royalty payable to BL for the privilege of buying his spare part from somebody else. This appeal had wide implications because the injunction granted to BL created or recognised a monopoly in replacement parts enjoyable not only by BL and by all vehicle manufacturers, but also by all manufacturers of mass produced machinery in respect of repairs.

In the course of designing the Marina and for the purpose of transmitting instructions for the production of the Marina, BL employed draughtsmen who made engineering

drawings from instructions given to them by the design engineers and showing the shape and configuration of each part of the Marina. Those drawings included recognisable drawings of each of BL's exhaust pipes by plan, elevation and section and conveyed in figures and words the precise angles and dimensions and description necessary to enable the exhaust pipe to be manufactured and produced in conformity with the shape of the underside of the Marina. Armstrong had never seen BL's engineering drawings and did not copy them directly. In order to provide a replacement exhaust pipe Armstrong had taken a BL exhaust pipe and copied it so that the replacement would also fit the shape of the underside of the car. Armstrong's exhaust pipe was a direct copy of BL's exhaust pipe and an indirect copy of BL's engineering drawing.

Armstrong directly reproduced BL's engineering drawing of an exhaust pipe in a material form by converting the two-dimensional drawing into a three-dimensional exhaust pipe in the course of manufacturing the Marina. Armstrong indirectly reproduced BL's engineering drawing by copying the original exhaust pipe of the Marina for the purpose of providing a replacement exhaust pipe.

The two questions examined by the Lords were as follows:

- (I) Did Armstrong's indirect copying of BL's copyright drawings of their exhaust system constitute "reproduction" within the meaning of the Copyright Act 1956?
- (II) If the answer to (I) be the affirmative, should BL nevertheless be barred from invoking the Act to prevent such reproduction by Armstrong?

Decision

Both the above questions were answered in the affirmative. While the Lords accepted that Armstrong indirectly copied drawings of BL, they barred BL from taking steps under the Copyright Act to take action against Armstrong. In other words, Armstrong's indirect copying of BL's drawings was permitted and no action was taken against Armstrong.

The Lords refused to create a monopoly in favor of BL on the strength of copyright drawings and decided in favour of the car-owner's right to a free market in spare parts. Relevant extract reads as follows:

These considerations drive me to the conclusion that there is no such half-way-house solution to the problem as has been urged upon us for BL. Either the court must allow the enforcement of the copyright claim to maintain a monopoly in the supply of spare parts for the copyright owner and his licensees, regardless of any adverse effect of the monopoly on car owners; or the right of car owners to a free market in spare parts necessary for economical repair should prevail and the court should accordingly decline to enforce copyright claims as against the manufacturer of spare parts intended exclusively, as are Armstrong's exhaust systems, to be available as replacement parts for cars in need of repair. As I have already indicated, the first alternative would be unacceptable at one end of the spectrum of possible consequences. But, apart from this, it seems to me that there are sound reasons in principle why the second alternative should be preferred. By selling cars fitted with exhausts based on their copyright drawings BL have already enjoyed the primary benefit which their copyright protects. By selling those same cars BL have also created a large community of car owners who, quite independently of any contractual rights derived from BL, enjoy the inherent right as owners to repair their cars by replacing the exhaust whenever necessary in the most economical way possible.

Lords decided that the protection under patent must be distinguished from protection under copyright. While patent is on the article, the copyright is only on the drawings. Copyright cannot be extended to the article. Relevant extract reads as follows:

There are substantial differences between patent law and copyright law in relation to repairs. First, a patent for an invention is only infringed, for present purposes, where the invention is a product, by a person who "makes" or "uses" the product without the consent of the proprietor of the patent. Where therefore a patented product is sold for use with the consent of the proprietor, repair of the patented product will not constitute an infringement; repair amounting to reconstruction will constitute the manufacture of a new and infringing product. A reproduction of an artistic work or a substantial part of an artistic work will constitute an infringement of copyright. In

In the second place, a patent is granted by statute in respect of a product. The copyright in a drawing of a functional article is infringed by a reproduction of that article. Nevertheless, copyright is granted by statute in respect of the drawing and not in respect of the article. There is, in my view, no inconsistency between, on the one hand, allowing patent rights to be exercised to prevent the reproduction of an article covered by the patent and, on the other hand, not allowing copyright to be exercised in derogation of grant to prevent the reproduction of an article which is not covered by the copyright. In the third place, BL market and sell a car as a form of transport which requires an exhaust pipe in order to function. BL are not selling exhaust pipes. The car sold by BL can only be kept in repair by the replacement of the exhaust pipe which is not the subject of a patent. In these circumstances, in my opinion, BL are not entitled to assert the copyright in their drawing of an exhaust pipe in order to defeat the right of the purchaser to repair his car. The exploitation of copyright law for purposes which were not intended has gone far enough. I see no reason to confer on a manufacturer the right in effect to dictate the terms on which an article sold by him is to be kept in repair and working order. Both the Court of Appeal and Foster J. might have been prepared to come to the same conclusion but balked at extending the rights of an owner of a car to keep it in repair to a manufacturer who makes parts solely for repair. I see no difficulty in such an extension; otherwise the right to repair would be useless.

However, I am equally satisfied that it was not the intention of Parliament to bestow upon a manufacturer through the draughtsman in his drawing office protection for a purely functional object that could not be obtained through either patent or design copyright legislation.

But manufacturers and their lawyers have recently managed to persuade the courts to extend the protection of artistic copyright to protect the shapes of various types of purely functional objects. They have in effect achieved copyright in an exhaust pipe. This bizarre result is the consequence of the courts construing "reproducing" in section 3(5) as including "indirect copying" in circumstances where it is not necessary to do so to achieve the purpose of the Act which is to protect the commercial value of the artist's work and labour and not to grant a monopoly to a manufacturer. To construe copying as including "indirect copying" is to give an unnatural and extended meaning to the word "copying." It is justifiable to do so if it is necessary to achieve the purpose of the Act but it is not justifiable to do so to achieve a result which is manifestly not the purpose of the Act. This is what has happened in recent years and I must examine how it has come about.

I would, therefore, hold that "reproducing" in section 3(5) should not be given the extended meaning of "indirect copying" in cases in which the mechanical drawing or blueprint is of a purely functional object. In such cases the scope of artistic copyright should be limited to the natural meaning of the words, namely direct copying including using the drawing to make the object it depicts. Applying this definition I would hold that Armstrong have not infringed the copyright in the mechanical drawings by copying the exhaust pipe without seeing or receiving any assistance from the drawings and for this reason I would allow this appeal.

It may be mentioned here that while the above case has been quoted a few times in judgments of various High Courts in India, there is no equivalent or similar case in India. Since, Copyright Act of UK and India are almost identical, we can presume that the decision in the above case will apply in equal measure to the issues under discussion in this booklet.

F. Contract Act

In the hypothetical matter which is the subject of this booklet, the issue is whether ABC can take recourse to The Indian Contract Act, 1872 to enforce the contract (between ABC and PQR) which provides that the machine has to be necessarily serviced and maintained by ABC.

It is relevant to look at section 27 of the Indian Contract Act, which reads as follows:

Section 27 - Agreement in restraint of trade void

(1) Every agreement by which any one is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void.

Any contract, which provides for restraint to trade or business of any kind, is void to the extent of the restraint provided by the contract.

Indian and English laws of contract are identical. A landmark judgment of the House of Lords that has been often quoted by Indian Supreme Court is Esso Petroleum Company Limited vs. Harper's Garage (Stourport) Limited [Decided on 23 February 1967; MANU/UKHL/0001/1967; (1967) 1 All ER 699; (1967) UKHL 1].

The key doctrine propounded by the Lords in the above case relates to reasonableness of the restrictions on trade or business imposed by the contract. Relevant extracts from the judgment are as follows:

It is now generally accepted that a provision in a contract which is to be regarded as in restraint of trade must be justified if it is to be enforceable and that the law on this matter was correctly stated by Lord Macnaghten in the *Nordenfelt* case. He said:

Restraints of trade and interference with individual liberty of action may be justified by the special circumstances of a particular case. It is a sufficient justification and indeed it is the only justification, if the restriction is reasonable—reasonable, that is, in reference to the interests of the parties concerned and reasonable in reference to the interests of the public, so framed and so guarded as to afford adequate protection to the party in whose favour it is imposed, while at the same time it is in no way injurious to the public.

So in every case it is necessary to consider first whether the restraint went farther than to afford adequate protection to the party in whose favour it was granted, secondly whether it can be justified as being in the interests of the party restrained and thirdly whether it must be held contrary to the public interest. I find it difficult to agree with the way in which the Court has in some cases treated the interests of the party restrained. Surely it can never be in the interest of a person to agree to suffer a restraint unless he gets some compensating advantage, direct or indirect. And Lord Macnaghten said " of course the quantum of consideration may enter into the question " of the reasonableness of the contract ".

Three tests laid by the case can be summed up as follows:

- a) Adequate protection to the party in whose favor the contract grants restraint of trade
- b) Being in the interests of the party restrained
- c) Whether the restraint may be held to be contrary to public interest

Prohibition on a contract contrary to public policy is also stated in section 23 of Indian Contract Act which reads as follows:

Section 23 - What considerations and objects are lawful and what not

The consideration or object of an agreement is lawful, unless-

It is forbidden by law;¹ or is of such a nature that, if permitted, it would defeat the provisions of any law; or is fraudulent; or involves or implies injury to the person or property of another; or the Court regards it as immoral, or opposed to public policy.

In each of these cases, the consideration or object of an agreement said to be unlawful. Every agreement of which the object or consideration is unlawful is void.

Reading sections 23 and 27 together with the above case-law it can be said that an agreement which provides for monopolistic rights to ABC to be able to service the machine sold to PQR for perpetuity will be a contract in restraint of trade. The restraint will fail the test of reasonable and will be considered as opposed to public policy. Hence, the contract between ABC and PQR will be void to the extent of the restraint on third party servicing imposed by the contract.

G. Conclusions

We started our discussion with a hypothetical problem where a machine was sold by a manufacturer (say ABC) to PQR. After expiry of warranty period, ABC had approached PQR for annual maintenance contract (AMC).. PQR decided to get maintenance and servicing of the machine from XYZ, a third party with no relation to ABC. At this, ABC cried foul and threatened to sue PQR as well as XYZ.

The key issues raised were as follows:

1. Has PQR violated the intellectual property rights of ABC by getting the machine serviced from a third party?
2. Will XYZ be violating the IPRs of ABC by servicing the equipment sold by ABC?
3. Website of XYZ mentions that machines branded as ABC are serviced by XYZ. Does it amount to violation of trademark of ABC by XYZ?
4. Can ABC use The Indian Contract Act, 1872 to enforce the contract (between ABC and PQR) which provides that the machine has to be necessarily serviced and maintained by ABC?

Let us look at each issue separately.

1. Violation of IPRs by PQR

IPRs can be of three types – (a) patent (b) trademark (c) copyright.

In case of patent, it is a well-settled principle of law that the patent is exhausted when an authorized sale is done by the patentee. In the present case under discussion, ABC has sold the machine to PQR. All patent rights held by ABC were exhausted the moment when the machine was sold to PQR. Hence, any claim by ABC that PQR violated its patent rights by getting third party servicing of the machine is not sustainable. PQR has an undisputable right to get the machine owned by it repaired and serviced by any party of its choice.

Since PQR is not affixing any new trademark on the machine and is not altering the trademark label affixed on the machine, the issue of trademark violation is not relevant.

The machine owned by PQR will surely be made from a number of components. Some of these components may be designed in-house by ABC. The drawings of such components will be subject to copyright restrictions in favour of ABC. However, the copyrights will not extend to the components. PQR's right to repair is paramount and ABC cannot take recourse to copyright law to bar PQR from making / buying any components needed for the repair.

To sum up, ABC cannot allege violation of IPRs by PQR. PQR has a right to get the machine owned by it repaired from any party of its choice. ABC cannot restrict that right by pleading violation of either patent or trademark or copyright.

2. Violation of IPRs by XYZ

Just as PQR cannot be accused of violating the IPRs of ABC, there is no way that XYZ be accused of violating the IPRs of ABC.

The right of PQR to get its machine repaired will be null and void if the party repairing the machine is accused of violation of IPRs. For a free exercise of the right of repair it is essential that the party repairing the machine is also not subject to any legal infirmity or prosecution.

3. Website mention of ABC machines by XYZ

XYZ has mentioned on its website that XYZ repairs ABC machines. There is no declaration that XYZ is authorized by ABC to repair ABC machines. The mention of trademark of ABC to refer to ABC machines falls within the definition of "nominative fair use" and is allowed by law. There is no attempt by XYZ to mislead or defraud customers. Mention of ABC trade-name and trademark is only to the extent necessary for the purpose of effective communication. So, there is no way that ABC can proceed against XYZ for misuse of the trademark.

4. Contract between ABC and PQR

Restrictive clauses in the contract between ABC and PQR are for restraint of trade and are opposed to public policy. Hence the said clauses are void. ABC cannot take

recourse to Indian Contract Act to enforce clauses that are declared by the said Act to be null and void. PQR can simply ignore all such clauses that impose restrictions on it with regards to getting the machine serviced as per its own choice and convenience.

In conclusion it can be said that ABC cannot take any action against either PQR or XYZ in respect of any of the issues discussed above.



Image courtesy – Times of India

Article titled “Should Make in India come with Right to Repair”

<https://timesofindia.indiatimes.com/t10-oct-8-2019/1-should-make-in-india-come-with-right-to-repair/articleshow/71481253.cms>

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